

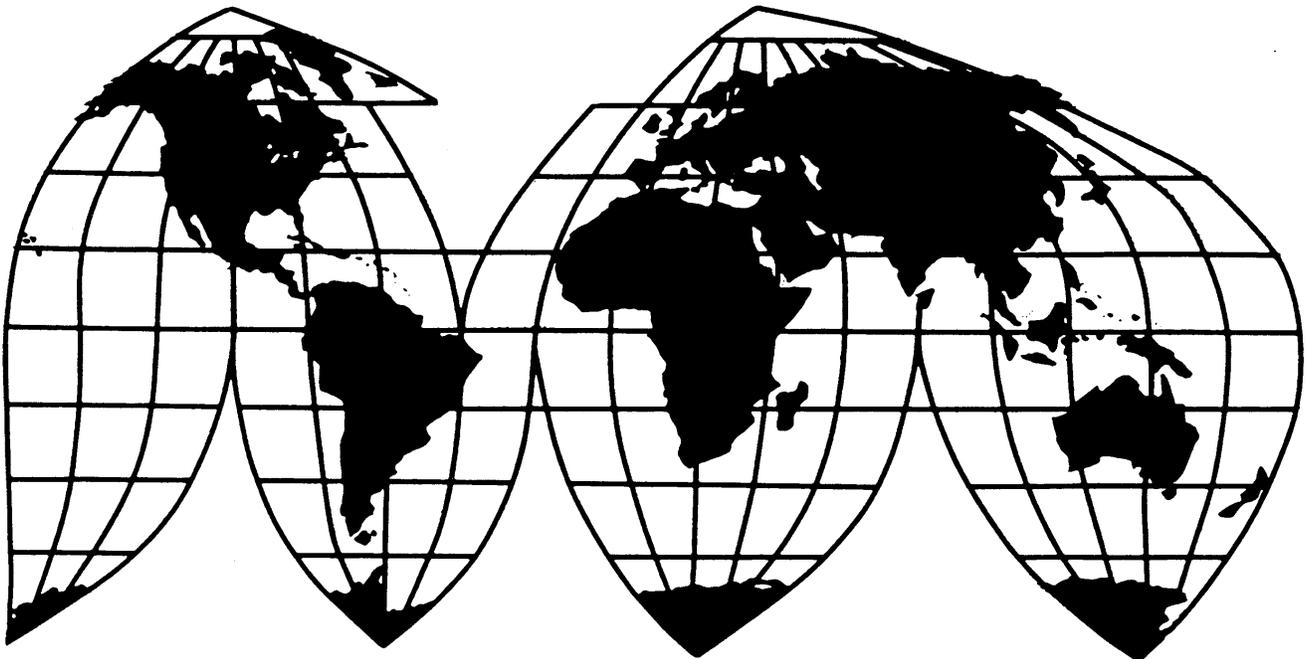
Shifts in U.S. Merchandise Trade in 1995

Investigation No. 332-345

Publication 2992

September 1996

U.S. International Trade Commission



Washington, DC 20436

U.S. International Trade Commission

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PREFACE

On August 27, 1993, on its own motion and pursuant to section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)), the U.S. International Trade Commission (USITC) instituted investigation No. 332-345, *Annual Reports on U.S. Trade Shifts in Selected Industries*, for the purpose of preparing annual trade shifts reports for a period of 3 years (covering trade in 1993-95). The current report format was developed by the USITC in response to congressional interest in establishing a systematic means of examining and reporting on the significance of major trade shifts, by product and with leading U.S. trading partners, in the services sector and in all agricultural and manufacturing industries.

On December 20, 1994, the Commission on its own motion expanded the scope of this study to include selected service industries. Under the expanded scope, the Commission will publish two reports annually, one entitled *Shifts in U.S. Merchandise Trade* and the second entitled *U.S. Trade Shifts in Selected Industries: Services*. A separate report covering services trade was instituted in order to provide more comprehensive coverage of U.S. trade performance and overall economic competitiveness.

A significant amount of the work contained in this recurring report is basic research required to maintain a proficient level of trade expertise that the Commission has found essential in its statutory investigations and in apprising its varied customer base of global industry trends, regional developments, and competition issues. The information compiled in this report, such as import, export, trade balance, and industry profile data (domestic consumption, production, employment, and import penetration) for nearly 300 major industry/commodity groups, is not replicated elsewhere in the Government.

The current report briefly summarizes and analyzes the major trade shifts that occurred in 1995 in terms of both industries/commodities and the leading U.S. trading partners. This report also summarizes trade information and profiles basic statistics of industry/commodity groups.

The information and analysis in this report are for the purpose of this report only. Nothing in this report should be construed to indicate how the Commission would find in an investigation conducted under other statutory authority.

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Glossary of Frequently Used Abbreviations and Acronyms

ACPC	Association of Coffee Producing Countries
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ATC	Uruguay Round Agreement on Textiles and Clothing
Bbl	A barrel of 158.98 liters measured at 15.6° C
BEA	Bureau of Economic Analysis
CBERA	Caribbean Basin Economic Recovery Act
ECU	European Currency Unit
EIU	The Economist Intelligence Unit
ELS	Extra-long staple
EU or EU-15	European Union
FAS	Foreign Agriculture Service
FIE	Foreign-invested enterprises
F.R.	Federal Register
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GPO	Government Printing Office
HTS	Harmonized Tariff Schedules
IMF	International Monetary Fund
ITA	International Trade Administration
lb./ac.	Pounds per acre
MFA	Multifiber Arrangement
MFN	Most favored nation
NAFTA	North American Free-Trade Agreement
NICs	Newly industrialized countries
NPC	National People's Congress
NTDB	National Trade Data Bank
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PTA	Terephthalic acid
TPL	Tariff preference level
USDA	U.S. Department of Agriculture
USDOC	U.S. Department of Commerce
USITC	U.S. International Trade Commission
USTR	United States Trade Representative
VCR	Video cassette recorder
WTO	World Trade Organization

CHAPTER 1

Introduction

The trade analysts of the U.S. International Trade Commission (USITC or the Commission) Office of Industries routinely monitor trade developments in all agricultural and manufacturing industries, and in the services sector, as part of the USITC mission. Trade monitoring at the major sector- and industry/commodity-group levels is a facet of the research and analysis undertaken by the Office of Industries in conjunction with its responsibilities to provide advice and technical information on industry and trade issues. Trade monitoring enables the USITC to better anticipate and address the issues of concern in its various roles under U.S. trade statutes.¹ This report, prepared annually, briefly analyzes significant merchandise trade shifts on an aggregate basis at the major industry/commodity-sector level, on a bilateral basis, and at the industry/commodity-group level in greater detail. This series is part of the Commission's recurring reports that facilitate the development of core competencies and expertise, and enable the Commission to provide objective and in-depth analysis to the Congress, the public, and other agencies related to emerging and complex trade and economic issues.

This report does not analyze U.S. trade shifts in services, which as noted in the Preface, is the subject of a complementary USITC annual report.² Thus, throughout this report, references to trade balances represent only U.S. balances in merchandise trade. However, in assessing the U.S. merchandise trade deficit in 1995, it is important to note that the United States recorded a \$62.3 billion trade surplus in private services, which, when added to the \$193.2 billion merchandise trade deficit, reduced the total trade deficit to \$130.9 billion for the year.

¹ These roles include determining whether U.S. industries are materially injured by unfair imports, conducting studies on the international competitiveness of U.S. industries, and advising the President and the Congress on the likely effects of trade-policy changes and proposals.

² The report on services, U.S. International Trade Commission, *U.S. Trade Shifts in Selected Industries: Services* (investigation No. 332-345), USITC publication 2969, June 1996, covered 1993-94 data. The report assessing 1994-95 data will be issued in April 1997.

Chapter 2 of the report summarizes U.S. merchandise trade and exchange rate shifts that occurred in 1995, as compared with those in 1994. Coverage of the individual merchandise sectors include data showing import, export, and trade balance shifts by major industry/commodity sectors and shifts in trade with major U.S. trading partners. In addition, a tabular summary details the most significant industry/commodity group shifts that occurred within each of the major industrial and agricultural sectors.³

Chapters 3 through 12 take up specific major industrial and agricultural sectors, with each chapter providing both a general sector overview and specific analyses of industry/commodity groups. This report also discusses significant bilateral shifts within each major sector in merchandise trade. A statistical summary table of industry/commodity groups follows each major sector analysis.

The report includes three appendixes. Appendix A lists the specific industrial and agricultural commodity groups that the Commission monitors. Appendix B provides official and estimated data for 1991-95 on domestic consumption, production, employment, trade, and import penetration for the nearly 300 industry/commodity groups covered in this report. USITC international trade analysts have estimated certain of these data, based on primary and secondary government and industry sources. The estimated data are subject to change either from future secondary sources, or from the detailed surveys the USITC often conducts in the course of statutory investigations or other work. Appendix C lists the political entities included in the country groupings shown in many tables of this report.

³ See chapter 3 of the 1993 annual report for long-range assessments of common factors affecting trends in selected industry/commodity sectors. U.S. International Trade Commission, *U.S. Trade Shifts in Selected Industries: 1993 Annual Report* (investigation No. 332-345), USITC publication 2805, Sept. 1994.

CHAPTER 2

U.S. Merchandise Trade Performance In 1995

The U.S. merchandise trade deficit climbed by \$17.2 billion (10 percent) in 1995 to \$193.2 billion, moderately above the \$176.0 billion deficit recorded in 1994 (table 2-1 and figure 2-1). However, this increase was notably less than the \$40.4 billion (30-percent) increase in the deficit recorded in 1994. The deficit grew despite a significant expansion in U.S. exports, which rose from \$481.9 billion in 1994 to \$546.5 billion in 1995, or by 13 percent. Nevertheless, U.S. imports increased even more, by 12 percent to \$739.7 billion in 1995, from \$657.9 billion in 1994.¹ The absolute increase of \$81.8 billion in U.S. imports was 27 percent larger than that of U.S. exports, which increased by \$64.6 billion. Nonetheless, the ratio of exports to total trade remained unchanged at 42 percent during 1994-95.

Factors affecting U.S. trade performance in 1995 included increased consumer spending, which spurred both U.S. production and imports; changes in the relative level of interest rates between the United States and its trading partners; investment and financial market developments; diverse economic trends in global economies; and structural impediments in key markets. The expansion in the U.S. trade deficit during 1995 was led by substantial increases in imports of semiconductors, computers and computer peripheral equipment, motor vehicles, crude petroleum, and wood pulp and wastepaper. The trade deficit was further compounded by a large reduction in U.S. exports of aircraft. Increased U.S. exports in certain industry/commodity groups mitigated the widening of the deficit. These groups included computers and computer peripheral equipment, semiconductors, cereals (mostly corn and wheat), wood pulp and wastepaper, certain

machinery, miscellaneous organic chemicals, steel mill products, motor-vehicle parts, various instruments, and telecommunications equipment.

U.S. imports rose in every major industry/commodity sector during 1995 (figure 2-2), with three-quarters of the annual increase accounted for by electronic products (up by \$31.4 billion, or 22 percent); chemicals and related products (up by \$8.8 billion, or 20 percent); machinery (up by \$7.8 billion, or 15 percent); transportation equipment (up by \$7.2 billion, or 6 percent); and minerals and metals (up by \$6.2 billion, or 11 percent). Meanwhile, U.S. exports grew in all major sectors except transportation equipment, which recorded an export decline of \$231 million (0.2 percent) in 1995. Agricultural products, chemicals and related products, and minerals and metals were the only major sectors in which there was improvement in the U.S. balance of trade in 1995 (\$7.3 billion, or 36 percent; \$1.5 billion, or 11 percent; and \$618 million, or 3 percent, respectively). For agriculture and chemicals, the yearend surplus rose to \$27.6 billion and \$15.0 billion, respectively. For minerals and metals, the yearend deficit narrowed to \$23.7 billion; this was a significant turnaround from 1994, when the deficit expanded by \$10.9 billion (82 percent).

The principal factor driving increased import demand for products within the electronic products sector was continued strong consumer spending on personal computers and peripheral equipment. This in turn, stimulated increased imports of semiconductor devices incorporated in this equipment. U.S. imports of semiconductor devices climbed by \$13.1 billion (51 percent) to \$39.2 billion, while imports of computers, computer peripheral equipment, and parts increased by \$10.1 billion (22 percent) to \$56.3 billion in 1995. Similarly, in the transportation equipment sector, strong consumer demand for motor vehicles resulted in a \$5.1 billion rise (7 percent) in imports to \$84.4 billion and an associated increase in imports of internal combustion piston engines of \$965 million (13 percent) to \$8.4 billion.

¹ Both the amount and rate of the increase in U.S. exports in 1995 exceeded those for 1994, as compared with 1993, when exports increased by \$42.6 billion (10 percent). In contrast, both the amount and rate of increase in U.S. imports in 1994 were larger than those in 1995, as imports rose by \$83.0 billion (14 percent) in 1994.

Table 2-1
U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by major industry/commodity sectors, 1994 and 1995¹

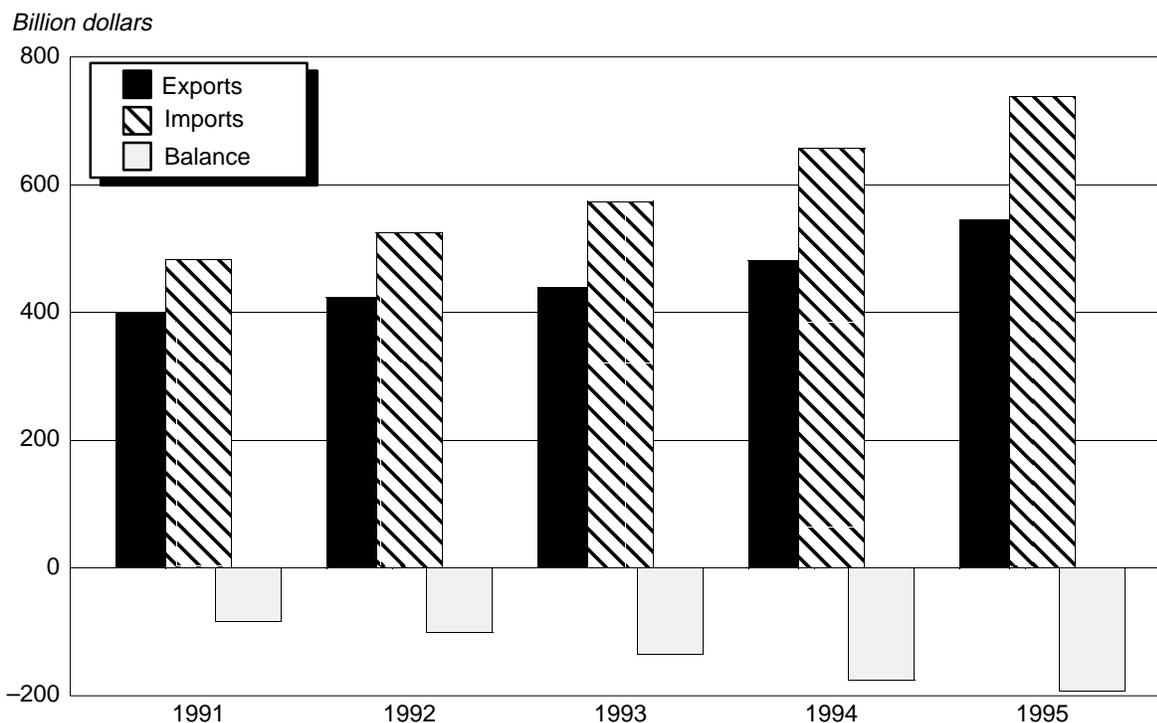
Item	1994	1995	Change, 1995 from 1994	
			Amount	Percent
			<i>Million dollars</i>	
U.S. exports of domestic merchandise:				
Agricultural products	55,350	65,431	10,081	18.2
Forest products	22,386	27,461	5,075	22.7
Chemicals and related products	57,188	67,463	10,275	18.0
Energy-related products	11,470	12,842	1,373	12.0
Textiles and apparel	13,033	15,123	2,089	16.0
Footwear	646	671	25	3.8
Minerals and metals	32,487	39,350	6,863	21.1
Machinery	49,844	57,049	7,206	14.5
Transportation equipment	104,255	104,025	-231	-0.2
Electronic products	109,176	129,529	20,352	18.6
Miscellaneous manufactures	10,769	11,300	532	4.9
Special provisions	15,283	16,221	938	6.1
Total	481,887	546,465	64,578	13.4
U.S. imports for consumption:				
Agricultural products	35,049	37,807	2,757	7.9
Forest products	24,037	29,155	5,117	21.3
Chemicals and related products	43,683	52,452	8,769	20.1
Energy-related products	57,344	60,336	2,993	5.2
Textiles and apparel	46,574	50,201	3,627	7.8
Footwear	11,714	12,095	381	3.3
Minerals and metals	56,778	63,024	6,245	11.0
Machinery	52,440	60,220	7,781	14.8
Transportation equipment	128,446	135,608	7,163	5.6
Electronic products	145,657	177,060	31,402	21.6
Miscellaneous manufactures	35,346	38,583	3,237	9.2
Special provisions	20,816	23,120	2,304	11.1
Total	657,885	739,660	81,776	12.4
U.S. merchandise trade balance:				
Agricultural products	20,301	27,625	7,324	36.1
Forest products	-1,652	-1,694	-42	-2.5
Chemicals and related products	13,505	15,011	1,506	11.2
Energy-related products	-45,874	-47,494	-1,620	-3.5
Textiles and apparel	-33,541	-35,078	-1,537	-4.6
Footwear	-11,068	-11,424	-357	-3.2
Minerals and metals	-24,292	-23,674	618	2.5
Machinery	-2,596	-3,171	-575	-22.1
Transportation equipment	-24,190	-31,583	-7,393	-30.6
Electronic products	-36,481	-47,531	-11,050	-30.3
Miscellaneous manufactures	-24,577	-27,283	-2,705	-11.0
Special provisions	-5,533	-6,899	-1,366	-24.6
Total	-175,997	-193,195	-17,198	-9.8

¹ Import values are based on Customs value; export values are based on f.a.s value, U.S. port of export.

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

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 2-1
U.S. merchandise trade with the world: Exports, imports, and trade balance, 1991-95



Source: Compiled from official statistics of the U.S. Department of Commerce.

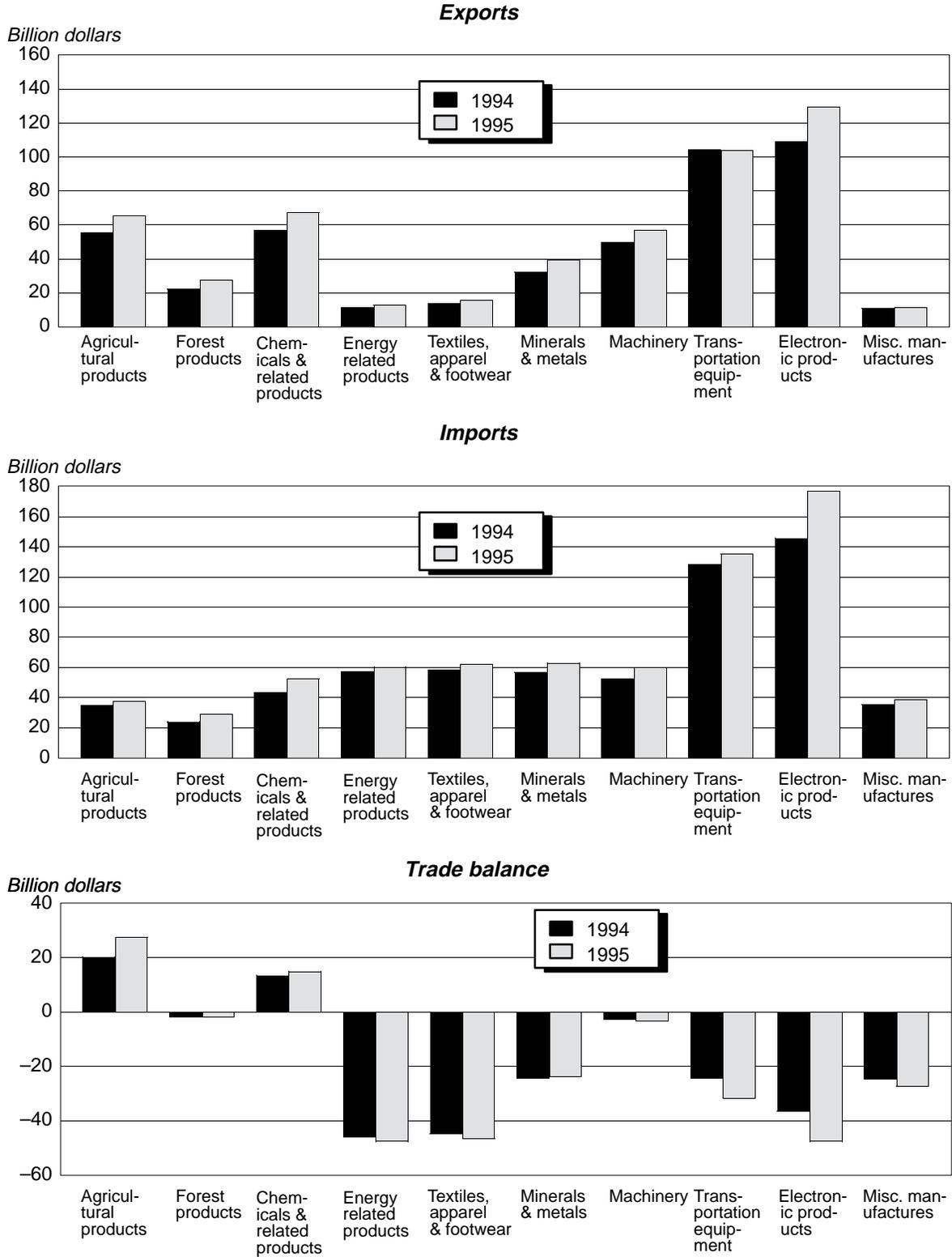
With regard to the chemicals and related products sector, increased economic growth, especially in U.S. manufacturing, led to substantially higher imports of certain organic chemicals and related products, pharmaceuticals, and plastics and rubber. U.S. imports of general organic chemicals grew by \$2.1 billion (26 percent) to \$9.9 billion, pharmaceuticals increased by \$1.7 billion (24 percent) to \$8.7 billion, raw materials for plastics and rubber rose by \$1.6 billion (32 percent) to \$6.4 billion, and finished or semifabricated products of plastics and rubber expanded by \$1.3 billion (11 percent) to \$13.0 billion.

The major factor affecting import demand for machinery-sector products in 1995 was the continued expansion of the U.S. automotive market, which in conjunction with sustained low interest rates bolstered capital equipment purchases and U.S. construction activity. As a result, U.S. imports of certain industrial machinery and parts, especially elevators, cranes, hoists, casting machines, semiconductor manufacturing equipment, and parts for such machinery, expanded by \$1.6 billion (20 percent) to \$9.7 billion; low-voltage lamp ballasts, power supplies, transformers, and inductors increased by \$824

million (30 percent) to \$3.5 billion; electric discharge machines and related metal-cutting machine tools and parts grew by \$777 million (28 percent) to \$3.5 billion; and ignition wiring harnesses for motor vehicles rose by \$588 million (12 percent) to \$ 5.4 billion.

With respect to the minerals and metals sector, higher average unit prices accounted for nearly all the increased U.S. imports of certain base metals and chemical elements (primarily nickel, cobalt, and tin) and copper and related articles. The former increased by \$816 million (47 percent) to \$2.5 billion, and the latter rose by \$746 million (28 percent) to \$3.4 billion. Use of gold and platinum-group metals as industrial and automotive catalysts strengthened demand for certain precious metals and related articles, which rose by \$643 million (16 percent) to \$4.7 billion. Although U.S. imports of aluminum mill products increased from nearly all major country suppliers, the largest increase occurred primarily in certain lower unit-value products from Russia. Imports of aluminum products from all sources increased by \$602 million (42 percent) to \$2.0 billion.

Figure 2-2
U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by major commodity sectors, 1994 and 1995



Source: Compiled by the staff of the U.S. International Trade Commission (USITC) from official statistics of the U.S. Department of Commerce.

Only one significant decline in U.S. exports of domestic merchandise dampened an otherwise favorable year for domestic shippers and acted to exacerbate the trade balance impact of rising U.S. imports. Overall U.S. exports of aircraft, spacecraft, and related equipment dropped by \$4.7 billion (17 percent) to \$23.8 billion in 1995, which was largely attributable to the financial difficulties of foreign air carriers. This development was led by a \$5.7 billion (38-percent) decrease in U.S. exports of new large civil aircraft to \$10.6 billion.²

Structural impediments to the entry of U.S. goods to markets in Japan and China continued to affect the U.S. trade deficit with those partners in 1995.³ The bilateral U.S. trade deficits with Japan of \$61.4 billion, by far the largest with any country, and China of \$33.8 billion accounted for nearly half of the total U.S. trade deficit in 1995 (table 2-2 and figure 2-3). Although the U.S. trade deficit with Canada (\$31.6 billion) nearly matched the deficit with China, U.S. exports to Canada in 1995 were 78 percent as large as U.S. imports from Canada. The comparable ratios for Japan and China were only 50 percent and 26 percent, respectively.⁴

The U.S. economy grew in 1995 at a less rapid rate than in 1994, while many economies in Europe were in a state of accelerating recovery, causing the growth in U.S. exports to the European Union (EU) to exceed the rise in imports from the EU. This resulted in a \$1.8 billion (11-percent) decrease in the U.S. trade deficit with the EU, to \$14.5 billion in 1995. Further, U.S. exports to the EU were 89 percent as large as U.S. imports from this region.

The United States recorded expanding trade deficits with each of its top 10 trading partners in 1995, except for Japan, Korea, and France. The trade deficit with Japan fell from \$66.5 billion to \$61.4 billion, or by 8 percent (\$5.0 billion) (table 2-2). U.S. exports to Japan increased because of a small increase in the rate of growth in Japan, the strength of the yen, the U.S.-Japan Auto Agreement within the Framework talks,⁵ implementation of past mar-

ket-opening agreements, relatively low costs of production in the United States for a variety of goods, and the sales of goods to Japan from the U.S. factories of Japanese companies. The trade deficit with Korea shifted from a deficit of \$2.0 billion to a surplus of \$457 million, a \$2.5 billion change. The trade deficit with France decreased by \$366 million (10 percent) to \$3.2 billion in 1995. At yearend, Korea was the only top-10 trading partner with which the United States registered a trade surplus. The United States also had a trade surplus—\$2.3 billion—with countries eligible for tariff preferences under the Caribbean Basin Economic Recovery Act (CBERA). The trade surplus recorded with Latin America in 1994 (\$2.3 billion) shifted to a deficit in 1995 (\$10.7 billion) primarily because of the \$17.4 billion decline in the bilateral trade balance with Mexico, following the devaluation of the peso in December 1994.⁶

In the second year since implementation of the North American Free-Trade Agreement (NAFTA), Canada and Mexico accounted for 36 percent (\$29.2 billion) of the total rise in U.S. imports, but only 8 percent (\$5.4 billion) of the growth in U.S. exports,⁷ mainly attributable to the \$4.3 billion (9 percent) drop to \$44.9 billion in U.S. exports to Mexico in 1995. Total U.S. trade with Canada climbed by \$25.7 billion (11 percent) to \$258.1 billion, while trade with Mexico increased by \$8.9 billion (9 percent) to \$106.6 billion in 1995.

Imports from Japan expanded by \$4.9 billion to \$122.4 billion in 1995, but grew only 4 percent, compared with the rise in imports from all sources that year of 12 percent. Exhibiting much faster growth rates were imports from Malaysia (25 percent), Korea (23 percent), the Philippines (22 percent), Singapore (21 percent), and China (18 percent). The combined \$19.3 billion (21-percent) increase to \$112.3 billion from these five Asian suppliers accounted for 24 percent of the total rise in U.S. imports in 1995. The total value of imports from these countries approached the total from Japan. The growth in imports from all of these countries, except Korea, was concentrated in labor-intensive electronic products, as high relative labor costs in Japan, Taiwan, and Hong Kong encouraged new investment in nearby locations with lower production costs. The high value of the yen has encouraged manufacturers in Japan, which represent the dominant economic force in the region, to invest heavily elsewhere in Asia. Further, the high value of the yen made certain articles from Korea such as

² The next three largest U.S. export declines included a \$261 million (21-percent) decrease in nuclear materials to \$965 million, a \$195 million (4-percent) reduction in cigarettes to \$4.8 billion, and a \$191 million (6-percent) decline in edible preparations to \$2.9 billion in 1995.

³ See Office of the United States Trade Representative (USTR), *1996 National Trade Estimate Report on Foreign Trade Barriers*, pp. 45-62 and 171-212.

⁴ See the writeups below on Japan and China for more details on structural impediments to U.S. exports to those markets. See also USITC, *U.S. Trade Shifts in Selected Industries: Merchandise, 1994 Annual Report* (investigation No. 332-245), USITC publication 2924, Sept. 1995, pp. 2-22ff. and pp. 2-25ff.

⁵ See footnote number 48 on p. 2-27.

⁶ For a detailed description of the Mexican peso crisis, see Edwin M. Truman, "The Mexican Peso Crisis: Implications for International Finance," *Federal Reserve Bulletin*, vol. 82:3 (Mar. 1996), pp. 199-209.

⁷ For a detailed treatment of NAFTA's second year of operation, see USITC, ch. 3 in *Year in Trade: Operation of the Trade Agreements Program, 1995*, USITC publication 2971, Aug. 1996.

Table 2-2

All merchandise sectors: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by selected countries and country groups, 1994 and 1995¹

Item	1994	1995	Change, 1995 from 1994	
			Amount	Percent
			<i>Million dollars</i>	
U.S. exports of domestic merchandise:				
Canada	103,643	113,261	9,618	9.3
Japan	51,061	60,962	9,900	19.4
Mexico	49,136	44,881	-4,255	-8.7
Germany	18,181	21,175	2,994	16.5
China	9,178	11,613	2,435	26.5
United Kingdom	24,755	26,320	1,565	6.3
Korea	17,499	24,483	6,984	39.9
Taiwan	16,240	18,036	1,795	11.1
Singapore	11,714	13,648	1,934	16.5
France	12,731	13,296	564	4.4
All other	167,749	198,793	31,044	18.5
Total	481,887	546,465	64,578	13.4
EU-15	101,313	116,316	15,003	14.8
OPEC	17,447	18,948	1,501	8.6
Latin America	88,643	92,746	4,103	4.6
CBERA	12,822	14,870	2,048	16.0
Asian Pacific Rim	145,126	176,566	31,440	21.7
ASEAN	29,856	36,471	6,615	22.2
Central and Eastern Europe	1,979	2,152	173	8.8
U.S. imports for consumption:				
Canada	128,753	144,882	16,129	12.5
Japan	117,532	122,402	4,871	4.1
Mexico	48,605	61,721	13,116	27.0
Germany	31,566	37,126	5,560	17.6
China	38,572	45,370	6,797	17.6
United Kingdom	24,529	26,594	2,065	8.4
Korea	19,547	24,026	4,479	22.9
Taiwan	26,586	28,875	2,289	8.6
Singapore	15,287	18,493	3,206	21.0
France	16,299	16,497	199	1.2
All other	190,609	213,676	23,066	12.1
Total	657,885	739,660	81,776	12.4
EU-15	117,644	130,835	13,191	11.2
OPEC	31,571	34,674	3,103	9.8
Latin America	86,323	103,447	17,123	19.8
CBERA	11,200	12,550	1,350	12.1
Asian Pacific Rim	269,082	298,464	29,382	10.9
ASEAN	51,614	61,599	9,985	19.3
Central and Eastern Europe	2,424	2,576	152	6.3
U.S. merchandise trade balance:				
Canada	-25,110	-31,621	-6,510	-25.9
Japan	-66,470	-61,441	5,029	7.6
Mexico	531	-16,840	-17,371	(²)
Germany	-13,385	-15,951	-2,566	-19.2
China	-29,395	-33,757	-4,363	-14.8
United Kingdom	226	-274	-500	(²)
Korea	-2,048	457	2,505	(²)
Taiwan	-10,345	-10,839	-494	-4.8
Singapore	-3,573	-4,845	-1,272	-35.6
France	-3,567	-3,201	366	10.3
All other	-22,860	-14,883	7,977	34.9
Total	-175,997	-193,195	-17,198	-9.8
EU-15	-16,331	-14,519	1,812	11.1
OPEC	-14,124	-15,726	-1,603	-11.3
Latin America	2,320	-10,701	-13,020	(²)
CBERA	1,622	2,320	698	43.1
Asian Pacific Rim	-123,956	-121,898	2,058	1.7
ASEAN	-21,758	-25,128	-3,370	-15.5
Central and Eastern Europe	-445	-424	21	4.7

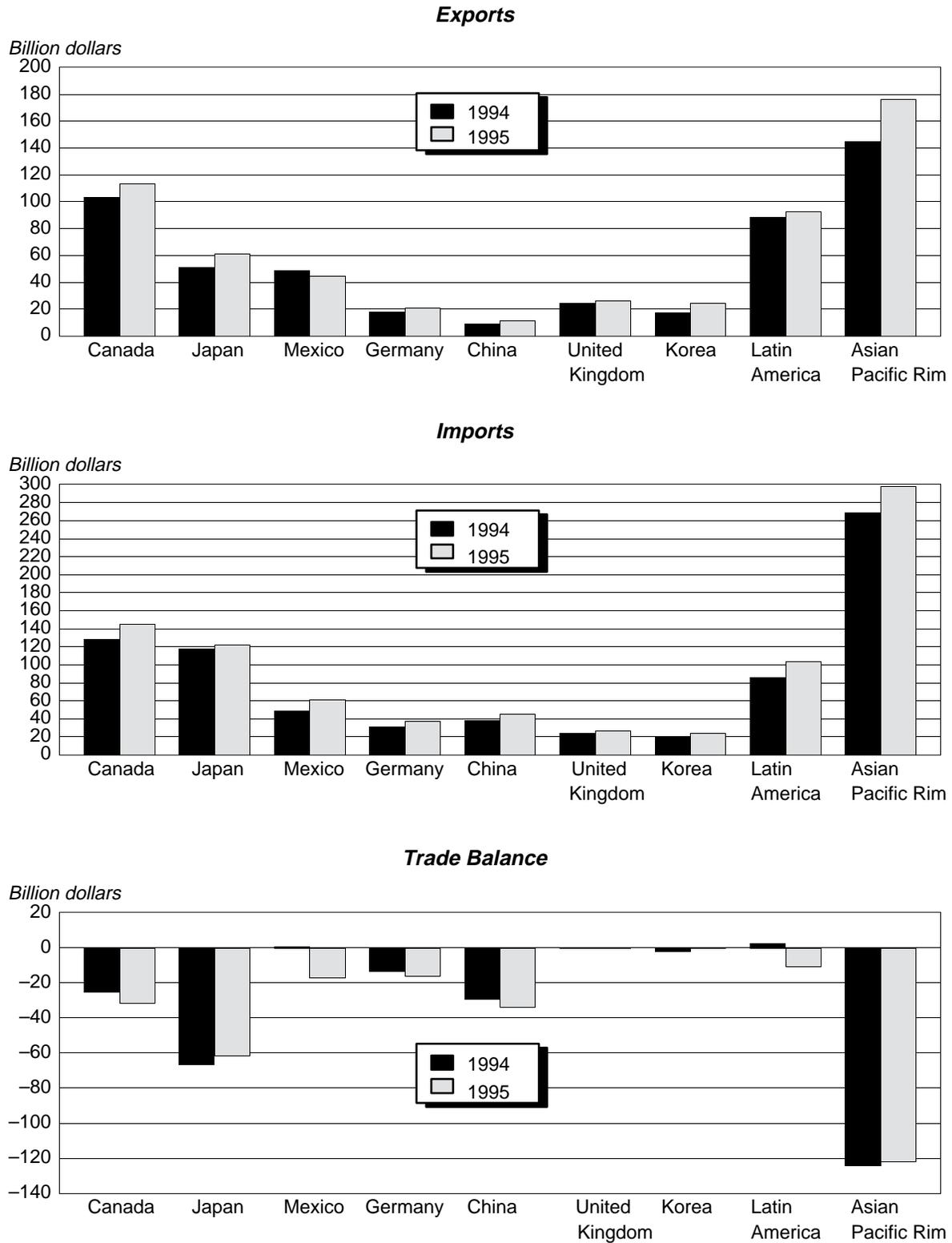
¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

² Not meaningful for purposes of comparison.

