I. Overview and the 2003 Agenda

Over the past year President Bush and his Administration have restored America's leadership on trade and are now pressing aggressively to secure the benefits of open markets for American families, farmers, manufacturers, workers, consumers, and businesses. The President is advancing, in close partnership with the Congress, an activist strategy "to ignite a new era of global economic growth through a world trading system that is dramatically more open and more free."

A key achievement this past year was the renewal of the Executive-Congressional partnership embodied in Trade Promotion Authority (TPA). With that authority restored after a lapse of eight years, the Administration has begun to fulfill the vision of open markets and development articulated at the launch of new global trade negotiations in Doha, Qatar, in 2001. The United States has submitted far-reaching proposals to the World Trade Organization (WTO), including plans to remove all tariffs on manufactured goods, open agriculture and services markets, and address the special needs of poorer developing countries.

Working closely with the Congress, the Administration capped the year by completing Free Trade Agreement (FTA) negotiations with Chile and Singapore, which, when implemented, will open new markets for American exporters while expanding choice and value for American consumers. By lowering prices through imports and increasing incomes through trade, America's newest trade agreements will build on the success of the North American Free Trade Agreement (NAFTA) and the Uruguay Round, which together already provide the average American family of four with benefits of between $1,300 and $2,000—each and every year.

As President Bush has noted, "America is back in the business of promoting open trade to build our prosperity and to spur economic growth."

The Bush Administration looks forward to continuing to work with the Congress in 2003 as together we lay a firm foundation for a more prosperous America by passing the free trade agreements with Chile and Singapore; building upon our proposals to open markets in global trade talks; advancing negotiations on the Free Trade Area of the Americas (FTAA); negotiating new FTAs with the five countries of the Central American Common Market, Australia, Morocco, and the five countries of the Southern African Customs Union; enforcing U.S. trade laws; and monitoring and pressing China's and Taiwan's compliance with their WTO obligations.

<u>Realizing the Free Trade Vision</u>

Following World War II, America successfully employed trade to help shape a positive bipartisan agenda of growth, openness, and security. With the end of the Cold War, however, the Executive-Congressional partnership that fueled that historic progress lapsed, weakening U.S. trade leadership.

To lead globally, President Bush recognized that he had to reverse the retreat at home. He worked successfully with Congress to enact the Trade Act of 2002. This Act included Trade Promotion Authority (TPA), which re-established the authority necessary to credibly negotiate comprehensive trade agreements by ensuring that they will be approved or rejected, but not amended.

The Trade Act of 2002, however, included more than just TPA. As the legislation moved through Congress, pro-trade Republicans and Democrats worked closely with the Administration to incorporate trade-related environmental and labor issues, while simultaneously addressing concerns about sovereignty and protectionism. The Act tripled funding for the Trade Adjustment Assistance program—from $416 million in 2002 to $1.3 billion in 2004—to provide training, other reemployment services, and income support to Americans who need to acquire new skills due to job transitions in the international economy. In addition, the Act created a refundable health insurance tax credit for eligible trade-impacted workers. The Trade Act also included a large, immediate down payment on open trade for the world's poorest nations, cutting tariffs to zero for an estimated $20 billion in American imports from the developing world by renewing and expanding the Andean Trade Preference Act, the African Growth and Opportunity Act, the Generalized System of Preferences, and the Caribbean Basin Trade Preferences Act.

The Bush Administration is committed to active consultations with Congress to ensure that America's negotiating objectives draw upon the views of its elected representatives, and that they have regular opportunities to provide advice throughout the negotiating process. The Trade Act of 2002 established a new Congressional Oversight Group with bipartisan representation from all the committees with jurisdiction over legislation affecting trade. The Administration will continue to consult regularly with Congress on U.S. trade policy, both through the Oversight Group and through the committees of jurisdiction.

Even as it has rebuilt support for trade at home, this Administration has been working abroad to open markets on all levels: globally, regionally, and bilaterally. By moving forward on multiple fronts, the United States is exerting its leverage for openness, creating a new competition in liberalization, targeting the needs of poorer developing countries, and creating a fresh political dynamic by putting free trade on a global offensive.

Coming to office in the wake of the WTO's 1999 Seattle debacle, the Bush Administration recognized the importance of launching new global trade negotiations to open markets and spur growth and development. Our leadership—in conjunction with the European Union, many developing countries, and others—was instrumental in launching the Doha Development Agenda (DDA), against long odds. The Administration also played a key role in enlarging and strengthening the WTO by adding China and Taiwan to its ranks. By adding these important economies to the WTO, we are helping to ensure that China and Taiwan commit to a rules-based, open system of trade that will expand opportunities for Americans in these markets. Since 1995, the United States has helped add 17 new Members to the WTO—and efforts are in train to add Russia and other nations in the future.

The United States is committed to the goal of completing the DDA by the agreed deadline of 2005. To maximize the likelihood of success, the United States is also invigorating a drive for regional and bilateral FTAs. These agreements promote and reinforce the powerful links among commerce, economic reform, development, and investment, thereby strengthening security and the momentum for free and open societies. Under NAFTA, U.S. trade with Mexico almost tripled and trade with Canada nearly doubled; as important, all three members have become more competitive internationally. NAFTA proved definitively that both developed and developing countries gain from free-trade partnerships. It enabled Mexico to bounce back quickly from its 1994 financial crisis, launched the country on the path of becoming a global economic competitor, and supported its transformation to a more open democratic society.

In the months following the Congressional grant of TPA, the Bush Administration completed FTA negotiations with Chile and Singapore, began new FTA negotiations with the five nations of the Central

American Common Market, and announced FTA negotiations with the five countries of the Southern African Customs Union, Morocco, and Australia. We pushed forward the negotiations among 34 democracies for a Free Trade Area of the Americas and will co-chair this effort with Brazil until it is successfully concluded. The United States is once again seizing the global initiative on trade.

