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GAO

Report to Congressional Requesters

January 2004

INTERNATIONAL TRADE

Intensifying Free Trade Negotiating Agenda Calls for Better Allocation of Staff and Resources

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Highlights

Highlights of GAO-04-233, a report to congressional requesters

January 2004

INTERNATIONAL TRADE

Intensifying Free Trade Negotiating Agenda Calls for Better Allocation of Staff and Resources

Why GAO Did This Study

Free trade agreements (FTA) involve trade liberalization between the United States and selected countries or regions and are also expected to provide economic and other benefits. GAO was asked to review how potential FTA partners are selected, in view of the increased number of FTAs and their growing importance to U.S. policy. Specifically, GAO (1) provided information about the factors influencing the selection of FTA partners, (2) analyzed the interagency process for selecting FTA partners, and (3) assessed how the executive branch makes decisions about the availability and allocation of resources to FTAs.

What GAO Recommends

GAO recommends that USTR work with other key trade agencies to develop more systematic data and plans for allocating staff and resources across the full U.S. trade agenda, including FTAs and other negotiating priorities.

The Trade Representative agreed that the intensifying trade negotiation agenda requires management improvements, but he disagreed with our specific recommendation. He attributes the main cause of strain at USTR to the amount of resources. We believe that better data and plans will promote the flexibility needed to respond to USTR's demanding multilateral, hemispheric, and bilateral FTA negotiations.

www.gao.gov/cgi-bin/getrpt?GAO-04-233.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or yagerl@gao.gov.

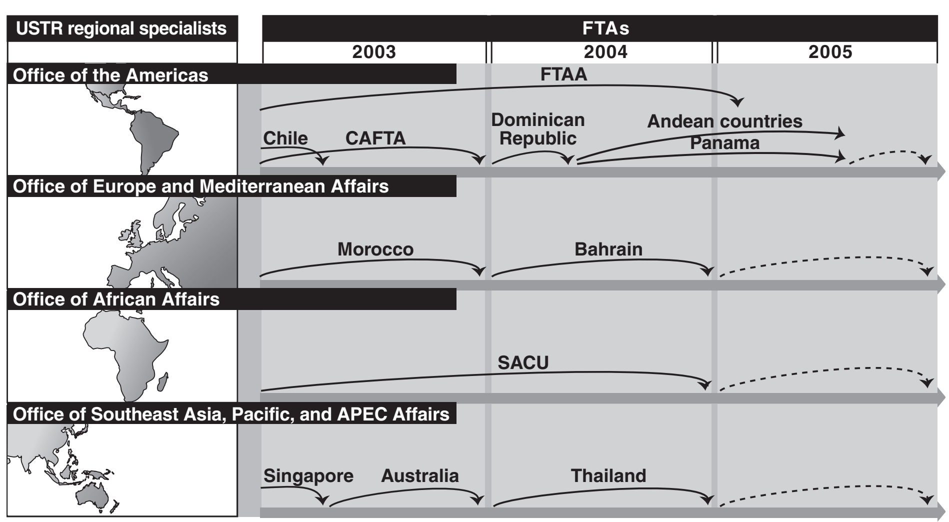
What GAO Found

The Trade Representative used 13 factors in selecting four potential FTA partners in 2002 (Australia; the Central American Free Trade Area, a subregional group of five Central American countries; the Southern Africa Customs Union of five countries; and Morocco). Subsequently, selected executive branch agencies decided to use six broad factors—country readiness, economic/commercial benefit, benefits to the broader trade liberalization strategy, compatibility with U.S. interests, congressional/private-sector support, and U.S. government resource constraints. These decisions are not mechanical, and the factors cited most often regarding the selected FTA partners primarily reflect U.S. trade strategy, foreign policy, and foreign economic development goals.

The interagency process for selecting FTA partners now involves four interagency groups that use decision papers to assess potential FTA partners and make recommendations that eventually go to the president. This new process is more systematic and inclusive than the process previously used. The Office of the U.S. Trade Representative (USTR) reports that it routinely considers the Congress's views in making selections.

Decisions about FTA partners are made with little systematic data or planning regarding trade-offs with other trade priorities, even though FTAs are resource intensive. USTR staff and travel funds are heavily committed to FTAs, and USTR relies on specialists at other agencies as well. As more FTAs are contemplated, existing mechanisms may prove inadequate to the task of aggressively pursuing a bilateral FTA agenda while remaining engaged in regional and multilateral forums.

USTR Sequences FTAs in Four Regions to Negotiate Ambitious FTA Agenda



---- Country not yet decided

Sources: GAO and MapArt.

Note: Actual ending dates may differ from those shown in the figure.

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Abbreviations

AGOA	African Growth and Opportunity Act
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CAFTA	Central American Free Trade Agreement
CARICOM	Caribbean Community
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GCC	Gulf Cooperation Council
GSP	Generalized System of Preferences
MEFTA	Middle East Free Trade Area
NAFTA	North American Free Trade Agreement
NEC	National Economic Council
NSC	National Security Council
SACU	Southern African Customs Union
TPA	Trade Promotion Authority
TPRG	Trade Policy Review Group
TPSC	Trade Policy Staff Committee
USTR	Office of the U.S. Trade Representative
WTO	World Trade Organization

United States General Accounting Office
Washington, D.C. 20548

January 12, 2004

The Honorable Max Baucus
Ranking Minority Member, Committee on Finance
United States Senate

The Honorable Calvin Dooley
House of Representatives

Free trade agreements (FTA) have recently been the subject of much attention as the United States undertakes negotiations with multiple negotiating partners. FTAs involve liberalization of trade between the United States and selected countries or regions and are also expected to provide economic and other benefits. The passage of trade promotion authority legislation in 2002 has positioned the United States to pursue more FTAs, because this authority has streamlined the agreement approval process through the U.S. Congress. Because FTA negotiations call upon many experts from the Office of the U.S. Trade Representative (USTR) and other agencies, they are resource intensive. The recent collapse of the World Trade Organization (WTO) trade talks at a September 2003 meeting in Cancun, Mexico, is expected to make FTAs a more important vehicle for accomplishing U.S. trade goals.

As a result of this increase in the number of FTAs and their growing importance to U.S. trade policy, you asked us to review how potential FTA partners are selected. More specifically, you asked us to (1) provide information about the factors that influence the selection of FTA partners and how these factors have been applied; (2) analyze the interagency process for selecting FTA partners, including how USTR coordinates the views of key trade agencies and consults with the Congress, and business and public interest groups; and (3) assess how the administration makes decisions regarding the availability and allocation of resources to FTAs and other trade priorities, such as the regional Free Trade Area of the Americas (FTAA) and multilateral talks at the WTO.

To meet these objectives, we reviewed documents from the key U.S. agencies involved in the process of selecting FTA partners, including USTR, and the departments of State, Commerce, Agriculture, and the Treasury. In addition, we interviewed key executive branch officials, including the U.S. Trade Representative. (App. I provides detailed information on our objectives, scope, and methodology.)

Results in Brief

Various factors influence FTA partner selections. Four FTA partners were selected in 2002, primarily on the basis of the Trade Representative's own evaluation of 13 factors related to U.S. political, economic, and trade strategy goals. After the four selections in 2002, the key trade agencies decided to use six broad factors to guide their future discussions on potential FTA partners. These factors are (1) country readiness, (2) economic and commercial benefits, (3) benefits to the broader trade liberalization strategy, (4) compatibility with U.S. interests, (5) congressional and private-sector support, and (6) U.S. government resource constraints. Senior trade officials with whom we spoke stressed that FTA partner decisions are not mechanical and take into consideration the President's goal of making significant progress in liberalizing global trade within and across geographic regions. The factors cited most often regarding the FTA partners that were selected to date primarily reflect U.S. strategic, foreign policy, and foreign economic development goals.

The interagency process for selecting FTA partners has become more systematic since 2002 and routinely considers input from the Congress and the private sector. Up through 2002, only a cabinet-level group, composed of the Trade Representative and some counterparts in key trade agencies, assessed potential FTA partners. Some high-level agency officials told us that they provided input to these deliberations, but others said the process had been ad hoc and exclusive. Subsequently, in May 2003, the National Security Council advanced guidelines to improve the process of assessing potential partners by, among other things, expanding the number of interagency groups involved in the assessments. Agencies used this new process for assessing the Dominican Republic as a potential FTA partner. U.S. officials with whom we spoke expressed satisfaction with the new process because it allows wider interagency participation and uses decision papers to guide deliberations. USTR officials said that they keep the Congress apprised of the countries under consideration as FTA partners, and that they regularly receive input from the Congress and from business and nongovernmental groups on potential FTA partners as part of the process.

The administration's overall trade liberalization strategy has driven decisions about deploying resources to advance the U.S.'s ambitious FTA negotiating agenda. However, decisions to pursue FTAs have been made with little systematic planning regarding trade-offs with other trade priorities, even though FTAs are resource intensive. USTR staff and travel funds are heavily committed to FTAs. For example, FTA-related travel accounted for 37 percent of USTR's travel budget in fiscal year 2003. USTR also relies on specialists at other agencies to assist with negotiations and analysis. USTR is taking steps, such as sequencing negotiations, to address these constraints. Because of concerns over the resources required to accomplish the growing FTA negotiating agenda, the consideration of resource constraints has now been included as one of the factors used for selecting FTA partners. However, decisions to pursue FTAs still come without systematic data or planning for the actual resources that USTR or other agencies require. As more FTAs are contemplated in the wake of the failed Cancun WTO talks, existing mechanisms may prove inadequate to the task of aggressively pursuing a bilateral FTA agenda while remaining engaged in regional and multilateral forums.

In this report, we are recommending that USTR work with other key trade agencies to develop more systematic data and plans for allocating staff and resources across the full U.S. trade agenda, including FTAs and other negotiating priorities.

Background

Under its constitutional authority to regulate commerce with foreign nations, the Congress has enacted laws authorizing the President to enter into trade agreements with other countries to reduce tariff and nontariff barriers.[1] One major recent law to provide this authority is the Bipartisan Trade Promotion Authority Act of 2002 (TPA).[2] The TPA legislation sets

[1]Nontariff barriers are those that are not related to tariff levels but nevertheless impose obstacles to trade. Examples include quantitative restrictions (quotas) on imports and requirements that importers obtain licenses to import certain products.

[2]Pub. L. No. 107-210, §§ 2101-13, 116 Stat. 993-1022. This act was part of larger legislation entitled the Trade Act of 2002, 116 Stat. 933. The trade promotion authority continues through June 1, 2005, or June 1, 2007, if extended by the President without disapproval of the Congress.

forth U.S. trade negotiating objectives that apply to negotiating FTAs.[3] However, the TPA legislation does not impose any specific criteria on the President for choosing FTA partners, except that the President must take into account the extent to which the negotiating partner has implemented or has accelerated implementation of its WTO obligations.[4]

Other trade legislation encourages pursuit of FTA negotiations. For example, in the 2000 African Growth and Opportunity Act,[5] the Congress declared that FTAs should be negotiated with interested sub-Saharan African countries. Furthermore, in the United States-Caribbean Basin Trade Partnership Act, the Congress declared that it was the policy of the United States to seek the participation of Caribbean Basin beneficiary countries in the FTAA or another FTA, with the goal of achieving full participation in any such agreement by 2005.[6]

USTR, the President's principal trade policy advisor and coordinator, has the lead responsibility for the formulation and coordination of trade policy; the negotiation of trade agreements, including FTAs; and the enforcement of trade agreements. Under the Trade Expansion Act of 1962, President John F. Kennedy established an interagency trade policy organization to be chaired by USTR to assist with these and other trade responsibilities.[7] Currently, this organization consists of three tiers of committees, which from the lowest tier to the highest tier are the Trade Policy Staff Committee

[3]The overall objectives set forth in TPA include obtaining greater market access and reducing or eliminating trade barriers; enhancing economic growth, raising living standards, and promoting full employment in the United States; ensuring that trade and environmental policies are mutually supportive; and promoting respect for worker rights. The principal objectives include expanding competitive market opportunities for U.S. exports, including agricultural products; reducing or eliminating barriers to international trade in services and foreign investment; enhancing intellectual property rights protection; obtaining wider and broader application of transparency; seeking provisions in trade agreements providing for effective dispute resolution; and preserving the ability of the United States to rigorously enforce its trade laws. Pub. L. No. 107-210, § 2102, 116 Stat. 994-1001.

[4]Id. § 2102(e), 116 Stat. 1004.

[5]Pub. L. No. 106-200, 114 Stat. 251-75.

[6]Id. §§ 202(b) and 213, 114 Stat. 276, 288. This legislation also required the President to take necessary steps to convene a meeting with the trade ministers of these countries to establish a schedule of meetings on the likely timing for initiating negotiations for entering into FTAs with the United States.

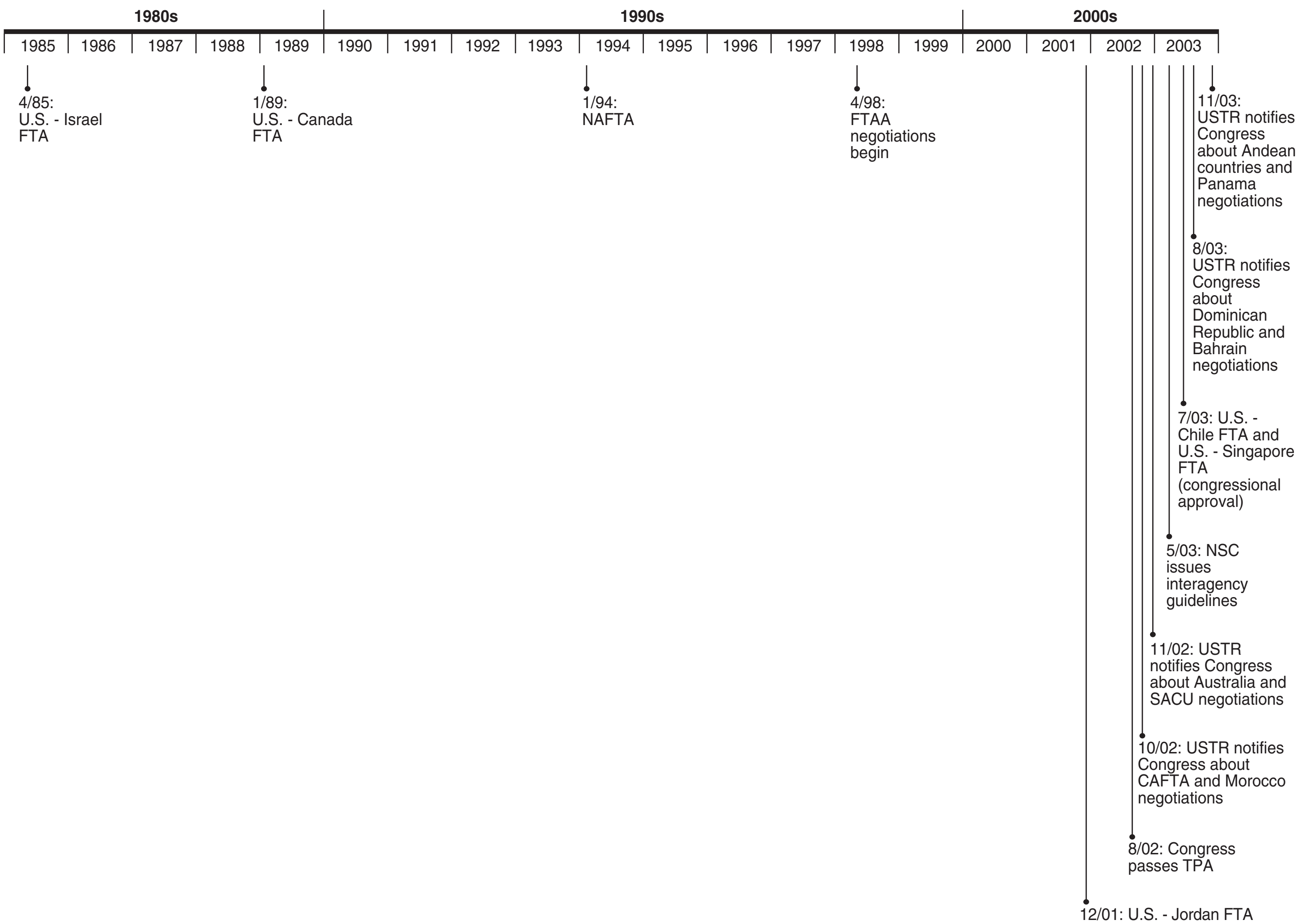
[7]See 19 U.S.C. § 1872.

