The President's Trade Policy Agenda

I. 2006 TRADE POLICY AGENDA:
"A Bright Vision – Building on a Strong Record”

Benefits of Free and Fair Trade

Since taking office, President Bush has demonstrated his commitment to opening markets and knocking down trade barriers to create new opportunities for U.S businesses, workers and farmers. The President’s actions to advance free and fair trade have contributed to economic growth at home and increased prosperity and freedom around the world.

We continue to seek historic advances in free and fair trade, including the completion of the Doha Round of multilateral trade talks, the negotiation of a number of new bilateral and regional free trade agreements, and the active enforcement of our trade laws and international rights.

Working with Congress, the Office of the United States Trade Representative (USTR) is committed to maintaining U.S leadership in promoting economic growth and political freedom around the world through peaceful and open commerce.

In a speech before the United Nations on September 14, 2005, the President challenged all countries to join the United States in an ambitious undertaking, stating, “The United States is ready to eliminate all tariffs, subsidies and other barriers to the free flow of goods and services as other nations do the same. This is key to overcoming poverty in the world’s poorest nations. It’s essential we promote prosperity and opportunity for all nations.”

The increasingly integrated global economy of the 21st century offers unparalleled opportunities for the United States. Free markets and open trade have helped make the American miracle possible and have spurred economic growth throughout the world. It is in our national interest to encourage the rest of the world to embrace market-based economic reforms and open trade.

With 95 percent of the world’s people living outside our borders and hundreds of millions of new potential consumers overseas with economic liberalization in Eastern Europe and the rapid growth of the middle class in China, India, and elsewhere, the United States must be proactive in opening foreign markets to our manufactured goods, services, and agricultural products.

Expanding U.S. exports increases U.S. prosperity. Exports now support one in five U.S. manufacturing jobs. And jobs directly linked to the export of goods pay an estimated 13-18 percent more than other U.S. jobs. In the 11 years since the World Trade Organization was created, our manufacturing exports have increased 82 percent. U.S. exports were up 11 percent in 2005 and 13 percent in 2004, raising the annual value of exports by nearly a quarter trillion dollars in just two years. Moreover, agricultural exports set a record high in 2005 and are now tied to 926,000 jobs. One of every three U.S. acres is now planted for export, accounting for 27 percent of farm receipts.

In the service sector, U.S. exports have doubled in the last ten years to $380 billion and continue to grow. The Administration is committed to opening new markets because the United States has a competitive advantage in many of the state-of-the-art, value-added products and services that the rest of the world needs.

The United States is the world's largest economy and largest exporter. The growth in U.S. exports accounted for about 25 percent of our economic growth in the 1990s and 20 percent in 2005. U.S small and mid-sized businesses make up 97 percent of all exporters.

In terms of imports, the United States is among the most open markets in the world. Although we have experienced a healthy increase in our exports, imports have grown even more rapidly. These imports have lowered costs and increased choices for American consumers. Free trade enhances competition, contributes to price stability, and helps support high rates of non-inflationary growth. This helps keep interest rates low so more Americans can afford to buy homes and small businesses can have greater access to capital.

The World Trade Organization Uruguay Round and the North American Free Trade Agreement (NAFTA) lowered U.S. tariffs and provided an average savings of $1300 to $2000 a year for a family of four. That means parents can more easily afford clothes, shoes, and toys for their children, and all Americans have more choices – from tropical fruits to consumer electronics. Accordingly, American companies can produce higher-valued goods more efficiently and price these goods more competitively when they are able to purchase parts and components from overseas.

Reducing trade barriers also encourages higher productivity and higher incomes. Partially because of trade, Americans have average real incomes 40 percent greater than the nearly 700 million people living in other countries classified as "high income" by the World Bank. These are among the many reasons why President Bush has pledged to continue to open up the U.S. market so long as our trade partners open up their markets.

New Challenges

The emergence of important new players in the world marketplace is having a profound effect on the global economy and the United States. In the transformation of the world economy since the end of the Cold War, an additional two billion workers and consumers have become engaged in global markets.

