Testimony of
Ambassador Karan K. Bhatia
Deputy United States Trade Representative

Before the Committee on International Relations
United States House of Representatives
July 20, 2006
Washington, D.C.

Chairman Hyde, Ranking Member Lantos, Members of the Committee, it is a privilege to be here today to discuss the Bush Administration's free trade initiatives in Asia.

Meeting regularly with Congress is an important part of our work. During the eight months that I have been at USTR, both former U.S. Trade Representative Rob Portman and current Trade Representative Susan Schwab have placed a very high priority on consulting regularly with Congress and working to reestablish a bipartisan consensus behind an active U.S. trade policy. I'm particularly pleased to appear today before the International Relations Committee, whose responsibilities include broader U.S. foreign policy concerns. We strongly believe that the President's free trade agenda serves not only to strengthen the U.S. and global economy, but also to foster democracy, development, rule of law, and institutions of good governance.

Consistent with the Committee's request, I will focus today on the Administration's trade agenda in Asia – my area of focus at USTR – and, in particular, on the free trade agreements that we are currently negotiating with Korea, Malaysia, and Thailand. I will also touch briefly on our trade relations with Japan, China, India, Taiwan, and Southeast Asia, and would be happy to delve into those relationships at greater depth, if you would like.

Doha Round

Before turning to our trade policy with respect to these nations, let me first raise a subject that will affect our trade relationships with Asia and the rest of the world for years to come: the Doha Round of multilateral trade negotiations.

Over the last 60 years, the United States' policy of seeking to expand trade has helped to raise standards of living globally and lift countless millions out of poverty. As industrialized countries have lowered their average tariff on industrial goods from 40 percent to 4 percent – thus opening their markets to exports from other countries – global exports have grown from $58 billion to over $10 trillion, benefiting both industrialized and developing countries. Here at home, trade liberalization since 1945 is estimated to have contributed $1 trillion to U.S. annual incomes, or on average $9,000 per household. In just the last ten years or so, freer trade has helped raise our GDP by nearly 40 percent and has coincided with the creation of over 16 million new jobs and today's low unemployment rate.

The Doha Round is the first WTO/GATT Round to focus specifically on international trade as a way to lift millions out of poverty by giving developing countries greater access to world markets. To accomplish this, we are working hard to lower the tariffs that impede developing nations from trading with developed nations and with each other. We are also working to lower the subsidies of wealthier nations that can distort markets and place developing nations at a disadvantage. This is a once-in-a-generation opportunity to bring developing nations into the global trading system as full partners, and we cannot afford to miss it.

In spite of setbacks, we remain fully committed to achieving an ambitious outcome to these negotiations. But we cannot do it alone. We need others to make meaningful proposals, just as the United States has done, including through our October 2005 offer to reduce agriculture subsidies. We are at a critical juncture right now, with the President's trade promotion authority set to expire next summer. Those who want a successful round must commit to serious tariff reductions and real market opening, so that the results of the Round will match the promise that heralded its inaugural session nearly five years ago.

Asia Trade – Overview

Turning now to the subject of our trade policy with respect to Asia in particular, let me note that our trade agenda has a number of goals. We seek to create opportunities for U.S. farmers, workers, and businesses abroad by reducing tariffs and barriers to trade and investment, thereby opening markets and creating more level playing fields. By enhancing the channels for commerce and investment, we also seek to strengthen bilateral relationships and reinforce U.S. foreign policy objectives. Finally, we seek to ensure, through firm and vigilant enforcement of trade laws and obligations, that our trading partners live up to the agreements they make.

Perhaps no region of the world better illustrates our robust trade agenda than Asia. There, we are presented with exciting opportunities for market openings and the creation of new and deeper relationships, as well as some of our most significant trade challenges.

