America's Interest in the World Trade Organization: An Economic Assessment

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A Report by the Council of Economic Advisers

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I. Overview

The U.S. economy looks to the future from a position of strength, due in no small part to its openness and flexibility. U.S. tariffs are among the world's lowest, averaging only 2.8 percent on internationally comparable terms. The United States is also the world's leading trader in goods and services, accounting for about 14 percent of world exports and about 16 percent of imports. Americans benefit directly from open markets. U.S. producers benefit from exports of high-tech manufactures, agriculture, and services, among other products. U.S. workers enjoy higher paying jobs and U.S. consumers enjoy lower prices and more product variety.

For over half a century the multilateral trading system, first consisting of the General Agreement on Tariffs and Trade (GATT) and more recently the World Trade Organization (WTO), has played a key part in meeting U.S. trade policy objectives. It has reduced barriers to trade, strengthened the rule of law, and encouraged economic development internationally. The post-WWII period has seen exceptional growth in much of the world as the global economy has become increasingly integrated.

While its achievements have been considerable, the trading system remains a work in progress. A new round offers opportunities to enhance market access, improve the functioning of the WTO, more effectively integrate labor and environmental considerations, and ensure that the benefits of trade are shared more widely.

America Benefits from Market Liberalization

On the threshold of the 21st Century, two related features of the U.S. economy are particularly striking. First, it has never been more prosperous and, second, it has never been as integrated into the world economy. The U.S. economy provides its citizens with living standards that are higher than those in many other major industrial economies – measured in terms of purchasing power, per capita income in the United States is 27 percent higher than in Japan and 41 percent higher than in Germany. The U.S. economy is able to provide such high living standards, in part, because Americans engage extensively in international trade. As an indicator of its size and scope, U.S. trade's value relative to U.S. GNP has been almost 25 percent in recent years, the highest it has been at any point in the past hundred years.

- On average, Americans export about 11 percent of all the goods and services they produce and import about 13 percent of all they consume.

- Many high-tech U.S. manufacturing industries, such as computers and electronics, export 25 percent or more of their total shipments; U.S. wheat and rice growers export over 40 percent of their total production.

- The United States is the world's leading services exporter, accounting for over 18 percent of all commercial service exports.

- Recent studies provide evidence of substantial wage advantages in jobs supported by goods exports – on the order of 15 percent.

The WTO Promotes Market Opening

America gains most when other nations lower their trade barriers as we reduce ours. Indeed, as one of the world's most open economies, we have a particular interest in promoting liberalization abroad. The system of binding commitments first established in the GATT and now advanced by the WTO has provided a framework for liberalization. Consistent with U.S. goals for an open multilateral trading system, the GATT was founded in 1948 on principles of reciprocity and non-discrimination. On this basis, it has been extremely successful in opening markets.

- At the end of WWII, the average tariff on industrial products in developed countries was about 40 percent. Today, the average is about 90 percent lower.

The Uruguay Round, concluded in 1994, reduced tariffs on industrial products and extended agreements to previously neglected sectors, such as agriculture, textiles and clothing, and services. Recent economic studies evaluate potential gains from the Uruguay Round, but capture only the effects of certain conceptually quantifiable features, namely reducing tariffs, reducing export subsidies, and eliminating quotas on some goods. They do not capture gains from provisions for services, dispute settlement, and intellectual property.

- Recent studies of some potential Uruguay Round benefits estimate that annual global income could rise $171 billion to $214 billion upon full implementation, in 1992 dollars; for the United States alone, the gains could amount to $27 billion to $37 billion each year.

Post-Uruguay Round negotiations yielded additional market access commitments in financial services, basic telecommunications services, and information technology, opening up new opportunities in some areas in which the United States is highly competitive. Growth in U.S. exports of private services point to potential gains from market opening.

- Since 1994, U.S. financial service exports have grown, on average, by 24 percent annually in nominal terms, U.S. insurance service exports have grown by 14 percent, and U.S. business, technical, and professional service exports have grown by 12 percent.

The WTO Promotes the Rule of Law

To fully realize the benefits of trade, however, requires more than agreement to reduce barriers. Sustaining support for the trading system also requires rules that are credible and equitable. For firms to undertake the necessary investments to service foreign markets, they need to believe that new barriers will not be raised and that old ones will not reassert themselves. To rely on foreign suppliers, buyers need to believe likewise that market access will not be disrupted. Traders need assurance that commitments will be binding and that markets will remain open in the event of changed circumstances. Moreover, the rules should ensure that governments play fair – that they not seek advantage for favored interests by subsidizing their producers or passing regulations that unnecessarily distort international trade. Fairness also requires that the gains from trade are shared widely and do not come at the expense of core labor standards or the environment. In so doing, the WTO must strike an appropriate balance between the needs of the trading system and those of sovereign nations. The WTO Agreements do not and will not preclude the United States from establishing and maintaining its own laws; impair the effective enforcement of U.S. laws; or limit the ability of the United States to set and achieve its environmental, labor, health, and safety standards at the levels it considers appropriate. Through consensus, the WTO has done much to achieve both credibility and fairness.

- WTO rules allow nations to take anti-dumping measures, countervailing-duty measures, and action against import surges, provided they follow certain procedures. The United States has used its own WTO-consistent trade laws to combat unfair foreign practices and to provide safeguards for domestic producers.

- The WTO provides an improved framework for resolving disputes. It has proved extremely useful to the United States, which as a complaining party has so far prevailed in 22 out of 24 cases, having favorably settled 10 without litigation and having won 12 in litigation.

- The WTO provides rules for protecting intellectual property rights. For the United States, one of the world's most innovative nations, such rights convey substantial value. In 1998, U.S. exports of royalties and license fees amounted to about $37 billion.

By and large, WTO members have adhered to their commitments. The sustained trend towards market liberalization over the postwar period and the maintenance of commitments not to raise barriers even in the face of international financial crises, stand in sharp contrast to the trade policy experience during the inter-war period.

The WTO Extends the Benefits of Trade and Encourages Growth

The United States has long advocated the use of the multilateral trading system to promote economic development internationally. The success of the trading system and its value in reinforcing market-oriented development strategies has become increasingly appreciated over time. Between 1989 and 1997, developing countries increased their share of world trade. Originally dominated by the developed countries, participation in the multilateral trading system has grown as others have sought inclusion. Today, the WTO has 135 members and another 32 nations are seeking accession. This allure of the trading system supports the view that international trade is not a zero-sum game. Both the United States and its trading partners reap the benefits. In fact, the shared aspect of the gains from trade, between trading partners, is a core principle of economics. However, not all WTO members are currently well positioned to use the system effectively. Some of its least developed members lack the necessary institutions and infrastructure to reap the full benefits of trade – in those cases, capacity building and technical assistance, coupled with market opening, could help spread the benefits.

The U.S. Agenda Meets the Challenges of the 21st Century

The prospect of another round of multilateral trade negotiations provides new opportunities to advance U.S. interests in opening foreign markets, establishing an effective rule of law, and promoting economic development internationally. Barriers remain high in agriculture and services, sectors in which we are highly competitive. In agriculture, for example, bound tariff rates average about 50 percent around the world compared with less than 10 percent in the

United States. Average food and related prices in the EU and Japan are 34 and 134 percent higher, respectively, than in the United States. Moreover, the system of commitments and rules, though much improved, still requires further strengthening. And, much work remains to be done to ensure that developing countries – including the least developed – obtain the market access and technical assistance they need to realize the benefits that international trade can afford. The United States is also committed to putting a "human face" on the global economy.

For these reasons, the United States is proposing to launch a new round, lasting no more than three years, that focuses on market access in services, agriculture, and industrial products. It is also seeking immediate tariff cuts in eight key areas, agreement on transparency in government procurement, extension of the prohibition on e-commerce duties, and an agreement to make additional information-technology products tariff free. The United States also sees the need to strengthen the WTO's relationships with other international organizations and to make the WTO more open and accessible. The United States has sought to create a trading system that spreads the benefits of trade as widely as possible, both across and within countries, and is supportive of core labor standards and the environment. Thus, the United States is:

- Seeking to bring more nations into the trading system and ensure that developing countries fully benefit. The United States will work to give the least developed countries greater access to global markets. The United States is also proposing measures to provide technical assistance on implementing trade policy and strengthening institutions in developing countries responsible for trade, labor, environmental, and other policies that influence the gains to living standards from trade.

- Proposing to establish a WTO Working Group on Trade and Labor in Seattle and enhance the institutional links between the International Labor Organization (ILO) and the WTO, by granting the ILO observer status at the WTO.

- Pursuing opportunities that can both open markets and yield environmental benefits, such as eliminating fishery subsidies that contribute to over-fishing and eliminating tariffs on environmental goods; seeking to strengthen cooperation between the WTO and international organizations dealing with environmental matters like the UN Environmental Program.

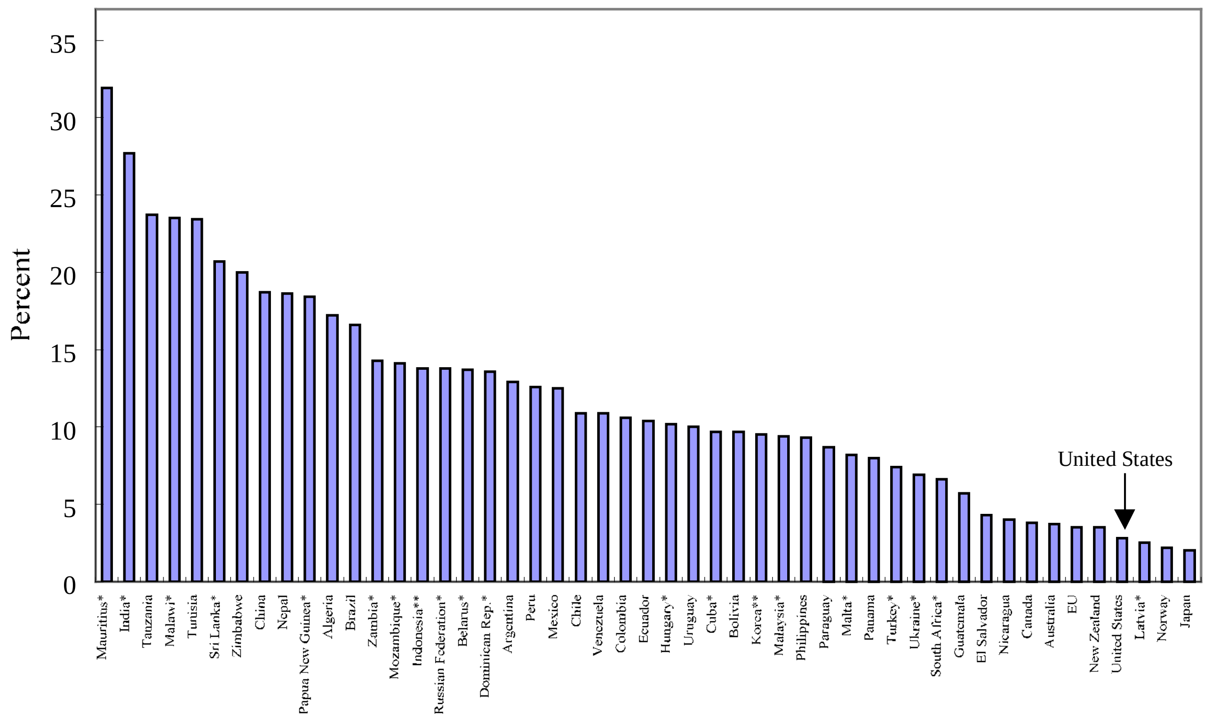
- Committing to conduct a U.S. environmental review of the likely consequences of the Round and proposing that the WTO Trade and Environment Committee help identify environmental implications as the Round proceeds.

The WTO provides its members with some of the conditions that are necessary for successful economic performance, but the benefits it confers are not automatic. To fully realize the benefits of trade, it is necessary to adopt complementary domestic policies, such as those to help ensure that displaced resources are successfully re-employed. This requires effective mechanisms that help workers, farmers, and firms adjust to change when need arises – though economic studies typically find that trade is a small factor in overall job displacement. The Clinton Administration has made opening markets at home and abroad a major pillar of its economic strategy, but it has also adopted the complementary policies of investing in people and fiscal prudence.

II. America Benefits from Market Liberalization

The United States approaches market liberalization from a position of strength in the global economy, partly because of its openness and flexibility. U.S. tariffs on imports are among the lowest in the world, averaging about 2.8 percent on comparable terms (Figure 1).[1] And U.S. producers are among the most competitive in many sectors, including high-tech manufactures, agriculture, and services. Today, the United States is more integrated into the global economy than ever before – it is also the world's largest trader. The United States accounts for about 14 percent of the world's goods and services exports and about 16 percent of its imports.[2] Because the U.S. market is already so open, it stands to reason that Americans would have much to gain and relatively little to lose from additional multilateral liberalization. To date, the multilateral trading system has provided an effective forum for working toward open markets.

Figure 1: Mean Tariff Rates Weighted by World Imports 1998



Source: *World Development Indicators, 1999,* World Bank
Notes: * indicates data from 1997; ** indicates data from 1996.