The rapid integration of, and dynamic changes in, the world economy and the emerging economies, such as China, India, Brazil, and South Africa, provide challenges and opportunities for the United States. We face both heightened competition and growing markets for our products and services. The United States can and will answer these challenges and embrace these opportunities through enhanced productivity, innovation, and entrepreneurship. When the Soviet Union launched the satellite Sputnik in 1957, many despaired. But the United States responded by building a space program that put a man on the moon 12 years later and developed an aerospace industry that continues to lead the world. U.S anxiety in the late 1980s over Japan's rapid technological advances and emerging role in global trade dissolved when the United States gave birth to the software and Internet revolutions in the 1990s.

Today, there are new tests and new opportunities challenging the competitive spirit and innovative entrepreneurship of the United States. But we must resist the temptation to turn inward as the global economy becomes more integrated and competitive and as commerce expands. Advocates of economic isolation justify their position by pointing to job losses due to trade. This ignores the fact that the $12 trillion American economy is remarkably dynamic. The President has made clear that he will not be satisfied until every American who wants to work has a job. When job losses do occur, however, Trade Adjustment Assistance, which was expanded in 2002, is often available to cushion the financial blow and retrain workers for new jobs.

Without trade, U.S. workers would have lower purchasing power and reduced living standards. In fact, the United States suffered some of its darkest days when we did turn inward and erected protective tariffs after the stock market crash in 1929. Not surprisingly, other countries erected barriers in response to ours, choking commerce and exacerbating the recession that became the Great Depression.

We have learned a lot since then. After World War II, we led the creation of a global framework for free and fair trade, and the results have been impressive. In the last 60 years, industrialized countries have lowered their average tariff on industrial goods from 40 percent to 4 percent, and exports have grown from $58 billion to $9 trillion. The Institute for International Economics estimates that U.S. annual income is $1 trillion higher today than in 1945 due to increased trade liberalization. We must stay committed to opening markets and removing barriers to the free flow of commerce rather than succumb to the false lure of protectionism.

Our open economy enjoyed a real GDP growth rate of 3.5 percent in 2005 and started 2006 with an unemployment rate of 4.7 percent – a performance that is the envy of the developed world. In fact, since the mid-1990s, the United States has experienced significant productivity growth and economic expansion. Further opening markets can only help extend and strengthen this trend.

The effects of free trade policies can be seen in other countries as well. Consider the experience of South Korea and North Korea. In the 1950s, both chose to protect their fledgling industries and both were very poor countries, although North Koreans had higher per capita income and the more advanced heavy industries. The Korean War had devastated 80 percent of the infrastructure and industrial facilities in the South. But in the 1960s, South Korea decided to open itself to the world while North Korea rejected trade and chose to maintain high barriers. The results are instructive. South Korea soon began experiencing export growth rates of over 20 percent, import increases of 18 percent, and a 6.3 percent yearly rise in per capita income. Today South Korea's per capita income is at least 11 times higher than North Korea's and has a GDP approaching $1 trillion, compared to $40 billion for the North Korean economy.

Another example is India, a populous democratic nation rich in talent, which saw its per capita GDP grow at an anemic 1.1 percent from 1961 to 1980, a period in which it maintained protectionist policies. Since 1991, when India made a deliberate decision to open its markets and reform its economy, India too has seen its growth rates jump dramatically. This is particularly true in the technology sector where there has been relatively little government intervention.

New Trade Agreements and a New WTO Round

The Administration has focused on tangible progress on the bilateral, regional, and multilateral levels to expand trade opportunities. Our new and comprehensive agreements are tailored to reflect a world of high technology, complex new intellectual property standards, labor and environmental considerations, and the growth of the service sector.

Already, the impact of these accords has been impressive. For example, after completing a Free Trade Agreement (FTA) with Chile in 2003, U.S. exports to Chile grew 33 percent in 2004, making the United States Chile's largest trading partner. The trend continued in 2005, with the value of U.S. exports to Chile increasing by 44 percent. Similarly, following the implementation of an FTA with Australia on January 1, 2005, U.S. agricultural exports to Australia rose 12 percent in 2005, with big gains in shipments of pork, grapes, and rice.

The FTAs in the Middle East with Jordan, Israel, Morocco, and Bahrain – which garnered strong bipartisan Congressional support – open new opportunities for economic integration with the United States and market-based reforms and opportunities in the region. These agreements and the recently signed FTA with Oman advance U.S. goals for spurring political and social reform in the region through expanded trade to realize the U.S.-Middle East Free Trade Area (MEFTA), as proposed by President Bush in 2003.