Pressing Forward with Global Trade Negotiations

Since the launching of new global trade negotiations at Doha in 2001, the United States has offered a series of bold proposals to liberalize trade in the three key sectors of the international economy: industrial and consumer goods, agriculture, and services. The U.S. leadership demonstrated by these proposals has been instrumental in maintaining forward momentum in the negotiations and in keeping WTO Members focused on the core issues of market access.

Consumer and industrial goods. The U.S. proposal for manufactured goods calls for the elimination of all tariffs on these products by 2015. This was the trade sector first targeted by the founders of the General Agreement on Tariffs and Trade in 1947. After more than 50 years' work, about half the world's trade in goods is now free from tariffs. It is time to finish the job.

The U.S. proposal would level the playing field first by harmonizing disparate tariffs at lower levels and then eliminating them altogether. We envision this happening in a two-stage process.
The first phase would take place between 2005 and 2010. During that time, WTO Members would eliminate all non-agricultural tariffs currently at or under 5 percent. This step would completely eliminate tariffs on more than three-quarters of imports into the United States, the European Union, and Japan in just five years. It would significantly boost trade among the major industrialized nations and spur exports from developing countries to developed nations.

During the 2005-2010 period, countries could also eliminate non-agricultural tariffs in highly traded goods sectors—such as environmental technologies, aircraft, and construction equipment—through a series of zero-for-zero initiatives with trade partners that are ready to commit to greater levels of openness. In addition, for all other duties the United States is proposing a "Tariff Equalizer" formula, which would bring all remaining non-agricultural tariffs down to less than 8 percent. In order to achieve greater equity, the highest tariffs would fall farther than the lower tariffs.

The second phase of the U.S. proposal would be carried out between 2010 and 2015. During those five years, all WTO Members would make equal annual cuts, until their tariffs on goods are eliminated. With zero tariffs, the manufacturing sectors of developing countries could compete fairly. The proposal would eliminate the barriers among developing countries, which pay 70 percent of their tariffs on manufactured goods to one another. By eliminating barriers to the farm and manufactured-goods trade, the income of the developing world could be boosted by over $500 billion.

The zero-tariff world that the United States is proposing would mean substantial new opportunities for U.S. exporters. It would also represent a major tax cut for America's working families, directly saving them more than $18 billion per year on the import taxes they currently pay in the form of higher prices. The dynamic, pro-business, pro-consumer, and pro-competitive effects of slashing tariffs would mean that America's national income would increase by $95 billion under the U.S. goods proposal. Together with the tax cut from lower tariffs, that would mean an economic gain of about $1,600 per year for the average family of four.

Agriculture. America's farmers are a key to our economic vitality. Dollar for dollar we export more wheat than coal, more fruits and vegetables than household appliances, more meat than steel, and more corn than cosmetics.

The U.S. goal in the farm negotiations is to harmonize tariffs and trade-distorting subsidies while slashing them to much lower levels, on a path towards elimination. The last global trade negotiation—the Uruguay Round—accepted high and asymmetrical levels of subsidies and tariffs in order to begin to move toward some initial discipline in the sector. For example, the Round set a cap on the European Union's production-distorting subsidies that was three times the size of America's, even though agriculture represents about the same proportion of our economies.

The 2002 U.S. Farm Bill—which authorized up to $123 billion in all types of food-stamp, conservation, and farm spending over six years—made clear that while the United States will respect WTO limits, it will not cut agricultural support unilaterally. America's farmers and many agricultural leaders in Congress back our WTO proposal that all nations should cut tariffs and harmful subsidies together. The United States wants to eliminate the most egregious and distorting agricultural payments—export subsidies. The United States would cut global subsidies that distort domestic farm production by some $100 billion, slashing our own limit almost in half. We would cut the global average farm tariff from 60 percent to 15 percent, and the American average from 12 percent to 5 percent. The United States also advocates agreeing on a date for the total elimination of agricultural tariffs and distorting subsidies.

Services. The United States is by far the world's leading exporter of services. We have submitted requests to our WTO partners that would broaden opportunities for growth and development in this critical sector, which is just taking off in the international economy. Services represent about two-thirds of the U.S. economy and 80 percent of our employment, yet they account for only about 20 percent of world trade. Services liberalization would open up new avenues for trade, benefiting both the United States and our trading partners. The World Bank has pointed out that eliminating services barriers in developing countries alone could yield them a $900 billion gain.

As WTO negotiations have progressed, we are making significant progress in a number of other areas covered by the Doha declaration, including:

Capacity Building. The United States is committed to expanding the circle of nations that benefit from global trade. We listen to the concerns of developing countries and assist in their efforts to expand free trade. This past year, we devoted $638 million—more than any other single country—to help developing economies build the capacity to take part in trade negotiations, implement the rules, and seize opportunities. We have also acted in partnership with the Inter-American Development Bank and other multilateral institutions to provide new capacity-enhancing resources and expertise.

In addition, the Bush Administration is emphasizing the important contributions that small businesses make to the U.S. and global economies. Small businesses are a powerful source of jobs and innovation at home and an engine of economic development abroad. By helping to build bridges between American small businesses and potential new trading partners, these enterprises can become an integral part of our larger trade capacity building strategy. Working with the U.S. Small Business Administration, we have established an Office of Small Business Affairs at the Office of the United States Trade Representative (USTR) that is charged with insuring that American small business concerns are incorporated into our trade policy pursuits.

Intellectual Property. The United States agreed at Doha that the available flexibility in the global intellectual-property rules could be used to allow countries to license medicines compulsorily to deal with

HIV/AIDS, tuberculosis, malaria and other epidemics. We are also committed to helping those poor regions and states obtain medicines that they cannot manufacture locally. To keep faith with our Doha obligations, the Administration has issued a pledge: while we pursue a global understanding on how these life-saving medicines can best be provided to countries that cannot produce the medicines themselves, the United States will not challenge in dispute settlement any WTO Member that uses the compulsory licensing provisions of the TRIPS Agreement to export such drugs to a poor country in need. The Administration believes we must strike the necessary balance between protecting life-saving research and patents and helping those truly needy that face infectious epidemics.

