

**Deputy United States Trade Representative  
Ambassador Karan K. Bhatia**

**Remarks to the  
American International Automobile Dealers Association  
(As prepared for delivery)**

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**Introduction**

Thank you, Don, for that introduction, and thank you all for that warm welcome. Let me reciprocate with a warm welcome to you all from the President and the Vice President. And let me also convey greetings from our current USTR Rob Portman and from my fellow Deputy Susan Schwab, who has been nominated to replace Rob as he moves to direct OMB. Those of you who know her, know that Susan is one of the smartest and most experienced trade hands you could ever hope to find, and we are hoping that she'll be confirmed very soon.

I am really delighted to be able to address your annual gathering here in Washington tonight, and appreciate your flexibility, Don, in fitting me in this evening. As Don mentioned, I'm heading off to Asia tomorrow morning for trade discussions with Taiwan, India, Vietnam and a number of other partners in the region. But when given the opportunity to address the AIADA ... some of the staunchest defenders of free trade ... not to mention, on the first day of "Free Trade Week" ... I just was not going to miss it. Plus – how often do you get to be Chris Matthews' warm-up act? The way I figure it, if he's Hardball, I'm at least T-ball, maybe even slow-pitch softball.

In all seriousness, I am pleased to have the opportunity to speak to the 2006 AIADA Automotive Congress. AIADA members, I understand, have traveled from every state in the Union to be here this week, to share ideas with colleagues... to take stock of the industry's policy agenda... and to engage with leaders from Congress and the Administration. I am especially pleased to be able to recognize several distinguished guests who are with us tonight – Congressman Joe Wilson of North Carolina, Congresswoman Marsha Blackburn of Tennessee, Congressman Tim Murphy of Pennsylvania, and your Chairman-elect and the former Lieutenant Governor of Virginia, Don Beyer.

Recognizing that time is tight this evening – and that I'm the only thing standing between you, dinner and Chris Matthews – let me turn directly to the subject I'd like to talk about: free trade and the challenges that confront it.

**The Significance and Value of Free Trade**

It's a subject, of course, on which AIADA has been a leader for many years. And it's a subject that we at USTR live and breathe. So much so that we sometimes forget that, to others, free trade not only is not of much value, it's actually a threat.

More and more, we hear Americans questioning the value of an open, rules-based system of international trade. We saw it in last year's tough vote on the Central American Free Trade Agreement, which eliminated tariffs that had long stymied American exports to promising markets just beyond our border. We saw it more recently with opposition to foreign investment in the United States. Notwithstanding the fact that foreign investment – such as the \$28 billion worth of investment in the U.S. by international nameplate automakers – creates American jobs and promotes efficiency. And we see it now, with voices from industry, Capitol Hill, and elsewhere questioning whether free trade is, at the end of the day, worth the candle.

In this year's State of the Union address, President Bush articulated the challenge well, saying, "In a complex and challenging time, the road of isolationism and protectionism may seem broad and inviting – yet it ends in danger and decline. The only way to protect our people, the only way to secure the peace, the only way to control our destiny is by our leadership – so the United States of America will continue to lead."

Simply put, we believe that free trade is worth the effort to defend and advance, on behalf of the nation's economy and the American workers, farmers and businesses that depend on the prosperity that our economy has generated during the last several years.

Let me start with your own industry. Today's auto manufacturers and their suppliers and dealers form an intricate web of commercial relationships that cross multiple borders as the product goes from design phase, to raw materials, assembly, distribution, customer outlet, and finally after-market products. The ability to search out the best, most innovative suppliers ... to create an assembly process that includes multiple nations ... and then to deliver the product to willing buyers in emerging markets – this is the reality of the modern auto industry, as it is for so many other industries.

Consider the conditions needed for this degree of supply chain integration to function: First, infrastructure, services and facilitation that can securely and efficiently move people, parts, and finished goods across borders. Second, the substantial reduction or outright elimination of tariffs and non-tariff barriers, so as to allow those goods to reach the market as efficiently and inexpensively as the shipper can deliver them. And third, a system of enforcement with enough teeth to make certain that open markets don't become distorted markets, and that competitors from all corners of the globe play by the same rules.