In addition, the Administration worked through a complex negotiating process with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic and won congressional approval for the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). CAFTA-DR will level the playing field for American farmers and workers. For years, most exports from these countries have entered the United States duty-free through trade preference programs. Once CAFTA-DR is fully implemented, U.S. workers, farmers, and service providers will gain far greater access to the growing Central American market.

This region is the United States' second-largest export market in Latin America, with exports reaching nearly $17 billion a year. Under the agreement, it is estimated that agricultural exports will increase by up to $1.5 billion and exports of manufactured goods should rise by up to $1 billion a year.

The FTAs concluded by this Administration since 2001, combined with the earlier Israel FTA and NAFTA, have expanded U.S. export opportunities and offered U.S. consumers more choices at lower prices. These accords now cover roughly $925 billion in two-way trade – nearly 36 percent of the total of U.S. trade with the entire world. U.S. exports under these agreements amount to over $400 billion a year, or 45 percent of annual U.S. exports. Where we have an FTA, our exports are growing a healthy 20 percent per year on average, more than twice the rate of growth for our exports where we do not have an FTA.

The WTO and Doha Round

As important as these bilateral and regional successes have been, the opportunity for the greatest gains in trade comes from the multilateral system. The ultimate goal is to open markets and to eliminate barriers across a broad range of products and services among all our trading partners throughout the world. The historic opportunity we have before us is the Doha Development Agenda, launched in 2001. The World Bank estimates that tens of millions of people could be lifted out of poverty by a successful WTO Doha Round, and the Institute for International Economics estimates that multilateral liberalization could raise U.S. household income by $500 billion, or $4500 per household.

The Doha Round, which was launched with U.S. leadership following the tragic events of September 11, 2001, is aimed at creating new opportunities for developing and developed countries alike. Its successful conclusion will require bold movement by all WTO Members – large and small, rich and poor – to commit to the reduction or elimination of trade-distorting subsidies and to opening their markets.

The United States energized the WTO talks prior to the ministerial meeting in Hong Kong in December 2005 with a comprehensive proposal to make deep cuts in agricultural tariffs and reduce trade-distorting agricultural subsidies, if other countries would take reciprocal steps in their markets. In the negotiations on non-agricultural market access (NAMA), the United States has strongly endorsed the so-called Swiss formula that would cut tariffs on industrial goods – cutting the highest tariffs most, but with two different rates of reduction based on the stage of a country's development.

In services trade, the United States has consistently sought commitments from WTO Members to expand market access for a broad range of sectors.

The United States will continue to lead in liberalizing global trade, but we cannot and will not act unilaterally. In the area of agriculture, the support of U.S. farmers and businesses for phasing out trade-distorting subsidies and lowering tariffs is contingent on U.S. trading partners taking reciprocal steps. Thus far, other WTO Members have not been willing to match U.S. proposals. The Administration believes that only real movement in agriculture, industrial goods, and services will unlock the full potential of the Doha Round for all WTO Members. Such movement must occur in concert for the Round to be completed successfully by the end of 2006.

The Hong Kong Ministerial also solidified the commitment of WTO Members to the goals of the Doha Development Round and produced several tangible results. Members agreed to end agricultural export subsidies – which are the most trade distorting – by 2013. A substantial portion of elimination is to occur by the end of the first half of the implementation period.

WTO members, led by the United States, also adopted an important change to the WTO TRIPS (Trade Related Aspects of Intellectual Property Rights) Agreement that balances the long-term need to preserve market incentives for the development and launch of new life-saving medicines with the immediate need to get those medicines to the victims of AIDS and other diseases in countries that cannot produce the drugs themselves. The TRIPS Agreement is of critical importance to countries struggling to cope with HIV/AIDS, malaria, and other health crises.

In addition, commitments to development were made through new pledges to help countries create the legal, administrative and physical infrastructures needed to fully engage the market openings envisioned by the Doha Development Agenda. The United States is proud to lead these trade capacity building efforts and announced in Hong Kong a pledge to double our aid for trade contributions from the current level of roughly $1.3 billion a year to $2.7 billion annually over the next five years.