(TPSC), the Trade Policy Review Group (TPRG), and the National Security Council/National Economic Council (NSC/NEC). Within this framework, USTR coordinates with Commerce, Agriculture, State, and Treasury and other U.S. agencies as issues needing their expertise arise.

The United States currently has five FTAs with six nations: Israel (1985), Canada (1989), Mexico (1994),[8] Jordan (2001), Singapore (2003), and Chile (2003). The United States has already begun negotiating four more bilateral or subregional FTAs with Central America, the Southern Africa Customs Union (SACU), Australia, and Morocco. USTR has announced that it plans to negotiate FTAs with the Dominican Republic; Bahrain; Panama; and the Andean countries of Colombia, Peru, Ecuador, and Bolivia. In addition, in October 2003, the President announced the U.S.'s intent to negotiate an FTA with Thailand. Other countries are under consideration as FTA partners. For a general time line of U.S. FTAs since 1985, see figure 1.

[8]The U.S.-Canada FTA was suspended in 1994 and superseded by the North American Free Trade Agreement.

Figure 1: FTA Time Line, 1985–2003



CAFTA	Central American Free Trade Agreement
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
NAFTA	North American Free Trade Agreement
NSC	National Security Council
SACU	Southern African Customs Union
TPA	Trade Promotion Authority
USTR	Office of the U.S. Trade Representative

Source: GAO.

Early FTA Selections Were Based Primarily on the Trade Representative's Evaluation; New Interagency Process Uses Six Factors

The factors used since the 2002 selection of FTA negotiating partners have evolved. According to the Trade Representative and other U.S. officials, the Trade Representative chose the first four FTA partners on the basis of his own evaluation of factors and after he had consulted the President and certain other high-level officials in several other agencies. Subsequently, the NSC coordinated the views of key trade agencies, which decided to use six factors in a revised interagency process to recommend proposed FTA partners to the President.

The Trade Representative Used 13 Factors for Early Selections

The Trade Representative told us that his early FTA proposals emerged from his evaluation of 13 factors he developed over time—the same factors that the Trade Representative and other USTR officials continue to use. However, he cautioned that these factors "carry no coefficients"—that is, they do not have relative weights. The Trade Representative described the factors in some detail, with examples.

- *Congressional guidance.* According to the Trade Representative, his office consults with the Congress before and after FTA selection to ensure support and eventual congressional approval. USTR officials also examine public support, including the ethnic components of such support.

- *Business and agricultural interest.* The Trade Representative considers the views of business and agriculture and evaluates both current and future economic benefits of a potential FTA.

- *Special product sensitivities.* The Trade Representative assesses how an FTA will adversely affect certain sectors and products, such as textiles and sugar.

- *Serious political will of the prospective partner to undertake needed trade reforms.* The Trade Representative considers the political will in the foreign country to enact and implement trade reforms. He also assesses the country's trade capabilities and the candidate's track record in meeting current trade obligations.

- *Willingness to implement other reforms.* The Trade Representative stated that FTAs are a development tool that may help promote other economic reforms. The United States views these reforms as links to market-oriented economic development and future growth. Prospective FTA partners are expected to show serious intention in this regard to ensure that they understand (1) how important it is to make this commitment to reform and (2) the extent of the obligations that a comprehensive FTA with the United States involves.

- *Commitment to WTO and other trade agreements.* USTR considers a potential FTA partner's commitment to the trade disciplines in the WTO and the commitments being discussed at the ongoing FTAA negotiations.

- *Contribution to regional integration.* The United States has put in place initiatives to advance U.S. goals on a regional basis and foster regional economic integration. The Trade Representative told us that the Central American Free Trade Agreement (CAFTA)—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—and Chile FTAs have the potential to help integrate the whole region by helping to enact and implement the FTAA. Similarly, the SACU FTA may also help the integration of these five African countries (South Africa, Botswana, Lesotho, Namibia, and Swaziland).

- *Support of civil society groups.* The Trade Representative highlighted the views of labor and environmental groups as important components of FTA selections because these views affect prospects of congressional passage.

- *Cooperation in security and foreign policy.* The Trade Representative considers the extent to which potential partners are willing to support U.S. security and foreign policy objectives. For example, Jordan, Morocco, and Bahrain support U.S. objectives in the Middle East, and the CAFTA nations supported U.S. objectives in Iraq.

- *Need to counter FTAs that place U.S. commercial interests at a disadvantage.* The Trade Representative is interested in negotiating FTAs that will offer U.S. commercial interests opportunities on a par with other countries that already have FTAs. (See app. II for a list of European Union and U.S. FTAs.)

- *Need to do FTAs in each of the world's major regions.* The Trade Representative prefers to negotiate FTAs in each of the major regions of the world: Asia (Singapore, Australia, and Thailand); the Middle East

(Jordan, Morocco, and Bahrain); Africa (SACU); and the Americas (CAFTA and the Dominican Republic).

- *Need to ensure a mix of developed and developing countries.* The Trade Representative also seeks FTAs with both developed and developing countries—for example, Australia and SACU. Developing countries are a key to trade growth because they account for a significant share of the world's population and represent an important negotiating bloc in the WTO.[9]

- *Demand on USTR resources.* The Trade Representative recognizes that the resources needed for FTA negotiations are not unlimited.

Agencies Now Consider Six Factors

As a result of discussions among relevant agencies, six factors now guide the discussions in selecting future FTA partners.

- *Country readiness.* Country readiness involves the country's political will, trade capabilities, and rule of law systems.[10] U.S. agencies involved in FTA partner selection discussions may interpret this factor somewhat differently, since each agency filters the information though the lens of its specific mission. For example, USTR may review a prospective candidate's adherence to trade obligations and its leaders' commitment to negotiating all trade issues that currently comprise the comprehensive FTAs that the United States seeks to negotiate. However, Treasury may look at the candidate's overall macroeconomic stability and the strength of its financial and banking system.

- *Economic/Commercial benefit.* According to U.S. officials, the interagency group reviews the likely economic benefit to the United States. It assesses macroeconomic benefits (trade and investment potential) and the likely effects on specific products and sectors. (See app. III for potential and existing FTA partners' share of total U.S. trade.)

[9]The World Bank classifies 105 WTO members, or approximately 73 percent, as developing countries.

[10]According to the U.S. Agency for International Development, the rule of law embodies the basic principles of equal treatment of all people before the law and is founded on a predictable and transparent legal system with fair and effective judicial and law enforcement institutions to protect citizens against the arbitrary use of state authority and lawless acts.

- *Benefits to the broader trade liberalization strategy.* This factor relates to the prospective FTA partner's overall support for U.S. trade goals. Other elements considered within this category are the potential FTA partner's willingness to resolve trade problems through its participation in a Trade and Investment Framework Agreement with the United States, success in meeting its WTO obligations, and support of key U.S. positions in FTAA and WTO negotiations.

- *Compatibility with U.S. interests.* A potential FTA partner is examined for its compatibility with broad U.S. interests, including its support for U.S. foreign policy positions. One USTR official stated that sometimes a foreign leader's visit can prompt serious discussions that lead to that country's consideration as a future FTA partner. Likewise, the Trade Representative's foreign travels also are important in bringing attention to a possible FTA with a particular country. However, other requirements, including but not limited to WTO membership and a Trade and Investment Framework Agreement, must still be met.

- *Congressional/Private-sector support.* Agencies also review the extent to which a particular FTA selection has garnered support from the Congress, business groups, and civil society.

- *U.S. government resource constraints.* This factor focuses primarily on constraints at USTR—what regional office is available to lead the negotiation, what staff are available, and how the timing may affect meeting postnegotiation TPA requirements. Other agencies' resources also play a role in this discussion.

Selections Are Not Mechanical; Trade Strategy and Foreign Policy Considerations Predominate

In terms of how the six selection factors are applied, according to officials that we interviewed, the broad factors guide the discussion, but they are not hard-and-fast decision rules. Moreover, administration decision makers have not set thresholds for eligibility determinations. Key officials told us that USTR's views are central but that the now-standard discussion of the factors permits each participating executive agency to contribute its perspective, thus potentially adding to issues that USTR needs to address in the future negotiations. For example, other agencies may be aware that a prospective partner has engaged in money laundering or human rights abuses or has been slow to resolve intellectual property disputes.

As illustrated below, the FTA selections made to date in 2002-03 primarily reflect U.S. trade strategy, foreign policy, and foreign economic goals. (See app. IV for more details on specific FTA partners.) According to USTR, the administration is working aggressively on its "competitive liberalization" strategy, because it seeks to spur progress by creating a positive dynamic to liberalize trade on multiple levels: bilaterally, regionally, and multilaterally. USTR also reports that the U.S.'s willingness to pursue bilateral FTAs has bolstered countries' interest and encouraged them to make the changes necessary to enter into FTA negotiations with the United States.

- *Australia*. This FTA negotiation represents the greatest immediate commercial benefit of any single ongoing FTA, with 1.2 percent of total U.S. trade in 2002. A U.S.-Australia FTA would add to the regional distribution of FTAs for the United States and would strengthen U.S. ties to a valued ally. The increased U.S. access to Australia's market would likely increase trade in goods and services, enhance employment opportunities, and encourage additional two-way investment.

- *Bahrain*. Although Bahrain represents a small share of U.S. trade, an FTA with this U.S. ally and moderate Muslim nation would support U.S. security and political goals by fostering prosperity in the region. As a stepping-stone to an eventual Middle East Free Trade Area, Bahrain could become the hub of a subregional block of countries with closer trading relationships with the United States. An FTA with Bahrain might be completed relatively quickly due to Bahrain's reform-minded outlook.

- *Central American Free Trade Agreement*. The commercial benefit of an FTA with five Central American countries would be 0.95 percent of total U.S. trade. In the United States-Caribbean Basin Trade Partnership Act, the Congress declared that it was the policy of the United States to seek the participation of Caribbean Basin beneficiary countries in the FTAA or another FTA, with the goal of achieving full participation in any such agreement by 2005.[11] CAFTA would provide regional balance among FTAs and add to the momentum for the hemispherewide FTAA, a major U.S. trade priority. It would also help lock in and broaden reforms such as anticorruption and government accountability measures, support economic integration within the region, and enable the United States to increase exports and gain U.S. access to more affordable goods.

[11]Pub. L. No. 106-200, §§ 202(b), 213, 114 Stat. 276, 288. This legislation also required the President to take necessary steps to convene a meeting with the trade ministers of these countries to establish a schedule of meetings on the likely timing for initiating negotiations for entering into FTAs with the United States.

- *Dominican Republic.* If the Dominican Republic is added to the overall CAFTA region, it would bring the CAFTA trade from 0.95 percent to 1.32 percent of total U.S. trade in 2002, slightly more than that of Australia. The Dominican Republic had strong support in the Congress for its addition to the CAFTA negotiations, in part because excluding it from CAFTA could lead to adverse economic consequences in the Dominican Republic. However, according to a key participant in the discussion, the decision to add the Dominican Republic also included careful consideration of U.S. concerns about its protection of intellectual property rights and its status as one of the worst offenders on human trafficking.

- *Morocco.* Although a U.S.-Morocco FTA would have minimal trade benefit to the United States, one USTR official stated that this FTA would further the administration's goal of promoting openness, tolerance, and economic growth across the volatile Middle East. Morocco, a moderate Muslim country, also signaled its readiness to enter into a comprehensive FTA by demonstrating its willingness to liberalize its economy and make domestic reforms.

- *Southern Africa Customs Union.*[12] Responding to congressional guidance in the 2000 African Growth and Opportunity Act, USTR inititated FTA negotiations with SACU in November 2002. This FTA contributes to the U.S.'s desire for regional balance among FTAs, creates an opportunity for the United States to build trade capacity in the region, and strengthens SACU's role as a negotiating partner in other trade forums, such as the WTO. The commercial benefit of this FTA represents 0.42 percent of total U.S. trade.

The Administration Has Enhanced Its Interagency Process for Assessing Potential FTA Partners

The selection of FTA partners has evolved from a limited high-level consultation to a more systematic and deliberative process involving more U.S. officials. USTR keeps the Congress apprised of potential FTA partners and routinely considers the Congress's views in making selections. Business and other nongovernmental groups have also provided their views to USTR on potential FTA partners and FTA negotiations.

[12]According to the WTO, a customs union is organized to permit the free exchange of goods among its members and has a common external tariff.

Initially, the Trade Representative Consulted with Counterparts

In February 2002, the Trade Representative made recommendations for potential FTA partners to a cabinet-level interagency group under the leadership of the NSC/NEC. According to agency officials, this interagency group informally assessed the proposed countries and offered a consensus recommendation to the President, who named the four FTAs that are currently under negotiation (Australia, CAFTA, Morocco, and SACU). We found no evidence that this group used decision papers on the potential partners to guide its deliberations. Nevertheless, some high-level U.S. officials we interviewed confirmed that they provided USTR and other key trade agencies with input at the time and were on board with the final selections. Other officials, however, expressed concern that the discussions of the four FTAs had been ad hoc and that they had not been able to provide important input.

Also, in February 2002, the cabinet-level interagency group directed their deputies to make the process more systematic by formalizing the factors that would be used for assessing future FTA partners. The desire to have a more systematic interagency process for assessing partners was largely driven by the expected growth in the number of potential FTAs that would follow the enactment of the trade promotion authority legislation.

Recently Enhanced Interagency Process Is More Deliberative and Inclusive

In May 2003, the NSC/NEC issued guidelines on assessing potential FTA partners. In addition to identifying the factors to be used, the guidelines make the interagency process more inclusive by supporting the use of four standing interagency groups for in-depth deliberations.[13] Each group in turn is to use decision papers to assess potential FTA partners and make recommendations for consideration at the next level, all the way up to the President. After the President selects an FTA partner, he is to notify the Congress, through USTR, at least 90 days before he intends to start FTA negotiations with the selected partner. USTR consults with the Congressional Oversight Group before sending its notification letter about a prospective FTA negotiation to the Congress.

As shown in figure 2, the selection process is initiated by USTR and begins with the assessments of potential FTA partners by the TPSC and the TPRG.