Trade Rules. The international rules that govern unfair trade practices should be improved, not weakened. Indeed, the DDA explicitly states that any negotiation of trade remedy laws will preserve the basic concepts, principles, and effectiveness of existing agreements, as well as their instruments and objectives. This clear mandate will enable the United States to press for trade remedies to be applied in a manner consistent with international obligations. Inappropriate and non-transparent application of these laws can damage the legitimate commercial interests of U.S. exporters.

The Environment. Work has progressed well over the past year on the DDA's trade and environment agenda. The United States has urged new disciplines on harmful fisheries subsidies, prompting discussions in the Rules Negotiating Group on the inadequacy of existing rules in preventing trade distortion and resource misallocation in this important sector. The Bush Administration has stood firm against efforts to use so-called non-trade concerns, including using unjustified trade-distorting measures under the guise of environmental policy, to undermine the agenda for agricultural liberalization. At the same time, we helped move discussions forward on increasing market access for environmental goods and services in several WTO fora. WTO Members also began to identify avenues for increasing mutual supportiveness of multilateral environmental agreements (MEAs) and the WTO, particularly with respect to cooperation and communication between these institutions.

Electronic Commerce. The United States is actively engaged in the work program on electronic commerce, now being conducted under the auspices of the WTO's General Council. In 2002, two meetings were dedicated to e-commerce and focused on classification and fiscal implications of electronically transmitted products. As the work progresses, the United States will push for a set of objectives to form the basis for a positive statement from the WTO about the importance of free-trade principles and rules to the development of global e-commerce.

Transparency in Government Procurement and Efficient Customs Procedures. The Administration also continues to push for the reciprocal removal of discriminatory government procurement practices in a wide range of multilateral, regional and bilateral fora, including the WTO. The Administration is urging the conclusion of an Agreement on Transparency in Government Procurement that would apply to all Members of the WTO. The United States is also taking part in negotiations on new WTO rules to facilitate trade by making procedures at international borders more transparent and efficient.

Labor Issues. The United States has continued to press for increased cooperation between the WTO and the International Labor Organization (ILO). We charted important progress in 2002: In the Governing Body of the ILO, the United States supported the creation of the ILO's World Commission on the Social Dimensions of Globalization, which is undertaking a thorough analysis of the implications of trade and investment liberalization on employment, wages, and workers' rights. We look forward to the Commission's 2003 report.

The Administration's commitment to mutually supportive trade and labor policies has also benefited greatly from a partnership between USTR and the Department of Labor's International Labor Affairs Bureau (ILAB). ILAB has directly supported the work of the ILO, focusing particularly promoting the 1998 *ILO Declaration on Fundamental Principles and Rights at Work* and the International Program for the Elimination of Child Labor (ILO/IPEC). ILAB is working with the ILO and other international organizations to assist countries in implementing core labor standards and is also providing technical cooperation to strengthen the capacities of developing countries' Labor Ministries to implement social safety net programs and combat the spread of HIV/AIDS. Realizing that child labor can never be fully eliminated until poverty is vanquished, the Administration and ILO/IPEC have focused on the eradication of the worst forms of child labor, including bonded or forced labor, child prostitution, and work under hazardous conditions. We have also bolstered the U.S. trade and labor agenda through ILAB analyses of labor laws and the worker rights situation of our trading partners.

Commitment to Progress within the WTO. To help maintain the momentum after the Doha agreement, WTO Members agreed that Mexico would chair the mid-term review of progress at the September 2003 Ministerial in Cancun. This meeting will provide WTO Members with the opportunity to chart a course for the final phase of negotiations. We welcome the leadership role that Mexico is playing by hosting this important meeting.

As negotiations progress, the United States will be placing special emphasis on a continued effort to ensure the involvement of the poorest and least developed nations, in order to assist them in securing the benefits of trade and to help keep all WTO Members effectively invested in the process. In 2002, we reaffirmed the U.S. commitment to the principle of special differential treatment for least developed countries in order to better integrate them into the global trading system, and devoted unprecedented resources to help such countries build the capacity to take part in trade negotiations, implement the rules, and seize opportunities. We have acted in partnership with the Inter-American Development Bank to integrate trade and finance, and we are urging the World Bank and the IMF to back their rhetoric on trade with resources.

Monitoring China's and Taiwan's Compliance with WTO Obligations

In 2001, the United States played a key role in breaking through logjams to complete the historic accessions to the WTO of China (after a 15-year effort) and Taiwan (after a 9-year effort). This achievement built on the work of four U.S. Administrations. To achieve a successful result, we solved many multilateral issues, including those relating to agriculture, trading rights, distribution, and insurance, while navigating the political sensitivities to enable China and Taiwan to join the WTO within 24 hours of one another.

Throughout 2002, the Bush Administration worked closely with other countries, as well as the private sector, to monitor China's and Taiwan's compliance with the terms of their WTO membership. On December 11, 2002—the first anniversary of China's accession to the WTO—USTR published a report prepared pursuant to section 421 of the U.S.-China Relations Act of 2000. The report updates Congress on China's compliance.

Overall, during the first year of its WTO membership, China made significant progress in implementing its WTO commitments, although much is left to do. It made numerous required systemic changes and implemented specific commitments, such as tariff reductions, the removal of numerous non-tariff barriers, and the issuance of regulations to increase market access for foreign firms in a variety of services sectors. Nevertheless, we have serious concerns about areas where implementation has not yet occurred or is inadequate—particularly in agriculture, intellectual property rights enforcement, and certain services sectors.

An extensive interagency team of experts closely monitors China's WTO compliance efforts. This effort is overseen by the Trade Policy Staff Committee (TPSC) Subcommittee on China WTO Compliance, which is composed of experts from USTR, the Departments of Commerce, State, Agriculture, Treasury, and the U.S. Patent and Trademark Office. It works closely with State Department economic officers, Foreign Commercial Service officers and Market Access and Compliance officers from the Commerce Department, Foreign Agricultural Service officers and Customs attaches at the U.S. Embassy and Consulates General in China, who are active in gathering and analyzing information, maintaining regular contacts with U.S. industries operating in China, and maintaining regular contacts with Chinese government officials at key ministries and agencies.