U.S. businesses, farmers, workers, and consumers already benefit from U.S. policies that enable the free flow of goods and services at the U.S. border and from international agreements that provide access to foreign markets. U.S. businesses benefit directly from export opportunities – some industries, such as electronics and computer equipment, sell at least a quarter of their

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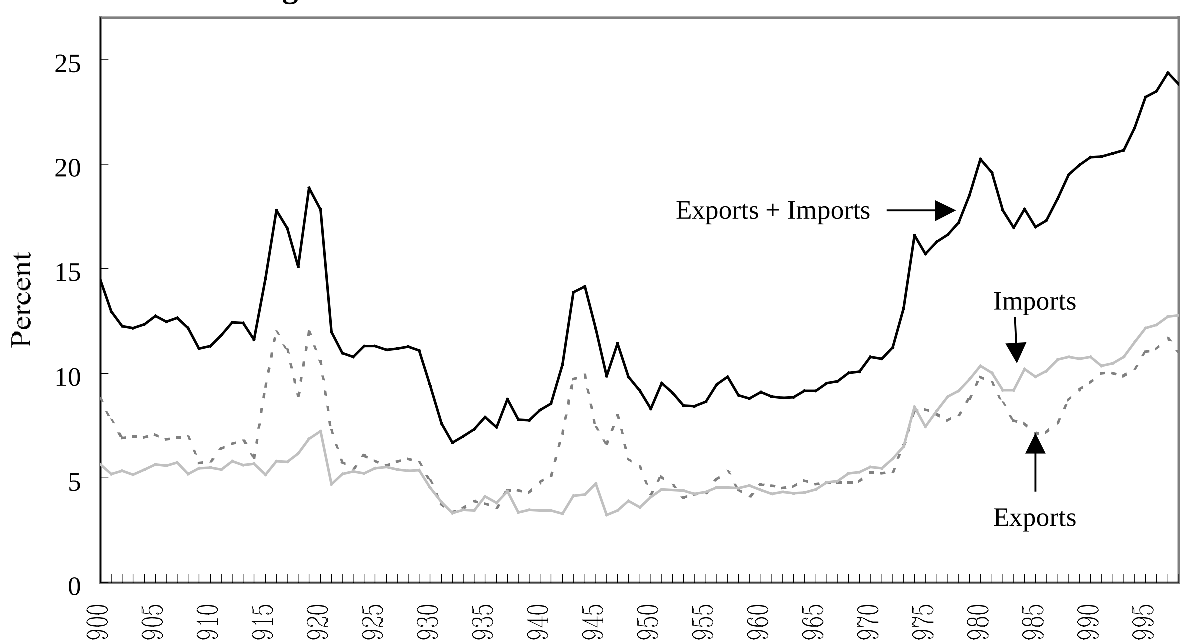
[1] In 1998, U.S. tariffs averaged about 2.8 percent, weighted by world imports; however, the share of total U.S. duties collected in total U.S. imports for consumption was only 2 percent. Figure 1 provides only a partial indication of countries' openness. A full international comparison would require an analysis of other measures, such as transparency and non-tariff barriers that are not reflected in Figure 1.
[2] Using data from the World Trade Organization, http://www.wto.org/wto/statis/stat.htm (downloaded November 11, 1999). The data are for world trade in goods and commercial services, including intra-EU trade.

merchandise overseas. They also enjoy access to low cost inputs, which makes them more competitive domestically and internationally. Many U.S. farmers also ship large shares of their production abroad. U.S. workers enjoy higher paying jobs and U.S. consumers enjoy lower prices and more product variety.

America in the Global Economy

In recent years, trade's share in U.S. GNP has approached 25 percent, a record high for this century (Figure 2).[3] In 1998, U.S. goods and services exports and imports amounted to about $966 billion and $1,116 billion, respectively. On average, Americans exported 11 percent of the goods and services they produced and imported 13 percent of those they consumed. Capital goods accounted for the largest share of U.S. exports, about 31 percent, followed by services, then industrial supplies and materials (Figure 3a). Capital goods also accounted for the largest share of U.S. imports, about 24 percent, followed by consumer goods, then services (Figure 3b). The sectoral data suggest the importance of two-way trade within industries. The United States is competitive across a wide range of industries, in part, because U.S. firms have access to low-cost components, resulting in lower production costs.

Figure 2: U.S. Trade as a Percent of GNP 1900-1998



Source: The data for 1900-1970 are from the U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States, Part 2* (Washington, DC: 1975); the data for 1971-1998 are from the Bureau of Economic Analysis.
Notes: Export and import data from 1900-1918 do not include "Other Transactions"; import data from 1900-1919 do not include "Direct Military Expenditures."

[3] The share of trade in GNP provides a figurative benchmark. While exports come out of domestic production, imports supplement domestic consumption.

Figure 3a: U.S. Exports in 1998
Total = $966 Billion

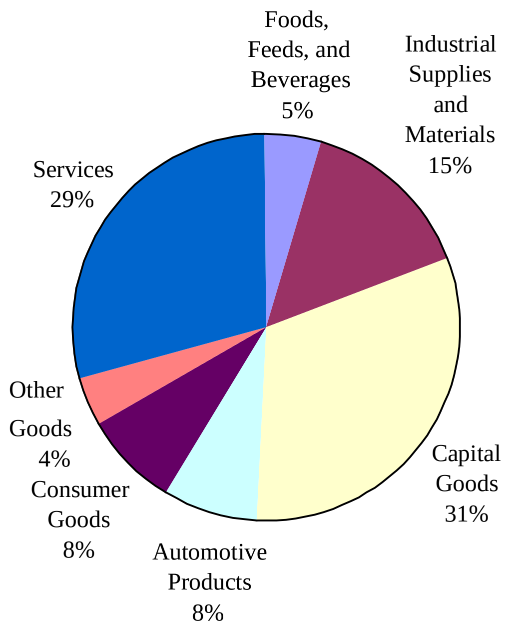
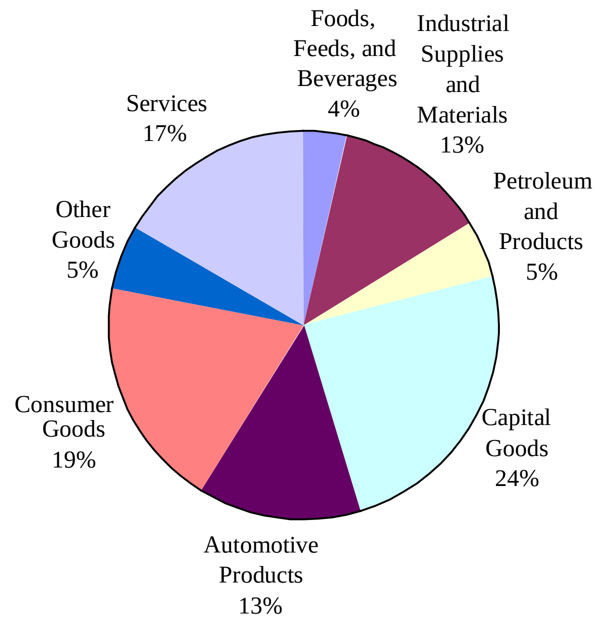


Figure 3b: U.S. Imports in 1998
Total = $1,116 Billion



Source: U.S. Department of Commerce, Bureau of Economic Analysis

More detailed data on U.S. trade in manufacturing, agriculture and services provide even more compelling evidence of the extent of U.S. integration in the global economy and the value of open markets. For a variety of products – ranging from computers to wheat – access to global markets contributes substantially to U.S. production and consumption.

Manufacturing industries are highly integrated. A comparison of trade, production, and consumption data suggests substantial international integration in a number of industries, and an outward orientation in high-tech manufacturing. On average, exports accounted for about 15 percent of shipments in manufacturing and imports accounted for about 19 percent of consumption in 1996. Ranked on the basis of export shares, industrial and commercial machinery and computer equipment, electronic and other electrical equipment and components, and measuring, analyzing, and controlling instruments rated highest (Table 1). In each of these industries, exports accounted for roughly 25 percent or more of U.S. firms' total shipments. Ranked on the basis of import shares, leather products, apparel, and miscellaneous manufactures rated highest – imports accounted for at least 39 percent of domestic consumption in each industry. But, imports also accounted for a significant share of consumption in electronic and other electrical equipment and components and in industrial and commercial machinery and computer equipment – roughly 33 percent and 34 percent, respectively. As above, the data on industrial and commercial machinery and computer equipment suggest the importance of two-way trade. A closer look at more recent 1998 data on U.S. trade, production, and consumption in computer equipment provides further evidence:

Table 1: U.S. Manufacturing Trade as a Percent of Total Shipments and Consumption 1996

SIC Code	Product Description	Exports as a Percent of Shipments	Imports as a Percent of Consumption
20	Food and Kindred Products	6.82	6.14
21	Tobacco Products	17.09	0.96
22	Textile Mill Products	10.00	11.42
23	Apparel and Other Finished Products Made From Fabrics…	10.43	39.11
24	Lumber and Wood Products, Except Furniture	7.62	11.96
25	Furniture and Fixtures	5.63	15.05
26	Paper and Allied Products	9.02	9.37
27	Printing, Publishing, and Allied Industries	3.19	2.12
28	Chemicals and Allied Products	17.73	13.73
29	Petroleum Refining and Related Industries	3.98	9.80
30	Rubber and Miscellaneous Plastic Products	8.26	10.10
31	Leather and Leather Products	23.46	70.97
32	Stone, Clay, Glass, and Concrete Products	5.59	10.96
33	Primary Metal Industries	13.09	19.66
34	Fabricated Metal Products, Except Machinery and Transportation…	7.72	8.76
35	Industrial and Commercial Machinery and Computer Equipment	32.14	33.92
36	Electronic and Other Electrical Equipment and Components…	25.15	32.65
37	Transportation Equipment	21.45	27.30
38	Measuring, Analyzing, and Controlling Instruments…	24.72	22.08
39	Miscellaneous Manufacturing Industries	16.31	47.25
	All Manufacturing	**15.18**	**19.21**

Source: U.S. Department of Commerce, International Trade Administration

- In the computer industry, including computer hardware and peripherals, U.S. exports accounted for about 43 percent of domestic producers' total shipments and imports accounted for about 58 percent of final and intermediate domestic consumption.[4]

- According to a recent report, more than 60 percent of the hardware value of a typical U.S. personal computer system is made up of floppy and hard disc drives, video cards, multimedia

[4] The computer industry is defined here as SIC 3571, 3572, 3575, and 3577. The data are from a report prepared by the McGraw-Hill Companies and the U.S. Department of Commerce, International Trade Administration, *U.S. Industry and Trade Outlook '99* (1999), p. 27-5.

kits, monitors, mother boards, mouse devices, power supplies, and random access memory imported from Asia.[5]

Farmers export large shares of production. Here also, the data show that Americans benefit from opportunities to sell their products internationally. In 1998, U.S. agricultural exports totaled about $54 billion, accounting for roughly a quarter of cash receipts.[6] However, for many bulk commodities, high-value products, and horticultural products, the share of production sold as exports was considerably higher. U.S. wheat and rice growers exported over 40 percent of their production, U.S. sunflower seed oil producers exported over 80 percent of their production, and U.S. almond growers exported over 70 percent.[7]

Service exports have grown dramatically. Though typically "small" relative to total industry production, U.S. exports of services have grown dramatically, providing further evidence of the increasing importance of global linkages. U.S. service exports have grown as a share of domestic production of services (Figure 4). They have also grown as a share of total exports.

- U.S. service providers have almost tripled their share of export-related production over the past five decades. In 1950, only 2.2 percent of U.S.-produced services were exported; in 1998, that share was about 6 percent.

- Over the same period, U.S. service exports have generally grown more rapidly than merchandise exports. As a result, their share of total U.S. exports has increased from about 17 percent in 1950 to about 29 percent in 1998.

- The United States is the world's leading services exporter, accounting for over 18 percent of all commercial service exports in 1998.[8] Among the leaders were travel services, transportation services, royalties and license fees, business, professional and technical services, and financial services, together accounting for about 78 percent of all U.S. private service exports.[9]

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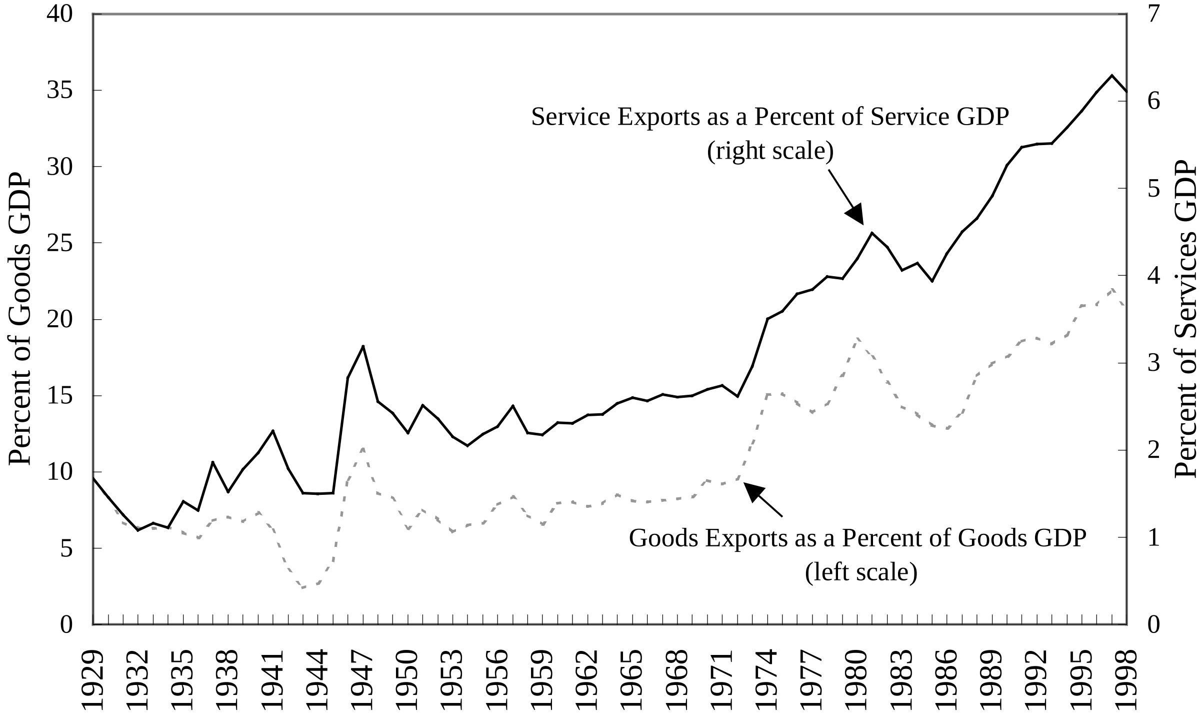
[5] Ibid., p. 27-1.
[6] Data are from the U.S. Department of Agriculture, Foreign Agricultural Service (July 1999); reporting exports as a share of cash receipts less government payments.
[7] Data are from the U.S. Department of Agriculture, Foreign Agricultural Service (July 1999); reporting exports as a share of domestic production, using 1996-98 average volume.
[8] See World Trade Organization, http://www.wto.org/wto/statis/prerelease.htm (downloaded October 21, 1999).
[9] Royalties and license fees includes some receipts, such as those from books, records and tapes and broadcasting and recording of live events, that could be apportioned to specific industries. Within the category of business, professional, and technical services, the leaders are construction, engineering, architectural, and mining services; installation, maintenance, and repair of equipment; legal services; operational leasing; and computer and data processing services – together accounting for almost 60 percent of all U.S. exports of business, professional, and technical services. See U.S. Department of Commerce, Economic Statistics Administration, Bureau of Economic Analysis, *Survey of Current Business* (July 1999), p. 102 and (October 1999), p. 64.