Our trade with Asia continues to grow. Our exports to Asian Pacific Rim nations increased from $181 billion in 1995 to $233 billion in 2005, despite poor growth in Japan, the impact of the Asian financial crisis, and trade barriers to U.S. exports. Overall, two-way U.S. goods trade with these countries accounts for almost $800 billion annually – nearly a third of total U.S. goods trade. The U.S. commercial presence across Asia is at its historic peak. It is the rare U.S. multinational that does not have sales operations or production facilities in at least a couple Asian nations, and Asia is becoming an important market for small and medium U.S. businesses looking to move into international markets. U.S. foreign direct investment in the region has tripled over the last decade. Looking forward, with strong economic growth, fast-growing middle classes, and dynamic economies, Asia offers more promising economic opportunities for the foreseeable future than any other region of the world.

The economic importance of the region is matched by its substantial strategic and geopolitical significance. Representing over 40 percent of the world's population, there are few areas that pose greater challenges for U.S. foreign policy than South, Southeast, and East Asia, which just in the past several years have captured global headlines with terrorist incidents, military tensions, natural disasters, and the prospect of global pandemics.

Recognizing both the promise and the stakes, the Administration is working hard to deepen our economic engagement in the region, encourage bilateral and regional trade and investment, and bring the countries of the region into the rules-based international trading system. In practical terms, that has meant pursuing free trade agreements, conducting dialogues under trade and investment framework agreements (TIFAs) or other arrangements, negotiating their accessions to the World Trade Organization, participating in vital regional trade-enhancing organizations, and enforcing trade agreements.

FTAs with Singapore, Thailand, Korea, and Malaysia

A word about our FTAs. They are considered the gold standard in international trade agreements, and they are tough to negotiate. They cover not just tariffs and nontariff barriers to trade, but include far-reaching commitments covering virtually every aspect of trade and commerce. I should note that, among other things, they contain strong commitments on transparency and openness, an important step in laying the foundations for democracy and rule of law. Further, our comprehensive FTAs help seed regional trade, raise standards for multilateral agreements, and promote economic and political reform.

Our first FTA partner in Asia was Singapore. This comprehensive agreement is already paying off for U.S. businesses, with U.S. exports to Singapore up by over 24 percent since the agreement took effect in 2004.

Shortly thereafter, the President announced his Enterprise for ASEAN Initiative, which aims to deepen our relationships in Southeast Asia by offering the possibility of FTAs with all the ASEAN countries that are WTO members. Under this Initiative, we launched FTA negotiations with Thailand in 2004. Unfortunately, these talks have been suspended since February because of Thailand's ongoing political crisis. Last week, we met with Deputy Prime Minister Somkid to discuss the impact of the political situation on Thailand's economic outlook and our trade relationship. We have agreed to hold informal consultations on outstanding issues over the next several months, in order to allow us to rapidly reengage and conclude this deal if and when the Thai Government is formed, hopefully later this year.

Earlier this year, we launched FTA negotiations with the Republic of Korea. Whether measured by population or GDP, Korea is our largest FTA partner in many years. We concluded the second round of the talks last week in Seoul and, while this has been and will be a challenging FTA in a number of areas, the progress to date has generally been encouraging.

Under this FTA, American workers, farmers, ranchers, and businesses stand to gain greater access to a large and growing economy. Korea's growth in trade – double digit increases for each of the past ten years – has enabled it to become the world's tenth largest economy. Two-way trade in goods between our two nations currently stands at approximately $72 billion in 2005. Korea is our seventh largest trade partner, while we are Korea's third largest trading partner. One has only to compare Korea's economic dynamism with that of its neighbor to the north to see the benefits of a robust policy of trade engagement with the world.

A comprehensive FTA with Korea will bring down tariffs, reduce barriers to U.S. manufacturing, agricultural, and services businesses, and improve the investment climate for American investors. In short, it will level the playing field for our companies and investor. This FTA will also cement important economic and political reforms that the Korean Government has undertaken. It will reinforce our strong ties to Korea, a key alliance partner for over 50 years, and will enhance our engagement in Northeast Asia.

Finally, in March of this year, we launched FTA negotiations with Malaysia. While few Americans are aware of the magnitude of our trade relationship with Malaysia, this nation is our tenth largest trading partner – and our largest in Southeast Asia. Our exports to Malaysia grew by about 20% over the past decade, but hold the promise of much stronger growth in the future. Today, Malaysia imports more from the United States than from any other country except Japan, and we are now Malaysia's largest foreign investor, eclipsing even nations such as the Netherlands and Britain that have deep historical ties to Kuala Lumpur.

