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# INTERNATIONAL ECONOMIC REVIEW

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## OFFICE OF ECONOMICS

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# COUNTRY AND REGIONAL DEVELOPMENTS

## At A Glance. . .

### WTO

The Information Technology Agreement (ITA) agreed at the WTO Singapore Ministerial Conference in December 1996, is progressing toward its entry into force on July 1, 1997. Following technical talks concluded in January, the 28 countries participating in the agreement were formally joined by Costa Rica and New Zealand. The ITA will bind tariff rates on technology products at zero by the year 2000, with very few exceptions.

### EU

The EU Commission welcomed President Clinton's decision in January to suspend for another 6 months the right to bring action under title III of the Helms-Burton Act. However, the EU wants a comprehensive solution and is pursuing its WTO case against the act. On February 20, WTO director, General Renato Ruggiero named a dispute-settlement panel to resolve the dispute.

### Japan

On February 5, Japan rejected a petition by four U.S. auto parts associations to remove brakes from the list of those parts that can be replaced only by designated or certified garages. Although Japan has eliminated some items from the "critical parts" list under the 1995 U.S.-Japan auto agreement, the United States continues to urge Japan to deregulate frequently repaired items such as brakes and transmissions.

### Mexico

In January 1997, Mexico repaid, 3 years ahead of schedule, the last \$3.5 billion of the \$13.5 billion emergency loan the United States extended Mexico following the peso crisis of December 1994. (Mexico drew only \$13.5 billion of the \$20 billion the U.S. Government made available.) With this act of full repayment, Mexico disproved the opponents to this loan.

### Taiwan

The United States and Taiwan reached agreement in February on a bilateral Trade and Investment Framework Agreement. The pact will provide wide access to services markets in Taiwan for U.S. firms, particularly in the banking and other financial services sectors.

### Colombia

Data released by the Embassy of Colombia indicate that in 1996 more than 29,250 hectares of illegal crops have been "sprayed" in the country. If this information converts to actual hectareage eradicated, it would mark a significant increase in Colombian efforts in this regard. In 1995 Colombia eradicated 8,750 hectares of coca. The country was decertified by the United States in March 1997 for the second consecutive year.

### India

The International Monetary Fund (IMF) called on India to abolish remaining import restrictions and to scale back its tariffs, which are among the highest in Asia. The IMF backed the views of India's main industrialized trading partners that import controls were no longer needed. India's international currency reserves are expected to rise to \$18.5 billion at the end of 1997, equivalent to a comfortable 5 months worth of imports. □





# INTERNATIONAL TRADE DEVELOPMENTS

## United States-Japanese Film Dispute Entering New Phase

### *Background*

The current dispute over film dates back to May 1995, when Eastman Kodak filed a petition pursuant to Section 301 of the Trade Act of 1974. Kodak's petition claimed that the Government of Japan had instituted and maintained a system of "liberalization countermeasures" that affect the sale and distribution of foreign film and photographic paper in Japan. Exclusive distribution relationships and anticompetitive practices by firms and trade associations contributed to a restrictive market structure, according to the petition. As a result of these barriers, Kodak claimed that it had foregone \$5.6 billion in sales since the mid-1970s and had gained only 10 percent of Japan's consumer photo market. Japan attributed Kodak's relatively low market share to insufficient sales efforts and lack of innovation. On July 2, 1995, in response to Kodak's petition, the United States Trade Representative (USTR) initiated a section 301 investigation of market barriers in Japan against consumer photographic film and paper.<sup>1</sup>

Initially, Japan refused to hold official talks with the United States (except for preliminary consultations). In declining to enter into negotiations with USTR, Japan's Ministry of International Trade and Industry (MITI) argued that this was a private sector complaint that should be brought to the Japan Fair Trade Commission, which is responsible for competition policy issues and enforcement of the Antimonopoly Law. Kodak, by contrast argued that the Government of Japan had played a "central

role" in creating market access barriers and had tolerated anticompetitive practices. Therefore, this should be considered a government-to-government issue.

On June 13, 1996, the USTR announced its determination under section 301 that the Japanese photographic market had been found to be closed, but added that sanctions would not be imposed at that time. Instead, USTR Charlene Barshefsky said the United States was making three separate requests for consultations under the WTO regarding:

- Violations of GATT articles III and X regarding nullification and impairment of GATT benefits arising from the full panoply of liberalization countermeasures that the Government of Japan has put in place and maintained, which thwart imports in this sector;
- Violations of GATS articles III and XVI arising from the requirements and operation of the Large Scale Retail Store Law, which constitute a serious barrier to foreign service suppliers as well as imports of film and other consumer products; and
- Consultations regarding restrictive business practices under a 1960 GATT decision.

The first request was for consultations on consumer photographic film and paper, centering on nullification and impairment of GATT obligations and other violations. The second request for consultations was on a broad range of services involving the distribution system, the Large Scale Retail Store Law, and other laws. This case did not specifically relate to photographic film and paper. The third request was for consultations under a 1960 mechanism adopted by the GATT Contracting Parties that recommends that a contracting party should enter into consultations on such restrictive business practices at the request of any other contracting party on a bilateral or multilateral basis as appropriate.

In announcing the action, USTR noted that "the Government of Japan built, supported and tolerated a market structure that thwarts foreign competition, in

<sup>1</sup>Under Section 301 of the Trade Act of 1974 (as amended) USTR can initiate investigations into allegations that foreign countries are denying benefits to the United States under trade agreements or otherwise engaged in unjustifiable, unreasonable or discriminatory acts that burden or restrict U.S. commerce.

which exclusionary business practices are commonplace.” USTR cited three ways in which the Government of Japan restricts market access: closing distribution channels, limits on retail outlets, and limits on incentives such as the Premiums Law. In announcing its decision, the USTR said the United States will consider, at the appropriate time, what further action, if any, needs to be taken. The USTR also requested that Kodak provide information on the dispute to the Japan Fair Trade Commission (JFTC). Following the announcement, analysts indicated that this would be the first major test of WTO ability to address nontraditional barriers and public/private-sector issues. Some observers also noted that the broad nature of the requests would allow the United States to compile information and to test various arguments about whether the case was WTO-consistent.

Under the WTO procedures, consultations are required for 60 days before a party may request a dispute settlement panel. On June 24, 1996, Japan notified the United States that it had decided to enter into talks under the framework of the WTO. Consultations held between the United States and Japan during July 10-11, 1996, in Geneva failed to resolve the dispute. On August 7, Eastman Kodak filed a complaint with the Japan Fair Trade Commission (JFTC) alleging violations of the Antimonopoly Law in the consumer film and photographic paper market. The United States requested that the JFTC investigate and take necessary remedial actions. Under the Antimonopoly Law, there is no deadline for the JFTC to respond to the complaint.

### *WTO dispute panels*

On August 12, USTR announced that the United States would request the WTO to establish two dispute settlement panels, if consultations failed. The United States sought a review of its complaints: (1) under the GATT regarding Japanese Government barriers to market access in Japan for foreign photographic film and paper products; and (2) under the GATS regarding Japan's Large Scale Retail Store Law. MITI called the U.S. decision to request dispute settlement panels “regrettable” and said that “the United States is totally mistaken.”

On September 20, 1996, USTR announced that the United States had formally requested a dispute panel to determine whether Japanese “systemic structural” barriers violate Japan's obligations under the GATT with regard to national treatment and transparency. This first panel request related to measures affecting consumer photographic film and paper. The USTR also announced that it would expand the scope of its General Agreement on Trade in Services (GATS)

consultation request to include measures other than the Large Scale Retail Store Law that affect the competitiveness of Kodak in Japan's market. USTR Barshefsky indicated that the United States would also formally request a GATS dispute panel if consultations failed to resolve those issues.

On October 3, Japan blocked the U.S. request to establish a dispute panel regarding photographic film and paper. Japan said that the United States did not identify which measures were in violation of the WTO, and that the complaint involved private business practices, not government actions. On October 16, the Dispute Settlement Body met and, in accordance with dispute settlement rules, automatically established a dispute settlement panel to consider the U.S. complaint. The members of the panel were named on December 17. The panelists are William Rossier (Switzerland), Adrien Macey (New Zealand) and Victor do Prado (Brazil). On January 9, 1997, the panel met for the first time and established a schedule for the proceeding. According to the schedule, the first U.S. submission is due on February 20, and the first substantive meeting is scheduled for April 16-17. The panel tentatively set the date for issue of the final report for September 17, 1997.

With regard to the second U.S. request for consultations regarding violations of the GATS, consultations took place July 10, 1996, and broader consultations concerning additional laws and regulations took place November 7-8, 1996. The 60-day consultation period expired on November 19, 1996. Japan responded to U.S. requests for additional information during December. The United States is reviewing this information and has yet to formally request the establishment of a dispute panel.

With regard to the U.S. request for consultations on restrictive business practices, Japan agreed to hold consultations with the United States, but only on the condition that parallel consultations on anticompetitive practices in the United States were held as well. The United States responded by saying that concurrent talks would be contrary to the purpose and intent of the GATT. On August 12, USTR had indicated that it intended to accept an EU request to join the consultations on restrictive business practices. At yearend the request for consultations on restrictive business practices remained stalled.

### *Conclusions*

Certain aspects of the film dispute are noteworthy from the perspective of overall U.S.-Japan trade relations and the WTO. First, although Japan has refused to enter into bilateral negotiations with the United States in the past regarding other topics. This was the first time that Japan actually carried out its warning. This strategy appeared to be consistent with remarks made by Yoshihiro Sakamoto, MITI Vice

Minister for International Affairs on March 15, 1996, when he declared "the era of bilateralism is over." He stated that instead, bilateral frictions would have to be resolved by the WTO and international rules.

Secondly, the breadth of the issues associated with the case was also of note. Previous U.S.-Japan sectoral negotiations typically have focused on tariffs (e.g., leather), quotas (e.g., leather, fish products) or more traditional nontariff barriers such as standards (e.g., wood products, autos), phytosanitary requirements (e.g., fruits, vegetables, and other horticultural products), or procurement practices (e.g., construction, computers, medical equipment, satellites, telecommunications). Other bilateral negotiations, such as glass, paper, and autos have included competition policy issues. The film case involved allegations of systemic barriers such as closed distribution channels and excessive regulations. Numerous laws and business practices, both horizontal (price fixing, market allocation, and group boycotts) and vertical (resale price maintenance, exclusive dealings, and tying, for example) were cited by the United States in its request for consultations under the WTO. While the Structural Impediments Initiative and the so-called Framework talks also addressed a broad range of structural issues, it was somewhat atypical for such a variety of regulatory and competition policy issues to be included in a single sectoral case.

Finally, the film dispute provides a test case for the United States, Japan, and the WTO. It gives the United States both an opportunity to demonstrate its commitment to the WTO and a mechanism for pressuring Japan to enter into negotiations. At the same time, by bringing its request for consultations to the WTO, the United States appeared to validate Japan's original position that such issues should be addressed outside of the bilateral context. Finally, the case is expected to test the WTO capability for handling disputes that involve issues beyond its traditional focus on tariffs and quotas to include issues such as collusion and industrial policy. It is unclear whether this marks the beginning of a long-term trend involving the examination of broad economic policies rather than evaluating discrete trade barriers.