Figure 4: Goods and Services Produced for Export 1929-1998



Source: U.S. Department of Commerce, Bureau of Economic Analysis
Note: Data prior to 1959 are not subject to October 1999 data revision

America's trading partners are located around the world – in Europe, Asia, Latin America, and Africa – but they tend to be concentrated in developed and neighboring countries. Canada is America's top ranking partner, accounting for about 21 percent of merchandise trade (exports and imports combined). Measured on the same basis, the EU is a very close second, accounting for just over 20 percent of the total, followed by Japan, accounting for just over 11 percent, then Mexico, accounting for just under 11 percent. In aggregate, non-OECD countries account for about 31 percent of U.S. trade, though the least developed countries account for a small share – less than one percent of the total.

Although the U.S. economy is "open," in the sense that its average tariffs are among the world's lowest, the United States – by virtue of its size and its distance from many major markets – is not as dependent on trade as many other nations. Total trade's share in U.S. income is about 25 percent – well below total trade's share in world income, about 46 percent. As a result, one might argue that the United States benefits from trade relations with countries in Europe, Asia, Latin America, and Africa, while remaining relatively buffered from adverse global events by the strength of its domestic markets. We see evidence of our resilience in the recent financial crisis, wherein poor economic conditions in Asia and elsewhere led to a temporary reduction in demand for U.S. exports and contributed to a rise in our current account deficit. Although some sensitive sectors of the U.S. economy, including parts of manufacturing and agriculture, have been adversely affected by this international slowdown, our overall economy has been able to sustain robust growth and maintain full employment.

Trade Raises Living Standards

We have seen that America has low trade barriers and is heavily involved in the global economy, but the question remains as to how we benefit. International trade raises U.S. living standards by improving the efficiency with which we allocate resources and enhancing our productivity.[10] Through exports, the expansion of internationally competitive sectors boosts incomes and large-scale production reduces costs. At the same time, the availability of imports increases buying power, improves consumer choice, and helps stave off inflation.

In his famous treatise, The Wealth of Nations, Adam Smith pointed out the economic benefits of specialization and the degree to which these benefits depend on a large market. The founding fathers of the United States revealed an innate appreciation of this insight when they enacted the Constitution. In particular, they explicitly prohibited states from restricting trade with other states. This prohibition is arguably the most effective free trade agreement in history. It established open trade among the states, creating a large internal market that has helped to make the United States one of the richest economies in the world. Because they can freely sell their products on this large market, Californians can produce more wine than if they could only to sell in their own state. Likewise, farmers in Kansas can grow more corn and factory workers in Michigan can build more automobiles. As a result of these activities, all Americans enjoy less expensive wines, corn, and automobiles.

Today, we take our open internal market for granted. Few would likely argue that the East or West of the United States would benefit if a barrier prevented trade between them. Yet the case for free international trade is fundamentally the same as the case for free domestic trade. Access to large, diverse markets permits specialization and specialization yields gains to producers and consumers. Open trade allows Americans to earn higher incomes than if they sold only at home. It also allows them to buy an array of products that is less expensive and more varied than if they could only purchase domestically. International competition also exposes U.S. industries to foreign technologies and stimulates them to become more inventive and productive.

However, it is important to remember that the internal market works, in part, because an effective rule of law governs domestic transactions. Each of the 50 states enjoys considerable latitude in setting its own local policies, but an overarching system of federal rules and guidelines assures openness across the country. Much in the same way, the multilateral trading system encourages transparent and predictable rules of conduct.

Countries gain from specialization. When a country produces and exports those goods and services that it can produce relatively inexpensively, and imports those that are relatively inexpensive to produce abroad, that trade can improve standards of living on both sides of the transaction.[11] For example, the United States, with an abundant supply of high-skilled labor and

[10] The discussions of specialization, competition, and productivity that follow draw from the *Economic Report of the President* (Washington, DC: February 1998), pp. 236-238.

[11] A country's relative strengths, i.e., its comparative advantage, derives in part from its "natural" endowment of resources, such as capital, labor, and land. But other factors – including a country's domestic policies – are also important. They can affect both the quantity and quality of its resources. The U.S. economy, for example, benefits

capital, can produce financial services at lower cost, relative to other products, than can most developing countries. Costa Rica, with an abundant supply of low-skilled labor and appropriate growing conditions can produce coffee at lower cost, relative to other products, than can the United States. In this example, the United States would benefit from producing and exporting financial services and importing coffee; the reverse is true of Costa Rica. Through specialization, each country puts its resources to use where they can generate the most economic value. Thus, when countries open their borders to trade, or reduce existing barriers, they reallocate resources to the uses in which they will be most profitable.

Competition enhances productivity. Foreign competition gives domestic firms an incentive to raise their productivity. Unlike other one-time gains, these gains are recurring.[12] Once competition is introduced, it leads to a cycle of productivity improvements and quality enhancements that continue to benefit the economy indefinitely. Studies of the United States and Japan find a positive relationship between import growth and productivity growth.[13] Trade can also increase growth by improving the flow of knowledge and transfer of technology. With protection of intellectual property rights, foreign competition can promote research and development and lead to innovation – in both new products and new production processes.

Exports provide clear benefits. By selling overseas, firms can increase their sales and earnings. In response, production expands and more Americans are drawn into jobs in the most productive and internationally competitive sectors of our economy. In 1994, the total number of U.S. jobs supported directly and indirectly by manufacturing exports was one in five.[14] In agriculture the share was one in three. Since that time, U.S. goods exports as a share of U.S. goods production has risen. Access to larger markets can also reduce costs and increase innovation.

- *The expansion of internationally competitive sectors boosts incomes*. Recent studies provide evidence of substantial wage advantages in jobs supported by goods exports – roughly on the order of 15 percent. One such study indicates that wage premiums for exporting plants range from 12.5 to 18 percent on average for plants of all sizes, locations, and industries.[15] Another study finds that the wages of all production and related workers in jobs supported by goods exports were 13 percent higher than the national average, and the wages of workers in jobs supported directly by those exports were 20 percent higher.[16]

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from an abundant supply of high-skilled labor. However, such skills are not conferred by nature, rather they are conferred by education and training.

[12] Among the one-time gains, foreign competition can provide incentives for firms to reduce their prices in previously non-competitive markets. For example, foreign competition, including the threat of foreign competition, can help dilute domestic monopolies.

[13] See Robert Z. Lawrence, "Does a Kick in the Pants Get You Going or Does It Just Hurt? The Impact of International Competition on Technological Change in U.S. Manufacturing," unpublished draft (July 1999) and Robert Z. Lawrence and David E. Weinstein, "Trade and Growth: Import-Led or Export-Led? Evidence from Japan and Korea," NBER Working Paper No. W7264 (July 1999).

[14] See Lester A. Davis, "U.S. Jobs Supported by Goods and Services Exports, 1983-94" (U.S. Department of Commerce, Economics and Statistics Administration, Washington, DC: November 1996), p. 3.

[15] See J. David Richardson and Karin Rindal, "Why Exports Matter: More!" (The Institute for International Economics and The Manufacturing Institute, Washington, DC: February 1996), p. 9.

[16] See Lester A. Davis, pp. iii and 7-8.

- *Large-scale production reduces and spreads costs*. The economies of scale achieved by selling on world markets lower the costs of production and increase the returns to innovation. For some goods, such as automobiles, the average cost of production falls as more of the good is produced – hence, the larger the market, the lower the cost. As a result, U.S. producers become even more competitive and U.S. consumers enjoy lower prices. Moreover, the ability to spread the fixed costs of research and development across a larger sales volume allows globally competitive firms to be more innovative than those confined to selling in smaller domestic markets.

Gains from trade also come from imports. As a result of imports, consumers enjoy lower prices, higher effective wages, and greater product selection. Imports may also lead to increased competition and faster productivity growth. Recently, our ability to import has also provided an anti-inflationary safety valve – helping us to combine low inflation, steady growth, and high rates of employment.

- *Imports increase buying power*. The ability to buy less expensive foreign products is an important complement to faster productivity growth in raising living standards and boosting real wages. Today, a dollar buys 11 percent more imported goods and services than it did in 1995. And, over the same period, nominal average hourly earnings have risen from $11.47 to $13.31. Taken together, these two facts imply that by working an hour, the typical production worker can now buy 28 percent more imported goods and services than in 1995. Moreover, foreign competition creates incentives for U.S. businesses to price their products more competitively.

- *Imports improve consumer choice*. Imports increase the variety of products and allow consumers to buy products that are more precisely matched to their taste. Because markets are open, U.S. consumers can choose from seemingly countless models of 4-door sedans, 2-door hatchbacks, sport utility vehicles, and pick-up trucks; they can also purchase tropical fruit all year-round. Imports may also contribute to higher productivity by giving producers access to a wider array of inputs and equipment. The U.S. computer industry is among the world's most competitive, in part, because it can combine U.S. software and microprocessors with other components made in Asia and elsewhere.

- *Imports stave off inflation*. Recently, imports have provided an anti-inflationary safety valve. Many economists ascribe some part of the recent quiescent performance of inflation to our ability to draw on global capacity. They believe that this allows the economy to achieve higher levels of employment without igniting inflation. This has allowed the Federal Reserve more leeway to keep interest rates low, which may, in turn, have contributed to the current low rate of unemployment.

Specialization requires adjustments. The gains from trade are not zero-sum, in that one country does not "win" at the expense of another. In fact, the shared aspect of the gains from trade across countries is a central tenet of economics. Nevertheless, by its very nature, specialization involves adjustments that may create winners and losers within countries. In the face of open markets and increased foreign competition, some industries within a country will expand and others may contract. Adjustments for businesses and workers in shrinking industries can be costly and painful. Although economic studies typically find that trade is a small factor – roughly 10 percent or less – in overall job displacement, some workers may face short-term unemployment and others may even face permanent wage reductions if they are unable to find comparable jobs in expanding sectors.[17]

Trade, therefore, presents domestic challenges. But the fact that trade produces additional income means that, in principle, resources are available to help those who are hurt either to adapt, by becoming more productive and competitive in what they were already doing, or to switch to new activities. One way to help in the transition is to develop programs that directly address the problems of dislocation. Another way may be to encourage trade, while limiting the pace at which change occurs. Such gradualism may be desirable under certain circumstances, but attempting to prevent liberalization would be counterproductive. Permanent protection inevitably costs more, in foregone benefits, than it saves. The key lies in an economy that is sufficiently flexible and vibrant to meet the challenges of reaping those benefits.

- *Domestic programs help workers find jobs.* To address problems of worker dislocation – regardless of cause – the Clinton Administration has developed new programs to assist in job search and training. These programs add to the assistance that is already available to displaced workers through the Federal Trade Adjustment Assistance program. The Workforce Investment Act of 1998 retains a funding stream for dislocated workers and promotes customer access and choice through a one-stop service delivery system and Individual Training Accounts. The Administration has also ensured that lifelong learning tax credits and scholarships are available to assist workers in preparing for new jobs. Federal job and talent banks also provide new mechanisms for helping millions of U.S. workers. On a single day in October 1999, America's Job Bank posted over 1.3 million jobs; that same month, America's Talent Bank held over 400,000 resumes.

- *The WTO Agreements and U.S. trade laws provide cushions*. For example, key features of the Agreement on Agriculture and the Agreement on Textiles and Clothing phase-in gradually over periods of six to ten years. The WTO Agreements also allow countries to use certain forms of safeguards to protect temporarily against import surges that seriously injure or threaten to seriously injure a domestic industry. The United States has invoked its own safeguard provisions three times since the creation of the WTO, in cases involving corn brooms, wheat gluten, and lamb meat.

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[17] Data from the 1980s show that trade contributed at most 10 percent of the observed displacements from manufacturing in the worst year of that decade. See *Economic Report of the President* (1998), pp. 244-245. A 1994 study of potential Uruguay Round effects estimated that about 0.2 percent of U.S. work force could change jobs as a result of changes in patterns of trade. This compares with annual job changes for other reasons of 10 percent or more for the work force. See Susan M. Collins and Barry P. Bosworth, editors, *The New GATT, Implications for the United States* (The Brookings Institution, Washington, DC: 1994), p. 2. A Congressional Budget Office report on NAFTA concluded that the agreement would result in relatively little job displacement. The total number of jobs lost would probably be well under half a million, spread over at least a decade. By way of comparison, nearly 20 million workers were displaced during the 1980s. See U.S. Congressional Budget Office, *A Budgetary and Economic Analysis of the North American Free Trade Agreement* (July 1993), p. xv.

III. The WTO Promotes Rules-Based Market Opening

A comparison of trade and protection patterns, pre- and post-GATT, illustrates the importance of the multilateral trading system in opening foreign markets, establishing an effective rule of law, and promoting economic growth internationally. Before the GATT, trade was highly susceptible to changes in economic and political circumstance. Barriers appeared during WWI and worsened during the inter-war period. Since the creation of the GATT in 1948, markets have become increasingly open and integrated. Through eight successive rounds of negotiations, major industrial nations' tariffs on manufactured goods have dropped by about 90 percent, some non-tariff barriers have been brought under GATT disciplines, more sectors have been covered more fully by trade rules, and participation has increased nearly six fold.

To what does the multilateral trading system owe its strength? Ultimately, it is to the belief of its members that their participation, including adherence to trading rules, is in their own self-interest. The WTO, which was established in 1995, reflects an agreement by each of the members to constrain its own behavior in return for other members constraining theirs. Nations have voluntarily agreed to such commitments because on balance they are beneficial. In making these commitments, nations are exercising, not giving up their sovereignty.