When compliance problems arose in 2002, the Administration used all available means to obtain China's full cooperation, including intervention at the highest levels of government. Throughout the year, USTR worked closely with affected U.S. industries on compliance concerns, and utilized bilateral channels through multiple agencies to press them. The Administration also broadened enforcement efforts by working on China issues with like-minded WTO Members through the Transitional Review Mechanism and on an ad hoc basis. Through these efforts, the Administration made progress on a number of fronts. For example, we addressed and continue to monitor a series of problems arising from China's new biotechnology regulations that threatened U.S. soybean exports ($1 billion worth in 2001) and other commodities. In the services area, the Administration successfully pressed China to modify new measures that threatened to restrict access by American express delivery firms, and we made progress in dealing with the concerns of U.S. insurance companies regarding China's use of excessively-high capitalization requirements and other prudential standards. USTR also established a regular dialogue on compliance with China's lead trade agency, MOFTEC, in September 2002. This dialogue is designed to bring all relevant Chinese ministries and agencies together in one forum to facilitate the resolution of outstanding contentious issues.

Taiwan's accession to the WTO has increased access for a wide range of U.S. goods and services, including agricultural exports, during 2002. However, we continue to track potential compliance problems with Taiwan's WTO commitments, while we work to address existing problems regarding market access for agriculture goods, intellectual property rights protection, and Taiwan's telecommunications services market. Throughout the year, the Administration worked closely with U.S. industries and other agencies on these compliance and other market access concerns. We used all available bilateral channels to press the Taiwan authorities to address shortcomings in these areas.

The Administration will continue this crucial work in 2003, both to address unresolved concerns and to tackle any new problems that arise. The backing we have received from the Congress—in terms of resources and attention—has been and will remain fundamental to the achievement of our mission. We will work closely with U.S. businesses, farmers, and labor groups—and with China and Taiwan—to address problems and take action when necessary.

Advancing Russia's Accession to the WTO

The United States has begun a new era in its relations with Russia. Whether in the realms of security, foreign policy, or economics, President Bush has emphasized the need to move beyond Cold War strictures and stereotypes.

To take another step towards closing out the history books of the Cold War, the President has urged the Congress to finally end the application of the Jackson-Vanik amendment to Russia. It has been over a decade since the unification of Germany in 1990 and the dissolution of the Soviet Union in 1991. Furthermore, Russia has been in full compliance with Jackson-Vanik's emigration provisions since 1994. As we move ahead, the Administration will continue consulting closely with various groups on the protection of freedom of religion and other human rights in conjunction with this action.

In 2003, we will continue our intensified effort to negotiate the terms of Russia's accession to the WTO on commercially meaningful terms. President Putin has made WTO membership and integration into the global trading system a priority. We will support Russia as it promotes reforms, further establishes the rule of law in the economy, and adheres to WTO commitments that support a more open economy. This effort needs to include action by the Duma to establish a fully effective legal infrastructure for a market economy.

To achieve a successful WTO accession, Russia must abide by multilateral trade rules, and the United States and 144 other member nations will insist on that course as talks proceed. Working closely with the Congress, the Administration will stress the need for Russia to offer fair market access in important U.S. export sectors—in agriculture and financial services, for example—and to adhere to international standards in areas such as food safety. Unfortunately, Russia's actions on poultry and other meats has sent a negative signal about the seriousness of its commitment to join the WTO. If Russia continues down this path, it risks losing the benefits of WTO membership—and even current levels of market access for its exports.

Advancing Hemispheric Trade Liberalization: The Free Trade Area of the Americas

On the regional front, this Administration has been pressing ahead to create the largest free trade zone in history, covering 800 million people and stretching from Alaska to Tierra del Fuego: the Free Trade Area of the Americas. This endeavor will be trying and difficult, but when completed it will be an historic fulfillment of a U.S. vision dating to the 19th Century.

In November 2002 in Quito, Ecuador, the United States energized the FTAA negotiations by agreeing on a firm schedule and deadlines for specific offers to cut tariffs and reduce barriers. Ministers recommitted themselves to the 2005 deadline for completion of negotiations, delivered new instructions to negotiating groups, released an updated draft negotiating text, and agreed to tariff reductions from applied rates rather than WTO bound rates. Upon the close of the Quito Ministerial, the United States and Brazil assumed co-chairmanship of the FTAA process, providing an opportunity for cooperation with a key partner and economic power as the pace of negotiations accelerates. Looking ahead, the United States will advance bold market access proposals for manufactured and consumer goods, agriculture, services, government procurement, and investment. We will also host the next Ministerial meeting in Miami in November 2003.

President Bush, like his counterparts throughout the Americas, knows that the FTAA is crucial in our quest to build a prosperous and secure hemisphere. Free trade offers the first and best hope of creating the economic growth necessary to alleviate endemic poverty and raise living standards throughout the Americas. The scope of our endeavor is grand: The FTAA will be the largest free market in the world, with a combined gross domestic product of over $13 trillion.

Hemispheric openness is important in its own right, but it will also have a multiplier effect on growth by encouraging fuller participation by those countries in the Americas that have been bystanders in the global trading system. FTAA negotiators are developing provisions that will provide trade capacity building and technical assistance to smaller economies in the Americas, especially in the Caribbean. Our FTAA offers also take into account the special circumstances of these small island nations by building on existing patterns of preferential openness.

Fundamental freedoms and human rights are core principles of the Summit of the Americas process, as reiterated in Quito this year. The FTAA will strengthen democracy throughout the Hemisphere—a proposition that is not just theory, but fact. Time and time again, the world has witnessed the evolution from open markets to open political systems, from South Korea to Taiwan to Mexico. Free trade will likewise bolster young democracies in the Americas and the Caribbean.