Also, WTO Members agreed to provide duty-free/quota-free treatment for goods from the least developed countries – those defined by the World Bank as having average per capita incomes of $340 or less. WTO Members can exempt up to three percent of tariff lines from duty-free treatment. The United States is already the most open market in the world to the products of the world's poorest countries and agreed in Hong Kong to promote even more opportunities in the U.S. market for these countries.

WTO Members also set the stage in Hong Kong for cutting costly and confusing customs procedures to facilitate and expand trade. Two years ago at the WTO talks in Cancun, this issue was a big stumbling block. But in Hong Kong, due to the work of negotiators from a diverse group of countries coming together and reaching consensus in Geneva, we were able to move forward.

In services, WTO Members agreed to keep working toward better quality market access commitments in key sectors such as financial services, telecommunications, computer-related services, express delivery, distribution, and energy services. Members also agreed to set a deadline for putting new offers on the table.

Despite the naysayers' suggesting that goals for opening up more trade in this crucial sector should be reduced, we have kept our sights high. This is important to developing countries because the more they improve their services infrastructure, the more rapidly they can modernize their economies and the more easily they can integrate into the global economy and attract foreign investment.

In a historic move to improve environmental stewardship, WTO countries also agreed in Hong Kong to curb fisheries subsidies and help reduce the trend of over-fishing, which has led to a dangerous depletion of fish stocks in waters around the world.

The cooperation among diverse countries on these and many other issues underscored another important milestone in our efforts to create and sustain a global trading system. The long-held notion of a world divided between the rich countries and the poor countries, or the North and the South, is being replaced by a system where countries of diverse cultures and varying stages of development work together in pursuit of common objectives.

In Hong Kong, the United States worked in common purpose with countries from Brazil to Zambia on a range of issues such as market access for agricultural and industrial goods and services trade. We worked closely with Western and Central African countries on subsidies and other trade policies related to cotton, engaged with the Group of 20 developing countries on ending agricultural export subsidies, were in common purpose with India and Chile on services, and worked together with our European partners on proposals to reduce industrial tariffs.

We did not achieve major breakthroughs in key negotiating areas in Hong Kong, but we made incremental progress and affirmed the importance of the rules-based multilateral trading system.

Trade and Clean Development

Our bilateral and multilateral cooperation extends to advancing opportunities for trade in cleaner and more efficient energy technologies.

At the Gleneagles G8 Summit, we agreed to promote innovation, energy efficiency, and conservation; improve policy, regulatory, and financing frameworks; and accelerate deployment of cleaner technologies, particularly lower-emitting technologies. We also agreed to work with developing countries to enhance private investment and transfer of technologies, taking into account their own energy needs and priorities. In 2005, the United States joined with Australia, China, India, Japan, and South Korea in the Asia-Pacific Partnership on Clean Development and Climate, to foster new investment opportunities, build local capacity, and remove barriers to the trade in clean, more efficient technologies in a variety of settings related to energy production and use. The Partnership builds on existing bilateral partnerships and multilateral climate change-related technology initiatives, including the Carbon Sequestration Leadership Forum, the International Partnership for the Hydrogen Economy, and the Methane to Markets Partnership.

Combined with the bilateral partnerships the U.S. maintains with 13 other countries and regions (including the largest emitters of greenhouse gases), these multilateral partnerships demonstrate our common purpose with all countries of the world, both developed and developing, to address energy security and environmental concerns through opening new markets for environmentally efficient products.

BUILDING ON OUR SUCCESS IN THE YEAR AHEAD

In 2006, the Administration is committed to creating new momentum for a bipartisan consensus to open markets and knock down barriers to trade around the world. Working in partnership with Congress, we will be promoting an aggressive and proactive agenda. Our three priorities will be: 1) the successful conclusion of the WTO Doha trade talks; 2) extending bilateral and regional economic ties and expanding opportunities for U.S. workers, farmers, and consumers through new FTAs; and 3) protecting U.S. interests and rights through the vigorous enforcement of U.S. and international trade laws and rules.

The Doha Round

The Administration will continue to press ahead with the goal of completing the Doha negotiations by the end of 2006. The potential benefits from the successful Doha Round for the United States and its trading partners, especially in the developing nations, are enormous, and we will continue to do all we can to achieve a successful result. The Administration helped set the tone and maintained progress at the WTO Hong Kong Ministerial meeting in December 2005. However, if we are to meet the end-of-2006 deadline, we need to pick up the pace. The U.S. put ambitious and concrete proposals on the table and showed our trading partners a path for getting the job done. WTO Members can no longer delay. It is now time for our major trading partners to make the tough political decisions that will allow the talks to succeed.

