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Trade Negotiations in the 108th Congress

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Ian F. Fergusson
Foreign Affairs, Defense, and Trade Division

Lenore M. Sek
Foreign Affairs, Defense, and Trade Division

CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

U.S. Negotiating Strategy

Notification and Implementing Bills

Notification Requirements

Before the Start of Negotiations

During Negotiations

Before Signing the Agreement

Entering Into the Agreement

Implementing Bill

Submission of Draft Implementing Bill

“Trade Authorities” or “Fast-Track” Procedures

Status of Agreements and Negotiations

Multilateral Trade Negotiations

Regional Negotiations

Free Trade Area of the Americas

U.S.-Central American FTA

U.S.-Southern African Customs Union FTA

Bilateral Negotiations and Agreements

U.S.- Chile FTA

U.S.- Singapore FTA

U.S.-Moroccan FTA

U.S.-Australian FTA

Other Potential Trade Agreements

Middle East - North African Free Trade Agreement

Bahrain

Enterprise for ASEAN

Egypt

Taiwan

New Zealand

LEGISLATION

CHRONOLOGY

FOR ADDITIONAL READING

CRS Products

Other Reading

Trade Negotiations in the 108th Congress

SUMMARY

On June 6, 2003, the United States signed a bilateral free-trade agreement (FTA) with Chile. A month earlier, the United States had signed a bilateral FTA with Singapore. On July 15, 2003, implementing bills for the FTAs (Chile—H.R. 2738/S. 1416; Singapore—H.R. 2739/S. 1417) were introduced in the House and Senate.

The Bush Administration is making these and other bilateral and regional FTAs more important elements of U.S. trade policy, a strategy known as “competitive liberalization.” This strategy is designed to push forward trade liberalization simultaneously on bilateral, regional and multilateral fronts. It is meant to spur trade negotiations by liberalizing trade with countries willing to join FTAs, and to pressure other countries to negotiate multilaterally. Some argue, however, that the accent on regional and bilateral negotiations undermines the multilateral forum and increases the risk of trade diversion away from competitive countries that are not in the trade bloc.

Most of the current trade negotiations began after trade promotion authority (fast-track authority) legislation was enacted in 2002. Under that legislation, if the President meets notification requirements and other conditions, Congress will consider a bill to implement a trade agreement under an expedited procedure (no amendment, deadlines for votes). The notification requirements include a minimum 90-day notice before starting negotiations and a minimum 180-day notice (90 days for Chile and Singapore) before signing a trade agreement.

The Chile and Singapore free-trade

agreements are among at least eight trade initiatives underway. The broadest initiative is the multilateral trade negotiations in the World Trade Organization (WTO). In November 2001, trade ministers from 142 member countries of the WTO agreed to launch a new round of trade talks covering market access, WTO institutional rules, and developing-country issues. Their next meeting will be in Cancun, Mexico on September 10-14, 2003. The deadline for a final agreement is January 1, 2005.

Another major initiative is the Free Trade Area of the Americas. In April 1998, 34 Western Hemisphere nations formally initiated negotiations to tariffs and nontariff trade barriers in the hemisphere. Negotiators have released two drafts of an agreement-in-progress. Trade ministers will meet again in Miami on November 20-21, 2003. The deadline for a final agreement is January 2005.

The United States is also participating in regional free-trade negotiations with the Central American Common Market (CACM) and with the Southern African Customs Union (SACU). The U.S.-CACM talks began on January 8, 2003, and both sides have said the talks can be completed by year-end. The U.S.-SACU negotiations began on June 3, 2003. In addition to the Chile and Singapore FTAs, the Administration is negotiating on FTAs with Morocco and with Australia. The Morocco talks began on January 21, 2003, and the Australia talks began on March 17, 2003. There are several other trade initiatives under discussion but not underway. These include a U.S. -Middle East FTA, FTAs with countries in southeast Asia, and bilateral FTAs with Bahrain, Egypt, Taiwan, and New Zealand.



MOST RECENT DEVELOPMENTS

- On July 15, 2003, implementing bills for the Chile (H.R. 2738/S. 1416) and Singapore (H.R. 2739/S. 1417) FTAs were introduced in the House and in the Senate.
- On July 10, 2003, the House Ways and Means Committee and Senate Finance Committees held informal hearings or “mock markups” on the implementing legislation for the Chile and Singapore FTAs. In addition, the House Judiciary Committee conducted a review of the temporary entry provisions of the legislation on July 10, and the Senate Judiciary Committee held a similar review on July 14, 2003.
- On June 21-22, 2003, trade ministers from 31 WTO countries held a mini-ministerial in Sharm El-Sheikh, Egypt.
- On June 16-20, 2003, the fifth round of talks were held in the U.S.-Central American Free Trade Agreement (CAFTA) negotiations in Tegucigalpa, Honduras.
- On June 12-13, 2003, trade ministers from 14 countries negotiating the Free Trade Area of the Americas (FTAA) met for a “mini-ministerial” at the Wye Oak Conference Center in Maryland.
- On June 6, 2003, the United States and Chile signed a bilateral free trade agreement in Miami, Florida.
- On June 2, 2003, the United States began formal negotiations with the Southern African Customs Union (SACU) on a free trade agreement.
- On May 9, 2003, President Bush proposed the negotiation of a free trade area between the United States and the nations of the Middle East by 2013. The proposal envisions negotiating with countries as they join the WTO and engage in trade liberalization and economic reform.
- On May 6, 2003, the United States and Singapore signed a bilateral free trade agreement at a ceremony at the White House.

