

## **PRESS RELEASE**

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### **THE UNITED STATES' STRONG ECONOMIC PERFORMANCE DUE TO THE CONTINUED LIBERALIZATION OF TRADE AND INVESTMENT**

The United States is enjoying its second longest period of sustained economic expansion with real GDP growth averaging over 2.8% during the years 1992-96 and accelerating to 3.9% in 1997 and 1998. A new WTO Secretariat report on the United States' trade policies and practices notes that this is due in part to the impetus provided by trade and investment liberalization resulting from the Uruguay Round Agreements and the North American Free Trade Agreement (NAFTA). The WTO report, along with a policy statement by the U.S. Government, will provide the basis for the trade policy review of the United States in the WTO's Trade Policy Review Body on 12 and 14 July 1999. The WTO conducted its last review of the United States in 1996. This review covers the period 1996-98.

The report notes that imports have helped to satisfy domestic demand resulting in lower prices and wider consumer choice. The openness of the economy has contributed to improving the competitiveness of U.S. producers, creating more and better paid jobs.

Although the current account deficit was at a record level of US\$233 billion in 1998 the shortfall in national savings relative to domestic investment was made up by foreign investors.

The report states that although "fast-track" authority expired in 1994, the administration may still carry on with necessary regulatory changes and both start and complete trade negotiations. The report notes the United States is extremely active in WTO activities: it participated in all post-Uruguay Round negotiations, including telecommunications and financial services and played a vital role; the United States is also the biggest user of the WTO Dispute Settlement system with 48 disputes filed in the period 1996-98.



The United States concluded no new regional arrangements but pursued its trade integration within the framework of the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation forum (APEC). It also worked on the development of two new initiatives: a Free Trade of the Americas (FTAA) and a Transatlantic Economic Partnership (TEP) with the European Union. Bilaterally, the United States concluded 63 agreements on trade, investment and intellectual property rights. The report notes that the United States grants unilateral preferential market access to products from selected developing countries, under schemes such as the Generalized System of Preferences (GSP), the Andean Trade preferences Act (ATPA), and the Caribbean Basic Economic Recovery Act (CBERA).

The report states that most imports enter the United States either duty free or are subject to very low tariffs. Zero tariffs apply to nearly one third of national tariff lines and the applied simple average Most-Favoured-Nation (MFN) rate has declined from 6.4% in 1996 to 5.7% in 1999. The average can be expected to fall to 4.6% once the Uruguay Round and Information Technology Agreement (ITA) tariff cuts are fully implemented. All lines except two are bound. In spite of low overall level tariff protection, the report points out some tariff "peaks" (three times the overall average) on certain agricultural and food products as well as textiles, clothing and footwear. About one in seven duties are specific (as opposed to *ad valorem*).

The United States currently applies import licensing and prohibitions mainly for security, consumer health and environmental reasons. In addition, quotas apply to certain U.S. imports of textiles and clothing, subject to the provisions of the WTO Agreement on Textile and Clothing (ATC). In recent years, the United States has made less use of contingency measures (countervailing and anti-dumping duties, and safeguard measures). For example, in the period under review, the total number of anti-dumping investigations initiated declined from 102 in 1993-95 to 72. Investigations under sections 301-306 of the Trade Act of 1974 have been either settled bilaterally or brought to the WTO.

The report indicates that export controls and licensing apply mainly to dual-use and encryption products and that they are intended to preserve national security, support foreign policy, ensure non-proliferation, and in some cases, to fulfil U.S. international obligations. The United States has notified the use of export subsidies for certain agricultural products.

Enforcement of antitrust laws is rigorous, as witnessed by the large number of ongoing investigations and actions taken to combat price-fixing, predatory pricing and exclusionary pacts involving major U.S. and foreign companies. Enforcement of laws protecting intellectual property rights (IPRs) is also rigorous, so as to ensure adequate returns for investment in innovation.

Services are the largest contributor to output and employment in the U.S. economy. In 1997, the sector accounted for 76.5% of GDP and 79.3% of total employment. The sector's average annual nominal growth rate (6%) during the period of 1995-97 exceeded that of the U.S. economy as a whole (5.6%). Services are also playing an important role in U.S. trade with 28.0% of total U.S. exports and 16.5% of total imports in 1998. Whereas U.S. merchandise trade resulted in a deficit of US\$248 billion in 1998, trade in services generated a surplus of US\$78.9 billion.

In the negotiations on basic telecommunications under the General Agreement on Trade in Services (GATS), the United States made commitments covering the entire range of basic telecommunications services, granting foreign firms access to all services, using any means of technology. Nevertheless, some restrictions on foreign ownership remain. In the WTO financial services negotiations, the United States removed its prior broad MFN exemption and bound commitments on market access and national treatment for all subsectors except in limited circumstances.