The President's Trade Promotion Authority (TPA) expires on July 1, 2007. TPA bars substantial changes to an agreement once it has been negotiated and Congress has been consulted. It is important to have a Doha agreement completed by the end of 2006 and ready for congressional consideration and approval in the first half of 2007, prior to TPA's expiration.

If the Doha negotiations are not concluded by the end of 2006, there is real danger the Doha Round could drift into a long, unpredictable period of stagnation, and this historic opportunity to improve lives in the United States and around the world through more open trade would be lost. We can and we must avoid that outcome.

The success of the Doha Round requires concrete steps by all WTO Members in the first half of this year – particularly developed countries in the area of agriculture market access and by developed and major developing country trading partners in services and market access for industrial goods.

Important Bilateral and Regional Opportunities

In parallel to its Doha Round efforts, the Administration will move vigorously to negotiate new bilateral and regional trade agreements to create a host of new opportunities for U.S. workers, farmers, and businesses. U.S. exports to FTA partners have grown more than twice as fast as those to countries with which we do not have an FTA. Our bilateral and regional agreements can and do yield significant economic benefits. Developing our economic ties with our FTA partners also creates the opportunity for an improved relationship overall and encourages greater cooperation in the multilateral arena. For all of these reasons, the Administration is negotiating and considering FTAs with a number of countries in Asia, Latin America, and Africa.

Recently-concluded FTA negotiations with Peru, Columbia and Oman, along with ongoing negotiations with Ecuador, the Southern African Customs Union (SACU), Panama, Thailand, and the United Arab Emirates, could result in new market opportunities in countries with which our two-way trade is more than $66 billion. With the launch of FTA talks with the Republic of Korea and other major trading partners possible this year, the United States could tap the vast potential of improved ties to markets with which it already has a strong trade relationship.

In addition to simply increasing the volume of trade, FTAs serve to encourage market reforms and liberalization beyond the text of a particular agreement. For example, our FTA with Jordan, which became effective in late 2001, required improvements in that country's legal and regulatory systems, particularly with regard to intellectual property rights enforcement and transparency of governmental procedures. As a result, investors have become more confident in the business climate in Jordan. Over the last five years, they have poured hundreds of millions of dollars into that country. Jordan's efforts to make its governmental and commercial policies more transparent have become a model for FTAs with other countries in the region, such as Morocco, Bahrain and Oman.

Similarly, FTAs provide an opportunity to persuade our trading partners to raise their labor and environmental standards. For example, members of Congress who shared Administration concerns about labor reforms helped secure commitments for changes in Bahrain's labor laws. In addition, CAFTA-DR signatory countries enacted new labor protection statutes in the course of negotiations in response to the United States' commitment to safeguarding basic rights for workers. The CAFTA-DR also includes a groundbreaking new public submissions mechanism that will promote greater transparency in environmental law enforcement. The CAFTA-DR requires signatory countries to enforce their environmental and labor laws or be subject to dispute settlement and monetary assessments. The money collected from those monetary assessments will be channeled into efforts to address environmental problems or protect worker rights in the country that is failing to appropriately enforce its laws. In addition, the Administration worked with members of Congress on a package of up to $180 million to help CAFTA-DR countries create the legal and governmental infrastructure needed to ensure that labor protection and environmental laws are enforced.

Trade capacity building is also a fundamental feature of bilateral cooperation in the completed CAFTA-DR and the Peru and Columbia Trade Promotion Agreements, and our possible FTAs with the SACU countries, Ecuador, Panama, and Thailand.

Bilateral and regional trade agreements, such as CAFTA-DR, also promote more economic integration and cooperation and open the doors to new commercial opportunities in so-called South-South trade. CAFTA-DR will knock down barriers between that region and the United States, facilitate trade among Central American countries, and promote regional economic growth.

Likewise, our recently concluded agreements with Peru and Columbia and our ongoing negotiations with Ecuador are aimed at building on the close trade ties the United States has with the Andean region and creating more economic opportunities and hope for the people in that area. Over recent years, Andean countries have benefited from preference programs that have created incentives for farmers to abandon the cultivation of coca and harvest other crops or take up new occupations. Free and fair trade expands economic choices and diminishes the power of drug lords in the region.