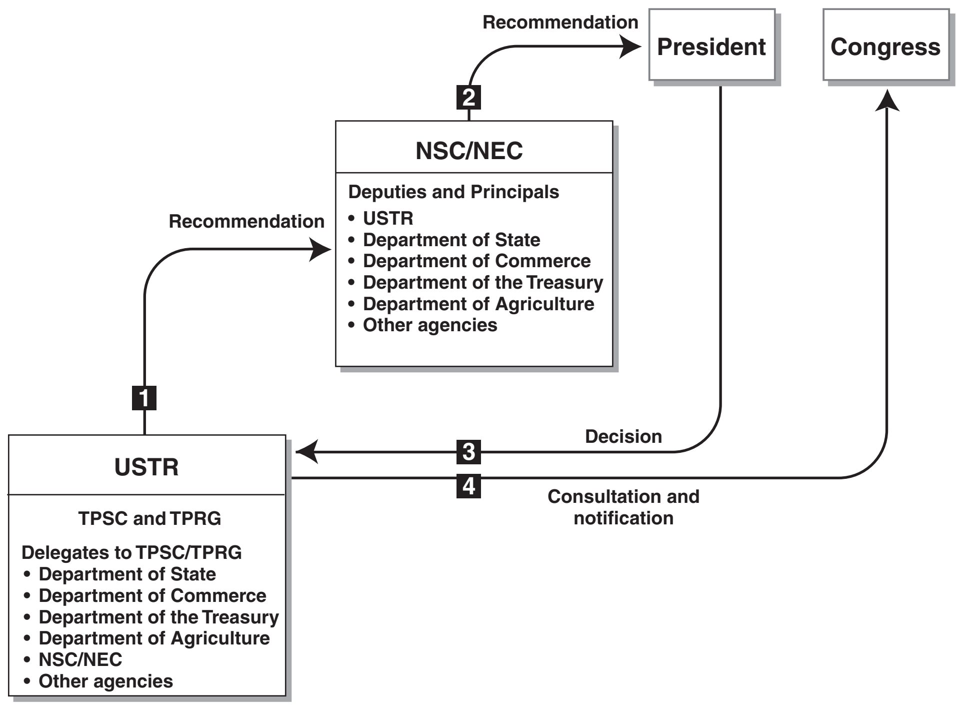
[13]In 1962, as noted in our Background section, the President established these groups under USTR and the NSC/NEC, respectively, for developing trade policy. Early during the present administration, these groups were not used for assessing FTA partners. Instead, they were only used during FTA negotiations, after partners had been selected.

The TPSC is composed of senior officials from more than 19 U.S. agencies and departments who bring specialized technical knowledge on trade issues to the deliberations. The TPRG is composed of under secretaries or assistant secretaries and other senior officials from all of these U.S. agencies and departments who contribute policy perspectives on trade to the discussions. Although USTR leads and coordinates interagency discussions, other agencies are expected to play an important role in developing pertinent information and discussing the pros and cons of potential FTA partners.

The next level of the process consists of the Deputies Committee and the Principals Committee, two interagency groups that the NSC/NEC lead and coordinate.[14] The Deputies Committee is composed of the deputies from all the cabinet agencies involved in trade. The Principals Committee is composed of the secretaries from all of these agencies, such as the Trade Representative and the Secretaries of State and the Treasury. Deputies and Principals meet and use decision papers as needed to assess potential FTA partners before forwarding their recommendations to the President.

[14]Not all of the 19 agencies that participate in the TPSC and the TPRG are cabinet-level agencies, for example, the U.S. International Trade Commission and the U.S. Agency for International Development.

Figure 2: Interagency Process for FTA Partner Selection and Notification to the Congress



NSC/NEC	National Security Council/National Economic Council
TPRG	Trade Policy Review Group
TPSC	Trade Policy Staff Committee
USTR	Office of the U.S. Trade Representative

Source: GAO analysis of USTR data.

USTR and other agencies used this new interagency process for the first time in assessing the Dominican Republic as a potential FTA partner in mid-2003. Agency officials with whom we spoke expressed satisfaction that this process enabled their agencies to contribute to the assessment of potential FTA partners and strengthen the content of the decision papers. Nevertheless, because the process is new, it remains to be seen how it will continue to perform.

Congress and Private Sector Provide Input into the Process

Input from the Congress and the private sector is part of the process of selecting potential FTA partners and negotiating FTAs, according to USTR officials. Although the President is not specifically required to consult with the Congress before selecting potential FTA partners, USTR officials nevertheless stated that they keep the Congress apprised of the FTA partners under consideration through formal and informal means. According to these officials, the views of the Congress are very important to their agency and are seriously considered in FTA partner selections because the Congress must ultimately approve all FTAs. USTR gave us an extensive list of pertinent contacts between the agency and the Congress to confirm these discussions. As required by the TPA legislation, USTR has notified and consulted with the Congress about FTA negotiations. For instance, USTR has provided written notice to the Congress at least 90 days before initiating FTA negotiations since the passage of TPA.

Few Members of Congress have openly questioned choices of FTA partners to date, and those Members that have raised questions still expressed broad support for the "competitive liberalization strategy." Nevertheless, certain Members of Congress have urged USTR to give greater priority to economic and commercial conditions in selecting future FTA partners.

Also, business and nongovernmental groups have given USTR their views on potential FTA partners and FTA negotiations. In late 2002, for instance, a major U.S. business group provided USTR with its views on potential FTA partners and on the factors that USTR and other U.S. agencies involved in trade should consider during the assessment of potential partners. Also, nongovernmental groups have provided input on FTA negotiations. However, representatives of some of these groups indicated that they were not sure whether USTR had seriously considered their comments.

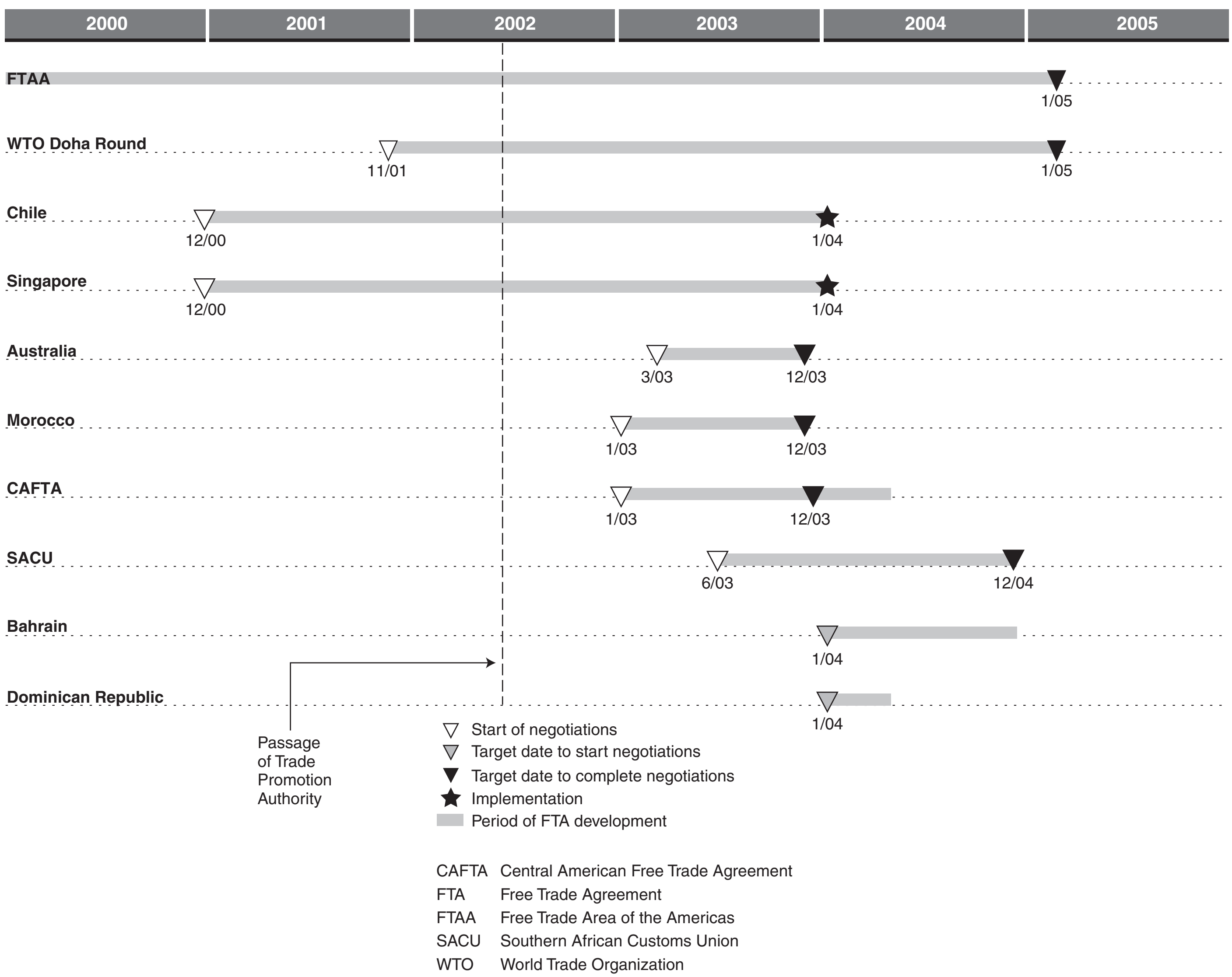
Ambitious FTA Agenda Calls for Better Resource Management

Despite the administration's ambitious and growing FTA agenda, USTR and other agencies have made resource decisions without considering resource trade-offs among FTAs and other trade priorities. FTAs are resource intensive, and USTR has taken some measures to cope with resource constraints. Nevertheless, the administration continues to consider new FTAs. Present strategies for managing staff and other resources mean that newly announced FTA partners will have to wait to begin negotiations until other ongoing negotiations are concluded. Although resource constraints are now one of the factors taken into account when USTR and other agencies select FTA partners, these interagency discussions still leave gaps because they are not based on robust data and do not specify resource needs or commitments.

The Administration's Active FTA Agenda Drives Resource Deployment

The administration's ambitious trade agenda has driven its resource decisions about FTAs and other trade priorities. Since the enactment of TPA in August 2002, the administration has stepped up its pursuit of bilateral and subregional FTAs as part of its overall strategy of competitive liberalization. As shown in figure 3, the United States now has numerous, simultaneous FTA negotiations under way, with ambitious target dates for completion. Although it took 2 years to negotiate two FTAs with relatively advanced partners (Chile and Singapore), USTR currently has FTAs under negotiation with four partners, three of which (Australia, Morocco, and CAFTA) are slated to be completed within 1 year. Negotiations for the fourth partner (SACU) will be conducted through 2004, as will negotiations for Bahrain. In addition, USTR officials hope to complete negotiations with the Dominican Republic in early 2004.

Figure 3: Selected Milestones for U.S. Trade Agreement Negotiations, 2000–05



Source: GAO.

Note: USTR has not specified ending dates for the Bahrain or Dominican Republic negotiations or for the implementation of the potential CAFTA agreement.

The administration's decisions to pursue these FTAs have been made with little formal consideration for potential resource trade-offs, even though the WTO and FTAA negotiations are scheduled to finish by January 1, 2005.

As a result, USTR has had to deploy its resources in a reactive manner. According to agency officials, the four FTAs currently being negotiated were selected before any explicit resource decisions were made because USTR officials assumed that resources would be identified afterward to carry out these priority negotiations. According to USTR, in these cases the resources were "made to fit" the priorities.

FTAs Are Resource Intensive

FTA negotiations require intensive effort on the part of USTR and other trade agencies such as Agriculture, Commerce, State, and Treasury. For example, our analysis of the U.S. negotiating team suggests that on average each of the six FTAs under negotiation in 2003 involved 11 percent of USTR's 209 full-time staff. In addition, USTR estimates prepared for us show that the nonstaff costs of negotiating rounds in fiscal year 2003 were $1.7 million, of which approximately 68 percent were travel costs (see table 1). Moreover, FTA travel comprised 37 percent of USTR's total travel costs in fiscal year 2003, and USTR estimates that it will constitute 42 percent of its total travel costs in fiscal year 2004.

Table 1: Fiscal Year 2003 USTR Nonstaff Costs for Negotiating FTAs

Dollars in thousands

FTA	Employee travel	Interpretation/ Translation	Video-conferencing	Fiscal data[a]	Representation costs	Total cost
Chile	$104	$151	$15	$4	$9	**$283**
Singapore	162	0	4	5	1	**172**
CAFTA	258	80	0	3	0	**341**
Morocco	137	198	2	0	2	**339**
Australia	246	0	10	9	1	**266**
SACU	214	0	0	28	1	**243**
Middle East	63	1	3	23	1	**91**
Total	**$1,184**	**$430**	**$34**	**$72**	**$15**	**$1,735**

Source: USTR.

Note: Costs do not include staff time for working on negotiations.

[a]Cost refers to logistical support provided by the State Department when USTR officials travel to countries.

Although USTR takes the lead for all negotiating groups except financial services, it relies on other agencies, such as Agriculture, Commerce, State, and Treasury, for analysis, expertise, and staff to support its negotiations.

For example, other trade agencies regularly provide staff on a nonreimbursable "detail" (loan) basis to USTR. USTR currently has more than 30 such detailees. In addition, of the 134 U.S. officials present for the first five rounds of the Australia FTA negotiations, 22 were from USTR and the rest (112) came from other agencies. In fact, table 2 shows that other agencies comprised an average of 76 percent of all members of U.S. FTA negotiating teams.

Table 2: Estimated Agency Staff on U.S. Negotiating Teams for Completed Rounds of FTA Negotiations, as of October 2003

		Number and percentage of staff						
Free Trade Agreement	**Number of negotiating rounds (as of 10/03)**	**USTR**	**Commerce**	**Agriculture**	**Treasury**	**State**	**Other**	**Total for all agencies**
Australia	5	22 (16%)	20 (15%)	8 (6%)	16 (12%)	23 (17%)	45 (34%)	**134 (100%)**
CAFTA	7	20 (27%)	10 (13%)	7 (9%)	3 (4%)	12 (16%)	23 (31%)	**75 (100%)**
Chile	14	25 (22%)	16 (14%)	5 (4%)	8 (7%)	10 (9%)	48 (43%)	**112 (100%)**
Morocco	5	21 (16%)	19 (15%)	7 (5%)	8 (6%)	19 (15%)	56 (43%)	**130 (100%)**
SACU	3	22 (47%)	6 (13%)	2 (4%)	2 (4%)	6 (13%)	9 (19%)	**47 (100%)**
Singapore	11	26 (19%)	23 (17%)	1 (1%)	16 (12%)	22 (16%)	50 (36%)	**139 (100%)**

Source: GAO analysis of USTR data.

Notes:

Morocco and SACU numbers were based on GAO analysis of the USTR negotiating lists. SACU numbers were based on lists from two negotiating rounds.

Percentages are rounded to the nearest percent.

However, while table 2 conveys the wide range of officials who are part of an FTA negotiating team, it does not capture "staff effort" to support the team because none of the agencies involved routinely tracks staff time devoted to FTA negotiations, and only one agency was able to produce estimates for us. According to USTR officials, nearly all USTR staff are involved in each FTA before, during, or after negotiating sessions. One USDA official said its delegates to the negotiating team were just the tip of the iceberg because many other people at Agriculture were involved in providing complex analyses during the negotiations. Commerce data prepared for us (see table 3) show that a large number of staff support FTAs, but their total staff hours translate into fewer full-time equivalents.

Table 3: International Trade Administration Free Trade Agreement Resource Allocation, Fiscal Year 2003

	FTAs in progress						FTAs signed	
	Australia	Bahrain	CAFTA	Dominican Republic	Morocco	SACU	Chile	Singapore
Total number of staff involved	71	21	76	22	61	55	91	60
Total number of full-time equivalents	4.16	0.53	7.24	0.6	3.53	4.42	8.51	3.5
Total fiscal year 2003 travel expenditures	$43,074	$0	$88,046	$0	$17,626	$48,515	$38,118	$32,737

Source: Commerce.

Note: The Chile and Singapore FTAs are complete; therefore, travel expenditures and staff time were higher in previous years.

The conclusion of negotiations does not mean that the work is completed on a given FTA. Additional demands, such as legal checks and translation activities, continue. For example, USTR officials reported that negotiations in the Americas have been slowed because of follow-up work after the signing of the Chile FTA. The increase in the number of FTAs is also likely to result in higher implementation-related needs, such as monitoring, enforcement, and dispute resolution. Our prior work has highlighted concerns about the increasing monitoring and enforcement workload at trade agencies,[15] and USTR estimates that every three additional disputes require an additional legal specialist.