BACKGROUND AND ANALYSIS

For over 50 years, U.S. trade officials have negotiated multilateral trade agreements to achieve lower trade barriers and rules to cover international trade. In the past two decades, U.S. officials also negotiated four free-trade agreements with neighboring countries or strategic partners.¹ Currently, the Bush Administration is making bilateral and regional free-

¹ The four agreements are the U.S.-Israel Free Trade Agreement (effective 1985), the Canada-U.S. (continued...)

trade agreements more important elements of its trade policy. The multilateral arena is no longer the only means, or perhaps even the principal means, by which the United States is pursuing the benefits of trade.²

U.S. Negotiating Strategy

U.S. negotiating strategy is based on a concept known as “competitive liberalization.” As explained by the Administration, this strategy is designed to push forward trade liberalization on multiple fronts: bilateral, regional and multilateral. It is meant to further trade negotiations by liberalizing trade with countries willing to join free trade agreements, and to put pressure on other countries to negotiate in the WTO. As United States Trade Representative (USTR) Robert B. Zoellick has written,

we want to strengthen the hand of the coalition pressing for freer trade. It would be fatal to give the initiative to naysayers abroad and protectionists at home. As we have seen in the League of Nations, the UN, the IMF and the World Bank, international organizations need leaders to prod them into action.³

However, others argue that the accent on regional and bilateral negotiations will undermine the World Trade Organization (WTO) and increase the risk of trade diversion. Trade diversion occurs when the lower tariffs under a trade agreement cause trade to be diverted away from a more efficient producer outside the trading bloc to a producer inside the bloc. What results from the plethora of negotiated FTAs, according to one recent article, “is a ‘spaghetti bowl’ of rules, arbitrary definitions of which products come from where, and a multiplicity of tariffs depending on source.”⁴

The manner in which the Administration chooses potential partners has been the subject of scrutiny by some Members of Congress. Traditionally, regional and bilateral trade agreements have been negotiated for a mixture of economic, political, and development reasons. The U.S.-Canada Free-Trade Agreement (FTA) was primarily economic in nature: recognizing the largest bilateral trade relationship in the world between two countries at a similar stage of development. The partnership with Mexico to create NAFTA brought in a country at a different stage of development and gave attention to trade as a lever to encourage economic advancement. It also had a geopolitical rationale of encouraging stability in the U.S. neighbor to the south. The FTA with Israel is seen as an affirmation of U.S. commitment to the Jewish state, while the FTA with Jordan can be seen as a reward for Jordan’s cooperation in the Middle East peace process.

¹ (...continued)

Free Trade Agreement (effective 1989), the North American Free Trade Agreement (effective 1994) and the U.S.-Jordan Free Trade Agreement (effective 2001).

² For further information, see CRS Report RL31356, *Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*, by William H. Cooper.

³ Robert B. Zoellick, “Unleashing the Trade Winds,” *The Economist*, December 7, 2002, p.29.

⁴ Jagdish Bhagwati and Arvind Panagariya, “Bilateral Trade Treaties Are a Sham,” *Financial Times*, July 14, 2003.

USTR Zoellick recently enumerated several criteria prerequisite for negotiating trade agreements with the United States. In a speech to the Institute of International Economics, he referred to several criteria he used to make a determination of a country's worthiness to negotiate an FTA with the United States. However, he said there were no formal rules or procedures to make the determination. According to USTR Zoellick, the Administration sought countries that cooperate with the United States in its foreign and security policies. Other considerations enunciated by the USTR include country support for U.S. positions in the Free-Trade Area of the Americas (FTAA) and the WTO; the ability of a trade agreement to spur internal economic or political reform in the target country or region; the ability to counteract FTAs among other countries or trading blocs that disadvantage American firms; the presence of congressional interest or opposition to an FTA; support among U.S. business and agricultural interests; the ability of a country to anchor broader trade agreements to spur regional integration; the willingness of a partner to negotiate a comprehensive agreement covering all economic sectors; and the capacity constraints of the Office of the USTR.⁵

Some Members of Congress have questioned the manner in which potential FTA partners are chosen. Representative Calvin Dooley has called for the establishment of a "strategic roadmap" to help define potential FTA partners that would advance the U.S. economic, geopolitical, and multilateral agenda, given the limited resources of the Office of the USTR.⁶ Senator Baucus and Representative Dooley have requested a study from the General Accounting Office on the selection progress for FTA partners. In addition, some business groups have expressed a desire to concentrate more on the multilateral negotiations of the WTO, which potentially could yield greater commercial gains.⁷

The Administration has also equated the concept of free trade with national security. It cites the negotiation of free trade agreements in multilateral, regional, and bilateral settings as an integral part of its strategy to enhance prosperity and freedom for the rest of the world. In the September 2002 National Security Strategy, the Administration elevated the concept of 'free trade' to a moral principle, "the freedom for a person or a nation to make a living." According to this document, free-market economic and trade policies, more than development assistance, provides nations with the ability to lift themselves out of poverty and to insure stability.⁸

While the Administration is pursuing trade agreements on multiple fronts, some question whether the United States should be negotiating the trade agreements at all. They charge that jobs are lost because of cheaper imports, and that relocation of U.S. production to other countries has been facilitated by trade agreements. Some argue that trade agreements do not adequately address the problem of countries with lower labor and

⁵ "Following the Bilateral Route?", *Washington Trade Daily*, May 9, 2003; "Zoellick Says FTA Candidates Must Support U.S. Foreign Policy," *Inside U.S. Trade*, May 16, 2003.

⁶ "Business Treads Carefully in Assessment of Administration Trade Policy," *Inside U.S. Trade*, June 20, 2003.

⁷ "Filling Up with Appetizers," *Congress Daily AM*, June 11, 2003.