That, in a nutshell, is the USTR mission. It's the mission that has driven the United States to liberalize our trade through successive Rounds of the General Agreement on Tariffs and Trade and the World Trade Organization since 1947, and in comprehensive free trade agreements with trade partners around the world since 1985. Weaken any one of these three parts, and the system becomes distorted. But sustain all three, and the whole flourishes, to the benefit of American consumers and workers, such as your customers and the over half million people you employ.

Free trade enables the American consumer to enjoy greater prosperity and the American manufacturer to produce here in the U.S. high-value goods and services more competitively.

The Institute for International Economics estimates that annual U.S. income is today \$1 trillion higher than it would have been absent the post-war trade liberalization I described a moment ago. That's \$9,000 more every year for the average American household. In the last ten years alone, liberalized trade agreements have helped raise our GDP by over 40 percent and have helped raised the real compensation of American workers.

Fourteen years ago, Ross Perot raised fear and apprehension with the specter of "a great sucking sound." He brandished a piece of paper declaring that 11.9 million jobs would head south because of the North American Free Trade Agreement. The fear proved unfounded, of course. Instead, we have created millions of new jobs in the United States with a nearly 200 percent increase in our exports to Mexico.

NAFTA and the Uruguay Round multilateral agreement in the early 1990s have added from \$1,300 to \$2,000 to the income of the average American family of four. Today, according to the World Bank, U.S. per capita income is 45 percent higher than the average per capita income of the other nations classified by the Bank as "high-income."

Our manufacturing sector has increased by 59,000 jobs since September 2005. This growth has correlated with a substantial increase in the nation's exports – which in goods alone totaled \$893 billion in 2005, up \$85 billion from 2004. For the first quarter of 2006, the news is even better, with goods exports up by more than 14%. The increase helps to sustain high-paying manufacturing employment, with jobs supported by goods exports paying from 13 to 18 percent than the U.S. national average.

To be sure, our trade situation is not without its difficulties. We have a substantial trade deficit that is caused by a number of macroeconomic factors, including strong domestic growth and a low savings rate at home. And too many of our trading partners continue to unfairly subsidize favored domestic industries, and to erect nontariff barriers that block U.S. goods and services from foreign markets under the pretext of product standards and regulation. We believe, however, that neither countries nor industries can protect themselves into competitiveness. We believe that the answer to this challenge – along with vigorous enforcement of our rights in international trade – is to seek new opportunities for free trade, not to shelter American producers from the rigors of foreign competition.

### **The USTR Agenda**

With that objective in mind, let me discuss the USTR agenda for achieving it, in 2006 and beyond. Our agenda has three components: First, an ambitious result in the current round of multilateral, WTO negotiations, also known as the Doha Development Agenda; second, continued work to conclude comprehensive free trade agreements with willing partners around the world; and third, vigorous enforcement of the legal commitments made by other nations in existing agreements.

I'll take each of these in turn.

The WTO's Doha Round, which began in 2001, has reached a critical phase. Multilateral trade liberalization, based on the history of successive rounds since 1947, holds enormous

promise. Because so many countries participate, a successful Round will in a single stroke create tremendous market opportunities for all 150 member nations. Some of the greatest beneficiaries will be the world's poorest, as the Round seeks to enhance their access to global markets and to reduce distortions in the global economy.

Much is at stake, and therefore the United States has played a leading role in the Doha Round. In October 2005, we made a groundbreaking offer to reduce agricultural tariffs and subsidies. We've been working hard to craft an ambitious outcome in the area of services. And – of particular interest to many of you – we've also been the leader in pushing for greater market access for manufactured goods. Autos and auto parts, as with other manufactured goods, will be subject to a yet-to-be-defined formula of tariff reductions. We continue to push for the strongest tariff cutting formula possible, one that succeeds in reducing high tariffs and tariff peaks in both developing and developed country markets. In the area of nontariff barriers, we lead the negotiations on a range of issues identified by the U.S. industry and by the Global Auto Industry Dialogue, a coalition of national auto industry associations representing 85 percent of world auto production.