During the Quito Ministerial, the governments of the Americas also affirmed their commitment to the observance of internationally recognized labor standards. This echoed the agreement by the hemisphere's heads of state at the Third Summit of the Americas to "promote compliance with internationally recognized core labor standards." The Inter-American Conference of Ministers of Labor (IACML) is responsible for implementing the labor-related mandates of the Third Summit of the Americas and represents a parallel process for addressing the labor implications of economic integration. The Department of Labor represents the United States in the IACML and co-chairs the working group charged with examining the labor dimensions of the Summit of the Americas process. In the Quito Declaration, Trade Ministers also noted the work of the IACML with respect to globalization and labor and requested that the results of that work be shared with them.

As we continue building support for the FTAA, it will be important to point to the successful record of America's first regional trade agreement, the decade-old NAFTA. Throughout the months ahead, we will continue to publicize NAFTA's substantial benefits and consider additional ways to deepen integration throughout the Americas. NAFTA has been a case study in globalization along a 2,000-mile border; it demonstrates how free trade between developed and developing countries can boost prosperity, economic stability, productive integration, and the development of civil society.

Pressing Other Regional and Bilateral Agreements

Whether the cause is democracy, expanding commercial opportunity, security, economic integration or free trade, advocates of reform often need to move towards a broad goal step by step—working with willing partners, building coalitions, and gradually expanding the circle of cooperation. Just as modern business markets rely on the integration of networks, we need a web of mutually reinforcing regional and bilateral trade agreements to meet diverse commercial, economic, developmental and political challenges.

The Bush Administration recently completed free trade negotiations with Chile and Singapore. Both of these agreements offer increased opportunities for U.S. businesses, farmers, and workers and send a message to the world that the United States will embrace closer ties with nations that are committed to open markets—whether in the Western Hemisphere, across the Pacific, or beyond the Atlantic. As we moved these FTA negotiations toward completion, we worked closely with the Congress—and the Senate Finance and House Ways and Means Committees in particular—to determine how best to address the concerns and interests of the Congress and the American people. For example, the Chile and Singapore agreements successfully incorporate new approaches to governing e-commerce, labor, investment, and the environment that were articulated in the Trade Act of 2002.

In 2002 we also notified the Congress and then launched FTA negotiations with a number of new countries:

- With Morocco, a leading moderate and reformist Arab nation that offers commercial opportunity, can serve as a model and hub for a region that can gain enormously from economic reforms, and has been a staunch partner in the global effort to defeat terrorism.

- With the five nations of the Central American Common Market—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—to encourage economic development and democracy in a region that has shown its potential by already representing $20 billion in trade with the United States and which has made great progress over the decade.

- With the five members of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland), which will be America's first free trade agreement with Sub-Saharan African nations. The 48 countries of sub-Saharan Africa represent a largely untapped market for American business. As these countries progress economically, they will require substantial new infrastructure in sectors as diverse as energy, agriculture, and telecommunications—areas in which U.S. firms lead the world. Thanks to the President's leadership on Africa, there is today a unique convergence of opportunities for us to promote African development and expand commercial opportunities for American businesses.

- And with Australia, our 14th largest trading partner and a growing economy, a key U.S. ally, and an important center in the network of American companies doing business in the Asia-Pacific region.

These regional and bilateral FTAs will bring substantial economic gains to American families, workers, consumers, farmers, and businesses. They also promote the broader U.S. trade agenda by serving as models, breaking new negotiating ground, and setting high standards. Our agreements with Chile and Singapore, for example, have helped advance U.S. interests in areas such as e-commerce, intellectual property, labor and environmental standards, regulatory transparency, and the burgeoning services trade.

As we work intensively on these FTA negotiations, the United States is learning about the perspectives of our trading partners. Our FTA partners are the vanguard of a new global coalition for open markets. These partners are also helping us to expand support for free trade at home. Each set of talks enables legislators and the public to see the practical benefits of more open trade, often with societies of special interest for reasons of history, geography, security, or other ties. The Bush Administration's FTA initiatives have helped shift the debate in America to the agenda of opening markets, and away from the protectionists' defensive agenda of closing them.

Our regional and bilateral free-trade agenda conveys the message that America is open to trade liberalization with all regions—Latin America, sub-Saharan Africa, the Asia-Pacific, the Arab world—and with both developing and developed economies. In October 2002, President Bush laid the groundwork for future market-opening initiatives by announcing the Enterprise for ASEAN Initiative. The EAI offers the prospect of bilateral FTAs between the United States and those members of the Association of Southeast Asian Nations that are ready to meet the high standards of a U.S. FTA, and also pledges to assist countries in joining the WTO. This past year we also signed Trade and Investment Framework Agreements with Sri Lanka, Brunei, the West African Monetary Union, Tunisia, Bahrain, and Thailand. In addition, the United States signed a Comprehensive Trade Package with Hungary in 2002 that lowered barriers to $180 million worth of U.S. exports per year.

We look forward to discussing these initiatives with the appropriate committees in the Congress, and we will seek continued input on these and other possible FTAs.

Over the coming year, we intend to press the goals articulated in the Trade Act of 2002. The President's regional and bilateral free trade agenda—combined with a clear commitment to reducing global barriers to trade through the WTO—will leverage the American economy's size and attractiveness to stimulate competition for openness, moving the world closer, step-by-step, towards the goal of comprehensive free trade.

Building New Bridges: Preferential Trade Programs and Capacity Building

A free and open trading system is critical for the developing world. As President Bush has pointed out, "Open trade fuels the engines of economic growth that creates new jobs and new income. It applies the power of markets to the needs of the poor. It spurs the process of economic and legal reform. It helps dismantle protectionist bureaucracies that stifle incentive and invite corruption. And open trade reinforces the habits of liberty that sustain democracy over the long term."

Over the past year, the United States has matched its rhetoric on helping developing countries through trade with action. First, the Trade Act of 2002 renewed the Generalized System of Preferences (GSP), which enables some 3,500 products from 140 developing economies to enter the United States free of duties. We have invited countries to submit petitions for products that should be added to the GSP list.