Note.—Because of rounding, figures may not add to the totals shown. The countries shown are those with the largest total U.S. trade (U.S. imports plus exports) in these products in 1995.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 2-3
U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by major trading partners, 1994 and 1995



Source: Compiled by the staff of the U.S. International Trade Commission (USITC) from official statistics of the U.S. Department of Commerce.

semiconductors, steel, and automobiles, which are close substitutes for Japanese products, more competitive in the U.S. market.

In absolute terms, Japan was the fastest growing market for U.S. exports in 1995, as U.S. exports expanded by \$9.9 billion to \$61.0 billion. In percentage terms, the 19-percent increase in exports to Japan was notably higher than the 13-percent rise to all markets. U.S. exports to Brazil expanded by 41 percent (\$3.1 billion) to \$10.8 billion, powered by fiscal policies in Brazil that loosely tied Brazil's new currency to the U.S. dollar, brought inflation under control, and significantly reduced trade barriers. U.S. exports to Korea rose by 40 percent (\$7.0 billion) to \$24.5 billion, fueled mainly by strong demand for machinery, equipment, raw materials, parts, and agricultural products. U.S. exports to China grew by 27 percent (\$2.4 billion) to \$11.6 billion, driven by demand for more food than that country could produce and the need for machinery and equipment to expand and modernize its communications infrastructure and production capacity.

The significant shifts in the merchandise trade balance of the United States with its major trading partners are noted in table 2-3, and discussed at greater length later in this chapter. When viewed in the context of the gross domestic product (GDP) of the United States (table 2-3), the total U.S. merchandise trade deficit was equal to 2.7 percent of the nominal U.S. GDP in 1995, while the bilateral deficit with Japan represented 0.9 percent of nominal U.S. GDP in 1995. Figure 2-4 indicates the leading U.S. exports to major markets in 1995, and figure 2-5 shows the leading U.S. imports from major sources in 1995.

Exchange Rate Shifts

Exchange rate shifts are an important factor that can affect trade flows. This section describes the interactions between exchange rates and trade flows. It explains how changes in exchange rates may lead to changes in trade flows, how trade changes may in turn affect exchange rates, and how other such factors as interest rates and national income may affect the relationship. Finally, it illustrates various influences of changes in the exchange rate of the U.S. dollar against currencies of certain major trading partners and groups of partners in 1995.

An exchange rate is the price of one currency in terms of another currency. Theoretically the "market" or "nominal" exchange rate between two freely convertible currencies is determined by interaction of supply of and demand for each of the currencies in the foreign exchange market, which reflects supply of and demand for goods, services, and assets.⁸ The "real" exchange rate is derived

⁸ The terms market rate and nominal rate are used interchangeably in this section. The term exchange rate generally refers to a nominal exchange rate, unless stated otherwise.

from the nominal rate, with an adjustment for inflation.⁹ Movements in exchange rates may affect trade between countries through their effects on prices. In general, if nothing else changes in the marketplace, depreciation of the dollar will reduce the price that foreigners pay for U.S. exports, and increase the price that U.S. consumers pay for imports. As a result, the quantity of U.S. exports demanded throughout the world will increase, and the quantity of imports demanded in the United States will drop, implying an improvement in the trade balance. This generally happens, assuming that nothing else changes in events that affect markets. This effect will follow a time-lag to allow for price and market adjustments, and possibly a short-term deterioration in the trade balance.¹⁰ For any single-year period, the long-run relationship between an exchange rate depreciation and an improved trade balance may be obscured by demands for currencies in financial markets, differences in rates of economic growth between countries, and the time-lag between currency movements and changes in trade patterns. The effectiveness of an exchange-rate adjustment on a country's balance of bilateral trade varies, depending on the composi-

⁸—Cont.

Both the nominal exchange rate and the real exchange rate are used to evaluate the price competitiveness of countries in international markets. The supply and demand for currencies might be generated to some extent, by a country's monetary authorities if they are "intervening" to influence the exchange rate. For background material on exchange rates, see USITC, *Floating Exchange Rates and U.S. Competitiveness*, USITC publication 1332, 1982, pp. 1-21.

⁹ A real exchange-rate index deflates changes in nominal exchange rates by changes in relative price levels. That is, where the nominal exchange rate is expressed as units of foreign currency per unit of domestic currency, the real exchange rate index is defined mathematically as: real exchange-rate index = nominal exchange-rate index x (domestic price index/foreign price index). The foreign and domestic price indexes have the same base period as the exchange-rate index. This definition was derived from the purchasing power parity theory, which implies that a country with a relatively higher inflation rate than has its trading partner, has to depreciate the value of its currency against the currency of its trading partner in order to maintain the purchasing power parity between the two currencies. For example, if country A has an inflation rate of 5 percent and country B has no inflation, country A has to depreciate the nominal exchange rate between the two currencies by 5 percent in order to maintain a constant real exchange rate. Conceptually, the real exchange rate can be also defined in other ways, for example as the relative price of tradable goods with respect to nontradable goods. Then the real exchange rate = price of tradable goods/price of nontradable goods. For more details on definitions of the real exchange rate, see Sebastian Edwards, "Alternative Definitions of the Real Exchange Rate," appendix in *Exchange Rate Misalignment in Developing Countries*, New Series, No. 2 (World Bank Occasional Papers, 1988), pp. 47-49.

¹⁰ For simplicity, let us assume that exchange-rate changes directly affect the price of goods on the world market. However, producers may choose to change their export prices to absorb part or all of the effect of the price change induced by the exchange-rate change.

Table 2-3

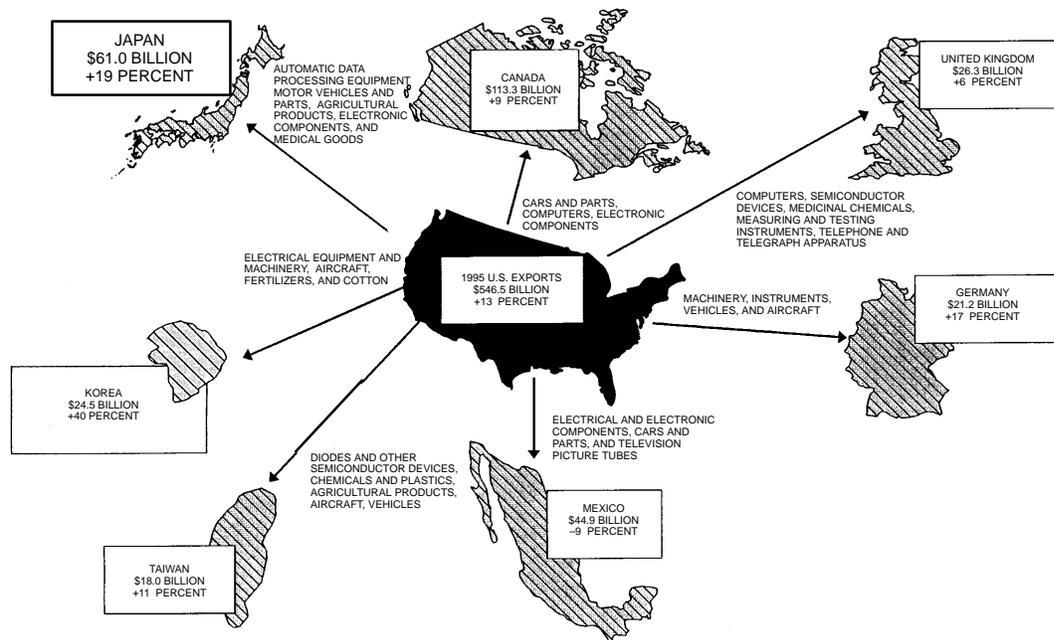
U.S. bilateral merchandise trade balances with major partners, in dollars and as a ratio to U.S. gross domestic product (GDP), 1995

Partner	GDP	U.S. exports	U.S. Imports	U.S. merchandise trade balance	Ratio of the merchandise trade balance to U.S. GDP
	<i>Billion dollars</i>				
United States	7,246	546,465	739,660	-193,195	-2.67
Canada	568	113,261	144,882	-31,621	-0.44
Mexico	261	44,881	61,721	-16,840	-0.23
Japan	5,086	60,962	122,402	-61,441	-0.85
Korea	457	24,483	24,026	457	0.01
China	600	11,613	45,370	-33,757	-0.47
Germany	2,111	21,175	37,126	-15,951	-0.22
Singapore	80	13,648	18,493	-4,845	-0.07
Malaysia	85	8,191	17,401	-9,210	-0.13
Taiwan	262	18,036	28,875	-10,839	-0.15
United Kingdom	936	26,320	26,594	-274	(¹)
Italy	1,070	8,450	16,339	-7,889	-0.10
Netherlands	350	15,984	6,309	9,675	0.13
Brazil	560	10,757	8,989	1,768	0.02
Hong Kong	147	12,705	10,232	2,473	0.03
Philippines	74	5,072	6,990	-1,919	-0.03

¹ Less than 0.005 percent.

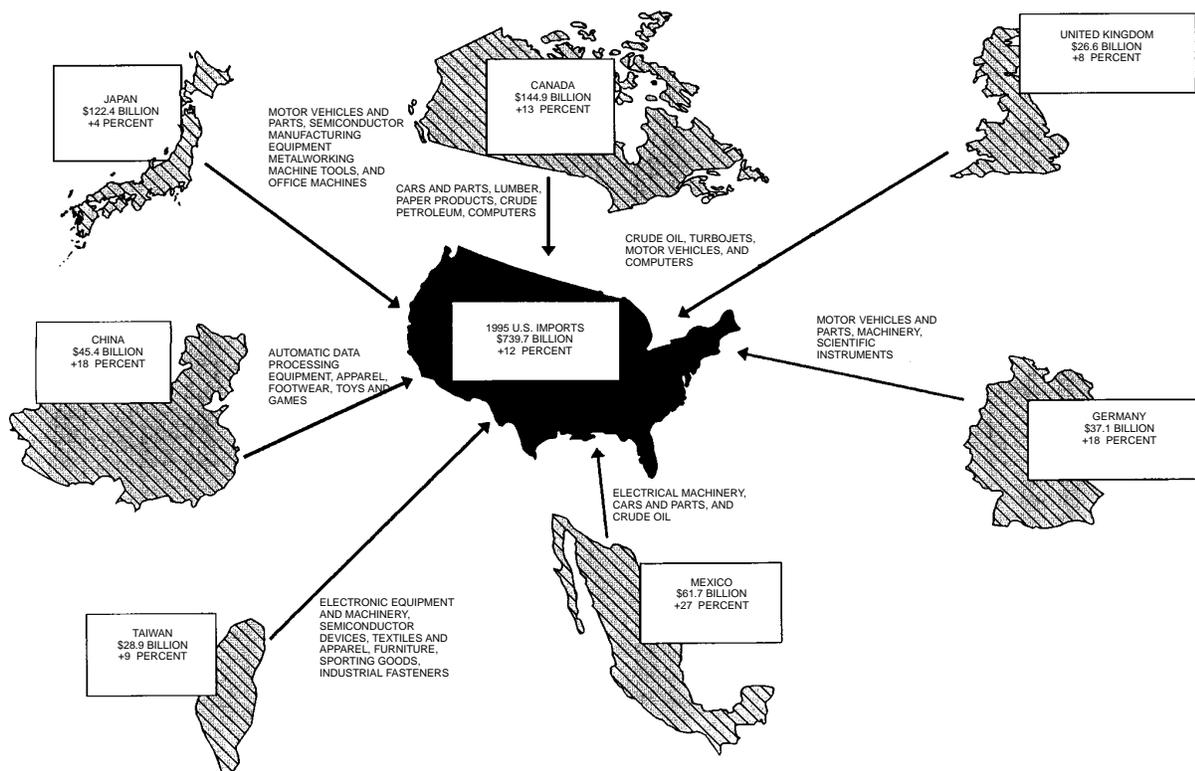
Source: U.S. trade data compiled from official statistics of the U.S. Department of Commerce; estimated GDP data for Mexico, Japan, Korea, China, Germany, Singapore, Malaysia, Taiwan, United Kingdom, Italy, Netherlands, Brazil, Hong Kong, and the Philippines are from U.S. Department of State, *Country Reports on Economic Policy and Trade Practices* (Washington, DC: GPO, 1996), pp. 40, 48, 60, 67, 74, 86, 94, 99, 186, 206, 235, 310, 338, and 401. GDP data for the United States and Canada from International Monetary Fund, *International Financial Statistics* (Washington, DC: IMF Publications Services, June 1996).

Figure 2-4
Leading U.S. exports, by major markets, and overall percentage change, 1994-95



Source: Derived from official statistics of the U.S. Department of Commerce.

Figure 2-5
Leading U.S. imports, by major sources, and overall percentage change, 1994-95



Source: Derived from official statistics of the U.S. Department of Commerce.

tion of its exports to, and imports from, its trade partners. Different commodities may have different sensitivities to price changes induced by a change in exchange rates. The greater the sensitivity of a commodity's imports and exports to price changes, the more influence the exchange-rate adjustments exert on a country's balance of trade.

Different compositions and price sensitivities of tradable goods can explain, to some degree, the differing effects of exchange-rate adjustments in different geographic areas. The effects of exchange-rate changes on trade can vary widely, but it is also true that the exchange rates themselves are influenced by a variety of such factors as current account and trade balances, government deficits, and national income. The complex relation between exchange rates and trade works in both directions; that is, the exchange rates affect trade flows and balances, which in turn affect exchange rates. Other factors, like national income and changes in income relative to other countries have their primary effect initially on trade flows, and then on exchange rates.

Since 1982, the United States has had sizable deficits in both its overall current account and merchandise trade balances. Nevertheless, the foreign exchange value of the U.S. dollar has depreciated very gradually, relative to foreign currencies since

1984, reversing the sharp appreciation of the early 1980s. This can happen because the willingness of foreigners to purchase and hold U.S. financial assets has supported the dollar at a higher level than it would have been without these capital flows, and because of the market intervention of the U.S. and foreign governments. A change in the interest-rate level in the United States may also have changed foreign demand for U.S. financial assets. In 1995, interest rates in the United States rose slightly, while the interest rates in some major developed countries, including Germany and Japan, dropped moderately. Relatively higher U.S. interest rates contributed to increased foreign demand for U.S. financial assets, limiting the depreciation of the dollar in 1995.

In addition to the trade deficit, U.S. Federal budget deficits have had an adverse effect on the foreign-exchange value of the dollar.¹¹ The need of the Government to borrow dollars to finance the budget deficit drains savings capital from the economy that could otherwise be used by the private sector to

¹¹ Federal Reserve Board Chairman Alan Greenspan expressed this view in a statement to Congress. For a more detailed discussion of Chairman Greenspan's statement before the Committee on the Budget, U.S. House of Representatives, Mar. 8, 1995, see USITC, *U.S. Trade Shifts*, USITC publication 2924, pp. 2-7 and 2-8.

finance investment and presumably increase the long-term potential for economic growth. An increasing hesitancy of foreigners to continue to finance U.S. budget deficits may have partly caused (or been caused by) the relatively weakened value of the dollar in 1995.

After the appreciation and subsequent depreciation of the dollar during much of the 1980s, the overall real value of the dollar has fluctuated within a narrow band since 1988. In the long run, with all other factors unchanged, dollar appreciations should be expected to lead to a worsening of the U.S. trade balance, and dollar depreciations should lead to an improvement in the balance of trade. However, the short-run fluctuations in the exchange rate during the past few years are not likely to be reflected in significant changes in the trade balance. As mentioned above, other factors may also affect the trade balance and the exchange rate.

For example, changes in a country's income can affect its import demand. In general, an increase in a country's gross domestic product (GDP) will result in an increase in its import demand. Growth in import demand, in turn, will affect the country's demand for foreign currencies. If domestic growth exceeds foreign growth, there will be downward pressure on the domestic currency. A current study contends that the key factor explaining year-to-year changes in the overall U.S. trade balance in recent years has been the relative rates of growth in real GDP in the United States compared with rates of growth of its major trading partners.¹² But, the dollar's value was kept from falling to the extent suggested by the level of the deficit because foreign investors were willing to continue investing in the United States.

In 1995, the U.S. economy continued its recovery. Although the real U.S. GDP growth rate declined from 3.5 percent in 1994 to 2.0 percent in 1995, the 1995 rate was still higher than those of several major U.S. trading partners.¹³ This relatively higher growth rate in the U.S. economy resulted in an increased demand for imports. At the same time, slower economic growth rates for these major trading partners weakened the overall demand in those

¹² The study shows that this relationship was strongest during the 1970s and the 1990s, when an index of real exchange rates with the U.S. dollar was relatively stable for certain developed and developing countries. The relationship was not nearly so strong during the 1980s, when large swings in the real foreign-exchange value of the dollar occurred, suggesting that the exchange rate played a larger role in explaining annual changes in the overall U.S. trade balance. For more details on this study, see Charles P. Thomas, "U.S. International Transactions in 1994," *Federal Reserve Bulletin*, vol. 81, No. 5 (May 1995), pp. 408-410.

¹³ The 1994 and 1995 U.S. real GDP growth rates are from the news release of May 30, 1996, No. BEA 96-14, from the U.S. Department of Commerce. Both are revised rates. An

markets, restraining U.S. export growth to, for example, Japan and Europe.¹⁴ In 1995, the merchandise trade deficit amounted to \$193.2 billion, 9.8 percent higher than the 1994 deficit. The rising U.S. trade deficit increased the supply of dollars in the foreign-exchange market, leading to downward pressure on the U.S. dollar.

The average value of the U.S. dollar showed a small depreciation against world currencies in 1995¹⁵, in terms of real exchange rates, as expressed by the trade-weighted values of the dollar prepared by the Federal Reserve Bank of Dallas.¹⁶ The average depreciation of the dollar is reflected in the moderate appreciations of currencies of most major trading partners of the U.S. The average real value of the dollar with respect to all foreign

¹³—*Cont.*

earlier release of the U.S. growth rates for these 2 years from the same source were 4.1 percent and 2.2 percent, respectively. According to the OECD estimates, the 1995 real GDP growth rates of Japan, Germany, and Mexico were 0.9 percent, 1.9 percent, and -6.0 percent, respectively. For the 1995 growth rates of other OECD member countries, see *OECD Economic Outlook*, 58, (Paris: Head of Publication Service, Organization for Economic Cooperation and Development, Dec. 1995) p. A4.

¹⁴ This was the case despite the real depreciation of the dollar against the yen and a basket of European currencies.

¹⁵ Evaluating exchange-rate movements becomes more complex when one considers many exchange-rate shifts simultaneously. This discussion is generally focused on the exchange rate between the U.S. dollar and another foreign currency. Although an exchange rate exists between every pair of currencies traded in the world market, a weighted average of bilateral changes must be used to express the change in the value of a currency against more than one other currency. For example, if the U.S. dollar were to appreciate by 25 percent against the Mexican peso, depreciate by 5 percent against the German mark, and depreciate by 10 percent against the Japanese yen, what would be the change in the overall value of the dollar? An average of bilateral exchange rates is used, in which the exchange rate with each partner is weighted by the share of trade with that partner. The "real" average exchange-rate index is derived from the average nominal exchange rate, adjusting for inflation rates of trade partners. Real average exchange rates can vary in many ways, depending on the number of countries used to compute the averages, on the base year used to determine the weights, on price deflators or indexes, and on the transactions included in the trade definition (merchandise trade only or merchandise and services).

¹⁶ The indexes of trade-weighted values of the dollar used in this section are provided by the Federal Reserve Bank of Dallas. These indexes are readily available, are more comprehensive than many other indexes, and include regional groupings. These trade-weighted indexes may differ from those published by other institutions. The Dallas Federal Reserve Bank's real and nominal exchange-rate indexes are revised and adjusted occasionally. These are average exchange-rate indexes and are trade-weighted value indexes. The bank has used consumer price indexes of the United States and foreign countries to convert a nominal exchange-rate index to a real exchange-rate index. At present, the first quarter of 1985 is used as the base (100) of these nominal and real exchange-rate indexes. In 1995, the real exchange-rate indexes were weighted by U.S. bilateral trade with 103 countries. In addition to average annual exchange rates, the Bank also constructs and publishes average monthly exchange-rate indexes of major U.S. trading partners in both nominal and real terms.

currencies in 1995 decreased by 1.63 percent, as the average real exchange-rate index number decreased from 77.95 in 1994 to 76.68 in 1995 (table 2-4).

The value of the dollar against currencies of individual U.S. major trading partners has shown a mixed pattern, as seen in table 2.4. For example, in 1995 both the average annual nominal and real values of the dollar depreciated against the Japanese yen. On a quarterly basis (not shown in the table), the average nominal rate between the dollar and the yen initially dropped from 96.26 yen per dollar in the first quarter to 84.43 yen per dollar (by 12.29 percent) in the second quarter, and then it rose to 94.09 in the third quarter and to 101.46 in the fourth quarter.¹⁷ During the first 4 months of 1995, the New York market rate of the dollar against the yen and also the German mark depreciated rapidly. According to the Federal Reserve Bank of New York, the lowest daily market value of the dollar against the yen was recorded at 79.75 on April 19, 1995.¹⁸ On the same day, the market value of the dollar against the mark also reached a period low of 1.3472—close to the historic low of 1.3438 reached on March 8, 1995. To prevent the value of the dollar, with respect to these two major currencies, from falling to an undesirable level, U.S. monetary authorities intervened in the foreign exchange market during the first three quarters of 1995. These interventions included purchasing U.S. dollars with marks and yen in the market. In some cases, the German and the Japanese Governments also intervened in their markets in support of U.S. actions. As a consequence, the dollar started to rebound in relation to these two currencies. The daily market rates of the dollar against the yen recovered to 104.12 on November 2, 1995. The exchange rate of the dollar against the mark also reached 1.4550 on December 8, 1995.¹⁹

In contrast, the value of the dollar appreciated with respect to the currencies of two other major U.S. trade partners, the Canadian dollar and the Mexican peso. The average annual market rate between U.S. and Canadian dollars increased slightly from 1.3656 (Canadian dollars per U.S. dollar) in 1994 to 1.3724 in 1995, representing a one-half of 1 percent appreciation of the U.S. dollar.²⁰ In 1995, the

average annual real rate showed a 1.12-percent appreciation of the U.S. dollar. However, the changes in the exchange rates between the U.S. and the Canadian dollar were relatively small, compared with those of most other major U.S. trade partners.

The average annual nominal value of the U.S. dollar against the Mexican peso increased substantially from 3.3751 (pesos per dollar) in 1994 to 6.4194 in 1995, representing a 90.20-percent appreciation of the dollar.²¹ The average monthly nominal rate changed rapidly from 3.9308 (pesos per dollar) in December 1994 to 5.5133 in January 1995, representing a 40.26-percent appreciation of the dollar according to International Monetary Fund statistics. In 1995, the average annual real value of the dollar against the peso appreciated by 45.61 percent, compared with the 1994 value. The corresponding devaluation of the peso and the subsequent economic restructuring in Mexico have had some adverse short-term effects on Mexico's economic growth and on the U.S. balance of trade with Mexico.²²

In 1995, the average annual real value of the U.S. dollar depreciated in relation to the basket of currencies of the newly industrialized countries (NICs) of the Pacific by 3.80 percent. The trade weights for these currencies, used by the Federal Reserve Bank of Dallas to calculate its exchange rate indexes, have increased in recent years as a result of the increase in trans-Pacific trade flows.²³ There-

²¹ On Dec. 22, 1994, the Mexican Government decided to let the peso float freely, resulting in a large devaluation of the peso and prompting a financial crisis. The market value of the peso declined continuously and reached a low point of 7.65 on Mar. 9, 1995. The value of the peso had rebounded to 5.97 by May 15, 1995. By the end of the year, the exchange rate was 7.70, according to the Federal Reserve Bank of New York. The large initial devaluation of the peso had little effect on the 1994 average exchange rate, because it occurred on Dec. 22.

²² After the Dec. 1994 devaluation, the United States began importing more Mexican goods, which became cheaper as a result of the devaluation; whereas, Mexico imported fewer American goods, which had become more expensive to Mexican consumers. According to official U.S. trade statistics, U.S. exports to Mexico decreased from \$49.1 billion in 1994 to \$44.9 billion in 1995; whereas, U.S. imports increased from \$48.6 billion to \$61.7 billion. The U.S. trade balance with Mexico changed from a surplus of \$531 million in 1994 to a deficit of \$16.8 billion in 1995. Two of the major factors contributing to the bilateral trade change were the devaluation of the peso and the negative growth rate of the Mexican economy. The 1995 growth rate of the Mexican real GDP was -6.0 percent. For more detailed discussion on the effects of the 1994 Mexican peso devaluation, see USITC, *U.S. Trade Shifts*, USITC publication 2924, pp. 2-10, 2-12.

²³ Four of the NICs (China, Taiwan, Korea, and Singapore) were on the list of the top 10 U.S. trade partners. Two-way trade volume between the United States and the four countries increased rapidly from \$154.6 billion in 1994 to \$184.5 billion in 1995, or by 19 percent; whereas, their share of total U.S. trade rose from 13.6 percent to 14.3 percent. Based on two-way trade, Malaysia was the 11th-largest U.S. trade partner, and Hong Kong was the 13th-largest in 1995. If the currencies in the NICs, relative to other countries, general-

¹⁷ All percentage-change figures are calculated using the link relative formula: percentage change = $\{[(\text{the second period figure}/\text{the first period figure}) - 1] \times 100\}$. All monthly and quarterly data on nominal exchange rates used in this section are from the International Monetary Fund, *International Financial Statistics* (Washington, DC: IMF Publications Services, May 1996), country tables, except as noted.

¹⁸ Federal Reserve Bank of New York, *Annual Report, 1995* (New York, Apr. 1996), p. 54.

¹⁹ *Ibid.*, p. 87.

²⁰ During the first quarter of 1995, the Canadian dollar reached a 9-year low rate of 1.4272, before recovering late in the quarter to close relatively unchanged at 1.3990. The currency continuously recovered in the second and third quarters and reached a rate of 1.3561 in the fourth quarter of 1995.

Table 2-4**Real exchange rates: Indexes of foreign currencies, or of baskets of currencies, against the U.S. dollar, annual averages 1991-95, and first quarter 1996**

Year	World average ¹	Western Hemisphere ²	Canada	Mexico	Europe	Germany	Japan	NICs ³	Taiwan	Korea
<i>Indexes (First quarter 1985=100)</i>										
1991	75.58	96.86	81.54	95.73	57.53	58.95	60.35	90.08	76.27	78.07
1992	75.16	97.07	87.32	87.50	55.20	54.96	57.46	88.79	70.43	80.66
1993	77.45	94.44	94.21	82.62	61.91	57.55	51.30	89.98	74.11	81.48
1994	77.95	87.65	102.14	85.80	61.26	56.28	48.04	92.79	73.25	78.75
1995	76.68	75.21	103.28	124.93	56.18	50.20	45.48	89.27	72.74	74.40
1996 ⁴	78.70	77.31	104.08	120.29	57.11	51.84	52.21	90.00	75.82	74.70
<i>Change (Percent)</i>										
1991	-0.48	3.26	-3.08	-8.85	2.00	3.51	-6.06	1.24	0.46	-1.28
1992	-0.56	0.22	7.09	-8.60	-4.05	-6.77	-4.79	-1.43	-7.66	3.32
1993	3.05	-2.71	7.89	-5.58	12.16	4.71	-10.72	1.34	5.23	1.02
1994	0.65	-7.19	8.42	3.85	-1.05	-2.21	-6.35	3.12	-1.16	-3.35
1995	-1.63	-14.19	1.12	45.61	-8.29	-10.80	-5.33	-3.80	-0.70	-5.52
1996 ⁴	2.63	2.79	0.77	-3.71	1.66	3.27	14.80	0.82	4.23	0.40

¹ The number of countries that the Federal Reserve Bank of Dallas used to weight the real exchange-rate indexes changed from 99 in 1994 to 103 in 1995.

² Excluding Canada and Mexico.

³ China, Hong Kong, Indonesia, Korea, Malaysia, Singapore, Taiwan, and Thailand.

⁴ The first quarter of 1996.

Source: Federal Reserve Bank of Dallas.

fore, the depreciation of the dollar against these currencies has had an increasing effect on the overall trade-weighted-average exchange rate of the dollar. The market values of the dollar, as well as the real values, with respect to currencies of individual NICs, also depreciated.

As has been noted above, the effect of exchange-rate changes on the balance of trade may take some time to be felt.²⁴ Also, the factors other than exchange rates mentioned above affect a country's import demand. Although a depreciation of a country's currency may affect the country's balance of trade, it does not mean that the exchange-rate adjustment will always improve the balance of trade. Among all the factors that can affect a country's balance of trade, some may operate in the same direction as the exchange rate, and some may operate in the opposite direction. The net effect on trade balances may or may not be in agreement with the effect expected from the exchange-rate change alone.

Consistent with this, there was no simple, systematic relationship between small year-to-year bilateral currency movements between 1994 and 1995 with major trading partners and changes in U.S. bilateral trade balances during 1994-95.²⁵ In some cases, as would be expected, the U.S. trade balances with countries against whose currencies the dollar rose, grew worse or stabilized. The U.S. trade deficit with Canada and the real value of the U.S. dollar against the Canadian dollar increased simultaneously during 1992-95. The trade deficit with Japan improved simultaneously with a real depreciation of the U.S. dollar against the yen. In other cases, trade balances grew worse with countries against whose currencies the dollar has depreciated. The U.S. trade deficit with Germany increased as the U.S. dollar depreciated against the mark in 1995, although the amount and rate of an increase in the deficit were smaller than in 1994. Also, the U.S. trade surplus with Mexico diminished during 1992-93, whereas, the real value of the U.S. dollar depreciated. In contrast, however, the U.S. trade

²³—*Cont.*

ly appreciated with respect to the dollar, the increased trade-flow weights further accentuated the depreciation of the dollar.

²⁴ Exchange rate changes, like other price changes, will affect different industries differently. Those industries that require proportionately more imported inputs will probably need to adjust their pricing and production plans more quickly in response to an exchange rate change. Others (like the Mexican tomato industry, which requires few import inputs) may not be so responsive to an exchange rate change.

²⁵ Economists recognize that short-term trade balances are notoriously variable and difficult to interpret, and therefore should be largely ignored. Therefore, analysts should more appropriately be concerned with long term trends only.

deficit with Mexico increased rapidly in 1995, as would be expected, when the real value of the dollar against the peso also increased substantially.²⁶

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Summaries of Significant Commodity Shifts

Within each of the major industrial sectors that have been previously noted, significant shifts in trade occurred during 1995. These shifts are discussed in greater detail in chapters 3 through 12. In addition, tables 2-5 through 2-10 below summarize the most notable of the shifts that were registered during 1994-95. These latter movements are compiled in rank order according to changes in absolute value and in percentage terms for U.S. export growth and declines, U.S. import growth and declines, and U.S. trade balance improvements and declines between 1994 and 1995.

Significant Bilateral Shifts

A large percentage of the major shifts in bilateral U.S. trade during 1995 were import increases. Such increases generally reflected the more rapid expansion, though slowing in 1995 compared to 1994, of the U.S. economy vis-a-vis some major U.S. trading partners. The increases also resulted from the continued rationalization of U.S. production operations abroad. On the other hand, some notable major shifts, both increases and decreases, in exports occurred. These were affected by a number of foreign economic growth rates that were faster than the U.S. rate, by an acceleration in the rates of economic expansion of some major trading partners with rates of growth slower than that in the United States, by tariff and nontariff barriers that continued to exist in certain foreign markets, and, to a lesser degree, by changes in the value of the dollar relative to the currencies of several major trading partners. Table 2-11 below lists the 15 U.S. trading partners that accounted for the largest shifts in bilateral U.S. trade during 1995. The countries are ranked according to the absolute value of the total change (positive or negative) in the value of both U.S. imports and exports. The change that occurred in the U.S. trade balance with each of these major U.S. trading partners during 1995 is also provided in the table.