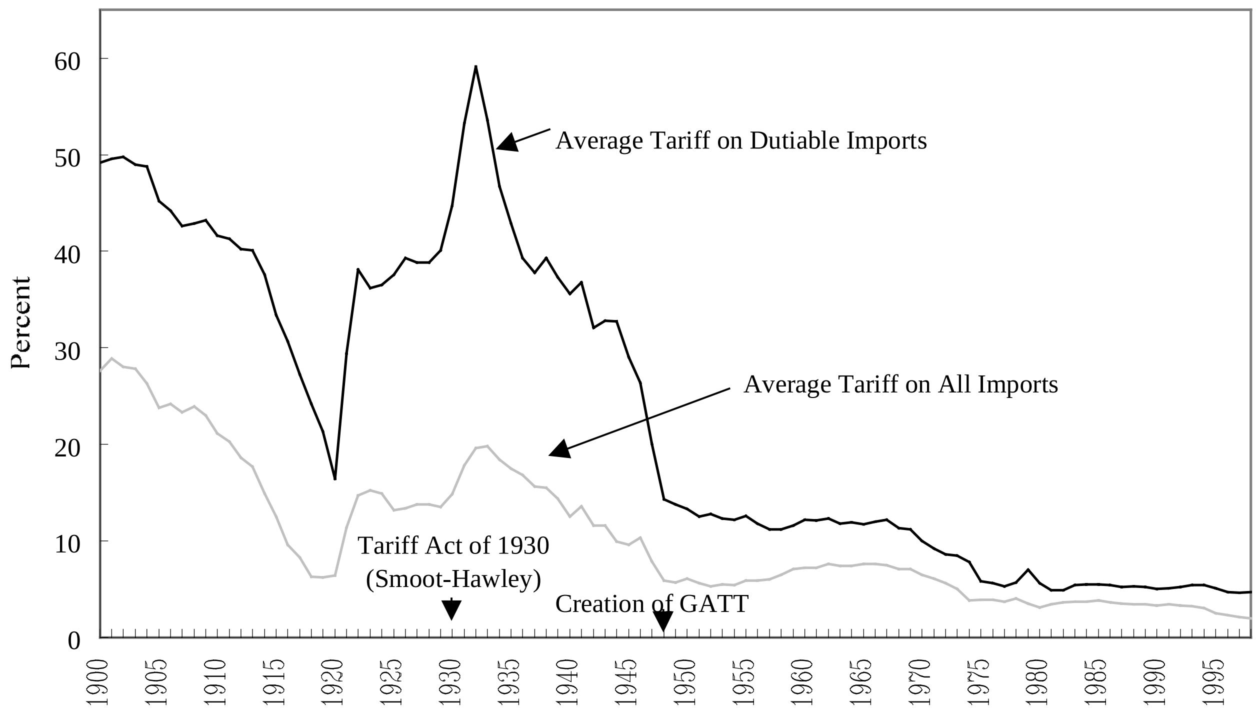
Moreover, the WTO has sought to strike an appropriate balance between the needs of the trading system and those of individual members. The rules, such as those for resolving disputes and setting standards, have become more transparent and predictable, but they are not wholly prescriptive. They leave considerable scope for national autonomy and diversity. The WTO Agreements do not and will not preclude the United States from establishing and maintaining its own laws; impair the effective enforcement of U.S. laws, including laws to combat unfair imports; or limit the ability of the United States to set and achieve its environmental, labor, health, and safety standards at the levels it considers appropriate. WTO panel reports have no direct effect on the U.S. legal system and do not change U.S. law.

For all of the reasons discussed, the United States, including its businesses, farmers, workers, and consumers, benefits substantially from trade liberalization. Though it can be difficult to separate the effects of liberalization from those of other economic and political events, economic models can be used to assess some of the effects of reducing tariffs, reducing export subsidies, and eliminating quotas on countries' trade, production, and income. Such models partially capture the effects of specialization and resource reallocation in goods trade, but are less adept at capturing the effects of changes in non-quantitative rules of conduct in goods and services trade, of improvements in product selection, and of some dynamic effects. On balance, they likely understate the long-term benefits of market liberalization. Moreover, as industrial tariffs in industrial countries have been so greatly reduced, trade negotiations have increasingly focused on services, non-tariff measures, and changes in rules whose benefits cannot be readily captured in formal economic models. The scope of coverage of economic effects captured in these models may in fact be decreasing due to the changing nature of trade agreements.

The Trading System Provides a Framework for Liberalization

A comparison of trade and protection patterns, pre- and post-GATT, provides compelling evidence of the importance of the WTO in promoting market liberalization and an effective rule of law.[18] During the first half of the 20th Century, tariffs rose and sometimes fell, depending on a number of factors (Figure 5). In the years preceding the GATT, markets were susceptible to political pressures and protectionist interests. Since the 1950s, trade has become increasingly open and the world economy increasingly integrated. The growth of world trade has consistently outpaced the growth of world output (Figure 6).

Figure 5: Average U.S. Tariff Rates 1900-1998



Source: U.S. International Trade Commission

Note: Average tariff rates are defined as the ratio of duties collected to import values.

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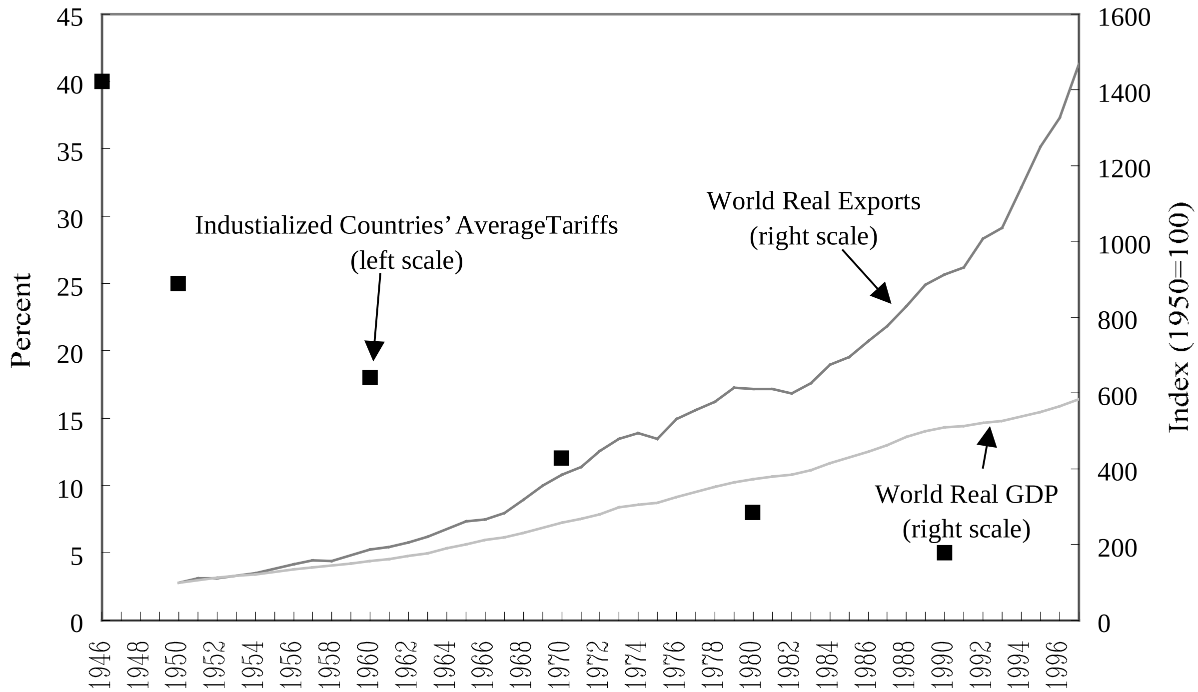
[18] The discussion of the history of world trade in the first half of the 20th Century draws heavily from Douglas A. Irwin, "The GATT in Historical Perspective," *American Economic Review* (May 1995), pp. 323-328 and Douglas A. Irwin, "The Smoot-Hawley Tariff: A Quantitative Assessment," *The Review of Economics and Statistics* (1998), pp. 326-334. For more on the pre-WWI period, see Irwin (1995), pp. 323-324.

Figure 6: World Exports, GDP, and Tariff Estimates Post-WWII



Source: Export and GDP data are from Angus Maddison, *Monitoring the World Economy1820-1992* (Development Centre of the OECD: 1995), pp. 227 and 239. Tariff estimates are based on Stoeckel et al, *Western Trading Blocs* (1990), pp.7-8.
Note: GDP and export data are extrapolated to 1997 using data from the World Trade Organization.

Markets open at turn of century. At the turn of the 20th Century, international trade was 'governed' by a loose network of bilateral treaties, subject to most-favored nation (MFN) clauses. Countries could alter their tariffs at will. For the most part, countries made use of tariffs, rather than other forms of market protection. For some countries, including the United States, tariffs were an important source of public revenue – roughly speaking, customs receipts accounted for about half of U.S. government revenue from 1870 through 1910. Absent international conflict, this trading 'arrangement' worked reasonably well. Data on trade and income for the same time period suggest that markets were relatively open – for a group of 11 major countries exports grew more rapidly than output.[19]

Trade barriers rise with onset of WWI. With the onset of WWI, some countries introduced higher tariffs, along with import quotas and other non-tariff trade impediments. The trend did not reverse itself after the war – countries' border measures grew more onerous, not less. Owing partly to the rise of protectionism, world trade collapsed. In June 1930, the U.S. Congress legislated the Smoot-Hawley tariff to protect U.S. agriculture and other sectors. Other countries followed. According to a recent study of the effects of the Smoot-Hawley tariff on U.S. imports and economic well being, the legislation led to an increase in import duties of about 20 percent on average, resulting in a 5 to 6 percent increase in the price of imports.[20] Though it is difficult to separate the effects of trade policy from those of the Great Depression, the relationship

[19] Irwin (1995), pp. 323-324. The 11 major countries are Australia, Belgium, Canada, France, Germany, Italy, Japan, Norway, Sweden, the United Kingdom, and the United States.
[20] Irwin (1998), p. 333.

between world trade and output is revealing. Of particular note was trade's failure to keep pace with real output during the early stages of economic recovery – for the same group of 11 countries mentioned above, output was about 15 percent higher in 1938 than in 1929, but exports were about 15 percent lower.[21] The failure of international trade to join the recovery suggests the significance of the rise in trade barriers.

Multilateral trading system emerges after WWII. At the end of WWII, faced with the legacy of protectionism, the need for reconstruction, and the specter of Communism, the United States led the call for an open trading system. The United States sought to secure the benefits of trade for itself and any other country willing to 'play by the rules,' to promote economic development in Europe and Asia, and to enlarge the scope of the market system to include as many countries as possible. In 1947, 23 countries gathered in Geneva to reduce trade barriers; the multilateral trading system eventually emerged from these deliberations, but other discussions of a more broadly based International Trade Organization did not move forward. For nearly 50 years, the GATT served as both an international agreement and an international organization. Through successive 'rounds' of negotiations, the GATT succeeded in three important regards: First, it established a rules-based trading system; second, it greatly reduced the tariff rates on industrial products; third, it drew in new participants (Table 2).

[21] Irwin (1995), p. 324.

Table 2: Eight Rounds of GATT Negotiations

Years	Place (Name)	Subjects Covered	Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960-61	Geneva (Dillon Round)	Tariffs	26
1964-67	Geneva (Kennedy Round)	Tariffs and anti-dumping measures	62
1973-79	Geneva (Tokyo Round)	Tariffs, non-tariff measures, and plurilateral "framework" agreements (also referred to as "codes")	102
1986-94	Geneva (Uruguay Round)	Tariffs, non-tariff measures, new rules for services, intellectual property rights, textiles and clothing, and agriculture; creation of the WTO and strengthening of the dispute settlement mechanism	123

Source: The World Trade Organization, "Roots: from Havana to Marrakesh," http://www.wto.org/about/facts4.htm (downloaded September 19,1999)

- *Rules promote fair and open trade*. Consistent with U.S. goals for an open trading system, the GATT was founded on principles of consensus, reciprocity, and non-discrimination – all participants were granted MFN status and their products accorded national treatment. Any concession granted to one partner would be granted to all partners and, upon entry into a country, all products would be treated the same regardless of their origin. The same basic principles now apply generally to WTO members.

- *Industrial tariffs decline dramatically.* At the end of WWII, the average tariff on industrial products in developed countries was about 40 percent. The Geneva negotiations of 1947 involved 23 countries and resulted in 45,000 tariff concessions, affecting about one-fifth of the world's trade.[22] By the 1950s, industrial tariffs in developed countries averaged roughly 25 percent.[23] Later rounds in Annecy, Torquay, and Geneva led to further reductions. By the late 1960s, the average tariff on industrial products in developed countries fell to about 12 percent. By the end of the Uruguay Round phase in, the average will be 3.8 percent.

- *Participation increases nearly six-fold*. Over time, the multilateral trading system has become increasingly attractive to a widening range of participants. It has helped maintain stable trading relationships in the face of economic and political changes. The system has provided a forum to engage the EU and draw in developing, newly industrializing, and transition economies. In 1947 there were only 23 "contracting parties." By the mid-1960s, participation had risen to 62 countries. The Tokyo Round of the 1970s involved 102 participants and the Uruguay Round involved 123 participants; both of these rounds included many developing countries. More and more countries have been able to reap the benefits of open markets through outward-oriented development strategies. Today, the WTO claims 135 members and another 32 nations are seeking accession.[24]

Recent Negotiations Further U.S. Policy Objectives

Through the 1960s, the GATT focused on reducing industrial tariffs. In this regard it was quite successful, but the 1970s gave way to new and additional protections, including quotas, voluntary export restraints, and other non-tariff measures. Moreover, some important sectors, such as services and agriculture, remained largely uncovered. Thus, the GATT began to turn its attention to non-tariff measures, sectoral expansion, and, to lesser extent, institutional reform. The Tokyo Round made less progress than some might have hoped, but laid the groundwork for more successful negotiations in the Uruguay Round. Although the Tokyo Round failed to bring agriculture into the GATT, it gave rise to plurilateral agreements or "codes" in some areas, including subsidies, standards, import licensing procedures, and government procurement. In many other regards, the GATT was also falling behind the times. Trade in services and the protection of intellectual property rights were becoming increasingly important in the global economy, but the GATT lacked adequate treatment of either issue. The Uruguay Round made significant gains in many of these areas, thus helping to usher in a new era in international trade.

Uruguay Round opens markets and strengthens rules. The Uruguay Round brought more sectors more fully into the multilateral trading system, strengthened the rules of international trade, and established the WTO in 1995 (Appendix). The Uruguay Round brought agriculture and textiles and clothing more fully into the GATT and took 'first steps' toward liberalizing trade in those sectors. The Uruguay Round also created the WTO, with its separate agreements on services and intellectual property, a more effective dispute settlement mechanism, and a 'built-in agenda' to promote liberalization between formal rounds.[25] Beginning in 1995, the

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[22] See the World Trade Organization, "Roots: from Havana to Marrakesh," http://www.wto.org/about/facts4.htm (downloaded September 19, 1999 and last updated January 14, 1998).

[23] Andrew Stoeckel, David Pearce, and Gary Banks, "Western Trade Blocks: Game, Set or Match for Asia-Pacific and the World Economy?" (Centre for International Economics, Australia: 1990), pp. 7-8.

[24] The 135 members include Estonia, which joined the WTO on November 13, 1999.

[25] Some of the Uruguay Round Agreements set timetables for future work, including new negotiations in some areas and assessments of the situation at specified times in others. See, the World Trade Organization, "About the WTO, Beyond the Agreements," http://www.wto.org/about/beyond2.htm (downloaded September 19, 1999).