## **United States and China Renew Bilateral Textile Agreement**

The United States and China reached agreement on a new 4-year bilateral pact on textiles and apparel trade in early February. The agreement extends U.S. import quotas on textiles and apparel from China and cuts quotas in product areas where China had made

repeated transshipment violations. The agreement, which replaces the recently expired 1994 bilateral textiles agreement, also establishes market access for U.S. textile exports to China.

Regarding market access, China agreed to cut tariffs, which exceed 50 percent in some categories, and to bind them at lower rates. China also pledged to ensure that nontariff barriers, such as import licensing and other arrangements, do not prevent U.S. exporters from benefitting from the improved market access. As a result of the agreement, U.S. textiles and apparel producers hope to export a wide variety of products to China, including high-volume, high-quality cotton and manmade fiber yarns and fabrics; knit fabrics, printed fabrics; high-volume knit apparel such as T-shirts, sweatshirts and underwear; and advanced specialty textiles used in construction of buildings, highways, and filtration projects.

Regarding U.S. textile import quotas on Chinese goods, the agreement addressed U.S. concerns about illegal transshipment of textiles and apparel. The agreement cut China's quota levels in 14 product areas of U.S. imports that had been subject to illegal overshipment or transshipment practices. The agreement continues the enforcement mechanism of the 1994 agreement, including the possibility to apply "triple charge" quotas against repeated violations. The agreement also improves bilateral consultation, enhances shipment tracking through an "electronic visa" system, and contains provisions on separate treatment of textile import quotas for Hong Kong and Macao after reversion of the territories to China.

The United States penalized China three times for violations of the 1994 agreement. Most recently, triple charges were levied against China's import quotas in September 1996 after illegal transshipment of textile products to the United States. The charges were applied in response to shipments to the United States of products made in China but relabeled in and transshipped through Mongolia, Turkey, Hong Kong, Fiji and other locations to avoid U.S. import quota limits on China. China denied the U.S. finding of transshipment. The agreement retains \$19 million in charges against China's textile import quota allowances that the U.S. imposed in September after finding transshipment. Under the 1994 agreement, the United States applied over \$80 million in charges against China for violations of the textiles agreement.

The 1994 agreement was originally set to expire on December 31, 1994. Negotiations last year to renew the pact failed to reach agreement over the issues of quota reduction and U.S. market access in China. As a result, the 1994 pact was extended through January 31, 1997, to allow time to conclude the negotiations. The portion of the agreement covering U.S. import quotas went into effect on February 1, 1997. The market

access portion of the agreement, covering U.S. exports to China, will take effect on January 1, 1998.

The textile dispute had threatened to escalate into a wider trade dispute with China, possibly complicating China's efforts to accede to the WTO. After the United States applied the triple charges, China announced that it would impose an import ban on selected U.S. products including animal husbandry products, fruits, alcoholic drinks, beverages, and some textiles. Prior to the agreement, China maintained that WTO accession talks were the appropriate place for negotiating the U.S. requests for market access. China had also protested U.S. intentions to cut China's import quotas. After the agreement was reached, however, China announced that it would not retaliate against the U.S. quota reductions because "both sides have found a proper resolution" to the issues during the negotiations.

The agreement cut China's access to the U.S. market by 2.6 percent. The agreement cut textile quotas in 17 of its 103 product categories. The reductions included wool fabric, cotton yarn, cotton sheets and pillowcases, cotton underwear, wool trousers, cotton print cloth, cotton knit shirts, cotton trousers, cotton woven shirts, cotton sheeting, cotton broadcloth, manmade fiber fabric, wool skirts, wool men's suits, and men's wool coats. The pact allows average annual import growth of U.S. textile imports from China of 1 to 3 percent, depending on product category.

U.S. exports of textiles and apparel to China in 1995 reached \$64 million, compared with \$6.6 billion in China's exports to the United States. U.S. exporters of textile and apparel products expect to gain sales in China as a result of the agreement. U.S. officials estimate that the market access agreement will allow U.S. textile exports to China to double in the short-term. U.S. silk import quotas, scheduled for review at the end of 1997, were not affected by the agreement.

## EU Launches A New Market Access Strategy

In November, the EU Commission launched a new trade policy aimed at improving European access to third-country markets. One important element of this so-called Market Access Strategy is the compilation of a database of trade barriers faced by EU exporters, which is available on the Internet.

The purpose of the new initiative is to strengthen the EU trade policy by focusing it on removing obstacles to EU exports. This approach represents a shift in the EU focus away from managing import

restrictions and from removing barriers between the member states to create the unified internal market. The EU hopes the new focus will increase opportunities for European firms to trade and invest abroad and create jobs.

Indeed, businesses play a key role in the Market Access Strategy by helping to identify market barriers and helping the EU Commission to prioritize its actions. The barriers are listed and carefully described in a database that is available for viewing on the EU Commission's Internet website.<sup>2</sup> In November 1996, when the database was unveiled, more than 700 barriers were listed in 23 countries. Currently, 34 countries are covered, including the United States, Canada, Mexico, China, and Japan. Each country section describes, if relevant—

- General features of the country's trade policy;
- Tariffs, including applied rates, bindings, and tariff-rate quotas;
- Nontariff barriers, such as customs regulations, import prohibitions, import licensing, state-trading enterprises, local content requirements, import-balancing requirements, pricing and marketing arrangements, trade defense instruments not in conformity with the WTO, standards, government procurement, export restrictions, and subsidies;
- Investment barriers, such as limits on foreign direct investment and profit repatriation, foreign exchange measures, and tax discrimination;
- Barriers to services; and
- Intellectual property rights.

Under each topic, sectoral barriers are discussed, as appropriate. To expand the database and keep it up-to-date, the EU Commission encourages input from EU companies and governments on an ongoing basis. The database permits interested parties to comment directly to the EU Commission on-line.

Once the barriers have been identified, a special Market Access Action Group recommends appropriate actions to pursue. Recommendations may include recourse to the WTO, particularly its dispute settlement mechanism, or to bilateral agreements, which provide for regular high-level consultations and ultimately arbitration. The goal is to ensure "swifter, more coherent and more coordinated action to remove those barriers." No new trade instruments have been created.

<sup>2</sup>[Http://mkacddb.eu.int](http://mkacddb.eu.int)

Since the proposal for a refocused trade policy first emerged in February 1996, the EU Commission has both made proposals and achieved results under the new policy. With respect to achievements, the EU Commission has cited cases brought to the WTO, including the panel condemning Japanese taxes on alcoholic beverages, and consultations under the Europe Agreements with eastern European countries, which resulted in the elimination of export restrictions on scrap iron and steel. In November, the EU published a major trade policy paper in the area of standards and conformity assessment that, among other things, calls for using the Market Access Strategy to reduce trade barriers relating to standards and certification. For example, the paper said the EU will continue to use WTO dispute settlement procedures to address “the most egregious and clear breaches of the TBT Agreement [WTO Agreement on Technical Barriers to Trade]” and will consult bilaterally in other situations. The Market Access Database, which contains information on technical barriers to trade, will provide the basis for consultations with member states and industry to establish action priorities in this field.

The United States component of the Market Access Database is almost identical to the EU annual report on U.S. trade barriers, which was originally published in response to the USTR *National Trade Estimate Report On Foreign Trade Barriers*. However, the database more extensively treats sectoral barriers than does the USTR report. The following sectors are covered in the EU database: agriculture and fisheries, aircraft, automotive, ceramics and glass, chemicals, electronics, shipbuilding, and textiles, clothing, and footwear. Regarding services, only financial (including banking, insurance, and securities) are currently covered, but other services are likely to be addressed in the near future. The Market Access Database contains sectoral information on tariffs as well as descriptions of other sectoral trade barriers not discussed in the annual trade barriers report, such as origin rules for textiles and clothing products, government support for electronics, and foreign sales corporations in the aircraft industry. The EU Commission is considering using the Market Access Database to publish annual reports on trade barriers in the markets of its major trading partners, similar to the U.S. report.

## Mexico Emerges From the Depression Aftermath of the Peso Crisis

During 1995 and 1996, the second and third years of the North American Free-Trade Agreement (NAFTA) the state of the Mexican economy reflected

the effects of the 1994 peso crisis (see *IER* March 1995 and May 1995) more than the effects of Mexico’s NAFTA partnership. A 6.9-percent decline in economic activity, and a more than 20-percent decline of average wages during the second NAFTA year, which immediately followed the peso crisis, marked the deepest depression Mexico had suffered since the 1930s. However, in the second half of 1996 (the third NAFTA year,) many economic sectors showed strong signs of recovery, approaching levels attained before the crisis. Much credit for these positive developments goes to the austerity policies of the Government of Mexico, the international emergency assistance the United States helped provide for its southern NAFTA partner, and the stabilizing influence Mexico enjoyed as a partner in the NAFTA.

Mexico’s 1996 economic reemergence was manifest in a 4.3-percent annual growth of the GDP, as shown by preliminary Mexican statistics. This rate, which significantly exceeded the 3-percent growth the Government targeted for 1996 in its “Alliance for Progress” program was achieved principally through Mexico’s strong export performance and growth in the manufacturing, mining, and services industries. Manufacturing, with its output 11 percent above that of 1995, performed especially well.

Expanding economic activity raised the level of employment. The official unemployment rate, which exceeded 7 percent in the third quarter of 1995, was less than 6 percent in the third quarter of 1996, according to preliminary data. (However, these official figures do not reflect the real extent of unemployment in Mexico, because they are based on surveys that are taken in urban centers only and count everyone as employed who works more than 1 hour per week. Nor do official data include employment in the country’s large “informal” economy.) Mexican sources report that, as of October 15, 1996, 125,000 jobs had been created in the “formal economy,” in addition to the 500,000 recuperated jobs that had been lost in the peso crisis.

A decline in Mexico’s rate of inflation was another positive development in 1996. On an annual basis, the consumer price index growth was cut in half, from 52 percent in 1995 to 26.5 percent in 1996—nonetheless still higher than the Government’s 20-percent target rate. Inflation was controlled through tight monetary and fiscal policies, and an appreciation of the peso in real terms. Interest rates also dropped from 46 percent at the end of 1995 to 27.5 percent by the end of 1996, as measured by the interest rate of the 28-day CETES (peso-denominated government bonds) in December. Sharply lower interest rates eased the credit crunch that had choked off investment in Mexico and caused widespread bankruptcies and loan defaults since the peso crisis. Mexico’s seriously weakened commercial

banks were kept afloat by the Government with the help of considerable financial assistance. As a result, the Government now owns about one-fifth of the country's total commercial banking assets.

