

Background

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U.S. Trade Policy Tracker

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Free and open trade has contributed to the enormous prosperity that America enjoys today. This year, Congress has a unique and historic opportunity to unlock further the benefits of free trade for American consumers and producers. Bilateral free trade agreements (FTAs) with Oman and Peru, along with Vietnam's accession to the World Trade Organization (WTO), await congressional approval. FTAs with South Korea, Panama, Colombia, and Malaysia are being negotiated. At the same time, the Doha Round of WTO trade negotiations is becoming the biggest challenge and opportunity for the United States. With more than 90 percent of the world's consumers living outside of the U.S., seizing these opportunities to expand free trade is vital.

America's Free Trade Agenda

The U.S. has forged a strong leadership role within the WTO. With 149 members in the WTO, the United States benefits from the increased market access generated by multilateral trade agreements.

Along with multilateral trade liberalization in the WTO, regional and bilateral FTAs also figure as important U.S. trade policy tools.¹ The U.S. has been seeking comprehensive and high-quality trade agreements that 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."²

While multilateral negotiations take time, FTAs allow the U.S. the option of obtaining agreements with coun-

Talking Points

- Congress can further unlock the benefits of free trade for American consumers and producers through bilateral and multilateral trade agreements. With more than 90 percent of the world's consumers living outside of the U.S., seizing these opportunities to expand free trade is vital.
- With 149 members in the WTO, the United States benefits from the increased market access generated by multilateral trade agreements.
- FTAs allow the U.S. the option of obtaining agreements with countries that are willing to dismantle trade barriers rapidly. FTAs can also serve as building blocks for broader agreements and provide institutional competition that helps to keep multilateral talks on track.
- Free and open trade has contributed to America's enormous prosperity. Continued American leadership depends not only on U.S. trade negotiators' intensive efforts, but also on congressional support for free trade.

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U.S. Free Trade Agreements	
Country	Completed
Israel	1985
NAFTA (Mexico and Canada)	1994
Jordan	2001
Singapore	2004
Chile	2004
Australia	2004
Morocco	2004
Bahrain	2005
DR-CAFTA (Central America)	2005

Source: Office of the U.S. Trade Representative.

tries that are willing to dismantle foreign trade barriers rapidly. FTAs formed with different countries or regions can also serve as building blocks for broader agreements and provide institutional competition that helps to keep multilateral talks on track.

Existing FTAs

As of May 2006, the U.S. has nine FTAs with 15 countries. (See Table 1.) Congress has approved the trade pacts with Israel, Canada and Mexico,³ Jordan, Singapore, Chile, Australia, Bahrain, and Morocco. Most recently, it approved DR-CAFTA, the Dominican Republic-Central America Free Trade Agreement, which includes the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

These nine FTAs have been producing impressive results. They account for more than \$900 bil-

lion in two-way trade, which is about 36 percent of total U.S. trade with the world. U.S. exports to FTA partner countries are growing twice as fast as U.S. exports to countries that do not have FTAs with the U.S.⁴

Trade promotion authority (TPA), formerly known as fast track authority, has helped the U.S. negotiate and conclude new free trade agreements in an efficient and timely manner. Under TPA, Congress can approve or reject an entire agreement, but it cannot alter specific provisions in the agreement. In return, the President must fulfill certain criteria in each FTA, as specified by Congress.

Because of the way that TPA is implemented, countries are assured that U.S. trade policy commitments in an FTA will not be amended by Congress after negotiations are concluded. Consequently, TPA enhances America's ability to negotiate trade agreements by ensuring that U.S. commitments are made in good faith. This minimizes the cost and uncertainty associated with the negotiation process. The current TPA will expire on July 1, 2007.

The FTA Process

Although TPA legislation defines several objectives that affect the structure and content of an FTA, it does not limit the list of potential FTA partners by any criteria other than the degree to which a country has put into practice its existing WTO obligations.⁵ Accordingly, there are three main stages of the FTA process.