But, unfortunately, we have not seen similarly ambitious proposals from many nations whose citizens stand to gain significantly from a successful Round. Because the President's Trade Promotion Authority, or TPA, is the only practical way to enact major trade agreements on Capitol Hill – and because TPA expires in mid-2007 – we need to complete talks by the end of this year if we're to shepherd an agreement through Congress in time.

For all the importance that Doha holds, I do not want to slight our bilateral trade agenda either. The Administration has pursued free trade agreements with willing partners and, since 2001, has concluded 14 of them. These agreements go beyond easy pickings, and seek market openings that are more difficult to achieve. This can make negotiations tougher, but it also ensures our trade agreements are commercially valuable for both sides. Our FTAs set new standards on intellectual property rights enforcement, require improvements in government procurement and customs procedures, seek to ensure worker protections, and promote wise stewardship of the environment.

Today we are actively involved with a number of FTA negotiations. As I mentioned earlier, last year we won congressional approval for the Central American Free Trade Agreement, and more recently we reached agreements in principle with Peru and Colombia. We have launched FTA talks with Malaysia, Thailand, and Korea. These talks are all at different stages but they are all priorities for us. Our talks with Korea and Malaysia are particularly exciting because they involve America's seventh and tenth largest bilateral markets and because they give us the opportunity to build economic integration with fast-growing, strategic Asian trade partners. I would also note that, as many of you know, the Thai talks have been delayed because of the political situation in Bangkok. Nevertheless, we are hopeful that the talks can resume in the fall.

We seek these FTAs because they help to expand economic freedom for our country and to solidify liberal economic relationships with other nations. Again, this is a strategy that's paid handsome dividends. Our free trade partners represent only 14 percent of the world's GDP,

excluding the United States from the world total – yet they accounted for 52 percent of all U.S. goods exports in 2005. More specifically, our recently implemented FTAs with Australia, Chile, Singapore, and Jordan have stimulated export growth to these four nations at twice the pace of export growth to the rest of the world.

Finally, as we continue to remove barriers and open up the flow of trade, we recognize that trade must be fair if it is to remain open and free. To that end, we must make certain that our trade partners fulfill the obligations that they undertake when they sign FTAs and multilateral agreements. Those rules require, for example, nations to eliminate domestic subsidies that give favored industries an unfair cost advantage in the home market and abroad, and to enforce the intellectual property rights that inhere in products ranging from software to drugs to automobiles.

These rules must be enforced, and we have not shied away from using the trade remedies available to us when a trade partner will not cease unlawful activity.

One of the top concerns in the United States today is China and its trade practices. While we have benefited and continue to benefit substantially from our trade relationship with China, as a mature trading partner, China must be held to its commitments. We recently established a China enforcement team that brings together staff from my office and the office of general counsel. And where we see a basis for action, we are pursuing cases before the WTO. Earlier this year, we were on the verge of bringing a case against China for an unfair antidumping order, when they rescinded the order. And last month, we – joined by the EU and Canada – brought a case in the WTO against barriers to imported auto parts that China has erected. As we believe those cases demonstrate, we will not hesitate to bring enforcement action against China and others where the evidence supports legal action.

## **Conclusion**

So those are the principal components of our agenda. Let me just say another few words, and then I'll be happy to take your questions. At the beginning of my remarks, I referred to the free trade critique that we hear more often in Washington. That critique has been getting louder over the last few years. What is most puzzling about the criticism is that it coincides with U.S. economic performance that may be unrivaled across the world. We have an unemployment rate of 4.7%, GDP growth of 4.8%, and increasing exports in virtually every sector. The necessity of a free and open trading system for our prosperity would seem to be at its zenith, and yet the value of that system, paradoxically, is questioned more and more.

This is a problem, but it's a problem that creates an opportunity. For free traders – and I count you among them – the time to make the counterargument is now. I know that you will be visiting with Congressmen tomorrow, and I urge you to deliver this simple message: Trade matters to Americans from every state – and from every walk of life – and trade liberalization offers the promise of continuing, durable economic progress for consumers and producers alike. You know that, far from being the victims of an open trading system, your customers and your employees are its beneficiaries, and I ask you to help us support it.

Thank you.