A surplus in trade that had been attained in 1995 with the help of the cheap peso, and which dramatically reversed a string of annual trade deficits, was maintained in 1996. However, even though 1996 export growth remained impressive, it slowed from 33 percent in 1995 to 20.6 percent, as internal demand for many domestic goods returned, competing for a portion of exportable Mexican goods. Meanwhile, the reinvigorated internal market pushed up 1996 imports too, by an estimated rate of 23.7 percent. By contrast, during the 1995 depression imports dropped 8.8 percent. Based on preliminary data, Mexico's 1996 surplus thus contracted from \$7.1 billion in 1995 to \$6.3 billion in 1996.

Despite these signs of recovery, several aspects of the Mexican economy are still unstable, one of which is a large external debt, estimated at \$165 billion. To cope with the debt burden, the Government extended the maturities of the public portion by refinancing it and altering its composition (see also *IER* Dec. 1996/Jan. 1997). Mexico's foreign debt strategy includes the prepayment of emergency loans received after the peso crisis, such as those extended by the U.S. Government and international organizations. In January 1997, Mexico repaid the last \$3.5 billion owed to the United States 3 years ahead of schedule—an act generally interpreted as a sign of economic strength.

A major weakness of the Mexican economy is the unrelieved poverty of a large segment of population, which mirrors the growing income disparity between the social classes. Critics of the Government's policies argue that the new wealth created by free trade and investment in the pre-NAFTA and NAFTA years has not trickled down to the majority of the population. The imbalances are not only social but geographic, manifest between the relatively prosperous North, which received most of the foreign capital inflows during the pre-NAFTA and NAFTA years, and the poor South. Mexico's 1995 census includes data depicting the extreme poverty of three southern Mexican States: Guerrero, Oaxaca, and Chiapas. These three States are venues of the most intense activity by leftist guerrillas.

After holding steady for most of 1996 at slightly more than 7 pesos to the U.S. dollar, the Mexican currency exchange value dipped to 8 pesos to the dollar in October. (This compares with 6.5 pesos to the dollar during much of 1995 and about 3.5 pesos to the dollar before the peso crisis.) The weakening of the peso accelerated after the Government's retreat earlier in October from plans to fully privatize the country's

so-called secondary petrochemical plants owned by PEMEX, Mexico's state-owned petroleum monopoly.

In early 1995, President Zedillo made the sale of some 61 petrochemical facilities, estimated at \$3 to \$5 billion, an important component of his privatization program. From the outset, however, petrochemical privatization faced resistance from domestic political forces, which considered Mexico's entire petroleum industry (including all petrochemicals) national patrimony, and wanted it to remain state-owned. On October 13, 1996, Mexico's energy minister made it public that earlier plans to fully privatize secondary petrochemical plants will be scaled down and that legislation will be introduced to limit private sector investment into such petrochemicals to 49 percent, with PEMEX retaining the majority share. Many now believe that the Mexican Government's change of mind about petrochemical privatization had a destabilizing effect on how foreign interests viewed Mexican opportunities, and that this was a major source of the subsequent decline in the peso's value.

The renewed fall of the peso's exchange rate at year end revived an ongoing debate about the currency's "true value." In the view of many analysts, the peso had unduly appreciated in real terms in 1996, because its nominal value had not reflected the rate of inflation. According to the United Nations Economic Commission for Latin America and the Caribbean, in the first 8 months of 1996, the rate of appreciation in real terms was 15 percent. With the peso's overvaluation and subsequent crash in 1994 still fresh in memory, some feared that a new devaluation might be necessary.

To date (mid-February 1997) the peso has been hovering at slightly less than 8 pesos to the dollar. The yearend decline of the currency value, the changes in Mexican privatization policy, and the possible negative effect of these developments on private foreign investors, injected uncertainty in Mexico's otherwise promising economic outlook. Continued recovery in Mexico must rely heavily on foreign investment.

The Government of Mexico once again made business and labor cosign on October 26, 1996, its economic program for 1997, faithful to recent years' tradition of calling on broad constituencies to endorse economic policy. Called "Alliance for Growth," this program targets GDP growth at 4 percent for 1997; it projects a further decline of inflation, with consumer prices rising an average of 15 percent.

The program raises prices for residential electricity, gasoline, and diesel fuel in line with the targeted inflation, and boosts the minimum wage by 17 percent, slightly above the projected inflation rate. "Alliance for Growth" continues to emphasize deregulation and business competitiveness. It includes tax incentives geared to promote private investment, both domestic

and foreign. The program increases public investment spending, makes infrastructure development a priority, and features provisions to support housing and social development. At the same time, the Government promises to maintain strict fiscal discipline in 1997, projecting that the deficit on the current account would be less than 2 percent of GDP. The program also foresees a continued expansion of export markets through bilateral and multilateral trade negotiations with countries and multilateral organizations in Latin America, Europe, and Asia.

## A Closer Look at MERCOSUR

Recently, the WTO and a small number of economists have begun to take a closer look at the trade effects of MERCOSUR (the Spanish acronym for the Southern Common Market, joining the South American economies of Argentina, Brazil, Paraguay, and Uruguay). The concern centers on whether, on balance, the preferential regional trading system embodied by MERCOSUR is a positive contribution to trade liberalization in the broader context of the global multilateral trading system. At the December 1996 WTO Ministerial Conference in Singapore, some WTO members expressed the view that WTO should adopt tighter disciplines on regional trade agreements (RTAs) such as MERCOSUR. This article outlines the major themes in this ongoing debate.

MERCOSUR was launched in March 1991, as a customs union with two distinct components—a free-trade area (FTA) and a common external tariff (CET). The FTA liberalizes trade in goods among the MERCOSUR partners by reducing and ultimately eliminating tariffs and some quantitative restrictions on trade within the region. After a series of progressive, automatic tariff reductions done once every 6 months between July 1991 through December 1994, the FTA became fully operative on January 1, 1995, and at that time covered 88 percent of tariff line items for regionally traded goods; remaining tariffs are scheduled to be completely phased out by the year 2006. To ensure that a margin of preference exists to the benefit of trade among MERCOSUR members vis-à-vis trade with nonmembers, imports from outside the MERCOSUR region are subject to a CET tariff scheme which generally ranges from 0 to 20 percent *ad valorem*; capital goods and computer technology products are excluded from the CET until 2001, and telecommunications equipment is excluded until 2006. The four-country MERCOSUR economic market comprises over 200 million inhabitants and has a combined economic output of over \$1 trillion. Chile will become a member of the MERCOSUR FTA in

June 1997, and Bolivia is scheduled to become an FTA member in April 1997 (for more background on MERCOSUR, see “Chile-MERCOSUR Union Creates Enlarged South American Free-Trade Area,” *IER*, Oct.-Nov. 1996).

## WTO Trade Rules

Article XXIV of the General Agreement on Tariffs and Trade (GATT) permits the formation of Regional Trade Agreements (RTAs) notwithstanding the GATT most-favored-nation (MFN) principle (the WTO superseded the GATT on January 1, 1995). MFN requires that trade concessions made to one member be awarded to all WTO members. RTAs conflict with the MFN principle, but are permitted under certain circumstances by article XXIV in the belief that closer integration of regional economies on balance supports the basic economic and trade-liberalization aim of the GATT and contributes to increased global trade. Indeed, a customs union having full autonomy in the conduct of its trade policy may accede to the WTO, as has done the European Community (now European Union).

Article XXIV requires that RTAs not harm the trade interests of other WTO members and that the agreements cover “substantially all trade.” RTAs involving WTO members are examined to ensure that regional accords comply with multilateral trade rules. To date, 144 RTAs have been notified to the GATT/WTO involving nearly all of its 128 members. Although none of these notified RTAs has been censured as violating article XXIV, only six have been found to be in full compliance with that rule. Under the 1979 Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries (also known as the “Enabling Clause”), RTAs involving only developing countries are exempt from the article XXIV requirements so long as the agreements facilitate trade, do not create “undue difficulties” for other countries, and do not impose new trade barriers.

The MERCOSUR countries initially sought to notify this agreement to the GATT under the less stringent test of the Enabling Clause. However, in 1992 the United States requested that a GATT working party be formed to examine MERCOSUR pursuant to article XXIV. When the WTO was established, it revised the rules for RTAs to require that all RTAs notified under article XXIV be examined by a working party; that negotiations for compensation to third countries begin before a CET is implemented; and that members of RTAs report biennially to the WTO on their policies. A working party to examine MERCOSUR was formed by the WTO Committee on Trade and Development and held its first meeting in

1995. The terms of reference set for the working party were that MERCOSUR would be examined in light of the relevant provisions of article XXIV as well as the Enabling Clause.

In February 1996, the WTO established a Committee on Regional Trade Agreements (CRTA) to review RTAs for consistency with multilateral trade rules and to consider the systemic implications of RTAs for the multilateral trading system. At its first meeting in May 1996, the CRTA listed some 32 regional agreements, including MERCOSUR, in the pipeline for examination. In addition to the CRTA examination, new procedures enacted in 1996 require that RTAs notified under article XXIV are to be examined in additional detail by working parties, while RTAs notified under the Enabling Clause also may be examined by working parties upon the request of any interested WTO member.

Although the MERCOSUR working party examination was largely unaffected by changes introduced by the establishment of the CRTA, MERCOSUR became subject to the new, more stringent reporting requirements mandated for all RTAs. In September 1996, the CRTA determined that the information submitted by the MERCOSUR members to the WTO one year earlier was incomplete, and formally requested additional trade information on MERCOSUR in anticipation of further WTO examination. In the same time frame, the 1996 WTO trade policy review of Brazil concluded that MERCOSUR was a “decisive step in the process of regional integration,” although the review expressed some concerns about specific post-MERCOSUR tariff changes implemented by the Government of Brazil as well as numerous national exceptions to the CET.

## Open Regionalism

Economists have long cautioned that the economic gains of freer regional trade (“trade creation”) may be outweighed by economic losses if RTAs encourage members to reduce imports from efficient nonmembers and, instead, increase imports from less efficient members (“trade diversion”). The landmark analysis on this topic was done by Jacob Viner (*The Customs Union Issue*, 1950). Some economists subsequently found that “natural trading partners”—countries that trade intensively with each other, even without an RTA, because of geographic proximity and/or low transportation costs—produce less trade diversion when they form RTAs.

In its study of Latin America during the 1990s, the UN Economic Commission for Latin America and the Caribbean (ECLAC) applied the term “open regionalism” to the RTAs evolving at that time

(ECLAC, *Open Regionalism in Latin America and the Caribbean*, LC/L.808 (CEG.19/3), Jan. 1994). RTAs that embody the concept have a preferential trade element that is reinforced by geographic proximity and cultural affinity; nevertheless, they strive to eliminate barriers among partners in line with trade liberalization towards third parties, are open to accession by new members, and have the complementary objective of making economic integration a building block of a more open, transparent international economy. Among the characteristics ECLAC found to promote open regionalism in specific agreements are—

- Few exceptions to trade liberation, although this does not preclude the possibility of transition periods;
- Open and flexible membership criteria; and
- Stable and transparent rules.

