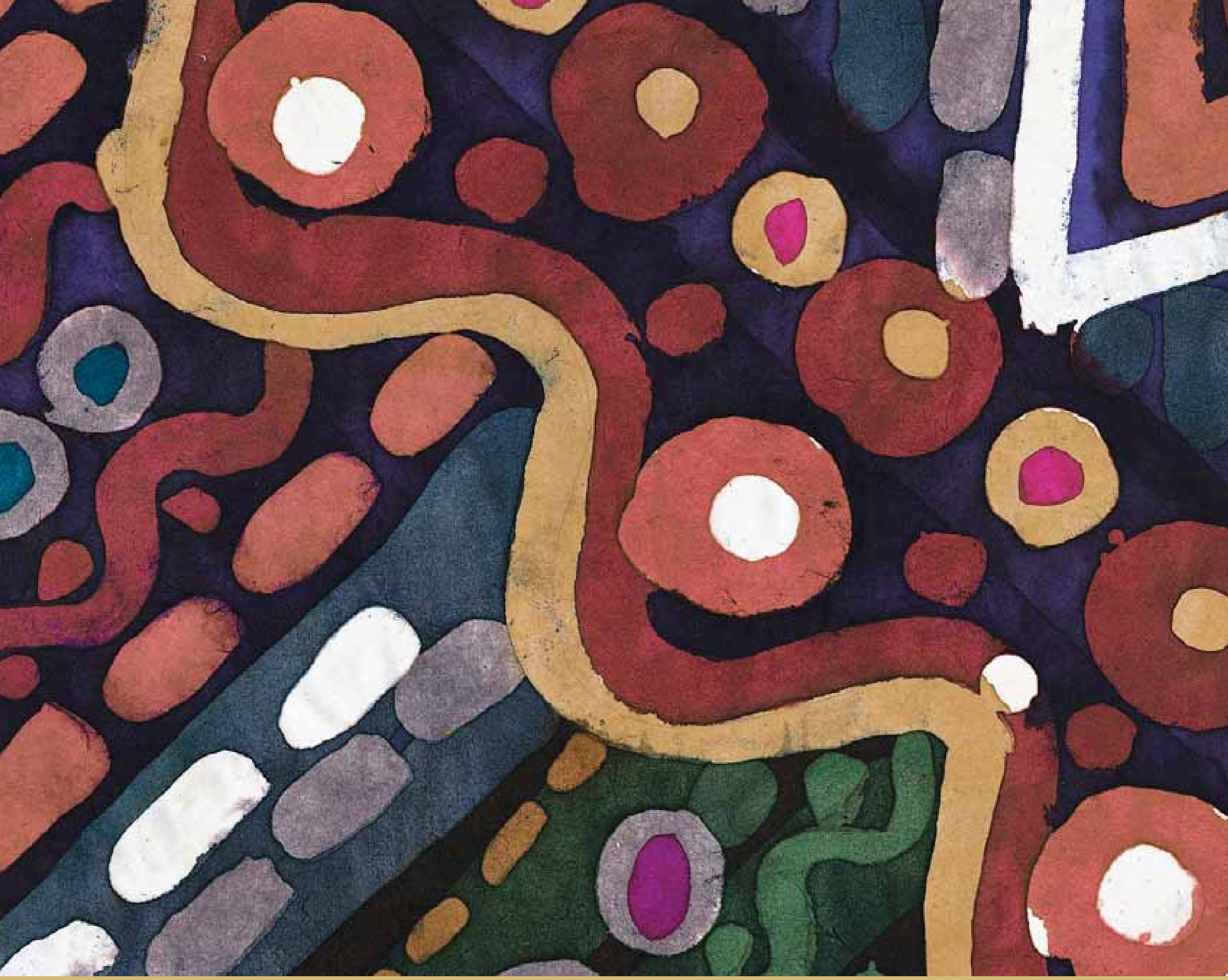

TRADE PROMOTION COORDINATING COMMITTEE

The 2005 National Export Strategy

A World of Opportunity

The Administration's Trade Promotion Agenda

The Trade Promotion Coordinating Committee (TPCC) is an interagency group chaired by the U.S. Secretary of Commerce. The Export Enhancement Act of 1992 established the TPCC to provide a unifying framework to coordinate the export promotion and financing activities of the U.S. government, as well as to develop a comprehensive, strategic plan for implementing such programs.

For more information about the TPCC, contact: Trade Promotion Coordinating Committee, Room 3051, U.S. Department of Commerce, Washington, DC 20230; telephone (202) 482-5455.

Report to the United States Congress

The 2005 National Export Strategy

The Administration's Trade Promotion Agenda

A World of Opportunity

TRADE PROMOTION COORDINATING COMMITTEE
Carlos M. Gutierrez, Chairman

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Letter from the Secretary of Commerce

Dear Mr. President and Mr. Speaker:

As Chairman of the Trade Promotion Coordinating Committee (TPCC), it is my privilege to present to you the National Export Strategy of 2005. As the new Chairman, I appreciate the tremendous opportunity to build on the accomplishments of former Commerce Secretary Donald L. Evans and the other TPCC agencies. The Bush Administration is once again assembling a strong interagency trade promotion team, and together we are committed to setting an active agenda for helping America's exporters take full advantage of market opportunities around the world. This is truly an exciting time for U.S. exporters as well as for the Federal Government trade promotion community.

A WORLD OF OPPORTUNITY

Building on 2004's record $1.15 trillion exports—a 12 percent increase over 2003—there are several reasons for optimism that America is poised for strong export growth.

Changing economic environment: The macroeconomic environment around the world has shifted in favor of U.S. exporters. As a result, we are seeing the kinds of opportunities for U.S. exporters that we have not seen in many years. The world economy grew by an estimated 5 percent in 2004 and is expected to grow by another 4 percent in 2005; these are above historical averages. Domestic demand is driving this growth in many countries. These factors and other macroeconomic fundamentals mean that there will be more opportunities for U.S. exports and that U.S. companies may enjoy the kind of competitive pricing in many markets that they have not seen for many years.

We do not know how long these market conditions will last. What we do know is that this is an important window of opportunity for U.S. companies to recapture export market share around the world. It is imperative that we marshal our efforts to inform the U.S. business community—exporters as well as those who have not yet entered the export arena—of this unique moment.

New market openings: Over the last four years, the Administration has further opened the window of opportunity through its success in enforcing trade agreements and opening markets. The Administration's strong ongoing efforts to hold China to its World Trade Organization (WTO) commitments have helped make China the fifth largest market for U.S. exports and our fastest-growing export market. The Administration has completed free trade agreements (FTAs) with 12 countries that will open markets for 124 million consumers to U.S. goods and services.

The U.S.–Jordan FTA entered into force on December 17, 2001. On January 1, 2004, FTAs with Chile and Singapore went into effect. Also in 2004, we concluded, and Congress approved, FTAs with Australia and Morocco.

The United States has also completed negotiations on FTAs with Bahrain and five countries of Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic. The latter agreement, known as the U.S.–Dominican Republic–Central America Free Trade Agreement (CAFTA-DR), will increase economic growth, opportunity, and democracy in our neighborhood while providing strong protections for labor and the environment. The agreement moves our trade relationship with this region from one driven by the unilateral trade preferences the United States has provided since 1985 through the Caribbean Basin Initiative to a relationship governed by a reciprocal trade agreement.

In particular, CAFTA-DR will benefit U.S. small and medium-sized enterprises (SMEs). Many of the sectors in which U.S. companies are most competitive are dominated by SMEs. U.S. SMEs already export relatively more to Central America and the Dominican Republic than they do to the rest of the world. In 2002, U.S. SMEs were responsible for about 37 percent of the value of merchandise exports to these countries—considerably greater than the 26 percent SME share of global U.S. merchandise exports. SMEs will benefit most from the fact that about 80 percent of U.S. exports of consumer and industrial goods will become duty free immediately upon entry into force of the agreement. Our analysis indicates that U.S. SMEs will be most competitive in the areas of information technology, chemicals, industrial machinery, electrical power, environmental technologies, medical equipment, construction equipment and building supplies, and auto parts and services. U.S. SMEs also will benefit from state-of-the-art provisions in such key areas as intellectual property rights (IPR), electronic commerce, telecommunications, customs and trade facilitation, and dispute settlement.

More FTAs are on the horizon. The Administration continues negotiations with the five nations of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland) and has launched new FTA negotiations with Thailand, Panama, and three Andean nations (Colombia, Peru, and Ecuador), with Bolivia as an observer. The Administration has also begun negotiations with the United Arab Emirates (UAE) and Oman. Taken together, the 12 countries with which the United States has existing FTAs and the 12 additional countries with which we are currently negotiating constitute America's third largest export market, with $78 billion in U.S. exports in 2004, and the world's sixth largest economy. Of the 40 countries to which the United States exports at least $1 billion of U.S. manufactured goods, we have FTAs, or have announced negotiations, with 18 of them. Once again, we can only reap the full benefits of these agreements if we follow through with equally aggressive promotional efforts to communicate to our business community effective strategies to take advantage of these new opportunities.

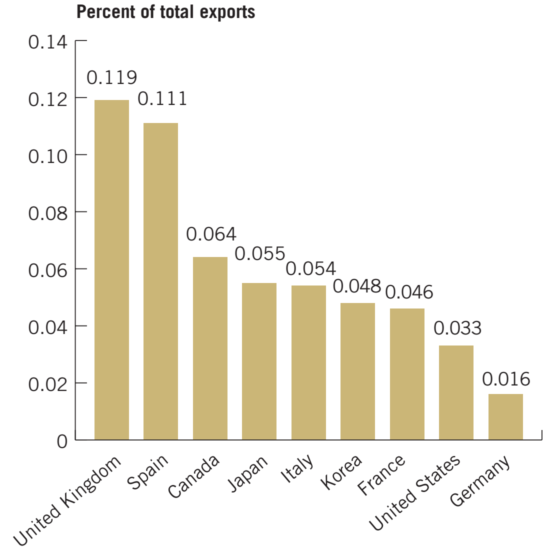
THE CHALLENGE

Although the export opportunities are real, so are the challenges we continue to face both at home and abroad.

Foreign competition: U.S. exporters, particularly small firms, face a fierce global competitive environment. Our major competitors are targeting the very same growth markets of the future. The governments of the United Kingdom, Canada, and Korea are opening additional offices or expanding current ones in India. Many countries around the world, such as the Mediterranean and Balkan countries, some Latin American countries, China, and Russia, receive European Union (EU) technical assistance aimed at encouraging compliance with and adoption of EU standards and technical regulations. And China, a new heavyweight of exporting, has become as aggressive as any of the other countries in terms of government trade promotion and financing support. The Export-Import Bank of China, for example, recently granted export financing worth $500–600 million to Chinese telecommunications companies over the next three years to help them increase their market share overseas. Despite high foreign government spending on export promotion, U.S. companies have remained the world's greatest exporters of goods and services. *(See Charts 1 and 2.)*

Small business export gap: Another long-term challenge—one that has guided the development of much of the Federal Government's focus on trade promotion—is the level of small company participation in export markets. Of U.S. SMEs that export, two-thirds sell to just one foreign market. Nearly half of all exports by American SME exporters go to just four markets. Among U.S. manufacturers who do not export, about 30 percent would consider exporting if they had more help getting information about markets, customers, and export procedures.

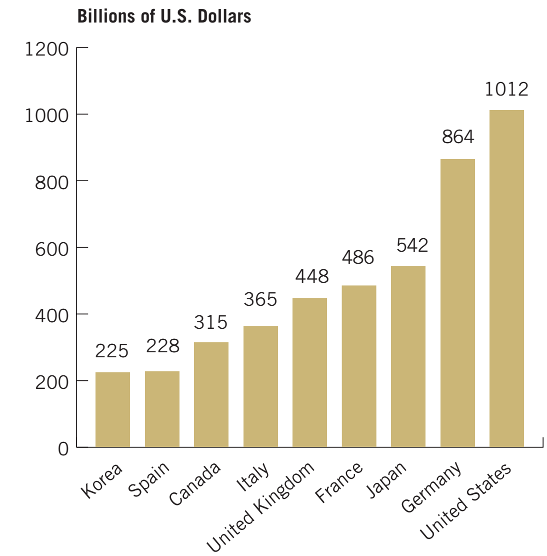
Chart 1. Estimated Official Government Export Promotion Spending of the United States and Selected Major Trading Partners in 2004.



Note: Figures exclude trade financing and agricultural trade promotion.

Source: Foreign government sources, U.S. Commercial Service estimates, and World Trade Organization trade data.

Chart 2. Total Exports of the United States and Selected Major Trading Partners in 2003



Note: Exports include both goods and services.

Source: World Trade Organization trade data.

Other Governments Focus on Small Business Exporters

U.S. small businesses face tough competition from other countries' small businesses that are supported by their governments' aggressive export promotion programs. For example:

- The British Outward Missions Program provides travel grants up to $1,500 for small businesses to participate in a trade mission.
- The Netherlands and Australia have grant programs that pay for a substantial (up to $110,000 in the Netherlands) portion of new exporters' costs.
- France has set a goal of increasing the number of SMEs exporting by 50 percent over the next five years.
- France has a goal of helping over 1,000 small businesses trade and invest in China by the end of the year.
- Canada has a Web site that companies can customize so that they see only the market research, trade events, and procurement opportunities they want.
- All of our competitor governments promote outward investment for their small business.