Malaysia is a leader in the Muslim and developing world, and a U.S.-Malaysia FTA will demonstrate the U.S. commitment to the region, deepening our bilateral relationship and strengthening support for our efforts on key political and security issues such as counterterrorism and counter-narcotics.

TIFAs and Other Dialogues – Other East Asian Economies, China, and India

In addition to FTAs, we are using our "Trade and Investment Framework Agreements," or TIFAs, to deepen our trade relationships with Asian partners, address bilateral trade issues, cooperate on regional and multilateral issues, and, in some cases, lay the groundwork for FTAs. We have robust TIFA dialogues with a number of individual ASEAN countries – including Indonesia, the Philippines, and Brunei – under which we meet several times a year to discuss the full range of issues on our trade agenda, ranging from intellectual property rights, to regulatory issues affecting agricultural trade, to customs agreements to combat shipments of illegal goods. Last week, we signed a U.S.-Cambodia TIFA that we hope will help spur bilateral investment and provide us with a forum to handle trade issues as they arise.

We also have an active TIFA dialogue with Taiwan. I recently traveled to Taiwan for two days of discussions under the U.S.-Taiwan TIFA, and was able to get a first-hand view of the vibrancy of that economy and of the importance that senior leaders there place on our trade relationship. That relationship is a strong one, with nearly $57 billion in two-way goods trade last year. Taiwan is an important economic partner for the United States and it is one that we are determined not to overlook.

No overview of our activities in East Asia would be complete without a discussion of our trade relations with China, relations that are critical to our economy and our people. In February, USTR unveiled a top-to-bottom review of our trade relationship with China. It was a balanced and comprehensive assessment that concluded that, while the U.S. has clearly derived substantial benefits from U.S.-China trade, the relationship has not been sufficiently balanced in the opportunities it provides. The review also called for our China trade policy resources and priorities to be refocused.

Now that China's transition period as a new WTO member is ending, the United States will treat China as a mature trading partner and will draw upon the full set of tools available to us to ensure that China complies with its commitments. China needs to do more to open its markets, reform policies that skew markets and discriminate against U.S. exporters, and abide by its WTO commitments, particularly in the area of intellectual property rights enforcement. In short, China must bear responsibilities that are commensurate with the benefits it has obtained from participation in the rules-based trading system.

In accordance with this view, USTR has enhanced its trade enforcement capacity by establishing a China Enforcement Working Group, and I will say more about this later. We are also working to strengthen, expand, and increase the effectiveness of the U.S.-China dialogue on issues such as standards and SPS issues, China's subsidies practices, financial services, telecommunications services, labor, environmental protection, and transparency and the rule of law, among others. The Administration recognizes as well the importance of increasing coordination with other trading partners in pursuing these issues and – as evidenced by our coordination with European and Asian partners on intellectual property rights and auto parts issues – is already vigorously pursuing such coordination.

This emphasis on enforcement, we believe, complements the dialogue with China that we carry out on a number of levels, primarily through the Joint Commission on Commerce and Trade. During the most recent JCCT in April, we achieved progress on a range of important bilateral issues, including measures to improve intellectual property rights enforcement, China's commitment to join the WTO Government Procurement Agreement, transparency of government regulations, improved market access for medical devices and telecommunications services, and beef.

Now let me turn to Japan, which is the third largest market for U.S. goods, with exports of $55.5 billion last year, and is our fourth largest overall goods trading partner, with $194 billion in two-way goods trade. While a key market for the U.S., formal and informal barriers still prevent U.S. products from reaching Japanese consumers. Japan's continued ban on imports of U.S. beef remains one area of particular concern, and we look to Japan to reopen its market in the very near term. The principal institutionalized mechanism for bilateral trade policy engagement with Japan is the Regulatory Reform Initiative, which along with other initiatives on finance and investment is a key component of the Economic Partnership for Growth that President Bush and Prime Minister Koizumi launched in June 2001. Under this initiative, we are tackling many of the same kinds of market access issues that we would address under an FTA and seeking to ensure trade is fair and mutually beneficial.