The WTO also has endorsed open regionalism. In an April 1996 speech, WTO Director-General Renato Ruggiero stated that “the gradual elimination of internal barriers to trade within a regional grouping . . . implemented at more or less the same rate and on the same timetable as the lowering of barriers towards nonmembers . . . would mean that regional liberalization would be generally consistent not only with the rules of the WTO but also . . . with the MFN principle.”

While acknowledging that the “first best” approach to trade liberalization is through worldwide multilateral liberalization on an MFN basis through the WTO, many economists support the case for RTAs such as MERCOSUR. It is often argued that RTAs can liberalize trade faster and in more areas than may be possible through the WTO and that RTAs can stimulate global trade liberalization. It also has been said that RTAs are a credible second-best alternative to protectionism, offer the political benefits of continued trade liberalization by forestalling a resurgence of protectionism, and can help “lock in” members’ economic and trade liberalizing policies.

## Concerns About RTAs

Among others, economist Jagdish Bhagwati and, more recently, Arvind Panagariya argue that RTAs such as MERCOSUR are tantamount to implied protection against nonmembers since, by definition, RTAs must discriminate against trade with nonmembers to be effective (*The Economics of Preferential Trade Agreements*, ed. Bhagwati and Panagariya, 1996). These authors conclude that RTAs ultimately can undermine the process of multilateral

liberalization and can lead to a “spaghetti bowl” of conflicting rules, each backed by entrenched interests in which products “enjoy access on widely varying terms depending on where they are supposed to originate.” Moreover, it is argued that the proliferation of regional and subregional agreements can lead to a “battle of blocs,” diverting attention away from the broader goal of global multilateral trade liberalization. In contrast, economists Gary Haufbauer and Jeffrey Schott find these concerns “too apocalyptic” and assert that “in practice . . . [RTAs] have been far more constructive than destructive, notwithstanding severe shortcomings” (Haufbauer and Schott, *Strategies for Multilateral Trade Liberalization*, Jan. 1997).

Quantitative economic analysis suggests some basis for concern raised by Bhagwati and Panagariya. Using a global computable general equilibrium model with 1990 base year data, one team of economists observed that, in the absence of a collective regional approach, a “hemispheric race to bilateral or subregional trade pacts” could have “potentially disastrous consequences” by fostering trade diversion and leaving the hemisphere “mired in a set of hub and spoke arrangements that would be a nightmare to traders, investors and commercial administrator.” (Raúl A. Hinojosa-Ojeda, Jeffrey D. Lewis and Sherman Robinson, *Convergence and Divergence Between NAFTA, Chile, and MERCOSUR: Overcoming Dilemmas of North and South American Economic Integration*, Feb. 1995).

A 1996 paper by World Bank economist Alexander J. Yeats makes an even more severe assessment of MERCOSUR (*Does MERCOSUR's Trade Performance Justify Concerns About the Effects of Regional Trade Arrangements?—Yes!* 1996). The Yeats paper generally analyzes MERCOSUR trade data only through 1994—before the FTA became fully operative. The primary methodology compares trade patterns (the “regional orientation of exports”) in 1988 and in 1994. Yeats finds that MERCOSUR—by enabling members to impose much higher trade barriers on imports from nonmembers—has artificially diverted trade flows. Manufactured products in which MERCOSUR countries ranked relatively low in global competitiveness were subject to the greatest trade diversion by MERCOSUR, leading Yeats to conclude that “MERCOSUR is becoming less, rather than more,

internationally competitive in products where trade is most rapidly re-orienting toward the region.” For example, Yeats shows that transportation equipment, nonelectrical machinery, and electrical machinery accounted for over one-half of the 1988-94 increase in intra-MERCOSUR trade even though these products ranked low in competitiveness. Yeats concludes that there is “[n]o evidence that MERCOSUR's intra-trade is evolving along lines consistent with efficiency conditions. Rather, the products recording the largest shift toward the region are those for which MERCOSUR has not demonstrated an ability to export competitively elsewhere.”

Critiques of the Yeats paper point out that the analysis fails to account for the significant foreign—including U.S.—automotive assembly presence in Brazil. Yeats also notes that his analysis of tariff differentials between intra-MERCOSUR trade and MERCOSUR trade with third nonmembers reflects Brazil's 1995 tariff increase on automobiles. (Automobiles are exempt from MERCOSUR trade rules until 2000. In March 1995, Brazil raised tariffs on non-MERCOSUR imports of automobiles from 32 percent to 70 percent *ad valorem*. Brazil subsequently reduced this tariff rate for manufacturers with plants in Brazil and able to meet a minimum local content. The United States and Japan have initiated a WTO dispute settlement procedures on this matter.)

## Conclusions

A 1995 WTO study, *Regionalism and the World Trading System*, found no evidence of an emergence of regional trade blocs or trade polarization as a result of RTAs. Moreover, the WTO continues to assess in positive terms both RTAs and MERCOSUR in particular. The declaration issued at the December 1996 WTO Ministerial Conference in Singapore stated that RTAs “can promote further liberalization and may assist least-developed, developing and transition economies in integrating into the international trading system.” However, the world trade ministers cautioned that RTAs be examined closely to ensure that they are complementary to, and consistent with, WTO rules. Additional insight into the economic effects of RTAs undoubtedly will be gained from further theoretical research and quantitative economic analysis.

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# INTERNATIONAL ECONOMIC DEVELOPMENTS

## U.S. Economic Conditions

Boosted by a 3.9-percent growth in the fourth quarter of 1996, real GDP for the whole year grew by 2.4-percent, a faster rate than the 2.0-percent growth rate in 1995, according to data released by the U.S. Department of Commerce. A sharp turnaround in exports in the fourth quarter and increased consumer spending in the first one-half of the year have contributed to output growth. Moreover, rising investment spending, particularly in computers and information processing machines, as well as investment in inventories boosted growth and employment. Relatively lower long-term interest rates and subdued inflation created the momentum for investment growth. Inflation remained subdued through tight fiscal and monetary policies. Strong commitments to cut the budget deficit kept inflation at the low annual rate of 2.4 percent and released more funds for private investment. The unemployment rate ranged from 5.2 percent to 5.4 percent, and thus remained at or near the full employment level throughout 1996. Despite increased investment, inventory buildup was kept at a lean level consistent with sales. Consumer spending on durable goods declined slightly compared with 1995 spending. Real gross private domestic fixed investment rose in 1996. Producers durable equipment showed the largest increase. Fixed investment was boosted by a moderation in unit labor costs based on a surge in labor productivity in the manufacturing sector. Unit labor costs in the business sector rose by a mere 2.7 percent in 1996 following a larger increase of 3.0 percent in the previous year. The Federal budget deficit was estimated by the Congressional Budget Office to have declined to \$116 billion in 1996 from \$164 billion in 1995.

In the foreign sector, the United States ranked as the world's largest merchandise exporter in 1996, followed by Germany and Japan. Exports of goods rose to an annualized level of about \$611 billion, but imports increased considerably more, to an annualized level of about \$799 billion. The strengthening of domestic demand for imports led to a widening of the

1996 merchandise trade deficit to \$187.0 billion. Rising domestic demand and the appreciating exchange value of the dollar in terms of several currencies particularly the yen and the Deutsche mark—led to the surge in imports as imports became relatively less expensive. However, despite the rising value of the dollar, exports remained at a peak level from past years, an indication of rising foreign demand for U.S. exports and the strong foothold these exports earned in competing in an international setting.

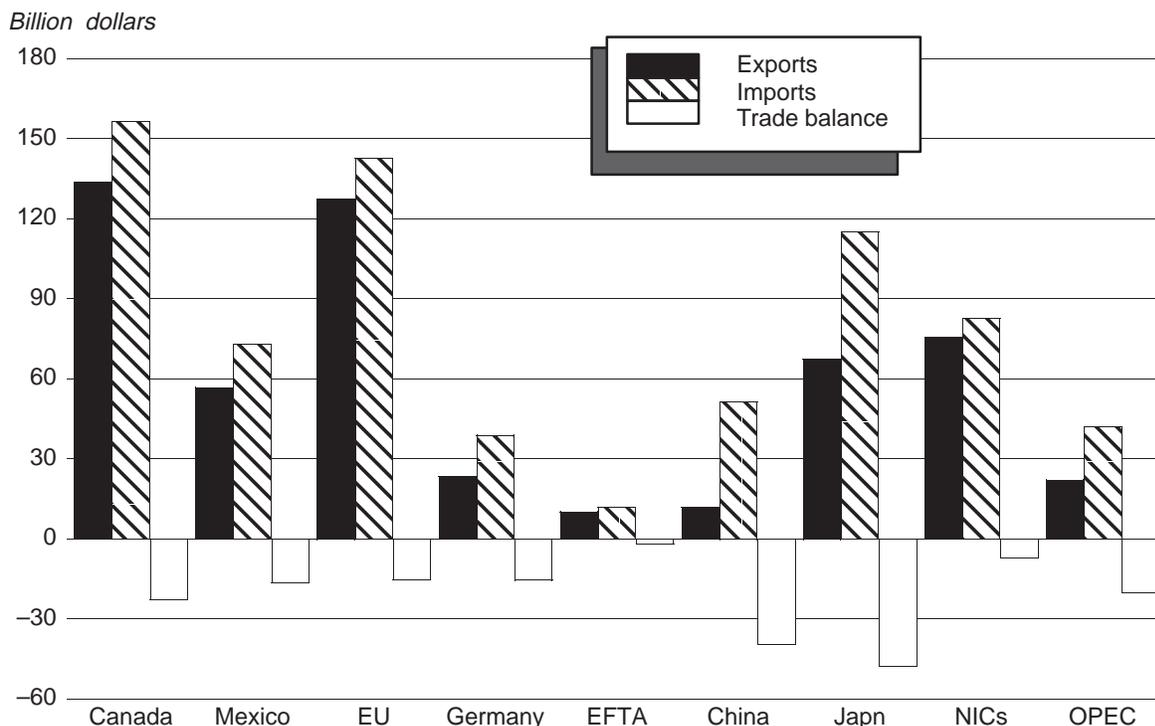
In 1996, U.S. exports of services increased to \$224 billion, imports rose to \$150.5 billion and the surplus on services trade rose to about \$73.5 billion. U.S. trade in services grew in almost every category. The U.S. deficit on goods and services was \$114.2 billion.

U.S. trade performance improved in 1996 with a few trading partners but worsened with most. U.S. merchandise trade deficits with Canada, Germany, China, and OPEC countries increased. The deficit with Japan decreased to \$39.1 billion from about \$59.1 billion last year. The Pacific Rim countries accounted for approximately 61.3 percent of the U.S. merchandise trade deficit in 1996, with China and Japan accounting for around 52 percent of total U.S. deficit. Figure 1 shows U.S. merchandise exports, imports, and trade balances with major trading partners. (For more detail on U.S. trade in goods and services see U.S. trade developments section.)

## Productivity and Costs

The U.S. Department of Labor reported that U.S. labor productivity—as measured by output per hour of all persons—increased in 1996 in the business sector by 1.0 percent and by 0.8 percent in the smaller nonfarm business sector. These productivity gains were larger than productivity gains posted over the past 10 years except for the year 1992 when productivity grew by 3.3 percent. On average, productivity grew by less than 1-percent over the past 10 years. Annual productivity and related measures are summarized in table 1.