The Administration believes that CAFTA-DR and a free trade pact with Andean countries will serve as building blocks for the long-held goal of establishing the Free Trade Area of the Americas (FTAA) – a zone of open commerce extending from the outer islands of Alaska to the tip of Argentina. This would be the largest free trade area in the world, encompassing more than 800 million people in 34 countries with a combined GDP of over $16 trillion a year.

In May 2003, President Bush proposed the establishment of the U.S.-Middle East Free Trade Area (MEFTA) by 2013 to expand trade in the Middle East. There are tremendous commercial opportunities in this 18-nation region with 290 million people, and MEFTA provides a chance to sow the seeds of democratic reform and political stability. The national 9-11 Commission cited expanded trade as one of the ways to bring greater openness and prosperity to the Middle East and stem the political turmoil that has gripped the region for so many decades.

This year opened with significant movement toward making the MEFTA a reality. The FTA with Morocco went into effect on January 1, 2006. Also in January, the President signed legislation to implement an agreement with Bahrain, and the United States and Oman formally signed the FTA concluded in the fall of 2005. In addition, Saudi Arabia joined the WTO late in 2005, and the United States is supporting the bids of Lebanon, Algeria, and Yemen to join the WTO as well. The Administration is encouraged by these developments and believes the current and future benefits to Jordan, Israel, Morocco, Bahrain, and Oman have created an incentive for other countries in the region to strengthen trade ties with the United States.

The United States also continues to strengthen its trade and investment relations throughout the Asia-Pacific region, cementing our ties to this dynamic and strategically important region. We have concluded FTAs with Singapore and Australia and have ongoing FTA negotiations with Thailand. The United States also launched FTA talks with Korea. The United States is also working closely with our Asia-Pacific trading partners in the Asia-Pacific Economic Council (APEC) to promote trade liberalization across the Pacific. The United States continues to strengthen and deepen the trade relationship with the fast-growing economies of China and India through special standing trade dialogues. We have also expanded our economic relationships with Japan, Indonesia, Philippines, and Brunei through trade and investment dialogues that address a range of bilateral issues and to facilitate coordination on regional and multilateral issues.

The launch of a FTA with South Korea is one of the most important new initiatives for 2006. In the last 40 years, South Korea has grown into an economic powerhouse with an annual GDP approaching $1 trillion. This nation of 48 million people represents not only a tremendous new commercial opportunity for U.S. businesses and farmers but also an opportunity to strengthen political ties with an important regional partner.

In Africa, the United States is working to enhance its trade and investment relationship with sub-Saharan African nations through preference programs such as the African Growth and Opportunity Act (AGOA), Trade and Investment Framework Agreements (TIFAs), and the negotiation of the first-ever FTA with sub-Saharan African countries. AGOA has more than doubled two-way U.S.-sub-Saharan-African trade since its passage in 2000, helped create tens of thousands of jobs, and attracted hundreds of millions of dollars in new investment.

When completed, a U.S.-SACU FTA could significantly increase U.S. trade with our largest trading partners in sub-Saharan Africa, spur investment, and facilitate economic integration in the region. This could also serve as a model for trade agreements with other African nations.

With the new commercial opportunities and potential for bilateral and regional accords to raise the bar for a global free trade framework and promote regional growth and cooperation, the United States is eager to make important strides in bilateral and regional negotiations. The United States will also continue its efforts to establish and to use effectively TIFAs with countries all over the world. TIFAs are important steps toward a free trade relationship and help open markets and generate investment.

Just as in the Doha Round, the Administration remains willing to advance discussions when our trade partners are prepared to take the steps needed to clear longstanding stumbling blocks and offer new proposals. However, with the expiration of TPA in 2007, the Administration will be focused on agreements that are most likely to be achieved in order to maximize the opportunities for U.S. farmers and workers and to best advance broader national and strategic interests.

Consultation with Congress

This Administration is committed to working with and consulting Congress and the American people at every step of its ambitious 2006 trade agenda. In 2005, the Administration reached out to lawmakers on many occasions with frequent face-to-face meetings on trade with Members and their staffs. The Administration intends to build upon these efforts and consultations in 2006.