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Transportation, the report notes, is one service sector that remains somewhat insulated from international competition with cabotage policies restricting the provision of domestic services to U.S. carriers in both maritime and air transport services. Support measures such as subsidies and cargo preference requirements are in place to encourage the use of U.S. carriers.

In professional services, the U.S. federal system reserves the governance of professions to individual states. There is an absence of a uniform regulatory regime at a national level, and different market access conditions apply.

The report notes that the U.S. case suggests that trade and investment liberalization support strong economic performance. In conclusion the report warns that any major upsurge in protectionist measures could impair such performance.

### Notes to Editors

The WTO's Secretariat report, together with a policy statement prepared by the United States, will be discussed by the WTO Trade Policy Review Body (TPRB) on 12 and 14 July 1999. The WTO's TPRB conducts a collective evaluation of the full range of trade policies and practices of each WTO member at regular intervals and monitors significant trends and development which may have an impact on the global trading system. The Secretariat report covers the development of all aspects of each of the United States' trade policies, including domestic laws and regulations, the institutional framework, trade policies by measure and by sector. Since the WTO came into force, the areas of services and trade-related aspects of intellectual property rights are also covered.

To this press release are attached the summary observations from the Secretariat report and a summary of the government report. The full Secretariat and government reports are available for journalists from WTO Secretariat on request (call 41 22 739 5019). They are also available for the press in the newsroom of the WTO internet site ([www.wto.org](http://www.wto.org)). The Secretariat report, together with the government policy statement, a report of the TPRB's discussion and the Chairman's summing up, will be published in hardback in due course and will be available from the Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reports have been completed: Argentina (1992 & 1999), Australia (1989, 1994 & 1998), Austria (1992), Bangladesh (1992), Benin (1997), Bolivia (1993), Botswana (1998), Brazil (1992 & 1996), Burkina Faso (1998), Cameroon (1995), Canada (1990, 1992, 1994, 1996 & 1998), Chile (1991 & 1997), Colombia (1990 & 1996), Costa Rica (1995), Côte d'Ivoire (1995), Cyprus (1997), the Czech Republic (1996), the Dominican Republic (1996), Egypt (1992 & 1999), El Salvador (1996), the European Communities (1991, 1993, 1995 & 1997), Fiji (1997), Finland (1992), Ghana (1992), Guinea (1999), Hong Kong (1990, 1994 & 1998), Hungary (1991 & 1998), Iceland (1994), India (1993 & 1998), Indonesia (1991, 1994 & 1998), Israel (1994), Jamaica (1998), Japan (1990, 1992, 1995 & 1998), Kenya (1993), Korea, Rep. of (1992 & 1996), Lesotho (1998), Macau (1994), Malaysia (1993 & 1997), Mali (1998), Mauritius (1995), Mexico (1993 & 1997), Morocco (1989 & 1996), New Zealand (1990 & 1996), Namibia (1998), Nigeria (1991 & 1998), Norway (1991 & 1996), Pakistan (1995), Paraguay (1997), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992 & 1996), Slovak Republic (1995), the Solomon Islands (1998), South Africa (1993 & 1998), Sri Lanka (1995), Swaziland (1998), Sweden (1990 & 1994), Switzerland (1991 & 1996), Thailand (1991 & 1995), Togo (1999), Trinidad and Tobago (1998), Tunisia (1994), Turkey (1994 & 1998), the United States (1989, 1992, 1994 & 1996), Uganda (1995), Uruguay (1992 & 1998), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

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**TRADE POLICY REVIEW BODY**  
**THE UNITED STATES**  
**Report by the Secretariat - Summary Observations**

**Main Economic Developments**

During the period under review (1996-98), U.S. economic performance has continued to be outstanding, even in the wake of the financial turmoil that erupted in Asia in July 1997 and subsequently spread to other parts of the world. Since 1991, the United States has enjoyed the second longest period of sustained economic growth since records began in 1854, with real GDP growth averaging over 2.8% during the years 1992-96 before accelerating to 3.9% in 1997 and 1998. The main factors contributing to this impressive growth have been private consumption and especially investment, both of which outstripped GDP growth in 1998, thereby drawing in imports. In real terms, imports too grew much faster than GDP, not only in 1998, but in the previous two years, while exports, after experiencing similarly rapid growth in 1996 and 1997, barely increased in 1998. In addition, the unemployment rate fell to 4.5% at the end of 1998 and consumer price inflation to 1.6%, their lowest levels since the 1960s. These extremely beneficial economic developments have followed the considerable trade and investment liberalization that resulted from the Uruguay Round Agreements and the North American Free Trade Agreement (NAFTA) with Canada and Mexico.