²⁶ The U.S. dollar became strong in the first quarter of 1996, with the real value of the dollar against currencies of most major U.S. trade partners appreciating. However, the U.S. dollar depreciated against the Mexican peso in the first quarter of 1996, as shown in table 2-4.

Table 2-5
Domestic export growth: Ranking of top 20 industry/commodity groups, 1994 and 1995

USITC code	Industry/commodity group	U.S. exports		Change, 1995 from 1994	
		1994	1995	Absolute	Percent
<i>Million dollars</i>					
Rank order based on change in absolute value growth:					
ST018	Automatic data processing machines	29,102	34,476	5,374	18.5
ST016	Diodes, transistors, integrated circuits and similar semiconductor solid-state devices	18,098	23,317	5,219	28.8
AG030	Cereals	10,088	14,870	4,782	47.4
AG054	Wood pulp and wastepaper	3,816	6,241	2,425	63.5
MT023	Semiconductor equipment, robots, and other machinery	9,292	11,512	2,220	23.9
CH012	Miscellaneous organic chemicals	5,890	8,013	2,123	36.0
MM025	Steel mill products, all grades	3,029	4,665	1,636	54.0
MT039	Certain motor-vehicle parts	20,685	22,265	1,580	7.6
ST031	Measuring, testing, controlling, and analyzing instruments	10,060	11,572	1,512	15.0
ST002	Telephone and telegraph apparatus	6,724	8,203	1,479	22.0
ST007	Radio transmission and reception apparatus, and combinations thereof	5,166	6,604	1,438	27.8
AG056	Industrial papers and paperboards	3,827	5,085	1,258	32.9
AG032	Oilseeds	4,537	5,661	1,124	24.8
ST013	Apparatus for making, breaking, protecting, or connecting electrical circuits	6,471	7,502	1,031	15.9
AG064	Cotton, not carded or combed	2,653	3,681	1,028	38.7
ST024	Medical goods	7,997	8,966	969	12.1
MM036	Copper and related articles	1,813	2,708	895	49.4
CH003	Coal, coke, and related chemical products	3,464	4,328	864	24.9
MT012	Construction and mining equipment	6,947	7,773	826	11.9
MM038	Aluminum mill products	2,177	2,974	797	36.6
Rank order based on change in percentage growth:					
MM007	Certain ores, concentrates, ash, and residues	301	704	403	133.9
MT022	Non-metalworking machine tools and parts thereof	861	1,456	595	69.1
AG054	Wood pulp and wastepaper	3,816	6,241	2,425	63.5
CH001	Electrical energy	30	47	17	56.7
MM010	Industrial ceramics	411	635	224	54.5
MM025	Steel mill products, all grades	3,029	4,665	1,636	54.0
AG003	Swine and pork	486	748	262	53.9
CH016	Chlor-alkali chemicals	594	899	305	51.3
CH080	Other wearing apparel	603	910	307	50.9
CH009	Primary aromatics	138	208	70	50.7
MM036	Copper and related articles	1,813	2,708	895	49.4
ST010	Television apparatus (except receivers and monitors), including cameras, camcorders, and cable apparatus	427	637	210	49.2
AG030	Cereals	10,088	14,870	4,782	47.4
CH035	Polypropylene resins in primary forms	449	660	211	47.0
CH010	Benzenoid commodity chemicals	1,555	2,258	703	45.2
MM037	Unwrought aluminum	896	1,294	398	44.4
MM002	Certain miscellaneous mineral substances	5	7	2	40.0
AG064	Cotton, not carded or combed	2,653	3,681	1,028	38.7
AG033	Animal or vegetable fats and oils	1,851	2,529	678	36.6
MM038	Aluminum mill products	2,177	2,974	797	36.6

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-6
Domestic export declines: Ranking of top 20 industry/commodity groups, 1994 and 1995

USITC code	Industry/commodity group	U.S. exports		Change, 1995 from 1994	
		1994	1995	Absolute	Percent
<i>Million dollars</i>					
Rank order based on change in absolute value decline:					
MT042	Aircraft, spacecraft, and related equipment	28,576	23,839	-4,737	-16.6
CH002	Nuclear materials	1,226	965	-261	-21.3
AG043	Cigarettes	4,965	4,770	-195	-3.9
AG034	Edible preparations	3,062	2,871	-191	-6.2
AG009	Shellfish	904	788	-116	-12.8
MM066	Miscellaneous articles	1,524	1,420	-104	-6.8
MT033	Ignition, starting, lighting, and other electrical equipment	1,409	1,336	-73	-5.2
AG023	Deciduous fruit	774	718	-56	-7.2
MM020	Precious metals and related articles	6,531	6,475	-56	-0.9
MT019	Metal rolling mills and parts thereof	287	235	-52	-18.1
ST008	Radio navigational aid, radar, and remote control apparatus	1,242	1,198	-44	-3.5
CH004	Crude petroleum	44	1	-43	-97.7
CH060	Carpets and rugs	713	686	-27	-3.8
MT034	Flashlights and other similar electric lights, light bulbs and fluorescent tubes; arc lamps	811	786	-25	-3.1
ST026	Watches	163	139	-24	-14.7
MM024	Abrasive and ferrous powders	432	410	-22	-5.1
ST015	Special-purpose tubes	171	150	-21	-12.3
AG035	Cocoa, chocolate, and confectionery	545	524	-21	-3.9
AG004	Sheep and meat of sheep	37	19	-18	-48.6
CH020	Synthetic organic pigments	299	283	-16	-5.4
Rank order based on change in percentage decline:					
CH004	Crude petroleum	44	1	-43	-97.7
MM008	Precious metal ores and concentrates	16	8	-8	-50.0
AG004	Sheep and meat of sheep	37	19	-18	-48.6
CH002	Nuclear materials	1,226	965	-261	-21.3
MT019	Metal rolling mills and parts thereof	287	235	-52	-18.1
MM051	Silverware and certain other articles of precious metal or metal clad with precious metal	89	74	-15	-16.9
MT042	Aircraft, spacecraft, and related equipment	28,576	23,839	-4,737	-16.6
ST026	Watches	163	139	-24	-14.7
AG009	Shellfish	904	788	-116	-12.8
ST015	Special-purpose tubes	171	150	-21	-12.3
AG029	Spices	52	46	-6	-11.5
ST020	Exposed photographic plates, film, and paper	110	98	-12	-10.9
CH023	Natural tanning and dyeing materials	19	17	-2	-10.5
CH063	Men's and boys' coats and jackets	136	125	-11	-8.1
CH043	Other tires	79	73	-6	-7.6
AG023	Deciduous fruit	774	718	-56	-7.2
MM066	Miscellaneous articles	1,524	1,420	-104	-6.8
AG034	Edible preparations	3,062	2,871	-191	-6.2
AG045	Furskins	167	157	-10	-6.0
MM013	Ceramic household articles	105	99	-6	-5.7

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-7
Domestic import growth: Ranking of top 20 industry/commodity groups, 1994 and 1995

USITC code	Industry/commodity group	U.S. exports		Change, 1995 from 1994	
		1994	1995	Absolute	Percent
<i>Million dollars</i>					
Rank order based on change in absolute value growth:					
ST016	Diodes, transistors, integrated circuits and similar semiconductor solid-state devices	26,020	39,168	13,148	50.5
ST018	Automatic data processing machines	46,161	56,308	10,147	22.0
MT038	Automobiles, trucks, buses, and bodies and chassis of the foregoing	79,240	84,384	5,144	6.5
CH004	Crude petroleum	38,530	42,077	3,547	9.2
MT023	Semiconductor equipment, robots, and other machinery	8,121	9,711	1,590	19.6
AG054	Wood pulp and wastepaper	2,329	3,845	1,516	65.1
CH027	Medicinal chemicals, except antibiotics	5,691	7,075	1,384	24.3
AG058	Printing and writing papers	2,831	4,192	1,361	48.1
ST013	Apparatus for making, breaking, protecting, or connecting electrical circuits	7,380	8,528	1,148	15.6
CH066	Shirts and blouses	10,840	11,986	1,146	10.6
AG057	Newsprint	3,333	4,418	1,085	32.6
MT002	Internal combustion piston engines, other than for aircraft	7,424	8,389	965	13.0
ST031	Measuring, testing, controlling, and analyzing instruments	5,727	6,665	938	16.4
CH011	Benzenoid specialty chemicals	2,281	3,179	898	39.4
MT029	Electrical transformers, static converters, and inductors	2,713	3,537	824	30.4
MM041	Certain base metals and chemical elements	1,720	2,536	816	47.4
MM055	Furniture and selected furnishings	7,638	8,423	785	10.3
MT020	Machine tools for cutting metal and parts; tool holders, work holders; dividing heads and other special attachments for machine tools	2,735	3,512	777	28.4
AG028	Coffee and tea	2,655	3,427	772	29.1
ST007	Radio transmission and reception apparatus, and combinations thereof	7,764	8,528	764	9.8
Rank order based on change in percentage growth:					
CH010	Benzenoid commodity chemicals	392	813	421	107.4
MM008	Precious metal ores and concentrates	49	87	38	77.6
CH007	Major primary olefins	289	496	207	71.6
CH049	Natural rubber	965	1,629	664	68.8
AG054	Wood pulp and wastepaper	2,329	3,845	1,516	65.1
MM022	Ferroalloys	777	1,245	468	60.2
CH009	Primary aromatics	158	246	88	55.7
CH034	Polyethylene resins in primary forms	783	1,192	409	52.2
ST016	Diodes, transistors, integrated circuits and similar semiconductor solid-state devices	26,020	39,168	13,148	50.5
ST021	Optical fibers, optical fiber bundles and cables	104	154	50	48.1
AG058	Printing and writing papers	2,831	4,192	1,361	48.1
MM041	Certain base metals and chemical elements	1,720	2,536	816	47.4
CH059	Sacks and bags of textile materials	52	76	24	46.2
AG004	Sheep and meat of sheep	59	85	26	44.1
AG064	Cotton, not carded or combed	7	10	3	42.9
MT013	Mineral processing machinery	260	371	111	42.7
MM028	Metal construction components	181	258	77	42.5
MM038	Aluminum mill products	1,446	2,048	602	41.6
CH016	Chlor-alkali chemicals	149	210	61	40.9
MT043	Ships, tugs, pleasure boats, and similar vessels	653	919	266	40.7

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-8
Domestic import declines: Ranking of top 20 industry/commodity groups, 1994 and 1995

USITC code	Industry/commodity group	U.S. imports		Change, 1995 from 1994	
		1994	1995	Absolute	Percent
<i>Million dollars</i>					
Rank order based on change in absolute value decline:					
CH005	Petroleum products	10,450	9,777	-673	-6.4
MM025	Steel mill products, all grades	12,435	11,786	-649	-5.2
AG047	Lumber	6,059	5,515	-544	-9.0
MT001	Aircraft engines and gas turbines	5,825	5,285	-540	-9.3
CH067	Sweaters	2,052	1,750	-302	-14.7
MT042	Aircraft, spacecraft, and related equipment	6,431	6,135	-296	-4.6
CH076	Leather apparel and accessories	1,456	1,199	-257	-17.7
MM051	Silverware and certain other articles of precious metal or metal clad with precious metal	317	139	-178	-56.2
AG030	Cereals	861	723	-138	-16.0
ST028	Arms and ammunition	777	657	-120	-15.4
CH001	Electrical energy	960	856	-104	-10.8
AG002	Cattle and beef	2,716	2,627	-89	-3.3
MM062	Games and fairground amusements	2,575	2,494	-81	-3.1
CH063	Men's and boys' coats and jackets	1,773	1,692	-81	-4.6
MT018	Textile machinery and parts	1,833	1,752	-81	-4.4
MM053	Costume jewelry and related articles	567	493	-74	-13.1
AG041	Unmanufactured tobacco	613	550	-63	-10.3
AG032	Oilseeds	268	221	-47	-17.5
CH006	Natural gas and components	5,201	5,157	-44	-.8
CH077	Fur apparel and other fur articles	187	146	-41	-21.9
Rank order based on change in percentage decline:					
MM051	Silverware and certain other articles of precious metal or metal clad with precious metal	317	139	-178	-56.2
AG011	Eggs	30	20	-10	-33.3
AG043	Cigarettes	73	51	-22	-30.1
MM006	Zinc ores and residues	18	13	-5	-27.8
CH077	Fur apparel and other fur articles	187	146	-41	-21.9
AG045	Furskins	109	87	-22	-20.2
CH076	Leather apparel and accessories	1,456	1,199	-257	-17.7
AG032	Oilseeds	268	221	-47	-17.5
AG030	Cereals	861	723	-138	-16.0
ST028	Arms and ammunition	777	657	-120	-15.4
CH067	Sweaters	2,052	1,750	-302	-14.7
MM053	Costume jewelry and related articles	567	493	-74	-13.1
CH001	Electrical energy	960	856	-104	-10.8
CH023	Natural tanning and dyeing materials	58	52	-6	-10.3
AG041	Unmanufactured tobacco	613	550	-63	-10.3
MT001	Aircraft engines and gas turbines	5,825	5,285	-540	-9.3
AG047	Lumber	6,059	5,515	-544	-9.0
CH005	Petroleum products	10,450	9,777	-673	-6.4
ST029	Balances of a sensitivity of 5 cg or better	37	35	-2	-5.4
AG013	Animal feeds	613	580	-33	-5.4

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-9
U.S. trade position improvements: Ranking of top 30 industry/commodity groups, 1994 and 1995
(Million dollars)

USITC code	Industry/commodity group	U.S. balance		Absolute change from
		1994	1995	1994 to 1995
AG030	Cereals	9,227	14,147	4,920
MM025	Steel mill products, all grades	-9,406	-7,121	2,285
CH012	Miscellaneous organic chemicals	1,448	3,045	1,597
MT039	Certain motor-vehicle parts	4,600	5,967	1,367
CH005	Petroleum products	-4,436	-3,194	1,242
ST002	Telephone and telegraph apparatus	-724	461	1,185
AG032	Oilseeds	4,269	5,440	1,171
AG064	Cotton, not carded or combed	2,646	3,671	1,025
AG054	Wood pulp and wastepaper	1,487	2,396	909
CH003	Coal, coke, and related chemicals products	2,665	3,481	816
AG056	Industrial papers and paperboards	2,439	3,201	762
MT001	Aircraft engines and gas turbines	2,642	3,356	714
ST007	Radio transmission and reception apparatus, and combinations thereof	-2,598	-1,924	674
MT012	Construction and mining equipment	3,485	4,138	653
MT023	Semiconductor equipment, robots, and other machinery	1,171	1,801	630
ST031	Measuring, testing, controlling, and analyzing instruments	4,333	4,907	574
ST028	Arms and ammunition	1,435	2,005	570
AG047	Lumber	-3,601	-3,068	533
CH039	Other plastics in primary forms	2,986	3,461	475
AG033	Animal or vegetable fats and oils	805	1,264	459
AG005	Poultry	1,668	2,118	450
ST024	Medical goods	3,592	4,015	423
MT022	Non-metalworking machine tools and parts thereof	43	463	420
CH050	Manmade fibers and filament yarns	286	683	397
AG002	Cattle and beef	-355	21	376
AG013	Animal feeds	2,869	3,242	373
MM023	Iron and steel waste and scrap	1,031	1,403	372
ST017	Electrical and electronic articles, apparatus, and parts not elsewhere provided for	980	1,351	371
CH067	Sweaters	-2,022	-1,718	304
CH080	Other wearing apparel	-1,689	-1,387	302

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-10
U.S. trade position declines: Ranking of top 30 industry/commodity groups, 1994 and 1995
(Million dollars)

USITC code	Industry/commodity group	U.S. balance		Absolute change from
		1994	1995	1994 to 1995
ST016	Diodes, transistors, integrated circuits and similar semiconductor solid-state devices	-7,922	-15,851	-7,929
ST018	Automatic data processing machines	-17,059	-21,832	-4,773
MT038	Automobiles, trucks, buses, and bodies and chassis of the foregoing	-57,875	-62,485	-4,610
MT042	Aircraft, spacecraft, and related equipment	22,145	17,704	-4,441
CH004	Crude petroleum	-38,486	-42,076	-3,590
AG058	Printing and writing papers	-1,685	-2,771	-1,086
CH027	Medicinal chemicals, except antibiotics	395	-605	-1,000
AG057	Newsprint	-2,852	-3,827	-975
CH066	Shirts and blouses	-9,819	-10,701	-882
MM055	Furniture and selected furnishings	-4,338	-5,121	-783
AG028	Coffee and tea	-2,424	-3,198	-774
MT020	Machine tools for cutting metal and parts; tool holders, work holders; dividing heads and other special attachments for machine tools	-1,082	-1,790	-708
MM020	Precious metals and related articles	2,498	1,799	-699
MM066	Miscellaneous articles	-2,925	-3,617	-692
CH049	Natural rubber	-932	-1,587	-655
CH064	Men's and boy's trousers	-2,095	-2,673	-578
MT029	Electrical transformers, static converters, and inductors	-963	-1,537	-574
MM041	Certain base metals and chemical elements	-793	-1,346	-553
MT002	Internal combustion piston engines, other than for aircraft	864	383	-481
MM061	Toys and models	-3,482	-3,945	-463
MM022	Ferroalloys	-690	-1,131	-441
ST001	Office machines	-4,004	-4,436	-432
CH011	Benzenoid specialty chemicals	1,792	1,372	-420
ST010	Television apparatus (except receivers and monitors), including cameras, camcorders, and cable apparatus	-2,838	-3,244	-406
AG034	Edible preparations	1,501	1,125	-376
CH082	Footwear and footwear parts	-11,068	-11,424	-356
ST004	Tape recorders, tape players, video cassette recorders, turntables, and compact disc players	-5,643	-5,979	-336
CH070	Robes, nightwear, and underwear	-1,628	-1,961	-333
CH047	Miscellaneous rubber or plastics products	-1,346	-1,661	-315
MT036	Insulated electrical wire and cable, and conduit; glass and ceramic insulators	-1,521	-1,832	-311

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-11
Top absolute bilateral U.S. trade shifts (changes) in imports, exports, and total, and resulting change in U.S. trade balance, by trading partners, during 1994-95

(Million dollars)

Rank	Partner	Exports	Imports	Total	Change in U.S. balance
1	Canada	9,618	16,129	25,747	-6,511
2	Mexico	-4,255	13,116	17,371	-17,371
3	Japan	9,900	4,871	14,771	5,029
4	Korea	6,984	4,479	11,463	2,505
5	China	2,435	6,797	9,232	-4,362
6	Germany	2,994	5,560	8,554	-2,566
7	Singapore	1,934	3,206	5,140	-1,272
8	Malaysia	1,586	3,524	5,110	-1,938
9	Taiwan	1,795	2,289	4,084	-494
10	United Kingdom	1,565	2,065	3,630	-500
11	Italy	1,586	1,767	3,353	-181
12	Netherlands	2,998	339	3,337	2,659
13	Brazil	3,118	141	3,259	2,977
14	Hong Kong	2,578	611	3,189	1,967
15	Philippines	1,321	1,279	2,600	42

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. trade with only six of these countries, Japan, Brazil, the Netherlands, Korea, Hong Kong, and the Philippines, had a positive affect on the U.S. trade balance in 1995. The positive influence of the trade with Japan is especially notable. The \$5.0 billion decrease in the U.S. trade deficit with Japan in 1995 contrasts sharply with the \$6.4 billion increase recorded in 1994. Trade with the remaining partners, especially Mexico, Canada, and China, was responsible for a \$35.2 billion negative change in the U.S. trade position during 1995. This amount exceeded the overall \$17.2 billion widening of the trade deficit in 1995. Mexico was the standout among these countries. The \$531 million U.S.-Mexico trade surplus in 1994 shifted to a \$16.8 billion deficit in 1995. An analysis of some of the underlying factors that influenced the shifts in bilateral trade with each of these major trading partners is provided below.

Canada

The U.S. trade deficit with Canada expanded by 26 percent (\$6.5 billion) in 1995 to \$31.6 billion and was the third-largest of all U.S. bilateral trade deficits (one-sixth of the total U.S. trade deficit). The growth in U.S. exports to Canada, which rose by 9 percent (\$9.6 billion) in 1995 to \$113.3 billion, was overshadowed by U.S. imports from Canada, which rose by 13 percent (\$16.1 billion) to \$144.9 billion. The United States was both the leading market for Canadian exports (80 percent) in 1995 and the principal source of imports (67 percent). Canada is also the largest U.S. trading partner, accounting for 20 percent of total U.S. imports and exports in 1995. Such factors as geographical proximity, resource endowment, infrastructure, communication and media linkages, similar cultures and language, and integration of industries promote trade between the two countries.²⁷

The increase in U.S. imports from Canada was fueled by the sustained rate of growth of the U.S. economy²⁸ and a favorable Canadian exchange rate. Canadian demand for U.S. exports was tempered by modest business, government, and consumer spending, and the exchange rate. Private-sector firms in

²⁷ According to the U.S. Department of State publication, *Country Reports on Economic Policy and Trade Practices* (Washington, DC: GPO, Mar. 1996), p. 147, Canadian subsidiaries of U.S. companies account for a significant portion of Canadian GDP. Roughly 40 percent of the assets of Canadian manufacturing companies are foreign-owned; of this total, about 75 percent belong to U.S. firms. The stock of total foreign direct investment in Canada in 1994 was US\$108 billion, of which US\$ 70 billion, or 65 percent, was U.S. foreign direct investment.

²⁸ According to the Scotiabank: The Bank of Nova Scotia, *Global Economic Outlook* (Nova Scotia, Canada, May 1996), p. 7, GDP growth for Canada is expected to fall below 2 percent in 1996, while that for the United States is projected to be 2.2 percent.

Canada have cut back their expenditures in an effort to reduce the rate of inventory accumulation and adjust to cutbacks in public spending at both the federal and provincial level. Government spending continues to be constrained by debt service cost. Despite years of budget cutting, government debt will be equivalent to 74 percent of Canada's GDP in FY97/98. Debt service costs will reach more than \$50 billion, roughly 37 cents out of every tax dollar sent to Ottawa. Consumer confidence remains low because of employment uncertainty caused by the ongoing restructuring in the Canadian economy and the stagnation in the growth of disposable income. When adjusted for inflation, Canadian disposable income has shown no growth between 1990-96, well below the 4-percent average annual increase over the previous 30 years.²⁹ According to the Scotiabank of Canada, Canadian national employment rose by less than 90,000 during 1995,³⁰ with gains concentrated in part-time positions.³¹

The U.S. trade deficit with Canada in transportation equipment, which totaled \$11.2 billion in 1995, was largely the result of value being added in Canada (parts and labor) to U.S. origin parts during assembly. Reflecting the integration of the motor-vehicle industries in the United States and Canada, transportation equipment accounted for nearly one-third (\$82.5 billion) of the total trade between the two countries in 1995. Canada's trade advantage for forest products totaled \$13.5 billion in 1995, that for energy and related products (mostly petroleum and natural gas) was \$12.6 billion. Canada's trade surplus in minerals and metals reached \$4 billion in 1995. The U.S. trade advantage for electronics technology and machinery and equipment was \$12.5 billion.

U.S. exports of transportation articles to Canada rose by 7 percent (\$2.2 billion) in 1995 to \$35.7 billion, while imports of these products rose by 6 percent (\$2.7 billion) to \$46.8 billion. Motor vehicles and parts³² accounted for nearly one-half of the trade in the transportation sector (\$46 billion) and almost one-fifth of U.S.-Canada trade overall. For the most part, the U.S. motor-vehicle industry exports parts to Canada and imports finished vehicles. The United States had a \$6.2 billion trade surplus with Canada in motor vehicle parts in 1995 but a trade deficit of \$21.9 billion in finished vehicles.

²⁹ Ibid.

³⁰ Estimates provided by Scotiabank, Ibid., p.1, stated that the severity of Canada's labor market problems is further highlighted by the sharp drop in labor force participation (people looking for jobs) during 1990 and 1995. If the participation rate had stayed relatively stable—as it has in the United States—Canada's unemployment rate would still be above 13 percent.

³¹ *Business Week*, "This Turnaround Looks a Mite Tentative," Dec. 18, 1995, p. 32.

³² Includes cars, buses, trucks, bodies and chassis of the foregoing.

North American motor-vehicle producers achieve increased economies of scale by concentrating the production of specific vehicle models at a single location and limiting the number of sites at which specific parts are manufactured. These locations supply both the U.S. and Canadian markets. Since Canada accounts for 18 percent of North American car assembly capacity but only 7 percent of purchases,³³ the United States is expected to maintain a significant trade deficit with Canada in finished vehicles for many years to come. Principal U.S. exports of transportation products other than motor vehicles and parts were internal combustion engines, and aircraft, spacecraft and related articles (principally large civil aircraft) (table 2-12).

The fastest growth in bilateral trade with Canada among leading sectors in 1995 was accounted for by forest products (principally pulp, paper, and printed matter) as U.S. exports of sector products rose by 19 percent (\$1 billion) to \$6.3 billion and imports rose by 21 percent (\$3.5 billion) to \$19.9 billion. All sectors of the North American pulp and paper industries experienced increasing demand for their products in 1995. The market price for pulp and paper began to rise in 1994 when a hardwood pulp shortage developed in Europe because of the earlier collapse of the former Soviet Union. The disruption occurred at a time when the western European, North American, and Asian economies were beginning their economic recoveries that have lasted through 1995. Products accounting for the bulk of the increase in U.S. exports to Canada in 1995 were wood pulp and wastepaper; industrial papers and paperboard, and printed matter. The increase in U.S. imports of forest products from Canada in 1995 was accounted for by shipments of wood pulp and wastepaper, newsprint, and printing and writing paper (table 2-13).

In contrast to the overall trend for forest products, U.S. imports of lumber from Canada declined by \$606 million (11 percent) to \$5.1 billion in 1995. The decline was the result of a price correction, as the volume of lumber imported actually increased in 1995. Prices were unusually high in 1994 because of strong U.S. demand and some shortages in the Western supply regions. Further, Canadian demand for lumber in 1995 was tempered by a continuing decline in residential construction, as homebuilders concentrated their efforts on working off high inventories of unsold homes.

U.S. exports of chemicals and related products to Canada rose by 11 percent (\$1.3 billion) to \$13.3 billion in 1995; while imports rose almost twice as fast, by 19 percent (\$1.7 billion) to \$10.5 billion. Chemical products are used in a wide variety of

consumer items, including automobiles, building materials, appliances, and clothing. Virtually all U.S.-Canadian trade in chemical products entered duty free under the NAFTA. U.S. exports to Canada of chemicals and related products are largely of specialty chemicals, while U.S. imports from Canada are primarily of commodity chemicals. Canadian commodity chemicals, particularly the ammonia and petrochemicals subsectors, are highly competitive because of the availability of competitively priced oil and gas.³⁴

U.S. exports of minerals and metals to Canada rose by 12 percent (\$1.2 billion) to \$11.0 billion in 1995; imports rose at a slightly higher rate of 15 percent (\$2.0 billion) to \$15.0 billion. Canada is the world's leading exporter of minerals and metals because it has both significant domestic sources of metals including iron, copper, lead, zinc, and precious metals; and access to significant sources of low-cost hydroelectric power to smelt alumina and produce steel. Canadian metal producers have invested more than \$1 billion in new technology in order to meet recent environmental regulations and productivity challenges. Products accounting for the bulk of the increase in U.S. exports were steel mill products, aluminum mill products; and copper and related products. On the import side, the same products along with unwrought aluminum, accounted for the bulk of the increase in 1995.

U.S. exports to Canada of electronic articles rose by 14 percent (\$2.1 billion) to \$17.9 billion in 1995; while imports rose by 21 percent (\$1.9 billion) to \$10.9 billion. Canadian subsidiaries of IBM, Digital, Hewlett Packard, and Unisys account for most Canadian shipments of computers, electronic components, and telecommunication equipment. Canadian-owned enterprises generally specialize in computer assembly and the manufacture of computer subsystems and peripheral equipment. Although a modest producer of electronic products compared with the United States, Canada is an internationally competitive manufacturer of high-end electronic components, owing to its highly educated workforce and highly automated methods of production. Canadian manufacturers are at the leading edge of telecommunications technology and are beginning to benefit from the creation of new wireless networks in the United States and Canada. The most prominent growth in U.S. exports of electronic articles in 1995 was for computers, semiconductor devices, and apparatus for electrical circuits. U.S. imports of computers, and semiconductor devices were also strong in 1995.

³⁴ Industry Canada, *Chemicals, Plastics and Advanced Materials, The International Trade Business Plan 1995/96, Canada's Export Strategy* (Ottawa, Ontario, Canada, Jan. 1996), p. 5.

³³ Scotiabank, *Global Economic Outlook*, p. 10.

Table 2-12
Leading increases in U.S. exports to Canada, 1994-95

Industry/product	1994	1995	Increase in 1995	Change, 1995 from 1994
		<i>Million dollars</i>		<i>Percent</i>
Transportation equipment:				
Motor-vehicle parts	11,833	12,619	786	7
Aircraft, spacecraft, and related equipment	986	1,303	317	32
Forest products:				
Wood pulp and wastepaper	359	599	240	67
Industrial papers and paperboards	834	1,060	226	27
Printed matter	1,711	1,873	162	9
Minerals and metals:				
Steel mill products	1,406	1,691	285	20
Aluminum mill products	925	1,169	244	26
Copper and related articles	558	797	239	43
Electronic articles:				
Computers	4,142	4,771	628	15
Semiconductor devices	1,763	2,376	612	35
Apparatus for electrical circuits	1,818	2,058	240	13

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-13
Leading increases in U.S. imports from Canada, 1994-95

Industry/product	1994	1995	Increase in 1995	Change, 1995 from 1994
		<i>Million dollars</i>		<i>Percent</i>
Transportation equipment:				
Automobiles, trucks, buses, and bodies and chassis	30,685	33,277	2,592	8
Forest products:				
Wood pulp and wastepaper	1,992	3,226	1,234	62
Newsprint	3,296	4,371	1,075	33
Printing and writing papers	1,582	2,413	831	53
Minerals and metal:				
Unwrought aluminum	2,334	2,836	502	22
Copper and related articles	979	1,452	473	48
Aluminum mill products	734	920	186	25
Steel mill products	2,284	2,442	157	7
Electronic articles:				
Computers	3,149	4,057	908	29
Semiconductor devices	1,344	1,695	351	26
Telephone and telegraph apparatus	1,055	1,292	237	22

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. imports of both crude petroleum and furniture increased significantly in 1995. The value of U.S. imports of crude petroleum from Canada increased from \$4.9 billion in 1994 to \$6.1 billion in 1995, or by 25 percent. However, in terms of quantity, imports increased by only 9 percent, from 348 million barrels in 1994, to 379 million barrels in 1995. The per-barrel price of crude on the world market increased by nearly \$2.00 as non-OPEC producers, which are traditionally higher priced producers, gained a larger share of the world market.

U.S. imports of furniture rose by 21 percent (\$417 million) to \$2.4 billion. Canadian furniture manufacturers have streamlined methods of production and modernized their manufacturing equipment in order to survive increased levels of U.S. competition because of the implementation of the NAFTA. As a result, Canadian furniture manufacturers have been increasingly competitive in U.S. markets. A significant portion of the increase in U.S. imports of furniture from Canada was accounted for by motor vehicle seats and parts.

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Mexico

Devaluation of the Mexican peso led the U.S.-Mexico merchandise trade balance to slip from a \$531 million surplus in 1994 to a \$16.8 billion deficit in 1995. U.S. imports from Mexico rose by \$13 billion (27 percent) to \$62 billion in 1995, while U.S. exports declined by \$4.3 billion (9 percent) to \$45 billion.

On December 20, 1994, the Mexican Government devalued the peso and 2 days later allowed it to float in foreign exchange markets for the first time in 3 years, instead of pegging its value to the U.S. dollar.³⁵ Adverse political and social developments during the year, combined with a large outflow of capital that was exacerbated by rising U.S. interest rates and the decision by the outgoing Salinas administration to bolster the peso strength by depleting Mexico's foreign reserves, culminated in the Mexican peso crisis. Because the value of the peso fell by nearly one-half, Mexican President Ernesto Zedillo announced an economic austerity package on March 9, 1995, in an attempt to stabilize the Mexican economy and restore investor confidence.³⁶

³⁵ For a detailed description of the Mexican peso crisis, see Truman, "The Mexican Peso Crisis," pp. 199-209.

³⁶ U.S. Department of Commerce (USDOC), International Trade Administration (ITA), *U.S. Global Trade Outlook, 1995-2000: Selected Big Emerging Markets, Mexico*, Mar. 1995, p. 90.

The peso crisis precipitated the decline of U.S. exports to, and contributed to the rise of U.S. imports from, Mexico by increasing the price of U.S.-made goods in the Mexican market and lowering the price of Mexican goods in the U.S. market. Real Mexican GDP, which had grown by 3.5 percent in 1994, shrank by 6.0 percent in 1995.³⁷ President Zedillo's austerity plan called for less government spending, higher taxes, and increased prices on consumer goods, all of which decreased demand for many products in Mexico. As a result, U.S. exports to Mexico declined substantially in most sectors in 1995, especially in nonsubsistence or consumer goods such as automobiles, furniture, computers, telephones, and stereo equipment (table 2-14).

As a result of the implementation of NAFTA in 1994³⁸ and the continued growth of the maquiladora sector (the assembly of foreign components for re-export³⁹), U.S. exports to Mexico did increase in three diverse areas in 1995: electronic components, apparel, and oil and gas. Production in the maquiladora industry grew by an estimated 25 percent in 1995,⁴⁰ leading to a 35-percent rise in U.S. exports of electronic parts typically used in maquiladora assembly processes (table 2-15).

Exports of these selected electronic components amounted to \$5.1 billion in 1995, 11 percent of total U.S. exports to Mexico. Devaluation of the peso reduced labor costs in the maquiladora industry by an estimated 25 to 30 percent,⁴¹ which in turn led to increased assembly in Mexico by U.S. companies and a rise in exports of U.S. components to Mexico for assembly into electronic products. Additionally, NAFTA rules of origin encouraged Japanese and Korean companies with television assembly plants in Mexico to make greater use of U.S.-made parts. Consequently, there was a 31-percent (\$209 million) increase in exports of picture tubes to Mexico in 1995 (table 2-15).