⁸ National Security Council, *National Security Strategy of the United States*, September 2002, [<http://www.whitehouse.gov/nsc/nss.pdf>], pp. 17-21.

environmental standards that are able to produce at lower cost. Some critics believe that the U.S. economy will be harmed by the Administration's pursuit of free-trade agreements.

The result of the competitive liberalization strategy is that the United States is involved in an unprecedented number of trade negotiations. Multilaterally, the United States and over 140 countries are participating in the Doha Development Agenda under the auspices of the World Trade Organization. Regionally, the United States is meeting with 33 other countries in the western hemisphere to create a Free Trade Area of the Americas, and is beginning free-trade negotiations with countries in central America and in southern Africa. Bilaterally, it is seeking FTAs with Australia, Bahrain, and Morocco, and concluded agreements with Singapore and Chile. Furthermore, the President has recently proposed initiatives that could lead to free-trade agreements with the countries of southeastern Asia and the Middle East.

Notification and Implementing Bills

The next section discusses these trade proposals in more detail. Since the next section, however, includes references to formal notifications by the Administration, it might be helpful to first explain more about what those notifications mean and when they are given.

Congress approved notification requirements in the trade promotion authority (TPA) legislation passed in 2002 (Title XXI, P.L. 100-210). These requirements apply to trade agreements entered into (signed) before June 30, 2005 (or June 30, 2007, if a two-year extension is allowed). If the Administration meets these notification requirements, consults as required, and satisfies other conditions in the TPA legislation, Congress will consider implementing legislation for a trade agreement under expedited ("trade authorities" or "fast-track") procedures, which prohibit amendments and set deadlines for committee and floor action. Since most trade agreements, including those in the next section, are nontariff trade agreements, this section discusses the notification requirements for those agreements (and excludes tariff agreements).

The following is in two parts: (1) the notification and consultation requirements of the TPA legislation; and (2) the TPA/fast-track procedures for an implementing bill.

Notification Requirements

Before the Start of Negotiations. Before starting negotiations, the Administration must notify Congress at least 90 calendar days in advance. (This requirement is waived for certain negotiations that were underway before enactment of the TPA legislation.) Before and after submitting this notice, the Administration must consult with the relevant congressional committees and the Congressional Oversight Group (COG).⁹ The

⁹ Members of the COG are the chairman and ranking member of the House Ways and Means Committee and the Senate Finance Committee, three other members from each of those committees (no more than two from the same party), and the chairman and ranking member from any other committees with jurisdiction. COG members are official advisers to the U.S. delegation in trade negotiations. They consult with and provide advice to the USTR on the formulation of objectives,

(continued...)

Administration must comply with certain additional consultation and assessment requirements for agricultural, textile and apparel, and fish and shellfish negotiations.

During Negotiations. In the course of negotiations, the USTR must consult closely and on a timely basis with the COG and all committees of jurisdiction. Guidelines developed by the USTR, in consultation with the House Ways and Means Committee and the Senate Finance Committee (the revenue committees), cover briefings of the COG, access by COG members and staff to documents, and coordination between the USTR and the COG at critical periods of the negotiations.

Before Signing the Agreement. At least 180 calendar days before signing a trade agreement (at least 90 calendar days for an agreement with Chile or with Singapore), the President must report to the revenue committees on proposals that might require amendments to U.S. trade remedy laws. At least 90 calendar days before entering into a trade agreement, the President must notify Congress of the intention to enter into the agreement. No later than 30 days after this notification, the private sector advisory committees must submit their reports on the agreement to Congress, the President, and the USTR. Also at least 90 calendar days before entering into a trade agreement, the President must provide the International Trade Commission (ITC) with the details of the agreement and request an assessment.

The USTR must consult closely and on a timely basis (including immediately before initialing an agreement) with the revenue committees, the COG, and other congressional advisers, and with the agriculture committees in the case of an agreement relating to agricultural trade.

Entering Into the Agreement. Within 60 days of entering into the agreement, the President must submit a list of required changes to U.S. law that likely would be necessary to bring the United States into compliance with the agreement. Not later than 90 calendar days after the President enters into an agreement, the ITC must report to the President and to Congress on the likely impact of the agreement on the U.S. economy and on specific industrial sectors.

Implementing Bill

Submission of Draft Implementing Bill. There is no deadline for submission of a bill to implement a trade agreement. The TPA legislation requires that after entering into a trade agreement, the President must submit to the Congress a copy of the final legal text of the agreement, a draft of an implementing bill, a statement of any administrative action proposed to implement the trade agreement, and other supporting information. Expedited procedures for consideration of an implementing bill are set out in Section 151 of the Trade Act of 1974 (19 U.S.C. 2191). (The TPA legislation provides for withdrawal of expedited procedures if the House and Senate, within 60 days of each other, agree to resolutions stating that the President did not meet notification and consultation requirements.)

⁹ (...continued)
negotiating strategies, and other trade matters.

“Trade Authorities” or “Fast-Track” Procedures. Any implementing bill submitted by the President is to be introduced by the majority leader of each house or their designees. The bill is then referred jointly to the committees of jurisdiction.

Each committee has up to 45 days after introduction to report the measure or be automatically discharged. Committee amendments are prohibited. If the implementing bill is a revenue measure (which is usually the case because of tariff changes), Senate committees have an additional 15 days, since a revenue measure must originate in the House.

The bill is to be called up in each chamber under a non-debatable, highly privileged motion. Floor amendments are prohibited. Floor debate in each chamber is limited to no more than 20 hours, equally divided. A vote on final passage must be taken in each chamber on or before the 15th day of session after the bill is reported or discharged from the committees of jurisdiction. Given these deadlines, the implementing bill could be in the House up to 60 days of session, and if the House takes that full period, the bill could be in the Senate up to 90 days of session. There would be no conference to resolve differences, because the identical bill is introduced in each chamber and no amendments are allowed.