**Figure 1**  
**U.S. exports, imports, and trade balances with major trading partners, 1996.**



Source: U.S. Department of Commerce.

## ***Business sector***

In the business sector, productivity grew in 1996 by 1.0 percent, the largest increase since 1987 except for the year 1992, when productivity increased by 3.4 percent (table 1). On average, however, productivity grew in this sector by less than 1 percent in the 10-year period shown in the table. Output rose by 3.0 percent, and hours worked rose by 2.0 percent. Hourly compensation increased by 3.8 percent, but real compensation rose by 0.8 percent. Unit labor costs in the business sector increased by 2.7 percent, a slower rate than in 1995.

## ***Nonfarm business sector***

In the smaller nonfarm business sector, productivity grew by less than 1 percent in 1996, as output rose by 2.9 percent and hours of all persons rose by 3.6 percent. As in the more inclusive business sector, productivity growth in 1996 showed the largest increase since 1987 except for a 3.2-percent gain that was posted in 1992.

Hourly compensation in the nonfarm business sector rose by 3.6 percent in 1996, a 0.4- percent

increase over 1995, and real hourly compensation increased by 0.7 percent. Unit labor costs increased by 2.9 percent, matching a similar rise in 1995.

## ***Manufacturing***

Manufacturing productivity grew at 3.8 percent in 1996, the largest increase since 1987. These higher gains were accounted for by the large decline in hours worked. Whereas output rose by 2.7 percent in 1996, a slower rate than in 1995, hours worked of all persons declined by 1.1 percent.

The average hourly compensation of manufacturing workers increased by 3.5 percent in 1996, but the real hourly compensation gained a paltry 0.5 percent compared with an increase of 0.9 percent in 1995. Unit labor costs in the manufacturing sector fell by 0.3 percent in 1996 compared with an increase of 0.3 percent in 1995.

## ***World Economic Growth***

World economic growth strengthened slightly in 1996, according to International Monetary Fund (IMF) estimates. World real output is estimated to have

**Table 1**  
**Annual changes in productivity and related measures, 1987-1996**

(Percentage)

Measure	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Business:										
Productivity .....	-0.2	0.5	0.8	0.8	0.6	3.4	0.2	0.5	0.1	1.0
Output .....	2.9	3.8	3.4	0.9	-1.8	3.2	2.7	4.2	2.5	3.0
Hours .....	3.0	3.3	2.5	0.1	-2.3	-0.2	2.5	3.7	2.4	2.0
Hourly compensation .....	3.8	4.5	2.8	5.7	4.8	5.2	2.5	1.9	3.1	3.8
Real hourly compensation .....	0.2	0.3	-2.0	0.3	0.6	2.1	-0.5	-0.6	0.3	0.8
Unit labor costs .....	4.0	4.0	1.9	4.9	4.2	1.7	2.3	1.4	3.0	2.7
Nonfarm business:										
Productivity .....	-0.3	0.6	0.5	0.5	0.7	3.2	0.2	0.5	0.3	0.8
Output .....	3.0	4.1	3.2	0.7	-1.8	3.0	2.9	4.0	2.7	2.9
Hours .....	3.2	3.5	2.6	0.2	-2.5	-0.2	2.8	3.5	2.4	2.1
Hourly compensation .....	3.7	4.3	2.7	5.5	4.9	5.2	2.3	2.1	3.2	3.6
Real hourly compensation .....	0.1	0.1	-2.1	0.1	0.7	2.1	-0.7	-0.5	0.3	0.7
Unit labor costs .....	4.0	3.7	2.1	5.0	4.2	1.9	2.1	1.5	2.9	2.9
Manufacturing:										
Productivity .....	2.7	1.3	1.8	1.8	2.5	3.6	2.1	3.1	3.4	3.8
Output .....	3.4	4.2	2.1	-0.4	-1.7	3.0	3.5	5.6	3.5	2.7
Hours .....	0.8	2.8	0.4	-2.2	-4.1	-0.6	1.4	2.4	0.1	-1.1
Hourly compensation .....	2.8	3.9	3.3	4.8	5.2	4.5	2.4	2.7	3.7	3.5
Real hourly compensation .....	-0.8	-0.2	-1.5	-0.5	1.0	1.5	-0.6	0.1	0.9	0.5
Unit labor costs .....	0.1	2.6	1.5	3.0	2.7	0.9	0.3	-0.4	0.3	-0.3

Source: Bureau of Labor Statistics, Feb. 11, 1997.

grown by 3.8 percent in 1996 compared with 3.5 percent in 1995. Tight monetary policies and commitments to reduce budget deficits in a number of countries including the United States, Canada, and the EU members states have played a major role in keeping inflation low and inducing stable albeit moderate rates of economic expansion. Table 2 shows selected economic indicators of U.S. major trading partners.

Growth prospects in developing and emerging economies in 1996 were mixed. In Latin America (including Mexico and the countries of the Caribbean, Central America, and South America), aggregate GDP grew in 1996 by 2.7 percent. In the Pacific Rim, economic activity continued to expand in 1996, particularly in China, Korea, Taiwan, Singapore, and Thailand.

## *European Union*

Several countries in the European Union (EU) entered a period of a slower than expected economic growth in 1996 due to the decline in public investment spending and stringent monetary policies. Sharp budgetary cuts were made to meet the conditions of the European Monetary Union and the future European single currency (euro). Sluggish growth accompanied by high unemployment in many European economies have resulted from measures to cut public investment and relatively high interest rates to keep EU currencies within the bounds of the EMU. Deteriorating business and consumer confidence, high wages, and rigid labor markets, particularly in Germany and France, have led to a decline in both fixed and inventory investment.

Like in past years, stubbornly high levels of unemployment throughout the EU persisted in 1996 weakening aggregate final demand and dampening the overall recovery. Maintaining a noninflationary rate of output growth compatible with low rates of unemployment has been a challenge to the EU in part because of the rules of the Exchange Rate Mechanism (ERM). Monetary expansion to increase employment has been constrained by the ERM rules, which were established to stabilize exchange rates by anchoring EU currencies to the German mark. Under the ERM, participants have had to maintain their currency parities roughly aligned with the German Mark, which requires members to maintain artificially high interest rates in line with German rates. Similarly, fiscal policy has been constrained by the inability of EU governments to effectively increase their spending because of high budget deficits. Economic and monetary union scheduled for no later than January 1, 1999, requires participants to reduce their budget deficits to 3 percent and their public debts to 60

percent of GDP. However, in 1996, EU countries' aggregate budget deficits, except for Luxembourg, averaged around 4.5 percent and gross public debt averaged about 73.8 percent of GDP, according to IMF data. In addition, most of the EU member countries have higher budget deficit/GDP ratios than required under the single currency accords (Maastricht Agreement) with the exception of Denmark, Finland, and Ireland. With the exception of France, the United Kingdom, and Luxembourg the ratio of gross public debt as a percent of GDP of the remaining members exceeds the reference value required by the Treaty. Countries with the highest public debt/GDP ratios were Belgium (132.3 percent), Greece, (108.2 percent), Italy (124.8 percent), and Ireland (78.9 percent).

In 1996, EU real exports of goods and services grew by an estimated 3.7 percent, compared to an increase of 7.5 percent in 1995. Real imports grew by an estimated 3.0 percent following an increase of 6.8 percent in 1995. In 1996, the United States registered a higher trade deficit with the EU of \$21.7 billion compared with the previous year deficit of \$14.5 billion. Approximately 79.5 percent of U.S. exports to the EU markets was chemicals and manufactured goods, and the remainder consisted of food, fuel, and raw material. In contrast, approximately 86 percent of U.S. imports was chemicals and manufactured goods and the remainder consisted of food, fuel, and raw material.

## *Japan*

Economic recovery in Japan strengthened moderately in 1996, largely due to the depreciation of the yen and to growing public investment spending that revived sagging domestic demand. According to the Bank of Japan, business fixed investment continued to increase steadily, and industrial production increased slightly as labor market conditions improved. Consumer and public spending boosted GDP growth to about 3.6 percent in 1996. The unemployment rate returned to its normal level of 3.2 percent after rising slightly, but remained well below that of other industrial countries. Consumer spending grew in sales of electronic and electrical appliances. Outlays for travel remained firm. The depreciation of the yen in the first one-half of the year led to a slight increase in exports; imports rose largely due to increased imports from Asian affiliates. Japan's total exports decreased in 1996 to an estimated \$404.0 billion from \$428 billion in 1995. Imports increased to an estimated \$317.0 billion from about \$297.0 billion in 1995. The result was a decline in Japan's merchandise trade surplus to \$87.0 billion from \$131.2 billion in 1995. Japan's current account surplus declined to about \$63.0 billion from a surplus of \$110.4 billion in 1995.

**Table 2**  
**Comparative economic indicators of the United States and specified major trading partners, 1995-96**

Country	Real GDP <sup>1</sup>		Inflation rates <sup>1</sup>		Unemploy- ment rates <sup>2</sup>		Government budget rates <sup>3</sup>		Merchandise trade balances		Current account balances	
	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
G-7 countries:												
United States .....	2.0	2.4	2.4	2.1	5.6	5.4	-2.0	-1.6	-194.1	-208.4	-2.0	-2.1
Canada .....	2.3	1.5	1.6	1.4	9.5	9.6	-4.1	-2.7	22.3	28.8	-1.5	0
Japan .....	0.9	3.6	-0.5	0	3.2	3.3	-3.3	-4.1	131.2	86.8	2.2	1.4
Germany .....	1.9	1.1	1.9	1.7	9.4	10.3	-3.5	-4.1	70.3	73.5	0.7	0.7
United Kingdom .....	2.4	2.4	2.6	2.6	8.2	7.6	-5.7	-4.8	-18.3	-21.2	-0.4	-0.1
France .....	2.2	1.3	1.6	1.8	11.7	12.4	-4.8	-4.1	10.8	18.9	1.1	1.3
Italy .....	3.0	0.8	5.7	4.2	12.0	12.2	-7.1	-6.7	44.0	60.2	2.5	3.5
EU .....	2.5	1.6	3.0	2.6	11.2	11.4	-5.2	-4.6	136.8	165.9	0.7	1.0
Mexico .....	-6.9	4.0	9.1	35.0	6.3	6.0	n/a	n/a	7.1	7.4	-0.2	0
Total OECD .....	2.0	2.4	5.1	4.4	7.8	7.8	-3.5	-3.3	111.6	83.6	0	-0.1
China .....	10.2	9.5	14.8	6.5	n/a	n/a	n/a	n/a	n/a	n/a	0.3	-1.2
Taiwan .....	5.9	5.6	3.7	3.1	n/a	n/a	n/a	n/a	13.6	12.9	1.9	1.8
Korea, Republic of .....	9.0	6.6	4.5	5.1	n/a	n/a	n/a	n/a	-4.7	-12.0	-2.5	-4.4
Hong Kong .....	4.6	4.5	8.7	6.8	n/a	n/a	n/a	n/a	-19.7	-20.9	-2.3	-2.4
Singapore .....	8.8	6.5	1.8	1.6	n/a	n/a	n/a	n/a	0.9	-2.0	15.2	13.3
Thailand .....	8.6	7.3	5.8	5.7	n/a	n/a	n/a	n/a	-10.1	-13.0	-8.2	-8.4
Malaysia .....	9.5	8.2	3.4	3.7	n/a	n/a	n/a	n/a	0.3	1.8	-8.0	-7.5

<sup>1</sup> Private consumption deflators percentage change from previous year.