Close bipartisan consultation with Congress and Trade Advisory Committees, and more informally with companies and industries involved in trade, is vital to accomplishing the Administration's ambitious agenda. Opening up new markets to U.S. goods and services and rigorously enforcing our trade laws and rights creates opportunities for all Americans. Lawmakers from both parties should play an important role in bringing the concerns, goals, and values of their constituents to the discussion of trade liberalization and enforcement of trade agreements. The Administration will consult actively, frequently, and intensively to make sure it can advance its trade policy objectives with the broadest support possible. The Administration looks forward to the active support of its free and fair trade allies in Congress to join in making the case all over the country for opening markets, knocking down barriers to trade, and debunking the arguments for economic isolation.

Fair Trade in Rules-Based System

Free trade must flow across a level playing field to realize the full promise and benefits of open markets. The rules-based trading system depends on the willingness of all participants to abide by the rules and their commitments. The Administration agrees with lawmakers from both parties that free trade works only if the parties agree to trade fairly. The Administration will continue to use all available tools to ensure that our trading partners live up to their obligations as WTO Members and FTA partners. We will challenge and confront our trade partners who pursue policies and actions that create illegal barriers to U.S. exports.

In the past year, the United States went to the WTO to seek formal panel proceedings after the EU proved unwilling to negotiate an end to its illegal subsidies of its aircraft manufacturer, Airbus. The United States also initiated legal action to challenge inconsistent customs procedures and regulations within the European Union that we believe are hindering U.S. exports. The confusing array of customs rules presents particularly difficult obstacles for small and mid-sized businesses.

The United States has won a series of important proceedings before the WTO over the past year while advocating U.S. rights. For example, the United State prevailed in a case in which Mexican anti-dumping laws unfairly discriminated against U.S. long grain and white rice producers. The United States also won a case involving Japan's restrictions on U.S. apples that were alleged, without any scientific basis, to have carried a disease called "fireblight." In addition, the United States prevailed in a dispute with the EU over so-called "geographical indications," which means that, for example, only potatoes from Idaho or oranges from Florida may be marketed as "Idaho potatoes" or "Florida oranges" in Europe, the same type of protection afforded European products such as Roquefort cheese. In yet another case, the United States prevailed in a case involving unfair subsidies provided to a Korean semiconductor maker by the Korean government. In that case, the United States won the right to maintain countervailing duties on the illegally-subsidized semiconductors.

The Administration will also continue its Strategy Targeting Organized Piracy (STOP!) initiative, in which nine U.S. government agencies work together and reach out to trade partners in Europe, Singapore, Hong Kong, Japan, and South Korea in an effort to work together to confront the global scourge of intellectual property theft.

The Administration will consider all options to stand up for U.S. interests. While disputes can often be resolved by other means, we will not hesitate to pursue litigation in protecting our interests. The Administration's willingness to bring a legal action against our trading partners has often led to the resolution of cases before formal proceedings commence. For example, early in 2006, China agreed to drop anti-dumping duties it had imposed on Kraft linerboard – a paper product used to make corrugated boxes – after it became evident that the United States was about to bring a strong legal challenge before the WTO.

In many other cases, direct and frank engagement with our trading partners best promotes the interests of U.S. companies without the need for a protracted legal battle. For example, the Administration held several negotiating rounds with China throughout last year regarding China's sharp increase in textile exports to the United States. The Administration had already invoked a special safeguard to stem the tide of cotton shirts and other items, but it was clear that a longer-term framework was needed. The Administration worked with China on an arrangement that gives U.S. textile and apparel makers a measure of security and predictability until the safeguard mechanism expires in 2008. In 2006, we will continue to work with other trading partners to resolve a range of major issues from beef exports to South Korea to the use of biotechnology in food products and aircraft subsidies provided by the European Union.

China

The emergence of China as a global power has created new opportunities and new challenges. The U.S. trade deficit with China has grown markedly in recent years. There is concern that the U.S.-China trade relationship lacks balance in opportunity, as well as equity and durability, with China's focus on export growth and developing domestic industries not being matched by a comparable focus on fulfilling market-opening commitments and on the protection of intellectual property and internationally recognized labor rights. At the same time, this growing deficit is not solely a function of our trade policy or China's trade practices. It is also caused by macroeconomic factors, including national savings rates, consumption rates, investment levels, economic growth, and changing consumer tastes. In addition, China has become an increasingly important market for U.S. exports. The United States and China are bound by a mutual interest in supporting each other's economic growth and stability.