This outstanding macroeconomic performance has been greatly facilitated by a large and growing current account deficit, which, in 1998, reached a record level of US\$233 billion (2.7% of GDP); the previous record of US\$168 billion (3.6% of GDP) was in 1987. The trade deficit has enabled the U.S. economy to sustain its strong rate of growth in the face of domestic constraints on its productive capacity and a labour market that is at its tightest for nearly 30 years. Imports, often at lower prices, have provided a safety valve, helping to satisfy domestic demand. They have also contributed to lower domestic prices and wider choice for U.S. consumers. U.S. producers too have benefited from lower costs and wider choice of inputs, which have increased their competitiveness, resulting in more jobs and higher wages, especially in exporting activities, where average wages are higher than for other jobs. Competition from imports also helps enhance productivity. Indeed, labour productivity grew at an average annual rate of 2.4% during the period 1996-98, more than double the rate of improvement in 1990-95; total factor productivity (TFP) increased by an average annual rate of 1.2% in 1996-97, compared to 0.1% per annum during the period 1990-95. In general, imports have helped subdue inflationary pressure that might otherwise have emerged as a result of the very strong growth of domestic demand and low unemployment rate, thereby supporting low market interest rates.

On the other hand, the widening of the current account deficit has provoked allegations in the United States that some foreign producers are engaging in "unfair" trading practices to the detriment of U.S. producers. Such allegations have, in turn, led to a certain protectionist pressure from some sectors, aimed at persuading the U.S. Government to implement unilateral measures (notably anti-dumping actions and section 301 investigations) to curb imports of some products from specific countries and to move to further open foreign markets to U.S. exporters; by and large, the Administration has resisted such pressure, much to the benefit of the multilateral trading system.

The current account deficit reflects the gap between national saving and domestic investment. That gap has widened since 1995 as national saving has failed to keep pace with investment. While national saving rose as a proportion of GDP from 16.3% in 1995 to 17.2% in 1998, domestic investment climbed from 17.4% to 18.9%. National saving has risen, despite the sharp decline of personal saving as a consequence of U.S. consumers increased willingness to spend. After its steady decline from 5.7% in 1992, a rate that was already low by international standards, personal saving as a percentage of disposable income is now close to zero; indeed, it was negative in the latter part of 1998. The current, historically low personal saving rate is probably due in large measure to the positive "wealth effect" of the rise in the value of personal equity portfolios relative to personal

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incomes owing to the rise in U.S. stock market prices to record levels; the "wealth effect" involves the tendency for consumption to rise by a fraction of the capital gains on existing assets owned by households; as unrealized capital gains add to wealth but are not included in income or saving, personal saving properly measured may not have fallen as dramatically as would appear. Still, the decline in personal saving has been more than offset by stronger corporate saving and the turnaround in the Government's budget from a persistent deficit (government dissaving) to a surplus (government saving) in 1998. At the same time, business investment in plant and equipment has been up sharply as a consequence, among other factors, of the ready availability of external financing and the marked reduction in government borrowing, which has left more resources available for private use.

An additional source of funds for domestic investment has been capital inflows from abroad. Indeed, the shortfall of national savings relative to domestic investment was made up by foreign investors who have continued to be attracted to the United States by its liberal investment regime, profitable investment opportunities and its attractiveness as a safe haven following the financial crisis that erupted in Asia. Foreign investment has thus enabled the U.S. economy to grow faster than would have been the case had it relied solely on domestic saving. Foreign investment has also contributed to the recent marked improvement in labour productivity, which remains higher than in most other countries, thus reflecting the extremely efficient nature of the U.S. economy. As a consequence, average living standards in the United States, as measured by a per capita GNP, are at US\$28,740, among the highest in the world.

### **Trade Policy Regime: Framework and Objectives**

No major changes in the United States' trade policy regime have taken place since the last U.S. Trade Policy Review in 1996. "Fast-track" Congressional consideration of legislation implementing U.S. trade agreements expired in 1994; none the less, the Uruguay Round Agreements Act gave the President authority to modify U.S. duties to the extent necessary to complete the "zero-for-zero" tariff negotiations begun during the Uruguay Round; regulatory changes may be effected in the U.S. trade regime as necessary and trade negotiations may be started, and completed, without "fast-track" provisions.

The United States has been an active participant in WTO activities in the period under review, as witnessed by its participation in the WTO negotiations on telecommunications and financial services, as well as in the first round of the Information Technology Agreement (ITA) tariff reductions, the WTO Guidelines for the Negotiation of Mutual Recognition Agreements on Accountancy, and two agreements to expand the coverage of the Agreement on Pharmaceuticals. The United States is hosting the WTO's Third Ministerial Conference, to take place in Seattle in November 1999. The United States has used extensively the WTO dispute settlement mechanism in the 1996-98 period. It has been a party in 78 disputes; of which 48 as plaintiff, and 30 as defendant. The United States participates in the Working Groups on Competition Policy, Investment, and Electronic Commerce.