Status of Agreements and Negotiations

Multilateral Trade Negotiations

At the 4th Ministerial meeting of the World Trade Organization (WTO) in Doha, Qatar on November 9-14, 2001, trade ministers from 142 member countries of the World Trade Organization agreed to launch a new round of multilateral trade negotiations called the Doha Development Agenda. The title reflects the importance placed by the members of making the world trading system more responsive to the needs of the lesser and least developed countries. These countries, now the largest bloc of members in the WTO, demanded greater attention to their development agenda as a condition for a new round. This agenda includes greater attention to tariffs and subsidies (especially in agriculture) that inhibit competitive exports from developing countries. It also includes an emphasis on trade capacity building to assist developing countries in obtaining the resources to implement existing agreements. WTO members account for over 95% of worldwide trade. In 2002, more than \$1.7 trillion (97%) of total U.S. trade was with WTO member countries. (All trade data are from the International Trade Commission data web page at [<http://dataweb.usitc.gov/>].)

The work program set out in the Doha declaration incorporated the “built-in agenda” (ongoing negotiations on agriculture and services liberalization) with negotiations on non-agricultural market access (tariffs), WTO rules concerning subsidies and countervailing measures, the WTO dispute settlement understanding, implementation concerns, access to medicines, geographical indications and biological diversity aspects of the Trade Related Aspects of Intellectual Property Agreement (TRIPS), the relationship of the WTO agreements to multilateral environmental agreements and trade capacity building.

In addition, negotiators continue to discuss the so-called Singapore issues. Following the Singapore ministerial in 1996, four topics were added to the work of the WTO: investment, competition, transparency in government procurement, and trade facilitation

(e.g., customs procedures). Some member countries have wanted to develop more extensive rules for these issues within the framework of the WTO. At the Doha ministerial, a decision on these issues was delayed. Countries decided at that meeting that further clarification would be taken on all four issues and negotiations would take place after the fifth ministerial on the basis of a decision by consensus. So far, a consensus is not apparent. The European Union is the lead supporter of further negotiations, while India is a strong opponent. The United States has favored further negotiations on government procurement and trade facilitation.

The United States was successful in having market access, especially in agriculture, included in the work program; however, because WTO members have such different positions, an agriculture agreement is expected to be difficult to reach. The United States was unsuccessful in keeping out language on the domestically sensitive issue of additional disciplines in the use trade remedies such antidumping and countervailing duty proceedings. Developing countries, who have an increasingly important role in the negotiations, are insisting on concessions in agriculture, textiles and apparel, and pharmaceuticals.

WTO members agreed on a negotiating structure in early 2002. An important deadline was missed on March 31, 2003, when negotiators failed to agree on “modalities” for commitments on agriculture (e.g., formulas for reducing barriers). Negotiators also missed the May 31, 2003 deadline for agreement on negotiating modalities for industrial market access. Trade ministers will take stock of progress and make further decisions at their next meeting in Cancun, Mexico scheduled for September 10-14, 2003. WTO members set a deadline of January 1, 2005 for reaching final agreement in the round.

Regional Negotiations

Free Trade Area of the Americas. In April 1998, at the second Summit of the Americas in Santiago, Chile, 34 Western Hemisphere nations formally initiated negotiations to create a Free Trade Area of the Americas (FTAA).¹⁰ The United States traded \$686 billion worth of goods with the FTAA countries in 2002: \$274.5 billion in exports and \$411.5 billion in imports.

The United States has focused on reducing overall tariff rates as the primary negotiating goal in market access discussions. Latin American countries, by contrast, are focusing on other issues, specifically U.S. trade remedy laws, U.S. domestic agricultural support, and peak tariff rates. Brazil in particular, a major player in the negotiations, is interested in opening U.S. markets in agriculture, steel, and textiles.

In April 2001, negotiators met in Québec City and unveiled the first draft of the agreement. In November 2002, they met in Quito and released the second draft of the heavily bracketed text. They also decided at the Quito meeting that Brazil and the United States would co-chair the Trade Negotiating Committee through the completion of the negotiations. The Trade Negotiating Committee is scheduled to meet three times in 2003; the first meeting was held in Trinidad and Tobago in April 2003. The next meeting of trade

¹⁰ For further information, see CRS Report RS20864, *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J. F. Hornbeck.

ministers is scheduled for November 20-21, 2003 in Miami. The deadline for final agreements is January 2005. Negotiations have recently centered around which issue areas are likely candidates for agreement by the 2005 deadline. The United States has maintained that certain sensitive issues such as agricultural support and U.S. trade remedy laws should be negotiated in the WTO. However, Brazil and other Mercosur nations have indicated that negotiations over service provisions, intellectual property and government procurement, issues of interest to the United States, could not take place with discussion of agricultural support and trade remedies.¹¹

U.S.-Central American FTA. On January 8, 2003, negotiations formally began on an FTA between the United States and the five nations composing the Central American Common Market (CACM) – Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.¹² Both sides have expressed optimism that an agreement can be concluded by year-end. Three months earlier, on October 1, 2002, the Administration had given notice to Congress of the intent to begin the negotiations. For CACM countries, an FTA potentially would permit greater access to the U.S. market, make permanent current tariff preferences provided by the Caribbean Basin Initiative, and provide an environment more conducive to foreign investment. For the United States, proponents of the agreement see it supporting U.S. exports and providing less expensive imports, advancing the movement toward an FTAA agreement, and solidifying deeper regional political and economic reforms that strengthen democracy and promote stability. However, critics of a potential CAFTA point to labor conditions and workers' rights in the CACM as a major problem. U.S. trade with the region totaled \$21.2 billion in 2002. The United States imported \$11.8 billion (primarily apparel items, bananas, coffee, and assembled electronic equipment) and exported \$9.4 billion (led by apparel, textiles, electrical generating equipment, and electrical components for assembly).