The TPCC agencies are committed to maintaining an acute awareness of foreign competitive practices and responding with smart strategies for leveraging U.S. Government programs.

In researching the trade promotion programs of foreign countries, we learned that our major competitors also focus much of their attention on small businesses. French export promotion spending and programs, for example, are aimed at supporting SME exporters. About 5 percent of French companies have exported, compared to 1 percent of U.S. companies.

A STRONG FOUNDATION

Over the last four years, we listened to what our clients want from our programs and responded with major improvements. The TPCC agencies used a better understanding of the needs of exporters to implement dozens of reforms to government programs. In some cases, we undertook significant restructuring of our agencies to improve customer service.

In a clear sign that the President's Management Agenda has taken root, TPCC agencies remain focused on results. The agencies are building on the recommendations implemented since 2002. The customer is first at all levels of our planning. Agencies have realized that they work most effectively for our clients and more efficiently for the taxpayers when efforts are combined and coordinated. The U.S. Government continues to promote an ambitious program of enlarging export opportunities for small business.

ORGANIZATIONAL REFORMS

Trade Promotion and U.S. and Foreign Commercial Service (Commercial Service): Last year, we reported on the consolidation of Commerce Department trade promotion functions within the Commercial Service. This year, I can report on the Commercial Service's steps to integrate new strategies to meet customer needs. As the Commercial Service celebrates its 25th anniversary at events across its world network, it is also planning for the future, to continue meeting the ever-changing needs of American companies selling internationally. The International Trade Administration's (ITA) 2004 reorganization strengthened and streamlined trade promotion and recruitment efforts by consolidating into the Commercial Service the call centers (such as the Trade Information Center), the Advocacy Center, all trade events and recruitment and management, and industry-specific trade promotion. The new Commercial Service is:

- Strengthening coordination of its trade promotion programs with TPCC partner agencies;
- Leading the TPCC partner agencies to focus trade promotion programs on commercially significant markets, including those with current or pending FTAs;
- Incorporating TPCC partners into its ongoing strategic planning efforts to ensure consistency in outreach to American businesses;
- Implementing a customer relationship management system over the next two years to better promote and foster trade opportunities for SMEs by presenting a single face to the customer and creating a unified, enterprise-wide view of the customer.

Small Business Administration (SBA): SBA has taken steps to streamline its trade operations and improve delivery of its services. SBA has combined its field-based export finance and trade promotion specialists with central office operations. Instead of reporting to local SBA district directors, these specialists now report to the Associate Administrator for International Trade in Washington, D.C. This more closely integrates field staff with SBA headquarters for purposes of planning, coordination, budget, policy, and training. Also, SBA has enabled field staff to work more closely with each other by setting up weekly communication among all international trade staff. SBA expects this consolidation to result in improved delivery of services to small exporters.

These and other reforms of the last four years are having results. SBA's finance programs supported more than $1 billion of export sales last year, delivering 2,316 export loans to small businesses and setting a record for small business trade finance. The increase in SBA's loan production is a result of significantly improved delivery services by SBA's senior international trade finance specialists working in the U.S. Export Assistance Centers; increased trade promotion activities with counterpart agencies of the TPCC, including the recent co-guarantee agreement with the Export-Import Bank of the United States (Ex-Im Bank); stronger collaboration and outreach between SBA and its network of Small Business Development Centers, Business Resource Centers, and District Field Offices; and trade promotion and finance briefings provided by SBA's top management. The average SBA guarantee for small business export loans since 2003 has been increasing as a result of the higher value of exports.

U.S. Department of State: The State Department, which leads the commercial function in 98 diplomatic posts where the Commerce Department does not currently operate, has developed a plan to strengthen Washington, D.C.–based coordination of its commercial promotion and advocacy work. The plan received formal approval in January 2005. As part of this effort, the State Department's Bureau of Economic and Business Affairs and the Commercial Service have made substantial progress in raising cooperation and operability among Commercial Service and non–Commercial Service posts. Beyond its traditional advocacy, dispute resolution, and market access agenda, the Department of State has initiated a number of projects under its Business Facilitation Incentive Fund (BFIF), which incorporate Administration goals and initiatives. The projects are directed at improving the climate for U.S. business, building public-private partnerships that can help open new markets, and encouraging best practices and corporate social responsibility, especially through the Secretary of State's Award for Corporate Excellence (ACE) program.

Overseas Private Investment Corporation (OPIC): In 2004, OPIC continued its strong commitment to creating new investment opportunities for small U.S. businesses. During this past year, 76 percent of OPIC's 127 approved projects were for SMEs, more than doubling the number OPIC approved in 2003.

Building on the success of the OPIC Small Business Center (SBC) (designed to focus on companies with revenues of less that $35 million), and the creation of the Small and Medium Enterprise Department (responsible for OPIC's Direct Loan program for SMEs), OPIC has developed innovative products and focused on promising sectors. For instance, OPIC's "insurance wrap" provides political risk insurance at a reduced rate for small businesses receiving SBC loans. Additionally, OPIC offers expedited consideration for U.S. franchising opportunities.

Looking forward, OPIC is developing a program with financial intermediaries and loan originators across the country to expand the reach of OPIC's small business program. All of this helps make OPIC more relevant to U.S. small business, while continuing its commitment to reduced processing time and a streamlined process.

PROGRAMMATIC REFORMS

We are also seeing the fruits of major programmatic reforms over the last four years. Strong interagency coordination has been the hallmark of all of these efforts.

Leveraging the Internet: TPCC agencies are using new business tools to help U.S. companies as business reliance on the Internet for timely assistance grows. As one of 25 eGov initiatives supported by the U.S. Office of Management and Budget, the TPCC agencies have firmly placed Export.gov front and center as the U.S. Government's portal to federal export promotion and trade finance services and how-to-export and trade opportunity information. In response to the needs of experienced exporters for more specialized information, the TPCC has launched the China Business Information Center (China BIC) and the Middle East Business Information Center (MEBIC).

SBA and Ex-Im Bank cooperation: In 2004, we announced a pending co-guarantee agreement between Ex-Im Bank and SBA to allow lenders and exporters to move seamlessly between SBA and Ex-Im Bank when an exporter reaches SBA's working capital guarantee limit. Exporters told us that they were losing deals because the programs of the two agencies were uncoordinated. It was too difficult to move from one program to the other. Now that the agreement is in place, exporters are starting to take advantage of it, and we have already processed a number of transactions. Since the agreement was implemented in August 2004, small businesses in Ohio, Florida, Wisconsin, and Michigan have benefitted from the new agreement by receiving larger working capital loans from their existing lenders. SBA senior trade finance officers located at U.S. Export Assistance Centers in Michigan, Chicago, Miami, and Cleveland assisted these companies. Additional co-guaranty loans are in process in other states, and we are encouraged that this new and exciting loan product is gaining in popularity as it serves the export financing needs of U.S. small businesses. Our goal now is to market essentially one working capital program that can be adjusted to suit exporters' financing needs as they grow and to significantly increase use of both programs.

Joint marketing: Our joint-marketing efforts have surpassed expectations. In an impressive show of devotion to a common goal, Ex-Im Bank, SBA, the Commerce Department, and others have worked as a team to pool their resources toward an annual U.S. Government export assistance outreach plan. This plan includes joint mailings, publications, and the continued support of the U.S. Export Pavilion in major trade shows around the country. The U.S. Export Pavilion features these agencies as well as the China BIC and MEBIC. The Pavilion staff talk to as many companies as possible at the trade shows, qualify these client leads, and forward the leads to the appropriate U.S. Export Assistance Center for follow-up. Trade show organizers and associations have been impressed with the Pavilion and continue to invite this multi-agency promotion to trade shows across the country. The Pavilion has been so well received that the TPCC is getting unsolicited offers of free floor space from some show organizers.

Clean Energy Technology Export initiative (CETE): The Department of Energy (DOE) co-leads, along with Department of Commerce and U.S. Agency for International Development (USAID), this nine-agency initiative to increase market access overseas for U.S. exports of cleaner energy technologies, improving interagency collaboration and building partnerships with the private sector. Major activities underway include:

- **Branding and Development of Resource Guide**—Developing a resource guide and Internet presence on how to market and finance cleaner energy goods and services using government programs.

- **Pilot Private Outreach Project**—Building and leveraging private resources through a pilot public-private partnership. Specifically, partnering with the Gas Technology Institute to promote the establishment of a global network of energy centers dedicated to the efficient and productive use of energy resources in the building of economically vital and environmentally healthy communities in the United States and abroad.

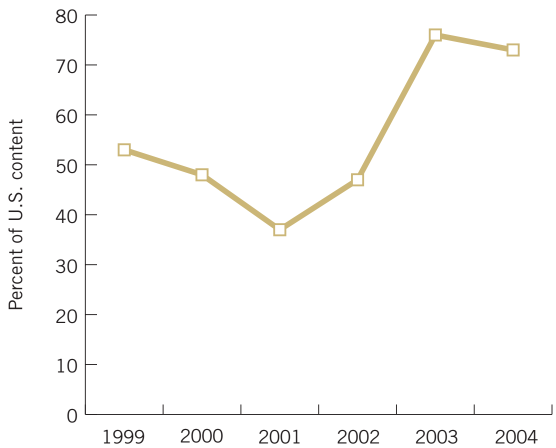
- **CETE Advisory Board**—Undertaking establishment of a Federal Advisory Committee Act Advisory Board to assure private-sector participation in CETE program design and implementation.

- **U.S.–China Cooperation on Green Olympics**—Coordinating interagency activities to assist China and the City of Beijing host the 2008 Beijing Olympics.

Trade officer training: Over the last two years, TPCC agencies have jointly supported the training of about 200 experienced trade staff as "account managers" capable of guiding exporters through the maze of federal services. We are on track for continuing the program to reach the hundreds of critical field and business development staff who have yet to undertake the training. Our goal is to continually modify and strengthen the agenda from one session to the next to reflect the increasing integration of our programs. In the coming year, we will continue to develop the curriculum and include new issues such as human rights. We will also continue to reach out to state and local trade promotion partners.

Advocacy coordination: Now part of the Commercial Service, the Advocacy Center continues to improve coordination between the Commerce Department and the other TPCC agencies. The Department created the Advocacy Center in 1993 to coordinate U.S. Government resources in order to level the playing field on behalf of U.S. business interests as they compete against foreign firms for specific international contracts or other U.S. export opportunities. The Center now facilitates the project finance services of Ex-Im Bank, the U.S. Trade and Development Agency (USTDA), and OPIC for Commercial Service clients. Meanwhile, the Advocacy Center's caseload has grown 63 percent from April 2003 to February 2005. The Advocacy Center has also significantly increased the percentage of U.S. content in projects that were successfully advocated for, recording an all-time high of 76 percent export content for successful projects in 2003 and 73 percent export content for successful projects for 2004. *(See Chart 3.)* The State Department's Office of Commercial and Business Affairs (CBA) advocates for U.S. business beyond the bid and tender process which includes promoting market access and reform, assisting with regulatory and investment problems, and ensuring business concerns are considered in foreign policy.

Chart 3. U.S. Content in Successful Advocacy Cases, 1999–2004



Source: U.S. Department of Commerce.

Early project development: TPCC agencies are working closer than ever to help U.S. companies win projects by better coordinating our efforts before projects go out for bid. For example, the TPCC agencies are using the Advocacy Center's formal mechanism to make the financial resources of other TPCC agencies, especially Ex-Im Bank, OPIC, and USTDA, available to its clients. The future of the early-project development initiative lies in expanding the initiative so that it is fully integrated into TPCC agency programs. Doing so will help ensure that models of cooperation such as the Sonatrach projects in Algeria can become the standard. (*See below.*) We are also enhancing our efforts to leverage our resources at the multilateral development banks to help U.S. companies get in on the ground floor of new project opportunities before they go out for bid.

LOOKING AHEAD

We are committed to expanding the number of new-to-export, new-to-market companies through better use of technology, new partnerships with the private sector, and a closer working relationship between agencies in our foreign posts and in Washington, D.C.

Commercial Service new client development initiative: The Commercial Service has launched an initiative aimed at increasing the number of new

Early Project Case Study: Maximizing Energy Sector Opportunities in Algeria

In October 2003, Ex-Im Bank approved a preliminary commitment for a $1 billion line of credit to support the purchase of U.S. equipment and services by Sonatrach, Algeria's state-owned petroleum company. Over the next five years, Sonatrach is planning a series of large-scale projects valued at tens of billions of dollars to rehabilitate oil and gas fields and expand pipelines. Ex-Im Bank and the Commercial Service functioned as a team, with the Commercial Service's Energy Team and its offices in Algeria gathering information on Sonatrach's tender process. With this information in hand, the Advocacy Center developed and coordinated with Ex-Im Bank, the Energy Team, and U.S. Embassy Algiers a marketing strategy to reach out to Commercial Service oil and gas clients, petroleum-sector companies, and industry associations and publications to increase awareness and participation in this program. The outreach plan includes joint Commerce Department and Ex-Im Bank participation in the 2005 Offshore Technology Conference and the possible organization of industry briefings to interested companies.

clients by 20 percent annually. This is an effort to leverage all of the trade promotion functions that have been brought together in the Commercial Service as part of ITA's reorganization to improve customer service and develop new exporting companies. The plan targets small and medium-sized firms that are either new to exporting or seeking to expand their export sales into new markets. To accomplish this, the Commercial Service has formed a new U.S.A. Trade Promotion unit that combines call centers (the Trade Information Center [TIC] and China BIC), the Global Diversity Program, and the Marketing staff to create an office that will proactively seek out U.S. companies interested in exporting. By strategically using new technologies, along with better alignment of our human resources, the Commercial Service plans to expand its reach and improve its ability to nurture new clients. This unit will:

- Directly call companies participating in trade shows or seminars who indicate they are interested in exporting;
- Create a client tracking system that will ensure better follow-up with these clients;
- Partner with non-profit industry and trade associations to provide services to member companies—for example, trade missions, Web links, joint mailings, and seminars.