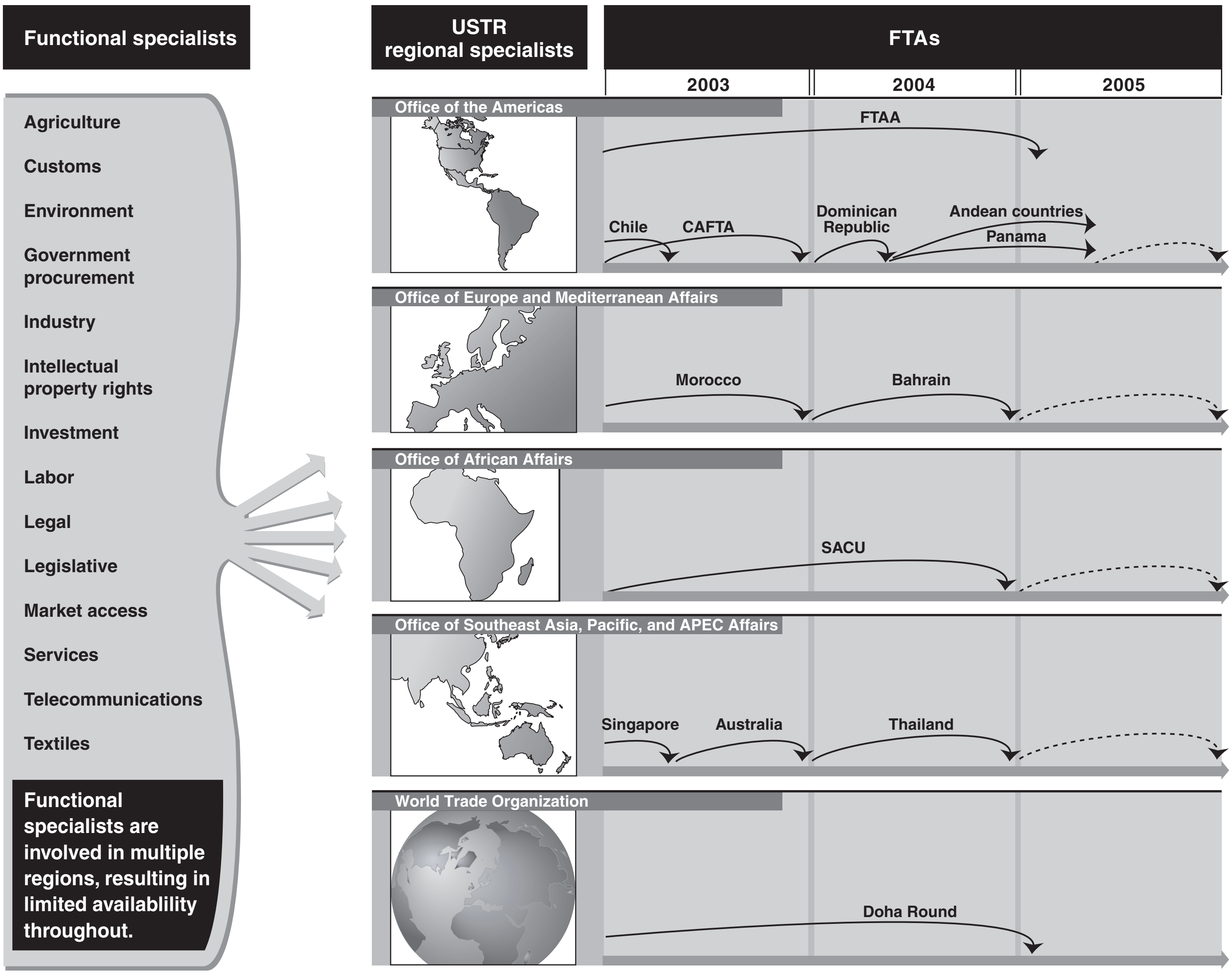
[15]See U.S. General Accounting Office, *International Trade: Strategy Needed to Better Monitor and Enforce Trade Agreements*, NSIAD-00-76 (Washington, D.C.: Mar. 14, 2000).

USTR Is Taking Measures to Cope with Resource Constraints

USTR's approach to dealing with resource constraints is sequencing one set of negotiations per region at a given time in order to leverage the expertise of its negotiators. As a result, as depicted in figure 4, USTR's Office for the Americas will not start negotiating with the Dominican Republic until after the CAFTA negotiations have been completed.[16] Similarly, although Bahrain was ready to begin negotiating immediately with the United States, USTR's Office of Europe and the Mediterranean will postpone those negotiations until the completion of negotiations with Morocco. USTR has indicated that it will continue to schedule negotiations in each region after the current set of FTAs is completed. Thus, regional negotiators will remain fully occupied, and the queue of countries waiting to negotiate with the United States will likely grow.

[16]This office is also working on the resource-intensive FTAA.

Figure 4: USTR Sequences FTAs in Four Regions to Negotiate Ambitious FTA Agenda



- - - - - - Country not yet decided

CAFTA Central American Free Trade Agreement
FTA Free Trade Agreement
FTAA Free Trade Area of the Americas
SACU Southern African Customs Union
USTR Office of the U.S. Trade Representative

Sources: GAO and MapArt.

Note: Actual ending dates may differ from those shown in the figure.

In addition, USTR officials reported that they are using past agreements as a template for the ongoing negotiations.[17] This strategy has progressed to the point that USTR now believes it can save resources by having countries accede to already negotiated FTAs. This process, called "docking," means that negotiators will not have to spend time renegotiating every area. For example, USTR officials stated that the Dominican Republic will be integrated into the U.S.-CAFTA FTA and that only market access issues should require separate, detailed negotiations. Although CAFTA will require 1 year to complete, USTR expects that docking the Dominican Republic onto the agreement will take considerably less time. USTR is also considering how to integrate separate FTAs as it works toward a U.S.-Middle East Free Trade Area.

USTR is taking other measures to save resources. For example, USTR officials noted that they regularly combine various missions in one trip abroad and that they use extensive teleconferencing. In addition, USTR officials reported that they have cut costs by holding meetings in a central location[18] and conducting negotiations in English when possible to avoid interpretation expenses. USTR is also improving its system for tracking TPA requirements for each FTA. To facilitate interagency collaboration, USTR developed a negotiations calendar listing the various bilateral, regional, and multilateral negotiating rounds so that negotiators may better identify competing demands.

Finally, concerns that the FTA agenda would continue to be busy led to resource constraints' inclusion as a factor used for FTA partner selection during the interagency process. This step represents an improvement over the past situation, in which no formal discussion of resource constraints or trade-offs preceded FTA partner selection even though USTR and other trade agencies already faced human capital challenges.[19] As a result, resource constraints are now a standard part of interagency FTA partner selection discussions. One official welcomed this development because it has enabled assumptions regarding resource allocations to be made ahead

[17]For example, according to USTR officials, much of the CAFTA text is similar to the Chile FTA.

[18]Several of the meetings for the Singapore negotiations were in London, for example, and two of the negotiating rounds for the Australia FTA were held in Hawaii.

[19]See GAO/NSIAD-00-76.

of time and for consideration to be given to how resources are currently devoted to ongoing bilateral and regional efforts.

Present Resource Management Efforts Leave Gaps

Despite USTR's efforts to better manage resource constraints, important gaps remain. For example, decisions about staffing and funds for FTA negotiations lack formal data and systematic consideration of their likely impact on other trade priorities. Moreover, USTR is continuing to make specific requests for resources from other agencies on a case-by-case basis, after FTA partners are selected, making it difficult for these agencies to do their own resource planning for FTAs.

Resource Decisions Are Made with Limited Data and Planning

USTR's resource data are not sufficiently robust for resource planning, and this limits USTR's flexibility in meeting its resource needs. When assigning resources for the current set of FTAs, USTR officials did not have clear data on hand regarding what was needed and what resources were available. We reported in 2002 that valid and reliable data are critical to assessing an agency's workforce requirements and to heighten an agency's ability to manage risk by allowing managers to (1) spotlight areas for attention before crises develop and (2) identify opportunities for enhancing agency results.[20] In 2003, we also noted the importance of considering human capital challenges by relying on valid and current data and reported that the absence of such data can seriously undermine efforts to respond to current and emerging challenges.[21] USTR has indicated that it is developing a new system for tracking spending according to different trade priorities, including FTAs, but this system is not yet operational. In addition, although staff time is a major resource devoted to FTAs, USTR officials informed us that they have no plans to track the time staff spend working on FTAs.

The importance of systematic data and planning can be seen in the constraint imposed by limited numbers of functional experts, who focus on areas such as intellectual property rights, agriculture, and market access. These experts are often needed to support multiple, concurrent negotiations. However, the offices in which these staff work at USTR

[20]See U.S. General Accounting Office, *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: March 2002).

[21]See U.S. General Accounting Office, High Risk Series – *Strategic Human Capital Management*, GAO-03-120 (Washington, D.C.: January 2003).

average only eight people each, so they often represent a limiting factor to completing FTA negotiations.

USTR officials reported that they make many resource management decisions informally on an ongoing basis, in addition to those decisions based on advance planning that took into account the U.S.'s various trade priorities. For example, although regional assistant U.S. trade representatives provide staff and travel estimates as part of the annual budget cycle, they frequently bring specific resource requests to USTR management throughout the year. USTR officials, who must mediate among these often competing priorities, told us that they looked at several factors—for example, negotiating deadlines and the need for specific expertise—to make these resource decisions. If there were competing demands for staffing for the Morocco and SACU negotiations, for example, USTR management might consider that the need would be more pressing for the Morocco negotiator because of that negotiation's shorter deadline for completion (e.g., the end of 2003 versus the end of 2004 for SACU). If USTR managers identify a lack of available staff to cover certain issues, they then turn to other agencies to supplement their own staff. This informal, reactive approach may no longer be adequate to meet the needs of increasing numbers of negotiations, particularly if the U.S.'s trade strategy shifts to an emphasis on bilateral agreements in the wake of the failed Cancun ministerial of the WTO. Moreover, this approach also affects resource management at other trade agencies.

USTR Makes Staffing Requests to Other Agencies on a Case-by-Case Basis

The revised interagency process has not made requesting and securing staff from other agencies more systematic because participants do not address specific staffing needs or other cost estimates in detail in the formal interagency meetings, such as the TPSC and the TPRG, that are used to select FTA partners. Instead, the discussion of resource constraints focuses more on matters like timing for multiple FTAs in the same region, such as Morocco and Bahrain.

Specific requests for and commitments of resources by other agencies still occur after FTA partners are selected. According to USTR, after an FTA partner country is selected, the Trade Representative's office asks the assistant U.S. trade representatives for a listing of officials at USTR and other agencies they propose to constitute the U.S. negotiating team. On the basis of these lists, USTR managers report that they talk to their respective counterparts at other agencies regarding USTR's needs. These discussions generally begin just before USTR notifies the Congress about the FTA and are ongoing thereafter as negotiations get under way. According to USTR, the ad hoc nature of these requests is due in part to USTR's varying needs for different agencies' involvement, depending on the topics being negotiated and the changing requirements over time.

USTR's reactive method for requesting staff from other agencies makes it difficult for their own resource planning. Commerce officials, for example, noted that the department had much less notice about FTA staffing needs than it did about the need for staff support during NAFTA negotiations. Agencies report that they were generally able to comply with USTR's requests but noted that the requests sometimes strained their resources. At times it was necessary for agencies to make trade-offs, if the same person was requested for concurrent negotiations, agency officials told us. According to Treasury officials, they have had to "perform triage" on some operations due to the heavy FTA workload. Other agencies also noted the burden of travel costs. Although agencies continue to respond to USTR's informal method of requesting resources, it is unclear how well this system will continue to function in light of the intensifying FTA agenda.

Conclusions

After selecting the first several FTA partners with limited interagency consultation, the administration has adopted a more rigorous and inclusive process to implement its FTA agenda. This framework for interagency discussions appears to be promoting fuller deliberations and wider involvement in the FTA partner selections. However, other management challenges remain. In particular, USTR and other agencies have reported that FTA negotiations are already straining available resources. Several steps have since been taken to deal with resource constraints associated with FTAs. However, present mechanisms still leave important gaps because they do not involve systematic data or interagency resource planning. As the United States sets its sights on more bilateral agreements, especially in light of the breakdown of the September 2003 Cancun negotiations, the importance of managing trade priorities at USTR and other trade agencies becomes increasingly significant. Managing resources, especially across diverse agencies, is paramount in meeting the competing demands of a complex and intensifying U.S. trade agenda.

Recommendation for Executive Action

In light of USTR's limited resources and management systems to track those resources, we recommend that the Office of the U.S. Trade Representative work with other key trade agencies to develop more systematic data and plans for allocating staff and resources across the full U.S. trade agenda, including FTAs and other negotiating priorities.

Agency Comments and Our Evaluation

We provided a draft of this report to the departments of State, Commerce, Agriculture, and the Treasury. State and Treasury did not provide comments. We received written comments on a draft of this report from the U.S. Trade Representative (see app. V). USTR, Commerce, and Agriculture also provided technical comments, which we incorporated in the report as appropriate.

In his response to our draft report, the Trade Representative emphasized the administration's competitive liberalization strategy and the role of FTAs in the strategy. He laid out the steps his office is taking to promote liberalized trade and described what the administration is doing in several regions throughout the world. He referred to resource pressures when he noted that his office is pressing forward with global, hemispheric, and five subregional or bilateral FTA negotiations simultaneously; while at the same time, USTR litigation activities have soared, with WTO disputes doubling over the last 5 years.

The Trade Representative agreed with us that the intensifying trade agenda requires continual management improvements at USTR and supporting agencies, and he acknowledged that increased pressures demand "nothing less than a transformation of USTR." However, he did not agree with our recommendation that USTR and other key trade agencies develop more systematic data and plans for allocating staff and resources across the full trade agenda. The Trade Representative wrote that our emphasis on a better allocation of staff and resources reflects an inaccurate assessment of how to allocate limited resources most effectively and efficiently.

According to the Trade Representative, the main cause of strain at USTR is the amount of available resources, not their allocation. The Trade Representative maintained that USTR must be "agile, flexible and adaptable—not bureaucratic." We believe that aligning goals and resources promotes the flexibility needed to respond to evolving circumstances. Our recommendation focuses on setting priorities among the multilateral, hemispheric, and FTA negotiations that take into account available staff. It also calls for coordinating those staff allocations with other agencies whose resources USTR routinely calls upon during the course of negotiations. Resource management fundamentally involves taking a given (and limited) amount of resources and deploying (allocating) it over program objectives aligned with the agency's overall priorities. This approach frees managers to focus on its core program, not on continually reacting to the daily fluctuations of resource needs.

The resources that USTR requested in fiscal year 2004 appear to have been justified based on its needs for completing the ongoing four FTAs (Australia, Morocco, CAFTA, and SACU). Since then, negotiations with the Dominican Republic, Bahrain, Panama, and the Andean countries have been announced. This increasing workload with its related demand for staff and travel can be better managed with (1) the collection of data to help managers understand what resources are linked to accomplishing agency objectives and (2) the use of these data in advance planning for future resource allocation, which can help USTR managers coordinate with other agencies whose own resources are affected by USTR negotiations. The Trade Representative listed several steps that USTR has taken to address its resource limitations. Although we recognize and encourage the steps that USTR has already taken to make improvements, we note that many of these efforts are already recognized in this report and are not sufficient to address our concerns for forward planning.

The Trade Representative pointed to the fact that we did not identify any "misallocation of funds." Solid data would permit sound conclusions about how federal funds are managed at USTR. The limited information that USTR and Commerce finally provided us had to be specially tabulated for this report because it is not routinely tracked. Our data show that FTAs involved considerable resources at both USTR and other agencies. Specifically, 37 percent of USTR travel funds were used for FTA-related travel in 2003, and 11 percent of USTR's staff were involved in each of the six FTAs completed or negotiated FTAs in 2003. These data also show that other agencies account, on average, for more than three-fourths of the members of U.S. FTA negotiating teams, which averaged 106 members. Thus, USTR and other agencies commit significant resources on trade initiatives that cover 8 percent of total U.S. trade.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to interested congressional committees, the U.S. Trade Representative, the Secretary of Commerce, the Secretary of the Treasury, the Secretary of State, and the Secretary of Agriculture. Copies will also be made available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me on (202) 512-4128. Other GAO contacts and staff acknowledgments are listed in appendix VI.