U.S.-Southern African Customs Union FTA. On November 4, 2002, the USTR notified Congress that talks to negotiate an FTA would begin with the Southern African Customs Union (SACU).¹³ The first round of negotiations began in Johannesburg on June 3, 2003. SACU is a customs union composed of South Africa, Botswana, Lesotho, Namibia, and Swaziland. A large degree of economic integration exists among the SACU states, with South Africa the dominant economic power. U.S. exports to SACU totaled \$2.5 billion in 2002, led by aircraft, vehicles, construction and agricultural equipment, and computers. U.S. imports from SACU totaled \$4.8 billion, composed of minerals such as platinum, diamonds, and titanium, textiles and apparel, vehicles, and automotive parts. Potential problems relating to an FTA with SACU include competition issues related to the South African telecommunications industry and government procurement, U.S. textile tariffs and quotas, and intellectual property rights especially with regard to access to HIV/AIDS medicines. While all the SACU states are eligible for the tariff preferences under the Africa

¹¹ "U.S., Brazilian Divisions Emerge Over Agenda for FTAA Mini-Ministerial," *Inside U.S. Trade*, June 6, 2003. The Mercosur countries are Argentina, Brazil, Paraguay and Uruguay.

¹² For further information, see CRS Report RL31870, *The U.S.-Central America Free Trade Agreement (CAFTA): Challenges for Sub-Regional Integration*, by J.F. Hornbeck.

¹³ For further information, see: CRS Report RS21387, *United States-Southern African Customs Union (SACU) Free Trade Agreement Negotiations: Background and Potential Issues*, by Ian F. Fergusson.

Growth and Opportunity Act (Title I, P.L. 106-200), the negotiation of an FTA would “lock-in” and potentially expand such tariff advantages.

Bilateral Negotiations and Agreements

U.S.- Chile FTA. The United States and Chile commenced formal negotiations on a bilateral FTA on December 6-7, 2000 in Washington, D.C.¹⁴ These talks began before Congress approved trade promotion authority, so early-stage notification was not required nor made. After two years of negotiations, an agreement was announced in Washington on December 11, 2002. On January 30, 2003, President Bush notified Congress of his intent to sign the agreement. The Agreement was signed on June 6, 2003 in Miami, after a delay some attribute to the Administration’s irritation over Chile’s refusal to support U.S.-sponsored resolutions on Iraq in the United Nations earlier this year.

Negotiations with Chile, viewed in Washington as a model open-market developing economy, have been seen by some observers as a template for the CAFTA negotiations and an FTAA agreement. Total trade between the United States and Chile was approximately \$5.9 billion in 2002; imports accounted for \$3.6 billion, and exports totaled \$2.3 billion. Leading U.S. imports from Chile are fish, grapes, wine, copper, and wood products, and significant U.S. exports to Chile are mining equipment and machinery, aircraft, computers, and telecommunications equipment.

The agreement, described by USTR Zoellick as a “win-win, state-of-the-art FTA for the modern economy,”¹⁵ features comprehensive liberalization of service trade, protections for intellectual property rights, labor and environmental protection provisions similar to those of the Jordan FTA, and new transparent procedures for customs and investor-state disputes. It also gives Chile certain ‘flexibilities’ over the imposition of capital controls, while restricting their use overall. If approved by Congress, 87% of two-way trade will become tariff-free immediately, with the remainder phased out over four years or, mostly in the case of sensitive agricultural products, over 12 years.

U.S.- Singapore FTA. The United States and Singapore launched negotiations on a bilateral FTA in December 2000.¹⁶ The agreement was completed on January 15, 2003 after the two parties resolved outstanding differences related to capital controls. On May 6, 2003, President Bush signed the agreement with Singapore’s Prime Minister Goh Chok Tong at the White House. Singapore and the United States are major trading partners, and the USTR has indicated an FTA with Singapore would facilitate further Pacific regional integration. The agreement would phase-in tariff elimination on all goods, cover trade in services, and protect intellectual property rights. Two-way trade between the two nations totaled \$28.8 billion in 2002. U.S. exports to Singapore totaled \$14.7 billion and were comprised of aircraft, computers, integrated circuits telecommunications equipment and

¹⁴ For further information, see CRS Report RL31144, *A U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J. F. Hornbeck.

¹⁵ Office of the U.S. Trade Representative. “U.S. and Chile Conclude Historic Free Trade Agreement. Press Release,” December 11, 2002.

¹⁶ For further information, see CRS Report RL31789, *Singapore-U.S. Free Trade Agreement*, by Dick K. Nanto.

petroleum; imports of \$14.1 billion included computer equipment and circuitry, radio and televisions receivers, and medical equipment.

U.S.-Moroccan FTA. On January 21, 2003, negotiations formally began on a U.S.-Morocco FTA¹⁷. Earlier, on October 1, 2002, the Bush Administration had notified Congress of its intent to negotiate the FTA. The notification letter stated that the proposed agreement would “support this Administration’s commitment to promote more tolerant, open, and prosperous Muslim societies.” While proposed with a strong national security and foreign policy rationale, the FTA would also seek to support U.S. economic objectives. These include allowing U.S. agricultural products to compete more effectively against those of the European Union, which currently benefit from preferential access. From Morocco’s perspective, the FTA could lead to an increase in U.S. foreign direct investment and provide preferences for textile and apparel exports to the United States. U.S.-Morocco trade totaled \$970 million in 2002, composed of \$560 million in U.S. exports and \$410 million in imports. Leading U.S. exports are corn, wheat, soybeans, aircraft parts, and coal; leading imports include electrical equipment, apparel, calcium and chalk phosphates, mineral oil, processed fish, and processed vegetables.