<sup>2</sup> Percent of total labor force.

<sup>3</sup> Financial balances as a percentage of GDP.

Note: 1996 data are projections of OECD.

Source: *OECD Economic Outlook*, 60, Dec. 1996.

The decline in Japan's trade surplus has resulted from the gradual increase in imports and a slowdown in exports. The pattern of Japanese imports has also been changing, with computers, electronics, cars, and machinery imports rising faster than imports of raw material and food. However, it should be noted that Japan's increased imports of manufactures largely represent sales of Japanese companies in Asia to Japan. These Asian plants were built as low cost bases to provide exports to developed as well as emerging markets.

The transformation of Japan's trade patterns may also have been a driving force behind the decline in Japan's trade surplus with the United States. The U.S. trade deficit with Japan declined by nearly 17 percent in 1996 to \$47.1 billion although still accounting for about 28.6 percent of the total U.S. deficit. U.S. exports to Japan increased to \$63.6 billion and imports from Japan decreased to about \$114.8 billion, in 1996. The composition of U.S. exports to Japan has also been gradually changing from past years, with exports of manufactures proportionately increasing. Roughly 66 percent of U.S. exports to Japan consisted of chemicals and manufactured goods; the remainder consisted of food, fuel, and raw material. In contrast, nearly 97 percent of U.S. imports from Japan consisted of chemicals and manufactured goods and the remainder was food, fuel, and raw material, and other goods.

## China

China's adoption of several austerity measures over the past few years including tighter monetary expansion and lending and direct price controls succeeded in slowing down inflation without slowing growth. Fixed capital investment was reduced, growing by about 16 percent in 1996 compared with over 30-percent growth a year earlier. Nevertheless, GDP grew by an estimated 9.5 percent in 1996.

Pressures on China's exchange rates are mounting as the current account surplus grows and the influx of foreign direct investment continues. China's foreign reserves swelled to over \$100 billion in 1996. Such accumulation of foreign reserves and positive confidence in the economy has allowed the full convertibility of the Yuan. Cyclical and structural factors affected China's exports and trade balance, however. A major factor has been the worsening of China's terms of trade resulting from a contraction in world demand for electronic and information equipment with prices of semiconductors down by more than 50 percent. China's exports grew by an estimated 10 percent compared with more than 20 percent growth in 1995. Imports increased and the trade balance deteriorated.

China's opening to the outside world has been a major factor boosting its foreign trade. The successful

conclusion of trade negotiations with the United States on intellectual property rights could lead to even higher growth rates. China's imports of equipment and raw materials increased sharply in 1996, reflecting a surge in foreign investment in China. China accounts for more than 20 percent of world trade in clothing, footwear, and other leather goods. Reportedly, exports of more sophisticated consumer durables, machinery, and electronics expanded markedly, accounting for an increasing proportion of China's export boom.

China's total trade with the United States increased in 1996. However, the U.S. trade deficit with China grew faster. At approximately \$39.4 billion, the U.S. trade deficit with China was 19.0 percent of the total U.S. deficit with the world. In 1996, U.S. exports to China increased and their composition changed from past years. At \$8.8 billion, U.S. exports of chemicals and manufactures to China constituted about 75 percent of total U.S. exports to this country. The remainder consisted of food, fuel, and raw material and other goods. By contrast, U.S. imports of chemicals and manufactures from China amounting to \$49.2 billion constituted 96.1 percent of total U.S. imports. The remainder consisted of food, fuel, and raw material and other goods.

## Taiwan

In Taiwan, GDP grew in 1996 by 5.6 percent compared with 5.9 percent in 1995. Intra-regional direct investment and intraregional trade flows stimulated output growth. The combination of efforts to maintain tight monetary policies and volatile capital movements has complicated exchange rate management and put upward pressures on the exchange rate of the Taiwan dollar. Exports declined, imports rose, and the trade surplus decreased as a result of an increase in wages and the appreciation of the Taiwan dollar. The U.S. bilateral trade deficit with Taiwan increased in 1996 to about \$12.8 billion from the previous year. U.S. exports declined by about 6.2 percent and imports grew by 3.1 percent. U.S. exports and imports to and from Taiwan increased and their composition changed from past years. Approximately 73 percent of U.S. exports to Taiwan consisted of chemicals and manufactured goods, and the remainder consisted of food, fuel, and raw material and other goods. In contrast, 95.3 percent of U.S. imports from Taiwan consisted of chemicals and manufactured goods, and the remainder consisted of food, fuel, and raw material and other goods.

## Korea

In the Republic of Korea, output growth slowed in 1996 due to declining exports. GDP was estimated to have grown by 6.6 percent in 1996, a slower rate than the 9.0-percent growth rate in 1995. A cyclical

downturn that started in 1995 weakened domestic demand in 1996, and as interest rates peaked at more than 15 percent, stockbuilding slowed down further accentuating the slow down in domestic demand. Capital formation and investment in machinery fell by almost one-half. Korea's merchandise exports to the world slowed due to the slowdown in foreign demand and the effective appreciation of the Korean Won. Korea's trade deficit almost tripled in 1996 to around \$12.0 billion. The current account deficit grew substantially over the previous year to \$21.0 billion. U.S. exports to Korea increased by 3.7 percent over previous year and imports decreased by 6.3 percent, resulting in a U.S. trade surplus with Korea of \$2.9 billion in 1996. In 1996, U.S. exports to and imports from Korea increased and their composition changed. Approximately 73 percent of U.S. exports to Korea in 1996 consisted of chemicals and manufactured goods, and the remainder consisted of food, fuel and raw material, and other goods. In contrast, about 96 percent of U.S. imports from Korea consisted of manufactured goods, and the remainder consisted of food, fuel, and raw material and other goods.

## World Trade

World trade in goods and services grew at a faster rate than world output in 1996, according to IMF estimates. World trade volume is estimated to have grown by 6.7 percent in 1996 down from the 8.9-percent growth in the previous year. Trade growth in 1996, however, was well above the average annual gains of the previous 10 years, and far outstripped the 3.8-percent growth in world output. The economic slowdown in industrial countries was a major factor in the slowdown in world trade. The United States, Germany, and Japan remained the world's leading merchandise exporters and importers. Similarly, the United States ranked first in exports of commercial services, followed by France, Germany, Italy, the United Kingdom, and Japan.

## U.S. Economic Performance Relative to other Group of Seven (G-7) Members

### *Economic growth*

U.S. real GDP—the output of goods and services produced in the United States measured in 1992 prices—grew at a revised annual rate of 3.9 percent in the fourth quarter of 1996, following an increase of 2.1 percent in the third quarter. GDP grew by 2.4 percent in 1996.

The annualized rates of real GDP growth in the third quarter of 1996 were 3.3 percent in Canada, 3.5 percent in France, 3.3 percent in Germany, 2.0 percent in Italy, 0.4 percent in Japan, and 3.0 percent in the United Kingdom.

### *Industrial production*

The Federal Reserve Board reported that U.S. industrial production (IP) was unchanged in January 1997, following an increase of 0.5 percent in December 1996. The production of business equipment rose in January but the production of consumer goods and materials was little changed and the production of construction supplies and materials fell. Total industrial production in January 1997 was 4.7 percent higher than it was in January 1996. In the fourth quarter, industrial production grew by a 4.3-percent annual rate up from a 3.3-percent increase in the third quarter. Total industrial capacity utilization edged down 0.2 percentage points, to 83.3 percent and was 3.7 percent higher than in January 1996.

Other Group of Seven (G-7) member countries reported the following growth rates of industrial production. For the year ending December 1996, Japan reported a 3.6-percent increase, Germany reported a 3.5-percent increase, the United Kingdom reported a 1.9-percent increase, Canada reported a 4.2-percent increase, France reported a 2.2-percent increase, and Italy reported a 3.1-percent decrease.

### *Prices*

Seasonally adjusted U.S. Consumer Price Index (CPI) rose by 0.1 percent in January 1997 following 4 consecutive months of increases. The CPI rose 0.3 percent in December 1996. For the 12-month period that ended in January 1997, the CPI increased by 2.5 percent, matching the increase in the previous 12 months. During the 1-year period ending December 1996, prices increased 2.2 percent in Canada, 1.7 percent in France, 1.4 percent in Germany, 2.6 percent in Italy, 0.6 percent in Japan, and 2.5 percent in the United Kingdom.

### *Employment*

The Bureau of Labor Statistics reported that the unemployment rate in January 1997 was virtually unchanged at 5.4 percent.

The number of payroll jobs, as measured by the monthly survey of establishments, rose by 271,000 in January after seasonal adjustment. Jobless rates for the major demographic groups—adult men (4.6 percent), adult women (4.6 percent), teenagers (17.0

percent), whites (4.6 percent), blacks (10.8 percent), and Hispanics (8.3 percent)—also showed little or no change over the month.

The services industry added 167,000 jobs in January, with business services and health services accounting for two-thirds of the gain. Within business services, growth continued in computer and data processing services. Health services employment rose by 43,000 in January, with sizable increases occurring in offices and clinics of medical doctors and in hospitals.

Employment in transportation rose by 16,000 jobs. Retail trade employment was little changed overall in January. Employment in finance, insurance, and real estate rose modestly in January, as continued job gains in finance and real estate were partly offset by declines in insurance.

Manufacturing employment rose by 18,000 jobs in January, building on a slow-growth trend that began last October. Gains were concentrated in transportation equipment, including both aircraft and motor vehicles, and in industrial machinery and food products. Employment in apparel continued its long-term decline; this industry has lost 200,000 jobs, or one-fifth of its workforce, over the past 5 years. Employment in the construction industry continued to trend upward, but the January increase was limited by severe weather conditions in some parts of the country.

In other G-7 countries, the latest in unemployment rates were 9.7 percent in Canada, 12.7 percent in France, 12.2 percent in Germany, 11.9 percent in Italy, 3.3 percent in Japan, and 6.5 percent in the United Kingdom.

## Forecasts

Six major forecasters expect real growth in the United States to average around 2.4 percent (annual rate) in the first half of 1997. Factors that are most likely to restrain growth in the first half of 1997 could include slower consumer spending and the contractionary impact of the decline in government spending and investment if unaccompanied by monetary policy easing. Table 3 shows macroeconomic projections for the U.S. economy from January to December 1997, and the simple average of these forecasts. Forecasts of all the economic indicators, except unemployment, are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 5.2 to 5.4 percent in the first 6 months of 1997. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.7 to 2.8 percent.