No new regional arrangements were concluded by the United States in the 1996-98 period. In the context of the North America Free Trade Agreement (NAFTA), however, a second round of accelerated tariff reductions was put in place with Mexico, on 1 August 1998. All tariffs covered by the NAFTA were eliminated between the United States and Canada on 1 January 1998. In addition, NAFTA rules of origin with respect to automobiles were modified in 1998. Negotiations started within the Asia-Pacific Economic Cooperation (APEC) to push forward an agenda of tariff cuts in eight sectors, which are expected to be brought to the WTO. Negotiations towards a Free Trade Area of the Americas (FTAA) were given a push forward in the Santiago Summit in April 1998. A joint plan between the United States and the European Union for a Transatlantic Economic Partnership (TEP) was concluded in November 1998.

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The United States concluded 63 bilateral trade, investment, and intellectual property rights agreements between 1996 and 1998, 53 of which entered into force on 31 December 1998. The scope of these agreements varies considerably: some address a trade practice by a U.S. trading partner; some are market-opening agreements; some are sector or area specific, mostly for the protection of investment or intellectual property rights; and others are mutual recognition agreements on standards. Some of these agreements are with countries that are not Members of the WTO and are aimed at setting disciplines similar to those already in existence in the multilateral trading system.

The United States grants unilateral preferential market access to products from selected developing countries, under schemes such as the Generalized System of Preferences (GSP), the Andean Trade Preferences Act (ATPA), and the Caribbean Basin Economic Recovery Act (CBERA). An initiative to grant wider preferences to African countries, is being considered by Congress. The GSP was renewed for a year in 1998, up to 30 June 1999.

### **Trade and Trade-Related Policies, Practices and Measures**

The United States maintains liberal trading and investment regimes. Furthermore, policies, practices and measures relating to trade and investment are, by and large, transparent. In this regard, not only does the United States make information readily available on the objectives and nature of its policy measures, but various independent bodies, such as the U.S. International Trade Commission and the General Accounting Office, evaluate the economic effectiveness and welfare effects of such measures; reports of these bodies are made public.

### **Import measures**

Most imports either enter the United States duty free or are subject to very low tariffs, all except two of which are bound. Zero tariffs apply to nearly one third of national tariff lines and the simple average applied MFN tariff rate has declined from 6.4% in 1996 to 5.7% in 1999; the average can be expected to fall to 4.6% once the Uruguay Round and ITA tariff cuts are fully implemented. As a result of the NAFTA, even lower preferential tariff rates apply to Canada and Mexico, two of its main trading partners, and developing countries have the GSP scheme available for most of their exports to the United States. Notwithstanding the low overall level of tariff protection, 5% of MFN tariffs involve rates exceeding three times the overall average; such tariff "peaks" affect some agricultural and food products as well as textiles, clothing and footwear. One in seven duties are specific (non-*ad valorem*); in the interests of transparency, the U.S. authorities publish reliable estimates of their *ad valorem* equivalents, which show that specific duties account for 86 of the top 100 MFN tariffs.

The non-tariff border measures (NTMs) currently applied by the United States involve some import prohibitions, import licensing and quantitative restrictions. The importation of certain goods may be prohibited or subject to licensing in order to ensure the security of the United States, to safeguard consumer health and well-being, or to preserve domestic plant and animal life and the environment. In addition, some commodities, notably textiles and clothing, are subject to import quotas or restraints under bilateral trade agreements and arrangements.

The United States, like other WTO Members, has several types of contingency measures at its disposal, namely countervailing and anti-dumping duties, and safeguards. These measures are designed to counteract trade practices such as export subsidies and the dumping of products onto the U.S. market. Although still important, the use of such measures by the United States has declined in recent years. In 1996-98, the total number of anti-dumping investigations initiated declined to 72 (from 102 in 1993-95), while the number of duty orders issued fell from 82 to 25. Countervailing duty investigations initiated during the period under review totalled 18, up from 14 in 1993-95; nevertheless, the number of duty orders issued declined substantially. The number of safeguard investigation initiations increased in 1996-98, but their number and scope remains limited.