U.S.-Australian FTA. On November 13, 2002, the Bush Administration notified the Congress of the intent to begin FTA negotiations with Australia.¹⁸ Formal talks began in Canberra on March 18, 2003. While the U.S. business community strongly supports the negotiations, the American agricultural community has expressed concern about Australian sanitary and phytosanitary standards that it believes act as a barrier to U.S. exports. For its part, Australia has called for greater agricultural liberalization in the U.S. market. It has denounced the recent U.S. farm bill and recently imposed U.S. import restrictions on lamb. A desire to cement the U.S.-Australian strategic relationship, and Australia’s cooperation in the war against terrorism, may also influence these negotiations. Two way trade between the United States and Australia totaled \$18.7 billion in 2002. Livestock, wine, minerals, vehicles, and vehicle parts were leading imports from Australia, which totaled \$6.4 billion in 2002. U.S. exports amounted to \$12.3 billion, led by computer equipment, aircraft, vehicles, heavy machinery, and medical equipment.

Other Potential Trade Agreements

Middle East - North African Free Trade Agreement. On May 9, 2003, President Bush announced an initiative to create a U.S.- Middle East Free Trade Agreement by 2013. According to reports, this initiative would begin a multi-stage process to prepare countries in the region for an FTA with the United States. Countries would begin the process by negotiating accession to the World Trade Organization¹⁹ and subsequently concluding Bilateral Investment Treaties (BIT) and Trade and Investment Framework Agreements

¹⁷ For further information, see CRS Report RS21464, *Morocco- U.S. Free Trade Agreement*, by Raymond L. Ahearn.

¹⁸ For further information, see CRS Report RS21476, *U.S.- Australia FTA Negotiations*, by William H. Cooper.

¹⁹ In the Middle East region, Afghanistan, Algeria, Iran, Iraq, Libya, Lebanon, Saudi Arabia, Syria, and Yemen remain outside the WTO.

(TIFA) with the United States.²⁰ As domestic reforms progress, countries would then negotiate FTAs with the United States, possibly linking to other existing or planned FTAs, such as with Jordan, or potentially with Morocco or Bahrain.

The Administration's rationale for this regional FTA is to provide the incentive for the transformation of the economies of the Middle East and their integration into the world economy. One study reports that, since 1980, the share of world exports emanating from middle eastern countries has dropped from 13.5% to 4%, and that per capita income has fallen by 25% in the Arab world.²¹

On May 22, 2003, the Middle East Trade and Engagement Act (S. 1121-Baucus/H.R. 2267- Smith) was introduced to provide duty-free access for import-sensitive goods that are currently excluded from the U.S. Generalized System of Preferences (GSP). According to Senator Baucus, this legislation would be modeled on the existing African Growth and Opportunity Act (AGOA) and Andean Trade Preference Act, and that the legislation could serve as an interim step before these countries join FTAs with the United States.²² The proposal includes a declaration by Congress that bilateral free trade agreements should be negotiated, where feasible, with interested countries or political entities in the greater Middle East, in order to increase U.S. trade with the region and increase private sector investment in the region. The Administration has not taken a position on the legislation.

Bahrain. On May 21, 2003, the USTR announced its intention to negotiate an FTA beginning in 2004. The Administration has praised the economic and commercial environment of the sheikhdom. The proposed FTA is touted by the Administration as a first step in the creation of the Middle East Free Trade Area by 2013 and foresees the possibility that other nations in the gulf region could link in to this agreement as they reform their economies and develop their trade potential. Bahrain is a kingdom of 640,000 persons, 40% of whom are guest workers, with a GDP of \$8.6 billion in 2000. Bahrain was a founding member of the WTO in 1994 and signed a Bilateral Investment Treaty (BIT) with the United States in 2001 and a Trade and Investment Framework Agreement (TIFA) in 2002. The nation has diversified its economy away from dependence on petroleum and has created a services hub for information technology, telecommunications and health care. U.S. merchandise trade with Bahrain totaled \$802.6 million in 2002: imports of \$395.1 million included apparel, textiles, fertilizers, chemicals, and aluminum and exports of \$407.5 million were led by aircraft and aircraft parts, military equipment, passenger vehicles, machinery, and, not surprisingly, air conditioning equipment.

Enterprise for ASEAN. This initiative, announced by President Bush on October 26, 2002, provides the impetus for the negotiation of bilateral FTAs with individual countries of the Association of Southeast Asian Nations, or ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam). The first stage of this process is expected to be the negotiation of a region-wide trade and investment

²⁰ "President Bush Lays Out Broad Plan for Regional FTA with Middle East by 2013," *International Trade Reporter*, May 15, 2003.

²¹ Edward Gresser, "Blank Spot on the Map: How Trade Policy Is Working Against the War on Terror," Progressive Policy Institute *Policy Report*, February 2003.

²² Remarks of Senator Baucus, *Congressional Record*, May 22, 2003, S.7005.

framework agreement (TIFA), which is seen as the first step in the process of negotiating individual FTAs with ASEAN member states. Malaysia and Thailand are seen as likely candidates for FTAs under this program. As stated by the Administration, the principal benefits to the United States of FTAs with ASEAN member states are the potential to reduce high tariffs on agricultural products and to eliminate restrictive tariff-rate quotas on other U.S. exports, while the major benefit to ASEAN countries would be improved access to the U.S. market. The initiative is also seen as a way of countering growing Chinese influence in the region. Two-way trade with ASEAN reached \$116.4 billion in 2002, with exports of \$38.8 billion and imports of \$77.6 billion.