Turning to India, we have seen double-digit growth in our exports in recent years and are excited that our economic relations with the world's largest democracy are on the verge of expanding significantly. As India continues to embrace economic reform, it will claim its place among the world's largest trading nations. The United States is proud to be India's largest overall trading partner. In July 2005, President Bush and Prime Minister Singh endorsed creation of the U.S.-India Trade Policy Forum (TPF), a bilateral mechanism devoted to creating an improved environment that will facilitate bilateral trade and investment. The TPF has already met six times – three at the ministerial level – and is making steady progress reducing trade impediments, many of which have been in existence for well over a decade. We have set an ambitious target to double two-way trade over the next three years, and we are encouraged by our progress to date.

WTO Accessions – Vietnam

While working to strengthen bilateral relations, we have also worked hard to encourage our trading partners to accede to the WTO. By requiring countries to open up their economies and reduce tariff and nontariff barriers to trade, WTO accession not only creates new opportunities for U.S. exporters, it also subjects acceding countries to the disciplines and rules of the WTO.

In 2004, we helped secure the WTO accession of Cambodia. Today, one of our top trade priorities is securing Vietnam's WTO accession. On May 31, we signed a bilateral market access agreement that will help to clear the way for Vietnam to join the WTO. The agreement will dramatically reform the Vietnamese economy, requiring it to reduce tariffs and nontariff barriers and opening its fast-growing markets to U.S. manufacturers, service providers, farmers and ranchers. But we are not there yet. For Americans to benefit fully from Vietnam's WTO accession, the Congress must provide for permanent normal trade relations (PNTR) with Vietnam. If that change in law does not occur, every other member nation will have WTO relations with Vietnam – including the right to bring WTO cases against Vietnam – but the U.S. will not. We hope that the House will soon take up this important legislation, and I would urge the Members of this Committee to support this effort.

Participating Regionally through APEC

We continue to attach great importance to APEC, which has helped us advance our trade agenda in key areas, such as intellectual property rights, trade facilitation, and transparency. President Bush has made it clear that APEC is the "premier forum in the Asia Pacific region for addressing economic growth, cooperation, trade and investment." The United States has $1.6 trillion in total goods trade with APEC economies, accounting for roughly two-thirds of total U.S. goods trade. Yet opening markets through APEC has been slower and more painstaking than many would like. As APEC nears its 20th anniversary, it needs to be strengthened and revitalized, so that it can better address the wide range of challenges facing the Asia-Pacific region. We are currently working closely with other APEC members to develop ways to do that – with the goal of ensuring that APEC is more efficient and more effective for the United States and all its members in promoting growth and advancing liberalization in the growing Pacific Rim markets.

Enforcing Our Rights

As I mentioned at the beginning of my statement, achieving market access for U.S. citizens and businesses loses its value if our trading partners do not follow through on their obligations. We expect our trading partners to abide by the commitments they make. USTR has been using the tools and resources provided by Congress to ensure that American businesses can compete on a level playing field.

Let me note here the emphasis that we at USTR have placed on the enforcement of China's trade commitments. Stepping up that enforcement was a particular focus of the Top to Bottom review discussed above. In particular, it called for the creation of a new Chief Counsel for China Enforcement (the first time in history that USTR has created an enforcement czar focused on a single country), a China Enforcement Working Group, the infusion of new analytical resources in USTR to help create stronger and more forward-looking cases, and close collaboration with trading partners in seeking to enforce our rights.

We are already far along on implementing many of the recommendations in that report. We recently hired a Chief Counsel for China Enforcement. We have already filed one WTO case this year – concerning China's treatment of U.S.-made auto parts – and we were on the verge of filing another when China rescinded the offending regulation. We have been working closely with allies in Europe and elsewhere in bringing these cases.

Let me mention in particular, that we continue to press China on its obligations to honor U.S. intellectual property rights. We have made clear that if action is not taken to curb piracy in China, we will not hesitate to exercise our rights at the WTO to enforce its obligations.

* * *

Thank you for this opportunity to testify. I look forward to your questions.