Partnership with Federal Express (FedEx): In May 2004, the Commercial Service and FedEx announced a new initiative to boost exports from small and medium-sized U.S. businesses. As the winner of a publicly competed, no-cost procurement, FedEx will now market the Commercial Service and its programs and services on **www.fedex.com**, as well as via FedEx's monthly eNewsletter sent to 100,000 international shippers and a series of exporting seminars across the United States. FedEx sales and marketing executives will also be trained about export promotion services offered by the Commercial Service and other U.S. Government agencies. With a shared mission of increasing the volume of U.S. exports, the partnership has generated new Commercial Service clients, increased the visibility of Commercial Service export promotion programs, and increased the number of trade professionals interfacing with potential exporters.

Partnership Success

Wild Flavors, Inc., of Erlanger, Kentucky, was referred to the Commercial Service by FedEx. Through export counseling, market research, and other assistance provided by the Department of Commerce, in combination with international shipping solutions provided by FedEx, Wild Flavors anticipates a 50 percent increase in export sales this year, said Jonathan Martin, International Sales Manager.

Right: Wild Flavors' President and CEO, Michael Ponder (left), receives U.S. Commercial Service Export Achievement Certificate from U.S. Congressman and United States Trade Representative nominee Rob Portman (right).

The Commercial Service plans to publicly compete opportunities for additional private-sector partnership relationships that support the Commercial Service's strategic mission.

Financing partnership: The Private Export Funding Corporation (PEFCO) provides funding backed by Ex-Im Bank guarantees or insurance on behalf of foreign importers who purchase U.S. goods and services. The Commerce Department's Advocacy Center entered into a memorandum of understanding with PEFCO to provide Advocacy Center clients in need of financing with facilitated access to PEFCO's capital. To date, the Advocacy Center has issued $107.4 million of PEFCO letters of interest to SMEs.

The Department of Energy and OPIC partnership: DOE and OPIC signed an agreement acknowledging their partnership in the effort to promote investment in cleaner, more efficient energy technologies in emerging markets throughout the world. More specifically, the Memorandum of Understanding signed September 2004 advances two U.S. energy initiatives, the U.S. Clean Energy Initiative (CEI) and the Clean Energy Technology Export Initiative. The CEI, created by President George W. Bush in 2002, and the CETE seek to promote development and access to modern, clean, efficient, and affordable energy using exported American technologies. For example, DOE and OPIC are currently engaged in an effort to gather information regarding wind and efficiency opportunities in developing countries to determine the most promising targets for investment.

Partnership Post initiative: In December 2004, the Commerce and State Departments formalized new coordination arrangements to improve the delivery of our services and advocacy for U.S. companies in all overseas markets. The Commercial Service operates in our 81 most important markets while the State Department maintains sole responsibility for the commercial function in 98 countries, making close coordination and partnership essential.

The new Commercial Service–State Department program has three essential components:

1. Creating a joint planning committee to strengthen current strategic and operational planning processes and coordination. This is particularly important as the Commercial Service periodically reallocates staff from post to post and between regions. These Commercial Service moves are necessary to respond quickly to market developments and business needs. However, they can impact the demands on State Department officials at these posts.

2. Strengthening the ability of State Department posts to offer a more robust commercial program by leveraging regional Commercial Service resources through improved technology. This fiscal year, the two agencies have designed a pilot project to connect 15 State Department posts to the Commercial Service network. Additionally, the Deputy Chief Information Officer of ITA has gone on a four-month detail to the State Department to explore how best to connect additional State Department posts to the Commercial Service network.

3. Working more closely in the human resource area by improving joint planning for officer training and consultations. As a result, the Commercial Service will be able to expand its network and improve global coverage of its commercial interests.

Baltic Partnership Post Pilot Initiative

The State and Commerce Departments developed a Baltic Pilot Initiative to ensure coordinated and proactive support to U.S. exporters and investors following the closure of Commercial Service operations at the U.S. embassies in Riga, Tallinn, and Vilnius. The initiative has involved establishing new partnership arrangements between these embassies and corresponding Commercial Service posts at embassies in Sweden, Finland, and Poland. The project has also worked to strengthen access to Commercial Service systems, databases, and programs, and the training of State Department econ-commercial officers. The U.S. Ambassadors to the Baltics Trade and Investment Conference held in December 2004 in London was an early highlight of this initiative. The program brought together more than 160 U.S. executives. The program featured presentations by prominent U.S. and Baltic region representatives of government and industry, including the Presidents of Latvia and Lithuania and the Prime Minister of Estonia. As reported by U.S. Embassy Vilnius, several U.S. companies attending the conference plan to invest a total of more than $200 million in Lithuania alone. In March 2005, a follow-on event in Washington, D.C., targeted 100 U.S. executives. A similar conference is planned for one of the Baltic capitals later in 2005. The Departments of State and Commerce are now working with our U.S. embassies and the Baltic governments on a strategic plan for strengthening U.S.–Baltic commercial ties.

APEC innovative financing partnership: The Department of Energy in collaboration with USAID, Ex-Im Bank, OPIC, and multilateral and private financial institutions conducted three workshops and proposed recommendations to the APEC Energy Ministers for financing energy infrastructure, efficiency, and renewable projects. Recommendations and identified best practices were approved by the Ministers in June to implement the APEC Energy Security Initiative. Additional financial support was leveraged by partnering with the Renewable Energy and Energy Efficiency Partnership, a U.K.–based government-industry coalition, in support of innovative financial underwriting of efficiency improvements to public facilities in the Philippines and Mexico.

Leveraging the resources of the multilateral development banks: Building on last year's pilot project to target local government-run projects funded by the World Bank, the Commercial Service has expanded this initiative to include all five of the development banks. In addition, under the consolidated budget of 2005, all Commerce Department procurement officers in the banks have become part of the Advocacy Center team and been integrated into the TPCC advocacy network. U.S. companies will benefit from this integration by gaining greater access to information about upcoming projects and procurements and by receiving the aggressive advocacy support that is often needed to counter political pressure from foreign governments hoping to influence the outcome of projects.

Opening Doors in the Philippines

A small, minority-owned distributor of liquid soil sealant and stabilizer used for road construction, dust control, soil erosion, and water loss retention applications was in the process of bidding on a project tendered by the local government unit of Calayan, in the Province of Nueva Ecija, the Philippines. The Commercial Service liaison office at the Asian Development Bank (ADB) thoroughly explained the Bank's lending program and procurement procedures to the company and arranged for the company to give a technology presentation to ADB officials. The company won the project, and credits as instrumental to their success the Commercial Service liaison office's advice and assistance. The company believes this exposure to ADB has opened the door to follow-on opportunities with other ADB projects in China and Indonesia.

PROMOTING NEW OPPORTUNITIES

The TPCC is working to guarantee that federal trade promotion strategies are in place to follow up on new market openings.

China: As China's WTO accession continues to take hold, we are addressing the principal barriers for U.S. companies, including inadequate IPR enforcement, irregularities in customs valuation, standards and technical barriers to trade, continued restrictions on trading and distribution rights, and lack of regulatory transparency and systematic law enforcement. These barriers hit small and medium-sized companies especially hard. We are developing sectoral strategies where U.S. exporters have significant potential. We are providing strong advocacy support on behalf of U.S. companies bidding on major project opportunities. Through the China BIC, we offer an aggressive outreach calendar and the Federal Government's most comprehensive on-line source of trade information concerning China.

FTA follow-up: The TPCC is implementing outreach and trade promotion strategies to help new-to-market companies take advantage of FTAs. In particular, the TPCC is making sure that U.S. companies understand the benefits and have the tools they need. To leverage resources and reach a wide audience, we are utilizing Webcasts. Our comprehensive Web site for the Middle East market, MEBIC, emphasizes new opportunities with FTA partners Israel, Jordan, Morocco, and Bahrain as well as expected future partners, UAE and Oman.

Spotlight markets: The TPCC agencies are developing strategies for spotlighting the markets that offer the greatest opportunities and matter the most to our clients, the U.S. exporting community. Highlights of these efforts include:

- Focusing on healthcare and environmental opportunities in Brazil;
- Introducing more U.S. manufacturers to supply chains in Europe;
- Focusing on the high-tech sector in India;
- Undertaking a Northeast Asia Action Plan with South Korea, Japan, and Taiwan;
- Promoting opportunities in Russia to experienced exporters.

Two issues, in particular, have emerged as major obstacles for U.S. exporters in each key market we focused on—standards and intellectual property protection. In response, the TPCC is working to develop initiatives to focus our efforts in these areas.

Standards: Adherence to agreed-upon product or service specifications underpins international commerce, enabling trillions of dollars of goods to flow across borders. The common acceptance of standards is fundamental to the success of robust, fair, and free trade. Standards are a critical issue for manufacturing competitiveness in global markets, as they can facilitate international trade, or they may impede access to foreign markets. The Federal Government, led by the Office of the U.S. Trade Representative, is already working to eliminate standards-related market barriers that undermine trade and, as a result, threaten the international competitiveness of U.S. industry. The advancement of U.S. Government objectives with respect to international or foreign standards will benefit from improved interaction among federal agencies, including the trade policy development process led by the Trade Policy Staff Committee and the trade promotion and outreach activities of the TPCC.

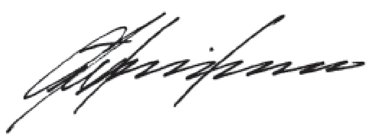
Since the U.S. voluntary standards system is led by the private sector, industry must take the lead on many critical issues. To complement these efforts, the Commerce Department has developed a plan for improving outreach to U.S. industry and for supporting private-sector initiatives to promote market driven standards. As part of the plan, the Commerce Department will work with USTR and other U.S. Government agencies to increase and improve dialogue with foreign governments on standards-related issues. The goal is to partner with U.S. industry to more effectively promote the virtues of an open, transparent, and impartial approach to standards development and implementation. Both U.S. standards interests and policy objectives will be served when the governments of our most important export markets are convinced of the strengths of this approach versus less open, less transparent, and subjective alternatives. Critical to our success will be the recognition that the government and private sector must each leverage their limited resources. Toward this end, ITA and the Technology Administration's National Institute of Standards and Technology (NIST) have improved coordination within the Commerce Department, and will be working with the private sector to identify the markets and sectors of greatest interest to U.S. industry.

Intellectual Property Rights (IPR): In recognition of the increasing role that intellectual property plays in the growth of the U.S. economy and in furtherance of the Strategy Targeting Organized Piracy (STOP!) initiative, we are expanding our efforts to educate U.S. exporters about the steps they must take to protect their IPR in other countries and are working to ensure that foreign governments are complying with their obligations to provide adequate protection to IPR. Technical assistance and training have been coordinated through the Department of Justice and Department of Commerce interagency working group so that the IPR Toolkits already launched in China and Korea can be effectively reproduced in Brazil, Malaysia, Mexico, Russia, and Taiwan. TPCC agencies will continue to coordinate technical assistance and training.

CONCLUSION

After strengthening our trade promotion programs and negotiating market-opening agreements during the first Administration, our focus now will be to make sure U.S. companies—especially small businesses—know about these new opportunities and more coordinated tools and programs. These new agreements and initiatives, combined with a more supportive global economic environment and more favorable macroeconomic fundamentals, mean there has never been a better time for U.S. companies to sell and invest abroad. It is clear to the TPCC agencies that this moment is a great opportunity to strengthen our future competitiveness in world markets. We will do everything we can to help U.S. companies take advantage of it.

Sincerely,



Carlos M. Gutierrez
Secretary of Commerce and
Chairman of the Trade Promotion
Coordinating Committee

Free Trade Agreements: Helping U.S. Firms Take Advantage of Newly Opened Markets

In a dynamic and constantly changing world economy, U.S. Government trade promotion programs must remain flexible and be continually responsive to those overseas markets that hold the greatest promise for U.S. company success. Trade promotion programs buttress our trade agenda by helping U.S. companies take advantage of opportunities created through tariff reduction and market access agreements.

This year, the TPCC agencies have developed targeted commercial strategies aimed at those markets that present U.S. firms with the most significant opportunities to sell their goods and services. In particular, we have focused on markets where our trade policy negotiations have led to significant tariff reductions and market access—namely, countries with which we have recently negotiated FTAs.

FTAs serve to break new ground for America's exporters and are an integral part of the Bush Administration's trade agenda. Tariff reduction commitments in recent FTAs, and those under negotiation, could save approximately $4.13 billion in import duties on products of American firms that are sold abroad. These comprehensive, state-of-the-art agreements also set modern rules for 21st century commerce by addressing areas such as services, e-commerce, intellectual property protection, investment, transparency, and the effective enforcement of environmental and labor laws. Furthermore, FTAs strengthen opportunities for progress in regional and WTO negotiations—an important goal for 2005.