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**Export measures**

Export controls and licensing apply mainly to dual-use and encryption products. As in the case of import controls, export controls are intended, *inter alia*, to preserve national security, support foreign policy, ensure non-proliferation, and in some cases, to fulfil international obligations of the United States. Export subsidies are aimed at certain agricultural products; export finance, insurance, guarantees and duty drawback schemes are available; the United States also has foreign trade zones. U.S. legislation (sections 301-306 of the Trade Act of 1974) provides for the review of foreign country practices that may impede U.S. exports of goods and services or impair U.S. rights under international trade agreements; action may be taken provided that it is consistent with WTO provisions. Investigations under section 301 of the Trade Act of 1974 decreased during 1996-98; 17 investigations were initiated. Most were brought to the WTO, the rest were generally settled bilaterally. No sanctions were applied as a result of investigations initiated since 1996.

**Internal measures**

The United States is not only open to international trade and foreign investment, its markets are relatively free from regulations and other internal government measures that can unduly distort competition in domestic goods, services and factor markets. Moreover, taxes are low by international standards and the tax system is relatively neutral insofar as different economic activities are concerned. Nevertheless, potential distortions to competition may arise as a consequence of various forms of assistance provided by federal and state governments to some sectors (notably agriculture), or to certain types of investment, including those related to R&D and environmental protection. Assistance is provided through the tax system in the form of tax expenditures; however, in recognition of the fact that these measures are alternatives to other policy instruments, such as spending or regulatory programmes, and Congress's insistence on transparency in this regard, detailed estimates of tax expenditures are published annually in the U.S. Government's Budget. Internal policies, practices and measures, including those pertaining to investment, usually provide national treatment for foreign firms and investors. Preferences for domestic supplies are available for government procurement under the "Buy-American" provisions.

Competition in U.S. domestic markets is further fostered by the Government's inclination to take strong action against anti-competitive private practices that are found to be detrimental to domestic consumers. In addition to actions aimed at counteracting trade practices such as dumping, the United States rigorously enforces its own antitrust laws, as witnessed by the large number of ongoing investigations into and actions taken to combat price-fixing, predatory pricing and exclusionary pacts involving major U.S. companies. The United States also enforces laws protecting intellectual property rights (IPRs) so as to ensure adequate returns for investment in innovation. Accordingly, the United States grants exclusive rights that confer a limited, temporary monopoly power while, at the same time, seeking to promote competition. IPR and competition policies thus have the common goal of enhancing economic performance and consumer welfare.

**Trade Policies in Services**

Services are by far the largest contributor to output and employment in the U.S. economy and the sector's importance has continued to grow during the period under review. The sector accounted for 76.5% of GDP and 79.3% of total employment in 1997; the sector's average annual nominal growth rate (6%) during the period 1995-97 exceeded that of the U.S. economy as a whole (5.6%). Services are also playing an increasingly important role in U.S. trade. In 1998, services accounted for 28.0% of total U.S. exports and 16.5% of total imports. Furthermore, whereas U.S. merchandise trade resulted in a deficit of US\$248 billion in 1998, its trade in services generated a surplus of US\$78.9 billion. The dynamism of the services sector has been fostered by the rapid development of

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information technology, and the emergence of electronic commerce is likely to enhance the importance of services in the U.S. economy.

The provision of services through commercial presence has assumed greater significance in recent years. While a majority of U.S. sales of services abroad prior to 1996 involved cross-border transactions rather than commercial presence, the values of sales through the two channels were about equal in 1996; that is, US\$224 billion for cross-border exports compared to US\$221 billion for exports through commercial presence. By contrast, U.S. purchases of services from affiliates of foreign firms located in the United States were US\$161 billion in 1996, considerably more than cross-border imports, which were US\$142 billion. These trends reflect the growing importance of GATS commitments made by the United States and other WTO Members to secure further market access in foreign markets, particularly by means of commercial presence (which requires foreign direct investment in one form or another).

In this context, the successful conclusion of negotiations on basic telecommunications and financial services at the WTO in 1997 was probably the principal achievement since the last Review as far as services are concerned. The United States played a vital role in the success of these negotiations, by improving its own initial offers and by encouraging other WTO Members to improve theirs. In telecommunications, the United States made commitments covering the entire range of basic telecommunication services, granting foreign firms access to local, long-distance, and international services, using any means of technology, on a facilities-based or resale basis. Nevertheless, some restrictions on foreign ownership remain. In financial services, the United States removed its prior broad MFN exemption, which it had taken in the 1995 negotiations, and bound commitments on market access and national treatment for all subsectors; however, it introduced an MFN exemption in the insurance sector but this can be applied only in a specific instance.

Transportation is one service sector that remains somewhat insulated from international competition. As in many other countries, cabotage policies restrict the provision of domestic services in both maritime and air transport to U.S.-carriers. In addition, while the provision of international services is generally open to foreign competition, support measures such as subsidies and cargo preference requirements are in place to encourage the use of U.S. carriers, especially in maritime transport. With regard to international aviation services, the conclusion of a number of bilateral open skies agreements has promoted the growth of air traffic in recent years.