Second, the new Trade Act extended and augmented the Andean Trade Preference Act (ATPA)—which President George H.W. Bush first implemented in 1991—by increasing the list of duty-free products to some 6,300. ATPA is a vital program for the four Andean democracies on the front lines of the fight against narcotics production and trafficking.

Third, the Act expanded the Caribbean Trade Partnership Act by liberalizing apparel provisions, providing a vital economic stepping stone for some of the poorest countries in our hemisphere.

Finally, we continued the important implementation of the far-sighted African Growth and Opportunity Act (AGOA), which Congress enacted in May 2000 and expanded with the "AGOA II" provisions of the Trade Act of 2002. AGOA opens the door for African nations to enter the trading system effectively, increases opportunities for U.S. exports and businesses, supports government reforms and transparency, and widens the recognition of the benefits of trade in the United States. It extends duty-free and quota-free access to the U.S. market for nearly all goods produced in the 38 eligible beneficiary nations of sub-Saharan Africa. Moreover, by providing incentives for African countries to open their markets and improve the environment for trade and investment, AGOA has helped to boost American exports to the region. U.S. merchandise exports to sub-Saharan Africa are up by 25 percent since AGOA's enactment, to nearly $7 billion last year, led by aircraft, oil and gas field equipment, and motor vehicles and spare parts.

The second annual AGOA forum in January 2003 provided an opportunity to evaluate AGOA's achievements and address implementation challenges. Gathering in Mauritius, Members of Congress, Administration officials, and business representatives all learned more about AGOA success stories, such as new jobs and investments in Cape Verde, Senegal, Rwanda, and Uganda. The real, positive experiences of American businesses and their African hosts provide models to emulate and help us better address the challenges inherent in promoting growth and commercial opportunities in Africa—particularly the challenge of maximizing and realizing tangible benefits across all the countries in the region.

Moving forward, the Bush Administration is committed to expanding America's economic links with Africa. Most important, we are asking the Congress to extend AGOA beyond its 2008 expiration date.

We have opened Regional Hubs for Global Competitiveness in Botswana, Kenya, and Ghana in 2002—each staffed with technical experts who will provide support on WTO issues, AGOA implementation, private sector development, and other trade topics. We are adding a specialist to each Hub from the Department of Agriculture to help African farm exports meet U.S. health and safety standards. Finally, we have designated a new Deputy Assistant Trade Representative who focuses exclusively on trade capacity-building activities.

Through AGOA and our other preferential trade programs, the Bush Administration will lend increasing support to developing countries that desire to take part in trade negotiations, implement complex agreements, and use trade as an engine of economic growth. We will build on current partnerships among agencies of the U.S. Government—such as AID, OPIC, and the Department of Agriculture—and with multilateral and regional institutions. Congressional advice, encouragement, and support is vital to this endeavor.

Monitoring and Enforcing Trade Agreements

For the United States to maintain an effective trade policy and an open international trading system, our citizens must have confidence that trade is fair and works for the good of our people. That means ensuring that other countries live up to their obligations under the trade agreements they sign. Over the past year, we have successfully resolved disputes and aggressively monitored and enforced U.S. rights under international trade agreements and U.S. court rulings in ways that benefit American producers, exporters, and consumers. Sectors that have been affected include entertainment, textiles, high-technology, automobiles, and agriculture.

In 2003, we will seek to resolve favorably other trade disputes in a way that best serves America's interests. Among the most prominent cases are telecommunications with Mexico; softwood lumber with Canada; beef with the European Union; the Foreign Sales Corporation (FSC) WTO case brought by the EU; and apples with Japan. In the FSC case, the Administration will consult and work closely with the Congress to determine an approach that will meet our WTO obligations.

We intend to continue addressing unjustified science and health measures that impede farm exports, and undermine safe and productive innovation in agriculture. We will be vigilant in defending the right to market safe agricultural biotechnology products in Europe and elsewhere—the continuation of a long tradition in agricultural progress—which holds out great potential for mitigating the environmental impact of food production, nourishing the world's expanding population, improving health and nutrition, and bolstering farmers' productivity and prosperity around the world, most especially in the developing world.

Preserving Safeguards and Trade Laws Against Unfair Practices

One of the principal negotiating objectives of the Trade Act of 2002 is to "preserve the ability of the United States to enforce rigorously its trade laws, including the antidumping, countervailing duty, and safeguard laws, and avoid agreements that lessen the effectiveness of domestic and international disciplines on unfair trade, especially dumping and subsidies, or that lessen the effectiveness of domestic and international safeguard provisions, in order to ensure that United States workers, agricultural producers, and firms can compete fully on fair terms and enjoy the benefits of reciprocal trade concessions."

Maintaining public support for open trade means providing appropriate assistance to those industries that find it difficult to adjust promptly to the rapid changes unleashed by technology, trade, and other forces. We will continue our commitment to the effective use of statutory safeguards, consistent with WTO rules, to assist American producers. Used properly, these safeguards—for example, Section 201 of the Trade Act of 1974—can give producers vital breathing space while they restructure and regain competitiveness.

On March 5, 2002, for instance, in response to a unanimous finding by the U.S. International Trade Commission (ITC) that imports were a substantial cause of serious injury to the U.S. steel industry, the President announced temporary tariffs on imports of certain steel products. The ITC safeguard investigation was part of a three-pronged initiative announced on June 5, 2001, that also included negotiations at the Organization for Economic Cooperation and Development (OECD) to encourage the reduction of excess global capacity and to eliminate the market-distorting subsidies that led to current overcapacity.

The President's approach has given the U.S. steel industry and its workers the chance to adjust to import competition while safeguarding the needs of steel consumers. The Section 201 remedy preserved access to specialty steels by excluding over 700 products from the increased tariffs. In addition, the tariffs did not apply to imports from countries that have committed to the highest level of reciprocal market access—our NAFTA and other FTA partners. Most developing countries have also continued to enjoy open access to the U.S. steel market.