Loren Yager
Director, International Affairs and Trade

Objectives, Scope, and Methodology

Senator Max Baucus, Ranking Minority Member of the Senate Finance Committee, and Representative Calvin Dooley asked us to examine the factors and process used to make decisions regarding the selection of free trade agreement (FTA) negotiating partners and the allocation of negotiating resources. In response, we (1) provided information about the factors that influence the selection of FTA partners and described how they were developed; (2) analyzed the interagency process for selecting FTA partners, including how the Office of the U.S. Trade Representative (USTR) coordinates the views of key agencies and consults with the Congress and business and nongovernmental groups; and (3) assessed how the executive branch makes decisions regarding the availability and allocation of resources to FTAs and other trade priorities, such as the regional talks of the Free Trade Area of the Americas (FTAA) and the multilateral talks at the World Trade Organization (WTO).

To provide information about the factors that influence the selection of FTA partners and how they were developed, we reviewed pertinent documentation from key U.S. agencies involved in assessing potential FTA partners, such as USTR and the departments of State and Commerce. For example, we reviewed pertinent USTR documentation from 2000 to 2003 on FTAs, including public speeches, articles, and agency documentation on FTA partners. We also reviewed U.S. International Trade Commission documents on FTAs and Congressional Research Service reports on U.S. trade and FTAs. In addition, we interviewed knowledgeable officials at the key agencies involved in the process of assessing potential FTA partners. For instance, we interviewed the U.S. Trade Representative, the Deputy U.S. Trade Representative, and several assistant U.S. Trade Representatives; the Director of the Office of International Economics at the National Security Council (NSC); the Under Secretary for Economics, Business, and Agricultural Affairs at the Department of State; the Assistant Secretary for International Affairs at the Department of the Treasury; the Under Secretary of Farm and Foreign Agricultural Services at the Department of Agriculture; and the Under Secretary for International Trade at the Department of Commerce.

To analyze the interagency process for selecting FTA partners, including how USTR coordinates the views of key trade agencies and consults with the Congress and business and nongovernmental groups, we reviewed pertinent documentation from key U.S. agencies involved in the process of selecting FTA partners. For example, we reviewed USTR documentation from 2000 to 2003 on FTAs, including public speeches, articles, agency documents, records of contacts with the U.S. Congress, records of public hearings, and papers on FTA partners prepared for the consideration of the Trade Promotion Staff Committee and Trade Promotion Review Group. Also, we interviewed officials at the key agencies involved in the process of assessing potential FTA partners. For example, we interviewed the U.S. Trade Representative, the Deputy U.S. Trade Representative, and several assistant U.S. Trade Representatives; the Director of the Office of International Economics at the NSC; the Under Secretary for Economics, Business, and Agricultural Affairs at the Department of State; the Assistant Secretary for International Affairs at the Department of the Treasury; the Under Secretary of Farm and Foreign Agricultural Services at the Department of Agriculture; and the Under Secretary for International Trade at the Department of Commerce. In addition, we obtained information from business and nongovernmental organizations, including the U.S. Chamber of Commerce, the Washington Office on Latin America, Oxfam America, Public Citizen, World Vision, and the Center for International Environmental Law.

To assess how decisions are made regarding the availability and allocation of resources to FTAs and other trade priorities, we reviewed pertinent documentation from key U.S. agencies involved in assessing FTA partners, such as USTR and State and Commerce. For example, we reviewed USTR documentation from 2000 to 2003 on FTAs, including papers on potential FTA partners, lists of FTA negotiating teams, and budget and personnel-related data. Because negotiating lists were not complete for four of the negotiations, we asked USTR to provide summary numbers of the participating agencies. For the other two negotiations, we did our own analysis of agency staffing based on the negotiating lists provided by USTR. As noted in the text, these data merely identify the number of individuals involved and do not necessarily reflect staff effort. We determined that USTR data were sufficiently reliable for purposes of our assessment, even though, as our recommendation indicates, we determined that these data are not sufficiently robust for agency decision making and should be improved. Moreover, we interviewed knowledgeable officials at the key agencies involved in the process of assessing potential FTA partners. For instance, we interviewed the U.S. Trade Representative, the Deputy U.S. Trade Representative, and several assistant U.S. Trade Representatives; the Director of the Office of International Economics at the NSC; the Under Secretary for Economics, Business, and Agricultural Affairs at the Department of State; the Assistant Secretary for International Affairs at the Department of the Treasury; the Under Secretary of Farm and Foreign Agricultural Services at the Department of Agriculture; and the Under Secretary for International Trade at the Department of Commerce.

Despite repeated requests to the NSC, we were unable to obtain key documents from the February 2002 and May 2003 meetings that provided guidance to the interagency efforts to formalize the criteria and enhance the process for developing recommendations to the President for selecting potential FTA partners.

We conducted our review from June to November 2003 in accordance with generally accepted government auditing standards.

European Union and United States Free Trade Agreements, by Region

The Americas

FTAs	Canada	Chile	Colombia	Costa Rica	Dominican Republic	El Salvador	Guatemala	Honduras	MERCOSUR	Mexico	Nicaragua
Current United States FTAs	●	●								●	
Future United States FTAs (under negotiation)				○	○	○	○	○			○
Current European Union FTAs		●								●	
Future European Union FTAs (under negotiation)									○		

Africa

FTAs	Botswana	Lesotho	Namibia	South Africa	Swaziland
Current United States FTAs					
Future United States FTAs (under negotiation)	○	○	○	○	○
Current European Union FTAs				●	
Future European Union FTAs (under negotiation)					

Middle East/North Africa

FTAs	Algeria	Bahrain	Egypt	GCC	Israel	Jordan	Lebanon	Morocco	Palestinian Authority	Syria	Tunisia
Current United States FTAs					●	●					
Future United States FTAs (under negotiation)		○						○			
Current European Union FTAs	●		●		●	●	●	●	●		●
Future European Union FTAs (under negotiation)				○						○	

Europe

FTAs	Bulgaria	Croatia	Czech Republic	Estonia	Faroe Islands	FYROM	Hungary	Iceland	Latvia	Liechtenstein	Lithuania	Norway	Poland	Romania	Slovak Republic	Slovenia	Switzerland
Current United States FTAs																	
Future United States FTAs (under negotiation)																	
Current European Union FTAs	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Future European Union FTAs (under negotiation)																	

Asia/Pacific and Misc.

FTAs	Australia (Asia/Pacific)	Singapore (Asia/Pacific)	Overseas countries and territories (EU) (Misc.)
Current United States FTAs		●	
Future United States FTAs (under negotiation)	○		
Current European Union FTAs			●
Future European Union FTAs (under negotiation)			

● Current FTA partner
○ Future FTA partner

FTA	Free Trade Agreement
FYROM	Former Yugoslav Republic of Macedonia
GCC	Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates)
MERCOSUR	Common Market of the South (members: Argentina, Brazil, Paraguay, and Uruguay)
Overseas countries and territories (European Union)	Greenland, New Caledonia, French Polynesia, French Southern and Antarctic Territories, Wallis and Futuna Islands, Mayotte, Saint Pierre and Miquelon, Aruba, Netherlands Antilles, Anguilla, Cayman Islands, Falkland Islands, South Georgia and South Sandwich Islands, Montserrat, Pitcairn, Saint Helena, Ascension Island, Tristan da Cunha, Turks and Caicos Islands, British Antarctic Territory, British Indian Ocean Territory, and the British Virgin Islands

Source: GAO.

U.S. Trade with Potential and Existing FTA Partners

The following table presents trade data that describe the percentage and amount of total U.S. trade with current and potential FTA partners, as well as with non-FTA countries.

Table 4: U.S. Trade with Potential and Existing FTA Partners, 2002

Dollars in millions

U.S. trading partners	Percentage of total trade	Total trade (exports+imports)	Total exports (goods+services)	Total imports (goods+services)
Potential FTA partners				
FTAA (excluding the North American Free Trade Agreement (NAFTA) and Chile)	5.25	$119,135	$53,119	$66,017
Andean	0.71	16,075	6,464	9,611
Bolivia	0.02	342	182	160
Colombia	0.38	8,727	3,345	5,382
Ecuador	0.16	3,612	1,496	2,116
Peru	0.15	3,394	1,441	1,953
Central American Free Trade Agreement (CAFTA)	0.94	21,269	9,423	11,846
Costa Rica	0.27	6,038	2,891	3,146
El Salvador	0.16	3,583	1,608	1,976
Guatemala	0.21	4,761	1,976	2,785
Honduras	0.26	5,786	2,524	3,262
Nicaragua	0.05	1,101	423	677
Dominican Republic	0.36	8,276	4,109	4,167
Panama	0.07	1,594	1,299	295
Remaining FTAA	3.17	71,921	31,825	40,097
Southern African Customs Union (SACU)	0.41	9,215	3,674	5,541
Botswana	0.00	61	32	30
Lesotho	0.01	323	2	321
Namibia	0.00	111	54	57
South Africa	0.38	8,594	3,576	5,018
Swaziland	0.01	126	11	114
Australia	1.18	26,830	17,496	9,334
Bahrain	0.04	803	407	395
Morocco	0.04	970	560	410
Thailand	0.94	21,221	5,615	15,606
Subtotal	**7.85**	**$178,174**	**$80,872**	**$97,302**

(Continued From Previous Page)

Dollars in millions

U.S. trading partners	Percentage of total trade	Total trade (exports+imports)	Total exports (goods+services)	Total imports (goods+services)
Existing FTA partners				
NAFTA	28.33	$642,934	$268,815	$374,119
Canada	17.44	395,769	166,837	228,932
Mexico	10.89	247,165	101,978	145,187
Chile	0.34	7,777	3,499	4,278
Israel	0.95	21,587	7,567	14,020
Jordan	0.04	809	397	412
Singapore	1.62	36,670	20,484	16,186
Subtotal	**31.28**	**$709,777**	**$300,762**	**$409,015**
Trade with non-FTA countries	**60.87**	**$1,381,187**	**$527,460**	**$853,728**
Total U.S. Trade (all countries)	**100.00**	**$2,269,138**	**$909,094**	**$1,360,045**

Source: Commerce.

Notes:

Imports are imports for consumption at customs value; and exports are domestic exports at free-alongside-value. Detailed 2002 services data by country are available only for Argentina, Australia, Brazil, Canada, Chile, Israel, Mexico, Venezuela, Singapore, South Africa, and Thailand.

“Remaining FTAA countries” are Antigua and Barbuda, Argentina, the Bahamas, Barbados, Belize, Brazil, Dominica, Grenada, Guyana, Haiti, Jamaica, Paraguay, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.

Excluding the FTAA negotiation, the current FTA negotiating partners (CAFTA, SACU, Morocco, Australia, the Dominican Republic, Bahrain, Thailand, Panama, and the Andean countries) collectively account for about 4.7 percent of total U.S. trade. Of these nine partners, Australia contributes almost 1.2 percent, or about 25 percent of their combined trade. Chile and Singapore account for another 2.0 percent of U.S. trade. In contrast, NAFTA brought together the U.S.’s top two trading partners (Canada and Mexico), representing about 28 percent of total U.S. trade. Completing the FTAA negotiations would bring an additional 3.0 percent of total trade under FTA disciplines.

Selected U.S. Free Trade Agreement Partner Profiles

In this appendix, we describe the background, considerations in FTA partner selection, milestones, features, concerns, and FTA partner participation for six countries with which the United States has or intends to have FTAs. We also describe those components for two regional entities—CAFTA and SACU.

U.S.-Australia FTA

Background

The United States and Australia are among the world's most open economies. Both countries are prominent supporters of trade liberalization and have maintained a stable commercial relationship, having brought only a few dispute resolution cases against each other in the WTO. In 2002, Australia accounted for more than $13 billion in U.S. exports. Total two-way trade between the United States and Australia was almost $20 billion in that year as well. The United States and Australia have signed two bilateral agreements—the settlement on leather products trade in 1996 and the understanding on automotive leather subsidies in 2000. For several years, Australian officials told U.S. policy makers about Australia's interest in an FTA with the United States. The current Prime Minister also raised this matter in meetings with President Bush. Until recently, though, the Bush administration had expressed interest but had not committed to begin negotiations. However, the FTA negotiations between the United States and Australia are starting from a strong base, given the similarity of the structure of their economies and the compatibility of their trade policies.

Considerations in FTA Partner Selection

USTR highlighted several reasons why Australia was selected as an FTA partner in 2002. First, two-way trade between the United States and Australia grew significantly in the past decade. In 2002, the United States exported $13.1 billion to Australia, the 13th largest destination of U.S. exports. It also imported $6.5 billion from Australia, the 28th largest source of U.S. imports. Second, the increased U.S. access to Australia's market made possible by an FTA would further boost trade in both goods and services, enhancing employment opportunities in both countries. Third, an FTA would encourage additional foreign investment between the United States and Australia, adding to the many jobs that the significant investment flows between the two countries currently support. Fourth, an FTA would result in greater business integration, especially in the information technology sector, increasing efficiency and the competitiveness of the U.S. industry. Overall, U.S. manufacturers and services providers support these FTA negotiations. Finally, an FTA would address barriers that U.S. exports to Australia face today, including Australia's use of sanitary and phytosanitary measures as a means of restricting agricultural trade.

FTA Milestones

In November 2002, USTR notified the Congress that the United States intended to enter into FTA negotiations with Australia in at least 90 days. In February 2003, the United States and Australia started the first of six planned negotiating rounds. The United States and Australia had intended to complete the negotiations by the end of 2003, but negotiations will continue into 2004.

FTA Features

The WTO requires that an FTA, at a minimum, substantially eliminate tariffs and other restrictions on mutually traded goods and services. However, the U.S.-Australia FTA is likely to be more comprehensive given the broad negotiating objectives that the governments have announced will cover agriculture, industry, and services issues. The U.S.-Australia FTA will negotiate 20 broad, trade-related issues, including market access for goods, agriculture, textiles, rules of origin, customs administration, sanitary and phytosanitary measures, technical barriers to trade, trade remedies, services, investment, telecommunications, financial services, competition policy, government procurement, electronic commerce, intellectual property, labor, environment, transparency, and institutional arrangements and dispute settlement. USTR leads the U.S. delegation with other delegation members, including the NSC; the departments of State, Commerce, Agriculture, Labor, Justice and the Treasury; the Environmental Protection Agency; and the Federal Trade Commission.

FTA Concerns

The United States and Australia have a firm trade relationship, and their tariffs on most products are already very low. Therefore, critical issues in the FTA negotiations will be nontariff barriers and other issues. According to trade policy experts, agricultural issues will be the greatest challenge during these negotiations. For example, agriculture accounted for only 2.2 percent of U.S. exports to Australia but for 29.2 percent of U.S. imports from Australia in 2002. Some in the U.S. agricultural community oppose the negotiations. The most recent round of negotiations took place in

October 2003. Each side has presented its own proposals and raised concerns regarding agricultural issues.

Australia takes issue with U.S. tariff-rate quotas on dairy products, sugar, beef, and many other products. Australia announced that it would seek the removal of these quotas during the FTA negotiations. Government-run commodity boards control Australian exports of wheat and rice. Because these boards restrict U.S. exports, the United States has targeted them for removal during the FTA negotiations. Separately, the United States has also targeted specific Australian sanitary and phytosanitary measures because they are highly restrictive and have adversely affected U.S. exports of citrus, apples, pears, corn, stone fruit, chicken, and pork. These bilateral discussions are proceeding on a parallel track to resolve the sanitary and phytosanitary issues between the United States and Australia.