In the case of professional services, the U.S. federal system reserves the governance of professions to individual states; each state has its own licensing regulations and licensing board to administer the regulations. Although the absence of a uniform regulatory regime at the national level and divergent market access conditions at the state level may add to the complexity of market entry for foreign service providers, such diversity is not necessarily more of a disadvantage to foreign professionals than it is to American professionals. A number of efforts have been made to accomplish greater uniformity across states in recent years. These include the use of model laws for licensing regulations, and uniform or multiple jurisdiction examinations through national coordinating professional bodies. Additional efforts include the conclusion of mutual recognition agreements with foreign professional bodies.

## **Outlook**

The U.S. economy's outstanding growth and productivity performance during the period under review, accompanied by the lowest levels of unemployment and inflation in 30 years, has followed the conclusion of the Uruguay Round and subsequent multilateral negotiations at the WTO. This suggests that trade and investment liberalization support strong economic performance. Consequently, any major upsurge in protectionist measures could impair such performance. Resort to protectionist measures could slow the inevitable transition of the flexible work-force to more productive endeavours, which has greatly enhanced labour productivity in recent years. It could also

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dampen profit expectations and reduce the attractiveness of the United States to foreign investors, thereby possibly prompting a major correction of the U.S. stock market. Such a correction could reduce consumption - possibly reversing the recent decline in personal saving - and imports, thus perhaps jeopardizing the still fragile recovery of countries most affected by the financial crisis, which erupted in 1997.

The U.S. Government has largely resisted protectionist pressures and has instead declared its support for new multilateral trade negotiations; it has also begun preparations to request "fast-track" authority from Congress once again. These developments constitute positive signs of the present Administration's desire to build support for a new multilateral agenda in advance of the WTO's Third Ministerial Conference to be held in Seattle in November 1999, notwithstanding pressures to the contrary.

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**TRADE POLICY REVIEW BODY**  
**THE UNITED STATES**  
**Report by the Government - Parts I and II**

**I. THE UNITED STATES IN THE MULTILATERAL SYSTEM**

1. Since the first Reciprocal Trade Agreements Act was enacted by the U.S. Congress in 1934, the United States has consistently maintained an international trade policy dedicated towards increasingly open markets and expanded trade. Today, the United States is committed to building a world characterized by genuinely open markets for trade in agriculture, goods and services. The World Trade Organization is at the heart of our efforts to achieve this goal, which will assure greater prosperity and economic freedom for all participants.

2. Fundamental features of this policy are the United States' commitment to maintaining an open, competitive market at home and full and faithful compliance with WTO obligations. The United States is among the economies most open to international trade in goods and services as well as investment. We have implemented our WTO commitments on schedule, and accepted the rulings of WTO dispute settlement panels in cases to which we are a party.

3. We have also worked with our trading partners to improve and develop the WTO. In the last few years we have concluded agreements that are important to the United States, our trading partners, and the multilateral trading system. These agreements are fundamentally transforming world trade as we enter the 21st century: the Uruguay Round, which created the World Trade Organization, and the three multilateral agreements of 1997 on trade in information technology products, financial services and basic telecommunications services.

4. America's success in world markets reflects these achievements. Last year, the United States exported \$933 billion in goods and services – a 51% increase from the 1992 level of \$617 billion, despite a slowing in U.S. export growth due to the financial crisis. More critical to the multilateral trading system is the fact that the United States was also the world's largest importer, taking over \$1 trillion in goods and services in 1998. Just as exports help create new opportunities and higher-paying jobs, fairly traded imports likewise benefit the United States by expanding choice in the U.S. market, helping businesses become more efficient through the use of high quality and cost effective inputs in U.S. domestic production, by fostering healthy competition in the U.S. economy, and by raising living standards for workers and citizens.

5. These benefits of trade, combined with domestic policies focused on fiscal discipline, improved education and investment in scientific research and technology have contributed to a significant and steady improvement in the American economy. Since the last Trade Policy Review of the United States in 1996, American growth rates have been high, average U.S. labor productivity has increased, unemployment has fallen to an historic low, and inflation has been almost absent. The multilateral trading system deserves credit for its role in our current prosperity.

6. But the world trading system is far from perfect. The financial crisis has pointed to the need for transparent, pro-competitive regulation in services. Agricultural trade barriers, which remain very high, reduce world food security; and agricultural export subsidies impose especially unfair burdens on farmers in the poorest countries. The advance of science and technology has created new products, new services and new methods of conducting trade, notably through the Internet. And we are aware of concerns about the trading system in areas from reducing persistent trade barriers to a need for increased openness and transparency.