Since the temporary tariffs took effect, domestic steel companies have taken serious steps to restructure and increase productivity. As of January 2003, these steps included: International Steel Group's (ISG) purchase of the steelmaking assets of LTV Corporation and Acme Steel; ISG's offer to purchase the assets of Bethlehem Steel; two competing offers to purchase National Steel Corp.; the negotiation of a groundbreaking labor contract between the United Steelworkers of America and ISG; and numerous mergers and acquisitions in the minimill sector.

We made important progress in the OECD steel negotiations in 2002. Participants established a peer review process to examine global steel capacity closures and decided to immediately develop the elements of an agreement for cutting trade-distorting subsidies in steel.

Given America's relative openness, strong, effective laws against unfair practices are important for maintaining domestic support for trade. This Administration has used and continues to back the use of these laws. At the same time, however, we recognize that the recent proliferation overseas of antidumping laws in particular has resulted in abuses against U.S. exporters by countries that do not apply their laws in a fair and transparent manner. Our objective in the WTO negotiations is to curb abuses while preserving the basic concepts, principles, and effectiveness of trade remedy laws. Moreover, the United States has insisted that any discussion of trade remedy laws must also address the underlying subsidy and dumping practices that give rise to the need for trade remedies in the first place.

We continue to advance an affirmative U.S. agenda, targeting the increasing misuse of these laws, particularly by developing countries, to block U.S. exports. From 1995 through the first half of 2002, there were 105 investigations by 18 countries of U.S. exporters. The most frequently targeted U.S. industries are chemical, steel, and other metal producers, although U.S. farm products are increasingly being blocked. The WTO negotiations will help us address significant shortcomings in foreign antidumping and countervailing duty procedures by more clearly defining the specific circumstances that give rise to unfair trade, improving transparency in how antidumping laws are applied, and strengthening due process.

Aligning Trade with America's Values

America's trade agenda needs to be aligned securely with the values of our society. Trade promotes freedom by supporting the development of the private sector, encouraging the rule of law, spurring economic liberty, and increasing freedom of choice. Trade also serves our security interests in the campaign against terrorism by helping to tackle the global challenges of poverty and privation. Poverty does not cause terrorism, but there is little doubt that poor, fragmented societies can become havens in which terrorists can thrive.

Developing countries have much to gain by joining the global trading system. From Seoul to Santiago, when trade grows, income follows. The World Bank conducted a study of developing countries that opened themselves to global competition in the 1990s and of those that did not. The income per person for globalizing developing countries grew by five percent a year, while incomes in non-globalizing poor countries grew just over one percent. Developing countries that embraced trade and openness sharply reduced absolute poverty rates over the last 20 years, and the income levels of the poorest households have kept up with the growth.

By knitting Americans to peoples beyond our shores, new U.S. trade agreements can also encourage reforms that will help establish the basic building blocks for long-term development in open societies, including:

- *The rule of law*: Trade agreements encourage the development of enforceable contracts and fair, transparent governance—helping to expose corruption.

- *Private property rights*: These are a necessary ingredient for economic development because they encourage saving, investment, exchange, and entrepreneurship. Trade agreements bolster property rights by safeguarding the right to establish businesses, guaranteeing that investments will not be appropriated arbitrarily, supporting privatization, and fostering knowledge industries.

- *Competition*: Free trade fosters competition, the hallmark of successful economies. Developing countries suffer at the hands of elites who cling to their positions by depriving ordinary citizens of less-expensive, better-quality goods and services that can be had through competition. Free trade agreements attack manipulated licensing systems, state monopolies and oligarchies that keep affordable products off store shelves.

- *Sectoral reform*: Trade agreements drive market reforms in sectors ranging from e-commerce to farming. For example, in our FTA discussions with Morocco, we are examining how we can work with Morocco's World Bank program to restructure its agricultural sector. The United States has also advanced an aggressive agriculture reform proposal in the WTO negotiations that would eliminate $100 billion globally in trade-distorting farm subsidies and lead to better agricultural policies in developed and developing countries alike.

- *Regional integration*: The lesson of the European Union and NAFTA is that location matters, in economics as in politics. Therefore, as FTA negotiations with democracies in Central America and Southern Africa progress, we will explore how best to support beneficial regional integration and promote growth clusters.

From its first days, the Bush Administration recognized that poor countries cannot succeed with economic reform and growth if they are eviscerated by pandemics. Lower-priced medicines and appropriate flexibility on the implementation of intellectual property protection must be part of a larger global response to health pandemics, involving education, prevention, care, training, and treatment. The United States is committed to supplying funds for HIV/AIDS, tuberculosis, and malaria assistance, and funding related research, prevention, care, and treatment programs, much of which helps to address problems in developing countries.

President Bush has made fighting HIV/AIDS a priority of U.S. foreign policy. The United States is the international leader in combating this pandemic. The seriousness of the Administration's commitment to battle AIDS was recently underscored by President Bush's dramatic call for a tripling of U.S. AIDS spending—to $15 billion over the next five years—to establish an Emergency Plan for AIDS Relief. This comprehensive program is designed to prevent 7 million new AIDS infections, treat at least 2 million people with life-extending drugs, and provide humane care for millions of people suffering from AIDS, and to meet the needs of children orphaned by AIDS. In 2002, President Bush launched the $500 million Mother-and-Child HIV Prevention Initiative designed to prevent mother-to-child transmissions. Additionally, the United States was the first contributor—and remains the largest—to the international "Global Fund to Fight AIDS, TB and Malaria."

Free trade is about freedom. This value is at the heart of our larger reform and development agenda. Just as U.S. economic policy after World War II helped establish democracy in Western Europe and Japan, today's free trade agenda will both open new markets for the United States and strengthen fragile democracies in Central and South America, Africa, and Asia.