NAFTA and the growth of the maquiladora industry were also responsible for increased U.S. exports of apparel and energy-related products. Duty-free treatment under NAFTA of apparel sewn in Mexico entirely from U.S.-cut fabric led to a significant rise in U.S. exports of apparel pieces to the maquilado-

³⁷ Estimate made on data available through Oct. 1995, U.S. Department of State, *Key Economic Indicators: Mexico*, 1995, p. 1.

³⁸ The NAFTA eliminated Mexican quotas on U.S. textiles and apparel and granted zero-duty status for many categories of imported goods, including semiconductors, computers, telecommunications equipment, machine tools, medical devices, and electronic equipment.

³⁹ For more information on export processing in Mexico see, USITC, *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1991-94 (U.S. Imports Under Production Sharing Provisions of HTS Heading 9802)*, USITC publication 2996, May 1996.

⁴⁰ Estimated by Don Michie, Professor of Marketing, University of Texas at El Paso, telephone interview with USITC staff, May 2, 1996.

⁴¹ Ibid.

Table 2-14
Leading decreases in U.S. exports to Mexico, 1994-95

Industry/product	Decrease in 1995		Total value in 1995
	Value	Percent	
	<i>Million dollars</i>		<i>Million dollars</i>
All agricultural goods	1,101	23	3,622
Auto parts	1,089	25	3,325
Medical equipment	489	27	1,295
Aircraft	387	81	93
Motor vehicles	312	64	175
Furniture, including vehicle seats	238	26	682
Computers	197	25	589
Telephone and telegraph apparatus	195	33	398
Stereos and other radio equipment; pagers	189	27	512
All other	907	3	33,340
Total	5,104	10	44,031

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-15
Leading increases in U.S. exports of electronic parts to Mexico, 1994-95

Product	Increase in 1995		Total value in 1995
	Value	Percent	
	<i>Million dollars</i>		<i>Million dollars</i>
Integrated circuits and other semiconductor devices	445	39	1,573
Circuit breakers, printed circuit boards	438	29	1,932
Capacitors and resistors	217	46	690
Cathode ray tubes for televisions and computer monitors	209	31	875
Total	1,309	35	5,070

Source: Compiled from official statistics of the U.S. Department of Commerce.

ra industry. This expansion was nearly offset by lower exports of finished apparel resulting from reduced consumer purchasing power in Mexico following the peso devaluation. The net result was a 7-percent (\$162 million) increase in U.S. exports of all textile and apparel products to Mexico in 1995 to \$2.4 billion (see table 7-1). U.S. exports of refined petroleum and natural gas rose by 26 percent (\$264 million) to \$1.3 billion in 1995, in large part to supply the maquiladora industry (the bulk of which is located along the U.S.-Mexico border), other export-oriented Mexican producers, and the trucking companies used to transport Mexican exports to the United States. U.S. energy exports to Mexico also benefited from eased access to the Mexican market under NAFTA.

The substantial increase in U.S. imports from Mexico was also caused by the peso devaluation which substantially reduced the cost of Mexican labor (contributing to cheaper Mexican exports overall) and to the continued effects of the implementation of NAFTA. U.S. imports of electronic assemblies increased substantially, commensurate with the aforementioned increase in U.S. exports to Mexico in the electronic component sector. Leading examples included radio and television equipment, computer equipment, and meters (table 2-16). U.S. imports of selected motor vehicles and parts assembled in Mexico (cars, trucks, engines, ignition sets, and wiring harnesses) also rose sharply in 1995, increasing by \$4.4 billion to \$14.7 billion, a rise of 42 percent.

Table 2-16
Leading increases in U.S. imports from Mexico, 1994-95

Product/commodity	Increase in 1995		Total value in 1995
	Value	Percent	
	<i>Million dollars</i>		<i>Million dollars</i>
Motor vehicles	2,549	44	8,386
Textiles and apparel	1,273	52	3,704
Crude petroleum	1,088	24	5,682
Engines	726	83	1,605
Radio equipment, including stereo receivers and pagers	613	95	1,259
Computer equipment	400	26	1,918
Wire harnesses	368	12	3,327
Television apparatus	278	53	805
Steel mill products	275	47	865
Copper and related articles	264	120	484
Coffee	259	78	592
Meters and other measuring instruments	256	25	1,290
Transformers	214	30	917
Television receivers and video monitors	207	7	3,022
Cattle and beef	196	55	551
Vegetables	194	20	1,184
All other	3,955	18	26,130
Total	13,116	27	61,721

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. imports of Mexican textiles and apparel also benefitted from the NAFTA and peso devaluation, increasing from \$2.4 billion in 1994 to \$3.7 billion in 1995, a climb of 52 percent. Duty-free treatment for Mexican apparel assembled from U.S.-cut material and reduced labor costs in Mexico because of the peso devaluation have made sewing operations in Mexico more competitive with operations in Central America, the Caribbean Basin, and Asia. U.S. imports of apparel from Mexico in 1995 were concentrated in shirts and blouses (an increase of by \$283 million, or 73 percent); men's and boys' trousers (an increase of \$252 million, or 59 percent); and women's and girls' trousers (an increase of \$173 million, or 63 percent).

Agricultural, mining, steel, and petroleum imports from Mexico all increased significantly in 1995, largely because of the major decrease in raw material prices associated with the Mexican peso devaluation. As a whole, U.S. agricultural imports from Mexico were up by 32 percent, an increase of \$1.1 billion, to \$4.4 billion in 1995, with the strongest growth in coffee,⁴² cattle and beef, and vegetables. Imports of crude petroleum from Mexico rose by 24 percent (\$1.1 billion) to \$5.7 billion, while imports of steel mill products climbed by 47 percent to \$865 million, and imports of copper and related products more than doubled to \$484 million (table 2-16).

⁴² The main reasons that U.S. imports of Mexican-produced coffee increased so substantially were because of decreased Brazilian production, the peso devaluation, and NAFTA benefits, according to the Institute for Agriculture and Trade Policy, *NAFTA & Inter-American Trade Monitor*, vol 3:8, Apr. 19, 1996.

The tight credit and fiscal policies implemented through President Zedillo's austerity plan are expected to limit inflation and correct the current account imbalance, while continuing to restrict domestic demand for imports in the near future. Moreover, industry sources report that Mexico has been able to retain the confidence of investors that are focused on long-term benefits. According to the IMF, a growth rate of 3 percent is expected this year;⁴³ and the Mexican economy has the strong underpinnings (balanced budget; modern, open economy; low predevaluation inflation base, and enhanced investment environment⁴⁴) necessary to regain stability and continue on its previous path of economic growth. As the Mexican economy gradually recovers over the next 5 years, U.S. exports to Mexico are likely to increase, and the U.S. trade deficit with Mexico is expected to decline.

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Japan

The U.S. merchandise trade deficit with Japan declined for the first time since 1990, due largely to a \$3.3 billion decrease in the deficit in the motor-vehicle sector. The \$5.0 billion decline to \$61.4 billion, was an 8-percent decrease, nearly matching the 1993 trade deficit of \$60.1 billion

⁴³ Debra Beachy, "Mexico's Ambassador Says Mexico Rebounding from Economic Crisis," *Houston Chronicle*, Apr. 19, 1996.

⁴⁴ USDOC, ITA, *U.S. Global Trade 1995-2000: Mexico*, p. 91.

(see tabulation). Total U.S. trade with Japan increased by 9 percent in 1995; exports increased by \$9.9 billion (19 percent) to \$61 billion and imports by \$4.9 billion (4 percent) to \$122 billion. Japan is the second-largest U.S. merchandise trading partner, behind Canada. The slight narrowing of the U.S.-Japan trade deficit during the period was also in marked contrast to Japan's soaring trade surplus with Asia, which reached \$71 billion in 1995, highlighting the country's strong focus on regional trade.⁴⁵

Year	Change in U.S. trade deficit with Japan	Total trade deficit with Japan
	<i>(Billion dollars)</i>	<i>(Billion dollars)</i>
1991	2.4	45.1
1992	4.6	49.7
1993	10.4	60.1
1994	6.4	66.5
1995	-5.0	61.4

Explanations for the decline in the U.S.-Japan trade deficit include more favorable exchange rates, and a general, albeit small, improvement in the Japanese economy, both of which have encouraged domestic imports.⁴⁶ In addition, the strong yen and changing structure of Japanese industry are reducing Japanese exports to the United States. For example, many Japanese companies, especially in the high-technology sectors, have relocated operations offshore to lower production costs, and are exporting from those facilities.

A decline in motor-vehicle imports from Japan was the single largest contributor to the decrease in Japan's trade surplus with the United States. Motor-vehicle imports from Japan fell by \$2.2 billion, which accounted for 46 percent of the total \$5.0 billion decrease in the U.S. trade deficit with Japan (table 2-17). Roughly one-quarter of the total dollar value of imports from Japan in 1995 was attributable to autos and auto parts. One of the most direct contributors to the reversal in U.S.-Japan trade trends were the accords reached under the U.S.-Japan Auto Agreement.⁴⁷ Concluded in August 1995 as one of 13 agreements within the Framework

talks,⁴⁸ provisions for improved market access for U.S. autos and auto parts reportedly played a substantial role in the slightly improved trade balance.⁴⁹ Motor vehicles (automobiles, trucks, and buses) represent the largest single element of trade between the United States and Japan, accounting for 17 percent of total trade (\$32 billion) in 1995. Engines and selected other auto parts accounted for 4 percent (\$8.2 billion).

Although no other consumer commodity group approximated the importance of motor vehicles, trade in certain high-tech commodities, the second-most-significant group of declining imports in terms of percentage of dollar value, also contributed to the improved trade balance. For example, the trade deficit in computers, related equipment, and parts declined from \$11.5 billion to \$10.7 billion as U.S. exports to Japan increased by \$756 million, or 22 percent, and imports remained static. The trade deficit in telephone, radio, and stereo equipment (including records, tapes, and compact discs), also contracted in 1995 falling by \$1.2 billion to \$4.0 billion, reflecting a \$581 million (30-percent) increase in U.S. exports to Japan to \$2.5 billion, and a \$624 million (9-percent) decrease in imports from Japan to \$6.5 billion.

Unlike the distribution of imports, rising U.S. exports to Japan were distributed more evenly among commodities. Motor vehicles, computers, medical goods, meters and other measuring instruments, telephone apparatus, semiconductor devices, and electronic parts of computers, office machines and televisions and radio apparatus accounted for \$3.7 billion (37 percent) of the \$9.9 billion total increase in U.S. exports to Japan (table 2-18). Corn, beef, pork, and woodpulp and wastepaper accounted for \$1.4 billion (14 percent) of the increase.

While U.S. exports of motor vehicles may have benefited from the direct intervention of the U.S. Government to open markets and channels of distribution in Japan, U.S. exports of other manufactured goods rose because of the sustained low value of the U.S. dollar relative to the Japanese yen and relatively low costs of production in the United States for a variety of goods. Exports to Japan from U.S. production facilities of Japanese-owned companies also contributed to the overall rise in U.S. exports of manufactured goods to Japan in 1995.

⁴⁵ *Economist*, "Japan, The Shrinking Surplus," Feb. 3, 1996, p. 31.

⁴⁶ For the third consecutive year Japan experienced less than 1-percent annual economic growth. For discussion of the changing structure of the Japanese economy see *Ibid.*; and U.S. Department of State, *Country Reports*, Mar. 1996, pp. 60-67.

⁴⁷ USTR, *Report to President Clinton of the Interagency Enforcement Team Regarding the U.S.-Japan Agreement on Autos and Auto Parts*, Apr. 12, 1996.

⁴⁸ Generally, the Agreement gives U.S. automakers greater access to Japan's dealership networks. It also insures increased purchases of U.S.-made auto parts through pledges from Japan's Big Five automakers to purchase more North American products and from a commitment from the Government of Japan to deregulate the auto parts market and relax certification criteria that effect the auto parts market. USTR as reported in USITC: "Last Minute Trade Agreement Averts U.S. Sanctions Against Japanese Luxury Cars," *International Economic Review*, July 1995, pp. 18-22.

⁴⁹ USTR, *Report to President Clinton of the Interagency Enforcement Team*.

Table 2-17
Leading changes in U.S. imports from Japan, 1994-95

Industry/product	Change in 1995		Total value in 1995
	Value	Percent	
	<i>Million dollars</i>		<i>Million dollars</i>
Semiconductor devices	3,025	40	10,675
Machine tools	421	32	1,734
Certain industrial machinery	401	18	2,675
Motor-vehicle engines	352	13	2,971
Camcorders and other television apparatus (except receivers)	320	16	2,377
Copiers and other office machines	282	9	3,418
Meters and other measuring, testing, and controlling instruments	247	19	1,546
Printed circuit boards and other circuit controlling apparatus	244	14	2,027
Medicinal chemicals, except antibiotics	211	37	778
Cars, trucks, and buses	-2,246	-7	28,995
Telephone apparatus	-442	-21	1,691
Computers	-338	-3	10,266
Steel mill products	-274	-15	1,540
Video games	-257	-19	1,117
Total	4,870	4	122,402

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-18
Leading increases in U.S. exports to Japan, 1994-95

Product/commodity	Increase in 1995		Total value in 1995
	Value	Percent	
	<i>Million dollars</i>		<i>Million dollars</i>
Automobiles, trucks, and buses	1,041	53	3,003
Semiconductor devices	666	48	2,058
Corn	555	41	1,910
Computers	452	22	2,485
Certain industrial machinery	420	56	1,168
Woodpulp and wastepaper	356	62	930
Parts for computers and other office machines	333	24	1,717
Meters and other measuring, testing, and controlling instruments	321	26	1,563
Electronic parts for television and radio apparatus	320	73	754
Beef	307	48	952
Medical goods	295	23	1,592
Telephone apparatus	243	41	833
Meat (pork)	212	61	561
All other	4,279	11	44,435
Total	9,900	19	60,962

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. exports of beef, which rose by \$307 million (48 percent) in 1995 to \$952 million, benefited from the market opening efforts of earlier years. The \$555 million increase in U.S. corn exports to Japan (a 41-percent increase) to \$1.9 billion reflects a short supply situation in Asia. U.S. corn producers experienced diminished competition in Japan when China reversed its trading position from being a net corn exporter to a net corn importer in late 1994.⁵⁰

Although the trade balance with Japan improved as a whole, the U. S. trade position with respect to some commodities declined. The U.S. trade balance in semiconductor devices declined by \$2.4 billion (38 percent) to a deficit of \$8.6 billion, as a \$3 billion increase in imports of these commodities outpaced a modest \$666 million export increase. Trade in integrated circuits was affected by the U.S.-Japan Semiconductor Arrangement, which ex-

⁵⁰ USDA, *Grain: World Markets and Trade*, Oct. 1995 and USITC, "China's Evolving Grain Trade Opens New Marketing Opportunities for U.S. Exporters," *Industry Trade and*

⁵⁰—Cont.
Technology Review, USITC publication 2942, Dec. 1995, pp. 31-41. Also, see the article on cereals later in this report for a discussion of factors affecting demand and supply for this product.

pired in July 1996.⁵¹ The U.S. trade position with respect to machine tools, motor vehicle engines, and camcorders and television apparatus also declined, primarily because of continued growth in manufacturing in the United States that boosted demand for machine tools; shipments of engines to U.S. assembly plants of Japanese automobile producers; and the absence of domestic competitors in the U.S. camcorder market. U.S. aircraft sales to Japan dipped by \$487 million (15 percent) in 1995 to \$2.8 billion because of belt-tightening measures by Japanese airlines and the slow recovery of the travel industry in Japan following a series of shocks to consumer confidence.

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Korea

In 1995, Korea's economy returned to a more typical level of performance after 3 years of subaverage growth.⁵² For the year, GDP grew by an estimated 9.3 percent,⁵³ fueled mainly by exports and domestic investment in plant and equipment. Rejuvenated purchasing power in Korea spurred the U.S. bilateral trade balance with Korea to shift from a \$2.0 billion deficit in 1994 to a \$457 million surplus in 1995, with imports and exports from the U.S. rising by 23 percent (\$4.5 billion) and 40 percent (\$7.0 billion), respectively, to \$24.0 billion and \$24.5 billion. The surplus was the largest registered among Asian major trading partners, and reflected the significance of the United States as a source of investment and technology. Korea ranked seventh in total bilateral U.S. trade, with imports and exports ranking eighth and fifth, respectively,

⁵¹ The U.S.-Japan Semiconductor Arrangement, concluded in 1986 and renewed in 1991, was negotiated to address the difficulty that foreign semiconductor producers faced in gaining access to Japan's domestic market. The arrangement targeted a 20-percent market share as a goal for foreign producers; a 29.6-percent market share was reported in March 1996. A new set of bilateral agreements, one inter-governmental and one inter-industry, was signed on Aug. 2, 1996. The agreements call for market access and openness but have eliminated provisions from the previous arrangements which had set numerical targets for foreign market share of the Japanese market. *Joint Statement of the Government of Japan and the Government of the United States Concerning Semiconductors* (Vancouver, Canada, Aug. 2, 1996) and *Agreement Between the Electronics Industries Association of Japan and the Semiconductor Industry Association* (Vancouver, Canada, Aug. 2, 1996), both of which are reprinted in *Inside U.S. Trade*, special report, Aug. 5, 1996, pp. S-1 through S-6.

⁵² According to the OECD, the Korean economy averaged an 8.7-percent per year GDP growth during 1963-90.

⁵³ L. Gordon Flake, "Korean Economy in 1995," *Korea's Economy 1996*, Korea Economic Institute of America, vol. 12, p. 6.

in 1995.⁵⁴ According to Asia analysts, Korea's increasing merchandise trade with the United States reflects the implementation of policy changes announced by the government of president Kim Young-Sam in 1993 to liberalize and deregulate the domestic economy.⁵⁵ Growth in U.S.-Korea trade in 1995 was also fueled by strong GDP growth in Asia and the United States, the high value of the Japanese yen,⁵⁶ and by continued government policies to limit inflation in Korea. At the same time, Korean GDP growth is largely attributable to heavy investment in plant and equipment by producers in the export sector, which in turn resulted in high import levels of capital equipment and provided a larger export foundation.

Total Korean exports rose by 30 percent to \$125 billion, compared with \$96 billion in 1994. Semiconductors led the surge by rising \$13 billion (70 percent) to \$22.1 billion, followed by textiles, automobiles, and ships. Not all sectors fared as well as semiconductors, which offset declines in traditional export sectors such as footwear, which fell \$264 million (15 percent) to \$1.5 billion in 1995. The United States and Japan continue as the main export markets for Korean goods, accounting for more than 40 percent of all Korean exports, although their share relative to total exports declined in 1995. At the same time, Korean exports to developing countries continued to increase, accounting for more than 50 percent of all exports.⁵⁷

Leading Korean exports to the United States were semiconductor devices, computers, automobiles, and telephone apparatus which accounted for nearly 60 percent of the total in 1995. For automobiles, in particular, the \$182 million increase (12 percent) to \$1.7 billion in exports is mostly attributed to increases in Korean production capacity and the presence of a new Korean automaker in the U.S. automobile market in 1995. The increases in U.S. imports from Korea of semiconductors, \$3.1 billion (79 percent) to \$7 billion, of computers, \$1.4 billion (56 percent) to \$3.8 billion, and of telephone apparatus, \$97 million (23 percent) to \$512 million, were attributable to increased production capacity and levels in Korea and to the continued aggressive penetration of the U.S. market by Korean companies.

⁵⁴ According to data compiled from official statistics of the U.S. Department of Commerce, the six leading countries were Canada, Japan, Mexico, Germany, China, and the United Kingdom. In 1994, Korea ranked eighth in total U.S. bilateral trade, sixth in exports, and eighth in imports.

⁵⁵ Ann M. Kambane, "U.S.-Korean Economic Relations: An American Perspective," *Korea's Economy 1996*, Korea Economic Institute of America, vol. 12, pp. 45-49.

⁵⁶ Because Korea produces many items such as semiconductors, steel, and automobiles that are close substitutes to some Japanese items, a stronger yen makes Korean products more appealing.

⁵⁷ U.S. Department of State telegram, "Korea's 1995 Balance of Payments Results," message reference No. 001291, Mar. 6, 1996.

On the other hand, such traditional Korean exports to the United States as footwear and apparel continued to decline, reflecting Korea's continued shift from labor-intensive to capital-intensive industries. In addition, Korean companies have relocated their manufacturing facilities to gain access to countries with lower labor costs and/or to be closer to expanding and traditional markets. In 1995, Korean exports to the United States of radio equipment fell by \$180 million (37 percent) to \$301 million, while footwear and apparel fell by \$173 million (25 percent) to \$515 million, and \$269 million (40 percent) to \$415 million, respectively, in 1995.

As a result of steady export opportunities, Korean imports of capital equipment and materials for use in bolstering the export sector contributed to the 32-percent rise (\$135.1 billion) in imports in 1995. Imports of capital equipment, transportation equipment, and electronic goods rose by more than 32 percent, while raw materials, which accounted for more than 50 percent of imports, also rose at a similar rate.⁵⁸ The geographic distribution of imports remained relatively unchanged in 1995, divided between capital equipment from developed economies and input materials from developing economies. Developed economies accounted for more than 60 percent of all imports, with the United States and Japan accounting for approximately 40 percent; oil-rich countries in the Middle East and Southeast Asia accounted for much of the remainder.

Cereals (corn and wheat) accounted for the most significant increase in U.S. exports to Korea in 1995, rising by \$895 million (186 percent) to \$1.4 billion, nearly twice the 1994 level (table 2-19). China has been Korea's traditional supplier of feed grain. However, domestic demand in China has forced a cutback in exports, allowing the United States, the world's largest grower, to fill the void.⁵⁹

Infrastructure development to support the demands of the Korean industrial sector led to increases in U.S. exports of industrial machinery, steel, chemicals, motors, air-conditioning equipment, and power-generating equipment (gas turbines). At the same time, strong investment in manufacturing technology led to growth in U.S. exports of semiconductors and nonmetalworking machine tools used in the production of semiconductors. Other significant U.S. export increases were registered in copper, gold, and platinum, all input materials used in the manufacturing of electronic articles.⁶⁰ Increased

⁵⁸ Ibid.

⁵⁹ See article on cereals later in this report for a discussion of factors affecting demand and supply for these products. See also USDA, *Grain*, Oct. 1995 and USITC, "China's Evolving Grain Trade," pp. 31-41.

⁶⁰ See article on precious metals later in this report for a discussion of factors affecting demand and supply for these products.

commercial activity and business travel also created more demand for U.S. exports of wood pulp (to make paper) and aircraft.

The country's traditional economic policy of emphasizing trade, particularly exports, remains the main engine for economic growth. In recent years, however, the combination of strong international competition, rising labor costs, and currency appreciation has led Korea to shift its export industrial base from labor-intensive to capital-intensive production and to compete on product quality rather than price. This has resulted in significant increases in import and export levels, while leading to a decline in traditional exports (labor-intensive products such as footwear, textiles, garments, etc.) from 30 percent in 1993 to 23 percent in 1995. The decline has, thus far, been attributed to the shift in import and export shares of large industrial concerns (*chaebols*) and small/medium sized businesses. As a result of these developments, the government is considering structural adjustment assistance for small and medium, labor-intensive industries through several programs including a separate administrative office, increased credit availability, and funds for automation.⁶¹

Korea has made significant progress towards trade liberalization under current President Kim Young-Sam; however, in light of the country's strong economic performance, these reforms fall short compared to similar economies. Liberalization plans for key sectors such as finance and trade have been announced, yet, the sectors remain mostly government controlled.⁶² Further, *chaebols* have thrived under the existing financial and trade system, and opening of the economy to imports of automobiles, electronics, and other consumer goods would have a deleterious effect on these concerns.⁶³ It thus appears that the economic success that has led to the call for increased economic liberalization is also making the government hesitate in implementing further changes.

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China

For the ninth consecutive year, the United States registered a deficit in its merchandise trade with China. The U.S. trade deficit with China, second only to that of Japan, grew from \$29.4 billion in

⁶¹ U.S. Department of State telegram, "1995 Trade Summary - Korea's Spectacular Trade Growth Masks Long-Term Problems," message reference No. 001362, Mar. 7, 1996.

⁶² Joan Henry, "South Korea," *Country Briefing*, Bank of Ireland Group Treasury, Autumn 1995.

⁶³ U.S. Department of State telegram, "Daily Seoul Press Translations," message reference No. 002977, May 22, 1996.

Table 2-19
Leading increases in U.S. exports to Korea, 1994-95

Product/commodity	Increase in 1995		Total value in 1995 Million dollars
	Value	Percent	
	Million dollars		
Cereals (corn and wheat)	895	186	1,376
Certain industrial machinery	556	77	1,282
Aircraft	502	30	2,188
Semiconductor devices	378	30	1,658
Miscellaneous organic chemicals	339	84	741
Computers	248	35	951
Wood pulp and wastepaper	227	53	657
Aircraft engines (turbojets and turbopropellers)	222	105	434
Steel mill products	208	505	249
Non-metalworking machine tools	188	167	301
Iron and steel waste and scrap	167	47	524
Metering, measuring, testing, and controlling instruments	131	24	667
Air-conditioning equipment and parts	119	63	307
Oilseeds (soybeans)	109	47	340
Certain motor-vehicle parts	105	35	403
Gold (non-monetary)	79	282	107
Copper and related articles	94	118	174
Beef (frozen)	92	41	319
Hides, skins, and leather	89	14	729
Steam turbines and other vapor turbines	74	44	242
All other	2,932	37	10,780
Total	6,984	40	24,483

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

Source: Compiled from official statistics of the U.S. Commerce Department.

1994 to \$33.8 billion in 1995, or by 15 percent.⁶⁴ During 1995, China continued to be one of the world's fastest growing major economies, with a real growth rate of 9 percent, compared with an average growth rate of 13 percent during 1992-94. Despite China's efforts to slow its overheated economy and reduce its high rate of price inflation, retail sales grew by 10 percent and the rate of growth in private consumption averaged from 6 to 7 percent in 1995.⁶⁵

The U.S. trade deficit with China can be attributed to a variety of factors, including the relative health of the U.S. economy, strict credit controls by the

Chinese Government, and selective Chinese import controls. One of the more important factors, however, has been the ongoing shift of production from Hong Kong, Taiwan, Korea, Japan, and Singapore to China. These East Asian nations have relocated export processing plants (in which imported inputs are processed for export) to China's special economic zones in its eastern coastal regions to increase their profits. Foreign-invested firms use China as a base for assembly, processing, and manufacturing for export. In many cases, Chinese exports to the United States have taken the place of exports that would have come from other East Asian countries.⁶⁶ Consequently, as China's trade surplus with the United States expands, there is a corresponding decline in the surpluses enjoyed by other East Asian nations. Complete industries such as footwear, clothing, and toys have been transplanted to China. East Asian manufacturers, as well as a number of U.S. and European firms, are essentially shipping the low-tech and low-wage jobs to China, while retaining the higher skilled positions at home. In 1995, Taiwan and Hong Kong accounted for approximately 70 percent (\$26.6 billion) of China's direct foreign investment, which

⁶⁴ According to China's official trade statistics, its 1995 trade surplus with the United States is much smaller at only \$7.4 billion. China maintains that the United States should not count goods from U.S.- and other foreign-owned processing and compensation ventures in China that are shipped to the United States via Hong Kong as Chinese exports. China considers these transshipments to be Hong Kong's exports to the United States. The Economist Intelligence Unit (EIU), "Political Scene: Tensions Continue With the USA," *Country Report: China*, Mar. 1, 1996.

⁶⁵ In the third session of the Eighth National People's Congress (NPC) held during March 5-18, 1994, Premier Li Peng pledged to hold national economic growth (GNP) below double digits and to control inflation, which reached approximately 22 percent during 1994. Chinese leaders promised to hold economic growth below 10 percent and pledged to keep inflation below 15 percent. To accomplish this, the Chinese Government initiated an austerity program of tight controls on investment and credit, rigid price controls on essential goods, and higher interest rates. Anne Stevenson-Yang, "NPC Ses-

⁶⁵—Cont. sion Highlights Economic Growth," *China Business Review*, May-June 1995, p. 4.

⁶⁶ William Mann, "Imports Tip the Balance," *China Trade Report*, Apr. 1995, p. 6.

totaled \$38 billion.⁶⁷ China's eastern coastal area, its fastest growing region, accounted for a disproportionate share of China's imports and exports. Nearly 67 percent of China's exports and 75 percent of its imports are accounted for by five provinces (especially Guangdong) and municipalities that rely on foreign investment.

Foreign-invested firms were responsible for 39 percent, or \$110 billion, of China's total trade of \$280.9 billion in 1995. These firms accounted for \$63 billion (32 percent) of China's total exports and \$47 billion (48 percent) of China's total imports.⁶⁸ These companies specialized in the production of toys, clothing, and inexpensive electrical goods.⁶⁹ China exempts from import duties all imported materials used by foreign-invested firms to produce machinery and electrical appliances for export.

China was the 13th-largest U.S. export market in 1995. U.S. exports to China increased by \$2.4 billion (27 percent) to \$11.6 billion in 1995. Sustained Chinese economic expansion and a reduction in trade barriers to U.S. exports acted as a stimulant to U.S. export growth. However, U.S. trade with China continues to be restricted by an elaborate system of import controls such as quotas, licensing and registration requirements, restrictive product standards and testing requirements, quarantine rules, and import substitution policies.⁷⁰ China persists in denying access to certain U.S. goods, particularly low-technology capital goods that have a comparative advantage over domestic Chinese products. These actions have effectively created a monopoly environment for certain Chinese producers. As shown in the tabulation in the next column, leading U.S. export items to China, in terms of value, during 1995 were agricultural products (especially cotton, corn, wheat, and soybean oil); electronic products such as telephone equipment, computers, radio and television transmission equipment, and parts for radio and television equipment; machinery (especially industrial machinery); fertilizers; and aircraft.

China reported that its imports during 1995 consisted principally of electric and nonelectric machinery, chemicals (especially fertilizers), food products (mostly cereals), textiles, and base metals (iron and steel). According to Chinese statistics, China's imports grew by 12 percent in 1995 to \$132.1 billion, equal to 20 percent of China's GNP. China's imports consisted mainly of goods needed for its modernization and development, infrastructure projects, and for its foreign-investment sector.

⁶⁷ *Business China*, "Trade's Importance for China: A Stake in the World," Jan. 8, 1996, pp. 8-9.

⁶⁸ EIU, *Country Report: China*, "Foreign Trade, Investment & Debt: FIE's Share of Trade Continues to Rise," Mar. 11, 1996.

⁶⁹ In general, these products have a large import content, which can run as high as 50 percent of the product's value.

⁷⁰ USDOC, ITA, *Selected Big Emerging Markets-China*, IT USGO China, Mar. 2, 1996.

Sector/commodity	Value of U.S. exports to China	Percent of total U.S. exports
	<i>(Million dollars)</i>	
Agricultural products	2,716	23
Electronic machinery	1,880	16
Machinery	1,798	15
Fertilizers	1,204	10
Aircraft	1,024	9
Total	8,622	74

The United States, according to Chinese trade statistics, was China's second-leading source of imports, behind Japan. Chinese trade statistics valued U.S. exports to China at \$16 billion, or 12 percent of total 1995 imports.⁷¹ According to the Chinese, the U.S. exports consisted principally of electrical and nonelectrical machinery (32 percent), chemicals (18 percent), food products (11 percent), textiles (8 percent), and transportation equipment (7 percent). China removed import quotas and licenses on 367 products in July of 1995 and announced in November that it would further reduce tariffs on an additional 4,000 items during 1996.⁷²

Growth in U.S. exports to China was driven by demand for more food than that country could produce and the need for foreign machinery and equipment to expand and modernize communications and production in China. U.S. exports of agricultural products to China more than doubled in 1995, rising by \$1.6 billion to \$2.7 billion, and accounted for more than half of the total growth in U.S. exports to China in 1995 (table 2-20). Cereals led the growth in agricultural exports, as exports of corn jumped by \$4 million in 1994 to \$629 million in 1995; exports of wheat and soybean oil each more than tripled, to \$506 million and \$341 million, respectively. Significant growth was also reported in exports of fertilizers, cotton, computers, plastics, radio transmission and reception apparatus, and a variety of equipment and materials used for industrial purposes. Transportation equipment was the only sector to experience large decreases in U.S. exports to China in 1995, as exports of aircraft and engines fell by \$861 million (43 percent) to \$1.1 billion and exports of motor vehicles dropped by \$152 million (76 percent) to \$49 million.

⁷¹ Various issues of the Economist Intelligence Unit.

⁷² Goods freed from both licenses and quotas during 1995 included: crude oil, timber, ABS resins, veneer board (plywood) and wood pulp, chemical (man-made) fiber fabrics, cigarette filters, fault imaging devices, and computers. Goods receiving partial removal of license and quota restrictions included: synthetic rubber; household freezers; vegetable oil; liquor (wines); pesticides; and various tobacco products, air conditioners, compressors, and automatic washing machines. Goods freed from import quotas but still needing licenses included: grains, copiers, and soft drinks. P.T. Bangsberg, "China Plans New Wave of Easing on Import Rules," *Journal of Commerce*, June 9, 1995, p. 9A.

Table 2-20
Leading increases in U.S. exports to China, 1994-95

Product/commodity	1994	1995	Increase in 1995 over 1994	
			Value	Percent
		<i>Million dollars</i>		
Corn	4	629	626	17,387
Wheat	166	506	340	204
Fertilizers	944	1,204	260	28
Soybean oil	104	341	237	228
Radio transmission and reception apparatus	310	541	231	75
Cotton	648	833	185	28
Plastics and articles thereof	173	334	161	93
Boilers, turbines, and related equipment	53	185	134	247
Steel mill products	40	136	97	246
Wood pulp and wastepaper	107	191	84	79
Manmade fibers and yarns	107	187	81	76
Computers	218	290	73	33
Semiconductor devices	27	94	67	245
All other	6,277	6,142	-135	-2
Total	9,178	11,613	2,435	27

Source: Compiled from official statistics of the U.S. Department of Commerce.