**Table 3**  
**Projected changes of selected U.S. economic indicators, by quarters, Jan.-Dec. 1997**

(Percentage)

Period	Confer- ence Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc. (D.R.I.)	Wharton WEFA Group	Mean of 6 fore- casts
<b>GDP current dollars</b>							
1997:							
Jan.-Mar . . . . .	5.2	3.8	5.8	3.9	4.5	3.7	4.7
Apr.-June . . . . .	7.0	5.0	5.0	3.9	4.5	4.3	4.9
July-Sep . . . . .	5.7	4.7	5.2	4.3	4.1	4.7	4.8
Oct.-Dec . . . . .	4.4	4.6	5.2	4.4	4.6	4.4	4.6
<b>GDP constant (1992) dollars</b>							
1997:							
Jan.-Mar. . . . .	2.1	1.8	2.5	1.8	2.7	1.2	2.0
Apr.-June . . . . .	3.6	2.4	2.2	2.1	2.7	1.7	2.4
July-Sep . . . . .	2.1	2.1	2.4	2.1	2.2	2.0	2.1
Oct.-Dec . . . . .	1.4	1.5	2.4	2.2	2.7	2.1	2.1
<b>GDP deflator index</b>							
1997:							
Jan.-Mar . . . . .	3.0	2.2	3.2	2.1	1.8	2.5	2.7
Apr.-June . . . . .	3.3	2.5	2.7	1.8	1.8	2.6	2.1
July-Sep . . . . .	3.5	2.5	2.7	2.1	1.9	2.7	2.6
Oct.-Dec . . . . .	2.9	2.5	2.6	2.2	1.8	2.3	2.4
<b>Unemployment, average rate</b>							
1997:							
Jan-Mar . . . . .	5.2	5.3	5.2	5.3	5.3	5.4	5.3
Apr.-June . . . . .	5.3	5.4	5.2	5.3	5.2	5.5	5.3
July-Sep . . . . .	4.9	5.4	5.2	5.2	5.2	5.5	5.2
Oct.-Dec . . . . .	4.8	5.4	5.1	5.2	5.3	5.6	5.2

Note.—Except for the unemployment rate, percentage changes in the forecast represent annualized rates of change from preceding period. Quarterly data are seasonally adjusted. January 1997.

Source: Compiled from data of the Conference Board. Used with permission.

## U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of goods and services of \$71.4 billion and imports of \$81.7 billion in December 1996 resulted in a goods and services trade deficit of \$10.3 billion, \$2.3 billion more than the \$7.9 billion deficit in November. The December 1996 deficit was approximately \$3.9 billion more than the deficit registered in December 1995 (\$6.4 billion) and \$1.3 billion more than the average monthly deficit registered during the previous 12 months (approximately \$9.1 billion).

The December 1996 trade deficit on goods was \$16.6 billion, approximately \$2.3 billion higher than the November deficit (\$14.3 billion). The December 1996 services surplus was \$ 6.3 billion, virtually equal to the November services surplus.

In 1996, total U.S. exports of goods and services increased by \$49.1 billion compared to 1995, to a record of \$835.6 billion. Total imports increased by roughly \$58.3 billion to \$949.9 billion. The trade deficit on goods and services in 1996 grew to \$114.2 billion from \$105.1 billion in 1995.

Seasonally adjusted U.S. trade in goods and services in billions of dollars as reported by the U.S. Department of Commerce is shown in table 4. Nominal export changes and trade balances for specific major commodity sectors are shown in table 5. U.S. exports and imports of goods with major trading partners on a monthly and year-to-date basis are shown in table 6, and U.S. trade in services by major category is shown in table 7.

**Table 4**  
**U.S. trade in goods and services, seasonally adjusted, Nov.-Dec.1996**

(Billion dollars)

Item	Exports		Imports		Trade balance	
	Dec. 1996	Nov. 1996	Dec. 1996	Nov. 1996	Dec. 1996	Nov. 1996
Trade in goods (BOP basis)						
Current dollars--						
Including oil .....	52.2	53.3	68.7	67.6	-16.6	-14.3
Excluding oil .....	52.5	53.7	61.9	61.5	-9.4	-7.8
Trade in services						
Current dollars .....	19.2	19.2	12.9	12.9	6.3	6.3
Trade in goods and services						
Current dollars .....	71.4	72.5	81.7	80.5	-10.3	-7.9
Trade in goods (Census basis)						
1992 dollars .....	57.0	58.3	70.9	69.4	-13.9	-11.1
Advanced-technology products (not seasonally adjusted) .....	14.4	13.6	11.7	10.7	2.7	2.9

Note.—Data on goods trade are presented on a balance-of-payments (BOP) basis that reflects adjustments for timing, coverage, and valuation of data compiled by the Census Bureau. The major adjustments on BOP basis exclude military trade but include nonmonetary gold transactions, and estimates of inland freight in Canada and Mexico, not included in the Census Bureau data.

Source: U.S. Department of Commerce News, (FT 900), Feb. 19, 1997.

**Table 5**  
**Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan. 1995-Dec. 1996**

	Exports		Change			Trade balances, Jan.-Dec. 1996
	Dec. 1996	Jan.-Dec. 1996	Dec. 1996 over Nov. 1996	Jan.-Dec. 1996 over Jan.-Dec. 1995	Share of total, Jan.-Dec. 1996	
	— Billion dollars —					
ADP equipment & office machinery . . .	3.7	39.7	12.1	9.1	6.3	-26.8
Airplanes . . . . .	2.3	19.0	27.8	37.7	3.0	15.1
Airplane parts . . . . .	1.1	11.7	10.0	13.6	1.9	8.2
Electrical machinery . . . . .	4.6	56.6	-8.0	6.6	9.1	
General industrial machinery. . . . .	2.2	26.6	-4.3	9.0	4.3	-18.9
Iron & steel mill products . . . . .	.4	4.8	0.3	-11.1	0.8	1.3
Inorganic chemicals . . . . .	.4	4.7	0	4.4	0.8	-8.6
Organic chemicals . . . . .	1.2	14.7	9.1	-8.7	2.4	-0.2
Power-generating machinery . . . . .	2.0	22.3	0	1.8	3.6	7.3
Scientific instruments . . . . .	1.8	20.6	0	10.7	3.3	-0.2
Specialized industrial machinery . . . . .	2.1	25.7	-4.5	10.3	4.1	8.2
TVs, VCRs, etc . . . . .	1.8	19.8	0	4.2	3.2	7.2
Textile yarns, fabrics and articles . . . . .	.6	7.8	-14.3	8.3	1.2	-2.5
Vehicle parts . . . . .	4.2	49.6	-2.3	2.9	7.9	-54.1
Manufactured exports not included above . . . . .	13.2	160.3	-1.5	7.1	25.7	-97.6
Total manufactures . . . . .	41.6	483.9	0.2	7.2	77.5	-176.0
Agriculture . . . . .	5.2	59.3	-10.3	9.2	9.5	26.7
Other exports not included above . . . . .	6.7	81.6	-10.7	4.5	13.0	-17.3
Total exports of goods . . . . .	53.5	624.8	-2.4	6.9	100.0	-166.6

Note.—Because of rounding, figures may not add to the totals shown.

Data are presented on a Census basis.

Source: U.S. Department of Commerce News, (FT 900), Feb. 19, 1997.

**Table 6**  
**U.S. exports and imports of goods with major trading partners, Jan. 1995-Dec. 1996**

(Billion dollars)

Country/area	Exports			Imports		
	Dec. 1996	Jan.-Dec. 1996	Jan.-Dec. 1995	Dec. 1996	Jan.-Dec. 1996	Jan.-Dec. 1995
North America .....	15.5	190.4	173.5	18.4	229.5	207.0
Canada .....	10.2	133.7	127.2	12.5	156.5	145.3
Mexico .....	5.3	56.8	46.3	6.0	73.0	61.7
Western Europe .....	11.9	141.4	134.9	14.0	157.3	145.3
European Union (EU-15) .....	11.0	127.5	123.7	13.8	142.7	131.8
Germany .....	2.0	23.5	22.4	3.6	38.9	36.8
European Free-Trade Association (EFTA) <sup>1</sup> .....	0.6	10.2	7.7	0.9	12.0	11.0
Former Soviet Union/Eastern Europe ...	0.6	7.3	5.7	0.8	7.0	7.0
Former Soviet Union .....	0.4	5.1	3.8	0.5	4.7	4.9
Russia .....	0.3	3.3	2.8	0.4	3.6	4.0
Pacific Rim Countries .....	16.5	187.9	180.6	24.0	290.0	288.7
Australia .....	1.0	12.0	10.8	0.4	3.8	3.2
China .....	1.3	12.0	11.7	4.0	51.5	45.5
Japan .....	5.4	67.5	64.3	9.7	115.2	123.5
NICs <sup>2</sup> .....	6.9	75.6	72.2	6.9	82.8	82.0
South/Central America .....	4.8	52.5	50.0	4.6	48.8	42.2
Argentina .....	0.4	4.5	4.2	0.2	2.3	1.8
Brazil .....	1.1	12.7	11.4	0.8	8.8	8.8
OPEC .....	2.0	22.3	19.5	3.9	42.1	35.2
Total .....	53.5	624.8	584.7	66.7	791.4	743.4

<sup>1</sup> EFTA includes Iceland, Liechtenstein, Norway, and Switzerland.

<sup>2</sup> The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan.

Note.—Country/area figures may not add to the totals shown because of rounding. Exports of certain grains, oilseeds and satellites are excluded from country/area exports but included in total export table. Also some countries are included in more than one area. Data are presented on a Census Bureau basis.

Source: U.S. Department of Commerce News, (FT 900), Feb. 19, 1997.

**Table 7**  
**Nominal U.S. exports and trade balances of services, by sectors, Jan. 1995-Dec. 1996, seasonally adjusted**

	Exports		Change	Trade balances	
	Jan.- Dec. 1996	Jan.- Dec. 1995	Jan.- Dec. 1996 over Jan.- Dec. 1995	Jan.- Dec. 1996	Jan.- Dec. 1995
	— Billion dollars —		Percent	— Billion dollars —	
Travel	64.5	61.1	5.6	15.7	15.3
Passenger fares .....	19.6	18.5	5.9	5.3	4.2
Other transportation .....	28.9	28.1	2.8	0.1	-1.1
Royalties and license fees .....	28.7	26.3	6.7	21.4	20.6
Other private services <sup>1</sup> .....	67.4	61.7	9.2	29.8	27.7
Transfers under U.S. military sales contracts .....	13.9	13.4	3.7	2.9	3.6
U.S. Govt. miscellaneous service .....	0.8	0.8	0	-1.9	-1.79
Total .....	223.8	210.5	6.3	73.3	68.4

<sup>1</sup> "Other private services" consists of transactions with affiliated and unaffiliated foreigners. These transactions include educational, financial, insurance, telecommunications, and such technical services as business, advertising, computer and data processing, and other information services, such as engineering, consulting, etc.