GATT no longer acts as an international organization – in this capacity it has been replaced by the WTO – though it still remains as an agreement on trade in goods. Under the auspices of the WTO, the GATT now stands next to the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Under the Dispute Settlement Understanding (DSU), a single dispute settlement procedure covers disputes among all WTO members pertaining to the WTO's multilateral agreements.

Many key accomplishments of the Uruguay Round play directly to U.S. policy objectives and economic strengths. The United States has long recognized the importance of a credible rules-based system, both to open foreign markets and to spread the gains from trade as widely as possible. The Uruguay Round of negotiations moved much further toward creating such a system. The United States is also a leader in many areas, including high-tech manufacturing, agriculture, and services, which stand to benefit from the WTO Agreements and ongoing negotiations under the built-in agenda.

Post-Uruguay Round negotiations continue process. The built-in agenda called for further negotiations in agriculture and services and additional work in many areas. To date, post-Uruguay Round negotiations have yielded market access commitments in financial services, basic telecommunications services, and information technology, opening up new opportunities in areas in which the United States is highly competitive.[26]

- *Financial services*. On December 13, 1997, 70 WTO members concluded negotiations on financial services. They agreed to the broad liberalization of their banking, securities, insurance, and financial data services sectors. Based on recent estimates, the commitments apply to about $18 trillion in global securities assets, $38 trillion in global bank lending, and about $2.2 trillion in worldwide insurance premiums. This brought to 102 the total number of WTO members with financial services commitments.

- *Basic telecommunications services*. On February 15, 1997, the United States and 69 other WTO members concluded negotiations on basic telecommunications services, such as telephone services. The agreement commits countries to provide market access and national treatment to service suppliers from other WTO members. Sixty-five countries also agreed to a set of specific pro-competitive regulatory principles. The agreement eliminates certain restrictive practices in countries that account for 95 percent of world telecommunications revenues, amounting to about $600 billion in 1996.

- *Information technology*. On March 26, 1997, 40 countries agreed to eliminate import duties and other charges on information technology products, mostly by 2000. Since that time, the number of participants has grown. The agreement covers global information technology products such as semiconductors, telecommunications equipment, computers and computer equipment, and software. Participants account for over 90 percent of trade in this sector.

[26] Summary of results from the *Economic Report of the President* (1998), pp. 224-226, and from the World Trade Organization, http://www.wto.org/about (downloaded September 19, 1999). Discussions also continued on "the movement of natural persons," i.e., the entry and temporary stay of persons for the purpose of providing services, and on maritime transport services. The former discussions were completed in July 1995, achieving modest results, while the latter were suspended.

Countries Gain from Lower Barriers

The Uruguay Round continued the focus of the GATT on tariff reductions, and extended agreements to previously neglected sectors, such as agriculture, textiles and clothing, and services. Substantial breakthroughs were achieved in new areas, such as trade-related aspects of intellectual property rights. Moreover, the creation of the WTO provides an improved institutional framework for resolving disputes and monitoring countries' performance in the trading system. While benefits are expected from each of these accomplishments, numerical assessments are limited to certain conceptually quantifiable features of the round, namely reducing tariffs, reducing export subsidies, and eliminating quotas on some industrial products, textiles and clothing, and agricultural products.[27] The assessments do not capture the gains from strengthened rules, such as those found in the dispute settlement procedure and the new agreements on services and trade-related aspects of intellectual property rights. Nor do they capture short-term adjustment costs.[28] Although restricted in scope, these assessments provide estimates of some of the potential benefits of the Uruguay Round.[29] They also provide insight as to the distribution of effects across countries and across industries within countries.

Recent studies evaluating a narrow range of the potential gains from the Uruguay Round, estimate that annual global income could rise by 0.7 to 0.9 percent or $171 billion to $214 billion upon full implementation, in 1992 dollars.[30] Most of these studies show gains accruing primarily to developed countries, perhaps not surprisingly, because many of their commitments are more directly quantifiable. For the United States, the annual gains could be about 0.4 to 0.6 percent of GDP, amounting to about $27 billion to $37 billion in 1992 dollars. These studies also show that some developing countries stand to gain significantly, especially relative to the size of their economies. Although the projected gains for many OECD countries, including the United States,

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[27] Even in this regard the assessments suffer considerable limitations. None fully depicts all sectors of the U.S. or global economies. In particular, they provide more stylized representations of some of the manufacturing sectors in which the United States is highly competitive. This kind of "aggregation bias" may significantly understate the benefits of the agreement to the United States. See Hugh M. Arce and Kenneth A. Reinert, "Aggregation and the Welfare Analysis of US Tariffs," in *Journal of Economic Studies*, Vol. 21, No. 6 (1994), pp. 26-30.

[28] As noted previously, a 1994 study estimated that about 0.2 percent of U.S. work force could change jobs as a result of changes in patterns of trade. See Susan M. Collins and Barry P. Bosworth, p. 2.

[29] The discussion below draws from the most recent revisions of four published models. These revisions, based on the actual commitments made by the countries in the negotiations, tend to project slightly lower gains than previously expected. See Ian Goldin and Dominique van der Mensbrugghe, "Assessing Agricultural Tariffication under the Uruguay Round," Thomas Hertel, Will Martin, Koji Yanagishima, and Betina Dimaranan, "Liberalizing Manufactures Trade in a Changing World Economy," Glenn W. Harrison, Thomas F. Rutherford, and David G. Tarr, "Quantifying the Uruguay Round," and Joseph F. Francois, Bradley McDonald, and Håkan Nordström, "The Uruguay Round: A Numerically Based Quantitative Assessment," in *The Uruguay Round and the Developing Countries*, Will Martin and L. Alan Winters, eds. (World Bank and Cambridge University Press, U.K.: 1996), pp. 156-291. The models differ in many respects, including the base periods chosen, parameter assumptions, and the agreements emphasized (for example, Goldin et al. focuses on agricultural liberalization, while Hertel et al. emphasizes textile and clothing liberalization). As a result, the estimates are not fully comparable.

[30] See Harrison et al., p. 238 and Francois et al., pp. 282-283. These estimates are from dynamic simulations, incorporating increasing returns to scale and imperfect competition in their representations of the U.S. and global economies and using 1992 as the benchmark for comparison. The dollar figures show gains relative to U.S. and global income in 1992 in 1992 dollars. With static specifications, the liberalization of trade in goods is estimated to induce an annual gain in the range 0.2 to 0.4 percent of global income, or $40 billion to $99 billion. While the dynamic simulations may be more realistic than their static counterparts, they include features that are also more difficult to characterize accurately.

amount to less than one percent of their respective national incomes, the gains for several smaller countries, such as Thailand, Malaysia, and Philippines, could be as much as ten percent or more of their respective national incomes.[31] Some least-developed countries could be affected adversely in the short run, but possible negative impacts could be offset partially if they were to further reduce their own trade barriers. Additional liberalization could also bring more rapid growth and enhance technology transfers. Sectoral estimates vary widely:

- The annual benefits of the Agreement on Agriculture could amount to $5 billion to $68 billion.[32] Most of the studies show benefits accruing to OECD countries, including the United States, and to some upper-income developing countries. Though a significant 'first-step,' the major achievement in the Agreement on Agriculture is more in bringing the sector into the GATT framework than in actual liberalization.

- The annual benefits of the Agreement on Textiles and Clothing (ATC), obtained through abolishing the multi-fiber arrangement (MFA), could amount to $20 billion to $118 billion.[33] The United States and EU would derive substantial gains from eliminating the MFA quota restrictions, mainly because their consumers and firms using imported products as inputs see significantly lower prices. The effects on other countries are mixed.

- The annual benefits of Uruguay Round liberalization of industrial products, excluding textiles and clothing, could amount to $59 billion to $87 billion.[34] The benefits of liberalization in this sector are more evenly distributed among developed and developing countries than in the cases of the Agreement on Agriculture or the ATC.

Taking a slightly different approach, estimates of the benefits of trade liberalization can also be derived from analyses of the costs of protection. For example, a study of the costs of protection in the United States finds that tariffs and quantitative import restrictions in place in 1990 cost American consumers about $70 billion, over 1 percent of GDP.[35] The net welfare loss, after deducting tariff revenues and transfers to domestic producers was $11 billion.

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[31] See Hertel et al., p. 203 and Harrison et al., p. 237.
[32] See Goldin et al., p. 170, Harrison et al. p. 238, and Francois et al., pp. 282-283.
[33] See Harrison et al., p. 238 and Francois et al., pp. 282-283.
[34] Ibid.
[35] See Gary Clyde Hufbauer and Kimberly Ann Elliot, *Measuring the Costs of Protection in the United States* (Institute for International Economics, Washington, DC: 1994). Returning to the earlier discussion of the Smoot-Hawley tariff, quantitative assessments suggest that the tariff accounted for about 7 percent of the 40 percent decline in imports in the two years after the legislation took effect. However, less is known about the associated loss of economic welfare. Estimates of the effects of the Smoot-Hawley tariff on U.S. income range from less than $5 million in a partial equilibrium economic model to $60 billion to $460 million in general equilibrium models, all measured in terms of 1929 dollars and amounting to less than 1 percent of GNP. See Irwin (1998), pp. 331-333. These figures do not, however, account for the added effects of the similar actions taken by other trading nations.

New Rules Convey Additional Benefits

Among its most significant accomplishments, the Uruguay Round greatly strengthened the rules of international trade. Good governance, i.e., an effective rule of law, is essential. The promise of market liberalization for U.S. businesses, farmers, workers, and consumers, hinges crucially on transparency and predictability. For example, if U.S. businesses lack certainty that their products will be treated fairly in foreign markets, they may weigh the risks and opt against them, choosing to forgo opportunities for expansion. If intellectual property rights are ambiguous, U.S. businesses may hesitate to trade in products that are "knowledge-based." In effect, they may not choose to specialize in the things they do best. Or, they may limit their sales to domestic markets and affiliates. As a result, the U.S. economy may not reap the full benefits of trade. In these ways, the multilateral trading system is more than "just" a trading system – it is a system of rules that positively impacts business decisions and standards of living.

More specifically, the Uruguay Round introduced new rules for agriculture, textiles and clothing, services, intellectual property, and dispute settlement, and other areas. Some of the rules were quantitative, such as those requiring reductions in tariffs on certain agricultural products. They were discussed previously. Others were not, such those pertaining to national treatment for services and protection for intellectual property rights. As noted above, economic models often have difficulty capturing the direct economic benefits of non-quantitative changes, but careful observation provides evidence of their importance. The discussion below highlights three such areas, dispute settlement, and services, and intellectual property.

Dispute settlement process improves. The DSU improves on GATT dispute settlement proceedings by expediting decision making and instituting an appeals process.[36] It also establishes procedures to ensure consequences for failure to implement panel rulings. One is the acceptance of cross-sector suspension of concessions for countries that choose not to abide by the ruling. Note here, that the procedure presents each member with a choice. A WTO dispute settlement panel cannot force the United States, or any other member, to change its laws. Only the United States determines exactly how it will respond to the recommendations of a WTO panel, if at all. If a U.S. measure is found to be in violation of a WTO provision, the United States may decide on its own to change the law; compensate a foreign country by lowering trade barriers of equivalent amount in the same or another sector; or do nothing and possibly face retaliation by the affected country in the form of increased barriers to U.S. exports. The United States retains full sovereignty in its decisions as do all other WTO members.

At times, however, the results may be disappointing, as in the recent case of the EU banana import regime. The WTO panel found favorably for the United States, concluding that the EU import regime was not WTO-consistent, but the recommendation did not bring about a satisfactory change in EU policy. In this instance, the WTO arbitrators found that the United States was being harmed in the amount of $191.4 million annually and accordingly could suspend trade concessions equivalent to that amount. The United States did so by imposing 100 percent ad valorem duties on a range of products, including bath preparations, handbags, and bed

[36] Portions of this discussion are drawn from the *Economic Report of the President* (1998), pp. 223-224. They have been modified to include new data from the Office of the U.S. Trade Representative.

linens. Nevertheless, in the nearly five years since its institution, many countries, including the United States, have made efficient use of the new mechanism, largely to their satisfaction.

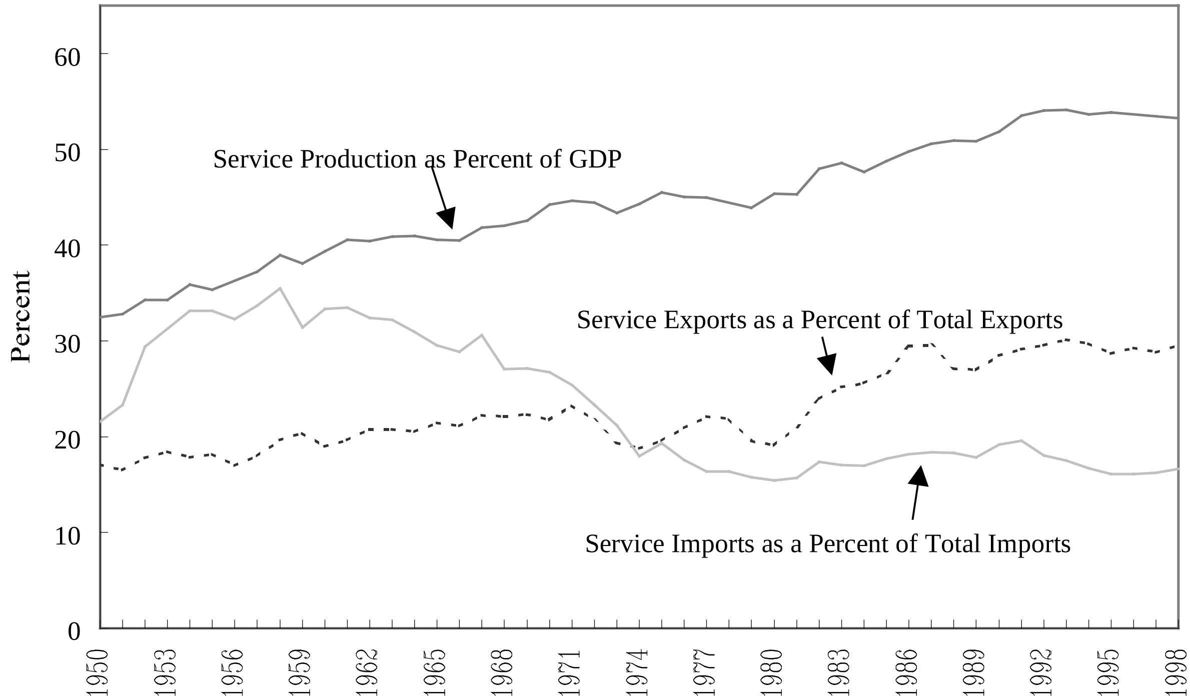
The introduction of a strengthened multilateral dispute settlement system in the WTO, together with the Agreement on Agriculture, the GATS, and the TRIPS Agreement, has broadened the scope of enforcement tools available to the United States. In the 1980s, the United States had no effective dispute settlement mechanism available to address problems in the areas of intellectual property, services, and agriculture, which the GATT covered barely or not at all. Beginning in 1995, however, the DSU and the new WTO rules have permitted the United States to use multilateral dispute settlement procedures to address the majority of issues that face U.S. exporters. For example, trade in agriculture and intellectual property has featured prominently on the U.S. roster under the DSU.