Because all foreign investment in Australia is subject to government screening and approval, the United States has noted Australia does not conform to the principle of national treatment—that is, treating foreign investors no less favorably than domestic investors. As a result, the United States will seek the elimination or reduction of these trade-distorting investment measures.

Even after resolving these irritants, U.S. officials are concerned that, after the implementation of this FTA, the United States may face many disputes on agricultural matters and other issues with Australia, one of its closest allies.

FTA Partner Participation in Other Trade Agreements

Australia is a WTO member and has had FTAs with New Zealand since 1966 and with Singapore since 2003. Australia and the United States are founding members of the Asian-Pacific Economic Cooperation (APEC) forum, an organization of 21 countries that has established the goal of free trade and investment in that region by 2020.

U.S.-Bahrain FTA

Background

Bahrain is an emerging regional financial center in the Persian Gulf region. The United States has been holding talks on economic policy with the Gulf Cooperation Council (GCC), of which Bahrain is a member, through the U.S.-GCC Economic Dialogue. In 2001, the United States and Bahrain signed a bilateral investment treaty. On June 18, 2002, the two countries signed a Trade and Investment Framework Agreement, which enabled the United States to increase its engagement with Bahrain on economic reforms and on bilateral trade and investment issues.

Considerations in FTA Partner Selection

USTR emphasized several reasons for selecting Bahrain as an FTA partner. First, an FTA with Bahrain would support U.S. security and political goals by increasing prosperity and globalization in the region. Second, the executive branch views the U.S.-Bahrain FTA as a stepping-stone to an eventual Middle East Free Trade Area (MEFTA). Bahrain could become the hub of a subregional block of countries that might develop closer and more open trading relationships with the United States. Third, Bahrain has been an important U.S. ally in the region. Fourth, USTR emphasized Bahrain's readiness to undertake an FTA with the United States, particularly in comparison with other states in the Persian Gulf region. U.S. officials emphasized the commitment among the highest levels of the Bahraini government to make strong economic and political reforms to facilitate trade. Bahrain made economic reforms in areas such as property rights and copyright laws and is an emerging regional financial center. The country also made political reforms, such as strengthening its parliament. According to USTR officials, an FTA could be completed relatively quickly with Bahrain because of its small size and reform-minded outlook. Finally, USTR officials emphasized that an FTA with Bahrain would generate opportunities for U.S. business.

FTA Milestones

In January 2003, the King of Bahrain raised the idea of an FTA in a meeting with President Bush. In May 2003, the USTR met with the Bahraini Crown Prince and announced the executive branch's plans for negotiating an FTA with Bahrain. On August 4, 2003, USTR notified the Congress of the administration's intent to initiate negotiations for an FTA with Bahrain. The target date for beginning negotiations is January 2004.

FTA Features

The U.S.-Bahrain FTA is expected to be a key part of the U.S.-MEFTA that the United States is supporting to address the related problems of terrorism and poverty in the region. According to the World Bank, unemployment in the Middle East is estimated conservatively at around 15 percent, and the labor force could expand by as much as 40 percent in the next 10 years. In addition, USTR notes that the region has extremely low rates of internal trade. The United States hopes that MEFTA could encourage economic reforms that would spur investment and increase opportunities in the region. In Jordan, for example, which signed an FTA with the U.S. in 2001, exports to the United States grew by 72 percent in 2002, and the United States is now Jordan's biggest trading partner. USTR has outlined a step-by-step approach to building a MEFTA that takes into account the different developmental and economic levels of the countries in the region. These steps include supporting the potential partner country's membership in the WTO; expanding the Generalized System of Preferences (GSP) Program[1] to increase U.S. trade with the Middle East; signing bilateral investment treaties, trade and investment framework agreements, and ultimately FTAs; and providing financial and technical assistance for trade capacity-building. The President's Middle East Partnership Initiative will help direct more than $1 billion per year from U.S. government agencies to support trade in the Middle East.

FTA Concerns

Despite Bahrain's and the U.S.'s interest in establishing an FTA, the U.S. government officials with whom we spoke described regional influences that may serve as potential obstacles to countries in the Persian Gulf region that would like to make progress on trade with the United States.

FTA Partner Participation in Other Trade Agreements

Bahrain is a member of the GCC customs union, which is still developing its trade rules. In 1989, the European Commission and the GCC signed a Cooperative Agreement that contains a commitment from both sides to enter into FTA negotiations. The two entities are now actively pursuing FTA talks.

[1]The GSP program is a unilateral program that extends duty-free entry of certain imports from developing countries.

U.S.-Chile FTA

Background

Preceding the U.S.-Chile FTA negotiations, which began in December 2000, Chile undertook political and economic reforms. These reforms positioned the country to implement a comprehensive trade agreement. Before the negotiations, Chile deregulated and restructured its economy and opened its trade ties to industrial countries. For example, in 1994 Chile reacted positively to the possibility of becoming a party to NAFTA but negotiations ceased, due in part to the expiration of the U.S. President's fast-track negotiating authority.[2] However, the Congress did not grant the President such authority for 8 years; with this delay, the accession of Chile to NAFTA did not occur. Despite this delay, the U.S.-Chile Joint Commission on Trade and Investment was founded on the occasion of President Clinton's visit to Chile in 1998. The commission established a work program to address a variety of bilateral trade and investment issues and facilitated the exchange of trade information. Thus, both countries were prepared to negotiate a comprehensive FTA when the negotiations began.

Considerations in FTA Partner Selection

A variety of factors may have contributed to the U.S.'s decision to initiate an FTA with Chile. First, U.S. exports faced a 6 percent Chilean tariff, while exports from Chile's existing FTA partners entered the Chilean market duty-free. Chile had therefore reduced its purchases of U.S. exports by almost one-third from $4.38 billion in 1997 to $3.13 billion in 2001 in favor of relatively cheaper goods from its FTA partners. An FTA with Chile provided the opportunity to reduce this tariff that had disadvantaged U.S. exports. USTR noted that the FTA would ensure that U.S. businesses and investors received treatment equal to or better than Chile's other FTA partners. Second, Chile adopted economic reforms, such as the elimination of price controls and the privatization of state-owned enterprises, that signaled that Chile was willing to implement a mutually beneficial FTA by solidifying these reforms. Finally, through FTA negotiations, the United States hoped to build Chile's support for important issues in the FTAA negotiations. For example, the U.S.-Chile FTA

[2] Although the Congress granted the President the authority to negotiate trade agreements with expedited implementation procedures, known as Fast Track, almost continuously since 1974, this authority lapsed in 1994. Similar authority was reauthorized under the Trade Act of 2002.

negotiations better defined key negotiating issues in areas such as labor and the environment and demonstrated to other countries participating in the FTAA negotiations the U.S.'s interest in furthering trade liberalization.

FTA Milestones

On November 29, 2000, the Clinton administration announced its intention to negotiate a comprehensive FTA with Chile. Negotiations began on December 6, after U.S. and Chilean officials agreed on the initial list of topics to be discussed and the organization of negotiating groups. During the negotiations, and following the change in U.S. administration, the U.S. and the Chilean presidents declared their intention on April 16, 2001, to complete the agreement by the end of that year with meetings scheduled to occur approximately once a month through the end of 2001. However, due to the complexities of some trade topics, the negotiations would require an additional year and would include 14 negotiating rounds. Following the completion of these negotiating rounds, on December 11, 2002, USTR announced that an agreement had been reached. On June 6, 2003, USTR and the Chilean Foreign Minister signed the agreement. USTR then submitted draft FTA implementing bills to the Congress on July 15, 2003. The House of Representatives and the Senate passed the U.S.-Chile Free Trade Implementation Act on July 24 and July 31, 2003, respectively. President Bush signed the act on September 3, 2003. USTR expects the FTA to be implemented on or after January 1, 2004.

FTA Features

The FTA is comprehensive in its treatment of industrial and agricultural products and, according to USTR, provides a template to demonstrate to other FTA partners the U.S.'s high expectations with regard to the scope of FTAs. For example, the negotiations encompassed trade in all goods, with approximately 85 percent of U.S.-Chilean trade in industrial and commercial goods becoming duty-free upon the agreement's implementation. In addition, 75 percent of trade in agricultural products will become duty-free during the first 4 years following implementation. The FTA will also increase each country's market access to a wide range of services.

FTA Concerns

Some Members of Congress and certain nongovernmental organizations have expressed concern about the use of the U.S.-Chile FTA as a model for negotiations with other FTA partners, particularly with regard to the agreement's provisions concerning labor standards and the temporary entry of professionals. For example, certain Members and labor interests have argued that the FTA's labor provisions may be adequate for countries, such as Chile, that maintain stringent labor standards but such provisions may not be as appropriate for other countries that have not maintained or enforced strong labor laws. In addition, certain Members have raised concern with regard to the FTA's provisions facilitating the entry of professionals, stating that such provisions touch upon immigration laws that are within the purview of the Congress and should not be amended through trade agreements.

FTA Partner Participation in Other Trade Agreements

Successive Chilean governments have pursued trade liberalization strategies and export-oriented development policies, resulting in FTAs with Canada in 1997; Mexico in 1999; Central America and the European Union in 2002; and South Korea in 2003. In addition, Chile signed economic complementation agreements with Argentina in 1992; Venezuela, Colombia, and Bolivia in 1993; Ecuador in 1994; and Peru in 1998. Chile has also enacted an association agreement with the member countries of the Southern Common Market in October 1996. Finally, Chile joined the APEC organization in 1992 to boost commercial ties to Asian markets and is currently involved in negotiations for an FTAA in the western hemisphere.

U.S.-Dominican Republic FTA

Background

The Dominican Republic is the largest economy in the Caribbean Basin region. The trading relationship between the United States and the Dominican Republic has been shaped by the Caribbean Basin Initiative, which is a series of U.S. laws and programs beginning in 1983 that established unilateral U.S. trade preferences for goods from the Dominican Republic and 23 other countries in the region. In October 2002, the two countries held their first meeting under the U.S.-Dominican Republic Trade and Investment Council to deepen trade relations. When the United States began pursuing an FTA with the five Central American countries in 2002, the Dominican Republic expressed concern that it would suffer adverse economic consequences if it were not also included in the agreement. However, the United States did not support the request, in part because it did not believe the Dominican Republic had exhibited sufficient commitment to negotiate and implement a comprehensive FTA with high-levels of commitment. In response, the Dominican government took steps to address some problematic issues, and aligned themselves more with the United States in multilateral trade forums.

Considerations in FTA Partner Selection

According to USTR officials, the Dominican Republic was the first FTA partner that was selected under the new interagency process established in May 2003. USTR has emphasized several reasons for the selection of the Dominican Republic as an FTA partner. First, according to USTR, an FTA with the Dominican Republic would help support the broader U.S. trade strategy of competitive liberalization because the Dominican Republic would continue to uphold U.S. positions in the WTO and FTAA negotiations. Second, the FTA could bring economic and commercial benefits to the United States by increasing market access and creating more jobs. The Dominican Republic is the largest U.S. trading partner in the Caribbean, and USTR has described the country as an economic engine in the region. The combined markets of the Dominican Republic and the CAFTA countries would be larger than Brazil and would become the second-largest U.S. trading partner in Latin America. Third, the Dominican Republic was selected because the FTA would support U.S. efforts to strengthen democracy and the rule of law. For example, the United States plans to push for the inclusion of strong anticorruption and transparency requirements in the agreement. Fourth, the Congress has instructed the executive branch through the Caribbean Basin Initiative to enter into mutually advantageous FTAs with countries included in this initiative.[3] Fifth, there appears to be broad bipartisan support in the Congress for this FTA. Sixth, the Dominican Republic has made clear progress in terms of its readiness to negotiate an FTA with the United States, according to USTR. For example, the Dominican government familiarized itself with the U.S.-Chile FTA and improved its protections of intellectual property rights, including satellite broadcasts and antipiracy provisions, in response to U.S. concerns. According to USTR, there is a clear willingness at the highest levels of the Dominican government to meet U.S. requirements for FTA

[3]The Caribbean Basin Initiative collectively refers to the Caribbean Basin Economic Recovery Act of 1983, the Caribbean Basin Economic Recovery Expansion Act of 1990, and the U.S.-Caribbean Basin Trade Partnership Act of 2000. The countries include Antigua, Aruba, the Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

partners. Seventh, there is strong support for an FTA among U.S. industry and agricultural exporters, including from such groups as the U.S. Chamber of Commerce.

FTA Milestones

The Dominican President met with President Bush in July 2002 to request an FTA with the United States. In a joint statement issued at a March 2003 meeting of the U.S.-Dominican Republic Trade and Investment Council, the United States acknowledged the steps that the Dominican Republic had taken so far to improve its trade policy and stated its willingness to consider adding the Dominican Republic to CAFTA. On August 4, 2003, following a meeting with the Congressional Oversight Group, the Trade Representative formally notified the Congress of the executive branch's intent to initiate FTA negotiations with the Dominican Republic. The target date for starting negotiations is January 2004. USTR hopes to conclude negotiations in March 2004.

FTA Features

USTR plans to integrate the Dominican Republic into the FTA it is already negotiating with five Central American countries. Officials will propose that the Dominican Republic accede to the framework of CAFTA as it is being discussed, after which the talks will focus on market access issues. USTR hopes to present the Congress with one agreement for CAFTA countries and the Dominican Republic.

FTA Concerns

Given the short time frame, integrating the Dominican Republic may be challenging. In fall 2003, USTR is to consult with the Dominicans about the Chile and Singapore FTAs to explore the extent of Dominican support in adopting provisions similar to those in these agreements.

Other concerns involve the State Department's identification of the Dominican Republic as a country that does not fully comply with minimum standards in the trafficking of persons.

FTA Partner Participation in Other Trade Agreements

The Dominican Republic has FTAs with the Caribbean Community (CARICOM)[4] and the Central American countries.

U.S.-Morocco FTA

Background

Morocco is a U.S. ally in the war against terrorism and a long-time democratic partner in the Arab world. The U.S.-Morocco Bilateral Investment Treaty, signed in 1991, provided protections to U.S. investors in Morocco. In 1995, the United States signed a trade and investment framework agreement with Morocco to promote freer trade, increased investment, and stronger economic ties between the two countries. Moreover, the 2001 "open skies" agreement between the United States and Morocco supported increased air passenger and cargo links between the two countries. According to USTR, Moroccan supporters of an FTA with the United States cited the benefits that Jordan attained after it signed an FTA in 2001 as a reason for desiring a U.S.-Morocco FTA.

Considerations in FTA Partner Selection

USTR emphasized several reasons for selecting Morocco as an FTA partner. First, USTR officials noted that a trade agreement with Morocco would further the executive branch's goal of promoting openness, tolerance, and economic growth across the Muslim world. Second, Morocco has been a staunch ally in the war against terrorism. Third, the agreement would ensure stronger Moroccan support for U.S. positions in the WTO negotiations. Fourth, according to USTR, an FTA with the United States would enable Morocco to strengthen its economic and political reforms, such as its recent program to liberalize and privatize key sectors, and help promote sustainable development and environmental protection. The FTA would emphasize transparency, which would help make Morocco's government institutions more accountable. Fifth, the United States is expected to benefit economically from an FTA with Morocco because the agreement would eliminate tariffs and other unjustified barriers to trade between the two countries. Morocco currently taxes U.S. products at an

[4]CARICOM members include Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Surinam, and Trinidad and Tobago.

average of 20 percent, while the United States only poses a 4 percent tariff on Moroccan products. A U.S.-Morocco FTA would also help protect U.S. investments in Morocco and level the playing field with the European Union, with which Morocco has an association agreement. Growth prospects for U.S. products and services, such as energy and tourism, also exist. Finally, USTR officials noted that Moroccan negotiators were well prepared to undertake FTA negotiations with the United States because they had studied the U.S.-Jordan FTA.