7. Thus, the participants in the trading system must collectively take the necessary steps to retain and enhance the strength of the multilateral trading system and promote public support for this system. In

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our view, the necessary steps involve work in three separate dimensions: ongoing results in priority areas, an accelerated negotiating agenda, and institutional reforms and capacity-building at the WTO.

8. Ongoing results are important as a signal to the world that the WTO is keeping up with the rapid changes occurring in the world. For example, further positive signals could include efforts to reach consensus on an agreement on transparency in government procurement, which would provide value-added to taxpayers and businesses alike, and extension of the WTO's standstill on tariffs applied to electronic transmissions, so that development of trade over the Internet is not slowed by trade barriers. Efforts in this regard also include work toward consensus on an "Information Technology Agreement II" which will further ensure access for all countries to the most modern technologies; as well as progress toward the Accelerated Tariff Liberalization initiative begun in APEC and now under consideration in the WTO.

9. The ability to complete a negotiation and implement its results in a reasonable period of time is an equally important signal of progress. We thus look for a negotiating agenda that is manageable enough to be completed within three years and that can reflect the common interests of WTO Members.

10. We also see the need for institutional reform. Reform is vital for ensuring sustained public support for the WTO, strengthening its ability to support real-world commerce and improving the mechanisms to support capacity-building in developing countries. The WTO also must enhance its cooperation with the World Bank, the IMF and other international institutions to ensure that the WTO and trade policies are providing the greatest support possible to speed recovery from the financial crisis. Because the WTO must be transparent and responsive to win public support, institutional reform and ensuring greater openness, particularly in the dispute settlement system, should be a key element of the WTO agenda.

11. This work will begin at the Third Ministerial Conference of the WTO, in November, which the United States is very proud to host and to Chair. The Ministerial will be the largest trade event ever held in the United States, and will focus public attention in our country on the trading system as a contributor to American prosperity and world-wide economic growth. It is also an opportunity to agree on a negotiating agenda to ensure that the WTO can meet the challenges of the 21st century.

## **II. THE UNITED STATES ECONOMIC AND TRADE ENVIRONMENT**

### *(i) Trade Policy*

12. In the period since the last U.S. review, the fundamentals of American trade policy have remained unchanged.

- (i) The United States is committed to an open market policy at home: our applied tariffs are about 2.8%, by World Bank estimates; our services markets are open to foreign competition; and our regulatory processes are transparent and accessible to the public. Last year, 60% of all U.S. imports were duty-free.
- (ii) Likewise, we are committed to a strong trading system: we are implementing our Uruguay Round commitments in tariffs, textiles, agriculture and other areas on time and in full; and we use the WTO dispute settlement mechanism to address differences and respect the results of its panels.

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(ii) *Economic Environment*

13. This policy has helped us achieve many broader economic goals. The Clinton Administration has coupled a liberal trade policy with initiatives predicated on strong fiscal discipline, support for education and scientific investment to create a fundamentally more competitive and successful economy.

(iii) *Growth*

14. This year, in fact, the U.S. economy set a record for its longest peace time expansion – now in its 9th year, and with growth remaining strong in the first quarter. Real gross domestic product (GDP) expansion rose from an annual average of 2.9% in the period of the previous review, 1994-96, to 3.9% in the period of the current review, 1996-98. Despite this growth acceleration, inflation declined. For GDP, the average annual increase in the price deflator fell from 2.1% in the period of the earlier review to 1.4% in the period of the current review. At the same time, a strong economy, combined with sustained budgetary discipline, resulted in a \$69 billion budget surplus in fiscal year 1998 and a projected \$110 billion surplus for fiscal year 1999. This compares to an average deficit of \$135 billion during the period of the previous review.

(iv) *Savings*

15. Fiscal improvement helped raise the U.S. rate of gross saving, from an average of \$1.18 trillion per year, or 15.7% of GDP, in 1995-96 to \$1.44 trillion per year, or 17.3% of GDP, in 1996-97. The positive effects of fiscal improvement and rising rates of business reinvested earnings on the U.S. rate of gross saving were, however, partially limited by a sharp decrease in personal saving. Averaging \$179 billion, or 2.4% of GDP, in the previous review period, personal saving declined to \$121 billion in 1997 (1.5% of GDP) and \$27.7 billion in 1998 (0.3% of GDP), turning slightly negative in the fourth quarter of 1998 (\$-0.6 billion). This most recent severe decline in personal saving in the United States is widely perceived to be related to the sharp increase in the market value of financial assets in the United States over the last two years and, therefore, likely temporary in nature.