The results of 49 complaints filed by the United States suggest that the dispute settlement process has proved effective. The United States has prevailed in 22 out of 24 cases so far, having favorably settled in 10 cases without litigation and having won in 12 cases in litigation.[37] Only two of the 12 cases, those relating to the EU banana and beef import regimes, resulted in retaliatory measures. Six cases are still pending before dispute settlement panels and 17 are still in the consultative phase or otherwise inactive.[38] The United States has used the dispute settlement process to address conflicts with a variety of countries, the majority of which are major trading partners. Of the 49 complaints filed by the United States, 20 involved the EU and affiliates, 5 involved Japan, 5 involved Korea, 3 involved Canada, 3 involved India, 2 involved Australia, and the remainder involved others.

Services agreements provide first steps toward potential gains. The U.S. services sector has grown substantially, in terms of both U.S. income and exports. Private and public services, including travel, transportation, retailing, advertising, insurance, accounting, engineering, and education, accounted for 53 percent of U.S. GDP in 1998, compared with 32 percent in 1950 (Figure 7). Over time, the share of services in total U.S. exports has also increased. Private and public services accounted for about 29 percent of U.S. exports in 1998, compared with about 17 percent in 1950. (During the same period, however, the share of services in U.S. imports was mostly declining or flat.) In 1998, the United States accounted for 18 percent of all commercial service exports, ranking first in the world.[39] Roughly speaking, the data are consistent with the view that the service sector is one in which the United States enjoys a comparative advantage.[40] Taken together, the data suggest U.S. services exporters, and possibly some importers, stand to benefit from continued market liberalization.

[37] The United States did not prevail in two matters, one of which involved three separate complaints.
[38] Of the 33 complaint brought against the United States, 10 were settled "out of court," 5 were lost in litigation, 7 are in panel or appellate phase, and 11 are still in consultations or otherwise inactive.
[39] World Trade Organization, http://www.wto.org/wto/statis/prerelease.htm (downloaded November 11, 1999).
[40] See Catherine L. Mann, *Is the U.S. Trade Deficit Sustainable?* (Institute for International Economics, Washington, DC: September 1999).

Figure 7: Services as a Percent of U.S. Trade and Production 1950-1998



Source: U.S. Department of Commerce, Bureau of Economic Analysis
Note: Data prior to 1959 are not subject to October 1999 data revision.

Recent data on trade in private services alone point to potential areas of gain from GATS and further negotiations. Between 1994 and 1998, total U.S. exports of private services rose from about $186 billion to about $246 billion, growing on average by about 7 percent annually.[41] Within this category of trade, U.S. financial service exports increased by about 24 percent annually, U.S. insurance service exports increased by about 14 percent annually, and U.S. business, professional, and technical service exports increased by about 12 percent annually. U.S. exports of royalties and license fees grew by about 8 percent annually, just ahead of the sectoral average. U.S. exports of financial services and insurance grew much more rapidly between 1994 and 1998 than between 1986 and 1994, the period in which the Uruguay Round was negotiated. By contrast, U.S. exports of business, professional, and technical services and royalties and license fees slowed somewhat in the later period.[42]

U.S. private service imports increased more rapidly in the later period than did U.S. private service exports, but from a smaller base – they grew from about $119 billion in 1994 to about $165 billion in 1998, at an average annual rate of almost 9 percent. Here, the top gainers were financial services which increased by about 23 percent annually, business, professional, and

[41] All cited growth rates are derived from nominal trade figures.
[42] The annual growth rate in U.S. exports of all private services was somewhat lower in the post-Uruguay Round period, 7 percent between 1994 and 1998, than in the pre-Uruguay Round period, 12 percent between 1986 and 1994. The growth in U.S. exports of goods also slowed in the later period, increasing by 8 percent annually between 1994 and 1998, compared with 11 percent annually between 1986 and 1994.

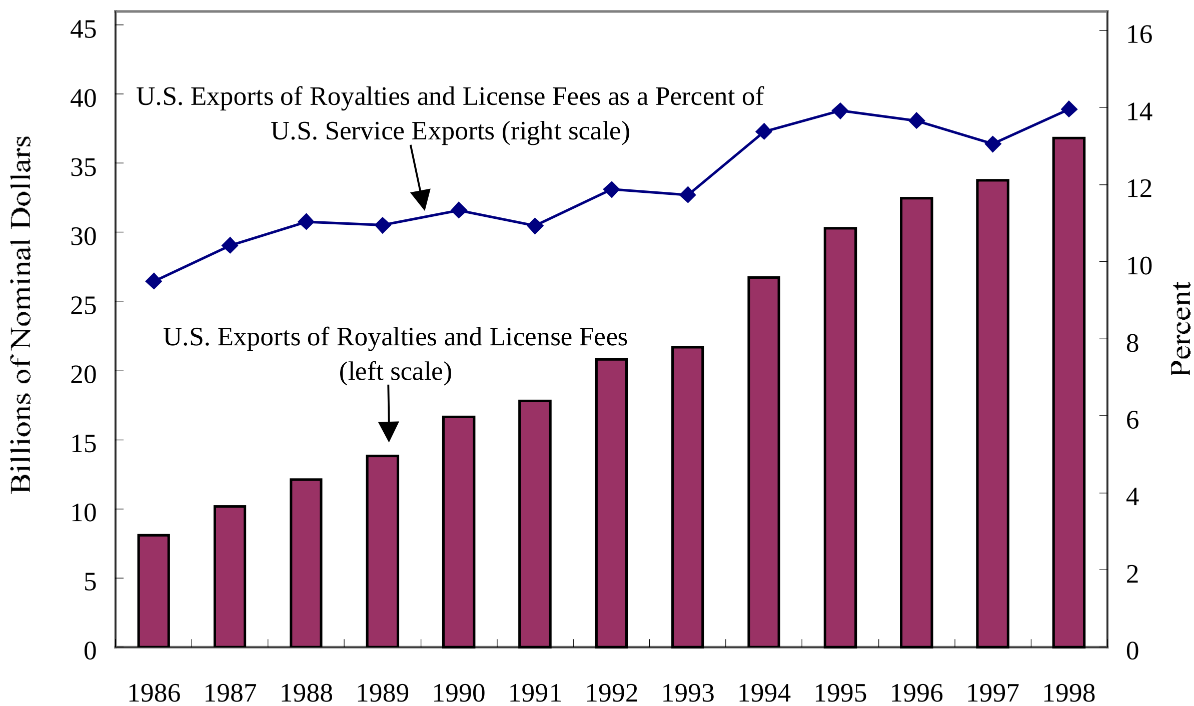
technical services, which increased by about 19 percent annually, and royalties and license fees, which increased by about 18 percent annually.[43]

Intellectual property rights convey substantial value. The WTO describes intellectual property rights as "the rights given to persons over the creations of their minds." Such creations have helped contribute to the success of the U.S. economy. A recent study conducted by the OECD reports that knowledge-based industries and services (including community, social, and personal services; finance, insurance, and other business services; communications services; high-technology manufactures; and medium-high-technology manufactures) accounted for over 50 percent of the value added in the U.S. business sector in 1996.[44] The United States ranked second only to Germany in this regard. Another recent study finds that corporate patent activity in 1995 reflected U.S. technological strengths in developing new medical and surgical devices, electronics, telecommunications, advanced materials, and biotechnology.[45] Strong intellectual property protection – and enforcement – helps spur innovation, by providing assurances that U.S. businesses and inventors will reap the benefits of their research and development.

Though only one indicator among many, data on U.S. trade in royalties and license fees help illustrate the importance to U.S. businesses of protecting intellectual property rights.[46] In 1998, U.S. exports of royalties and license fees, deriving from industrial processes, books, records, tapes, broadcasting and recording of live events, franchise fees, trademarks, and other sources, amounted to about $36.8 billion, accounting for about 15 percent of all U.S. private service exports (Figure 8). This share has increased over the past decade – U.S. exports of royalties and license fees have more than tripled in nominal terms, thus outpacing the growth in U.S. private service exports overall. However, as noted above, the growth in U.S. exports of royalties and license fees has slowed somewhat in recent years. The growth in U.S. imports of royalties and license fees has also outpaced the growth in U.S. private service imports overall – but in this case, still accounting for a relatively small share of the total. In 1988, U.S. imports of royalties and license fees totaled about $2.6 billion and accounted for about 3 percent of all U.S. private service imports; in 1998, they totaled about $11.3 billion and accounted for almost 7 percent of all U.S. private service imports.

[43] For the most part, the annual growth rates between 1994 and 1998 exceeded those between 1986 and 1994. The annual growth rate in U.S. imports of all private services was also higher in the post-Uruguay Round period, almost 9 percent between 1994 and 1998, compared with about 8 percent between 1986 and 1994.
[44] See Organization for Economic Cooperation and Development, *OECD Science, Technology and Industry Scoreboard 1999, Benchmarking Knowledge-Based Economies* (1999), p. 19.
[45] See the National Science Board, *Science and Engineering Indicators–1998*, Arlington, VA, National Science Foundation, 1998 (NSB 98-1), pp. 6-21 and 6-22.
[46] For more on U.S. trade in royalties and license fees, see the National Science Board, pp. 6-14 to 6-16.

Figure 8: U.S. Exports of Royalties and License Fees 1986-1998



Source: *Survey of Current Business*, July 1999, U.S. Department of Commerce, Bureau of Economic Analysis, p. 85

Patent data, which provide a rough indicator of national 'inventiveness,' also help illustrate the importance of intellectual property rights protections. Not surprisingly, the number of patents awarded annually to U.S. firms and individuals is also increasing. Over a 13-year period, from 1982 to 1995, the number of patents issued annually by the U.S. Patent and Trademark Office grew from under 60,000 to over 100,000, with more than half of the patents granted in each year going to U.S. inventors.[47] Moreover, U.S. inventors have also been active in neighboring and some faraway markets. U.S. inventors received more patents in Mexico than did other non-Mexican inventors and they received more patents in Canada than did other non-Canadian inventors. They also out-paced other foreign inventors in some more distant markets, such as Japan, Brazil, Hong Kong, India, Malaysia, and Thailand.[48]

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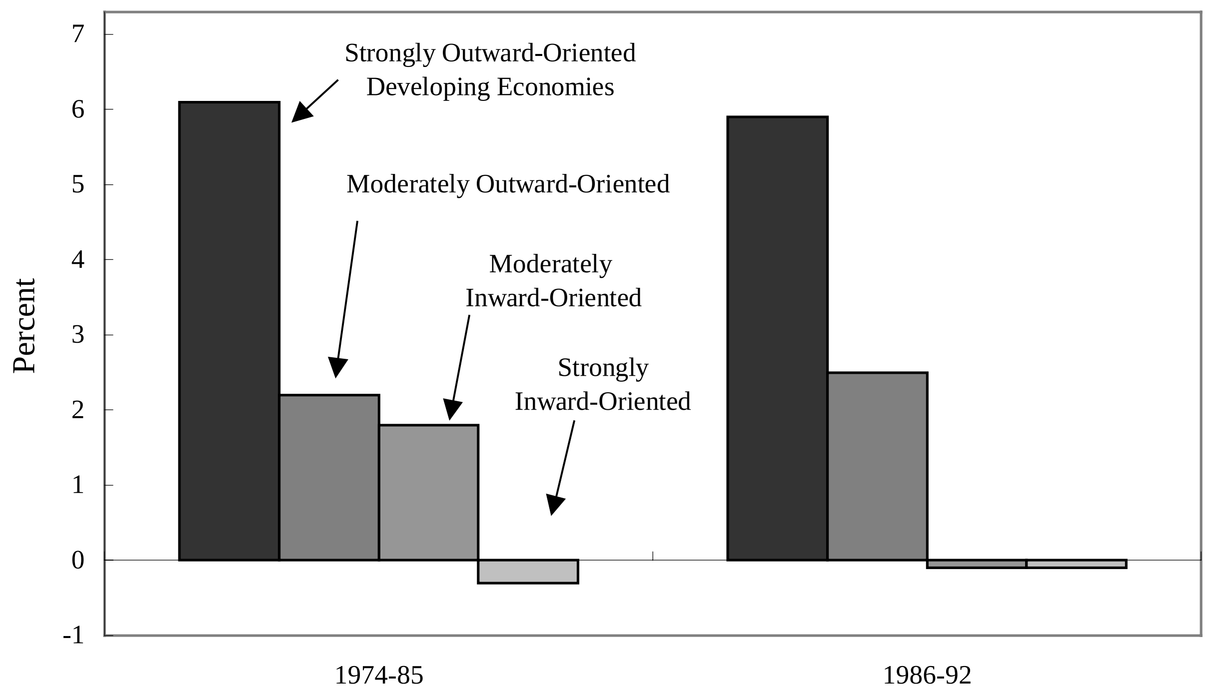
[47] Ibid., pp. 6-19.
[48] Ibid., pp. 6-22 and 6-23.

IV. The WTO Extends the Benefits of Trade and Encourages Growth

U.S. trade policy has long sought to use the trading system to help promote economic development. Trade is often described as an 'engine of growth.' The weight of the evidence, including both historical insight and statistical indicators, supports this view. For example, the correlation between outward orientation and growth suggest a mutually supportive relationship (Figure 9). Data from 1974-1985 and 1986-1992 show developing countries with inward-oriented economic policies experiencing less annual growth of GDP per capita than those with outward-oriented economic policies. In the later period, the differences in growth patterns are even more apparent. Moreover, a rules-based system that creates incentives for countries to adopt transparent policies and procedures can also help further the development process.