Over the past year, the Administration concluded, and Congress approved, FTAs with Australia and Morocco. Further, the United States completed negotiations on FTAs with Bahrain and five countries of Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic. The Administration looks forward to congressional approval of these FTAs so they can be implemented promptly. Additionally, the United States continued FTA negotiations with the five nations of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland) and launched new FTA negotiations with Thailand, Panama, and three Andean nations (Colombia, Peru, and Ecuador), with Bolivia as an observer. The Administration has also begun negotiations with the United Arab Emirates and Oman.

U.S.–Australia FTA Best Prospects

Although the benefits of the U.S.–Australia FTA will be felt broadly throughout U.S. industry, certain sectors are particularly well positioned to capitalize on the results of the agreement.

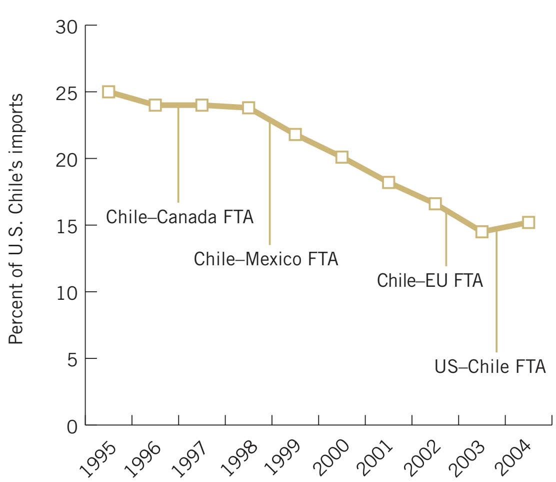
Services: A range of service sectors made the best prospects list, including energy, professional broadcasting and audiovisual, franchising, construction, and telecommunications. U.S. companies offering information-technology-related services are expected to benefit from the elimination of Australian industry development programs that specifically target this sector.

Manufactured goods: Best prospects include aeronautical engine parts and navigation equipment, electric light equipment, exercise equipment, beauty products, photographic equipment, paper and paperboard, electric motors and generators, refrigerators, heat pumps, agricultural equipment, oil and gas equipment, and electrical machinery.

KEY MARKET ACCESS RESULTS AND BENEFITS FROM RECENT FTAS

FTAs are already benefiting U.S. firms and workers. Exports are up, in some cases dramatically, to FTA markets as a direct result of tariff decreases and trade rules that have been put in place.

Chart 4. U.S. Market Share in Chile, 1995–2004



Source: 1995 and 1996 percentages supplied by the Embassy of Chile, Washington, D.C.; 1997 through 2004 data supplied by Global Trade Information Services, Inc.

Australia: More than 99 percent of U.S. exports of manufactured goods to Australia became duty free immediately on January 1, 2005, when the U.S.-Australia Free Trade Agreement went into effect. It is a state-of-the-art agreement that reflects the modern globalized economy by opening markets and streamlining mutual access in intellectual property, services, government procurement, e-commerce, and investment. Manufactured goods currently account for 90 percent of total U.S. goods exports to Australia. Accordingly, the FTA provides for the most significant immediate reduction of industrial tariffs ever achieved in a U.S. FTA and will provide immediate benefits for America's manufacturing workers and companies. U.S. manufacturers estimate that the elimination of tariffs could result in $2 billion per year in increased U.S. exports of manufactured goods.

Chile: Since the implementation of the U.S.-Chile FTA on January 1, 2004, U.S. exports to Chile have increased 33.5 percent as compared to 2003—more than double the rate of growth in U.S. exports to Latin America (including Mexico). For the first time since 1995, U.S. exporters increased their share of the Chilean import market in 2004.

SME Congress of the Americas

SBA and its Chilean counterpart, SERCOTEC, joined forces to lead the First SME Congress of the Americas in Renaca, Chile, October 5–6, 2004. More than 75 public, private, and non-profit small business service providers from 12 countries participated in roundtable discussions. Groups discussed factors affecting small business participation in trade, including strategies for more effective cooperation between public and non-governmental organizations in supporting SME trade.

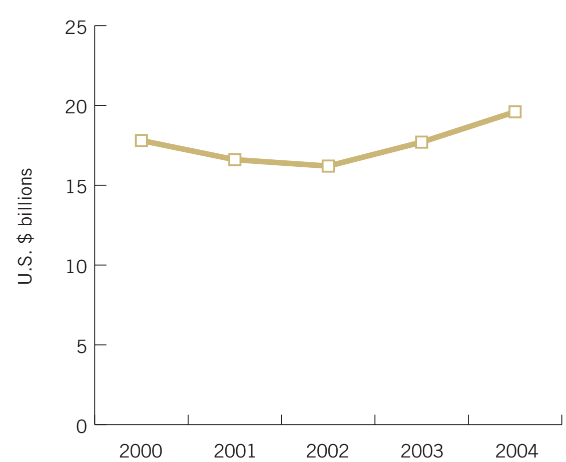
Although U.S. exports to Chile occupied 25 percent of the Chilean import market in 1995, that share consistently dropped in the years following and reached just 14.5 percent in 2003. In 2004, U.S. exports accounted for 15.1 percent of Chile's imports. With the FTA in effect, U.S. exporters are winning back market share that was lost in recent years to the European Union, Mexico, and Canada, all of which negotiated free trade agreements with Chile before the United States. *(See Chart 4.)*

Among the benefits of tariff reductions negotiated in the FTA, U.S. exports of certain construction machinery have grown by 415 percent, tractors by 371 percent, almonds by 329 percent, and motor vehicles used to transport goods by 60 percent.

Singapore: The U.S.–Singapore FTA went into effect on January 1, 2004. It is the first FTA with an Asian nation. Since then, U.S. exports of furniture products to Singapore are up nearly 100 percent; U.S. workers producing information technology equipment have increased their sales by 62 percent; and overall U.S. exports have grown by more than 19 percent. Other significant export growth sectors include plastics, cosmetics, and pharmaceuticals; construction equipment; building products and paper products; and scientific and medical equipment. Encouraged by new opportunities offered through the FTA, U.S. small and medium-sized enterprises also see Singapore as an excellent gateway to access the greater Association of Southeast Asian Nations (ASEAN) region and will benefit from the recently signed cooperative agreement between U.S. and Singaporean manufacturing associations. The FTA enhances protection of intellectual property, thus supporting U.S. firms' interest in and efforts to expand trade and investment in franchising, licensing, information technology, and communications equipment. *(See Chart 5.)*

Morocco: The United States and Morocco completed an FTA on March 2, 2004, as part of a broader strategy to liberalize trade in the region

Chart 5. U.S. Exports to Singapore, 2000–2004



Source: U.S. Department of Commerce.

U.S.–Singapore FTA Best Prospect Sectors

The U.S.–Singapore FTA increases openness in service sectors. The government procurement section of this FTA offers increased opportunities for financial services, telecommunications equipment and parts, logistics services, medical services, education, construction services, information technology including computers and parts, x-ray equipment, medical instruments, photo equipment, vitamins, and distilled spirits.

Highlights: Enhanced market access under the FTA will promote expansion of opportunities for U.S. firms in information technology and communications products and services, including satellite dishes and broadcasting equipment, and microelectronics such as optical fiber and appliances. The FTA also provides new opportunities for U.S. manufacturers of equipment for hotels and restaurants.

through the Administration's Middle East Free Trade Area (MEFTA) initiative. The agreement, already ratified by the U.S. Congress and the Moroccan Parliament, now awaits the signature of the King. When the agreement enters into force, tariffs on more than 95 percent of qualifying consumer and industrial goods will be eliminated immediately. Remaining tariffs on this category of goods will be eliminated over a nine-year period. Currently, U.S. exports to Morocco carry an average tariff of more than 20 percent. The agreement also offers new access to services, intellectual property protection, a predictable legal framework for U.S. investors, open and fair government procurement, and strong protections for labor and environment.

Twenty-four states exported more than $2 million in goods to Morocco in 2003. Ten of these states exported goods worth more than $10 million, and two exported merchandise worth more than $50 million.

CAFTA-DR: Negotiations with the five Central American countries of Costa Rica, El Salvador, Honduras, Guatemala, and Nicaragua were completed in January 2004. Negotiations with the Dominican Republic were launched in January 2004 and concluded in March 2004. The United States exported almost $16 billion in goods to the five Central American countries and the Dominican Republic in 2004, more than to Russia, India, and Indonesia combined. An FTA agreement with Central America and the Dominican Republic would effectively create the second largest U.S. export market in Latin America, behind only Mexico, and the 14th largest U.S. export market in the world. The market access and trade disciplines provided by CAFTA-DR offer an opportunity to expand U.S. exports to a region that is already seeing high export growth rates. U.S. export growth to the CAFTA-DR region has outperformed overall U.S. exports. From 2000 to

U.S.-CAFTA-DR Best Prospect Sectors

Information technology products: U.S. exporters of information technology will all benefit from the agreement as CAFTA-DR countries forge ahead into the digital age. Best prospects include circuit-switching equipment, computers and peripherals, cables, routers, and cellular services equipment, including base stations, radio trunking equipment, and handsets.

Chemicals: U.S. exporters of chemical and related products, especially exporters of plastics and cosmetics, will benefit. Ninety-one percent of U.S. fertilizers and agro-chemicals exports will be duty free upon entry into force of the agreement, an important boost to a subsector that has seen declining exports to the region.

Industrial machinery: U.S. exporters of food processing, storage and packaging equipment, agricultural machinery (including irrigation equipment), and heating and cooling equipment will benefit significantly from the agreement.

Electrical power generation and distribution equipment: Best prospects are electrical power generation and distribution equipment, including transmission and distribution-related equipment, meters, regulators, boxes, switchers, converters, and pumps.

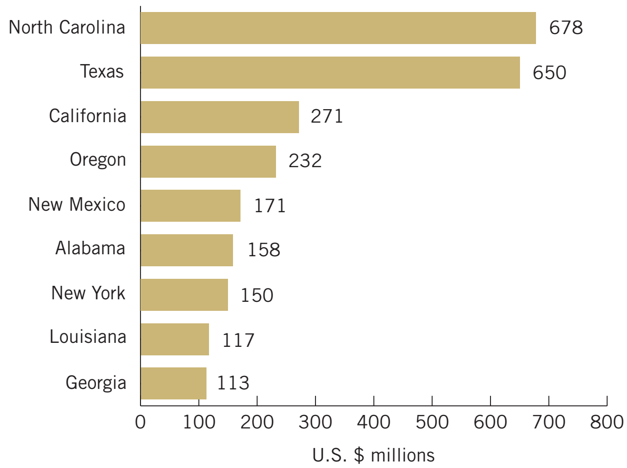
Environmental technologies: Virtually all U.S. environmental technology product exports to Central America and the Dominican Republic will receive immediate duty-free treatment. The elimination of tariffs is an important competitive boost to a sector in which 99 percent of companies in the United States are small enterprises.

Medical equipment: Ninety-eight percent of U.S. medical equipment exports to Central America and the Dominican Republic will receive duty-free treatment immediately upon entry into force of the agreement. U.S. suppliers will be well positioned to take advantage of growing demand for medical equipment and supplies.

Construction equipment and building supplies: Ninety-nine percent of U.S. construction equipment exports and over 55 percent of building supply exports will be duty free immediately upon entry into force of the agreement. Tractors, road building and paving equipment, items required for heavy infrastructure (hotels, roads, and bridges), and low-, medium-, and high-end residential housing are all best prospects.

Automotive parts and services equipment: The agreement will eliminate tariffs on autos and parts that range as high as 30 percent for certain products. Automotive parts, accessories, and service equipment are the best prospects for U.S. exports to the region.

Chart 6. Nine States Increased Their Exports to CAFTA-DR by More Than $100 Million in 2000–2004



Source: U.S. Department of Commerce.

Table 1. Share of Small and Medium-Sized Enterprises (SMEs) in U.S. Merchandise Exports to CAFTA-DR Markets, 2002

Country	SME Share (percent)
Nicaragua	70
Guatemala	47
Dominican Republic	44
El Salvador	35
Honduras	33
Costa Rica	22
Total exports to CAFTA-DR	37
Global exports	26

Source: U.S. Department of Commerce.

2004, export shipments to CAFTA-DR destinations grew by almost 16 percent, compared with less than 5 percent for overall U.S. exports. U.S. export growth to CAFTA-DR countries is broadly based. Half of the 50 U.S. states recorded 2004 export shipments to the CAFTA-DR region that exceeded a value of $100 million. Nine states increased their exports by more than $100 million from 2000 to 2004. *(See Chart 6.)*

More than 80 percent of American-made manufactured goods exported to Central America will be duty free immediately when CAFTA-DR enters into force, with the remaining duties to be phased out over the next decade. Duties on nearly all American agricultural goods will be eliminated over a period of 15 years.

The FTA will be of particular benefit to SMEs. Many of the sectors that will benefit most from the agreement are dominated by small businesses. In 2002, SMEs (enterprises with 500 or fewer employees) were responsible for an estimated 37 percent of the value of U.S. merchandise exports to the Dominican Republic and Central America. This was considerably greater than the 26 percent SME share of global U.S. merchandise exports. SMEs particularly benefit from the tariff-eliminating provisions of FTAs and should benefit from the significant tariff cuts required under CAFTA-DR. *(See Table 1.)*

Bahrain: The U.S.–Bahrain FTA was signed in September 2004. The agreement, designed to eliminate and reduce tariffs and other trade barriers, will dramatically increase market access in Bahrain for U.S. manufacturers and service providers. For example, 100 percent of current industrial and consumer trade will be duty free. Two-way trade in goods between the United States and Bahrain in 2004 was $706 million and included such products as aircraft, machinery, vehicles, pharmaceutical products, toys, games, and sports equipment. The Bahrain FTA is another step toward President Bush's plan for a Middle East Free Trade Area (MEFTA) by 2013.