Egypt. Egypt is the 45th largest trading partner of the United States with U.S. exports of \$2.8 billion, imports of \$1.3 billion, and two-way trade totaling \$4.1 billion. Major export to Egypt include cereals, aircraft and parts, machinery, vehicles and parts, telecommunications equipment, and arms; imports include textiles, apparel, carpets, petroleum, and iron and steel. With a population of 65.3 million, Egypt is the largest country in the Middle East. Egypt has been a member of the World Trade Organization since 1995, and it has concluded a TIFA with the United States. Egypt's central position in the Arab world has recently led to speculation that the United States would seek to launch FTA negotiations. On June 5, 2003, 27 Senators wrote to President Bush advocating the commencement of FTA negotiations with Egypt. Recently, however, USTR Zoellick commented on the need for Egypt to pursue further reforms, especially in the area of customs modernization, before FTA negotiations would be considered.²³ In addition, the Administration reportedly has frozen FTA discussions due to Egypt's decision not to join a WTO complaint over European policy towards genetically modified organisms (GMO).²⁴

Taiwan. A free trade agreement with the Republic of China on Taiwan has been advanced by proponents in the last several years. In the 108th Congress, H.Con.Res. 98 (Ramstad) has been introduced calling for a free trade agreement with Taiwan, and House Majority Leader Delay lent support to an FTA with Taiwan in a speech to the American Enterprise Institute on June 2, 2003.²⁵ Taiwan is the 8th largest trading partner of the United States with total two-way trade in 2002 equal to \$48.8 billion in 2002; the United States is Taiwan's largest trading partner. The U.S. imported \$32 billion in merchandise from Taiwan with computers, circuitry, vehicle parts, television transmission, and telecommunications equipment leading. U.S. exports to Taiwan, which totaled \$16.8 billion, include integrated electronic circuits, electrical machinery, aircraft parts, corn, and soybeans. While the Bush administration has indicated support for the concept of a U.S.-Taiwan FTA, several outstanding trade disputes remain including Taiwan's enforcement of intellectual property rights, the imposition of excessive standards, testing, certification and labeling requirements, and the Taiwanese rice import quotas.²⁶ In addition, the negotiation of an FTA with Taiwan likely would encounter the ire of the mainland Chinese government, which

²³ "Zoellick Criticism Sets Back Egypt Hopes on Free Trade Deal," *Financial Times*, June 24, 2003.

²⁴ "U.S. and Egypt Beginning to See 'Eye-to-Eye' On Need for FTA but No Talks Scheduled Yet," *International Trade Reporter*, July 3, 2003.

²⁵ Available at [http://www.aei.org/include/news_print.asp?newsID=17544].

²⁶ U.S. Trade Representative, *2003 National Trade Estimate Report on Foreign Trade Barriers*, p. 358.

considers Taiwan to be a province of China. Taiwan acceded to the WTO on January 1, 2002 and signed a Trade and Investment Framework Agreement with the United States in 1994.

New Zealand. Another potential FTA partner in which Congress has expressed interest is New Zealand. New Zealand is the 46th largest trading partner of the United States with two-way trade of nearly \$4.0 billion, comprising of \$2.3 billion in imports and \$1.7 billion in exports. Imports consist of meat, dairy products, seafood, fruits and nuts, starches, glues, and enzymes, and machinery. Leading U.S. exports consist of gas turbines, computer equipment, aircraft and parts, telecommunications equipment, vehicles and plastics. The United States also engaged in a substantial services trade with New Zealand, with imports of private commercial services of \$1.3 billion, and exports of \$1.2 billion. New Zealand embarked on a far-reaching economic reform program in the 1980s, and consequently has one of the world's most liberalized economies. Its economy is also deeply integrated with that of Australia, a country with which the United States is negotiating an FTA. According to some, however, New Zealand has engendered antipathy within the Administration for its public criticism of the Iraq war, and its continuing refusal to allow nuclear powered vessels to enter its ports.

Current U.S. Negotiations on Trade Agreements

| Agreement | U.S. Total Trade* (\$ bill.) | Status | Sensitive Areas |
|---|------------------------------|---|---|
| Free Trade Area of the Americas | \$686.0 | Formal negotiations began in 1998. The first draft of the agreement was adopted in Québec in April 2001; the second was adopted at Quito in Nov. 2002. Trade ministers will meet in Miami in late 2003. A final agreement is due by Jan. 2005. | Agriculture, antidumping, textiles and apparel, worker rights |
| Doha Development Agenda of the WTO | \$1,738 | A work program was produced at the trade ministerial meeting in Doha in Nov. 2001. Trade ministers agreed to take stock of negotiations at their next meeting (Cancun, Sept. 2003) and have set Jan. 1, 2005 as the deadline for final agreement. | Agriculture, antidumping, pharmaceuticals |
| U.S.-Chile FTA | \$5.9 | Negotiations began in Dec. 2000. An agreement was announced on Dec. 11, 2002. President Bush signed the agreement on June 6, 2003. | Capital flows, agriculture |
| U.S.-Singapore FTA | \$28.8 | Negotiations began in Dec. 2000 and were completed on Jan. 15, 2003. President Bush signed agreement on May 6, 2003. | Capital flows |
| U.S.-Central America FTA | \$21.2 | The Administration gave notice of intent to begin negotiations on Oct. 1, 2002. Talks were formally launched on Jan. 8, 2003. Officials anticipate negotiations will conclude by the end of 2003. | Textiles and apparel, rules of origin, capital flows, worker rights |
| U.S.-Morocco FTA | \$0.97 | On Oct. 1, 2002, the Administration gave Congress notice of intent to begin negotiations. Talks formally began on Jan. 21, 2003. Officials anticipate negotiations will conclude by the end of 2003. | Agriculture |
| U.S.-Southern African Customs Union FTA | \$7.3 | The Administration gave Congress notice of intent to begin negotiations on Nov. 4, 2002. Talks began on June 3, 2003. | Telecommunications, textiles, pharmaceuticals |
| U.S.-Australia FTA | \$18.7 | On Nov. 13, 2002, the Administration gave Congress notice of intent to begin negotiations. Talks began in March 2003. | Agriculture, investment, telecommunications |

* Domestic exports (Fas value) plus imports for consumption (Customs value) with countries of the proposed agreement in 2002.