(v) *Labor Markets*

16. Improvements in the labor market during the review period were also notable. Employment increased by 6.5 million jobs, or 5.5%, from December 1996 to December 1998, compared to a 4.7 million job, or 4.1%, increase in the comparable period of the previous U.S. trade policy review. The U.S. unemployment rate, which had averaged 5.5% in 1995-96, dropped to an average 4.7% in 1997-98. By April 1999, the rate of unemployment had fallen to 4.3%, among the lowest in the last three decades.

(vi) *Productivity*

17. Measured labor productivity growth continued to improve, causing some private analysts to speculate on the possible development of an increase in the secular growth trend for U.S. labor productivity. In 1994-96, real output per hour worked (business sector) rose at a 1.7% annual rate; in 1996-98, the rate of increase rose to 2.0%. (In manufacturing alone, where secular increase in the growth trend over the last two decades is clear, productivity increased at an annual rate of 4.8% in 1997-98.) The strengthening of productivity growth overall contributed to annual increases in measured real worker compensation of 2% per year in 1996-98, compared to increases that were only slightly positive in 1994-96.

MORE

*(vii) Business Investment*

18. The growth of business investment has played an important role in the current economic expansion, much of it fueled by business demand for computers, telecommunication equipment and other productivity enhancing durable equipment. From the previous to the current review periods, the rate of growth of real non-residential fixed investment increased from 9.4% per year to 11.2% per year. As a share of chained (1992) dollar GDP, non-residential fixed investment reached 12.7% in 1998, its highest share since the inception of this data series in 1982.

*(viii) Import and Export Growth*

19. Strong growth in GDP and even stronger growth in domestic demand contributed to rapidly increasing imports. Real imports of goods and services increased at an average annual rate of 12.2% in 1997-98, compared to 9.0% in 1995-96 (as reported in the U.S. national income and product accounts). Imports reached 13.0% of nominal GDP in 1998. Export growth, however, slowed. Growth of real exports of goods and services dropped from an average of 9.9% per year in 1995-96 to 7.0% in 1997-98. The deceleration of export expansion was concentrated in 1998 (1998: 1.0% increase; 1997: 12.2% increase). Largely as a result of the export slowdown, the U.S. nominal deficit in goods and services trade rose in 1998 to \$151.2 billion, or 1.8% of GDP. In the four preceding years, the goods and services trade deficit had been relatively stable, ranging between \$84 billion and \$93 billion.

*(ix) Trade Balance*

20. The sharp increase in the U.S. trade deficit in 1998, which has continued into the first months of 1999 and is forecast to dramatically expand in the months to come, was closely associated with economic difficulties, severe balance-of-payments adjustments, and decelerating growth or outright recession in a number of U.S. trading partners. Capital flight from Asia and elsewhere to the United States helped push up the price of U.S. financial assets, contributing to an enhanced perception of wealth by U.S. households and a sharp, though likely temporary, shift toward lower personal saving and rapid increases in consumption. These global adjustment forces assured that the U.S. capital account surplus would expand and that the U.S. current account deficit would increase. In response, the United States remained essentially open to imports, and understanding the importance of economic stabilization and the paramount importance of restricting any tendency toward a downward global economic spiral, U.S. international economic policy, including U.S. trade policy, had as a principal priority the successful refunding of the IMF in 1998.

*(x) Effects of Financial Crisis*

21. While the U.S. economy grew rapidly during the current review period, the impact of the Asian financial crisis and slowing global growth left its mark on economic performance in 1998. Production in many interest rate sensitive sectors – such as housing, furniture, and materials; technology-related sectors such as telecommunications equipment, computers and semiconductors; and many private service areas grew rapidly. But a number of traditional import-competing sectors in manufacturing saw production decline in 1998. Overall real output of manufacturing had grown at an average annual rate of 5.7% in the five years to 1997, but saw growth drop to 2.8% in 1998 (December to December). Among the sectors registering absolute declines in output in 1998 were textile mill products (down 4.4%); apparel (down 6.8%); leather and products (down 7.5%); and iron and steel (down 10.3%). The important issue of structural adjustment aside, the international factors underlying these shifts are likely temporary in nature and should be largely corrected as global balance-of-payments adjustment proceeds and the world economy moves to healthier growth. Nonetheless, the extraordinary dislocations that resulted from the financial crisis underscore the need for all WTO members to play by the rules and to have multilateral disciplines available to allow countries to address import surges.

MORE

(xi) *Conclusion*

22. In reviewing the U.S. experience over of the last two years, we find confirmation that open, competitive markets – both internally and at the border – have contributed to our economic efficiency and prosperity. Our open trade policies and adherence to WTO disciplines have contributed to new job opportunities and higher standards of living for Americans, as well as to the creation of an open and healthy economy which offers opportunity to our trading partners.

END