U.S.–Bahrain FTA:

One-hundred percent of bilateral trade in consumer and industrial products will become duty free immediately upon entry into force of the agreement. Moreover, Bahrain will accord substantial market access across its entire services regime. The agreement results in increased market access for U.S. exporters in the following sectors: audiovisual services, express delivery, telecommunications, computer and related services, distribution, healthcare, and services incidental to mining, construction, architecture, and engineering. In the area of e-commerce, digital products will receive non-discriminatory, duty-free treatment. Additionally, U.S. financial service suppliers will have the right to establish joint ventures.

STRATEGY TO ENSURE THAT U.S. EXPORTERS BENEFIT FROM FREE TRADE AGREEMENTS

Outreach and Promotion: Last year, the TPCC agencies began to develop outreach and marketing efforts to help U.S. businesses understand the export opportunities available to them in new FTA markets. These efforts included:

- “Road Shows” featuring counseling visits by Commercial Officers stationed in CAFTA-DR countries, to meet with U.S. exporters in more than 40 U.S. cities. Additionally, Senior Commercial Officers posted to CAFTA-DR nations recently met in Chicago during a National Association of Manufacturers conference at which they counseled U.S. manufacturing firms on key growth sectors and export opportunities in the region.

- Video and teleconference market briefings and seminars on the U.S.-Australia FTA provided by the Commercial Service staff in Sydney, who highlighted key growth sectors for U.S. firms located in Nashville, Kansas City, San Diego, and Los Angeles. Additionally, the State Department funded in-country FTA Business Outreach programs to build on efforts to broaden awareness of new opportunities for U.S. companies resulting from the provisions of the U.S.–Australia FTA.

- A U.S. Embassy-sponsored six-day, eight-city “FTA Caravan” outreach campaign designed to inform the Moroccan public about the details of the U.S.–Moroccan FTA. This effort, which included Embassy officials, members of the private sector, and the U.S. Chamber of Commerce, included roundtables with business leaders throughout the country interested in doing business with U.S. companies.

- Videoconferences for U.S. firms, in 16 American cities, interested in learning more about the U.S.–Chile FTA. These sessions, which featured Commercial Service officers stationed in Santiago, focused on commercial opportunities created by the FTA. These videoconferences were followed up by in-person counseling visits with U.S. firms based in Boston, Miami, New Orleans, Biloxi, San Antonio, and San Diego.

This year, the Commercial Service has taken its efforts to a new level by launching a comprehensive promotional effort aimed at U.S. small business manufacturing and services exporters that focuses on the FTA markets and their best prospect sectors. This campaign consists of:

- A series of seminars and conferences across the United States that focus on the benefits of trade with FTA countries. These sessions are reaching out to small business exporters, and many feature representatives from the Department of Commerce's Market Access and Compliance unit as well as state and local partners.

- Commercial Service officers stationed in U.S. embassies and consulates in the FTA countries showcasing, via videoconferences, firsthand information on which sectors offer good prospects and how U.S. companies can best enter the market.

- Comprehensive and easy-to-use market research information that includes information on top U.S. exports to FTA countries and a breakdown of best prospect sectors. This information supplements the Country Commercial Guides and Industry Sector Analysis Reports produced annually by the Commercial Service posts overseas.

- A series of Commercial Service-sponsored trade missions to the FTA markets or buyer delegations from FTA countries to the United States that focus on best prospect sectors for U.S. exports. The trade missions will focus on recruiting U.S. small business manufacturers and services providers.

Internet-based information: The U.S. Department of Commerce and other TPCC agencies are working together to ensure that U.S. businesses have easy, Internet-based access to the latest market research and outreach programs and seminars devoted to sharing information on FTA markets. Our comprehensive Web site **www.export.gov/fta** will soon provide easy links to FTA market information at each of our country sites.

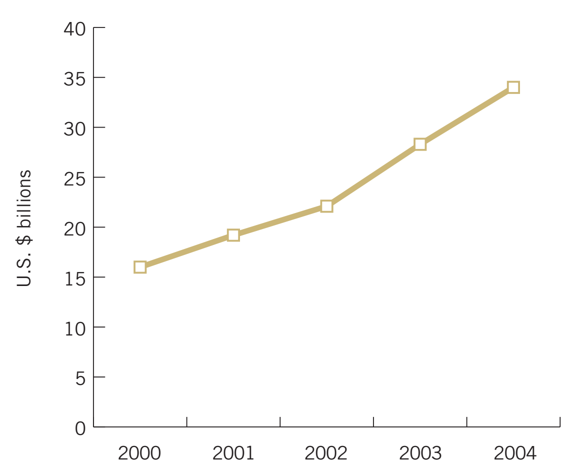
Compliance with FTAs: A U.S. Government priority after FTA negotiations have concluded is ensuring that our trading partners live up to FTA obligations. The Commerce Department performs systematic reviews and has developed monitoring plans and documentation for each partner's obligations under the FTA. Using these reviews, the Commerce Department will work with other TPCC partner agencies as well as overseas posts to ensure that all commitments are met on time.

Increasing Exports to China

Since 2000, China's economy has grown between 7.5 percent and 9.3 percent each year. According to the International Monetary Fund, it is now the world's second largest economy, producing 12.6 percent of world output in 2003 (based on purchasing power parity GDP). In 2005, China is expected to account for a quarter of world growth. Although most of the focus on China has been on the growing bilateral trade deficit, U.S. exporters have found China to be a good market. The rate of increase of U.S. exports to China is double that of U.S. exports to the rest of the world, having increased 22 percent in 2004 to an estimated $34.7 billion, compared to growth in total U.S. exports of 13 percent. China accounted for more than half of total U.S. export growth in 2004. In addition, the number of U.S. SMEs exporting to China has dramatically increased to approximately 14,000 (87 percent of the total U.S. companies exporting). This represents a 9.4 percent increase over the previous year and a 200 percent increase over 1992.

Part of this increase in U.S. exports *(see Chart 7)* is due to the fast pace of growth in the Chinese economy and an improving business climate in China. But the increase can also be attributed to a better understanding by U.S. firms of the opportunities and challenges in China. Over the past year, the Secretaries of the Departments of State, the Treasury, Labor, Commerce, Energy, and Transportation, as well as the heads of the Office of the United States Trade Representative (USTR), Ex-Im Bank, SBA, USTDA, and the Environmental Protection Agency (EPA) have made trips to China

Chart 7. U.S. Exports to China, 2000–2004



Source: U.S. Department of Commerce.

or met with their counterparts to improve trade and economic cooperation between China and the United States. Highlights from these efforts include:

- A successful U.S.–China Joint Commission on Commerce and Trade (JCCT), led by USTR and the Commerce Department, at which China made strong commitments to the United States to substantially reduce IPR infringement in China and committed to fix a number of market access problems. We are monitoring those commitments closely and will work aggressively to ensure U.S. companies have adequate intellectual property protection in China;

- An air services agreement that from 2004 to 2010 will permit a nearly fivefold increase—from 54 to nearly 250—in the number of flights U.S. carriers can operate to China;

- Development of the Aviation Cooperation Program, which supports training of China's aviation authority by U.S. Government and private-sector officials and creates linkages between the U.S. private sector and Chinese decision-makers;

- Promotion of U.S. environmental and clean energy technologies and services for the 2008 Beijing Olympics;

- A framework agreement to streamline financing of U.S. exports to China;

- A commitment by the Chinese to cooperate in facilitating exports to China by American SMEs;

- An increase in U.S. export promotion resources dedicated to assisting U.S. firms exporting to China;

- A successful U.S.–China Joint Economic Committee at which China reaffirmed and strengthened its commitment to move to a market-based, flexible exchange rate;

- Reopening of China's market to U.S. poultry exports.

FOCUSING OUR RESOURCES TO HELP U.S. EXPORTERS

As interest in exporting to China has increased over the past year, we have responded by improving our ability to help U.S. companies get into this challenging market. In 2004, the Commerce Department announced two new initiatives aimed at helping U.S. companies expand exports to China—the China Business Information Center (China BIC) and American Trade Centers (ATCs). In addition, SBA and the Commerce Department have developed a productive relationship with the China Council for Promotion of International Trade (CCPIT)—a quasi-governmental trade promotion organization in China.

- **China BIC:** This is the first comprehensive U.S. Federal Government resource aimed at helping American businesses take advantage of China's rapid integration into the global economy. The China BIC offers clients access to counseling with trade specialists in the United States, referrals to Commercial Service officers in China, and channeling of trade leads to clients through U.S. Export Assistance Centers. The China BIC consists of an 800 number that the public can use to speak with a China trade specialist; a Web site, **www.export.gov/china**, with China information and export tools; and a series of outreach events around the country to give U.S. businesses a clearer picture of how to conduct business in China. These programs often include full-day, sector-specific seminars on issues such as intellectual property protection, technical standards, and the basics of exporting to China. Since September 2004, Commerce Department officials have conducted 45 China outreach seminars in cities throughout the United States, reaching 2,830 participants.

- **ATCs:** These trade centers increase our ability to help U.S. companies tap into export markets in second-tier, but very large, commercial centers in China. The ATCs will be located within the five existing U.S. missions in China and are expected to undertake an extensive outreach campaign and increase U.S. participation in trade events. The ATC commercial representatives will travel to major second-tier cities (such as Chongqing, Dalian, Nanjing, and Wuhan) to develop contacts among Chinese government entities and businesses and serve as intermediaries in introducing U.S. exporters to Chinese decision-makers for major projects, to Chinese buyers, and to Chinese show organizers. The commercial representatives will also produce or supervise the production of market research focused on industry and service sectors of particular importance in the major regions of China.

- **CCPIT:** SBA and the Commercial Service have established a formal relationship with the CCPIT to increase U.S. SME exports to China. The letter of interest, signed during last year's JCCT Ministerial, calls on the CCPIT to work with SBA and Commerce Department officials to assist U.S. small business exporters. Activities include helping U.S. companies identify the best trade fairs in China, bringing Chinese buyers to major U.S. trade shows, and working directly with U.S. Export Assistance Centers to share information with U.S. businesses about the Chinese market. Already in 2005, CCPIT brought a Chinese buyer delegation to the National Association of Manufacturers trade show where SBA and Commerce Department officials set up meetings with numerous U.S. companies from the Chicago area. CCPIT will also participate in SBA's Small Business Expo this spring.

In 2004, the Commerce Department alone reported 452 export-related deals, contracts, or signed agreements worth an estimated $4.3 billion in China. Most of these transactions involved small and medium-sized U.S. businesses. We expect that we will be able to improve on these numbers in 2005.

STRATEGY FOR 2005

The TPCC will expand on last year's focus on high-level visits, progress in the JCCT, and sector-specific efforts to improve the U.S.-China commercial relationship. Key sectors in which we see significant opportunities for U.S. companies include healthcare, information and communications technologies, environmental technologies, construction, building materials, and logistics.

These sector teams have developed strategies that include addressing market access barriers, increasing sector-specific market research, targeting key trade promotion events, and conducting outreach to U.S. companies on how to export to China. All this information will be continuously updated on the new Web site **www.export.gov/china**. In addition, the agencies will also work to improve the business environment in the key crosscutting issues of IPR and standards.

Healthcare

China is quickly emerging as one of the leading markets for pharmaceutical products and medical devices. Pharmaceutical sales have grown at an average annual rate of 14 percent over the past 15 years. Current estimates predict that by 2010 pharmaceutical sales in China will exceed $60 billion, and business analysts predict that by the year 2020 China will become the world's largest market for pharmaceutical products. Currently, U.S. pharmaceutical firms represent approximately 12 percent of the Chinese pharmaceutical market, or around $720 million in annual sales. Industry in China reports that if counterfeiting could be reduced and other intellectual property protections strengthened, market share could more than double, rising from 12 percent to 25 percent.

The market for medical devices in China in 2004 was estimated at about $6 billion, with imported medical devices accounting for 70 percent of the

Healthcare

Market Potential:

- By 2010, pharmaceutical sales in China will exceed $60 billion.
- Chinese imports of medical devices are expected to increase 15 percent in 2005.

Strategy:

- Focus on regulatory issues and training to increase market access.
- Organize 2005 U.S.-China Healthcare Forum.

market. U.S. medical device exports to China were recently valued at $2 billion, 35 percent of China's total medical device import market in 2002. According to China's International Trade Center statistics as of 2003, China was the 13th largest export market for U.S. medical equipment and supplies, up from the 21st largest in 1998. Industry officials predict that the Chinese market will become the biggest export market for U.S. medical devices within the next 20 years.

To help U.S. companies get better market access, the JCCT healthcare group is focusing on regulatory issues by increasing the number of meetings and training sessions with Chinese officials over the next two years. The U.S. medical device and pharmaceutical industries have been active participants in these bilateral training events, realizing that increased familiarity with internationally recognized best practices makes Chinese officials more amenable to the regulatory reforms needed to make China's healthcare market more accessible to U.S. products.