Phase I: Consideration and Selection of an FTA Partner

Economic and political factors play a role in determining a country's appeal as a U.S. FTA partner. A 2004 General Accounting Office study

1. Based on the strategy of "competitive liberalization," the Bush Administration has been pushing forward free and open trade simultaneously on all fronts: bilateral, regional, and multilateral.
2. Office of the U.S. Trade Representative, *The 2006 Trade Policy Agenda and 2005 Annual Report of the President of the United States on the Trade Agreements Program*, March 2006, p. 3, at www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Trade_Policy_Agenda/asset_upload_file765_9077.pdf (June 29, 2006).
3. The FTA with Canada and Mexico is the North American Free Trade Agreement (NAFTA).
4. *Ibid.*, p. 4.
5. U.S. General Accounting Office, *International Trade: Intensifying Free Trade Negotiating Agenda Calls for Better Allocation of Staff and Resources*, GAO-04-233, January 2004, p. 4, at www.gao.gov/new.items/d04233.pdf (June 29, 2006).

reported that the process of assessing potential FTA partners is based on six criteria:

- A country's readiness in terms of its trade capabilities, the maturity of its political and legal systems, and its will to implement economic reforms;
- The economic benefit to the U.S.;
- The country's support of U.S. goals in liberalizing trade;
- The country's support of U.S. foreign and economic policy interests;
- Congressional or private-sector support; and
- Constraints on U.S. government resources.⁶

Phase II: Negotiations

Once the Administration decides to pursue a trade deal, it must notify Congress at least 90 days before launching official negotiations. Relevant congressional committees and the congressional oversight group must be consulted about the possible FTA before and after the notice. According to TPA guidelines, the Administration is then required to consult with Congress throughout the negotiating process. Negotiations are conducted by the U.S. Trade Representative.

Phase III: Congressional Approval and Implementation

After an agreement is concluded, the final language of the bill implementing the FTA is shaped by "mock" or "nonmark" markups in Congress.⁷ House and Senate committees work informally on a draft bill that is then passed on to the President. The Administration uses this draft as a basis for its formal submission for congressional consideration,

and Congress agrees to take a straight up-or-down vote on the proposed trade agreement.

Currently, the U.S. is in various stages of FTA negotiations or implementation with nine other countries and regions. (See Table 2.)

Status of U.S. FTAs

Currently, three FTAs are awaiting congressional approval and implementation, seven are in negotiation, and five more are in the first phase of selection. These are summarized in Table 2.

Phase I: Consideration and Selection of an FTA Partner

- **Enterprise for ASEAN.**⁸ This initiative, introduced by President George W. Bush in October 2002, offers incentives for launching bilateral FTAs with individual countries of the Association of South East Asian Nations (ASEAN). The negotiation of a region-wide Trade and Investment Framework Agreement is viewed as the first step.
- **Middle East Free Trade Agreement Initiative.** The President announced this initiative in May 2003. The goal is to create a U.S.–Middle East Free Trade Agreement by 2013.
- **New Zealand.** To support the launch of FTA negotiations with New Zealand, 54 members of the House created the Friends of New Zealand Congressional Caucus in February 2005.
- **Switzerland.** The U.S. and Switzerland signed the Trade and Investment Cooperation Forum agreement on May 25, 2006.

Phase II: Negotiations

- **Free Trade Area of the Americas (FTAA).**⁹ The FTAA was promoted by President Ronald

6. *Ibid.*, pp. 9–10.

7. For more information, see Vladimir N. Pregelj, "Trade Agreements: Procedure for Congressional Approval and Implementation," Congressional Research Service *Report for Congress*, updated March 16, 2005, p. 2, at www.opencrs.com/rpts/RL32011_20050316.pdf (June 29, 2006).

8. ASEAN is composed of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam.

9. FTAA members are Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Christ.–Nevis–Anguilla, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

Table 2

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Status of Trade Agreements as of June 2006

Country	Phase 1	Phase 2		Phase 3			
	Consideration and Selection of Potential Partner	Started	Ended	Mock Markups		Congressional Approval Full	
				House	Senate	House	Senate
Colombia	✓	✓					
Enterprise for ASEAN	✓						
FTAA	✓	✓					
Malaysia	✓	✓					
Middle East	✓						
New Zealand	✓						
Oman	✓	✓	✓	✓	✓		
Panama	✓	✓					
Peru	✓	✓	✓				
SACU	✓	✓					
South Korea	✓	✓					
Switzerland	✓						
Thailand	✓	✓					
United Arab Emirates	✓	✓					

Source: Ian F. Fergusson, "Trade Negotiations During the 109th Congress," Congressional Research Service *Issue Brief for Congress*, updated May 10, 2006, at www.usembassy.it/pdf/other/IB10123.pdf (June 30, 2006), and Office of the U.S. Trade Representative, "USTR Press Releases Home," Web page, at www.ustr.gov/Document_Library/Press_Releases/Section_Index.html (June 30, 2006).