Figure 9: Annual Growth of Real GDP Per Capita in Selected Developing Economies



Source: *World Economic Outlook*, May 1993, International Monetary Fund, p. 76

As evidence of its appeal, the multilateral trading system has grown substantially since its founding. Today, the WTO claims 135 members, including over 100 developing countries, compared with only 23 contracting parties in 1948. Since 1995, seven new members have joined the WTO – Bulgaria, Ecuador, Estonia, Kyrgyzstan, Latvia, Mongolia, and Panama – and another 32 nations are seeking accession. However, not all WTO members are well positioned to make use of these opportunities. Some, especially the least developed among them, lack the necessary institutions and infrastructure to reap the full benefits of the multilateral system.

The United States has a strong interest in promoting economic development internationally for a combination of humanitarian, political, and economic reasons. Among these reasons is our own self-interest. Growth abroad creates demand for our exports and yields new sources of inputs for U.S. manufactures. In doing so, it promotes growth in the United States. Thus, we have a direct interest in seeing our trading partners prosper.   This means that a multilateral system that promotes trade is beneficial, not only because it enhances economic development abroad, as history seems to suggest, but also because it is good for us. Consistent with this view, the United States has long sought to extend the benefits of trade as widely as possible.

The Multilateral Trading System Provides Opportunities for Growth

Historical insight supports the view that the multilateral trading system facilitates trade, thereby providing an engine of economic growth. The experience of the United States, parts of Europe, and Japan after WWII, as well as the emergence of the Asian Newly Industrializing Economies (NIEs) in the 1970s, provide evidence. The multilateral trading system can also help advance the economic development process by creating incentives for members to adopt more transparent policies and procedures.

Trade fuels post-WWII reconstruction and growth. The period following WWII was an extremely prosperous period for much of the world, including the United States, Japan, and parts of Europe. It was a period in which Japan and the developed countries of Europe were able to approach America's rising productivity levels. There are many possible reasons for this prosperity, but commonly cited among them is the creation of a more open trading system. This trading system allowed outward-oriented Japan and parts of Europe to enjoy the kind of scale economies that previously only the United States could enjoy, with the strength of its domestic market. But their development did not come at the expense of the United States. The post-WWII era was also a period of rapid growth for the U.S. economy.

Trade also contributes to economic development. In the early 1970s, growth slowed substantially in the United States and much of the world. However, growth remained strong in the Asian NIEs and other outward-oriented Asian economies. Although there is some debate as to the source of their growth, many have argued that their outward orientation played a major role. Now, some of these economies are among our major trading partners. In 1998, Korea, Singapore, Hong Kong, and Taiwan accounted for a combined total of about 9 percent of U.S. merchandise exports and imports. Moreover, economic evidence suggests that as these economies grew, their workers generally shared in the gains.[49]

The multilateral trading system promotes good governance. As the history of the GATT demonstrates, the United States has long advocated the use of the multilateral trading system to promote economic development internationally. It has also sought to establish strong democratic institutions and to spread the 'rule of law,' not just in the trading system *per se* but, more generally, throughout the world. The new dispute settlement system has advanced the rule of law, by allowing the WTO to enforce trading rules more effectively. But other aspects of the WTO can help further this objective. By requiring transparency in its procedures and establishing new rules for transparency in government procurement, the WTO can help promote good governance worldwide. For these reasons, the United States has aspired to extend the

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[49] See U.S. Congressional Budget Office, "Promoting Worker Rights in Developing Countries: U.S. Policies and Their Rationale" (April 1997), p. 16.

benefits of trade as widely as possible, both across and within countries, by opening WTO membership to any country willing to 'play by the rules.'

The Full Realization of Benefits Requires Further Integration

Today, developing countries account for over three-quarters of the WTO's membership. Their role in the trading system changed significantly in the Uruguay Round. Many were active in negotiations, helping to bring agriculture more fully into the GATT and to reach agreement on phasing out the MFA. As discussed previously, trade can enhance countries' growth prospects, as evidenced by Japan and parts of Europe in the post-WWII period and, more recently, the Asian NIEs. Currently, the developing countries stand to gain from further liberalization of trade in agriculture, services, and industrial products. Trade in high-tech manufactures and services, along with associated knowledge transfers, offers potential for developing countries, including the least developed, to enter the global economy more rapidly and effectively. The developing countries would gain not only from more trade with industrialized countries, but also from increased trade among themselves. An important next step in the next round should be to ensure that more members of the global community are able to benefit more fully from participation in the multilateral trading system and from adoption of outward-oriented trade regimes.

Active participants move ahead. By and large, developing countries have come to account for an increasingly large share of world trade, but some have moved ahead faster than others. Overall, exports plus imports of developing countries rose at an annual rate of 9.9 percent between 1989 and 1997, exceeding the 7.6 percent growth rate of world trade.[50] Of the developing country total, the trade of WTO members grew slightly faster, at an annual rate of 10.5 percent. However, the 48 least developed countries have to some extent been left behind. For these countries, trade grew at an annual rate of 6.1 percent (through 1996). Some of these countries have difficulty participating fully in the world trading system even if they are WTO members – often because of lack of adequate domestic institutions and infrastructure.

Capacity building, technical assistance, and liberalization could help spread benefits. The international community, including all WTO members, can do more to help spread the benefits of participation in the global economy. Efforts should address the specific needs of developing countries, especially the least developed, but there are overall principles that can offer substantial assistance to most. First, many of the poorest countries lack capacity to implement effectively their WTO obligations in a number of areas. Through the WTO, the international community can focus on offering capacity building and technical assistance to those countries, as well as on making more progress in further liberalization in priority areas, such as agriculture and services. In addition, the developing countries can take their own actions. They would benefit from continued unilateral and bilateral liberalization, as significant gains can be derived from increased South-South trade in addition to North-South trade.

[50] Numbers cited here are derived from Constantine Michalopoulos, "Trade Policy and Market Access Issues for Developing Countries," unpublished draft (September 1999), pp. 4-5 and exclude intra-EU trade. The developing country category is based on the WTO statistical classification with South Africa included and Israel excluded.

V. The U.S. Agenda Meets the Challenges of the 21st Century

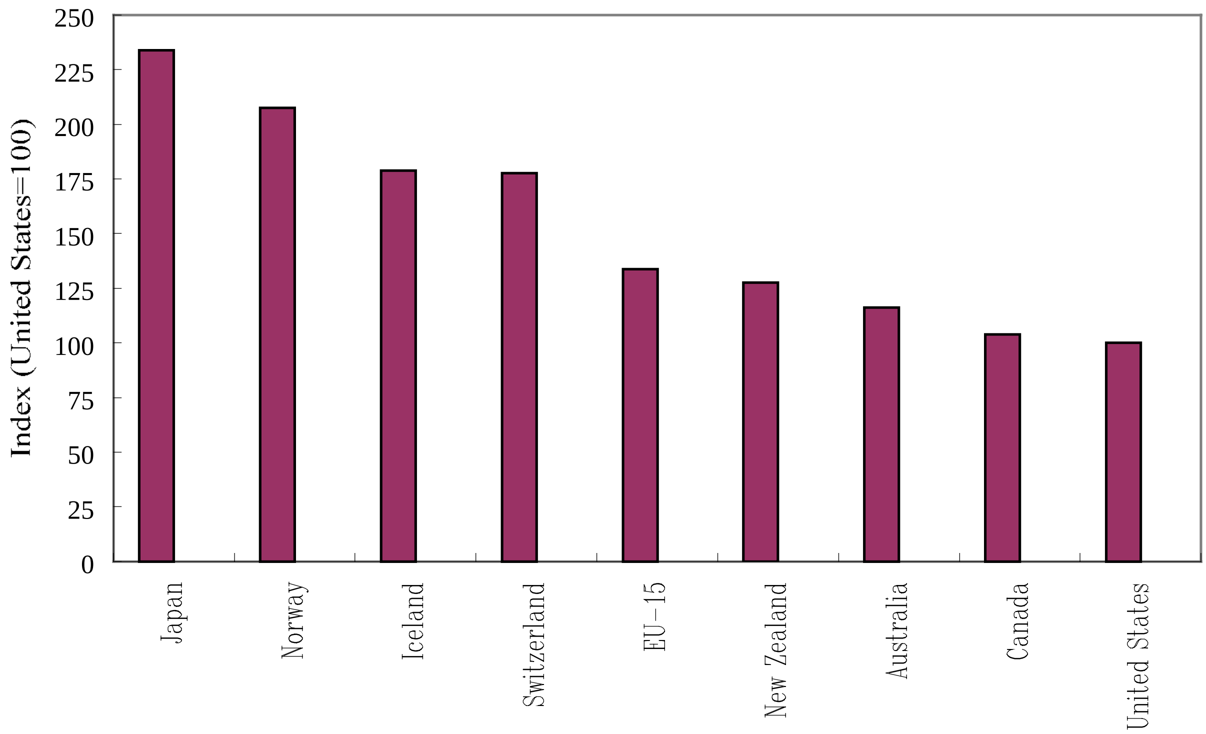
The United States is able to look to the future – and a new round of multilateral trade negotiations – from a position of economic strength. The U.S. economy is enjoying an unprecedented period of expansion and performance. It is experiencing revolutions in information technology and biotechnology. It is highly competitive over a wide range of activities in agriculture, services, and industry. U.S. farmers have long been among the world's most productive. U.S. manufacturers have restored much of the competitiveness that had, in some cases, eroded in the 1980s in both basic and high-tech industries. U.S. firms continue to lead in business, financial, and other private services. To reach its fullest potential, however, the United States continues to have an interest in improving its access to foreign markets, strengthening the operation of the WTO system of rules, and promoting the growth and development of foreign economies.

Much Remains to Be Done

Many foreign governments continue to allow or impose high tariffs and burdensome rules on imports; many also maintain trade-distorting domestic subsidies. Agriculture provides a stark example. Bound tariff rates on agricultural products average about 50 percent around the world compared with less than 10 percent in the United States.[51] Moreover, even after the Uruguay Round commitments are implemented fully, the EU and Japan will be able to provide as much as $78 billion and $35 billion, respectively, of trade-distorting domestic support to their farmers each year.[52] By comparison, the United States will be limited to about $19 billion. Partly because of these policies, average food and related prices are 34 percent higher in the EU and 134 percent higher in Japan than they are in the United States (Figure 10). Many foreign barriers to trade also remain in the services sector.

[51] Data from the U.S. Department of Agriculture, Foreign Agricultural Service (July 1999).
[52] Data from the U.S. Department of Agriculture, Foreign Agricultural Service (November 1999).

Figure 10: Food, Beverage, and Tobacco Prices in Selected OECD Economies 1996



Source: *PPPs 1996 Results,* OECD 1998 (unpublished)

In addition, the rules of the WTO and the manner in which they are enforced have room for improvement. Many commitments negotiated in the Uruguay Round have yet to be implemented, in part because some members lack the technical capacity to do so. In some instances, the system's operation remains hidden from public scrutiny to a degree which impedes public confidence and support. The dispute settlement process, in particular, while much improved in the Uruguay Round, remains opaque and sometimes slow to deliver effective resolution. For a credible system it is not sufficient for justice to be done, it must also be seen to be done. The system should also be seen to enhance the benefits it brings by supporting core labor standards and environmental objectives; in doing so, it would broaden support among some who remain skeptical about open trade.

The Uruguay Round negotiations were protracted – lasting from 1986 to 1994 – and even after their conclusion, much of the agenda was not completed. The next round should be designed to produce results much faster, both to provide new and additional benefits sooner and to keep pace with change. For this reason, the United States has proposed a three-year deadline for completing the next round.

Probably the greatest challenge is to ensure that the least developed economies emerge and that the emerging economies are integrated into a global system that promotes economic growth. Although the United States still tends to trade most often with other developed or neighboring economies, its trade with developing countries is already important and holds great promise for the future – non-OECD countries account for about 33 percent of U.S. imports and about 29 percent of U.S. exports. This U.S. interest in sustained economic development abroad has been underscored by the financial crises that have affected many developing countries over the past two years. The slump in growth associated with the crisis has constrained U.S. exports and caused considerable disruption in imports. While the source of these problems has been macroeconomic and financial, the resolution has included trade. In addition, the need for trading rules has been underscored by the problems engendered by insufficient transparency.

U.S. Objectives for Seattle and Beyond

The United States is committed to expanding the circle of nations that benefit from trade and putting a "human face" on the global economy. As such, U.S. proposals reflect key interests in opening foreign markets, strengthening the rule of law, and promoting economic development. The United States is proposing to launch a new round that includes a broad-based market access agenda, focusing on services, agriculture, and industrial tariffs, and lasting no more than three years. The WTO's built-in agenda calls for further negotiations on agriculture and services, beginning no later than December 31, 1999 and January 1, 2000, respectively. In agriculture, for example, the United States is seeking to eliminate export subsidies, reduce tariffs and trade-distorting domestic supports, and ensure that trade in agricultural biotechnology products is based on transparent, predictable, and timely processes.

The United States is also seeking immediate tariff cuts in eight key areas, agreement on transparency in government procurement, extension of the prohibition on e-commerce duties, and an agreement to make additional information technology products tariff free. The United States sees a need to strengthen the WTO's relationships with other international organizations and for reforms to make the WTO itself more open and accessible.

- The United States is seeking accelerated tariff liberalization in eight key areas – chemicals, energy products, environmental products, fish, forest products, jewelry, medical and scientific equipment, and toys. These areas account for $198 billion of U.S. exports.

- The United States, together with South Korea and Hungary, has proposed a worldwide agreement on transparency in government procurement to promote good government practices. Such practices reduce the potential for bribery, corruption, and other insider deals. Adoption of this proposal would provide all nations with more opportunity to sell their goods and services in the $3.1 trillion government procurement market.

- In 1998, WTO Ministers agreed to a temporary prohibition on duties on electronic commerce. The United States is seeking an extension of the prohibition to ensure the continued growth of the high-technology sector, to ensure that no WTO members take actions to inhibit the growth of e-commerce, and ensure that developing countries benefit from the expansion of e-commerce.

- The United States has highlighted the need to make the WTO more open and more accessible. To achieve this goal, the United States has proposed opening the dispute settlement procedures to the public, allowing non-governmental organizations (NGOs) to file amicus curiae briefs in cases involving the environment, and creating institutional structures to increase consultations with NGOs. The United States also sees the need to strengthen the WTO's institutional relationships with other international organizations, beyond the Bretton Woods institutions, to include the International Labor Organization and UN Environmental Program (UNEP) for example.

The United States has sought to create a trading system that spreads the benefits of trade as widely as possible, both across and within countries, and is supportive of core labor standards and the environment. To that end, the United States is:

- Seeking to bring more nations into the open trading system and ensure that developing countries fully benefit from the system. The United States will work to give the least developed countries greater access to global markets. The United States is also proposing measures to provide technical assistance on implementing trade policy and strengthening institutions in developing countries responsible for trade, labor, environmental, and other policies that influence the gains to living standards from trade.

