This increased trade intensity has further solidified support for the WTO regime and its mandate to vigilantly guard tariff levels and reduce both tariff and non-tariff barriers. Since World War II tariffs have fallen 60 % in total. Yet some analysts remain unconvinced that multi-lateral trade discussions were the cause of falling tariffs. These analysts bring forth data that suggests only a small fraction of the tariff decrease is a result of multi-lateral trade negotiations. Higher import prices may account for some of the decreased post war tariff regime.[458] For this group the significance of the GATT-WTO regime is not so much its actual reduction of tariffs but more the buttressing of domestic political interests that support such a regime.[459] In any case while pursuing GATT inspired multi-lateral liberalisation and more secure market access, the US, in response to the rise of the EU, was forced to develop a North American economic sphere.

US Economic Challenges

There are strong US domestic pressures and weaknesses that may force undesirable changes either in the functioning of NAFTA or in the multi-lateral trade process. Domestic pressures from various interest groups have in the past forced US policy realignment. Many analysts concur that deficit trade balances significantly impact US trade positioning in the IPE with respect to agreements with specific nation states and the EU. In general the US economy suffers from four severe challenges that could alter the current IPE balance of power probably not in the short term, but perhaps over a longer time frame.

First, a central US challenge is its current account trading deficit, which was 4 % in 2003, rising to 5 % in 2004. Deficits are forecasted to continue in the short term until at least 2008-2010. This entails that the US needs foreign investment to finance its capital needs. If foreign capital flow is reduced the US economy could experience a dislocation, as the dollar continues in the short term to weaken in relation to the Euro and Chinese Yuan [and perhaps the Yen], thereby dampening imports, and consumer spending.[460] A declining US dollar would

soften foreign direct investment and make it more difficult for the US to print money to fund its deficit and foreign financial obligations. As well it could cause a reallocation of reserve currencies from the U$ to the Euro.

Second, the US has a very low savings rate imperilling domestically sourced finance and investment and putting pressure on household net worth, and payments on escalating personal debt. This is especially true if stock markets and housing values decrease in the next few years. Though housing starts and prices remain robust there are some fears that a nascent real estate bubble may be forming. If housing prices were to drop due to a sudden increase in higher rates, over-valued real estate or consumer debt problems, the entire US economy, which is 60 % consumer based, would falter.

Third, there is the predicted current budget deficit, which will be approximately $450 Billion in 2004 or 4.2 % of GDP [vs. 6 % during the mid 1980s] and at the same or slightly lower levels in each of the next 3 years. Surpluses cannot be expected for some time, until a revived economy increases jobs, revenues and the tax cuts have time to generate investment, capital and consumer spending. The current US administration has initiated tax cuts without spending cuts, which ensures deficit financing for the foreseeable future adding to the $7 Trillion in total US government debt (all government levels). It is unclear which spending cuts will be made to balance the budget or if the current administration is relying on revenue increases to balance the books. Historically tax cuts during the Reagan, and Clinton administrations did result in higher investment, consumption and revenues, but only after a lag period of several years.

Discretionary spending has risen by 18% in the past year, which is by by far the largest such increase in the past 30 years. Increased military and homeland security spend accounts for another 30 % or so of the deficit amount, with the Iraqi occupation costing at least $100 Billion per year.[461] It is estimated both domestic security costs and the occupation costs in Iraq and Afghanistan will both rise, resulting in added pressure on future deficits. With interventionism in Liberia and potentially other troubled African areas now official