Reagan and President George H. W. Bush through the Enterprise for the Americas Initiative. The trade pact was formally launched by President Bill Clinton in 1994. At the Third Summit of the Americas in Quebec in 2001, steps were made toward detailed, substantive, and concrete negotiations on the FTAA. At the 2005 Summit of the Americas in Argentina, the majority of hemispheric leaders reaffirmed their commitment to move forward on the FTAA.

- **Malaysia.** Congress was notified in March 2006. The first round of negotiations started on June 11, 2006.
- **Panama.** Congress was notified in November 2003. The first round of negotiations started in April 2004.
- **Southern African Customs Union (SACU).**¹⁰ Congress was notified in November 2002. Formal negotiations started in June 2003. In April 2006, the U.S. and SACU countries opted to pursue freer trade through a trade investment cooperation agreement (TICA) rather than through a comprehensive FTA. The TICA establishes a working group to address issues in customs, trade facilitation, intellectual property, and other areas typically included in an FTA. Once the largest concerns are rectified within the TICA, the potential for successfully concluding an FTA should be greater.
- **South Korea.** Congress was notified in February 2006. The first round of negotiations started on June 5, 2006.

10. SACU consists of Botswana, Lesotho, Namibia, South Africa, and Swaziland. FTA negotiations are on hold until broader trade issues can be resolved within a trade and investment cooperation agreement.

- **Thailand.** Congress was notified in February 2004. Formal negotiations started in June 2004. Currently, negotiations are halted due to political turmoil in Thailand.
- **United Arab Emirates.** Congress was notified in November 2004. The first round of negotiations started in March 2005.

Phase III: Congressional Approval and Implementation

- **Colombia.**¹¹ The Administration initiated FTA negotiations in May 2004. An agreement was concluded in February 2006.
- **Oman.** FTA negotiations were concluded in October 2005. The House Ways and Means Committee voted in favor of the trade pact on May 10, 2006. The Senate Finance Committee approved the agreement with Oman on June 28, 2006.
- **Peru.** The Administration initiated FTA negotiations in May 2004. An agreement was concluded in December 2005. Following a change in governments, Peru has indicated that it may wish to renegotiate the FTA.

Some FTA negotiations fail and have to be restarted. It is hoped that all of the current FTAs in process will reach full implementation. It is worth noting that at least one recent proposed FTA has already been cancelled. Official FTA negotiations with Ecuador began in 2004, but the negotiations with Ecuador were cancelled due to Ecuador's decision to cancel the oil operation contract of U.S.-based Occidental Petroleum Corporation.

Other Trade-Facilitating Agreements

For countries that are unable to pursue a comprehensive FTA with the U.S., the U.S. has more generalized policy tools to facilitate trade and

resolve bilateral trade and investment issues. A trade and investment framework agreement aims to enhance trade and investment relations as well as to provide consultative mechanisms to discuss outstanding issues. The U.S. has pursued TIFAs with countries that have worked to open their markets and move toward market liberalization.¹² Similarly, a bilateral investment treaty (BIT) aims to protect U.S. investment interests in foreign countries and promotes more market-oriented policies.¹³

These two types of agreements often play important roles in building up the necessary economic and political institutions and infrastructure in a partner country, promoting the viability of an FTA with the U.S. in the future. The appendices summarize the TIFAs and BITs that the U.S. has signed.

In addition to these two trade and investment policy tools, the U.S. offers partner countries bilateral market access agreements. As part of the WTO accession process, countries interested in joining the WTO are required to have bilateral trade talks with any interested WTO member country. These bilateral trade and investment talks typically cover tariff rates, specific market access commitments, and other policies in goods and services.

The U.S. has recently concluded and signed a bilateral market access agreement with Vietnam. The agreement is an important step forward in normalizing bilateral relations and is required for Vietnam's accession to the WTO. For the agreement to take effect, Congress must approve permanent normal trade relations (PNTR) status for Vietnam, authorizing trade advantages that the United States grants to most countries. To authorize PNTR, Congress must exempt Vietnam from application of the Jackson–Vanik Amendment to the Trade Act of 1974.¹⁴

11. The Administration initiated FTA negotiations in May 2004, and an agreement was concluded in February 2006. However, some details in areas such as agriculture still need to be finalized before the negotiations are completed.