In addition to regulatory issues, reimbursement/pricing is a major area of concern for the U.S. healthcare industry. The focus is on China's efforts to control the price of medical devices and pharmaceuticals without the recognition of the research and development that goes into creating these products. In the JCCT forum, we will focus on broad health economics issues (such as the role of insurance in addressing healthcare costs) and address specific reimbursement/pricing issues such as China's regional drug pricing lists and recently announced centralized purchasing plans for both medical devices and pharmaceuticals.

Outside of the JCCT structure, the Commerce Department will continue to work with China's Ministry of Health, the U.S. Department of Health and Human Services, and U.S. healthcare industries to organize a U.S.–China Healthcare Forum. It will take place in Beijing in the summer of 2005 and address some of the public policy and industry-specific issues surrounding China's burgeoning private healthcare sector.

Market research will include reports on the hospital design and construction market, the medical diagnostic equipment market, and translations of new regulations.

Major trade events include:

- Healthcare trade mission, in coordination with the China Medical Equipment Fair, to a number of cities;
- U.S. Pavilion at the China International Medical Equipment fair in Harbin;
- U.S. Pavilion at the ChinaMED fair in Beijing;
- Chinese buyer delegation to the Clinical Laboratory Exposition in Orlando, Florida;
- Chinese buyer delegation to the Natural Products Expo in Washington, D.C.

Information and Communications Technologies (ICT)

China is home to one of the largest and fastest growing ICT markets in the world. According to statistics released by the Ministry of Information Industry, the 2002 total sales value for electronics and information technology products was $169.5 billion, an increase of 17.8 percent over the previous year. China imported approximately $74 billion worth of ICT products in 2002. The total market size is estimated to be $215 billion.

According to both government and private-sector sources, the demand for information technology products is expected to maintain this high growth level because of rapid economic growth and development in China, favorable national policies, and growing consumer demand. In 2004, U.S. imports of telecom equipment exceeded $1 billion, up 10 percent from 2003.

The top policy-related issues industry is facing in this sector include protection of IPR; reducing barriers to ICT-related services; promoting open, transparent, and impartial standards, technology neutrality, and conformity assessment procedures; and easing access to government procurement markets.

The JCCT working group has developed an aggressive program this year aimed at making progress in all of these areas. Highlights for the coming year include:

- IPR standards seminar in Beijing;
- U.S.–China Roundtable on Informatization Policy Issues with China's State Council Informatization Office in Beijing, aimed at addressing technology neutrality, IPR issues, and government procurement;
- U.S.–China ICT Standards and Conformity Assessment Seminar in Beijing;
- ICT breakout session at the 2005 U.S.–China Standards Workshop.

Information Communications Technologies

Market Potential:

- Currently $31.6 billion.

Strategy:

- JCCT working group focus on IPR training and transparent government procurement.
- Aggressive trade promotion and market research.

We will continue to have an aggressive trade promotion effort in this sector with sector-specific market research, including reports on the telecommunications and cellular equipment markets. Key trade promotion events include:

- Microelectronics trade mission to Shanghai in March;
- Chinese buyer delegation to National Association of Broadcasters;
- Chinese buyer delegation to Supercomm show;
- Chinese buyer delegation to Corporate and Channel Computing Expo show.

Environmental Technologies

China's immense environmental problems and impressive economic growth translate into a large and rapidly growing market for environmental goods and services. According to China's State Environmental Protection Administration, China plans to spend $17.5 billion annually, or about 1.3 percent of GDP, on environmental protection. Coal dominates China's domestic energy resources, and the market for U.S. clean energy technologies will be substantial. The Chinese government is increasing environmental enforcement and seeks foreign

Environmental Technologies

Market Potential:

- $17.5 billion annually.
- Major focus on China in light of 2008 Olympics.
- Environmental market growing 15 percent annually.

Strategy:

- Help U.S. companies understand IPR issues.
- Conduct aggressive subsector market research and trade promotion.
- Promote Ex-Im Bank financing for smaller projects for which concessional financing is less of a factor.

cooperation for increased investment and joint ventures in environmental projects. Chinese public and private decision-makers are interested in western models to effectively protect the environment and advance sustainable economic growth.

The environmental technologies most in demand in China are those in which U.S. companies excel—air pollution control equipment and engineering, industrial water and wastewater equipment and engineering, resource recycling technologies, high technology instrumentation and monitoring equipment, and clean energy technologies and associated engineering services (clean coal, nuclear, and renewable). From 2001 to 2003, U.S. exports of environmental goods and services to China grew 44 percent, from $800 million to $1.2 billion. However, the U.S. share of China's environmental imports remained flat at 11 percent.

The most significant concern for U.S. exporters of environmental technologies continues to be project financing. Other countries continue to use their development assistance funds to help China develop large-scale environmental projects, making it difficult for U.S. industry to bid competitively. As in other sectors, U.S. environmental technology companies also face policy concerns such as IPR protection, product regulations, and associated testing and certification requirements.

Planned activities include:

- Support breakout session focusing on standards for water conservation and energy efficiency at the 2005 Standards and Conformity Assessment Workshop;
- Host seminars to educate members of the U.S. environmental industry on strategies to protect their intellectual property;
- Promote Ex-Im Bank financing for environmental projects.

Market research will include reports on the water and wastewater sector, air pollution control equipment, and opportunities for companies with cleaner production technologies. Key proposed trade events include:

- Environmental ministerial meeting between the EPA Administrator and the National Development and Reform Commission Minister;
- U.S. Pavilion at the Water/Wastewater Treatment Exhibit in Guangzhou;
- U.S. Pavilion at the China International Environmental Protection Exhibition and Conference in Beijing;
- Chinese buyer delegation to the Waste Expo 2005 in Las Vegas, Nevada;
- Chinese buyer delegation to the American Water Works Association's 2005 conference in San Francisco, California.

The working group will also focus on following up on recent USTDA feasibility studies such as the Beilun Power Plant Nitrogen Oxides Reduction

Project and the Coal Mine/Coal Bed Methane Fired Power Plant Design Services.

Building Materials

Among the hottest market sectors in China is the building materials market. With the boom in both building construction and home building and decorations industries, prospects are attractive for U.S. companies. High-end housing, including units specifically designed for expatriates, has been the target segment for most foreign building material suppliers, as their products are familiar to customers.

The global export market to China in building and decoration materials hit almost $3 billion in 2002, an increase of almost 11 percent compared with 2001. China's building materials industry continued to boom in 2003, with total imports reaching $3 billion, 15.4 percent above 2002.

Market research will include reports on environmental controls for buildings, the residential construction market, and opportunities for selling green building technologies. Major trade events include:

- China building trade show in Beijing;
- Trade mission for evergreen buildings this summer for Chinese buyers of U.S. products;
- ConAg show in Las Vegas, Nevada.

Building Materials

Market potential:

- Currently $3 billion, with 10 percent to 15 percent annual increase.

Strategy:

- Aggressive subsector market research and trade promotion.

Construction

The Chinese construction market grew at a rate of 10 percent in 2002. At $85 billion, it accounted for almost 7 percent of China's total GDP. The construction industry is expected to show strong growth for the foreseeable future as a result of strong overall domestic economic growth and investment and several Chinese government infrastructure expansion programs.

Narrowing the income gap between China's coastal provinces and its interior has become a key priority for China's leadership. To this end, the Chinese government has adopted programs to "Open the West" and to "Revitalize the Northeast." Besides these long-term efforts to develop and modernize China's infrastructure, there are several special opportunities to improve U.S. market share, including the 2008 Beijing Olympics, the 2010 World Expo, and plans to expand China's nuclear power generating capacity.

Market research will include reports on market opportunities in construction and design and public utilities development. Our promotion focus will be on advocacy.

Key activities include:

- **Olympics:** The Commercial Service in Beijing has developed a weekly Beijing Olympic newsletter

Construction

Market potential:

- $85 billion currently, growing about 10 percent a year.

Strategy:

- Raise regulatory issues.
- Increase market research.
- Advocate for U.S. companies on specific projects.

that highlights opportunities for U.S. exporters. The U.S. Department of Energy, EPA, and USTDA are providing feasibility studies, demonstration projects, and other types of technical assistance to help Beijing clean up the city in preparation for the Olympics. In almost all of these cases, technology and products from U.S. companies are being used.

- **Trade Shows:** We will encourage U.S. company participation in construction equipment trade shows in China.

Intellectual Property Rights Protection

Although we have seen some important progress in the liberalization of China's commercial environment, exporters still report that China remains one of the more difficult markets in which to do business. China has made significant improvements to its IPR framework of laws and regulations, such as lowering the criminal threshold, but has failed to effectively enforce those laws and deter infringement. IPR remains one of the few issues on every industry's list of concerns because enforcement of intellectual property laws remains weak. It is an Administration priority to continue to press China to significantly improve protection of IPR.

As in previous years, IPR infringement affected products, brands, and technologies from a wide range of industries, including films, music, publishing, software, pharmaceuticals, chemicals, information technology, textile fabrics and floor coverings, consumer goods, electrical equipment, automotive parts and industrial products, among many others. Enforcement efforts in these areas are yielding mixed results and have been hampered by poor coordination among Chinese government ministries and agencies, local protectionism and corruption, high thresholds for initiating investigations and prosecuting cases, insufficient training, and inadequate and non-transparent administrative, civil, and criminal processes.

The Commerce Department and USTR conducted the ministerial-level JCCT meetings in April 2004, which produced an IPR Action Plan and Chinese commitments to take strong measures to substantially decrease rampant piracy and counterfeiting. For example, in August 2004, China's State Council announced a year-long campaign targeting IPR infringement focused on import and export activities, trade fairs and exhibitions, distribution, wholesale markets, processing of brand name goods, and publishing. In December, China released a judicial interpretation that lowered the threshold required to initiate criminal cases. However, it remains to be seen if either the national campaign or the lowered criminal threshold will result in increased initiation of criminal cases and decreased infringement of IPR.

In furtherance of China's JCCT IPR action plan, the U.S. Government has held training sessions for Chinese judicial officials in Beijing and other cities to assist the Chinese in building the capacity to crack down on IP infringers. Additionally, the Commerce Department has posted a U.S. Patent and Trademark Office expert on Chinese IPR laws at the U.S. Embassy in Beijing to assist U.S. companies there. U.S. Government officials have conducted more than a dozen seminars across the United States addressing how SMEs can protect their IPR in China, and we have also partnered with non-governmental organizations, such as the U.S. Chamber of Commerce, to provide additional training on IPR matters.

The JCCT will continue to focus on both the regulatory and legal environments for improved trade between the United States and China. One key area will be IPR enforcement. We will host a number of training sessions for Chinese judicial officials, develop technical assistance programs to train the Chinese in enforcement methods, and continue to educate U.S. companies on how to protect their intellectual property. We will set specific goals through bilateral cooperation to encourage the Chinese to continue to improve

The Best Protection Is Prevention: IPR Toolkit for China

Last year, China was the number one source of counterfeit products that were seized at the U.S. border. These included auto parts, watches, sporting goods, shampoo, footwear, designer apparel, medicine and medical devices, leather goods, toys, batteries, and other non-consumer products. The seemingly endless array of counterfeit products that are manufactured and distributed within China, or exported to other countries, continues to grow. According to one copyright industry association, the piracy rate remains one of the highest in the world (more than 90 percent). U.S. companies lose an estimated $2.5 to $3.8 billion annually to piracy. Focusing on trademark issues, on average, 20 percent of all consumer products in the Chinese market are counterfeit. If a U.S. product sells well in China, it is likely to be illegally duplicated by a Chinese entity. U.S. companies are not alone; pirates and counterfeiters target both foreign and domestic companies. Because prevention is the best protection, the U.S. Embassy in Beijing recently launched an IPR Toolkit for U.S. firms interested in but concerned about doing business in the Chinese market. The IPR Toolkit for China can be found at **www.usembassy-china.org.cn/ipr**.

enforcement of their IP laws. We are also working closely with U.S. industry to identify specific, detailed examples of IPR violations.

The JCCT also has a number of industry-sector JCCT working groups through which the U.S. Government will try to address the specific concerns of industries, including China's IPR environment.

Standards

U.S. exporters are facing additional barriers in the form of restrictive standards incorporated in technical regulations and related product testing requirements. The U.S. Government is focusing substantial resources on ensuring that China complies with its WTO obligations to prevent unnecessary technical barriers to trade.

We believe that partnering with China on standards and conformity assessment issues is one of the best ways to head off some of these concerns. As a result, we are pursuing a series of cooperative ventures with the Chinese government and U.S. industry on China standards issues.

- Through the Market Development Cooperator Program, we have awarded partner-matched financial awards to support the establishment of three U.S. private-sector offices in China to work with the Chinese government and industry. The first two of these, awarded to IPC and to the National Electrical Manufacturers Association, are already operational. The third, awarded to a consortium of four U.S.-domiciled standards development organizations (SDOs), is expected to open this year.

- In the 2004 U.S.–China Joint Commission on Commerce and Trade (JCCT), we agreed with China to hold two comprehensive U.S.–China Standards and Conformity Assessment Workshops. The first of the two programs took place in Beijing on August 18 and 19, 2004, and the second will be held this summer.

- With input from U.S. companies, we are aggressively working to head off new Chinese mandatory standards that create unnecessary barriers to trade, such as China's "wireless" encryption standard for computers.

- USTDA and the U.S. Department of Agriculture are developing a technical training program for China's Ministry of Agriculture on standards for approval of advances in genetically modified agricultural products. The results will enable U.S. farmers to more efficiently export their products into China and reduce the hidden barriers to the importation of U.S.-produced agricultural products.