- Proposing to establish a WTO Working Group on Trade and Labor in Seattle, strengthen the ILO, and enhance the institutional links between the ILO and the WTO, by granting the ILO observer status at the WTO, similar to that enjoyed by the World Bank and others.

- Pursuing opportunities that can open markets and yield environmental benefits, such as eliminating fishery subsidies that contribute to over-fishing and eliminating tariffs on environmental goods; and seeking to strengthen cooperation between the WTO and international organizations dealing with environmental issues like UNEP.

- Committing to conduct a U.S. environmental review of the likely consequences of the Round and proposing that the WTO Trade and Environment Committee help identify environmental implications as the Round proceeds.

Much of the recent debate about trade has been carried out in extreme and sterile terms. Trade liberalization is sometimes promoted by those who see no costs and opposed by those who see no benefits. The truth is that trade can provide benefits, on balance, but it can – like any other source of growth – also impose costs. A key challenge for policy is to implement the complementary policies that help compensate and aid those who are hurt. Likewise, membership in the WTO is sometimes advocated as if it imposes no constraints and it is sometimes challenged as an unwarranted invasion of our sovereignty. The truth is, however, that we do agree to constrain our behavior by agreeing to adhere to the rules of the trading system. Our membership in the WTO is advantageous not because it entails no obligations, but because on balance they are beneficial. Finally, there are some who believe that trade agreements should only deal with trade barriers, while there are others who would have them almost mimic a global government. The truth is that for trade to be free it must command popular support, and to do so it must be perceived as fair. This requires rules that do more than simply reduce barriers; it also requires rules that leave considerable scope for national autonomy and diversity.

Some suggest that while the GATT helped advance U.S. geopolitical interests during the Cold War, the United States no longer needs the organization now that the Cold War is over.

However, the U.S. economy is more open now than ever before and international trade is vital to U.S. economic interests. Our participation in the WTO is the centerpiece of our trade policy. But, while freer trade brings benefits it is important to recognize it is not a panacea. It is crucial to ensure that the benefits of trade are shared widely and that the rule of law governing it be fair. Trade policy also needs to part of broader economic strategy and it needs to be supplemented by policies that facilitate change and promote equity. The Clinton Administration has made opening markets at home and abroad one of the pillars of its economic policies, but it has also recognized the importance of macroeconomic policies to achieve fiscal discipline and microeconomic policies to invest in people and technology.

Appendix: Key Achievements of the Uruguay Round Negotiations[53]

For nearly 50 years, the General Agreement on Tariffs and Trade (GATT) served as both an international agreement and international organization. It dealt with international trade in goods and did not cover trade in services, such as transportation, tourism, insurance, and telecommunications, or trade-related aspects of intellectual property rights. The Uruguay Round further reduced tariffs on industrial products, brought more sectors more fully into the multilateral fold, strengthened the rules of conduct for international trade, and created a new institution – the World Trade Organization. As a result, the multilateral trading system now more fully covers agriculture, textiles and clothing, services, and intellectual property rights.

As a result of the Uruguay Round, the negotiating governments greatly increased the proportion of their trade that is "bound" by tariff concessions (legal commitments limiting maximum tariff rates). They also reduced tariff rates. Some developing countries made and bargained for tariff concessions for the first time. Moreover, as a result of the Agreement on Agriculture, all agricultural products of all WTO Members are now bound by tariff concessions. Even if a concession simply fixed in place a tariff rate that was already being applied on a de facto basis, the tariff concession provides legal certainty, which is definitely positive even if its value may be difficult to quantify.

Most importantly, the Uruguay Round created the World Trade Organization (WTO), and its more effective dispute settlement mechanism. The GATT still has its place at the center of the WTO system, but it is now administered by the WTO, and is tied to other agreements on trade in goods, as well as the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Disputes concerning any of these multilateral agreements are subject to one set of dispute settlement procedures, the Understanding on Rules and Procedures Governing the Settlement of Disputes or "Dispute Settlement Understanding" (DSU).

Industrial Products. In most cases, the Uruguay Round cuts in developed countries' tariffs on imports of industrial products, excluding textiles and clothing, are being phased in over 5 years, beginning January 1, 1995. By the end of the phase in, these tariffs will be cut by about 40 percent, from an average of 6.3 percent to an average of 3.8 percent. The proportion of imports of industrial products that receives duty-free treatment in developed countries will increase from 20 percent by value to 44 percent. Before the Uruguay Round, 78 percent of developed countries' tariff lines were bound; after the Uruguay Round, 99 percent will be bound. In developing countries, the percentage of bound tariff lines went from 21 percent to 73 percent. Economies in transition agreed to increase their bindings from 73 percent to 98 percent.

Agricultural Products. The Uruguay Round succeeded in bringing agriculture more fully into the multilateral trading system. Through the negotiation of the Agreement on Agriculture, all tariffs on agricultural products are bound, and non-tariff barriers were converted to tariffs by "tariffication." Industrial countries agreed to cut tariffs on agricultural products by 36 percent on

[53] This appendix draws from the World Trade Organization, http://www.wto.org/about (downloaded September 19, 1999) and the GATT Secretariat, "The Results of the Uruguay Round of Multilateral Trade Negotiations, Market Access for Goods and Services: Overview of the Results" (November 1994).

average over six years; developing countries agreed to cut their tariffs by 24 percent on average over ten years. For products subject to tariffication, the Agreement permits special safeguards to protect against import surges. The Agreement also limits and reduces countries' use of export subsidies and trade-distorting domestic supports. Agriculture is part of the WTO's built-in agenda, with talks scheduled to begin by December 31, 1999.

Textiles and Clothing. From 1974 until the end of the Uruguay Round, trade was governed by the Multi-Fiber Arrangement (MFA). The MFA was a framework for bilateral agreements and unilateral actions, based on quantitative restrictions on imports. In 1995, the WTO's Agreement on Textiles and Clothing (ATC) replaced the MFA. The ATC will integrate the textile and apparel sector into the GATT rules, by eliminating quota restrictions gradually over a ten-year period. Like the Agreement on Agriculture, the ATC also allows special safeguards to protect against import surges. By 2005, all import quotas and discrimination will end and the ATC will terminate. The Uruguay Round also established a Textiles Monitoring Body to supervise the ATC's implementation.

Services. The GATS provides multilaterally agreed and legally enforceable rules, covering all internationally traded services (except most air transport services). It extends MFN treatment to all WTO members, with limited exceptions, and extends national treatment and market access obligations in areas where a country has made a specific commitment. The GATS provides rules for regulatory transparency, other aspects of regulation, recognition of other countries' qualifications, and international payments and transfers. As a result of bilateral negotiations, individual countries made legally binding commitments to open markets and/or provide nondiscriminatory treatment in specific service sectors. A set of "schedules" lists the sectors being opened, the extent of market access being given in those sectors, and any limitations on national treatment. Although some commitments did not go beyond the market access offered at the time they were made, they still prevent governments from backtracking on access; the GATS met the objectives of bringing services into the multilateral trading system and providing the certainty needed for business decisions. As in the case of agriculture, the service sector is included in the WTO's built-in agenda, with a full new round of negotiations scheduled to begin no later than January 1, 2000.

A series of annexes to the GATS addresses particular concerns of different industries, including the movement of natural persons, financial services, telecommunications, and some air-transport services. Negotiations on specific commitments in financial services and telecommunications continued after the Uruguay Round, as part of the built-in agenda, and resulted in new liberalization packages. Talks on the movement of natural persons also continued and achieved modest results. Further talks on maritime services were scheduled, but suspended.

Intellectual Property. The TRIPS Agreement requires a minimum standard of intellectual property rights protection and enforcement of intellectual property rights. It also provides for basic rights to non-discriminatory treatment. The Agreement deals with copyright and related rights, including for computer programs, data bases, sound recordings and films; trademarks and service marks; geographical indications, including appellations of origin; patents, including the protection of new varieties of plants; industrial designs; layout designs of integrated circuits; protection of undisclosed information, including trade secrets and test data. Substantive provisions of the main international agreements of the World Intellectual Property Organization provide the basis for protection, with additions and modifications. For example, under TRIPS the Berne Convention for the Protection of Literary and Artistic Works now applies to computer programs. Moreover, the TRIPS Agreement also addresses patents by requiring that patent protection be available for a 20-year minimum for all inventions, whether products or processes, in almost all technology fields.

The TRIPS Agreement also requires WTO members to provide procedures and remedies under their domestic law to ensure that foreign right holders can effectively enforce intellectual property rights. Under some circumstances, member countries may adopt measures to prevent or control practices in the licensing of intellectual property rights that are abusive or anti-competitive. When the WTO Agreements took effect on January 1, 1995, developed countries were given one year to bring their laws and practices into conformance with the TRIPS Agreement. Developing countries and some economies in transition were given longer transition periods. The TRIPS Agreement, like the GATS and the agreements on trade in goods, can be enforced through the WTO's dispute settlement procedures.

Other WTO Agreements. The Round also brought agreements relating to trade in goods, to governing anti-dumping measures, subsidies and countervailing duties, safeguards, and to technical barriers.

- *Anti-Dumping Measures*. The Anti-Dumping Agreement, more formally the Agreement on the Implementation of Article VI of the GATT 1994, permits WTO members to assess antidumping duties on imports of a product if it is dumped (as defined by the agreement) and if the dumped imports have been found to cause or threaten material injury to the domestic industry producing the product. The Agreement also provides for due process and transparency in anti-dumping investigations.

- *Subsidies and Countervailing Measures*. The Agreement on Subsidies and Countervailing Measures provides rules for the use of domestic subsidies and countervailing duties offsetting those subsidies. Under the Agreement, a country may seek the withdrawal of a subsidy or removal of its adverse effects, by bringing a WTO dispute. A country may also assess countervailing duties on imports of a subsidized product, offsetting the value of the subsidy, if the subsidized imports have been found to cause or threaten material injury to the domestic industry producing a like product. The Agreement applies to both industrial products and agriculture, although its application to agriculture has been modified by the operation of a temporary "peace clause" in the Agreement on Agriculture. Some exceptions apply to subsidies of developing countries.

- *Emergency Protection from Imports*. The Agreement on Safeguards allows countries to temporarily restrict imports of a product if an absolute or relative import surge is causing or threatening to cause serious injury to the domestic industry producing a like or directly competitive product, and if the importing country has conducted an investigation that transparently and objectively examines certain factors bearing on serious injury. (The Agreement prohibits the use of "gray area" measures, including voluntary export restraints and orderly marketing arrangements.) When the serious injury has been caused by an absolute import surge, and the importing country conducts a transparent and objective investigation consistent with the Safeguards Agreement, its trading partners cannot take a compensatory suspension of concessions against it for the first three years that such a "safeguard" measure is in place. Special rules apply for safeguard measures affecting developing country products.

- *Technical Barriers to Trade*. The Agreement on Technical Barriers to Trade (TBT) tries to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles to trade. The Agreement on TBT does not prohibit countries from adopting standards, or require that standards be harmonized internationally. Rather, it sets out a 'code of good practice' for the preparation, adoption, and application of standards by central government bodies and others.

- *Health Regulations for Farm Products*. Complementary to the Agreement on TBT and the Agreement on Agriculture, the Agreement on Sanitary and Phytosanitary Measures establishes rules for standards to protect human, animal, and plant health. The Agreement urges countries to adopt internationally agreed standards to the extent possible, but it does not prohibit countries from setting their own, possibly higher, standards. However, it does require that all standards be based on science and non-discriminatory.

- *Miscellaneous*. The Uruguay Round agreements also include the Agreement on Import Licensing Procedures; the Agreement on Implementation of Article VII of the GATT 1994 and related ministerial decisions on customs valuation; the Agreement on Preshipment Inspection; the Agreement on Rules of Origin; and the Agreement on Trade-Related Investment Measures.

Plurilateral Agreements. The WTO Agreement also provides the framework for two agreements which only some, not all, of the WTO Members have accepted. These are the Agreements on Trade in Civil Aircraft and on Government Procurement, which were originally negotiated during the Tokyo Round. During the Uruguay Round, the Agreement on Government Procurement was renegotiated and replaced with a new agreement that now applies to more entities and to services. The procurement agreement applies only to agencies listed by each of the governments that is party to the agreement. These agencies' procurement is then subject to rules that guarantee fair and non-discriminatory conditions of international competition.

Dispute Settlement. The Dispute Settlement Understanding improves upon previous rules and procedures. It creates a single system for addressing disputes under each of the WTO's multilateral agreements and the Agreement on Government Procurement; provides an expedited process with clearly defined stages; prevents individual countries from blocking the adoption of rulings; and authorizes countermeasures if an adopted ruling is not implemented. Ordinarily, a case should not take more than a year – or 15 months if it is appealed. (If either side requests, members of an Appellate Body hear appeals of panel rulings.) Moreover, in a reversal of the GATT procedure, all dispute settlement rulings – including those of the Appellate Body – are adopted automatically, unless there is consensus to reject a ruling.

After a ruling is adopted, a country faces three possible outcomes: it can adhere to the recommendations of the panel; it can compensate the claimant; or the claimant can suspend previously granted concessions of like amount. The general principle is that the suspension should occur in the same sector of trade (for example, a violation in the goods sector should be met with suspended concessions in the goods sector). If this is not practicable or effective, the suspension can occur in other sectors, and so the dispute settlement system helps integrate the obligations of the entire WTO system.

Trade Policy Review Mechanism. The TPRM provides a regular forum for monitoring each country's performance in the WTO system, through reports by countries and the WTO Secretariat and discussions between WTO member governments. The review is not legally binding. Its objectives are to increase the transparency and understanding of countries' trade polices and practices through regular monitoring; improve the quality of public and intergovernmental debate on the issues; and enable a multilateral assessment of the effects of policies on the world trading system.

List of Frequently Used Acronyms

APEC	Asia-Pacific Economic Cooperation
ATC	Agreement on Textiles and Clothing
DSU	Dispute Settlement Understanding
EU	European Union
ILO	International Labor Organization
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GNP	Gross National Product
MFA	Multi-Fiber Arrangement
MFN	Most-Favored Nation
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organization
NIE	Newly Industrializing Economy
OECD	Organization for Economic Cooperation and Development
TBT	Technical Barriers to Trade
TPRM	Trade Policy Review Mechanism
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TRIMS	Trade-Related Investment Measures
UNEP	United Nations Environmental Program
WTO	World Trade Organization