China made the transition from being a net exporter of agricultural products to a net importer in 1995. Rising incomes and expanding population, combined with an agricultural sector beset by serious flooding and long-lasting droughts, forced China to depend on imports to supplement its grain and edible oil production. Also, the loss of arable land to industrial development and housing, price controls, transportation bottlenecks, and rising per-capita consumption have all combined to put tremendous pressures on China's agricultural sector.

In 1995, China imported approximately 10 percent of the world's grain exports and emerged as the world's second-largest grain importer behind Japan. During January-October 1995, agricultural imports rose abruptly and China imported 14.4 million tons of grain.⁷³ Imports of corn, wheat, rice, and sugar all increased greatly during 1995. Of the 32.2 million tons of grain exported by the United States during 1995, China accounted for approximately 11 percent of the total. China also purchased 3.5 million tons of corn, including 7 percent of total U.S. exports.⁷⁴ To limit price rises and increase the availability of grains, price controls were placed on the sale of grain and other important agricultural products. China also became a net importer of cotton for the first time in 1995. Imports rose during 1995 because demand for cotton by China's textile and apparel producers exceeded local production, which had declined.⁷⁵

The recent emergence of a strong middle class in China has created an apparent demand for a wide variety of consumer goods not previously accessible

or affordable. Since the government partially opened the retail sector to foreign investment in 1992, many foreign companies have rushed to enter China's underdeveloped consumer market.⁷⁶ Joint-venture, Chinese-operated department stores have been established in almost every large Chinese city. U.S. exports of electrical machinery, including consumer electrical goods and appliances, increased by 38 percent in 1995 compared with 1994. Private consumption is expected to increase by 6 to 7 percent annually over the next few years. During 1995, sales of consumer goods grew by 11 percent to \$240 billion.⁷⁷ Rising urban wages and one of the highest private savings rates in Asia will also drive demand for more expensive higher quality consumer goods.

Several Chinese industries, particularly plastics and power generation equipment, however, did experience problems and a resultant decline in import demand during 1995. Plastics imports slumped in 1995 when the Chinese Government initiated an antifraud campaign that froze imports of bulk plastics in order to crack down on tax-evading importers. Infractions such as underinvoicing, false invoicing, as well as value-added tax (17 percent) and import duty (15 percent) evasion, were pursued. These actions precipitated a dramatic decline in world plastics prices of almost 50 percent. Plastics are used by China's foreign-investment sector to produce such export items as video and audio cassettes, toys, and electronic devices.⁷⁸ U.S. exports of plastics to China declined by 37 percent in 1995 compared with 1994.

⁷³ *Far Eastern Economic Review*, "Grain Pains," Dec. 14, 1995, p. 13.

⁷⁴ Steve Mufson, "China's Global Grain of Difference," *Washington Post*, Feb. 2, 1996, p. A1.

⁷⁵ *Journal of Commerce*, "China Reviewing Textile Strategy as Going Gets Tough," Feb. 29, 1996, p. 21.

⁷⁶ China recently partially opened its retail sector to foreign participation but still requires, by law, joint-venture arrangements with Chinese firms.

⁷⁷ *Washington Post*, "China Says Growth and Inflation Eased in 1995," Jan. 6, 1996, p. A34.

⁷⁸ EIU, "Foreign Trade & Payments: China's Role on Key World Markets," *Country Report: China*, Feb. 27, 1995.

China set strict limits on the rate of return allowable on foreign-invested power stations in 1994. Since then, foreign firms have been reluctant to invest in Chinese power stations. U.S. and other foreign companies, however, are competing to sell power-generation equipment in China because it represents one of the world's last unexploited markets for major international electric power equipment producers. Such exports may decrease in the near future as joint-venture companies are formed in China to produce such equipment. Westinghouse Electric has entered into four joint ventures valued at \$377 million to produce electric power generation equipment. The joint ventures will manufacture turbogenerators, electric generators, and auxiliary generator sets.⁷⁹

China was the fourth-largest source for U.S. imports in 1995. U.S. imports from China grew by \$6.8 billion (18 percent) to \$45.4 billion during 1995. U.S. Government sources estimated that the U.S. market absorbed as much as 40 percent of China's total exports during 1995.⁸⁰ Chinese exporters were able to take advantage of falling U.S. tariff rates during 1995. As shown in the following tabulation, leading U.S. imports from China, by value, included electronic products (such as computers and radio and telephone receivers); apparel; toys, games, and sporting goods; and luggage and handbags.

Sector/commodity	Value of U.S. imports from China	Percent of total U.S. exports
	<i>(Million dollars)</i>	
Electric products	9,678	21
Apparel	7,048	16
Toys, games, sporting goods	6,212	13
Footwear	5,254	12
Luggage and handbags	1,596	4
Total	29,788	66

China reported that its overall exports consisted primarily of textile products (24 percent), electrical and nonelectrical machinery (19 percent), food products (8 percent), chemicals (8 percent), and base metals and manufactures (8 percent). Exports of capital and high-technology goods have become more important as China attempts to move away from traditional labor-intensive products such as textiles for the first time in 1995. Exports of non-traditional goods exceeded exports of textile prod-

⁷⁹ *Business China*, "Power in China," Oct. 30, 1995.

⁸⁰ USTR, *Trade in a New Era: Opportunities and Obstacles*, Statement of Ambassador Charlene Barshefsky, November 13, 1995, Hong Kong, Internet, http://www.ustr.gov/speeches/barshefsky_1.html.

ucts. According to Chinese trade statistics, China's exports increased by \$27.8 billion (23 percent) to \$148.8 billion in 1995. China continues to rely on exports as the main source of foreign exchange to finance its imports and its \$100 billion foreign debt. Hong Kong (24 percent of total exports) was China's leading export market in 1995, followed by Japan (19 percent of total exports) and the United States (17 percent of total exports). Hong Kong, in turn, re-exports the majority of these goods to either the United States or the European Union. Chinese trade statistics show that exports to the United States increased to \$24.7 billion, or by \$3.2 billion (15 percent) in 1995. China reported that its exports to the United States consisted mainly of electrical and nonelectrical machinery (22 percent), footwear (14 percent), textile products (13 percent), toys (9 percent), and chemicals (7 percent).

The largest growth in U.S. imports from China in 1995 was in computer equipment, most of which was assembled in China from components purchased from suppliers located in other Asian countries. U.S. imports of computers from China nearly doubled in 1995, expanding from \$1.2 billion in 1994 to \$2.2 billion in 1995 (table 2-21). Other electronic products from China exhibiting substantial growth in 1995 were copiers and other office machines; turntables, tape recorders, VCRs, and compact disc players; electric household appliances; cameras; transformers; microphones, speakers, and amplifiers; printed circuit boards; and semiconductor devices. Lower technology, labor-intensive articles continued to show growth in imports from China in 1995, including footwear, toys, dolls, lamps, sporting goods, ceramic household articles, and furniture. The only significant decrease in U.S. imports from China in 1995 was a \$302 million (4-percent) contraction in imports of apparel and other textile products to \$7.0 billion. The leveling off of apparel imports reflects both the effects of import quotas on many categories of apparel and China's push toward relatively higher technology products.

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Germany

The German economy is the largest in Europe and the third-largest in the world, with an estimated GDP of \$2.1 trillion in 1995, accounting for approximately 30 percent of total EU production of goods and services. Germany is the fourth-largest trading partner of the United States behind Canada, Japan, and Mexico, with total trade of \$58 billion in 1995. The United States has recorded trade deficits with Germany during each of the past 10 years. The increase in U.S. imports from Germany in

Table 2-21
Leading increases in U.S. imports from China, 1994-95

Product	1994	1995	Increase in 1995 over 1994	
			Value	Percent
		<i>Million dollars</i>		
Computers	1,245	2,233	988	79
Footwear	5,254	5,817	563	11
Toys and models	2,760	3,825	525	19
Office machines	337	646	308	91
Dolls	655	868	212	32
Christmas decorations, festive articles	625	832	206	33
Turntables, VCRs, tape and compact discs players	672	875	202	30
Electric household appliances	727	901	174	24
Sporting goods	623	790	168	27
Cameras and equipment	226	367	141	62
Transformers, converters, and inductors	235	375	140	60
Ceramic household articles	392	523	131	33
Furniture	747	878	130	17
Microphones, loudspeakers, and amplifiers	271	383	111	41
Semiconductor devices	45	150	105	233
Printed circuit boards and other circuit controllers	296	401	105	36
All other	23,502	25,506	2,004	9
Total	38,572	45,370	6,797	18

Source: Compiled from official statistics of the U.S. Department of Commerce.

1995 was led by motor vehicles (\$1.5 billion, or 25 percent), certain industrial and printing machinery (\$538 million, or 31 percent), certain medicinal chemicals and/or heterocyclic compounds (\$371 million, or 54 percent), semiconductor devices (\$204 million, or 48 percent), and antibiotics (\$146 million, or 436 percent) (table 2-22).

Although U.S. imports and exports with Germany expanded at nearly identical rates in 1995 (18 percent for imports and 17 percent for exports), imports from Germany remained 75 percent larger than exports to Germany. The \$5.6 billion increase in U.S. imports from Germany in 1995 to \$37 billion was nearly twice as large as the \$3.0 billion expansion in U.S. exports to \$21 billion, resulting in a \$2.6 billion (19-percent) increase in the U.S. bilateral trade deficit with Germany in 1995 to \$16 billion. Motor vehicles and certain medicinal chemicals topped U.S. imports from Germany, while U.S. exports were spearheaded by computers and certain industrial machinery.

Factors which fueled a resurgence in U.S. demand for German-made passenger automobiles in 1995 included the continued growth of the U.S. economy and the decision by German automakers to introduce more competitively-priced automobile models in foreign markets. This strategy by German automakers was largely responsible for the \$1.6 billion (29-percent) rise in the U.S. automotive trade deficit with Germany in 1995 to \$7.0 billion, accounting for 44 percent of the total U.S. trade deficit with Germany that year.

The rise in U.S. imports was partly the result of newly established investments made by German companies that were attracted by lower U.S. labor

costs⁸¹ to the southeastern section of the United States (e.g., BMW in South Carolina). These green-field sites have begun sourcing German parts and accessories in 1995 to prestock and supply these newly opened subsidiaries. In addition, German automakers (particularly Mercedes and Audi) introduced new model lines in 1995 that appealed to both traditional and new U.S. consumers.

In the top 10 product categories of imports from Germany, antibiotics and certain medicinal chemicals rose most steeply, by 436 percent and 54 percent, respectively. These increases can be partially attributed to the pharmaceuticals and the intermediate chemicals for dyes concessions that were negotiated under the General Agreement on Tariffs and Trade in 1994. The agreements require duty-free treatment for intermediate chemicals destined for pharmaceutical use and for those chemicals made into dyes and other coloring materials. According to industry sources, another factor aiding stronger German exports of pharmaceutical and chemical products included a sudden appreciation of the U.S. dollar against the German mark during the Summer of 1995 (from about 1.40 DM to 1.48 DM). According to U.S. industry officials, all three major chemical producers (BASF, Bayer, and Hoechst) benefitted from the stronger dollar, which allowed them to be more price competitive.⁸²

⁸¹ Average hourly compensation cost for German production workers in 1994 was \$27.31, compared with \$17.10 in the United States. U.S. Bureau of Labor Statistics, Office of Productivity and Technology, *International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing*, 1994, p. 5.

⁸² *Chemical Marketing Reporter*, "Stronger Dollar Helps German Chemicals," Sept. 4, 1995, p. 10.

Table 2-22
Leading increases in U.S. imports from Germany, 1994-95

Industry/product	Increase in 1995		Total value in 1995 <i>Million dollars</i>
	Value <i>Million dollars</i>	Percent	
Motor vehicles	1,510	25	7,662
Certain industrial and printing machinery	538	31	2,299
Medicinal chemicals (except antibiotics)	371	54	1,060
Semiconductor devices	204	48	632
Antibiotics	146	436	180
Medical equipment	129	14	1,062
Computers	126	19	787
Air-conditioning equipment	121	53	349
Electrical circuitry equipment	120	19	740
Certain motor-vehicle parts	118	18	787
Measuring and controlling instruments	111	16	812
Misc. organic chemicals	101	20	602
Printing and writing papers	100	62	262
Machine tools	93	25	469
All other	1,770	10	19,424
Total	5,560	18	37,126

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. imports of other products such as printing and other industrial machinery rose, in part, because of pent-up U.S. demand for these products and because capital equipment from Germany was used to expand U.S. manufacturing capacity in response to continued growth of the U.S. economy. Expanded two-way trade in computer and electronic products reflected globalization in these industries and was further stimulated by reduced trade barriers. For example, while U.S. imports of computers from Germany rose by \$126 million (19 percent) in 1995 to \$787 million, U.S. exports of computers to Germany also increased, advancing by \$670 million (28 percent) to \$3.0 billion, by far the largest increase of any U.S. export product category (tables 2-22 and 2-23).

Germany's GDP grew for the second consecutive year in 1995, at a rate of 2.5 percent, following the end of a 3-year recession (1990-93). The economic recovery in Germany was largely responsible for the expansion in U.S. exports to Germany in 1995. Economic dislocations and other costs associated with the reunification of Germany⁸³ beginning in 1990 had inhibited U.S. exports to Germany in recent years. Moreover, certain structural weaknesses remain in the German economy that are likely to serve as impediments to the future expansion of U.S. exports. These include relatively high unemployment (9.3 percent) fueled by comparatively high wages and restrictive labor practices; a governmental regulatory system that discourages new

⁸³ According to German Embassy sources, *Treuhandanstalt*, the institution primarily responsible for privatizing state-owned assets of the East German economy, largely implemented its goals and ceased its activities at the end of 1994. USITC staff telephone interview with an official of the German Embassy in Washington, DC, Apr. 30, 1996.

entrants, particularly in the social-services sector; relatively high taxes and social costs of production; and a shortage of venture capital for startup firms.⁸⁴

U.S. export growth to Germany was assisted by pent-up German demand for jet aircraft and parts and electronic products, such as computers, duplicating machines, and other office machines (table 2-23). Many German firms had restricted such purchases during Germany's recent recession. U.S. exports of motor-vehicle parts also increased by \$97 million (16 percent) in 1995 to \$691 million, primarily due to increased shipments of parts to the Germany-based subsidiaries of General Motors and Ford.

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Singapore

A substantial growth in U.S. imports and a moderate increase in U.S. exports during 1995 combined to increase the U.S. bilateral trade deficit with Singapore to \$4.8 billion, its highest level in recent years. U.S. imports from Singapore also reached a record level of \$18.5 billion in 1995, thereby surpassing the previous record level of \$15.3 billion reached in 1994. Compared with 1994 levels, imports increased by 21 percent, while exports advanced by 17 percent. Although Singapore is a small country, with only 3.2 million people and a

⁸⁴ U.S. Department of State, *Country Reports*, Mar. 1996, p. 187.

Table 2-23
Leading increases in U.S. exports to Germany, 1994-95

Industry/product	Increase in 1995		Total value in 1995 <i>Million dollars</i>
	Value <i>Million dollars</i>	Percent	
Computers	670	28	3,043
Certain industrial machinery	205	64	528
Microelectronic components	154	34	604
Medical equipment	136	16	1,004
Measuring and controlling instruments	128	20	766
Aircraft engines	100	19	627
Certain motor-vehicle parts	97	16	691
Wood pulp and wastepaper	93	43	309
Non-metalworking machine tools	84	163	135
Aircraft, spacecraft, and related equipment	75	8	1,007
Farm and garden machinery	68	37	249
Oilseeds	59	26	282
Office machines	57	73	134
Industrial papers and boards	55	45	176
Coal, coke, and related chemicals	54	350	69
All other	961	8	11,549
Total	2,994	16	21,175

Source: Compiled from official statistics of the U.S. Department of Commerce.

land area of 225 square miles, it was the United States' ninth-leading trading partner in 1995.

The U.S. trade deficit with Singapore continued to increase despite the depreciation of the U.S. dollar against the Singapore dollar and Singapore's continued strong economic growth. Part of this continued trade deficit can be explained by Singapore's trade dynamics and the small size of its population. Singapore is an export-oriented economy that depends heavily on foreign trade. Overall, Singapore has a very open trade regime, where tariffs are imposed on only four categories of products (99 percent of imports enter duty free) and other merchandise nontariff trade barriers remain minimal.⁸⁵ Singapore's trade is characterized by imports of raw materials and components and exports of finished or further processed goods, of which the value added is greater than that of the imported inputs. Foreign investment has played and continues to play a significant role in Singapore's economic development and direction of foreign trade. Major multinational firms have significant investment in Singapore's economy, especially in major manufacturing industries—electronics (contributing to 12 percent of GDP) and petroleum/chemicals. The production of these industries greatly exceeds the amount that can be used by Singapore's small population. U.S. investment in these industries in Singapore is substantial at \$2.1 billion in electronics and \$2.2 billion in petroleum/chemicals, according to the latest (1994) figures.⁸⁶

⁸⁵ USTR, *1996 National Trade Estimate*, p. 301.

⁸⁶ U.S. Department of State, *Country Reports*, Mar. 1996, p. 98.

U.S. imports from Singapore climbed steadily during the last 5-year period, reaching \$18.5 billion in 1995, an increase of \$3.2 billion (21 percent). The majority of U.S. imports from Singapore are concentrated in the electronics and chemicals sectors. The largest category of imports in 1995 was computers and related equipment, which accounted for 45 percent of total imports. This was followed by parts and accessories for computers (15 percent of imports), integrated circuits (15 percent), and heterocyclic chemical compounds (2 percent). The growth of the top three import categories (\$3.4 billion), accounted for more than the total rise (\$3.2 billion) for all commodities in 1995. The specific products contributing to the large increase in imports were hard disk drives for computers with a \$1.7 billion increase, and ink jet printers with a \$546 million increase.

The electronics industry was also responsible for the majority of shifts in the export trade with Singapore in 1995; exports rose 17 percent to \$13.6 billion. U.S. exports of parts and accessories for computers rose \$484 million (106 percent) to \$941 million, integrated circuits increased by \$354 million (19 percent) to \$2.2 billion, and unrecorded magnetic discs increased by \$240 million (74 percent) to \$563 million. In addition to these three categories, the other major export category in 1995 was computers and related equipment with \$827 million in exports. These four product categories accounted for one-third of total U.S. exports to Singapore in 1995.

As demonstrated by U.S. bilateral trade with Singapore, the driving forces behind these shifts were mainly decisions by multinational (mainly U.S. based) corporations to source components or further

process goods in Singapore, either through subsidiary firms, joint ventures, or from unrelated firms. Given the large amount of investment from U.S. sources in these sectors, many U.S. firms are trading with related firms in Singapore. Because of trends and developments in the global electronics industry, many unfinished or unmounted articles are exported to Singapore for final assembly and then either returned to the United States, or exported to other world markets.

These trends in trade with Singapore are likely to continue along the same path as many multinational (mainly U.S.) firms have announced additional investments in manufacturing facilities in Singapore in the near future. For example, in the electronics sector, Singapore currently has four semiconductor wafer manufacturing facilities, two more under construction, and nine others in various stages of development. According to a Singapore government agency, the country could have as many as 25 wafer fabrication plants in the next few years.⁸⁷ In the chemicals sectors, a second petrochemical complex is currently being constructed (a \$2.4 billion investment), while a third facility, valued at \$1 billion, is being considered.

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Malaysia

The U.S. merchandise trade deficit with Malaysia rose by 27 percent (\$1.9 billion) in 1995 to \$9.2 billion, as the growth in U.S. imports (up by \$3.5 billion) outpaced the expansion of U.S. exports (up by \$1.6 billion). The value added to U.S. electronic components during assembly in Malaysia accounted for much of the increase in the U.S. bilateral trade deficit with Malaysia in 1995. Electronic products accounted for almost two-thirds of U.S. exports to Malaysia in 1995, and more than three-quarters of U.S. imports. The trade deficit in electronic products, which rose by 22 percent to \$8.2 billion, accounted for 89 percent of the total U.S. trade deficit with Malaysia in 1995.

Multinational high-technology companies are attracted to Malaysia as a location for relatively low-cost assembly for several reasons: (1) Malaysia has a stable government that has encouraged foreign investment; (2) the labor force exhibits a good balance between education and low-wage rates; (3) the local economy is sound, with low inflation (3.4 percent in 1995), a stable currency,⁸⁸ and strong

⁸⁷ USDOC, ITA, *Singapore-Semiconductor Wafer Production Plan*, by Chia Swee Hoon, Market Research Report, Dec. 1995, p. 1.

⁸⁸ The ringgit has remained relatively stable at around 2.5 to the dollar.

GDP growth (gains of 9.2 percent in 1994 and 9.5 percent in 1995⁸⁹); and (4) foreign investors are supplying the rapidly expanding Southeast Asian market from factories in Malaysia, as well as returning assembled products to industrialized countries from export processing zones.⁹⁰

U.S. imports from Malaysia increased by 25 percent in 1995 to \$17.4 billion, largely reflecting growth in Malaysian exports of semiconductor devices and consumer electronic products. A large share of these imports is intracompany trade from U.S. firms with assembly facilities in Malaysia. U.S. imports from Malaysia of electronic products rose by \$2.9 billion (28 percent) in 1995 to \$13.4 billion (see table 11-1). Within this sector, the major increases in imports were in semiconductor devices, up 45 percent (\$1.6 billion) to \$5.1 billion; computers, up 38 percent (\$906 million) to \$3.3 billion; radio and telephone equipment (including cellular phones, pagers, and stereo receivers), up 11 percent (\$232 million) to \$2.4 billion; and VCRs, tape players, turntables, and compact disc players, up 12 percent (\$161 million) to \$1.5 billion. The strong U.S. market for computers in 1995 was responsible for the rapid growth in U.S. imports from Malaysia of both semiconductors (used in the U.S. production of computers) and assembled computer equipment, such as disk drives, digital processing units, keyboards, and monitors. Significant growth in U.S. imports from Malaysia in 1995 was not restricted to "high-tech" products. Imports of apparel climbed by \$110 million (27 percent) to \$513 million; imports of gloves rose by \$108 million (26 percent) to \$523 million; and imports of natural rubber increased by \$67 million (48 percent) to \$205 million.

U.S. exports to Malaysia rose by 24 percent, or \$1.6 billion to \$8.2 billion in 1995. The electronics sector accounted for 64 percent of the value increase in U.S. exports to Malaysia in 1995. A large percentage of the U.S. electronic exports to Malaysia are destined for final or intermediate assembly operations of U.S. multinational corporations, where value is added, and devices are subsequently re-exported, often back to the United States. U.S. exports of electronic products to Malaysia increased by \$1.5 billion (39 percent) in 1995 to \$5.2 billion. Among these, exports of semiconductor devices⁹¹ climbed by \$913 million (32 percent) to \$3.8 billion. U.S. exports to Malaysia of computers continued to show strong growth in 1995, increasing by \$234 million (76 percent) to \$540 million. Exports

⁸⁹ S. Jayasankaran, "Strength in Numbers," *Economic Monitor-Malaysia*, *Far Eastern Economic Review*, Apr. 4, 1996, p. 997.

⁹⁰ Malaysia is a member of ASEAN and APEC.

⁹¹ Malaysia is the world's third-largest producer of integrated circuits.

of industrial ceramics (used primarily to make printed circuit boards) jumped from \$12 million in 1994 to \$143 million in 1995 (a \$131 million increase). Exports of semiconductor manufacturing equipment rose by \$114 million (74 percent) to \$268 million; exports of measuring and controlling instruments (also used in processes to produce semiconductors and other high-tech articles) climbed by \$103 million (75 percent) to \$241 million; and exports of unrecorded media (used to make recorded tapes and discs) rose by \$85 million (77 percent) to \$195 million. Exports of certain agricultural products also experienced strong growth in 1995: corn rose by \$186 million, up to \$188 million from just \$2 million in 1994; and exports of soybeans more than doubled in 1995, climbing by \$70 million to \$123 million.

The success of U.S. exports in the Malaysian market in 1995 was tempered somewhat by a continued reduction in exports of aircraft. U.S. exports of aircraft, mainly large civilian aircraft, fell by \$709 million (75 percent) to \$231 million. This decline was accompanied by a \$97 million (59-percent) drop in exports of aircraft engines to \$66 million. U.S. exports to Malaysia of new passenger transport planes (nonmilitary) reached a high in 1993 of \$1.4 billion, and decreased to \$799 million in 1994. Malaysian airlines experienced similar drops in passenger traffic over the last few years, due to economic conditions of the early 1990s, which have negatively impacted their demand for additional aircraft. U.S. exports of electric motors and generators also fell in 1995, dropping by \$99 million (77 percent) to \$30 million. At the same time, imports of motors and generators from Malaysia more than tripled, rising by \$50 million to \$72 million. The net result was a shift from a \$106 million U.S. bilateral surplus with Malaysia in motors and generators to a \$42 million deficit.

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Taiwan

The U.S. merchandise trade deficit with Taiwan grew for the second consecutive year in 1995, expanding by nearly 5 percent, from \$10.3 billion in 1994 to \$10.8 billion in 1995. This followed a 10-percent (\$950 million) increase in 1994. However, there had been 9-percent (\$601 million) and 3-percent (\$226 million) decreases, respectively, in 1993 and 1992. In 1995, U.S. imports from Taiwan rose by almost 9 percent (\$2.3 billion), and U.S. exports increased by 11 percent (\$1.8 billion). Also for the second consecutive year, Taiwan was the sixth-largest supplier of foreign goods to the United States and the seventh-largest export market for U.S. goods.

Historically, U.S. imports from Taiwan have consisted of relatively low-technology goods such as footwear, toys, and apparel. However, as the economy of Taiwan has developed, much of its focus has shifted to the high-tech sector. Taiwan now exports a preponderance of information and telecommunications products and electronics, particularly to the United States. This development also reflects growing U.S. demand for electronic components for use in personal computers and other electronic equipment. Computers, parts of computers and other office machines, and integrated circuits and microassemblies accounted for 34 percent (\$9.9 billion) of total U.S. imports from Taiwan in 1995, a 24-percent increase over 1994, when these products accounted for 29 percent (\$7.6 billion) of U.S. imports from Taiwan. This trend is consistent with the direction and makeup of the total exports of Taiwan, which maintained strong annual growth in 1995, and were primarily composed of information and telecommunications products and electronics.⁹²

Total imports of machinery and electrical and electronic equipment⁹³ equaled 54 percent (\$15.7 billion) of U.S. imports from Taiwan in 1995. Imports of selected major product categories from this group as a percentage of total U.S. imports from Taiwan, include: computers, parts of computers, and other office machines, 25 percent (\$7.1 billion); integrated circuits and microassemblies, 9 percent (\$2.8 billion); and printed circuits boards, nearly 2 percent (\$442 million). Other important product sectors,⁹⁴ as a percentage of total U.S. imports from Taiwan in 1995, include: textiles and apparel, 10 percent (\$2.8 billion); furniture and lamps, 5 percent (\$1.4 billion); toys, games, and sporting equipment, 4 percent (\$1.2 billion); articles of iron or steel, particularly industrial fasteners, 4 percent (\$1.2 billion); and motor vehicles, bicycles, and parts, 4 percent (\$1.1 billion).

In terms of the change in the value of U.S. imports from Taiwan in 1995, electronics and associated products rose significantly (table 2-24). As U.S. demand for electronic products fuels these increases, Taiwan continues to shift more manufacturing to higher-value-added products. Correspondingly, U.S. imports from Taiwan of lower-value-added products, such as furniture, sporting goods, and apparel are declining. Imports of furniture declined by 11 percent to \$1.1 billion; imports of textiles and apparel declined by 4 percent to \$2.8 billion; imports of footwear fell by 23 percent to \$350 million; and imports of sporting goods retreated by 8 percent to \$685 million.

⁹² Deborah Shen, "Vigorous Activity in Major Markets Keeps Export Orders on Growth Track," *Free China Journal*, vol. 3, No. 9, Mar. 8, 1996, p. 3.

⁹³ Total for ch. 84 and 85, *Harmonized Tariff Schedule of the United States (HTS)*.

⁹⁴ Also based on 2-digit HTS chs.

Table 2-24
Leading increases in U.S. imports from Taiwan, 1994-95

Product	1994	1995	Increase in 1995 over 1994	
			Value	Percent
	Million dollars			
Parts of typewriters, computers, and other office machines	2,459	3,557	1,098	45
Integrated circuits, micro-assemblies, and semiconductor devices	1,975	3,038	1,063	54
Computers	3,325	3,575	250	8
Electronic circuit control devices	619	779	100	26
Bicycles and certain parts	452	529	77	17

Source: Compiled from official statistics of the U.S. Department of Commerce.

In 1995, exports of major product categories, as a percentage of total U.S. exports to Taiwan, included: organic chemicals, 10 percent (\$1.8 billion); integrated circuits and other semiconductor devices (often used for assembly in products later exported to the United States), 9 percent (\$1.7 billion); aircraft and parts, 9 percent (\$1.7 billion); corn and soybeans, 8 percent (\$1.4 billion); and motor vehicles, 5 percent (\$888 million).

U.S. and world exports to Taiwan have continued to grow, due in large part to increasing economic prosperity, the strength of the New Taiwan Dollar, and resulting increases in domestic consumption.⁹⁵ On June 23, 1995, the Taiwan Legislature passed the tariff reduction bill, lowering import duties on 758 products, including manufactured goods and agricultural commodities. Taiwan also removed controls on a number of import categories on July 1, 1994.⁹⁶ As a result, in 1995, U.S. exports to Taiwan of machinery, chemicals, and agricultural products increased significantly (table 2-25).⁹⁷

Only one major U.S. export category (with more than \$500 million in customs value) experienced a decline in the value of exports to Taiwan during 1995. Exports of motor vehicles fell by 16 percent in 1995, from \$1.1 billion in 1994 to just over \$888 million in 1995. During the early part of 1995, the Taiwan economy maintained stable growth; however, from August through October, the island experienced a general slowdown in business activity. During the last 3 months of 1995, Taiwan entered a recessionary state, characterized by mark-

edly lower exports to the United States, Japan, Hong Kong, and other ASEAN nations.⁹⁸ This also affected U.S. exports of motor vehicles to Taiwan, as consumers deferred purchases of consumer durables.

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United Kingdom

Trade between the United States and the United Kingdom, the sixth largest U.S. trading partner, remained roughly in balance in 1995, with comparable gains in both U.S. exports and imports resulting in a shift in the balance from a \$226 million U.S. surplus in 1994 to a \$274 million deficit in 1995. The \$1.6 billion (6-percent) increase in U.S. exports to the United Kingdom in 1995 to \$26.3 billion was outpaced by the \$2.1 billion (8-percent) rise in U.S. imports to \$26.6 billion.

U.S. imports of parts of computers and other office machines from the United Kingdom advanced by \$187 million (46 percent) to \$590 million in 1995, while U.S. exports of such products to the United Kingdom grew by \$174 million (13 percent) to \$1.5 billion. Meanwhile, the United Kingdom cut into the substantial U.S. bilateral trade surplus in computers in 1995 as U.S. imports from the United Kingdom climbed by \$391 million (48 percent) to \$1.2 billion and U.S. exports edged upward by just \$41 million (2 percent) to \$2.0 billion. The total U.S. trade surplus in computers and parts with the United Kingdom in 1995 contracted by \$363 million (18 percent) to \$1.7 billion. The magnitude of the U.S. trade surplus in computer products reflects the lead that U.S. producers have over most other manufacturers in terms of increasing the speed and capacity of these products as well as reducing the size of computer components and peripherals. U.S. exports of the latter to the United Kingdom in 1995

⁹⁵ U.S. Department of State, *Country Reports*, "Economic Policy and Trade Practices: Taiwan," reprinted in the NTDB, ID: ST ECO POL TAIWAN, Apr. 20, 1995.

⁹⁶ USDOC, ITA, *Country Commercial Guides*, "Taiwan: Commercial Overview," reprinted in the NTDB, ID: IT CCG TAIWAN, Aug. 23, 1995.

⁹⁷ U.S. exports of machinery to Taiwan grew by 31 percent in 1995 to \$1.9 billion; exports of chemicals and related products rose by 23 percent to \$2.9 billion; and exports of agricultural products climbed by 18 percent to \$2.8 billion. Electronic products, the largest category of U.S. exports to Taiwan at \$4.2 billion, grew by only 6 percent.

⁹⁸ Deborah Shen, "Economy Officially Slips Into Recession Territory," *Free China Journal*, vol. 12, No. 50, Dec. 29, 1995, p. 3.

Table 2-25
Leading increases in U.S. exports to Taiwan, 1994-95

Product/commodity	1994	1995	Increase in 1995 over 1994	
			Value	Percent
		<i>Million dollars</i>		
Organic chemicals	1,343	1,751	408	30
Aircraft	932	1,215	283	30
Certain industrial machinery	358	616	259	72
Corn	566	771	205	36
Soybeans	442	600	159	36
Steel	25	181	156	624

Source: Compiled from official statistics of the U.S. Department of Commerce.

were led by printer units, hard disk drives, and control and adapter units. The United States is considered among the world leaders in the design of such products and getting the product from concept to market quickly.

The United States was able to maintain its trade surplus with the United Kingdom in semiconductor devices in 1995 at \$671 million. Two-way trade between the United States and the United Kingdom in semiconductor devices grew by comparable values in 1995, with U.S. exports advancing by \$182 million (16 percent) to \$1.3 billion and imports rising by \$168 million (37 percent) to \$622 million. Significant growth in U.S. exports to the United Kingdom in 1995 was also recorded in telephone equipment, which rose by \$151 million (51 percent) to \$446 million, reflecting the strong global position that U.S. producers have in that market.

U.S.-British trade in precious metals is often volatile. In 1995, U.S. exports of gold to the United Kingdom dropped by \$561 million (41 percent) to \$820 million, while exports of silver jumped by \$397 million, from \$29 million in 1994, to \$426 million in 1995. Much of the trade in gold reflects transfers of gold bullion from Commodity Exchange warehouses in the United States to the London gold market. Such gold bullion provides security behind futures trading in gold in case delivery must be made under the contracts.