The United States also has the potential to continue to expand exports dramatically as China's 1.3 billion people become more prosperous and seek a variety of goods and services. We are already seeing the years of engagement with China begin to pay off. Between 1997 and 2002, China's tariffs on many industrial goods important to the United States have dropped from an average of 25 percent to just 7 percent. As a result of market access gains as well as strong growth in the Chinese economy, U.S. exports to China have risen five times faster than to rest of the world, and China has gone from being our 9th largest to our 4th largest export market. As our trade deficit with China has increased, our trade deficit with many other Asian countries has declined. On balance, our trade balance with Asia as a whole has been fairly stable compared to other regions.

Though the U.S. trade deficit in goods with China is rising rapidly, the share of the U.S. global trade deficit represented by the Asia Pacific Rim (including China) has actually fallen from 57 percent in 1999 to 43 percent in 2005. These statistics reflect that China, as a final assembler for companies located elsewhere in Asia, is now exporting products to the United States that formerly were exported from other countries.

We must be sure that China continues to make progress and abide by the commitments it made when it joined the WTO five years ago. China's complex legal and governmental structures have contributed to delays in full implementation. In addition, China must shoulder its share of the market opening commitments in the Doha negotiations. As an emerging economy and a regional power, China must step up to its obligation to be a responsible leader that advocates free and fair trade and that promotes and respects the global trading system that has nurtured its growth and increasing prosperity.

Intellectual property theft, counterfeiting, and copyright infringement in China continue to be a source of serious concern for the Administration. Chinese officials have made some progress to protect intellectual property, but the United States will continue to work with the Chinese government to demonstrate more reliable and consistent progress in this area.

China's exchange rate policy also affects China's trade and plays an important role in the adjustment of global imbalances. The Administration has insisted that China swiftly carry out the commitments to move to a market-based, flexible exchange rate regime. But to date, China's actions have been insufficient. On delivering his last Report to Congress on International Economics and Exchange Rate Policies, Treasury Secretary Snow declared that China's "progress to date is limited and far too slow to be sufficient. The actual operation of the new system is highly constricted. As a result, the distortions and risks created by China's rigid exchange rate still persist." Treasury's next foreign exchange report is scheduled to be released in April 2006 and will focus on the Chinese government's progress in allowing significant exchange rate flexibility.

The size and scope of the changes in U.S.-Chinese trade ties and the long-term implications for how these changes are managed have been the subject of a top-to-bottom review that USTR began in mid-2005 and the results of which were announced in early 2006. The review focused on ways to encourage China's role as a participant and stakeholder in the global trading system and what can be done to remove barriers to its markets and facilitate compliance with global trade rules. This forward-looking, balanced, and comprehensive review lays out our priority objectives in achieving these goals and identifies how to best allocate resources to this effort.

Among the proposals to achieve these goals are increased resources devoted to addressing China issues, improved interagency coordination within the U.S. government, better monitoring of China's trade practices, greater efforts to assist the Chinese government to step up its enforcement and compliance efforts, and holding China accountable to its commitments as a full-fledged WTO member and a major beneficiary of the global trading system.

Conclusion

The Administration has worked diligently and vigorously to strengthen the global trading system, open markets, and knock down barriers to free and fair trade. This year presents many historic opportunities to build on that record, whether in securing a successful conclusion to the WTO Doha Round, through the pursuit of FTAs with willing and able partners, or the aggressive enforcement of U.S. rights under international rules and domestic laws. The Administration's trade agenda can deliver substantial economic benefits for U.S. businesses, workers, farmers, ranchers and consumers and improve the lives of people around the world. The Administration is eager to engage the American people and Congress in this important work and lead the world closer to the President's vision for peace and prosperity through expanded trade. Free and fair trade is the engine of economic expansion, the catalyst of political freedom, and the foundation for a rules-based system of global economic interdependence. This Administration commits to leading a bold and proactive trade agenda that will keep the United States in the vanguard of the global economy in the 21^{st} century.

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United States Trade Representative
March 1^{st}, 2006