In sum, our commercial strategy for China is multifaceted: While increasing our promotional resources to encourage U.S. companies to take advantage of the fast growth in China, we are at the same time ensuring U.S. companies are informed about potential problems they may face in the Chinese market and engaging the Chinese to help them develop a more conducive business environment.

Growth Markets in the Spotlight: Pointing U.S. Exporters Toward Future Opportunities

IDENTIFYING AND ENGAGING THE MOST PROMISING MARKETS

The world economy is forecast to grow by more than 4 percent this year. Between 1995 and 2004, the world economy grew somewhat faster than the U.S. economy. What this means for U.S. exporters is that, while the market here at home continues to see strong forward momentum, international opportunities also abound.

But not all markets overseas are forecast to grow at the same rate. On a regional basis, the emerging markets of Asia and the transitional economies of Eastern and Central Europe are expected to experience the fastest growth. Other key markets are found in Latin America.

To help U.S. industry consider where best to seek future opportunities, the U.S. Department of Commerce undertook an analysis of markets that hold the greatest promise of significant growth over the near term (approximately the next 12 to 18 months), using a predicted economic growth analysis model that included factors such as market size, trade restrictiveness, foreign direct investment, the overall business climate, macroeconomic fundamentals, and U.S. business interest. Taken together, these factors point to seven key "spotlight" markets—China, Japan, South Korea, Russia, Brazil, India, and the European Union.

Although these seven markets hold great potential, the list is not exhaustive or static. These destinations are not ideal for every U.S. exporter. Indeed, U.S. firms should always be aware of potential obstacles and market access barriers. Transparency, due process, and contract sanctity problems remain in some. This effort to focus our resources on a few markets that matter most to our clients is an ongoing exercise that will respond continuously to changing market realities.

As we crafted our trade promotion strategy for the coming year, it became clear that market obstacles in two areas in particular—product standards and certification requirements and protection of IPR—are important issues in each of the seven markets. To leverage our efforts, we developed strategies in these areas that could then be applied as appropriate in each key market.

Spotlight on Northeast Asia

Japan: A vibrant, prosperous country, Japan is our third largest trading partner. Japanese consumers spend hundreds of billions of dollars on food, clothing, travel, entertainment, and a wide variety of other consumer goods and services. The average Japanese household has more than $100,000 in savings and a disposable income of $3,800 per month. Japan is the third largest market for U.S. exporters, with imports from the United States of $54 billion in 2004.

South Korea: In 2004, South Korea was the United States' seventh largest export market and imported $26 billion in U.S. goods. Although South Korea's economy has been subject to some weakness over the past few years caused by consumer debt issues, it remains an economic leader in East Asia, with sustained growth since the 1997–1998 recession and a continued export-led growth forecast this year of about 4 percent.

Strategy

In these two target markets, Japan and South Korea, we are developing a regional approach called the Northeast Asia Action Plan, which includes Taiwan. These high-income markets share certain common characteristics and account for a majority share of the region's overall GDP. Our missions in Japan and South Korea and the American Institute in Taiwan will coordinate their efforts to develop common marketing materials, cooperative outreach efforts, expanded trade promotion activities, and improved market access and compliance. In this initial stage of the program, we will emphasize synergies in the natural health and beauty products, medical devices, and educational services sectors—areas in which U.S. firms are particularly competitive.

Key Industry Growth Sectors—Japan

- **Healthcare:** Japan's market is around $17 billion for medical equipment and $60 billion for pharmaceuticals, with imports from the United States in both categories totaling almost $5 billion.

- **Software:** Estimated market size is $22 billion with almost $6 billion coming from U.S. exports.

- **Travel and tourism:** The number of visitors to the United States from Japan is expected to increase 32 percent by 2007, which would represent an approximate $10 billion increase in U.S. exports.

- **Environmental technologies:** Growing opportunities exist for alternative sources of power generation, soil remediation, and related engineering services.

Key Industry Growth Sectors—South Korea

- **Pharmaceuticals and medical equipment devices:** The South Korean market for pharmaceuticals and medical devices is expected to grow between 5 percent and 13 percent over the next three years. In 2004, total market demand for pharmaceuticals reached almost $8 billion. As for medical devices, the total market size in 2004 reached $2 billion.

- **Information and communications technology:** In 2004, total market demand for information technology (IT)/telecom equipment and services reached $140 billion, an increase of 11 percent in real terms over the previous year. The South Korean government plans to develop IT growth engines that are expected to spur continuous market demand over the next several years.

- **Automotive industry:** South Korea ranks sixth in the world in automobile unit production with a total market of 3.2 million units and exports of 1.8 million units. Total market demand for automotive parts and accessories was estimated to be $33 billion in 2004.

Spotlight on Russia

Russia's economy grew by about 7 percent in 2004, its sixth straight year of expansion (mainly due to exports of oil, natural gas, and metals). It has made slight improvements in controlling inflation and boosted foreign exchange reserves. Russia has made further progress toward joining the WTO, announcing in 2004 that it had reached agreement with the European Union and China on accession terms. U.S. exports to Russia in 2004 were $3 billion, led by ICT and electronics, oil field equipment, and auto components. Although Russia is a fast-growing economy, the country remains a difficult place in which to do business because of an entrenched bureaucracy, complex tax laws, excessive and inconsistent government regulation, lack of legal protection for contracts, foreign direct investment and intellectual property rights, and a weak legal system. However, Russia has an expanding economy and a highly educated work force able to provide a market for a wide range of technologically sophisticated American products.

Strategy

This year, the Commerce Department will focus efforts on promoting key growth sectors to experienced U.S. exporters, promoting key trade shows to potential U.S. participants, organizing informational seminars for U.S. firms interested in the Russian market, and ensuring participation of experienced U.S. SMEs in trade missions to Russia.

Additionally, in a pilot program, OPIC established an office in Moscow to coordinate private investment opportunities in Russia.

Key Industry Growth Sectors

- **Energy:** Opportunities exist for U.S. oil and gas equipment and services, including field equipment companies, engineering firms, service providers, and information technology support. Aging coal and power production facilities in Eastern Siberia and the Russian Far East will produce export opportunities for U.S. clean coal technologies and associated engineering services.

- **Information and communications technology:** Basic telecommunications services, including land lines, wireless, Internet access (dial-up and broadband), cable access, and PC access, are good sectors, as the overall market is projected to grow to $17 billion by 2008.

- **Healthcare/medical equipment:** The medical equipment and devices market has grown by 10 percent annually. Imports account for more than 70 percent of the total market.

- **Retail/franchising:** Given the increasing spending power of the Russian consumer (whose disposable income is relatively high compared to actual wages), the retail and franchising sector offers significant potential.

Spotlight on India

India is the 24th largest export market for U.S. goods. After several years of stagnation, U.S. exports to India increased by 20 percent in 2003 and again in 2004, up to $6.1 billion. India's GDP is expected to grow 6.9 percent in the fiscal year ending March 31. Moreover, with the world's 12th largest economy and a growing middle class, India is a market that should not be overlooked by U.S. business. Indeed, although the United States is India's largest import source, the Indian market is not being overlooked by our international competitors. The United Kingdom, Canada, and South Korea are planning to open additional offices or have already expanded their trade promotion presence in India to help lay the groundwork for deeper commercial ties.

Strategy

The U.S.–India commercial relationship still faces a number of long-term trade policy issues. However, there is an ongoing positive dialogue with India through bilateral initiatives such as the High Technology Cooperation Group, and the U.S.–India Economic Dialogue, which are laying the groundwork for expanded trade and economic ties. In the coming year, TPCC agencies will build on these efforts, focusing on the burgeoning Indian ICT sector and other sectors in which U.S. companies are particularly competitive.

Key Industry Growth Sectors

- **Information and communications technology:** India lowered all remaining tariffs affected by the WTO Information Technology Agreement (ITA) to zero in March 2005, facilitating market penetration by U.S. ICT companies in telecommunications networks; computers, software, and peripherals; networking equipment; and smart handheld devices. Although tariffs on ITA products will be eliminated, exporters of ITA goods will still face additional import taxes.

- **Medical equipment/healthcare:** Imports of healthcare products into India grew tenfold in the 1990s and increased by a combined annual growth rate of about 12 percent from 2000 to 2003. This pace of growth is expected to continue.

- **Environmental technologies:** The market is currently estimated to be $3.5 billion. U.S. environmental technologies exports to the country increased an average of 17 percent from 1997 to 2000 and are projected to continue growing at an average rate of at least 15 percent over the next few years.

- **Renewable energy:** India intends to invest $18 billion to $20 billion over the next five years in the energy sector. Significant potential opportunities exist in electric power generation, clean coal technologies, transmission and distribution equipment and technologies, and renewable energy equipment and technologies. India has announced that, by 2012, 10 percent of new power generation will come from renewable energy sources.

- **Travel and tourism:** Travel and tourism exports to India in 2003 totaled $1.2 billion. Forecasts indicate that arrivals from India will grow by 37 percent by 2007. The bilateral open skies agreement concluded in January 2005 should facilitate increased arrivals. According to a recent study, the United States is the most favored destination for Indians traveling abroad.

Spotlight on Brazil

Brazil has the 15th largest economy in the world and is rich in agricultural, mineral, and industrial resources. The United States continues to be Brazil's single largest trading partner. In 2004, U.S. exports were $13.9 billion. Brazil is also one of the top locations for U.S. foreign direct investment. Brazil's GDP grew by 5 percent in 2004, and projections indicate a growth rate of almost 4 percent in 2005, ranking it number one in the region.

Strategy

TPCC agencies will focus on procurement opportunities in key sectors in the Brazilian economy. These sectors include healthcare and environmental equipment (including renewable energy and pollution control equipment) and aviation.

Key Industry Growth Sectors

- **Medical devices/healthcare:** Key opportunities are in advanced medical products, disposables, diagnostic devices, and implants.

- **Information and communications technology:** Major opportunities in this area include telecommunications, IT hardware, e-commerce, and digital television. In telecommunications, the market for equipment and services is close to $23 billion.

- **Renewable energy:** Opportunities will be found in the renewable energy area, and the new energy law will create commercial opportunities. The law requires Parastatal Electrobras to enter into 15-year power purchase agreements for 3.3 gigawatts of renewable energy and to make over $8 billion in investments, primarily in biomass, small hydro, and wind power.

- **Pollution equipment:** Environmental experts estimate Brazil's environmental technologies market at $1.5 billion. Best opportunities for U.S. companies include construction of sanitary landfills, waste-to-energy projects, recycling technologies, cleanup of contaminated sites, renewable energy sources, and environmental management technologies.

- **Aviation:** It is estimated that it would cost $10 billion for Brazil to upgrade its airport infrastructure and modernize its civil aviation sector.

Spotlight on the European Union

The United States and the European Union, with its 25 member states, share the largest bilateral trade and investment relationship in the world, with annual two-way trade of over $450 billion and two-way investment of almost $2 trillion. In 2004, U.S. exports of goods to the EU-25 were valued at $172 billion. In 2003, the EU-15's GDP was more than 9 trillion euros. On May 1, 2004, the European Union added 10 new member states—Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia. These 10 countries added almost 500 billion euros in GDP to the overall EU-25 total, making the European Union the largest economy in the world. The European Union is expected to account for more than 9 percent of the world's economic growth in 2005, or more than $200 billion. Through bilateral talks and bilateral business-to-business forums, the United States and the European Union share the goals of working to continue to enhance economic growth, job creation, the promotion of innovation, and a barrier-free transatlantic marketplace.

Strategy

The Department of Commerce will launch a pilot project, based on the "Showcase Europe" (SCE) model, to introduce more U.S. manufacturing firms to EU-based companies and supply chains. The program will initially focus on the aerospace and automotive sectors. The goal will be to increase exports of American-made aerospace and automotive products to the European Union.

Key Industry Growth Sectors

The Commercial Service's SCE initiative provides U.S. exporters with a pan-European approach organized around the key growth sectors for U.S. products. The founding goal of SCE was to simplify the expansion of U.S. exports to Europe by working with American companies to develop market entry strategies. Key sectors are aerospace, automotive, energy and power generation, environmental technologies, information and communication technologies, medical and pharmaceutical, safety and security equipment, and travel and tourism.

SUPPORT FOR PRIVATE SECTOR INITIATIVES TO PROMOTE MARKET-DRIVEN STANDARDS

With this year's National Export Strategy, the TPCC endeavors to engage U.S. industry and the U.S. standards community in an ambitious partnership to develop a marketing plan that promotes the advantages of market-driven, globally relevant standards that advance U.S. technology. The advancement of U.S. Government objectives with respect to international or foreign standards will also benefit from improved interaction among federal agencies, including the trade policy development process led by the TPSC and the trade promotion and outreach activities of the TPCC.

The plan arose from the Commerce Department's identification over the last year of spotlight markets—Brazil, China, European Union, India, Japan, South Korea, and Russia—where government policy and promotion efforts can accomplish the most for U.S. exporters. Standards-related issues are significant obstacles to U.S. market access in all of these markets. Key objectives of the plan are to (a) strategically focus Commerce Department resources on these important markets; (b) engage the U.S. private sector in sectoral activities in which

U.S. companies are most competitive; and (c) develop new standards-related information resources for U.S. exporters. This initiative is expected to leverage limited resources within the Commerce Department and within the private sector.