The \$1.1 billion (39-percent) drop in U.S. exports of aircraft to the United Kingdom in 1995 is attributable to the 2- to 3-year lagged effect of a worldwide recession in air travel in 1991-93, which caused new aircraft purchases for delivery in 1995 to be cut back sharply for financial reasons. For example, British Airways, by far the largest British air carrier, showed large losses during the travel recession. The cutback in orders for finished aircraft also resulted in a drop in U.S. imports of aircraft engines from the United Kingdom in 1995, by \$274 million (18 percent) to \$1.3 billion.

The \$406 million (35-percent) rise in U.S. imports of motor vehicles from the United Kingdom in

1995 to \$1.6 billion was principally accounted for by expensive vehicles, such as Jaguar and Range Rover, which have found favor in the U.S. market. Exports of motor vehicles from the United States to the United Kingdom, on the other hand, fell by \$167 million (37 percent) to \$285 million. The relative affluence of consumers in the United States was also reflected in the \$162 million (45-percent) increase in U.S. imports of paintings from the United Kingdom in 1995 to \$521 million.

The largest decrease in U.S. imports from the United Kingdom in 1995 was in crude petroleum, which shrank by \$529 million (19 percent) to \$2.2 billion. This decline was due largely to the higher price of North Sea crude oil (\$17.05/bbl) versus lower costs from the major crude petroleum import suppliers to the United States (\$15.53/bbl).

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Italy

The U.S. merchandise trade deficit with Italy grew for the fourth consecutive year in 1995, expanding by \$180 million (2 percent) to \$7.9 billion. This followed a \$786 million (11-percent) increase in the deficit in 1994 and a \$3.1 billion (82-percent) increase in 1993. The slowing rate of increase in the U.S.-Italy deficit reflects a continuation of the economic recovery in Italy, which improved the ability of Italian industries to purchase U.S. raw materials, capital goods, and communications equipment. Italy experienced moderate economic growth in 1995, with real GDP expanding at a rate of 3.3 percent, following a growth rate of 2.2 percent in 1994 and a decline of 0.7 percent in 1993. Initially, growth in the Italian economy was largely stimulated by increasing exports; however in recent years, growth has become more broadly based and has spread to the capital goods and consumer sectors of the economy, leading to an increase in imports.⁹⁹

⁹⁹ *OECD Economic Outlook*, "Italy," Dec. 1995, p. 62.

The Bank of Italy tightened monetary conditions in May 1995 by raising its discount rate in an effort to halt mounting inflationary pressures and weakness in the lira. This development contributed to slower economic growth in the fourth quarter of 1995, which was expected to reduce import growth in the near future. The move not only strengthened the lira,¹⁰⁰ but also reduced inflation from 5.8 percent during 1995 to nearly 4.5 percent during the first quarter of 1996.¹⁰¹ As a result of this change in policy, analysts have lowered projected growth in real GDP to 2.3 percent for 1996.¹⁰²

U.S. imports from Italy increased by \$1.8 billion (12 percent) in 1995 to \$16.3 billion, with significant growth occurring in a number of products. The largest dollar volume increases occurred among imports of parts and accessories for computers and other office machines, which grew by \$185 million (71 percent) to \$447 million; antibiotics, which more than doubled in 1995, rising by \$173 million to \$291 million, as merger activity in recent years has strengthened the position of the Italian pharmaceutical industry in foreign markets;¹⁰³ integrated circuits and other semiconductor devices, which also more than doubled, climbing by \$149 million to \$277 million; footwear, which increased by \$130 million (15 percent) to \$1.0 billion; and construction and mining equipment, which rose by \$85 million (71 percent) to \$206 million. Partially offsetting the increase in U.S. imports in these products were declines in imports of steel, down \$184 million (37 percent) to \$290 million; petroleum products, down \$144 million (69 percent) to \$65 million; and medical products, except antibiotics, down \$77 million (30 percent) to \$178 million.

U.S. exports to Italy increased by \$1.6 billion (23 percent) in 1995 to \$8.4 billion. The increase in U.S. exports was distributed among a number of industries including exports of wood pulp and wastepaper and paperboard, which rose by \$217 million (85 percent) to \$472 million; steel, which climbed from \$28 million in 1994 to \$142 million in 1995; telephone and telegraph apparatus, which grew by \$83 million (94 percent) to \$171 million; and petroleum products, which increased by \$73 million (80 percent) to \$163 million.

The most significant decline in U.S. exports to Italy occurred in exports of aircraft, which fell by \$57

¹⁰⁰ The Italian lira appreciated by an average of nearly 7 percent against the average of ECU currencies between Mar. 1995 and Dec. 1995.

¹⁰¹ U.S. Department of State telegram, "Italy: Economic Forecast," message reference No. 003885, prepared by U.S. Embassy, Rome, Apr. 1996.

¹⁰² *Ibid.*

¹⁰³ *Chemical Marketing Reporter*, "Procordia to Purchase Montedison Drug Holdings," Mar. 29, 1993, p. 8.

million (7 percent) to \$814 million.¹⁰⁴ The Italian civilian and military aerospace industries are currently experiencing significant downsizing in their operations, with declines in production and employment of 20 to 30 percent from levels reached in the early 1990s, due largely to reduced funding by the Italian Government for defense and space-related initiatives and to protracted weakness in the civilian aerospace market.¹⁰⁵

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Netherlands

The U.S. merchandise trade surplus with the Netherlands continued to grow in 1995, to a record \$9.7 billion, expanding by \$2.7 billion (38 percent) from the \$7.0 billion surplus in 1994. The increase in the value of U.S. exports to the Netherlands exceeded the increase in the value of U.S. imports from the Netherlands, largely reflecting favorable exchange rates and the European economic recovery, which stimulated European demand for U.S. goods. The Netherlands, especially its chief port of Rotterdam, is a major channel through which U.S. exports are distributed to many European countries.

U.S. exports to the Netherlands grew by nearly \$3 billion, or 23 percent, in 1995, reaching almost \$16 billion from \$13.0 billion in 1994. Several groups of commodities contributed to this export performance, including aircraft and parts, which grew by \$359 million (27 percent) to \$1.7 billion in 1995, and organic chemicals, which rose by \$313 million (35 percent) to \$1.2 billion. Also, exports of computer equipment grew significantly in 1995, by \$148 million (14 percent) to \$1.2 billion. In the agriculture sector, soybean exports grew by more than a fifth, or \$153 million, to \$845 million in 1995. Reflecting expanded steel manufacturing in Europe, U.S. exports of molybdenum ores and concentrates to the Netherlands more than quadrupled in 1995, rising by \$118 million to \$153 million. Global shortages drove up the unit price of molybdenum in 1995 and contributed to the rise in the value of U.S. exports.

On the import side, overall U.S. imports from the Netherlands rose by 6 percent, from \$6.0 billion in 1994 to \$6.3 billion in 1995, an increase of \$339 million. Big ticket items on the import side included organic chemicals, imports of which grew by \$156 million (44 percent) to \$510 million; paintings, which more than doubled in 1995, rising

¹⁰⁴ This was in contrast with the situation in 1994, when exports of aircraft increased by 140 percent and accounted for the largest dollar increase among U.S. exports to Italy.

¹⁰⁵ Pierre Sparaco, "Crisis Deepens, Threatening Italy's Aerospace Future," *Aviation Week & Space Technology*, Sept. 18, 1995, pp. 24-25.

by \$75 million to \$132 million; and apparatus for photo labs and equipment used to imprint printed circuits onto semiconductor material, up \$69 million (63 percent) to \$179 million. These increases in imports were partially offset by a sharp drop in imports of aircraft from the Netherlands, which fell by \$273 million (64 percent) in 1995 to \$153 million.

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Brazil

U.S. trade with Brazil shifted from a deficit of \$1.2 billion in 1994, to a \$1.8 billion surplus in 1995. A broad array of U.S. exports benefitted from fiscal policies in Brazil that loosely tied Brazil's new currency to the U.S. dollar, brought inflation under control, and significantly reduced trade barriers. While U.S. exports to Brazil grew by \$3.1 billion (41 percent) in 1995 to \$10.8 billion, U.S. imports from Brazil edged upward by only \$141 million (2 percent) to \$9.0 billion.

The top gainers among U.S. exports to the Brazilian market in 1995 were electronic products such as computers, cathode ray tubes for televisions and computer monitors, and telephone apparatus; transportation equipment, including motor vehicles, aircraft, and parts for each; chemicals; medical goods; and construction and mining equipment (table 2-26). Increased exports of wheat (from none in 1994 to \$68 million in 1995) and a variety of other agricultural products were offset by reductions in exports of soybeans (by \$114 million to \$19 million), rice (by \$53 million to \$11 million), and corn (by \$28 million to \$10 million). The net result was a \$50 million (8-percent) increase in U.S. exports of agricultural products to Brazil in 1995 to \$692 million.¹⁰⁶ Other significant decreases in U.S. exports in 1995 were limited to parts for engines, down \$89 million (57 percent) to \$66 million; and fertilizers, down \$65 million (38 percent) to \$106 million.

U.S. imports from Brazil involve a much narrower range of goods than corresponding U.S. exports. Imports are concentrated in footwear (13 percent of total U.S. imports from Brazil in 1995), iron and steel (11 percent), certain auto parts and engines (8 percent), wood pulp (5 percent), and coffee (5 percent). Wood pulp topped the growth in imports from Brazil in 1995, advancing by \$212 million (89 percent) to \$451 million. Imports of iron and

steel products grew by \$123 million (14 percent) to \$1.0 billion; while imports of gold more than tripled, rising from \$42 million in 1994 to \$142 million in 1995. Growth in imports of these products was nearly offset by a drop in U.S. imports from Brazil in 1995 of refined petroleum, by \$212 million (64 percent) to \$118 million; fruit juice, by \$140 million (60 percent) to \$92 million; footwear, by \$139 million (11 percent) to \$1.13 billion; and unmanufactured tobacco, by \$70 million (48 percent) to \$76 million. Brazil is the world's largest producer and exporter of coffee and orange juice, and is second only to the United States in exports of soybeans. A large domestic cattle industry supplies hide to leather footwear producers; a natural endowment of tropical forests, iron, and coal support the wood pulp and iron and steel industries.

The Brazilian economy, with large agrarian, mining, and manufacturing sectors, entered the 1990s with declining real growth, runaway inflation, and an un-serviceable foreign debt of \$122 billion. Brazil had one of the most highly regulated economies in the world, with government/private joint ownership of many industries and substantial trade and investment barriers.¹⁰⁷ In 1990,¹⁰⁸ the new government launched an ambitious reform program that sought to modernize and reinvigorate the economy by stabilizing prices, deregulating the economy, increasing foreign competition (by encouraging greater private sector, including foreign investment), and by instituting agrarian reform.

Since the introduction of a new currency, the "real," in July 1994, Brazil reduced its inflation rate from a monthly average of 50 percent in June 1994, to a current average monthly rate of less than 2 percent. The factors instrumental in reducing inflation sharply have been a strongly valued currency and high real interest rates designed to attract foreign capital. Real GDP growth in 1995 was 4.9 percent.

Reduced market barriers and a possibly overvalued currency prompted an import surge in 1995 (up by 90 percent from 1994 levels), while exports increased by just 6 percent. In response to the import surge and resulting large monthly trade deficits in late 1994 and early 1995, the government raised import tariffs significantly in March 1995 on a range of consumer durable goods, including automobiles and footwear. Initially, some of the higher tariffs violated tariff rates that Brazil had agreed to bind under the World Trade Organization (WTO). After the U.S. Government expressed concerns, Brazil brought all of its tariffs within the limits of

¹⁰⁶ Although imports of agricultural products from Brazil were almost twice as large as U.S. exports in 1995, imports in this sector contracted by \$197 million (14 percent) in 1995 to \$1.24 billion.

¹⁰⁷ Central Intelligence Agency, *The World Factbook 1994*, 1994, p. 55.

¹⁰⁸ The Collor Government, which assumed office in March 1990, immediately sought to privatize Brazil's economy and liberalize trade. U.S. Department of State, *Country Reports*, Mar. 1996, pp. 338-345.

Table 2-26
Leading increases in U.S. exports to Brazil, 1994-95

Product	1994	1995	Increase in 1995 over 1994	
			Value	Percent
		<i>Million dollars</i>		
Computers and parts	762	1,042	280	37
Organic chemicals	562	822	260	46
Motor vehicles	274	413	140	51
Aircraft	313	413	100	32
Certain motor-vehicle parts	102	202	100	98
Cathode ray tubes for televisions and computers	49	125	76	156
Medical goods	127	203	76	60
Construction and mining equipment	210	282	71	34
Aircraft engines	105	167	61	58
Telephone apparatus	143	204	61	42
Manmade fibers and yarns	38	98	60	159
Aluminum mill products	38	98	60	160
Radio transmission and reception equipment	324	383	60	18
All other	4,591	6,305	1,714	37
Total	7,638	10,757	3,118	41

Source: Compiled from official statistics of the U.S. Department of Commerce.

its previously agreed tariff binding levels. The new tariff levels, which were as high as 70 percent on some products, were in effect until April 1996. The tariff increases did not affect capital goods, which constitute a significant portion of U.S. exports to Brazil. In June 1995, the government imposed quotas on the importation of automobiles, and announced a new program of investment incentives for domestic auto production. The quota regime was eliminated in October after the WTO Balance of Payments Committee rejected Brazil's justification for the tariffs.

Significant barriers to U.S. exports to Brazil include import licenses, agricultural barriers, services barriers, and investment barriers. Import licenses are required for virtually all products, but generally do not pose a barrier to U.S. exports except for occasional delays in the case of a few products. Barriers to U.S. agricultural exports are mainly sanitary and phytosanitary. Brazil prohibits the entry of poultry and poultry products from the United States and beef treated with anabolics. In October 1995, Brazil prohibited the importation of live sheep from the United States due to scrapie disease. In November 1995, the U.S. Government reached an interim agreement that enables most U.S. fruit, grain, and seed exports to meet the new phytosanitary requirements. Service barriers include restrictive investment laws, lack of administrative transparency, and arbitrary application of regulations and laws.¹⁰⁹ Brazil recently has begun to address deficiencies in its protection of intellectual property.¹¹⁰

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¹⁰⁹ Ibid., pp. 339-345.

¹¹⁰ The U.S. pharmaceutical industry has estimated cumulative losses of approximately \$600 million due to inade-

Hong Kong¹¹¹

The 1995 U.S. merchandise trade surplus with Hong Kong widened markedly, rising by nearly \$2.0 billion (389 percent) from \$506 million in 1994 to \$2.5 billion.¹¹² The U.S. trade balance

¹¹⁰—Cont.

quate intellectual property protection. The U.S. software industry claims losses of \$268 million, and estimates that less than 50 percent of the software in use in Brazil was legally obtained. The Motion Picture Export Association of America estimates its annual losses due to motion picture piracy in Brazil at about \$39 million. Ibid., p. 344. Brazil has recently taken the admirable step of enacting a modern patent law that comes into effect one year after its publication. Among other things, the new law will improve pharmaceutical patent protection and pipeline protection. As a result, the (Clinton) Administration is moving Brazil from the priority watch list to the watch list. Beyond the above-mentioned patent legislation, the U.S. Administration looks to Brazil to fulfill its longstanding commitments to enact outstanding legislation on computer software and semi-conductor layout designs, and to introduce much needed amendments to its copyright law. USTR, Press release of Tuesday, Apr. 30, 1996, "Special 301 on Intellectual Property Rights" fact sheet, p. 2.

¹¹¹ On July 1, 1997, the United Kingdom will return political control of Hong Kong to China.

¹¹² USDOC, ITA, *Country Commercial Guidelines Hong Kong: Economic Trends and Outlook*, Jan. 2, 1996. Hong Kong's merchandise trade is, however, a small part of its total international trade. Reexports, which account for as much as 80 percent of the territory's total trade, are goods made in foreign countries, principally China, which officially enter Hong Kong's customs territory for transshipment to other countries. Since Hong Kong has one of the best deep-water ports on the Chinese coast, it is ideally suited as a point of transit for foreign imports into China, as well as Chinese exports to the rest of the world. Hong Kong's container port is reported to be the world's busiest and its Port Development Board projects container transshipments to grow at double digits through the year 2011.

with Hong Kong has improved steadily, from a \$1.8 billion deficit in 1991, to its current trade surplus, with the decade's first U.S. trade surplus occurring in 1994.¹¹³ While both U.S. exports to and imports from Hong Kong have generally increased since 1991 (with a minor decline in imports in 1993), U.S. exports have increased at a substantially faster rate. In 1995, U.S. exports to Hong Kong grew by \$2.6 billion (25 percent) to \$12.7 billion; while U.S. imports from Hong Kong increased by \$611 million (6 percent) to \$10.2 billion. In 1994, the United States was Hong Kong's fourth-largest source of imports (following China, Japan, and Taiwan), accounting for 7 percent of the annual total; its second-largest source of investment; and its largest market for exports (tied with China), accounting for 28 percent of total Hong Kong exports.¹¹⁴ However, Hong Kong accounted for just 2 percent of U.S. foreign trade in 1995.

Although Hong Kong has among the highest per capita incomes in the world, it has no natural resources and is less than 20 percent self-sufficient in agriculture. In response to this situation, Hong Kong has pursued economic policies of noninterference in commercial and economic activities and has promoted free markets. Hong Kong has also consistently supported an open multilateral trade system. Consequently, there are virtually no tariffs and few government-imposed obstacles hindering U.S.-Hong Kong trade. Manufacturing, accounting for approximately 15 percent of GDP, is not a major sector in the Hong Kong economy.¹¹⁵ Rather, construction and services dominate the economy.¹¹⁶ Service industries account for approximately 80 percent of its GDP, employ more than 70 percent of its work force, and represent some 50 percent of total exports, with important service sectors including banking, insurance, and travel and tourism. Textiles and apparel, watches and clocks, toys, and the assembly of electronic equipment and computers are Hong Kong's major manufacturing industries. Hong Kong's chief global imports include foodstuffs, petroleum, transportation equipment, raw materials, and semimanufactured materials.¹¹⁷

¹¹³ Throughout the decade, the United States has also maintained a trade surplus in services with Hong Kong. USDOC, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1995, p. 75.

¹¹⁴ U.S. Department of State, *Background Notes — Hong Kong*, Jan. 29, 1996.

¹¹⁵ *Ibid.*

¹¹⁶ USDOC, ITA, *Country Commercial Guidelines*. Hong Kong's construction industry in 1994 was reported to be \$11.5 billion and a potential future purchaser of U.S. construction materials. In addition to private commercial construction, the Hong Kong Government has started a \$21 billion airport renovation program and plans to begin a \$15 billion railway expansion program in 1996.

¹¹⁷ U.S. Department of State, *Background Notes*.

The growing U.S. trade surplus with Hong Kong has been influenced, in part, by a shift of labor-intensive manufacturing to China. It has been reported that about 80 percent of Hong Kong manufacturers have set up production facilities across the border. At the end of 1994, there were some 118,000 Hong Kong-invested enterprises in China, accounting for two-thirds of all foreign-funded enterprises in the country.¹¹⁸ A significant portion of U.S. exports of components and materials to Hong Kong is used in export-oriented manufacturing in China. This contributes to the U.S. trade surplus with Hong Kong and the deficit with China.

Export growth to Hong Kong in 1995 was led by communications equipment, computers, and electronic components. U.S. exports of telephone apparatus nearly tripled in 1995, rising by \$402 million to \$628 million; exports of computers climbed by \$285 million (41 percent) to \$980 million; and exports of semiconductor devices rose by \$254 million (24 percent) to \$1.3 billion. Strong growth was also exhibited in raw materials and capital goods. U.S. exports of copper and copper products to Hong Kong more than tripled in 1995, rising from \$52 million to \$185 million; unwrought aluminum exports jumped from \$26 million to \$120 million; exports of construction and mining equipment climbed from \$35 million to \$119 million; and exports of plastics in primary forms expanded by \$83 million (45 percent) to \$267 million. U.S. poultry exports to Hong Kong grew by \$128 million (47 percent) in 1995 to \$403 million. The only significant decrease in U.S. exports to Hong Kong in 1995 was in gold, which dropped by \$346 million (43 percent) to \$459 million. This decrease reflected, in part, a shift in jewelry manufacturing from Hong Kong to China.

U.S. imports of integrated circuits and other semiconductor devices from Hong Kong grew by \$481 million (72 percent) in 1995 to \$1.2 billion. These electronic components and subassemblies, which made up 9 percent of total U.S. imports from Hong Kong in 1995, accounted for more than three-quarters of the total growth in U.S. imports from Hong Kong that year. Textiles and apparel, which made up 45 percent of total imports from Hong Kong in 1995, fell by \$50 million (1 percent) to \$4.5 billion. The most significant decline in imports from Hong Kong was in computers and related equipment, which fell by \$114 million (18 percent) to \$526 million. This reflected the continuing shift of production from Hong Kong to mainland China.

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¹¹⁸ EIU, *Investing, Licensing & Trading Conditions Abroad (Country: Hong Kong)*, Jan. 1, 1995.

Philippines

The Philippines has consistently had trade surpluses with the United States; in 1995, the U.S. merchandise trade deficit with the Philippines totaled \$1.9 billion, a slight (\$43 million) decrease from 1994. The 1995 total trade turnover between the two countries reached \$12.1 billion, making the United States one of the Philippines' largest trading partners. Although U.S. exports to the Philippines rose at a faster pace (up 35 percent) to \$5 billion, U.S. imports totaled \$7 billion (up 22 percent). Electronic products account for the bulk of trade between the two countries. The trade deficit in electronic products, which rose by 29 percent to \$812 million, accounted for 42 percent of the total U.S. trade deficit with the Philippines in 1995.

Restored political and macroeconomic stability and economic reforms in the Philippines in the last few years have stimulated foreign investment and renewed confidence domestically. Foreign investment has grown at impressive rates as multinational high-tech companies have established operations in the Philippines. To a large extent, these plants assemble imported components and export the finished product. Export processing plants contribute to the Philippine trade surplus because exported products have a higher value than the imported components used to assemble them. In addition to relatively low wages, the Philippines also offer the advantage of a large pool of English-speaking engineers and technicians. As a result of increases in industrial production, exports, and investment, the Philippine Government forecasts economic growth to reach 6.5 percent in 1996, after rising by 4.7 percent in 1995, and 4.3 percent in 1994.¹¹⁹ This will likely result in the continued expansion of trade between the United States and the Philippines.

U.S. imports from the Philippines increased by \$1.3 billion in 1995 to \$7 billion, attributed in large part to the country's continued growth in exports of semiconductor devices and consumer electronic products. A major portion of these imports is intra-company trade from U.S. firms with assembly facilities in the Philippines. U.S. imports from the Philippines of electronic products rose by \$681 million (up 30 percent) in 1995 to \$3 billion. Within this sector, semiconductors were by far the leading U.S. import commodity. In 1995, the Philippines exported approximately \$3 billion of semiconductors, 17 percent of the country's total exports.¹²⁰ U.S. imports of semiconductors from the Philippines totaled \$2 billion in 1995, an increase of 44 percent (\$617 million) over 1994. Computers were the

second-largest category as imports more than doubled to \$340 million. The brisk growth in U.S. imports of semiconductors and assembled computer equipment (e.g., disk drives, digital processing units, keyboards, and monitors) was due to the continued strong U.S. demand for computers in 1995. Imports of telephone equipment (including cellular phones and pagers) grew by 47 percent (\$50 million) in 1995 to \$156 million.

Notable growth in U.S. imports from the Philippines in 1995 was not limited to "high-tech" products. Imports of apparel climbed by \$169 million (13 percent) to \$1.5 billion; imports of fats and oils advanced by \$117 million (60 percent) to \$311 million; and imports of luggage and handbags rose by \$50 million (70 percent) to \$123 million.

U.S. exports to the Philippines rose by \$1.3 billion in 1995 to \$5.1 billion, with the growth in exports of electronic products accounting for 43 percent of the total increase. U.S. exports of electronic products to the Philippines climbed by \$496 million (30 percent) in 1995 to \$2.2 billion. A substantial share of the U.S. electronic exports to the Philippines was destined for U.S.-affiliated production sharing operations¹²¹ where value is added and then reexported, often back to the United States. Such operations are focused almost exclusively on the assembly of semiconductors. U.S. exports of semiconductor devices climbed by \$398 million (33 percent) to \$1.6 billion; exports of miscellaneous industrial machinery, including semiconductor manufacturing equipment (e.g., robots) grew by \$72 million (88 percent) to \$154 million. Exports of radio equipment to the Philippines reached \$136 million in 1995, representing a gain of \$95 million (232 percent) over 1994. Exports of measuring and controlling instruments (used in processes to produce semiconductor and other high-tech products) increased by \$33 million (62 percent) to \$87 million. Certain agricultural products also posted notable export gains in 1995. U.S. exports of cereals (especially soybeans and wheat) rose by \$60 million (22 percent) to \$331 million, while exports of animal feeds more than doubled, growing by \$78 million to \$141 million. Finally, the strong performance in the Philippine economy in recent years set the stage for a sharp (\$138 million) rise in U.S. exports of aircraft, from \$28 million in 1994 to \$167 million in 1995.

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¹¹⁹ Rigoberto Tiglao, "Field of Dreams," *Far Eastern Economic Review*, Apr. 4, 1996, p. 51.

¹²⁰ *Ibid.*

¹²¹ U.S. production sharing firms are attracted to the Philippines by its relatively low wages, large semiskilled workforce, developed infrastructure, new industrial parks, improved political stability, liberalization of trade and investment regulations, and shorter flying time to California than competing export-processing countries in Asia.

CHAPTER 3

Agricultural Products

The U.S. trade surplus in agricultural products increased by \$7.3 billion (36 percent) in 1995 to \$27.6 billion (table 3-1). Among major U.S. industrial/commodity sectors, agriculture had the largest trade surplus (the only other U.S. sector with a trade surplus in 1995 was chemicals). Agricultural exports, driven by bumper U.S. grain crops, a 34-percent jump in the quantity of foreign grain sales, and rising grain prices towards the end of 1995, rose sharply in 1995, up by \$10.1 billion (18 percent), to \$65.4 billion. Imports, on the other hand, propelled by higher prices for coffee, cocoa, fruits, and vegetables, rose by \$2.7 billion (8 percent) to \$37.8 billion. Agricultural sector trade (imports and exports) increased by 14 percent to \$103 billion. Agricultural products accounted for 12 percent of total U.S. exports in 1995, but just 5 percent of total imports.

The largest agricultural sector export in 1995 was cereals, up by \$4.8 billion (47 percent) to \$14.9 billion. Tobacco product exports were second, amounting to \$6.6 billion, down \$48 million (0.7 percent). Exports of oilseeds totaled \$5.7 billion, up by \$1.1 billion (25 percent); animal feeds, \$3.8 billion, up by \$340 million (10 percent); and cotton, \$3.7 billion, up by \$1.0 billion (39 percent). U.S. exports of poultry have grown steadily, from \$930 million in 1991 to \$2.1 billion in 1995. Much of the growth in poultry exports occurred because of surging demand combined with a lagging domestic supply in Russia, whose purchases from the U.S. have grown from zero to over \$600 million in the past 3 years.

Important agricultural sector imports in 1995 included alcoholic beverages, which increased by \$305 million (8 percent) to \$3.9 billion; shellfish, mostly shrimp, \$3.9 billion, down by \$12 million (0.3 percent); coffee and tea, \$3.4 billion, up by \$772 million (29 percent); and cattle and beef, \$2.6 billion, down \$89 million (3 percent). Coffee and tea imports grew significantly as average coffee prices continued a multi-year upward trend in 1995.

U.S. Bilateral Trade

More than one-half of all U.S. agricultural exports in 1995 were to Asia. Japan was the most impor-

tant U.S. trading partner in 1995, with \$14.6 billion of purchases of U.S. agricultural products, an increase of 14 percent from that of the year before. Leading U.S. exports to Japan included cigarettes, cereals, beef, citrus products, and frozen fish (figure 3-1). U.S. agricultural imports from Japan amounted to only \$390 million. U.S. exports to China and Korea rose sharply in 1995, growing by 139 and 56 percent, respectively. U.S. agricultural trade surpluses with these two countries rose to \$1.9 billion and \$3.9 billion, respectively. A key factor in the export growth was China's booming economy, which increased demand in China for grains, especially feed grains,¹ and led China to shift from being a net grain exporter to a net importer. This contributed to a shift in Korea's grain purchases from China to the United States. China and Korea were also principal purchasers of U.S. cotton, oilseeds, and cattle hides.

After Japan, Canada and Mexico were the largest U.S. agricultural trading partners in 1995, with U.S.-Canada trade amounting to \$13.4 billion, and U.S.-Mexico trade reaching \$8.1 billion. The most important agricultural imports from Canada in 1995 were cattle and beef, edible preparations,² lobster, cereals, ham, animal feed, and fish (figure 3-2); while the most significant U.S. agricultural exports to Canada included edible preparations, vegetables, animal feeds, and cattle and beef. A significant U.S. agricultural trade shift occurred with Mexico in 1995, as the 1994 U.S. trade surplus of \$1.4 billion shifted to a trade deficit of \$813 million because of the peso devaluation and decreased income levels in Mexico. These developments combined to drive U.S. exports to Mexico down by

¹ Rising incomes in developing countries have increased demand for feed grains because, as incomes rise, food preferences shift from direct human consumption of grain to consumption of such foods as poultry, beef, pork, and fish, for which grains are an input, and for which more grain is needed (i.e. it takes 4 pounds of grain to produce 1 pound of pork). Also, growing human populations, urban encroachment on crop growing areas, and flattening increases in world grain yields have also contributed to increased demand for U.S. grain exports.

² Examples of edible preparations include breakfast cereals, snack foods, baked goods, and pasta.

Table 3-1

Agricultural products: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by selected countries and country groups, 1994 and 1995¹

Item	1994	1995	Change, 1995 from 1994	
			Amount	Percent
			<i>Million dollars</i>	
U.S. exports of domestic merchandise:				
Japan	12,819	14,619	1,801	14.0
Canada	5,929	6,228	298	5.0
Mexico	4,724	3,622	-1,101	-23.3
Korea	2,612	4,077	1,465	56.1
China	1,139	2,716	1,577	138.5
Netherlands	1,854	2,276	422	22.7
Taiwan	2,331	2,746	415	17.8
Thailand	457	666	209	45.8
Belgium	2,182	2,187	5	0.2
United Kingdom	1,034	1,148	114	11.0
All other	20,270	25,146	4,876	24.1
Total	55,350	65,431	10,081	18.2
EU-15	9,469	10,797	1,328	14.0
OPEC	2,675	3,082	407	15.2
Latin America	8,741	8,575	-166	-1.9
CBERA	1,912	2,284	372	19.4
Asian Pacific Rim	23,237	29,790	6,553	28.2
ASEAN	2,207	3,277	1,070	48.5
Central and Eastern Europe	315	316	1	0.4
U.S. imports for consumption:				
Japan	408	390	-18	-4.4
Canada	6,908	7,212	304	4.4
Mexico	3,366	4,436	1,070	31.8
Korea	173	181	8	4.6
China	691	782	91	13.2
Netherlands	991	1,115	124	12.5
Taiwan	339	358	19	5.5
Thailand	1,853	1,794	-59	-3.2
Belgium	120	136	16	13.4
United Kingdom	875	958	83	9.5
All other	19,324	20,444	1,119	5.8
Total	35,049	37,807	2,757	7.9
EU-15	6,738	7,410	672	10.0
OPEC	868	800	-68	-7.9
Latin America	11,261	12,841	1,580	14.0
CBERA	2,523	2,841	318	12.6
Asian Pacific Rim	7,160	7,284	124	1.7
ASEAN	3,328	3,389	62	1.9
Central and Eastern Europe	218	230	13	5.9
U.S. merchandise trade balance:				
Japan	12,411	14,229	1,819	14.7
Canada	-978	-984	-6	-0.6
Mexico	1,357	-813	-2,171	(2)
Korea	2,438	3,896	1,458	59.8
China	448	1,934	1,486	331.9
Netherlands	863	1,161	298	34.5
Taiwan	1,992	2,388	396	19.9
Thailand	-1,397	-1,129	268	19.2
Belgium	2,063	2,051	-11	-0.6
United Kingdom	159	189	31	19.3
All other	945	4,702	3,757	397.3
Total	20,301	27,625	7,324	36.1
EU-15	2,732	3,387	656	24.0
OPEC	1,807	2,282	475	26.3
Latin America	-2,521	-4,267	-1,746	-69.3
CBERA	-611	-557	54	8.8
Asian Pacific Rim	16,077	22,506	6,430	40.0
ASEAN	-1,121	-112	1,009	90.0
Central and Eastern Europe	97	86	-12	-11.9

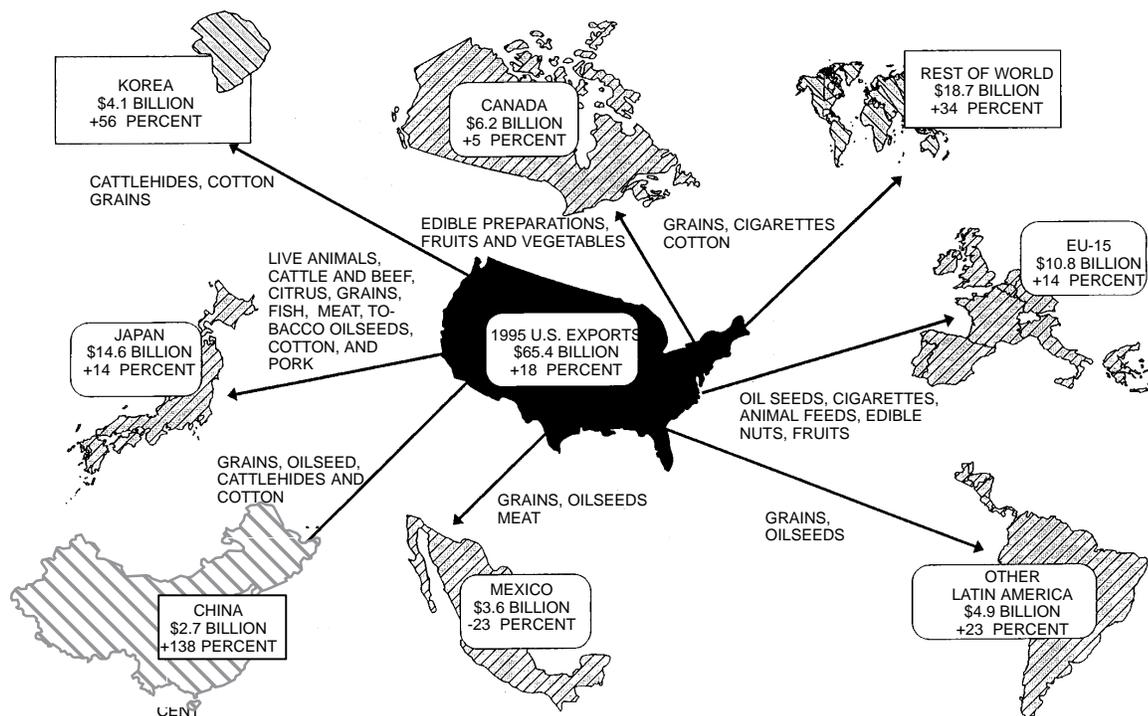
¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

² Not meaningful for purposes of comparison.