FTA Milestones

On April 23, 2002, President Bush and the Moroccan King announced that their two countries would seek an FTA. USTR notified the Congress of its intent to negotiate an FTA with Morocco on October 1, 2002. On November 21, 2002, USTR convened a public hearing on the U.S.-Morocco FTA. Negotiations started on January 21, 2003. On July 22, 2003, four U.S. legislators announced the creation of the Moroccan Caucus, whose purpose is to support increased trade and stronger ties between the United States and Morocco. Because the target date for completing negotiations of December 2003 was not met, negotiations will continue in 2004.

FTA Features

The executive branch views the U.S.-Morocco FTA as a key to underpinning the President's broader Middle East trade strategy. The agreement builds upon the FTAs with Jordan and Israel and might serve as a model for other North African and Middle Eastern countries interested in increased trade. U.S. executive branch officials hope that Morocco will become a hub for subregional integration and in turn serve as one of several subregional centers that could be built into a MEFTA.

The U.S. Agency for International Development will provide assistance for trade capacity-building programs to help Morocco meet the obligations involved in signing and implementing an FTA with the United States. The United States will also provide technical assistance in areas such as agriculture sector reform, which are likely to be sensitive. U.S. assistance will also focus on civil society and business groups in order to strengthen public input to the negotiating process and maximize the benefits of an FTA for Morocco. The U.S. Agency for International Development estimates that these activities will cost between $40 million and $48 million over 5 years.

FTA Concerns

Morocco may face complex decisions in its agricultural sector, which employs 40 percent of Morocco's workforce.

FTA Partner Participation in Other Trade Agreements

Morocco signed the Euro-Mediterranean Association Agreement with the European Union in 1996. As part of the Barcelona Process, which envisions a free trade zone stretching across Europe and in North Africa by 2010, Morocco has signed FTAs with several other North African countries. According to USTR, agriculture was generally excluded from the association agreement with the European Union, and U.S. exporters could gain significant advantages under an FTA with Morocco.

U.S.-Singapore FTA

Background

Singapore has been a long-time proponent of trade liberalization. However, a U.S. trade official noted that the announcement of the intention to negotiate a U.S.-Singapore FTA at the APEC conference in November 2000 was unexpected, but the selection was based on the Clinton administration's interest in completing an FTA with a relatively large trading partner that maintained an open economy. In addition, as Singapore's economy did not include many sectors sensitive to U.S. producers, the Clinton administration hoped to conclude the FTA quickly, while establishing a model for future FTAs.

Considerations in FTA Partner Selection

The negotiation of a U.S.-Singapore FTA in 2000 may have been motivated by various factors. First, an FTA with Singapore furthered the Clinton administration's emphasis on access to big emerging markets. The year negotiations began, Singapore was the 10th largest U.S. trading partner, and the value of U.S.-Singapore trade had doubled since the early 1990s, according to Commerce. In addition, many U.S. corporations invest in Singapore as a regional base for exports and production, thereby making the United States the largest foreign investor in Singapore. Second, an FTA with Singapore is the first such agreement between the United States and an Asian country, and this agreement offered an opportunity to strengthen U.S. relations with a region experiencing economic integration and expanding trade. For example, as Singapore has undertaken efforts to liberalize trade and attract multinational corporations, USTR noted that this FTA may serve as a foundation for the Enterprise for ASEAN Initiative.[5] Third, both countries maintain mutual security interests, and since 1992 the U.S. military has had access to facilities in Singapore, which facilitates military deployments to strategic locations. In addition, Singapore has supported the U.S. military's continued presence and opposes any ASEAN defense arrangements that might withdraw U.S. armed forces from Asia. Fourth, the Congress and the U.S. business community undertook efforts to support an FTA with Singapore. For example, before the negotiations, legislation was introduced in the Congress that would have authorized the President to enter into an FTA with Singapore and would have provided for expedited congressional consideration of the agreement. Business support included a 1999 visit to Singapore by 22 U.S. business executives to discuss with the Singaporean Prime Minister the possibility of establishing an FTA and strengthening U.S.-Singapore ties.

FTA Milestones

President Clinton and the Prime Minister of Singapore announced an agreement to negotiate an FTA during the APEC conference in November 2000. Negotiations then began under the Clinton administration in December 2000 and concluded under the Bush administration in November 2002. Following 11 rounds, USTR announced on January 15, 2003, that agreement had been reached; on January 30, 2003, the executive branch notified the Congress of its intent to sign the FTA. President Bush and the Singaporean Prime Minister signed the agreement on May 6, 2003. USTR sent the draft FTA implementing legislation to the Congress in June 2003, and the House and Senate passed the legislation on July 24 and July 31, 2003, respectively. President Bush signed the FTA implementing legislation on September 3, 2003. January 1, 2004, is the scheduled date for the FTA's implementation.

FTA Features

Preceding the FTA negotiations, the United States and Singapore had signed a Trade and Investment Framework Agreement, and 99 percent of U.S. exports already entered Singapore duty-free. In addition, both countries have maintained relatively open investment regimes. Thus, the FTA is expected to have relatively little impact on U.S. exports, and the elimination of nontariff barriers will provide the majority of benefits.

[5] In October 2002, President Bush announced the Enterprise for ASEAN Initiative, which is a new trade initiative to establish a network of bilateral FTAs with those ASEAN member countries that are committed to enacting economic reforms and maintaining openness.

However, USTR has commented that the FTA serves as a model for future FTAs due to its comprehensive scope and the inclusion of commitments not covered in earlier FTAs. For example, according to USTR officials, the text of the U.S.-Singapore FTA has served as a template to demonstrate to future FTA partners the comprehensive scope that the United States expects in FTAs.

FTA Concerns

Certain Members of Congress and some labor and environmental groups have expressed concern over (1) the possible impact of the U.S.-Singapore FTA and (2) the use of the FTA as a template for other agreements. Specific concerns include the potential threat to U.S. producers in import-competing sectors, such as U.S. manufacturers of electronic equipment and other machinery, and the possible negative environmental effects, such as increased pollution from industrialization. In addition, certain Members have also expressed concern about some of the agreement's provisions, including those relating to the temporary entry of professionals, which they say impinge on U.S. immigration law without congressional input, and the agreement's Integrated Sourcing Initiative, which some Members claimed expands trade benefits under the U.S.-Singapore FTA to territories outside of Singapore, although these territories have not assumed key obligations that the Congress has insisted should be included in FTAs.[6]

FTA Partner Participation in Other Trade Agreements

Singapore is party to many preferential trade agreements, with the majority of these agreements only recently implemented. For example, while Singapore has been a member of the ASEAN Free Trade Area since 1992, only since January 2001 has Singapore entered into an FTA with New Zealand. In addition, in January 2002, Singapore concluded an FTA with Japan, which excludes agricultural products; effective January 2003, Singapore implemented an FTA with the European Free Trade Association. In February 2003, Singapore signed an FTA with Australia and has been negotiating FTAs with Mexico and Canada since 2000 and 2001,

[6]For a limited number of information technology products and medical devices that already are duty-free in the United States and Singapore, the Integrated Sourcing Initiative eliminates the requirement that these products meet specific "rules of origin" when shipped between the United States and Singapore. This customs procedure is streamlined and the burden on the importer is reduced, with respect to completing certification paperwork or paying merchandise processing fees.

respectively. In addition, a study group was established in November 2002 to explore a possible FTA between Singapore and South Korea.

U.S.-CAFTA FTA

Background

Since the late 1980s, the countries of Central America have been moving from civil conflict toward peace and democracy. The U.S.-Central American trading relationship has been shaped by the Caribbean Basin Initiative, which promotes economic growth in the region through a series of unilateral U.S. trade preferences for 24 countries. President Clinton stressed the commitment of the United States to expanding trade between the United States and Central America at a 1997 summit with leaders from Central America and the Dominican Republic. President Bush has continued the push for increased free trade with Central America.

Considerations in FTA Partner Selection

USTR emphasized several reasons why the CAFTA countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) were selected as FTA partners. First, CAFTA would help lock in and broaden the economic and political reforms made in these countries throughout the 1990s. For example, elements of the FTA that require increased transparency could help counter corruption and support government accountability in the CAFTA countries. Second, pursuing an FTA with the CAFTA countries would complement U.S. goals in the FTAA and the WTO, particularly given the support of CAFTA countries for U.S. negotiating positions. The agreement would also support the ongoing economic integration of the region. Third, an FTA would enable the United States to address market access barriers in the CAFTA countries and thus promote U.S. exports to the region and increase U.S. access to more affordable goods. Under the Caribbean Basin Initiative, U.S. tariffs on Central American goods are already low, with 74 percent of CAFTA country imports entering the United States duty-free in 2002. An FTA would enable the United States and the CAFTA countries to have reciprocal tariff levels and would remove the requirement that Caribbean Basin Initiative preferences be reviewed every year. A fourth reason for the selection is country readiness. The CAFTA countries are familiar with U.S. approaches to trade because they have concluded a NAFTA-like agreement with Mexico in 2000. Fifth, the Congress has instructed the executive branch through the Caribbean Basin Initiative to enter into mutually advantageous FTAs with Central American countries. Finally, the U.S. business community is interested in the potential gains they could see from CAFTA. Some 40 percent of total goods imported by Latin America come from the United States, thereby making the region an important market for some U.S. sectors.

FTA Milestones

In September 2001, the Bush administration held talks on free trade with the CAFTA countries. In January 2002, Bush announced that the United States would explore an FTA with these countries. Starting in February 2002, USTR held seven workshops with the CAFTA countries to ensure they would be able to develop and implement an FTA with the United States. In October 2002, following a meeting of the Congressional Oversight Group, President Bush formally notified the Congress of his intention to begin FTA negotiations with the CAFTA countries. USTR convened a public hearing on CAFTA in November 2002. Working-level negotiations started in January 2003 and concluded in December 2003, without Costa Rica. The United States hopes to sign the agreement—which could include a component with the Dominican Republic—by spring 2004.

FTA Features

There are five negotiating groups[7] for the CAFTA negotiations. The decision to establish only five negotiating groups reflects the CAFTA countries' interest in consolidating the negotiations, given their limited negotiating resources. In addition to these five working groups, there is also a nonnegotiating, multiagency effort responsible for trade capacity-building. This capacity-building effort includes projects to increase citizen access to trade negotiations, support the negotiating teams, strengthen food safety inspection systems, and enhance the implementation of labor laws. As part of these efforts, each country identified its needs in a National Trade Capacity Building Strategy. Other agencies involved in trade capacity-building include the U.S. Agency for International Development and the Inter-American Development Bank. The executive branch made a $47 million budget request for U.S. capacity-building assistance in the region in 2003.

[7]The negotiating groups cover (1) market access, (2) investment and services, (3) government procurement and intellectual property, (4) labor and environment, and (5) institutional issues.

FTA Concerns

Some civil society groups and Members of Congress are concerned that the CAFTA agreement will not adequately address their labor and environmental concerns in the CAFTA countries. There is concern that USTR may support language of the U.S.-Chile FTA, which calls for countries to enforce their domestic labor laws. Some civil society groups and Members believe this approach is not appropriate for the CAFTA countries because their labor laws are not as stringent as Chile's laws. Similarly, some civil society groups claim that the environmental commitments stemming from the FTA may not build upon existing programs or preclude investor lawsuits that could undermine environmental laws. Finally, there is concern that there has not been a sufficient mechanism for public input.

Market access for agricultural goods and textiles is another potential area of contention. Two Members have expressed concern that the CAFTA countries are reluctant to lower tariffs on U.S. agricultural products. The U.S. sugar industry and some U.S. textile and apparel producers have also expressed concern about heightened competition from CAFTA suppliers.

FTA Partner Participation in Other Trade Agreements

The CAFTA countries are members of the Central American Common Market. In addition, these countries have negotiated more than 20 FTAs with such countries as Mexico, Canada, and several South American countries.

U.S.-SACU FTA

Background

The Southern African Customs Union, which is comprised of Botswana, Lesotho, Namibia, South Africa, and Swaziland, accounted for almost one-half of the gross domestic product in sub-Saharan Africa and for $2.5 billion in U.S. exports to the region in 2002. Total two-way trade between the United States and SACU was more than $7 billion that year. South Africa has the largest economy among the SACU countries and the United States and South Africa have had a trade and investment framework agreement since 1999. The 2000 African Growth and Opportunity Act (AGOA)[8]

[8]Pub. L. No. 106-200, § 116, 114 Stat. 266-67.

declares that FTAs should be negotiated with sub-Saharan African countries to serve as catalysts for trade and for U.S. private-sector investment in the region. As a result, by moving from one-way trade preferences to a reciprocal FTA with SACU, the United States expects to build on the success of AGOA and to deepen U.S. political and economic ties to sub-Saharan Africa. The United States also hopes to lend momentum to U.S. development efforts in the region by encouraging greater foreign direct investment and promoting regional integration and economic growth.

Considerations in FTA Partner Selection

USTR noted several reasons why the SACU countries were selected as FTA partners. For instance, in pursuing an FTA with SACU, the executive branch responded to Congress's direction to negotiate FTAs with sub-Saharan countries, as expressed in AGOA. USTR emphasized that the SACU countries are ready, individually and collectively, to be free trade partners. An FTA with the SACU countries would strengthen growing bilateral commercial ties between the United States and these countries and address barriers in these countries to U.S. exports. These barriers include high tariffs on certain goods, overly restrictive product licensing measures, inadequate protection of intellectual property rights, and restrictions the SACU governments impose that make it difficult for U.S. service firms to do business in these countries. An FTA would offer an opportunity to improve southern Africa's commercial competitiveness and to better position the region for success in the U.S market and the global economy. In addition, an FTA would help the SACU countries attract much-needed new foreign direct investment because international investors prefer access to a large and integrated market. An FTA might also level the playing field in areas where U.S. exporters are disadvantaged by the European Union's FTA with South Africa. Finally, this FTA would reinforce the economic reforms that have taken place in the SACU countries and might encourage additional progress where needed.

FTA Milestones

In November 2002, USTR notified the Congress that the United States intended to enter into FTA negotiations with SACU in at least 90 days. The United States and SACU intend to complete the negotiations by December 2004.

FTA Features

A U.S.-SACU FTA agreement is likely to be comprehensive because the governments have announced broad negotiating objectives that cover agriculture, industry, and services issues. The United States is committed to providing the technical assistance necessary for SACU countries to assume the responsibilities of full partnership and to share in the benefits of free trade. The United States and SACU have established a special cooperative group on trade capacity-building specifically for these negotiations, with $2 million in initial funding from the U.S. Agency for International Development. This group is to meet regularly during the negotiations to identify needs and swiftly direct technical assistance resources to help SACU countries better prepare for and participate in negotiations, implement agreed-upon commitments, and take advantage of free trade.

FTA Concerns

Several groups representing U.S. retailers, food distributors, and metal importers have supported the reduction of U.S. tariffs on SACU goods. Groups representing service industries and recycled clothing have favored removing tariff and nontariff barriers in the SACU market. However, other groups have opposed the additional opening of U.S. markets to SACU goods. Agriculture, steel, and the textile and apparel industries are expected to monitor negotiations closely.

FTA Partner Participation in Other Trade Agreements

The SACU countries are members of the WTO. South Africa has had an FTA with the European Union since 2000.

Comments from the Office of the U.S. Trade Representative

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

December 3, 2003

Mr. David M. Walker
Comptroller of the United States
United States General Accounting Office
Washington, DC 20548

Dear Mr. Walker:

Thank you for requesting our comments on the draft report entitled, "International Trade: Intensifying Free Trade Negotiating Agenda Calls for Better Allocation of Staff and Resources." I understand this report follows a Congressional request that you review how potential partners for U.S. free trade agreements (FTAs) are selected. In response, we would like to provide our perspective on the FTA selection process as well as some specific comments on the resource issues you identified.