Promoting a Cleaner Environment, Better Working Conditions, and Investment Protection

Free trade promotes free markets, economic growth, expanded employment opportunities, and higher incomes. As countries grow wealthier, their citizens demand better working conditions and a cleaner environment. Economic growth gives governments more resources and incentives to promote and enforce strong standards in these areas.

The Trade Act of 2002 gave us detailed guidance on the continued incorporation of labor and environmental issues into U.S. trade agreements, representing a delicate balance across the spectrum of concerns. The Administration has been drawing on this guidance—and would welcome additional advice—as we pursue these topics in our current trade negotiations. Similarly, we are conducting discussions with non-governmental organizations and the business community to ascertain how we can address concerns posed about investment provisions in trade agreements.

The Chile and Singapore FTAs incorporate Congressional guidance into a robust environment and labor packages that place obligations within the text of these agreements and emphasize the importance of cooperative action. These FTAs obligate signatories to set high levels of environmental and labor protection, strive to improve those protections, and not fail to effectively enforce their domestic laws in a manner affecting trade. This "effective enforcement provision" is subject to dispute settlement.

In the case of Singapore, a small developed country with limited available land, cooperative efforts will focus both on combating illegal wildlife trade and on building environmental capacity in Singapore's Southeast Asian neighbors. With Chile, we recognized a need for broader initiatives, both to address the special needs of a natural resource-based economy and to build environmental capacity in the Southern Cone. The U.S.-Chile FTA sets out eight initial cooperative projects and calls for the negotiation of a separate environmental cooperation agreement.

On labor, the Trade Act of 2002 stresses the need "to promote respect for worker rights and the rights of children consistent with the core labor standards of the International Labor Organization." In our FTAs with Chile and Singapore, we reaffirmed our respective obligations as members of the ILO and committed to uphold the ILO Declaration on Fundamental Principles and Rights at Work. We examined carefully at the domestic labor laws in Chile and Singapore and verified that their laws did, in fact, adequately respect the ILO's core worker rights. We also achieved a principal negotiating objective of TPA by including labor provisions that obligate signatories to effectively enforce domestic labor laws when they may affect trade. In support of the goal to promote respect for worker rights, the United States and Chile agreed to move forward on two labor technical cooperation projects—labor justice reform and labor law compliance. In 2003, the United States will seek to negotiate labor and environment clauses in our trade agreements with the five Central American countries, Morocco, Southern Africa, and Australia.

The Chile and Singapore FTAs include an innovative system of monetary assessments to help settle labor and environmental disputes in a manner equivalent to how we resolve commercial disputes. In these agreements, the first course of action in a labor, environmental, or commercial dispute will be consultation. If this fails, however, all disputes will be handled through the same settlement procedures. If these procedures fail to bring an offending party into compliance, fines are a possibility—the funds from which will be earmarked for measures to address the underlying labor or environmental problems. This system creates an incentive to comply to avoid fines, and also serves to reduce the likelihood of future non-compliance by using funds to remedy enforcement deficiencies. Only as a last resort—in cases of non-compliance and a failure to pay a monetary assessment—will FTA signatories have recourse to withdraw trade benefits. And those actions must be, as the Congress stated, "appropriate" to the severity of the violation.

The Administration has also addressed Congressional concerns about the intersections among investment, labor, and environmental protections. The Singapore and Chile FTAs provide greater transparency and accountability in the disputes that investors can bring against host governments and ensure that U.S. investors abroad get protections comparable to those afforded under U.S. domestic law, while making clear that foreign investors in the United States do not have greater substantive rights than domestic companies. These agreements incorporate foreign investment negotiating objectives from the Trade Act of 2002, including the authorization of *amicus curiae* submissions and public access to investor-state arbitration hearings and documents. In addition, the United States, Singapore, and Chile committed to explore the development and use of appellate mechanisms in investor-state dispute settlement and agreed on provisions aimed at eliminating and deterring frivolous claims. Drawing upon U.S. legal principles and practice, we clarified the obligations on expropriation and "fair and equitable" treatment.

In the Doha Development Agenda, we are taking similar practical steps to demonstrate that good environmental, labor, investment policies can be economically sound. In addition, we are working to encourage a healthy "network" among multilateral environmental agreements and the WTO, enhance institutional cooperation, and foster compatible, supportive regimes. This precedent will help to interconnect the WTO with other specialized organizations, such as the ILO.

We know the importance of these topics for many Members of Congress who want to ensure that the benefits of trade and openness in spurring growth, productivity, and higher incomes are accompanied by enhanced scrutiny and transparency of labor and environmental laws and conditions. Some stress the need to safeguard America's sovereign rights in setting our own standards, while other Members want to deploy trade agreements to compel other nations to accept the standards we prefer. Some believe that the influence and investment of U.S. companies abroad will lead to higher standards and codes of behavior, while others fear the reach of globalized companies. It is our goal to use the guidance the Congress has given to bridge the differences, build a stronger consensus, and make a real, positive difference for America and the world.

Conclusion: Pressing the Free Trade Agenda Forward

In the coming year, the United States will continue to make the case for the win-win nature of trade. Expanded trade—imports as well as exports—improves the well being of people everywhere. Trade promotes more competitive businesses, as well as the availability of more choices of goods and inputs, with lower prices.

America's economy depends on trade. Businesses, small and large, sell and ship their products around the globe. At the same time, U.S. manufacturers rely on imported inputs to production to stay competitive with foreign producers. Over the past decade, U.S. exports accounted for about a quarter of our country's economic growth. Our exports support about 12 million jobs—jobs that pay wages 13 percent to 18 percent higher than the U.S. average because they have higher productivity. One in three acres on American farms—accounting for over $56 billion in annual sales—is planted for export. And opening foreign markets is critical to the future growth of America's diverse services sector.

President Bush understands the interconnection between "a world that trades in freedom" and America's interests in promoting a strong world economy, lifting societies out of poverty, and reinforcing the habits of liberty. Having reestablished U.S. trade leadership around the globe, the President is now working with Congress on an activist agenda to expand economic freedom at home and abroad.

Robert B. Zoellick
United States Trade Representative
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