Note.—Because of rounding, figures may not add to the totals shown. The countries shown are those with the largest total U.S. trade (U.S. imports plus exports) in these products in 1995.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 3-1
U.S. agricultural sector exports, 1995: Leading U.S. exports, by major markets, and overall percentage change since 1994



Source: Derived from official statistics of the U.S. Department of Commerce.

23 percent and stimulate a 32-percent increase in imports from Mexico. U.S. exports to Mexico of cereals and oilseeds both fell, but remained the highest volume of exports in 1995, and cattle and beef exports fell sharply. Principal U.S. imports from Mexico included frozen vegetables, which rose from \$1.0 billion to \$1.2 billion (an increase of 20 percent); cattle and beef, which remained at \$1.2 billion; coffee, which rose from \$333 million to \$592 million (an increase of 78 percent); and shrimp, which grew from \$302 million to \$399 million (an increase of 32 percent).

U.S. agricultural exports to the EU increased by \$1.3 billion (14 percent) to \$10.8 billion, while imports grew by \$672 million (10 percent) to \$7.4 billion. Leading U.S. exports to the EU in 1995 included oil seeds, cigarettes, animal feeds, edible nuts, and fruits. Principal U.S. imports from the EU in 1995 included alcoholic beverages and cheese.

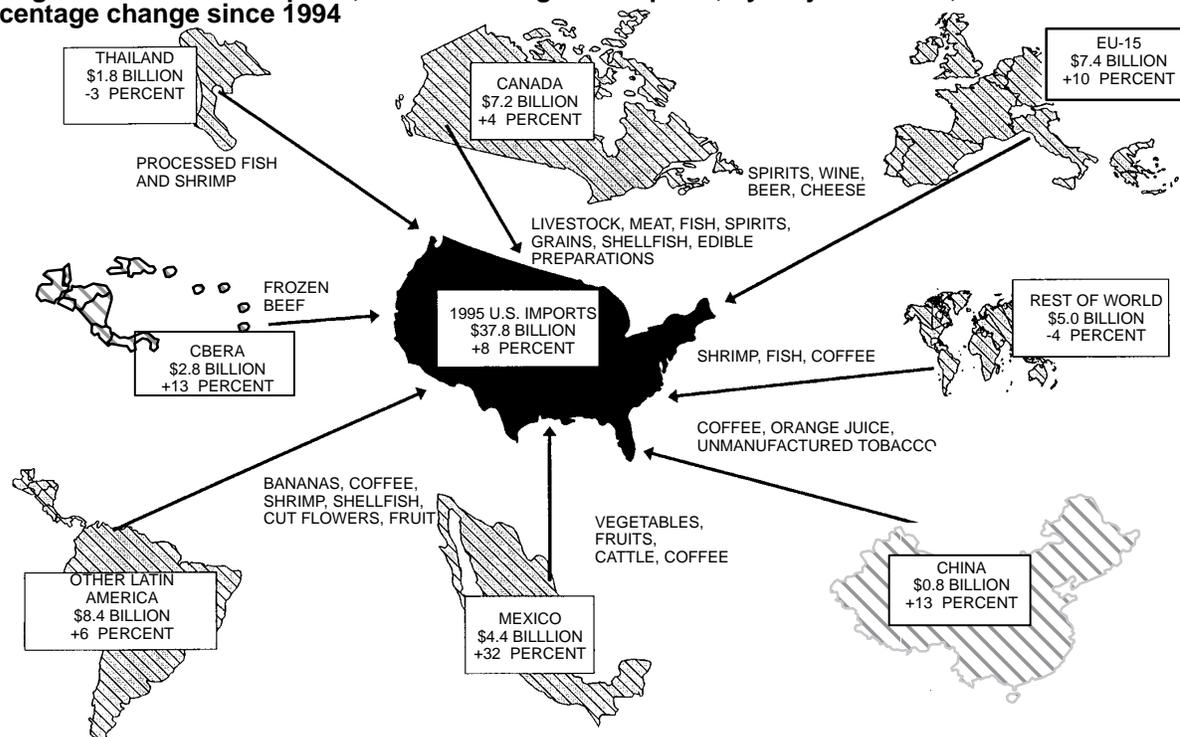
Commodity Analysis

Cereals (Food and Feed Grains)

The positive U.S. trade balance in food and feed grain improved by \$5 billion, reaching \$14 billion in 1995. This sector experienced the fourth-largest improvement in U.S. exports among all commodity groups in 1995. The rapid growth in world grain markets, perhaps signaling a return to the world grain boom era of the 1970s and early 1980s, led surging U.S. grain exports in 1995 to their best showing in 11 years.

U.S. food and feed grain exports rose by 47 percent (\$4.8 billion) to \$14.9 billion in 1995, the highest level since 1984, leading some grain analysts to

Figure 3-2
U.S. agricultural sector imports, 1995: Leading U.S. imports, by major sources, and overall percentage change since 1994



Source: Derived from official statistics of the U.S. Department of Commerce.

forecast a worldwide "grain boom."³ In each of the past 5 years, foreign world grain consumption has exceeded total world production, and by 1995/96, the steadily reduced world grain stocks fell to their lowest level in over 50 years, thus triggering widespread concerns about a supply shortage.⁴ On a volume basis, U.S. food and feed grain exports rose by 34 percent to 134 million metric tons in 1995. Meanwhile, U.S. imports of grain declined by 16 percent to \$0.7 billion in 1995 as less Canadian wheat entered the U.S. market.⁵

³ See for example, Gene Koretz, "Grain Prices Head Higher," *Business Week*, Nov. 20, 1995, p. 38; or Bill Lapp, ConAgra, Inc., "The Outlook for U.S. and World Grain Markets beyond 95/96," USDA Agricultural Outlook Forum, Washington, DC, Feb. 22, 1996, p. 1.

⁴ The so-called "grain boom" is thus a longer term (at least the past 5 years) rather than a short-term (single-year) situation; lower world grain production and rising demand (supported by increased animal feed needs and population increases) were largely buffered by abundant grain stocks. However, by crop year 1995/96, stocks were inadequate to supply the gap between production and demand, and prices began a steep rise. USDA, *Grain: World Markets and Trade*, Dec. 1995.

⁵ From Sept. 12, 1994, until Sept. 11, 1995, U.S. imports of wheat were restricted under tariff rate quotas established under section 22 of the Agricultural Adjustment Act (see description below).

Sharply higher U.S. grain exports in 1995 to Asian markets, particularly China and Korea, in addition to Japan, the traditional leading U.S. grain market, paced the higher sales abroad. Grain sales to China rose by about \$1 billion (up by 574 percent) to \$1.1 billion, and to Korea by \$0.9 billion (up by 189 percent) to \$1.4 billion in 1995. Near-record-high U.S. corn production in crop year 1994/95 raised U.S. availability of feed grain, which was able to supply the rising demand in Asia, particularly in China.⁶ By the last quarter of 1995, much lower U.S. grain production in crop year 1995/96, coupled with the lowest U.S. grain inventories in nearly 20 years, and the lowest levels of world grain inventories since World War II, drove up prices, further boosting the value of grain sales abroad.

Wheat, corn, rice, and sorghum accounted for nearly all of the \$15 billion of U.S. grain exports in 1995: corn accounted for 51 percent; wheat, 37 percent; rice, 7 percent; and sorghum, 5 percent. U.S.

⁶ For elaboration on China's role in world grain markets, see USITC, "China's Evolving Grain Trade Opens New Marketing Opportunities for U.S. Exporters," prepared by John Reeder, *Industry Trade and Technology Review*, Dec. 1995, pp. 30-40.

wheat exports rose by 34 percent in value to \$5.5 billion, and in volume by 6 percent to 32.4 million metric tons, paced by a 26-percent rise in the export unit value to \$168 per metric ton. Higher U.S. wheat sales occurred in Egypt, China, and Pakistan.

U.S. corn exports, fueled by rising foreign animal feed requirements in Asia, rose in 1995 by 68 percent in volume to 60 million metric tons, and by 80 percent in value to a record \$7.5 billion. A decline of nearly 9 million metric tons in Chinese corn exports to world markets propelled U.S. corn sales both directly to China and to other third-country Asian markets.⁷ Prices (export unit value) of U.S. corn exports gained about 7 percent to \$125 per metric ton (\$3.40 a bushel).

Offsetting this positive export trend for U.S. wheat and corn, U.S. rice and sorghum exports remained relatively flat in 1995. U.S. rice exports declined by 2 percent to \$1.0 billion in 1995 from 1994 (a record-high year that was driven by an extraordinary \$224 million increase in Japanese purchases to counter a major crop failure). Sorghum exports experienced a slight 3-percent rise to \$682 million in 1995.

Among the principal foreign markets in 1995, Japan maintained its leading position with nearly 18 percent (a total of \$2.7 billion) of U.S. exports by purchasing nearly \$363 million more U.S. grain, nearly all of which was corn. Korea vaulted from the fifth- to the second-leading U.S. export market with \$1.4 billion in purchases in 1995, an increase of \$900 million, mainly in food grain and corn. Korea, which had previously imported most of its corn from China, relied on U.S. corn imports following China's near withdrawal as a grain exporter in 1994/95. China, as the third-leading market for U.S. grain, was the fastest growing market, with its purchases (about equal amounts of corn and wheat) rising in 1995 by nearly \$1 billion. Egypt, a traditionally important U.S. market for wheat, purchased \$350 million more U.S. grain in 1995.

Mexico was the only leading U.S. market to register lower grain purchases in 1995, with a decline of \$54 million from its record purchases set in 1994. A deep recession in Mexico and the sharp peso devaluation sharply cut Mexican purchases of U.S. sorghum used as a feedgrain, although Mexican purchases of U.S. corn and wheat both registered modest increases.

Also contributing to the higher U.S. trade surplus in grain in 1995 were lower wheat imports from Canada, which has supplied well over one-half of U.S. grain imports in recent years. U.S. imports of wheat, the leading grain imported from Canada, fell

⁷ Ibid.

by 12 percent to \$557 million in 1995. During September 1994 to September 1995, the United States imposed, under section 22 of the Agricultural Adjustment Act, tariff-rate quotas restricting U.S. imports of wheat from Canada and other foreign sources owing to their effects on U.S. farm programs.⁸

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Oilseeds

The United States enjoyed a \$5.4 billion trade surplus (an increase of \$1.2 billion) in oilseeds in 1995, the largest trade surplus in this commodity group since 1984, a year marking the end of the world grain and oilseed boom of the 1970s and early 1980s. The oilseed product grouping, like the food and feed grains grouping, is one of the larger U.S. agricultural export sectors (imports being minor when compared to exports). An improvement in U.S. oilseed exports in 1995 was responsible for most of the rising trade surplus although imports did decline slightly.

In crop year 1994/95,⁹ U.S. farmers harvested the largest U.S. soybean crop on record, thereby boosting U.S. oilseed exports in 1995. The excellent 1994/95 soybean crop was 35 percent above the crop in the prior crop year. The higher volume of U.S. oilseed exports in 1995 offset slightly lower prices, and U.S. exports of oilseeds rose by \$1.1 billion (25 percent) to a near record \$5.7 billion. U.S. exports of soybeans accounted for 96 percent of total exports of oilseeds in 1995. The volume of U.S. soybean exports rose by 26 percent to 23 million metric tons in 1995, and the average export price (export unit value) fell by 1 percent to \$238 per metric ton (\$6.48 per bushel).

About three-quarters of the \$5.4 billion of U.S. exports of soybeans in 1995 went to 5 leading markets, the EU, Japan, Taiwan, Mexico, and South Korea. EU member countries, notably the Netherlands, Spain, Germany, Belgium, and Italy, together purchased about 47 percent more U.S. soybeans in 1995. Japan, Taiwan, and South Korea all sharply increased their purchases as well; among these top five markets only Mexico registered fewer purchases of U.S. soybeans in 1995.

⁸ See USITC, *Wheat, Wheat Flour, and Semolina*, investigation No. 22-54, USITC publication 2794, July 1994. On Sept. 12, 1995, the United States announced the expiration of the tariff rate quotas on wheat, although import monitoring will continue. "Joint Statement from Agriculture Secretary Dan Glickman and Ambassador Michael Kantor Regarding U.S. - Canada Grains Issue," *News Release*, U.S. Department of Agriculture press release No. 0658.95, Sept. 12, 1995.

⁹ The U.S. crop year begins Sept. 1.

Worldwide imports of soybeans rose by 15 percent during 1994/95, stimulating U.S. soybean exports. The EU, the leading U.S. market, purchased about 38 percent of U.S. oilseed exports in 1995. A lower U.S. price (magnified by a stronger ECU currency vis-a-vis the U.S. dollar¹⁰), and rising demand for animal feed within the EU boosted U.S. soybean sales. U.S. soybean exports to the EU also increased because relative price ratios of soybean meal to feedgrain favored the use of more soybean meal (and less feedgrain) in animal feed rations,¹¹ thereby supporting the EU soybean crushers' demand for U.S. soybeans to be processed into soybean meal.

Japan, Taiwan, and South Korea also registered increased demand for animal feed (and soybean meal) during 1995. Mexico, buffeted by a recession and the peso collapse, purchased in 1995 about 2 percent fewer U.S. soybeans (a total 2.0 million metric tons), a level second only to the record set in 1994.

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Cotton

Exports of U.S. cotton, not carded or combed (raw cotton), increased by nearly 39 percent, from \$2.7 billion in calendar year 1994 to \$3.7 billion in 1995. This was the third increase in as many years. Cotton exports have increased by 141 percent since 1993. According to the National Cotton Council, the gains in the overseas fiber markets achieved by U.S. cotton may be attributed to globally competitive cotton prices and continued industry efforts to establish a "differentiated and respected" reputation for U.S. cotton products.¹²

U.S. exports of all types¹³ of cotton, in terms of quantity, during crop year 1995/96¹⁴ were estimated by the U.S. Department of Agriculture (USDA)¹⁵ to be 7.4 million bales, down from the 9.4 million bales exported in 1994/95. The difference between

export trends in quantity exported and in value of exports stems from a sharp increase in the price of cotton.¹⁶ In 1993/94, the price was 66.1 cents per pound (¢/lb); in 1994/95, it was 88.1 ¢/lb; and in June 1995, it reached a high of 106.9¢/lb, almost 62 percent higher than the 1993/94 average price.¹⁷

Major markets for raw U.S. cotton in 1995 were China (\$829 million), Japan (\$409 million), Indonesia (\$377 million), Korea (\$362 million), Mexico (\$191 million), Thailand (\$179 million), Taiwan (\$142 million), Hong Kong (\$141 million), and Pakistan (\$127 million). The sales to China were particularly notable, given that 1993 U.S. exports of cotton to that nation amounted to only \$179,000.

The 1995/96 U.S. cotton crop is estimated at 18 million bales (upland cotton, 17.6 million bales; extra long staple, 361,000 bales), compared with the record 19.7 million bales in 1994/95.¹⁸ Cotton yield, on the other hand, dropped by 22 percent, from 708 pounds/acre (lb./ac.) in 1994/95 to 551 lb./ac., the lowest yield in at least 6 years.

According to the USDA,¹⁹ the relatively high U.S. cotton prices are discouraging domestic use and exports, leading to a projected rise of 28-percent in 1995/96 ending stocks. The robust prices stem from strong global demand and reduced foreign exportable supplies. Although U.S. producers responded with greatly expanded cotton acreage in 1995/96—the largest since 1956—the U.S. cotton crop is forecast to be lower, owing to insect and weather problems that are combining to lower yield and production across the Cotton Belt. High cotton prices are also contributing to lowered domestic mill use and reduced consumer demand.

In response to the high prices of 1994/95, foreign producers expanded output, leading to fierce competition. World cotton output is expected to climb by 4 percent in 1995/96, to the second-highest level ever. Larger crops in Pakistan, Turkey, West Africa, and a host of smaller producing countries, are expected to more than offset the smaller U.S. crop.

According to the U.S. Department of Commerce, cotton mill consumption during the first half of the 1995/96 season totaled 5.2 million bales, down from 5.7 million bales the previous season. However, cotton's share of fiber use on what is referred to as the *cotton system* remained at 78.3 percent. Increased cotton textile export demand has continued to support U.S. cotton mill consumption.²⁰

¹⁰ The dollar depreciated relative to the ECU by approximately 9 percent during 1995, as compared to 1994. Foreign Agriculture Service (FAS), USDA, *Oilseeds: World Markets and Trade*, December 1995, p. 48.

¹¹ The EU price ratio of soybean meal to feed wheat declined by about 11 percent during 1995, thereby encouraging feed companies to use a higher composition of soybean meal. *Ibid.*, p. 48.

¹² *National Cotton Council Forecasts Increased U.S. Cotton Production, Mill Use and Exports*, press release, Feb. 12, 1996.

¹³ By "all types" reference is made to both extra-long staples (ELS) and upland cotton.

¹⁴ The crop year for cotton runs from Aug. 1 to July 31.

¹⁵ USDA-Economic Research Service (ERS), *Cotton and Wool Outlook* (CWS-0296; Mar 12, 1996; <http://www.usda.gov/usda.html>).

¹⁶ Average spot market price for the marketing year, for cotton grade SLM, with staple 1-1/16 in.

¹⁷ *Ibid.*

¹⁸ *Ibid.* A bale of cotton weighs 480 pounds.

¹⁹ USDA-ERS, *Agricultural Outlook*, Jan.-Feb. 1996.

²⁰ USDOC data as quoted by the USDA-ERS, *Cotton and Wool Outlook*.

Between 1994 and 1995, U.S. imports of cotton rose in value from \$7 to \$10 million, which, despite the increase, still represented only 0.3 percent of the value of 1995 U.S. cotton exports. Imports of cotton from Mexico rose from negligible in 1994 to \$2 million in 1995; during the same period, imports from Egypt (primarily ELS) rose from \$403,000 to slightly over \$1 million. In terms of quantity, imports for 1995/96 were estimated by the USDA at 200,000 bales, which if realized, would be the highest since 1949/50 when over 250,000 bales were imported.²¹

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Coffee and Tea

The U.S. trade deficit in coffee and tea grew to \$3.2 billion in 1995, up from \$2.4 billion in 1994. Increased average unit prices led to a significant trade shift as the value of U.S. imports of coffee and tea increased by 29 percent in 1995, from \$2.7 billion to \$3.4 billion. Prices overall of U.S. coffee and tea imports rose by 22 percent from \$2.50 per kilogram in 1994 to \$3.05 in 1995. The quantity of U.S. imports increased by 6 percent in 1995 compared with 1994. Tea imports comprised a small percentage of the total, only about \$120 million in 1995, down from about \$130 million in 1994. Compared with 1993, import values for coffee and tea in 1995 were more than twice as high, even though import quantity fell.

The coffee market is one of the most volatile agricultural markets in the world. Coffee prices were as low as 75 cents a pound early in 1994 before peaking at nearly \$2.50 a pound in September 1994. During 1995, prices fell steadily from more than \$1.75 a pound to about \$0.95 by the end of the year.²² World coffee production is forecast at 88.2 million bags for 1995/96, a decline of 8 percent from the 1994/95 level of 96 million bags. The 1995/96 estimate is the lowest since 1986/87. Most of the decline was the result of a tumble in Brazil's coffee production to 16.8 million bags in 1995/96, from 26 million the year before. Coffee production in Colombia also declined from 18 million bags in 1991/92, to 13.5 million in 1995/96, an increase of 500,000 bags from the 1994/95 level. The decline in Colombian production in recent years has been the result of reduced producer prices and an infestation of borer worms. Production is expected to increase in line with the recent increases in producer prices.

²¹ Ibid.

²² *Tea and Coffee Trade Journal*, "Wild Ride, A Final Look Back at the Volatile Coffee Market of 1995," Feb. 1996, p. 30.

Less than 1 percent of the coffee and tea consumed in the United States is grown domestically. Small quantities of coffee are grown in Hawaii and Puerto Rico, and one tea plantation in South Carolina accounts for such indigenous supplies. U.S. exports of coffee and tea, mainly in the form of instant coffee exported to Canada, showed little change in 1995, remaining at about \$229 million. Principal supplying countries in 1995, in order of value and percentage of total U.S. imports, were Mexico, \$592 million (17 percent), Colombia, \$536 million (16 percent), Brazil, \$492 million (14 percent), and Guatemala, \$319 million (9 percent). Average prices for coffee have increased since 1992, and consequently, import quantities have fallen, except in 1995, indicating that imports are price sensitive. Coffee import quantities from Brazil have fallen steadily since 1991.

In July 1995, the Association of Coffee Producing Countries (ACPC), agreed to limit world coffee exports to 60.4 million bags for July 1995-June 1996. Under this agreement, Brazil is limiting green coffee exports to 1 million bags per month over a 12-month period ending June 1996, under a system of exporter quotas.²³ Colombia has also agreed to limit exports to 9.8 million bags for the 1995/96 season. A new source of coffee is Vietnam, which began exporting to the United States in 1994 and is now the fifth-largest supplier. Coffee is Vietnam's largest agricultural export and production there has risen by 600 percent in the past 6 years.

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Animal or Vegetable Fats and Oils

Record high levels of U.S. exports in 1995 boosted the U.S. trade balance in animal and vegetable oils, fats, and greases ("fats and oils") to a \$1.3 billion trade surplus, an increase of \$459 million from 1994. The record high U.S. fats and oils exports in 1995 offset rising imports, and led to the improved trade surplus in the commodity group.

U.S. exports of fats and oils rose by 37 percent in 1995 to a record \$2.5 billion, as the volume sold abroad rose by 27 percent to 4.2 million metric tons. The availability of U.S. fats and oils increased in 1995 as U.S. production of vegetable oil rose by 15 percent to a record 8.6 million metric tons in 1994/95.²⁴

²³ *Tea and Coffee Trade Journal*, "Assessing the Fall Out of Febec's Brazil Coffee Program," Mar. 1996, p. 38.

²⁴ Domestic production data are given on a crop year basis, beginning Sept. 1.

World markets for fats and oils were extremely favorable to U.S. exporters in 1995 as world consumption of the major vegetable oils registered a nearly 9-percent rise, while world inventories of these oils fell to their lowest ending stocks-to-use level in over 20 years. The \$2.5 billion of U.S. exports of fats and oils were composed in 1995 principally of soybean oil (28 percent), tallow (26 percent), sunflowerseed oil (14 percent), and corn oil (10 percent). U.S. sunflowerseed oil exports doubled to \$351 million in 1995; sales were particularly good in the key markets of Mexico and Algeria. Tallow exports rose by 39 percent to \$644 million, while soybean oil exports followed with a 33-percent rise to \$688 million.

U.S. exports of fats and oils to most of the leading markets rose, with the largest increases going to China, Mexico, and South Korea. China's surge into the leading market position for U.S. fats and oils was phenomenal; Chinese purchases have grown from less than \$1 million in 1993 to \$395 million in 1995. Mexico, the second-leading U.S. market, registered a strong 49-percent gain (\$360 million total), most of which consisted of tallow and sunflowerseed oil.

U.S. imports of fats and oils (about two-thirds of which are olive, coconut, and canola oils) increased by 21 percent to \$1.3 billion, as import prices (unit values) increased by 26 percent. The volume of imported fats and oils declined by 3 percent to 1.4 million metric tons in 1995, which rising prices, particularly that of olive oil, more than offset.

Olive oil prices have been rising sharply in world markets, associated with a 10-percent drop in output in the leading EU producing countries over the past year. The unit value of imported olive oil rose in 1995 by 45 percent to \$2.85 per kilogram. Imports supplied virtually all U.S. demand for olive oil, which tends to be rather price inelastic. U.S. imports of canola oil from Canada, which have been increasing since the 1980s, rose by 3 percent to \$240 million in 1995, although the volume imported dropped by 3 percent as the U.S. demand for this less saturated vegetable oil leveled off.

About 80 percent of the \$1.3 billion of U.S. imports of fats and oils in 1995 came from the four leading suppliers: Canada, the Philippines, Italy, and Malaysia. Canada, the leading supplier, has steadily increased shipments of canola (rapeseed) oil and linseed oil to the United States over the past 5 years, with its 1995 exports rising by 10 percent over 1994. The Philippines, the world's leading coconut oil exporter, increased its exports of coconut oil to the United States by 60 percent in 1995. Italy, the leading exporter of olive oil to the United States, benefited from rising olive oil prices with a 32-percent rise in its exports in 1995. Malaysia, the leading world exporter of palm oil, registered a 10-percent drop in exports of fats and oils to the United States as the volume shipped dropped nearly in half from 1994 to 1995.

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Table 3-2
Agricultural products sector: U.S. trade for selected industry/commodity groups, by specified periods,
Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, 1995 from 1994	
				Amount	Percent
		<i>Million dollars</i>			
AG001	Certain miscellaneous live animals, meat, offals, and animal products:				
	Exports	1,521	1,783	262	17.2
	Imports	1,010	1,071	61	6.0
	Trade balance	511	712	201	39.3
AG002	Cattle and beef:				
	Exports	2,361	2,648	287	12.2
	Imports	2,716	2,627	-89	-3.3
	Trade balance	-355	21	376	(³)
AG003	Swine and pork:				
	Exports	486	748	262	53.9
	Imports	503	566	63	12.5
	Trade balance	-17	182	199	(³)
AG004	Sheep and meat of sheep:				
	Exports	37	19	-18	-48.6
	Imports	59	85	26	44.1
	Trade balance	-22	-66	-44	-200.0
AG005	Poultry:				
	Exports	1,691	2,149	458	27.1
	Imports	23	31	8	34.8
	Trade balance	1,668	2,118	450	27.0
AG006	Fresh or chilled fish:				
	Exports	217	244	27	12.4
	Imports	744	808	64	8.6
	Trade balance	-527	-564	-37	-7.0
AG007	Frozen fish:				
	Exports	1,556	1,754	198	12.7
	Imports	1,267	1,384	117	9.2
	Trade balance	289	370	81	28.0
AG008	Fish canned, cured, or otherwise prepared, and live fish:				
	Exports	373	429	56	15.0
	Imports	685	671	-14	-2.0
	Trade balance	-312	-242	70	22.4
AG009	Shellfish:				
	Exports	904	788	-116	-12.8
	Imports	3,896	3,884	-12	-0.3
	Trade balance	-2,992	-3,096	-104	-3.5
AG010	Dairy produce:				
	Exports	572	636	64	11.2
	Imports	922	1,052	130	14.1
	Trade balance	-350	-416	-66	-18.9
AG011	Eggs:				
	Exports	158	164	6	3.8
	Imports	30	20	-10	-33.3
	Trade balance	128	144	16	12.5
AG012	Sugar and other sweeteners:				
	Exports	303	354	51	16.8
	Imports	844	885	41	4.9
	Trade balance	-541	-531	10	1.8
AG013	Animal feeds:				
	Exports	3,482	3,822	340	9.8
	Imports	613	580	-33	-5.4
	Trade balance	2,869	3,242	373	13.0
AG014	Live plants:				
	Exports	99	96	-3	-3.0
	Imports	238	283	45	18.9
	Trade balance	-139	-187	-48	-34.5
AG015	Seeds:				
	Exports	340	348	8	2.4
	Imports	155	175	20	12.9
	Trade balance	185	173	-12	-6.5
AG016	Cut flowers:				
	Exports	38	40	2	5.3
	Imports	420	512	92	21.9
	Trade balance	-382	-472	-90	-23.6
AG017	Miscellaneous vegetable substances:				
	Exports	433	458	25	5.8
	Imports	623	762	139	22.3
	Trade balance	-190	-304	-114	-60.0

See footnotes at end of table.

Table 3-2—Continued
Agricultural products sector: U.S. trade for selected industry/commodity groups, by specified periods,
Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, 1995 from 1994	
				Amount	Percent
			<i>Million dollars</i>		
AG018	Fresh, chilled, or frozen vegetables:				
	Exports	1,122	1,148	26	2.3
	Imports	1,364	1,586	222	16.3
	Trade balance	-242	-438	-196	-81.0
AG019	Prepared or preserved vegetables, mushrooms, and olives:				
	Exports	1,290	1,360	70	5.4
	Imports	909	1,005	96	10.6
	Trade balance	381	355	-26	-6.8
AG020	Edible nuts:				
	Exports	1,318	1,462	144	10.9
	Imports	497	509	12	2.4
	Trade balance	821	953	132	16.1
AG021	Tropical fruit:				
	Exports	70	76	6	8.6
	Imports	1,253	1,337	84	6.7
	Trade balance	-1,183	-1,261	-78	-6.6
AG022	Citrus fruit:				
	Exports	674	740	66	9.8
	Imports	129	132	3	2.3
	Trade balance	545	608	63	11.6
AG023	Deciduous fruit:				
	Exports	774	718	-56	-7.2
	Imports	157	181	24	15.3
	Trade balance	617	537	-80	-13.0
AG024	Other fresh fruit:				
	Exports	482	488	6	1.2
	Imports	528	615	87	16.5
	Trade balance	-46	-127	-81	-176.1
AG025	Dried fruit other than tropical:				
	Exports	369	382	13	3.5
	Imports	46	47	1	2.2
	Trade balance	323	335	12	3.7
AG026	Frozen fruit:				
	Exports	71	77	6	8.5
	Imports	64	68	4	6.3
	Trade balance	7	9	2	28.6
AG027	Prepared or preserved fruit:				
	Exports	157	179	22	14.0
	Imports	414	415	1	0.2
	Trade balance	-257	-236	21	8.2
AG028	Coffee and tea:				
	Exports	231	229	-2	-0.9
	Imports	2,655	3,427	772	29.1
	Trade balance	-2,424	-3,198	-774	-31.9
AG029	Spices:				
	Exports	52	46	-6	-11.5
	Imports	272	290	18	6.6
	Trade balance	-220	-244	-24	-10.9
AG030	Cereals:				
	Exports	10,088	14,870	4,782	47.4
	Imports	861	723	-138	-16.0
	Trade balance	9,227	14,147	4,920	53.3
AG031	Milled grains, malts, and starches:				
	Exports	464	491	27	5.8
	Imports	132	151	19	14.4
	Trade balance	332	340	8	2.4
AG032	Oilseeds:				
	Exports	4,537	5,661	1,124	24.8
	Imports	268	221	-47	-17.5
	Trade balance	4,269	5,440	1,171	27.4
AG033	Animal or vegetable fats and oils:				
	Exports	1,851	2,529	678	36.6
	Imports	1,046	1,265	219	20.9
	Trade balance	805	1,264	459	57.0
AG034	Edible preparations:				
	Exports	3,062	2,871	-191	-6.2
	Imports	1,561	1,746	185	11.9
	Trade balance	1,501	1,125	-376	-25.1

See footnotes at end of table.

Table 3-2—Continued
Agricultural products sector: U.S. trade for selected industry/commodity groups, by specified periods,
Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, 1995 from 1994	
				Amount	Percent
		<i>Million dollars</i>			
AG035	Cocoa, chocolate, and confectionery:				
	Exports	545	524	-21	-3.9
	Imports	1,299	1,478	179	13.8
	Trade balance	-754	-954	-200	-26.5
AG036	Fruit and vegetable juices:				
	Exports	539	652	113	21.0
	Imports	663	635	-28	-4.2
	Trade balance	-124	17	141	(³)
AG037	Nonalcoholic beverages, excluding fruit and vegetable juices:				
	Exports	344	332	-12	-3.5
	Imports	349	353	4	1.1
	Trade balance	-5	-21	-16	-320.0
AG038	Malt beverages:				
	Exports	341	413	72	21.1
	Imports	1,038	1,151	113	10.9
	Trade balance	-697	-738	-41	-5.9
AG039	Wine and certain other fermented beverages:				
	Exports	192	236	44	22.9
	Imports	1,044	1,159	115	11.0
	Trade balance	-852	-923	-71	-8.3
AG040	Distilled spirits:				
	Exports	356	390	34	9.6
	Imports	1,552	1,629	77	5.0
	Trade balance	-1,196	-1,239	-43	-3.6
AG041	Unmanufactured tobacco:				
	Exports	1,303	1,400	97	7.4
	Imports	613	550	-63	-10.3
	Trade balance	690	850	160	23.2
AG042	Cigars, and certain other manufactured tobacco:				
	Exports	402	452	50	12.4
	Imports	90	117	27	30.0
	Trade balance	312	335	23	7.4
AG043	Cigarettes:				
	Exports	4,965	4,770	-195	-3.9
	Imports	73	51	-22	-30.1
	Trade balance	4,892	4,719	-173	-3.5
AG044	Hides, skins, and leather:				
	Exports	2,108	2,319	211	10.0
	Imports	995	1,095	100	10.1
	Trade balance	1,113	1,224	111	10.0
AG045	Furskins:				
	Exports	167	157	-10	-6.0
	Imports	109	87	-22	-20.2
	Trade balance	58	70	12	20.7
AG062	Ethyl alcohol for nonbeverage purposes:				
	Exports	215	265	50	23.3
	Imports	146	164	18	12.3
	Trade balance	69	101	32	46.4
AG063	Wool and other animal hair:				
	Exports	36	35	-1	-2.8
	Imports	173	214	41	23.7
	Trade balance	-137	-179	-42	-30.7
AG064	Cotton, not carded or combed:				
	Exports	2,653	3,681	1,028	38.7
	Imports	7	10	3	42.9
	Trade balance	2,646	3,671	1,025	38.7

¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

² This coding system is used by the U.S. International Trade Commission to identify major groupings of HTS import and export items for trade monitoring purposes

³ Not meaningful for purposes of comparison.