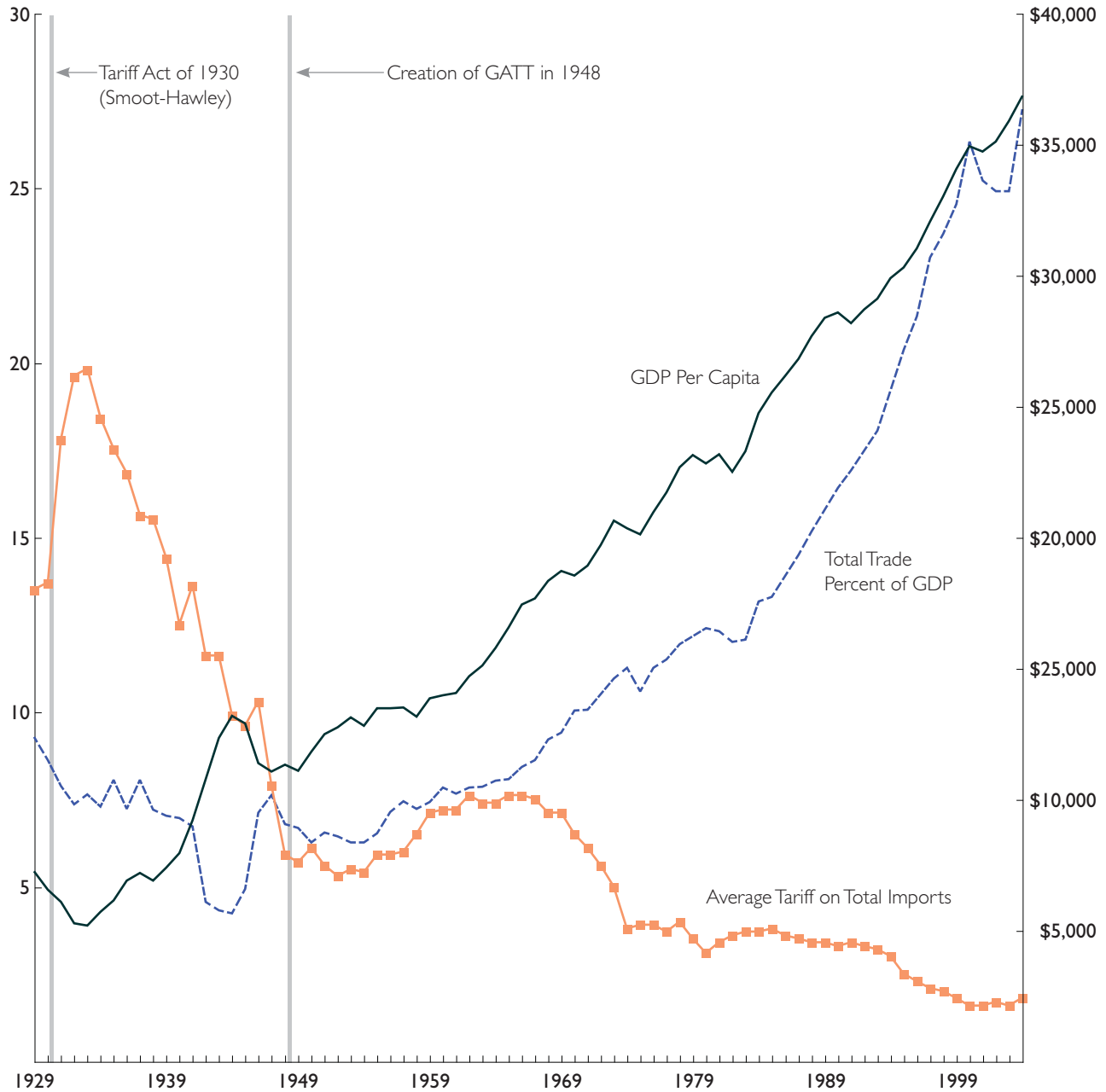
12. For more information, see U.S. Department of State, "Trade and Investment Framework Agreements," at www.state.gov/e/eb/tpp/c10333.htm (June 29, 2006).

13. For more information, see U.S. Department of State, Bureau of Economic and Business Affairs, "U.S. Bilateral Investment Treaty Program," updated January 10, 2006, at www.state.gov/e/eb/rls/fs/2006/22422.htm (June 29, 2006).

Chart 1 B 1949

Free Trade Fuels U.S. Economic Prosperity, 1929–2004

Percent of GDP/Tariff Rate



Sources: U.S. Department of Commerce, Bureau of Economic Analysis, "National Income and Product Accounts Table," Table I.1.6, at www.bea.gov/bea/dnInipaweb/SelectTable.asp?Popular=Y (June 30, 2006); The White House, *Economic Report of the President*, February 2005, p. 251, Table B-34, at www.gpoaccess.gov/usbudget/fy05/sheets/b34.xls (June 30, 2006); U.S. International Trade Commission, "Value of U.S. Imports for Consumption, Duties Collected, and Ratio of Duties to Values, 1891–2003," February 2004, dataweb.usitc.gov/scripts/ave.pdf (June 30, 2006); and World Bank, *World Development Indicators Online*, at publications.worldbank.org/WDI (June 30, 2006; subscription required).