At the heart of the outreach plan is the realization that—policy issues aside—the United States will not succeed in overcoming standards-related market barriers unless it does a better job than the competition in promoting standards that are fair and responsive to market and technology needs. The importance of developing a positive and persuasive message is especially critical in key emerging markets where standards regimes are still in the formative stage. The U.S. standards system is recognized as one of the most effective and efficient in the world today. The system, which is based on a strong public-private sector partnership, is diverse and inclusive, and supports flexible solutions.

It is important for our trading partners around the world to hear loud and clear how recognition of U.S. and other market-driven, globally relevant standards can help them improve their economic efficiency and competitiveness while promoting a higher quality of life. Furthermore, the only way that the United States can do a better job of broadcasting this message, given the reality of limited resources, is through positive engagement of private-sector partners in marketing campaigns that target key markets and sectors. Since the U.S. voluntary standards system is led by the private sector, industry must take the lead on many critical issues.

Priority Markets and Sectors

Commercial strategies have been developed for each of the priority markets. In polling its industry and country experts about standards, the Commerce Department developed an illustrative list of priority sectors and issues for each market:

- **Brazil:** digital TV and all associated products (transmission, software, TV units, etc.), electrical products (switches, relays, converters, etc.), and wireless communications (cell phones, etc.).
- **China:** telecommunications, chemicals and petrochemicals, automotive, medical equipment, audiovisual services, electronics, building materials, clean energy technologies (including coal, nuclear, and renewables).
- **European Union:** CE mark, agriculture and food, chemicals, conformity assessment.
- **India:** information technology, agriculture and food (including carbonated beverages and bottled water), gas cylinders, automotive steel, environment, clean coal technologies, and Indian standard certification fees on 109 products.
- **Japan:** information technology, medical devices, building materials.
- **South Korea:** telecommunications, automobiles.
- **Russia:** agricultural commodities and food products, medical equipment and pharmaceuticals, telecommunications equipment, oil and gas field equipment, clean coal technologies.

Options for Country and Region Standards Marketing Plans

To identify the most effective mix of activities in each of the target markets and sectors, the TPCC has developed a menu of options for promoting an open, impartial, and transparent standards approach. Programs successfully piloted in one market could be replicated in others. For example, standards activities developed in China could be replicated in other emerging markets (Brazil, India, and Russia). Likewise, approaches that work well in one developed country (European Union, Japan, or South Korea) may work in others. The TPCC agencies are prepared to extend the initiative to any markets that will advance the U.S. Government's overall objective of promoting market-driven standards. Together, U.S. industry, the U.S. standards community, and the U.S. Government can more efficiently pursue multi-country and multi-sector activities.

Foreign outreach activities that will be considered include:

- Focusing the standards-related assistance and foreign outreach of NIST on target countries and sectors;
- Increasing the contact of the American National Standards Institute (ANSI) and U.S.-domiciled standards development organizations (SDOs) with foreign standards officials—for example, videoconferences in conjunction with NIST and other government officials—and increasing participation in policy or trade missions;
- Targeting the USTDA visitors program on priority countries and sectors;
- Continuing the focus of the Commerce Department's Market Development Cooperator Program on standards activities in priority markets;
- Pursuing models for joint public-private funded training activities for foreign standards decision-makers, including educational opportunities with the participation of U.S. business schools and corporate association sponsors;
- Conducting standards workshops piloted in China in other target markets.

Domestic outreach activities that will be considered include:

- Creating a standards portal for U.S. exporters and improving coordination between government and private-sector sites;
- Re-energizing Commerce Department efforts to promote awareness and provide information on the publication of proposed standards in foreign markets, and proposed regulations notified under the WTO Technical Barriers to Trade Agreement, with a view to encouraging interested U.S. parties to comment on the proposals while still in draft;
- Participating in domestic shows and other events;
- Conducting seminars on specific topics;
- Promoting World Standards Week;
- Promoting a new standards section of the Commercial Service's Country Commercial Guides.

Commerce Department staff training options that will be considered include:

- Conducting targeted training of Commercial Service overseas and domestic field staff in key sectors;
- Continuing Washington, D.C.–based training of Commercial Service field staff;
- Providing on-line training tools for Commerce Department staff.

Next Steps

Within the Commerce Department, ITA and NIST will take the lead in partnering with the private sector and in consulting with other U.S. Government agencies. Interagency coordination and private-sector participation as full partners are the two most critical prerequisites of success. By cultivating a positive new message and a more effective approach for promoting open, impartial, and transparent standards, we can do a better job of selling not only "made in the USA," but also the model of productivity and prosperity that America has come to represent.

INTELLECTUAL PROPERTY RIGHTS: PROTECTING AMERICAN PRODUCTS AND IDEAS

U.S. exporters identify inadequate protection of IPR as a problem in the spotlight markets, particularly China, Russia, India, Brazil, and South Korea. In China, infringement of IPR rights affects all industry sectors and extends to counterfeiting of trademarks, patent infringement, and piracy of copyrights. Although China recently issued a judicial interpretation that should strengthen the protection afforded to IPR, it is too soon to say whether this interpretation will prompt measurable improvement in China's enforcement efforts, which have been inadequate. In Russia, a primary IPR issue involves weak enforcement of copyright laws and continuing failure to shut down plants that produce pirated optical discs and to combat Internet piracy. India now provides product patent protection for pharmaceutical and agricultural chemicals through a temporary executive ordinance but must pass legislation to make this protection permanent. In Brazil, copyright piracy and counterfeiting are concerns for U.S. companies in sectors as diverse as movies, music, software, soft drinks, auto parts, pharmaceuticals, consumer products, and computers. In South Korea, areas of concern include weak copyright protections in South Korean law, particularly for digital content transmitted over South Korea's advanced technology networks.

TPCC agencies will continue to work to ensure that foreign governments are complying with their obligations to provide adequate and effective IPR protection and will continue to coordinate their technical assistance efforts to help foreign governments develop the skills and expertise necessary for an effective enforcement regime.

The TPCC agencies are also working to ensure that U.S. exporters take all the necessary steps to protect their IPR in foreign countries. Because China is the number one source of counterfeit products seized at the U.S. border, the U.S. Embassy in Beijing has created an IPR Toolkit for U.S. firms that provides information about how to protect their IPR in China. Among other things, the toolkit identifies the various Chinese government agencies with responsibility for registration and enforcement of IPR and identifies the remedies that U.S. firms may seek if they discover that their IPR are being violated in China. TPCC agencies will work to introduce an IPR Toolkit, based on the China model, in each of the spotlight markets. An IPR Toolkit has already been launched in Korea, and IPR Toolkits are being developed for Brazil, Malaysia, Mexico, Russia, and Taiwan. The TPCC will work to introduce an IPR Toolkit for India as well.

In the coming year, the TPCC will explore additional means of educating U.S. exporters about the steps they must take to protect their IPR in other countries. Toward this end, the TPCC agencies will develop new training opportunities for their international trade assistance personnel to improve their IPR expertise.

Strategy Targeting Organized Piracy (STOP!) Initiative

To combat trade in counterfeit and pirated goods, the Bush Administration announced in October 2004 the Strategy Targeting Organized Piracy (STOP!) initiative. The Office of the U.S. Trade Representative, State Department, Commerce Department (Patent and Trademark Office), and Justice Department joined with the Department of Homeland Security (Customs and Border Protection and U.S. Immigration and Customs Enforcement) and the Food and Drug Administration to work together to implement STOP!. Through this initiative, the Federal Government will:

Empower small businesses to secure and enforce their rights at home and abroad by: establishing a single hotline (1–866–999-HALT) that businesses can use to learn how to protect their IPR at home and overseas or to make a complaint about the practices of foreign governments with regard to intellectual property protection. In addition, Customs and Border Protection has enhanced its mechanism for U.S. businesses to record their IPR to facilitate effective enforcement at U.S. borders.

Cast a wider, tighter net for pirated and counterfeit goods entering the United States by: implementing new procedures and risk assessments that allow the U.S. Government to better identify firms routinely trafficking in fake goods; conducting post-entry product audits; applying specialized technologies and techniques to combat piracy and counterfeiting; working to make this approach fully operational this year; and considering a statutory fix to address concerns in this area.

Raise the stakes for international pirates and counterfeiters by: making it more costly for violators by tracking down illicit financial gains and exposing counterfeit and piracy business practices.

Work with the private sector to keep fakes out of global supply chains by: developing a "no trade in fakes" program under which participating companies would take steps to ensure that their supply chains are free of counterfeit or pirated goods.

Dismantle criminal enterprises that steal intellectual property by: using all appropriate criminal laws to dismantle large-scale criminal organizations and overhauling, updating, and modernizing U.S. intellectual property statutes, particularly criminal penalties.

Reach out to trading partners and build an international coalition to block bogus goods by: seeking agreement with like-minded countries to block trade in pirated and counterfeit goods, conduct joint enforcement actions, and actively share information on the movement of suspected fake products; amending and upgrading U.S. mutual legal assistance and extradition treaties; and working with our partners in multilateral organizations such as the G8, the Organization for Economic Cooperation and Development, and Asia-Pacific Economic Cooperation.

Appendix A: TPCC Program Budget Authority

TPCC Spending by Agency, Fiscal Years 2004–2006

Program budget authority, millions of dollars

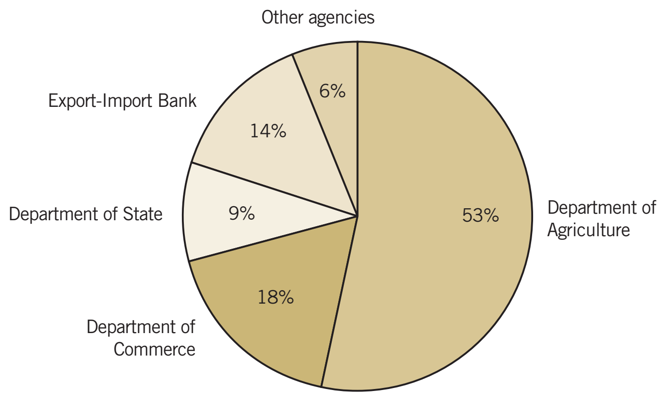
	FY 2004 (Actual)	FY 2005 (Enacted)	FY 2006 (Budget)
Department of Agriculture	1117	979	996
Department of Commerce	330	333	328
Department of Energy	9	9	9
Department of Labor	1	1	1
Department of State	155	151	167
Department of the Treasury	3	3	3
Export-Import Bank	72	132	261
Overseas Private Investment Corporation	(224)	(213)	(160)
Small Business Administration	5	5	6
U.S. Trade and Development Agency	50	51	49
U.S. Trade Representative	42	41	42
Total	1784	1705	1862

Notes:

Totals do not include the Overseas Private Investment Corporation.

Amounts may be restated in the future to reflect new data or definitions. Figures may include administrative expenses, transfers, or other adjustments.

TPCC Spending by Agency, Fiscal 2006 Request



Appendix B: Abbreviations and Acronyms

ACE Award for Corporate Excellence (U.S. Department of State)

ADB Asian Development Bank

ANSI American National Standards Institute

APEC Asia-Pacific Economic Cooperation

ASEAN Association of Southeast Asian Nations

ATC American Trade Center

BFIF Business Facilitation Incentive Fund

CAFTA-DR U.S.–Dominican Republic–Central America Free Trade Agreement

CBA Office of Commercial and Business Affairs (U.S. Department of State)

CBP Bureau of Customs and Border Protection

CCPIT China Council for Promotion of International Trade

CE conformité européene

CEI Clean Energy Initiative

CETE Clean Energy Technology Export Initiative

China BIC China Business Information Center

DOE U.S. Department of Energy

EPA U.S. Environmental Protection Agency

EU European Union

Ex-Im Bank Export-Import Bank of the United States

FTA free trade agreement

G8 Group of Eight

GDP gross domestic product

ICT information and communications technology

IPR intellectual property rights

IT information technology

ITA International Trade Administration (U.S. Department of Commerce)

ITA Information Technology Agreement (WTO)

JCCT Joint Commission on Commerce and Trade

MEBIC Middle East Business Information Center

MEFTA Middle East Free Trade Area

NIST	National Institute of Standards and Technology
OPIC	Overseas Private Investment Corporation
PEFCO	Private Export Funding Corporation
SBA	Small Business Administration
SBC	Small Business Center (OPIC)
SCE	Showcase Europe
SDO	standards development organization
SERCOTEC	Servicio de Cooperación Técnica (Chile)
SME	small and medium-sized enterprise
STOP!	Strategy Targeting Organized Piracy
TIC	Trade Information Center (U.S. Department of Commerce)
TPCC	Trade Promotion Coordinating Committee
UAE	United Arab Emirates
USAID	U.S. Agency for International Development
USTDA	U.S. Trade and Development Agency
USTR	Office of the United States Trade Representative
WTO	World Trade Organization

Trade Promotion Coordinating Committee

MEMBER AGENCIES

U.S. Department of Commerce

Export-Import Bank of the United States

Overseas Private Investment Corporation

U.S. Trade and Development Agency

U.S. Small Business Administration

U.S. Department of Agriculture

U.S. Department of State

U.S. Department of the Treasury

Office of the United States Trade Representative

U.S. Agency for International Development

U.S. Environmental Protection Agency

U.S. Department of Defense

U.S. Department of Energy

U.S. Department of Interior

U.S. Department of Labor

U.S. Department of Transportation

Office of Management and Budget

National Security Council/National Economic Council

Council of Economic Advisers

TRADE
PROMOTION
COORDINATING
COMMITTEE

TPCC