Selecting FTA Partners

When the Bush Administration set out to revitalize America's trade agenda almost three years ago, we outlined our plans clearly and openly: We would pursue a strategy of "competitive liberalization" to advance free trade globally, regionally, and bilaterally. By moving forward simultaneously on multiple fronts, the United States can: overcome or bypass obstacles; exert maximum leverage for openness; target the needs of developing countries, especially those most committed to economic and political reforms; establish models of success, especially in cutting-edge areas; strengthen America's ties with all regions within a global economy; and create a fresh political dynamic by putting free trade on the offensive.

Careful selection of FTA partners is a key part of this design -- but as a part, it must be understood in the context of the overall strategy. As GAO rightly explains in its report, the selection process cannot be a mechanical one in which we choose only the most eager, or the largest, or the friendliest countries as partners. Rather, we need to consider a range of factors, including how an FTA fits with our larger goal of advancing free trade around the world. Your report outlines the criteria we examine.

At its most basic level, the competitive liberalization strategy simply means that America expands and strengthens its options. If free trade progress becomes stalled globally -- where any one of 148 economies in the World Trade Organization (WTO) has veto power -- then we can move ahead regionally and bilaterally. If our hemispheric talks are progressing stage-by-stage, we can point to more ambitious possibilities through FTAs

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with individual countries and sub-regions. Having a strong bilateral or sub-regional option helps spur progress in the larger negotiations. The recent disappointment in Cancun provides a case in point. A number of the "won't do" countries that frustrated the "can do" spirit of Doha are now rethinking the consequences as the United States vigorously advances FTAs around the world.

Pathways to Greater Trade

Competitive liberalization offers countries within regions a step-by-step pathway to greater trade reforms and openness with the United States. Both the President's Enterprise for ASEAN Initiative and his plan to work toward a Middle East Free Trade Area start by helping non-member countries to join the WTO, strengthening both the global rules-based system and countries participating in it. For those more advanced, we negotiate Trade and Investment Framework Agreements (TIFAs) and Bilateral Investment Treaties (BITs). We employ these customized arrangements to resolve trade and investment issues, improve performance in areas such as protecting intellectual property rights and strengthening customs operations, promote business ties, analyze the possibilities for an FTA, and prepare the capacity to negotiate an FTA. Finally, we may negotiate a wide-ranging, state-of-the-art FTA that will help establish a model for a region and incentives for neighbors. With this graduated, stepladder approach, we can engage virtually every country interested in working with us, and more importantly, we create a healthy dynamic in which countries compete to become fuller members of the trading system and better partners of the United States.

For example, the President launched the Enterprise for ASEAN Initiative in October 2002. With our newly completed Singapore FTA serving as a benchmark for what ASEAN nations may achieve, we are helping those nations not part of the WTO to join. Cambodia recently acceded and Vietnam is working toward WTO membership. We are using TIFAs with the Philippines, Indonesia, Brunei, and Thailand to spur further progress. We are working with private groups to help our respective publics understand the value of improved trade and to lay the groundwork for future agreements. As a result of these efforts, the President announced our intention to initiate negotiations for a comprehensive, state-of-the-art FTA with Thailand early in 2004.

Our Middle East Free Trade Area initiative offers a similar pathway for the Mahgreb, Gulf states, and the lands near Israel. We are making progress toward bringing Saudi Arabia into the WTO. We have TIFAs and BITs throughout the region and several more in the works. We are working to complete an FTA with Morocco this year, to complement our FTAs with Israel and Jordan, and we will begin FTA negotiations with Bahrain early in 2004. It is our aim that within ten years these initiatives may be integrated to form a region-wide free trade area.

In Africa, the African Growth and Opportunity Act (AGOA) is creating tangible incentives for commercial and economic reform as it provides enhanced access to the U.S. market for products from 38 eligible sub-Saharan nations. Our FTA negotiations with the five countries of the Southern African Customs Union (Botswana, Lesotho,

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Namibia, South Africa, and Swaziland) will create a first-of-its-kind agreement with the continent, build on AGOA's success, and show other Africans that the United States is committed to helping those who are working toward reforms and open trade.

For Latin America, we are pursuing dual tracks. We are strongly committed to creating a comprehensive and ambitious Free Trade Area of the Americas (FTAA). At the same time, we are pursuing multiple FTAs that will complement NAFTA and our new agreement with Chile. We are aiming to complete the Central America FTA negotiations in December, and we expect to integrate the Dominican Republic into that agreement in 2004. We would then move forward with Panama, Colombia, Peru, Ecuador, and Bolivia. Together, these agreements would open up over two-thirds of the hemisphere's non-U.S. GDP to free trade across a comprehensive, modern agenda. At the same time, our aim is to open the markets of all the Americas, while assisting development and democracy in places as different as Caribbean islands and the large economies of Mercosur.

South Asia remains a challenge, but we are looking hard for opportunities. In particular, Sri Lanka, with which we have a strong TIFA and relationship in the WTO, may be a promising FTA candidate for the near future.

Finally, our strategy seeks a mix of developing and developed nations. Our negotiations with Australia will create a top-quality FTA with a large industrial, service, and agricultural economy of growing promise and set a strong standard for future agreements.

As part of our larger strategy, deeper trade and economic ties with our FTA partners are producing substantial results in their own right:

- Our new and pending FTA partners, if considered together, would constitute America's third largest export market and the sixth largest economy in the world.
- Our current and pending FTA partners in the Americas encompass two-thirds of Western Hemisphere's GDP (excluding the United States.).
- These FTAs are state-of-the-art, breaking new ground and setting high standards. Unlike the many FTAs around the world, centered largely on tariffs for goods and perhaps some agriculture, the U.S. agreements address services, investment, intellectual property rights, public transparency, government procurement, and labor and environment issues.
- Our FTAs enhance regional integration. When countries negotiate with us as a group (e.g., in CAFTA and the Southern Africa FTA), they also commit to free trade with each other to their great mutual advantage. Botswana, for instance, is both a successful multiparty democracy and a well-run economy, but it is hindered by its small size. As part of the larger market formed by the Southern Africa FTA, Botswana will have far better prospects for investment and becoming a hub for service providers. The five small Central American democracies are

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more likely to attract investment, create jobs, and increase competitiveness if they are integrated with one another and the United States.

- Our free trade agreements encourage sectoral reform and advance development agendas. Morocco, for example, has been hindered by an agricultural economy shaped by the economics of the Roman Empire. Its FTA with the United States will help it adjust to a productive and prosperous role in the modern world. Chile had labor laws dating to the Pinochet era. During our FTA negotiations, those laws were completely reformed. Bahrain will use its FTA with the United States to help further its stature as a successful post-oil and gas economy in the Persian Gulf.

In summary, our FTA selections are part of larger, multifaceted strategy. Criteria can aid in making the selections of FTA partners, but the execution of the strategy requires the careful judgment of policymakers in close consultation with Congress and private sector stakeholders. Ultimately, we need the support of Congress to pass these agreements.

See comment 1.

Your report notes that "certain Members of Congress have urged USTR to give greater priority to economic and commercial considerations in selecting future FTA partners." That is true, although in our experience when Members of Congress or the private sector mention other countries as FTA candidates, including large markets beyond Canada and Mexico, we often find those countries are unwilling to enter into FTA talks with us -- usually because they want to continue to protect their agriculture market. If one does not count the EU-25, Japan, and Korea -- which have been unwilling to negotiate FTAs with us that open agriculture markets -- and China, which just entered the WTO, our current and announced FTA negotiations total 73 percent of America's remaining export markets and 69 percent of the United States' two-way trade. In general, we agree with your assessment that "Few Members of Congress have openly questioned choices of FTA partners to date, and those that have still expressed broad support for the 'competitive liberalization strategy.'"

Managing the Trade Agenda

Advancing this multi-faceted free trade strategy has placed significant demands on USTR, and we appreciate GAO considering the resource challenge we face. In less than three years, we have moved from the absence of a Congressional grant of comprehensive trade negotiating authority to pressing forward with global, hemispheric, and five sub-regional or bilateral FTA negotiations simultaneously. All tend to be far more complex than trade talks in the past, encompassing not only tariffs and customs, but all aspects of 21st Century commerce. We are also working closely with a number of other countries to prepare for FTAs, with some to be launched in 2004. At the same time, our litigation activities have soared as nations become more accustomed to the WTO's dispute settlement process. Our WTO caseload has doubled in 5 years. And the more agreements we complete, the more our monitoring and enforcement needs rise. All this demands nothing less than a transformation of USTR -- a transformation that is well underway.

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GAO recognized that our agenda was "straining the available resources" at USTR and recommended that USTR should develop "better allocation of staff and resources." We believe this emphasis reflects a proper assessment that USTR is aggressively promoting America's economic and national interests on numerous fronts, but an inaccurate assessment of how to allocate limited resources most effectively and efficiently. In our view, the main cause of the strain at USTR has been the amount of available resources, not their allocation. Indeed, GAO did not identify any areas within USTR from which funds could be transferred to higher priority functions. As lean as USTR is, most observers would have trouble finding activities they would downgrade in priority.

See comment 2.

Both the President and bipartisan trade supporters in the Congress agree that USTR cannot carry out the post-TPA trade agenda with a pre-TPA budget. That is why the President and Congress have supported budget increases to bring USTR resources more in line with the revitalized trade agenda. These increases will ease much of the strain your report notes and prevent America's trade strategy from being handicapped for lack of funds.

Under any cost-benefit analysis, USTR would fare extremely well. For less than $40 million a year -- a fraction of the budget of comparable government agencies -- USTR has played a leading role in creating jobs and opportunities at home by opening markets and enforcing agreements around the world. Many countries around the globe look to their trade ties with the United States as their principal economic link with our country.

Although GAO does not mention any actual misallocation of funds, it nevertheless criticizes USTR's allocation process because it appears to be "informal" and not based on "robust data." "For example," the report notes, "although regional Assistant U.S. Trade Representatives provide staff and travel estimates as part of the annual budget cycle, they frequently bring resource requests to USTR management throughout the year." This, GAO concludes, "is an informal, reactive approach."

We believe this observation reflects a misunderstanding of how USTR can function most effectively and flexibly. Management tools appropriate to large organizations carrying out routinized tasks are not suitable for a small agency pursuing fast-moving, dynamic trade negotiations in a world where trade opportunities and disputes often emerge unexpectedly. USTR's model, we believe, should be more like that of an entrepreneurial small business in a rapidly changing international environment than that of a large government bureaucracy.

See comment 3.

In a sense, USTR's situation may be analogized to that of a Congressional committee staff. It would hardly be productive at the beginning of a Congressional session for a committee chair and staff director to chart rigid staff time estimates involved in moving a prescription drug bill, for instance. Nor would precise data on how much staff time was devoted to last year's version of the bill be especially useful. Too much would depend on a rapidly changing legislative environment. Instead, the committee managers would

See comment 4.

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thoroughly consult with staff members, make a reasoned judgment of priorities, and then be prepared to adjust as circumstances warrant.

USTR must be agile, flexible, and adaptable -- not rigidly bureaucratic. Only with these qualities can we carry out a complex, multi-dimensional strategy to advance free trade.

The heart of USTR's budget is for personnel and travel. Therefore, USTR's annual planning and budgetary process seeks to allocate human and financial resources to offices based on projected goals and demands. We seek to give the senior career staff -- Assistant United States Trade Representatives -- flexibility to manage these funds and people. Since many activities within USTR and the U.S. Government as a whole necessitate "horizontal management," the Deputies and Chief of Staff help supervise allocations and schedules across functions. We do not believe that time-consuming and costly systems to account for time would be helpful. USTR is better served by 21st Century entrepreneurial systems focused on results and outputs than early 20th Century "Taylorism" that would concentrate on time/cost inputs. Indeed, these methods would lower productivity among the federal workers drawn to USTR, who are willing to work hard and fast because of the results-oriented culture.

We wholeheartedly agree, however, with GAO's general finding that the intensifying trade agenda requires continual management improvements at USTR and supporting agencies. For this reason, we have taken a number of steps over the past two years. We have:

- Reorganized regional and issues-based offices to reflect negotiating demands.
- Overhauled our financial system to allow us to track travel and other expenses by negotiation.
- Established new program-based accounting codes that will capture travel, interpretation, logistical support, and other categories of spending by major trade initiative.
- Devised a management system to carefully monitor the dozens of new legal requirements under the Trade Act of 2002.
- Established a system to ensure that hundreds of Congressional and private sector consultations occur in a timely manner.
- Continually improved our scheduling of FTA negotiations to make the best use of our available resources.
- Where possible, combined overseas trips to reduce the amount of overseas travel.
- Increasingly used videoconferencing and teleconferencing as low-cost alternatives to overseas travel, where possible.

- Accepted financial support for logistics from host city committees sponsoring negotiating rounds consistent with USTR's statutory authority.

- Sought out low-cost venues for negotiations, both in the U.S. and abroad, typically using mid-point geographic sites as meeting locations, thereby avoiding the added expense of travel to distant locations of negotiations partners.

- Upgraded USTR's website to provide access to all key documents.

- Instituted daily staff leadership meetings to coordinate assignments.

- Accomplished these changes in an environment of heightened security.

Again, we appreciate having this opportunity to comment on GAO's report, and we look forward to continuing to work closely with you in the future.

Sincerely,

Bob Zoellick

Robert B. Zoellick

The following are GAO's comments on the U.S. Trade Representative's letter dated December 3, 2003.

GAO Comments

1. As the Trade Representative states, if the 43 percent of U.S. trade that is accounted for by the EU-25, Japan, Korea, and China is excluded, then current and announced FTA negotiations account for 69 percent (according to our calculation) of the remainder of total U.S. trade. However, U.S. trade with existing FTA partners (Canada, Chile, Jordan, Mexico, Israel, and Singapore) accounts for the majority of this. The trade data can be segmented in several ways, but the data show that trade partners with which the U.S. has begun or has announced FTA negotiations account for $178 billion in two-way trade with the United States, or about 8 percent of the $2.3 trillion total U.S. trade.

2. We believe that given its admittedly limited available resources, USTR needs to better manage its staffing and funds to implement its growing and complex trade negotiating agenda. As discussed in this report, USTR's main strategy for undertaking multiple FTA negotiations appears to be working on one FTA per region at a time. Assistant USTRs in four regional offices lead FTA negotiations in each of four regions. With the announcement of three new FTA negotiations—the Dominican Republic, the Andean countries, and Panama—in Latin America alone, it is not clear how USTR will be able to meet its new and ongoing negotiating demands in a timely fashion. We have noted in this report that one factor that constrains negotiations is a limited number of regional and functional specialists. To address these challenges, USTR would do well to develop a resource strategy across its entire negotiating agenda that is based on solid data and planning.

3. While we appreciate USTR's efforts in pursuing intensive trade negotiations in an often unpredictable international environment, this situation makes it all the more important to make staffing and resource decisions based on valid and reliable data and planning. Relying on informal, ad hoc decision making increases risk and reduces the chance that the agency will accomplish its goals. The human capital model that we developed calls for organizations, regardless of size, to use solid data to determine the current and future human capital required to support their mission and goals.

4. Just like other federal agencies, USTR is responsible for standard accountability procedures to manage its program and federal funds.

Our recommendation calls for a result—not specific procedures or output measures. Since its own and other agencies' expert staff are the most substantial resources for FTA negotiations, improving upon the present lack of systematic data would better position USTR and other agencies to make decisions that involve staffing trade-offs among competing priorities. In addition, travel is an important resource component and must be programmed in advance. While we recognize and encourage the steps that USTR has already taken to make improvements, we note that these efforts are already recognized in this report and are not sufficient to address our concerns for forward planning.

GAO Contacts and Staff Acknowledgment

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Staff Acknowledgments

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