Note.—Services trade data are on a balance-of-payments (BOP) basis. Numbers may not add to totals because of seasonal adjustment and rounding.

Source: U.S. Department of Commerce News, (FT 900), Feb. 19, 1997.

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# STATISTICAL TABLES

**Indexes of industrial production, by selected countries and by specified periods, Jan. 1993-Jan. 1997**
*(Total Industrial production, 1991=100)*

Country	1993	1994	1995	1995		1996				July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
				I	II	III	IV									
United States <sup>1</sup>	112.0	118.1	122.3	123.3	125.1	126.7	127.9	126.4	126.8	127.2	126.6	128.1	129.1	117.7		
Japan	92.0	93.1	96.0	96.9	96.0	99.3	( <sup>2</sup> )	103.9	91.6	102.4	102.4	( <sup>2</sup> )				
Canada <sup>3</sup>	101.4	105.5	107.6	105.1	108.7	112.8	( <sup>2</sup> )	105.4	113.5	119.3	( <sup>2</sup> )					
Germany	92.8	93.9	95.9	94.0	95.0	93.9	( <sup>2</sup> )	93.5	87.0	101.2	102.6	( <sup>2</sup> )				
United Kingdom	98.4	103.3	105.9	111.5	104.4	101.3	( <sup>2</sup> )	102.6	95.5	105.8	( <sup>2</sup> )					
France	93.9	97.5	99.0	103.9	100.2	91.4	( <sup>2</sup> )	98.0	77.1	99.1	( <sup>2</sup> )					
Italy	95.7	102.2	107.8	110.1	111.6	90.9	( <sup>2</sup> )	109.4	51.9	111.3	( <sup>2</sup> )					

<sup>1</sup> 1987=100.

<sup>2</sup> Not available.

<sup>3</sup> Real domestic product in industry at factor cost and 1986 prices.

Source: *Main Economic Indicators*, Organization for Economic Cooperation and Development, December 1996, *Federal Reserve Statistical Release*, February 14, 1997.

**Consumer prices, by selected countries and by specified periods, Jan. 1994-Dec. 1996**
*(Percentage change from same period of previous year)*

Country	1994	1995	1996	1996												
				I	II	III	IV	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
United States	2.6	2.8	3.0	2.7	2.9	2.9	3.2	2.9	2.9	2.8	3.0	2.9	3.0	3.0	3.3	3.3
Japan	0.7	-0.1	-0.2	-0.2	0.4	-0.2	0.5	0.4	0.3	0.0	0.4	0.2	0.0	0.5	0.6	0.6
Canada	0.2	1.7	1.6	1.4	1.4	1.5	2.0	1.4	1.5	1.4	1.2	1.4	1.5	1.8	2.0	2.2
Germany	3.0	1.7	1.4	1.4	1.3	1.4	1.4	1.3	1.5	1.2	1.3	1.4	1.4	1.5	1.4	1.4
United Kingdom	2.5	3.4	2.4	2.8	2.4	2.2	2.6	2.4	2.2	2.1	2.2	2.1	2.1	2.7	2.7	2.5
France	1.7	1.7	2.0	2.1	2.4	1.8	1.7	2.4	2.4	2.3	2.3	1.6	1.6	1.8	1.6	1.7
Italy	1.0	5.2	3.9	5.0	4.5	3.4	2.9	4.5	4.3	3.9	3.6	3.3	3.4	3.1	2.8	2.7

Source: *Consumer Price Indexes, Nine Countries*, U.S. Department of Labor, February 1997.

**Unemployment rates (civilian labor force basis)<sup>1</sup>, by selected countries and by specified periods, Jan. 1994-Dec. 1996**

Country	1994	1995	1996	1996												
				I	II	III	IV	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
United States	6.1	5.6	5.4	5.6	5.4	5.3	5.3	5.4	5.6	5.3	5.4	5.1	5.2	5.2	5.4	5.3
Japan	2.9	3.2	3.4	3.3	3.5	3.4	3.3	3.5	3.6	3.6	3.4	3.4	3.3	3.4	3.3	3.3
Canada	10.4	9.5	9.7	9.5	9.6	9.7	9.9	9.4	9.4	10.0	9.8	9.4	9.9	10.0	10.0	9.7
Germany	6.5	6.5	( <sup>3</sup> )	7.0	7.1	7.2	( <sup>2</sup> )	( <sup>2</sup> )	7.1	7.1	7.1	7.2	7.3	7.4	7.5	( <sup>2</sup> )
United Kingdom	9.6	8.8	8.3	8.4	8.4	8.2	8.0	8.3	8.3	8.6	8.1	8.1	8.0	7.8	7.4	7.8
France	12.3	12.3	( <sup>2</sup> )	11.9	12.1	12.7	( <sup>2</sup> )	( <sup>2</sup> )	12.1	12.2	12.2	12.3	12.8	12.8	( <sup>2</sup> )	( <sup>2</sup> )
Italy	11.4	12.0	( <sup>2</sup> )	12.0	12.5	11.9	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	11.9	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>2</sup> )

<sup>1</sup> Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.

<sup>2</sup> Not available.

<sup>3</sup> Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, February 1997.

**Money-market interest rates,<sup>1</sup> by selected countries and by specified periods, Jan. 1994-Jan. 1997**

(Percentage, annual rates)

Country	1994	1995	1996	1996												1997
				I	II	III	IV	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
United States .....	4.6	5.8	5.4	5.2	5.3	5.5	5.4	5.3	5.4	5.5	5.5	5.5	5.4	5.3	5.4	5.4
Japan .....	2.2	1.2	(2)	0.6	0.6	0.6	(2)	0.6	0.5	0.6	0.6	0.5	0.5	0.5	(2)	(2)
Canada .....	5.5	7.1	(2)	5.3	4.9	4.3	(2)	4.8	4.8	4.7	4.3	4.1	3.5	3.0	(2)	(2)
Germany .....	5.2	4.4	(2)	3.3	3.2	3.2	(2)	3.1	3.2	3.2	3.2	3.0	3.0	3.0	(2)	(2)
United Kingdom ....	5.4	6.6	(2)	6.2	5.9	5.7	(2)	6.0	5.8	5.6	5.7	5.7	5.9	6.2	(2)	(2)
France .....	5.7	6.4	(2)	4.3	3.8	3.7	(2)	3.7	3.8	3.7	3.8	3.6	3.3	3.3	(2)	(2)
Italy .....	8.4	10.4	(2)	9.9	9.0	8.6	(2)	8.8	8.7	8.7	8.7	8.4	7.9	7.4	(2)	(2)

<sup>1</sup> 90-day certificate of deposit.

<sup>2</sup> Not available.

Source: *Federal Reserve Statistical Release*, February 3, 1997; *Federal Reserve Bulletin*, January 1997.

**Effective exchange rate of the U.S. dollar, by specified periods, Jan. 1994-Jan. 1997**

(Percentage change from previous period)

Item	1994	1995	1996	1996												1997
				I	II	III	IV	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	
Unadjusted:																
Index <sup>1</sup> .....	98.5	92.9	97.5	96.4	97.6	97.4	98.2	98.0	97.5	96.9	97.8	98.2	97.3	99.0	100.9	
Percentage change .....	-1.6	-5.6	4.6	1.6	1.2	-.2	.8	.4	-.5	-.6	.9	.4	-.9	1.7	1.9	
Adjusted:																
Index <sup>1</sup> .....	101.5	93.9	100.3	97.9	100.3	100.7	101.7	100.8	100.5	100.1	101.3	101.5	100.6	102.7	104.9	
Percentage change .....	-2.7	-7.4	6.4	2.7	2.4	.4	1.0	.6	-.3	-.4	1.1	.2	-.8	2.1	2.2	

<sup>1</sup> 1990 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 18 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, February 1997.

**Merchandise trade balances, by selected countries and by specified periods, Jan. 1994-Dec. 1996**

(In billions of U.S. dollars, exports less imports [f.o.b - c.i.f.], at an annual rate)

Country	1994	1995	1996	1996									
				I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.
United States <sup>1</sup>	-150.6	-159.6	-166.6	-153.8	-161.1	-183.2	-161.7	-187.4	-171.5	-192.6	-152.4	-152.5	-180.3
Japan	121.2	106.0	(2)	67.4	54.4	57.7	(2)	39.1	78.3	55.8	55.0	(2)	(2)
Canada <sup>3</sup>	17.0	27.8	(2)	28.0	33.8	34.8	(2)	31.3	42.3	30.6	(2)	(2)	(2)
Germany	45.6	63.6	(2)	63.7	55.2	72.8	(2)	82.0	63.9	72.4	(2)	(2)	(2)
United Kingdom	-22.5	-22.4	(2)	-26.6	-28.5	-18.9	(2)	-23.0	-11.6	-22.4	(2)	(2)	(2)
France <sup>3</sup>	14.7	20.0	(2)	23.1	18.7	26.4	(2)	24.0	31.6	23.6	(2)	(2)	(2)
Italy	22.0	27.6	(2)	37.5	46.0	(2)	(2)	58.4	76.0	(2)	(2)	(2)	(2)

<sup>1</sup> Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

<sup>2</sup> Not available.

<sup>3</sup> Imports are f.o.b.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, February 19, 1997; *Main Economic Indicators*; Organization for Economic Cooperation and Development, December 1996.

**U.S. trade balance, <sup>1</sup> by major commodity categories and by specified periods, Jan. 1994-Dec. 1996**

(In billions of dollars)

Country	1994	1995	1996	1996									
				I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.
Commodity categories:													
Agriculture	19.0	25.6	26.7	7.9	5.6	5.1	7.7	1.6	1.8	1.7	2.3	3.1	2.3
Petroleum and selected product— (unadjusted)	-47.5	-48.8	-60.9	-12.4	-15.6	-16.1	-16.4	-5.5	-5.1	-5.5	-4.9	-5.6	-5.9
Manufactured goods	-155.7	-173.5	-175.9	-30.5	-36.9	-52.5	-46.0	-18.5	-16.7	-17.3	-18.1	-14.9	-13.0
Selected countries:													
Western Europe	-12.5	-10.6	-10.4	-1.6	-1.9	-6.7	-5.1	-4.2	-1.5	-1.0	-1.8	-1.3	-2.0
Canada	-25.1	-18.1	-22.8	-4.4	-6.5	-6.1	-5.4	-1.8	-2.5	-2.0	-1.4	-1.8	-2.3
Japan	-66.4	-59.1	-47.6	-11.7	-10.3	-11.7	-13.4	-4.3	-3.7	-3.7	-4.9	-4.3	-4.2
OPEC (unadjusted)	-13.8	-15.7	-19.8	-3.8	-4.9	-5.6	-5.2	-1.7	-1.7	-2.2	-2.0	-1.4	-1.8
Unit value of U.S. imports of petroleum and selected products (unadjusted)	\$14.22	\$15.83	\$18.98	\$16.65	\$18.76	\$18.97	\$21.49	\$18.24	\$18.65	\$20.02	\$21.38	\$21.44	\$21.65

<sup>1</sup> Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, February 19, 1997.