Remembering the Positive Experience of Free Trade

Free and open trade has contributed to the enormous prosperity that America enjoys today, and the U.S. has historically been a bastion of free trade rules. Lower trade barriers allow America's households and businesses to spend less on a wider variety of goods and make U.S. exports more competitive in world markets.

For over five decades, the U.S. has benefited from reducing its trade barriers even further, paving the way for substantial economic expansion and increased living standards globally. As shown in Chart 1:

- The average U.S. tariff rate on all goods has fallen from over 19 percent in 1933 to 1.8 percent in 2004.
- As a percentage of gross domestic product (GDP), the importance of trade in the economy has climbed from single digits in the 1930s to nearly one-quarter of GDP in 2004.

- While trade has become freer, real per capita GDP in the U.S. has climbed from a low of \$5,061 in 1933 to about \$36,000 in 2004 (in constant 2000 dollars).

Continued American leadership depends not only on U.S. trade negotiators' intensive efforts, but also on congressional support for free trade. Domestic priorities—such as fostering U.S. economic growth and job creation, opening foreign markets to American farmers and manufacturers, and increasing living standards—fully mesh with negotiators' efforts to promote trade liberalization.

The American economy depends on international trade. The successful conclusion of negotiations and swift congressional implementation of beneficial free trade agreements will enable America to build an even brighter future.

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14. The Jackson–Vanik provision denies normal trade relations to certain countries that have non-market economies or that restrict emigration rights.

Country	Date Signed
Afghanistan	September 21, 2004
Algeria	July 13, 2001
Bahrain	June 18, 2002
Brunei	December 16, 2002
Ghana	February 26, 1999
Indonesia	September 21, 2004
Kazakhstan	June 1, 2004
Kuwait	February 6, 2004
Kyrgyzstan	June 1, 2004
Oman	July 7, 2004
Malaysia	May 10, 2004
Mongolia	July 15, 2004
Mozambique	June 21, 2005
Nigeria	February 16, 2000
Pakistan	June 25, 2003
Philippines	1989
Qatar	March 19, 2004
Saudi Arabia	July 31, 2003
South Africa	February 18, 1999
Sri Lanka	June 25, 2002
Taiwan	1994
Tajikistan	June 1, 2004
Thailand	2002
Tunisia	October 2, 2002
Turkey	1999
Turkmenistan	June 1, 2004
United Arab Emirates	March 15, 2004
Uzbekistan	June 1, 2004
Yemen	February 6, 2004

U.S. Bilateral Investment Treaties

Country	Date Signed	Country	Date Signed
Albania	January 11, 1995	Jordan	July 2, 1997
Argentina	November 14, 1991	Kazakhstan	May 19, 1992
Armenia	September 23, 1992	Kyrgyzstan	January 19, 1993
Azerbaijan	August 1, 1997	Latvia	January 13, 1995
Bahrain	September 29, 1999	Lithuania	January 14, 1998
Bangladesh	March 12, 1986	Moldova	April 21, 1993
Belarus	January 15, 1994	Mongolia	October 6, 1994
Bolivia	April 17, 1998	Morocco	July 22, 1985
Bulgaria	September 23, 1992	Mozambique	December 1, 1998
Cameroon	February 26, 1986	Nicaragua	July 1, 1995
Congo, Democratic Republic of	August 3, 1984	Panama	October 27, 1982
Congo, Republic of	February 12, 1990	Poland	March 21, 1990
Croatia	July 13, 1996	Romania	May 28, 1992
Czech Republic	October 22, 1991	Russia	June 17, 1992
Ecuador	August 27, 1993	Senegal	December 6, 1983
Egypt	March 11, 1986	Slovakia	October 22, 1991
El Salvador	March 10, 1999	Sri Lanka	September 20, 1991
Estonia	April 19, 1994	Trinidad and Tobago	September 26, 1994
Georgia	March 7, 1994	Tunisia	May 15, 1990
Grenada	May 2, 1986	Turkey	December 3, 1985
Haiti	December 13, 1983	Ukraine	March 4, 1994
Honduras	July 1, 1995	Uruguay	November 4, 2005
Jamaica	February 4, 1994	Uzbekistan	December 16, 1994