LEGISLATION

H.Con.Res. 98 (Ramstad, et. al.)

Expressing the sense of Congress relating to a free trade agreement between the United States and Taiwan. Introduced Mar. 18, 2003. Referred to Committee on Ways and Means, Subcommittee on Trade, March 20, 2003.

H.R. 2267 (A. Smith)/S. 1121 (Baucus, et. al.)

Middle East Trade and Engagement Act of 2003. To extend certain trade benefits to countries of the greater Middle East. H.R. 2267 introduced May 22, 2003; referred to House Committee on Ways and Means. S. 2212 introduced May 22, 2003; referred to Senate Committee on Finance.

H.R. 2738 (DeLay, by request)/S. 1416 (Grassley, et. al.)

United States-Chile Free Trade Agreement Implementation Act. To implement the United States-Chile Free Trade Agreement. Bills introduced July 15, 2003; H.R. 2738 referred to House Ways and Means Committee and to House Judiciary Committee; S. 1416 referred to Senate Finance Committee and to Senate Judiciary Committee.

H.R. 2739 (DeLay, by request)/S. 1417 (Grassley, et. al.)

United States-Singapore Trade Agreement Implementation Act. To implement the United States-Singapore Free Trade Agreement. Bills introduced July 15, 2003; H.R. 2739 referred to House Ways and means Committee and to House Judiciary Committee; S. 1416 referred to Senate Finance Committee and to Senate Judiciary Committee.

CHRONOLOGY

- 04/19/98** – Leaders from 34 countries in the Western Hemisphere meet in Santiago, Chile and agree to launch negotiations on a Free Trade Area of the Americas.
- 12/04/00** – Negotiations begin on a U.S.-Singapore FTA.
- 12/06/00** – Negotiations begin on a U.S.-Chile FTA.
- 12/17/01** – The U.S.-Jordan FTA enters into force.
- 11/14/01** – Trade ministers from WTO member countries agree at the end of their meeting in Doha, Qatar to start a new round of multilateral trade negotiations.
- 08/06/02** – President Bush signs the Trade Act of 2002 (P.L. 107-210), which includes expedited legislative procedures for bills implementing trade agreements (“fast-track authority” or “trade promotion authority”).
- 01/08/03** – Negotiations begin on a U.S.-Central America FTA.
- 01/21/03** – Negotiations begin on a U.S.-Morocco FTA.

- 03/17/03** – Negotiations begin on a U.S.-Australia FTA.
- 05/06/03** – President Bush signs the U.S.-Singapore FTA.
- 06/03/03** – Negotiations begin on a U.S.-SACU (Southern African Customs Union) FTA.
- 06/06/03** – President Bush signs the U.S.-Chile FTA.
- 07/15/03** – Implementing bills for the Chile (H.R. 2738/S. 1416) and Singapore (H.R. 2739/S. 1417) FTAs were introduced in the House and in the Senate.

FOR ADDITIONAL READING

CRS Products

- CRS Report RL30935: *Agricultural Trade in the Free Trade Area of the Americas*, by Remy Jurenas.
- CRS Report RS21085: *Agriculture in WTO Negotiations*, by Charles E. Hanrahan.
- CRS Report RS21554. *Free Trade Agreements, Developing Country Preferences and the WTO*, by Jeanne J. Grimmett.
- CRS Report RS20864. *A Free Trade Area of the Americas: Status of Negotiations and Major Policy Issues*, by J. F. Hornbeck.
- CRS Report RL31974. *Trade Agreements: Requirements for Presidential Consultations, Notices, and Reports to Congress Regarding Negotiations*, by Vladimir N. Pregelj.
- CRS Report RS21464. *Morocco - U.S. Free Trade Agreement*, by Raymond J. Ahearn.
- CRS Report RL31932. *Trade Agreements: Impact on the U.S. Economy*, by James K. Jackson.
- CRS Report RL31844. *Trade Promotion Authority (Fast-Track Authority for Trade Agreements): Background and Developments in the 107th Congress*, by Lenore Sek.
- CRS Report RS21387. *United States - Southern African Customs Union (SACU) Free Trade Agreements Negotiations: Background and Potential Issues*, by Ian F. Ferguson.
- CRS Report RL31870. *The U.S.-Central America Free Trade Agreement (CAFTA): Challenges for Sub-Regional Integration*, by J. F. Hornbeck.
- CRS Report RL31144. *The U.S.-Chile Free Trade Agreement: Economic and Trade Policy Issues*, by J. F. Hornbeck.
- CRS Report RL30652. *U.S.-Jordan Free Trade Agreement*, by Mary Jane Bolle.
- CRS Report RL31789. *The U.S.-Singapore Free Trade Agreement*, by Dick K. Nanto.

Other Reading

- Norton, Stephen J. Clock Starts on Congressional Approval of Chile and Singapore Free Trade Agreements. *CQ Today*. July 15, 2003. Available at [<http://www.cq.com>].
- U.S. International Trade Commission. *U.S.-Chile Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*. Publication 3605. June 2003.
- *U.S.-Singapore Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*. Publication 3603. June 2003.