Source: Compiled from official statistics of the U.S. Department of Commerce.

CHAPTER 4

Forest Products

The U.S. trade deficit in forest products was little changed in 1995, up \$42 million (3 percent) to \$1.7 billion (table 4-1).¹ Total trade in these products rose by 22 percent to \$56.6 billion, as both imports and exports expanded by approximately equal amounts. The value of U.S. imports of forest products grew by 21 percent, rising from \$24.0 billion to \$29.2 billion. U.S. exports of forest products rose by 23 percent, from \$22.4 billion in 1994 to \$27.5 billion in 1995 (figure 4-1). With somewhat less construction taking place worldwide in 1995, lumber prices were generally lower, whereas increased demand drove paper and pulp prices higher and resulted in a 63-percent increase in U.S. exports to \$6.2 billion. Industrial paper exports increased 33 percent to \$5.1 billion (table 4-2). U.S. lumber imports fell by about 9 percent, to \$5.5 billion; at the same time, imports of wood pulp and wastepaper rose by about 65 percent to \$3.8 billion, imports of printing and writing papers rose by about 48 percent to \$4.2 billion, and imports of newsprint increased by about 33 percent to \$4.4 billion (table 4-3).

U.S. Bilateral Trade

The United States maintained a positive balance of trade in forest products with most countries except Canada, Brazil, and China.² Imports from Canada grew by \$3.5 billion (21 percent) in 1995 to \$20 billion and accounted for more than two-thirds of all U.S. imports of forest products in 1995. Leading products from Canada included lumber, \$5.1 billion; newsprint, \$4.4 billion; wood pulp and wastepaper, \$3.2 billion; and printing and writing papers, \$2.4 billion. Canada was also the largest importer of U.S. forest products at \$6.3 billion, an

¹ This includes products classified in sections IX and X of the *Harmonized Tariff Schedules of the United States (HTS)*. This group encompasses logs, lumber, wood products, and cork; wood pulp, waste paper, paper and paperboard; articles made from paper and paperboard; newsprint and printed material.

² The trade deficit with China was only \$373 million in 1995; U.S. imports from China consisted of bamboo, paper, and manufactured wood.

increase of \$1.0 billion (19 percent) in 1995 (figure 4-2).

After Canada, Japan was the most important U.S. trading partner, purchasing \$5.3 billion in U.S. forest products in 1995, an increase of \$777 million (17 percent) from year-earlier levels, while U.S. purchases from Japan amounted to \$465 million. Japan accounted for about 72 percent of all U.S. exports of raw logs; raw logs accounted for 42 percent of Japan's purchases of forest products from the United States. Japan was also the principal buyer of U.S. lumber, as well as wood pulp and wastepaper.

Mexico was the third-largest U.S. trading partner in forest products in 1995, with purchases of \$2.3 billion, a decline of \$115 million (5 percent); and sales to the United States of \$786 million, an increase of \$221 million (39 percent). Sales of forest products to the EU increased by \$1.4 billion (34 percent) in 1995 to \$5.4 billion, while imports from the EU increased by \$647 million (23 percent) to \$3.4 billion.

The U.S. and Canadian industries are among the world's most competitive as they are both endowed with accessible natural resources, efficient management, mature industries, and good transportation systems. The United States and Canada are each other's largest trading partners in the sector with Canada primarily exporting lumber, newsprint, wood pulp, and writing papers to the United States, and the United States exporting printed matter to Canada. While Canada's industry is primarily geared towards exports, the U.S. industry primarily serves the domestic market.

Commodity Analysis

Wood Pulp and Certain Papers

The U.S. trade deficit in wood pulp and certain papers increased by nearly two-thirds in 1995, rising by \$390 million in 1995 to \$1 billion. The

Table 4-1

Forest products: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by selected countries and country groups, 1994 and 1995¹

Item	1994	1995	Change, 1995 from 1994	
			Amount	Percent
	<i>Million dollars</i>			
U.S. exports of domestic merchandise:				
Canada	5,306	6,318	1,012	19.1
Japan	4,542	5,319	777	17.1
Mexico	2,452	2,337	-115	-4.7
United Kingdom	995	1,300	305	30.7
Germany	823	987	164	20.0
Korea	932	1,276	345	37.0
Brazil	169	330	161	95.1
Italy	570	853	283	49.6
China	313	372	60	19.1
Taiwan	646	745	98	15.2
All other	5,639	7,624	1,985	35.2
Total	22,386	27,461	5,075	22.7
EU-15	4,052	5,440	1,388	34.3
OPEC	519	665	146	28.0
Latin America	3,977	4,583	606	15.2
CBERA	754	1,000	246	32.6
Asian Pacific Rim	8,152	9,843	1,691	20.7
ASEAN	785	980	195	24.8
Central and Eastern Europe	32	54	22	70.3
U.S. imports for consumption:				
Canada	16,373	19,860	3,488	21.3
Japan	427	465	38	8.9
Mexico	565	786	221	39.1
United Kingdom	635	690	55	8.6
Germany	480	614	135	28.1
Korea	137	155	19	13.6
Brazil	625	921	296	47.3
Italy	242	300	59	24.2
China	621	746	124	20.0
Taiwan	293	260	-33	-11.3
All other	3,640	4,357	717	19.7
Total	24,037	29,155	5,117	21.3
EU-15	2,797	3,444	647	23.1
OPEC	528	551	23	4.3
Latin America	1,563	2,168	605	38.7
CBERA	80	97	17	21.6
Asian Pacific Rim	2,978	3,217	239	8.0
ASEAN	1,116	1,134	18	1.6
Central and Eastern Europe	19	17	-2	-10.7
U.S. merchandise trade balance:				
Canada	-11,067	-13,542	-2,475	-22.4
Japan	4,116	4,854	739	17.9
Mexico	1,887	1,551	-336	-17.8
United Kingdom	359	609	250	69.6
Germany	343	373	30	8.7
Korea	795	1,121	326	41.0
Brazil	-456	-591	-135	-29.6
Italy	328	552	224	68.4
China	-309	-373	-64	-20.9
Taiwan	353	484	131	37.2
All other	1,999	3,267	1,268	63.5
Total	-1,652	-1,694	-42	-2.5
EU-15	1,255	1,996	741	59.1
OPEC	-8	114	123	(²)
Latin America	2,414	2,415	1	(³)
CBERA	674	903	229	33.9
Asian Pacific Rim	5,173	6,625	1,452	28.1
ASEAN	-330	-154	176	53.4
Central and Eastern Europe	12	37	24	195.2

¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

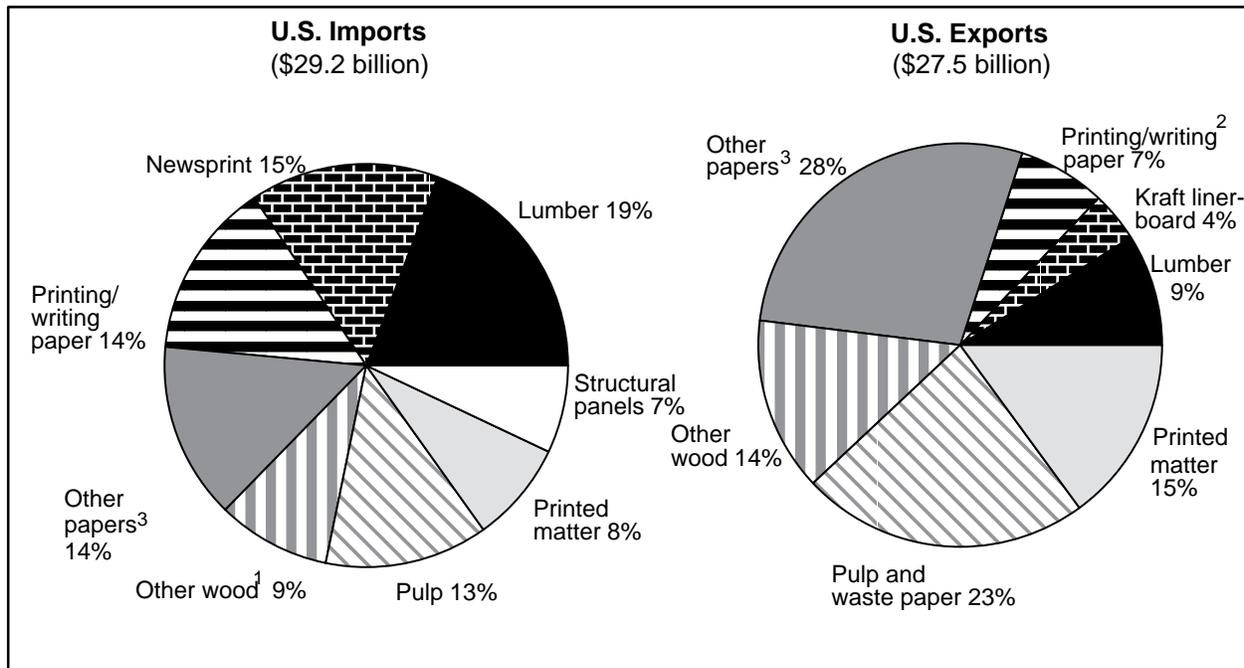
² Not meaningful for purposes of comparison.

³ Less than 0.05 percent.

Note.—Because of rounding, figures may not add to the totals shown. The countries shown are those with the largest total U.S. trade (U.S. imports plus exports) in these products in 1995.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 4-1
U.S. forest products trade, by major groupings, 1995



¹ Includes cork and rattan.

² Includes newsprint.

³ Includes industrial papers (excluding linerboard), specialty papers, and other converted papers.

Source: Derived from official statistics of the U.S. Department of Commerce.

Table 4-2
Changes in U.S. exports of forest products, 1994-95

Industry/commodity	Change, 1995 from 1994		Total value in 1995
	Value	Percent	
	<i>Million dollars</i>		<i>Billion dollars</i>
Pulp and wastepaper	2,425	63	6.2
Printed matter	325	9	4.1
Industrial papers	1,258	33	5.1
Logs and rough wood products	100	3	3.0
Lumber	-11	(¹)	2.4
Other	980	18	6.5
Total	5,075	23	27.5

¹ Less than -0.5 percent.

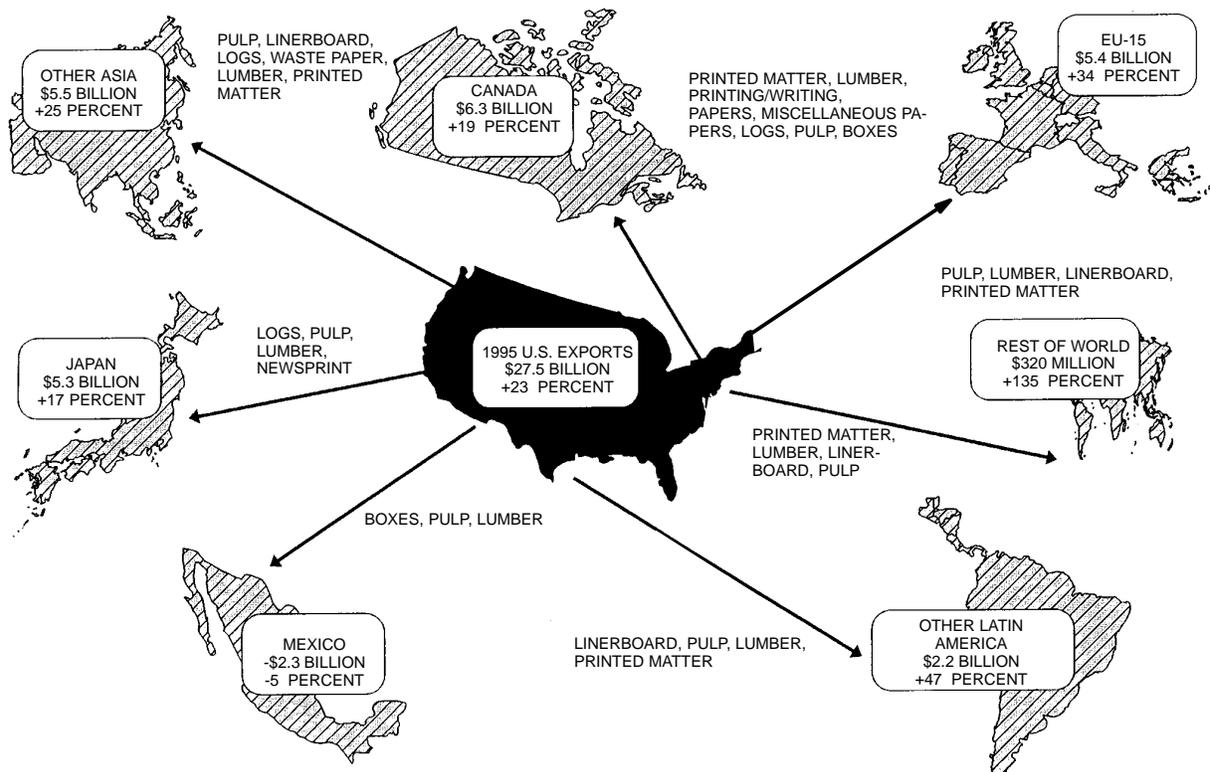
Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 4-3
Changes in U.S. imports of forest products, 1994-95

Industry/commodity	Change, 1995 from 1994		Total value in 1995
	Value	Percent	
	<i>Million dollars</i>		<i>Billion dollars</i>
Lumber	-544	-9	5.5
Printing and writing paper	1,361	48	4.2
Printed matter	322	15	2.5
Pulp and wastepaper	1,516	65	3.8
Structural panel products	166	9	2.0
Newsprint	1,085	33	4.4
Other	1,209	22	6.7
Total	5,118	21	29.1

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 4-2
U.S. forest products sector exports, 1995: Leading U.S. exports, by major markets, and overall percentage change since 1994



Source: Derived from official statistics of the U.S. Department of Commerce.

value of U.S. trade in wood pulp and wastepaper, printing and writing papers, industrial papers, and newsprint increased significantly between 1994 and 1995. Global prices continued to strengthen continuing a trend that started in 1994 which reflected slight imbalances between global supply and demand. Wood pulp and wastepaper prices experienced significant increases in 1995 that led to the sharp rise in the value of trade. Paper products that consume pulp and wastepaper in their production processes, i.e., printing and writing papers, industrial papers, and newsprint also experienced price increases. In 1995, operating rates for domestic mills producing wood pulp, printing and writing papers, newsprint, and industrial papers, while high, did not satiate demand.

Total U.S. imports of pulp and wastepaper increased by 65 percent to \$3.8 billion in 1995 with Canada providing \$3.2 billion in 1995, up by \$1.2 billion from 1994. Canada, traditionally the largest supplier of paper products to the United States, further increased its market share, especially in the pulp and wastepaper and newsprint sectors. Canada supplied 98 percent of the \$4.4 billion in U.S. newsprint imports in 1995. Starting in 1993, U.S. newspapers, the primary consumer of newsprint, increased their consumption by printing more pages, mostly advertisements, reflecting the relative strength of the economy. With this increased consumption, prices for newsprint spiraled upward, reaching a 1995 average of \$620 per metric ton. Faced with this high raw material cost, publishers reduced their consumption by eliminating some weekly supplements and reducing the size of individual pages by trimming the margins. U.S. imports of Canadian newsprint actually fell, in volume terms, by 1 percent to 7.1 billion metric tons, reflecting the small reduction in consumption.

During 1995, U.S. imports of printing and writing papers increased by 48 percent to \$4.2 billion. High product prices, tight global supply, and strong consumer demand for paper used in laser printers and copy machines led to this increase, with Canada providing 58 percent, or \$2.4 billion of the value of 1995 imports. In addition, U.S. imports of industrial papers and paperboards increased by 36 percent to \$1.9 billion, with Canada being the largest supplier, accounting for 66 percent, or \$1.2 billion of U.S. imports.

Exports to the European Union, Japan, and Canada, the traditional U.S. export markets, also showed strong growth in 1995. Most of the growth was in the wood pulp and wastepaper sector, with exports

valued at \$6.2 billion, up 64 percent from 1994 levels. The European Union is the largest market for U.S. wood pulp and wastepaper with 1995 exports valued at almost \$2 billion. Environmental directives in the EU that mandate the use of recycled paper, together with higher product prices, were the main reasons for the rise in exports. Exports to Japan also grew strongly in 1995, increasing by 62 percent to \$930 million. Higher product prices, increased Japanese demand, and favorable transportation rates all led to this increase.

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Lumber

The U.S. trade deficit in lumber narrowed slightly during 1994-95, from \$3.6 billion to \$3.1 billion. U.S. exports declined somewhat for the second straight year, while lumber imports fell by \$545 million. Lower prices for lumber accounted for the change. Imports from Canada, the principal supplier, declined from \$5.7 billion in 1994 to \$5.1 billion in 1995. Imports from other countries increased by \$11 million from 1994 to 1995, but accounted for only 8 percent of the total. Price declines accounted for the shift as the quantity imported continued to rise. Prices for softwood lumber, the principal imported lumber product, fell from consecutive record highs in 1993 and 1994. The composite framing lumber price peaked at \$490 per thousand board feet in December 1993, and averaged \$394 for the year.³ In 1994, the composite fluctuated downward but recorded an all-time high yearly average of \$419 per thousand board feet. The composite price continued to decrease in 1995, hitting a low of \$317 in May, and averaging \$337 for the year.

U.S. exports of lumber declined by \$11 million (less than 1 percent) in 1995 to \$2.4 billion, slightly less than the decrease between 1993 and 1994. Exports to Japan, and Canada, the leading markets for U.S. lumber exports, increased by \$10 million, and \$6 million, respectively. Exports to Mexico, affected principally by the devaluation of the peso, fell by \$72 million, more than offsetting export gains to other markets.

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³ Random Lengths, 1995 Yearbook (Eugene, OR: Random Lengths Publications, Inc., 1996), p. 203.

Table 4-4
Forest products sector: U.S. trade for selected industry/commodity groups, by specified periods,
Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, 1995 from 1994	
				Amount	Percent
			<i>Million dollars</i>		
AG046	Logs and rough wood products:				
	Exports	2,963	3,063	100	3.4
	Imports	366	404	38	10.4
	Trade balance	2,597	2,659	62	2.4
AG047	Lumber:				
	Exports	2,458	2,447	-11	-0.4
	Imports	6,059	5,515	-544	-9.0
	Trade balance	-3,601	-3,068	533	14.8
AG048	Moldings, millwork, and joinery:				
	Exports	443	456	13	2.9
	Imports	959	969	10	1.0
	Trade balance	-516	-513	3	0.6
AG049	Structural panel products:				
	Exports	962	1,018	56	5.8
	Imports	1,820	1,986	166	9.1
	Trade balance	-858	-968	-110	-12.8
AG050	Wooden containers:				
	Exports	76	77	1	1.3
	Imports	197	224	27	13.7
	Trade balance	-121	-147	-26	-21.5
AG051	Tools and tool handles of wood:				
	Exports	16	18	2	12.5
	Imports	109	130	21	19.3
	Trade balance	-93	-112	-19	-20.4
AG052	Miscellaneous articles of wood:				
	Exports	177	178	1	0.6
	Imports	540	615	75	13.9
	Trade balance	-363	-437	-74	-20.4
AG053	Cork and rattan:				
	Exports	50	65	15	30.0
	Imports	360	408	48	13.3
	Trade balance	-310	-343	-33	-10.6
AG054	Wood pulp and wastepaper:				
	Exports	3,816	6,241	2,425	63.5
	Imports	2,329	3,845	1,516	65.1
	Trade balance	1,487	2,396	909	61.1
AG055	Paper boxes and bags:				
	Exports	871	1,083	212	24.3
	Imports	451	596	145	32.2
	Trade balance	420	487	67	16.0
AG056	Industrial papers and paperboards:				
	Exports	3,827	5,085	1,258	32.9
	Imports	1,388	1,884	496	35.7
	Trade balance	2,439	3,201	762	31.2
AG057	Newsprint:				
	Exports	481	591	110	22.9
	Imports	3,333	4,418	1,085	32.6
	Trade balance	-2,852	-3,827	-975	-34.2
AG058	Printing and writing papers:				
	Exports	1,146	1,421	275	24.0
	Imports	2,831	4,192	1,361	48.1
	Trade balance	-1,685	-2,771	-1,086	-64.5
AG059	Certain specialty papers:				
	Exports	530	718	188	35.5
	Imports	568	742	174	30.6
	Trade balance	-38	-24	14	36.8
AG060	Miscellaneous paper products:				
	Exports	781	888	107	13.7
	Imports	583	758	175	30.0
	Trade balance	198	130	-68	-34.3
AG061	Printed matter:				
	Exports	3,788	4,113	325	8.6
	Imports	2,146	2,468	322	15.0
	Trade balance	1,642	1,645	3	0.2

¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

² This coding system is used by the U.S. International Trade Commission to identify major groupings of HTS import and export items for trade monitoring purposes.

Source: Compiled from official statistics of the U.S. Department of Commerce.

CHAPTER 5

Chemicals And Related Products

During 1994-95, the U.S. trade surplus for chemicals and related products increased by \$1.5 billion (11 percent) to \$15.0 billion (table 5-1). Both U.S. exports and U.S. imports of chemicals and related products increased substantially in 1995, by \$10.3 billion (18 percent) to \$67.5 billion and \$8.8 billion (20 percent) to \$52.5 billion, respectively, buoyed by economic growth in the United States and among its major trading partners. Chemicals and related products are principally used as producers' goods in manufacturing other products, for example, synthetic fibers, dyes, pipes, and detergents. Contributing to the increased value of U.S. exports of chemicals and related products, as shown in table 5-2, were substantially higher exports of certain organic and inorganic chemicals, plastics and rubber (including raw materials and finished articles), fertilizers, and pharmaceuticals. Contributing to the increased value of U.S. imports of chemicals and related products were substantially higher imports of certain organic chemicals, pharmaceuticals, and plastics and rubber. The U.S. trade surpluses for certain organic chemicals and plastics rose significantly in 1995, by \$1.5 billion (30 percent) and \$967 million (17 percent), respectively. In contrast, the U.S. trade balance for pharmaceuticals declined significantly, by \$1.2 billion. Although traditionally a net exporter of pharmaceuticals, the United States became a net importer of pharmaceuticals in 1995 as a result of a steep rise in pharmaceutical purchases primarily from Germany, the United Kingdom, Japan, and Switzerland.

U.S. Bilateral Trade

Country and regional trade in chemicals and related products is shown in table 5-1 and figures 5-1 and 5-2. In 1995, Canada remained the largest trading partner with the United States for both U.S. exports and U.S. imports of chemicals and related products. The U.S. bilateral trade surplus with Canada for these products declined in 1995 by \$368 million (11 percent), falling to \$2.8 billion. This occurred because U.S. imports of these products from Canada rose more rapidly than U.S. exports of these products (imports increased by \$1.7 billion (19 per-

cent) to \$10.5 billion, whereas exports increased by \$1.3 billion (11 percent) to \$13.3 billion). U.S. imports from Canada may have risen more rapidly than U.S. exports to Canada in 1995 because the U.S. economy grew more rapidly than the Canadian economy.¹ The U.S. trade surplus with Mexico for chemicals and related products also declined significantly in 1995, falling by \$572 million (13 percent) to \$3.9 billion, primarily as a result of a \$420 million (29-percent) rise in U.S. imports and a decrease of U.S. exports of \$151 million (3 percent). U.S. imports of chemicals and related products from Mexico in 1995 were probably stimulated by the decline in the value of the peso. The peso devaluation and subsequent float resulted in a slump in the Mexican economy and depressed domestic demand, such that Mexican chemical producers likely diverted products to export markets.² The slump in the Mexican economy also resulted in a decline in U.S. exports.

U.S. trade in chemicals and related products with Japan increased significantly in 1995. U.S. exports to Japan rose by \$934 million (19 percent) to \$5.9 billion whereas U.S. imports of these products from Japan also increased by \$1.05 billion (17 percent) to \$7.4 billion. Because U.S. imports grew slightly more rapidly than exports, the U.S. trade deficit with Japan for chemicals and related products grew slightly in 1995, by \$116 million (8 percent) to \$1.5 billion.

Reflecting growth in the economies of the United States and China, U.S. trade with China in chemicals and related products also increased in 1995. U.S. exports to China and U.S. imports from China of chemicals and related products climbed by roughly the same amount (\$514 million versus \$523 million, respectively); consequently, the U.S. trade deficit with China in 1995 (\$524 million) remained essentially unchanged compared with its value in 1994. Reflecting the increased chemical requirements in Taiwan that were spurred by the growth of technology-intensive industries, the U.S.

¹ Conversation with a representative from the NAFTA desk, U.S. Department of Commerce, Apr. 1996.

² Ibid.

Table 5-1

Chemicals and related products: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by selected countries and country groups, 1994 and 1995¹

Item	1994	1995	Change, 1995 from 1994	
			Amount	Percent
			<i>Million dollars</i>	
U.S. exports of domestic merchandise:				
Canada	12,022	13,338	1,315	10.9
Japan	4,954	5,888	934	18.9
Mexico	5,979	5,828	-151	-2.5
Germany	2,215	2,332	117	5.3
United Kingdom	2,204	2,648	444	20.2
China	1,524	2,038	514	33.7
Belgium	2,698	3,419	721	26.7
Taiwan	2,399	2,942	543	22.6
Netherlands	2,530	3,135	605	23.9
France	1,463	1,631	167	11.4
All other	19,200	24,264	5,065	26.4
Total	57,188	67,463	10,275	18.0
EU-15	13,569	15,963	2,395	17.6
OPEC	1,606	1,982	377	23.5
Latin America	12,039	13,459	1,420	11.8
CBERA	1,363	1,604	240	17.6
Asian Pacific Rim	16,117	20,509	4,392	27.3
ASEAN	2,647	3,426	779	29.4
Central and Eastern Europe	141	191	50	35.1
U.S. imports for consumption:				
Canada	8,812	10,496	1,684	19.1
Japan	6,324	7,374	1,050	16.6
Mexico	1,461	1,881	420	28.8
Germany	4,111	5,039	928	22.6
United Kingdom	3,216	3,616	401	12.5
China	2,039	2,562	523	25.6
Belgium	785	989	205	26.1
Taiwan	1,269	1,219	-50	-4.0
Netherlands	797	999	201	25.3
France	2,180	2,453	273	12.5
All other	12,690	15,824	3,133	24.7
Total	43,683	52,452	8,769	20.1
EU-15	14,572	17,347	2,774	19.0
OPEC	1,223	1,908	685	56.0
Latin America	3,256	3,949	693	21.3
CBERA	604	769	165	27.4
Asian Pacific Rim	13,168	15,777	2,609	19.8
ASEAN	2,129	2,892	763	35.8
Central and Eastern Europe	307	368	60	19.7
U.S. merchandise trade balance:				
Canada	3,210	2,842	-368	-11.5
Japan	-1,370	-1,487	-116	-8.5
Mexico	4,518	3,947	-572	-12.7
Germany	-1,896	-2,707	-811	-42.8
United Kingdom	-1,012	-968	44	4.3
China	-515	-524	-9	-1.7
Belgium	1,913	2,430	516	27.0
Taiwan	1,129	1,723	593	52.5
Netherlands	1,733	2,137	403	23.3
France	-716	-822	-106	-14.8
All other	6,509	8,441	1,931	29.7
Total	13,505	15,011	1,506	11.2
EU-15	-1,003	-1,383	-380	-37.9
OPEC	383	75	-308	-80.5
Latin America	8,783	9,511	728	8.3
CBERA	760	835	75	9.9
Asian Pacific Rim	2,948	4,732	1,783	60.5
ASEAN	518	534	16	3.1
Central and Eastern Europe	-166	-177	-11	-6.6

¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

Note.—Because of rounding, figures may not add to the totals shown. The countries shown are those with the largest total U.S. trade (U.S. imports plus exports) in these products in 1995.

Source: Compiled from official statistics of the U.S. Department of Commerce.

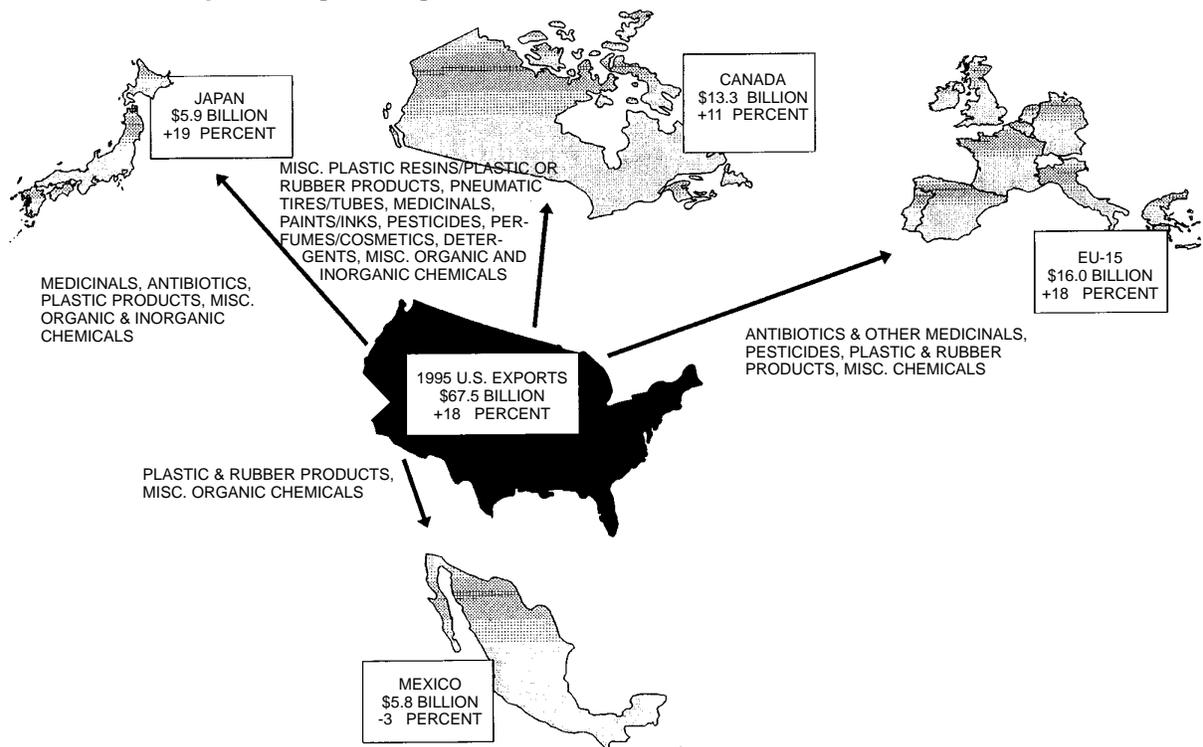
Table 5-2
U.S. trade in chemicals and related products, by major types, 1994 and 1995

Product	1994	1995	Increase	Change
	<i>Million dollars</i>			<i>Percent</i>
U.S. exports:				
Plastics and rubber:				
Raw materials	9,606	11,738	2,132	22.2
Finished or semifabricated products	10,485	11,712	1,227	11.7
General organic chemicals	12,762	16,320	3,558	27.9
General inorganic chemicals	4,137	5,295	1,158	28.0
Pharmaceuticals	7,615	8,090	476	6.3
Consumer and industrial products	5,454	6,099	646	11.8
Fertilizers and pesticides	4,516	5,288	771	17.1
Dyes, pigments, paints, and inks	2,614	2,921	307	11.7
Total	57,188	67,463	10,275	18.0
U.S. imports:				
Plastics and rubber:				
Raw materials	4,896	6,450	1,554	31.7
Finished or semifabricated products	11,639	12,955	1,316	11.3
General organic chemicals	7,799	9,859	2,060	26.4
General inorganic chemicals	3,791	4,660	869	22.9
Pharmaceuticals	6,971	8,654	1,683	24.1
Consumer and industrial products	3,550	4,107	558	15.7
Fertilizers and pesticides	2,892	3,374	482	16.7
Dyes, pigments, paints, and inks	2,146	2,392	246	11.5
Total	43,683	52,452	8,769	20.1
U.S. balance of trade:				
Plastics and rubber:				
Raw materials	4,710	5,288	578	12.3
Finished or semifabricated products	-1,154	-1,244	-89	-7.7
General organic chemicals	4,963	6,460	1,497	30.2
General inorganic chemicals	346	635	289	83.5
Pharmaceuticals	644	-564	-1,207	(¹)
Consumer and industrial products	1,904	1,992	88	4.6
Fertilizers and pesticides	1,625	1,913	289	17.8
Dyes, pigments, paints, and inks	468	529	61	13.0
Total	13,505	15,011	1,506	11.2

¹ Not meaningful for purposes of comparison.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 5-1
U.S. chemical and related products sector exports, 1995: Leading U.S. exports, by major markets, and overall percentage change since 1994



Source: Derived from official statistics of the U.S. Department of Commerce.

trade surplus with Taiwan rose by \$593 million (53 percent) to \$1.7 billion, stimulated by a rise in U.S. exports to that country of \$543 million (23 percent) to \$2.9 billion.

The U.S. trade deficit with the EU grew by \$380 million (38 percent) in 1995 to \$1.4 billion, as U.S. imports from the EU rose by \$2.8 billion (19 percent), and U.S. exports to the EU rose by \$2.4 billion (18 percent). Contributing to the decline of the U.S. trade balance with the EU was a sharp rise in U.S. imports of chemicals and related products from Germany, which increased by \$928 million (23 percent). Pharmaceutical shipments from Germany accounted for a large share of the increase in imports.

time in 5 years, the U.S. trade balance in these goods shifted from a surplus of \$395 million to a deficit of \$605 million. Although U.S. exports of these products increased by 6 percent (\$400 million) to \$6.5 billion in 1995, U.S. imports rose by 24 percent (\$1.4 billion) to \$7.1 billion. The three largest sources of such imports in 1995, by value, were the United Kingdom (20 percent of total imports, \$1.4 billion), Germany (15 percent, \$1.1 billion), and Japan (11 percent, \$778 million). The largest increases in imports in value terms during 1994-95 occurred with Germany (54-percent increase) and Switzerland (45-percent increase). Canada was the largest export destination (\$955 million), followed by Japan (\$824 million).

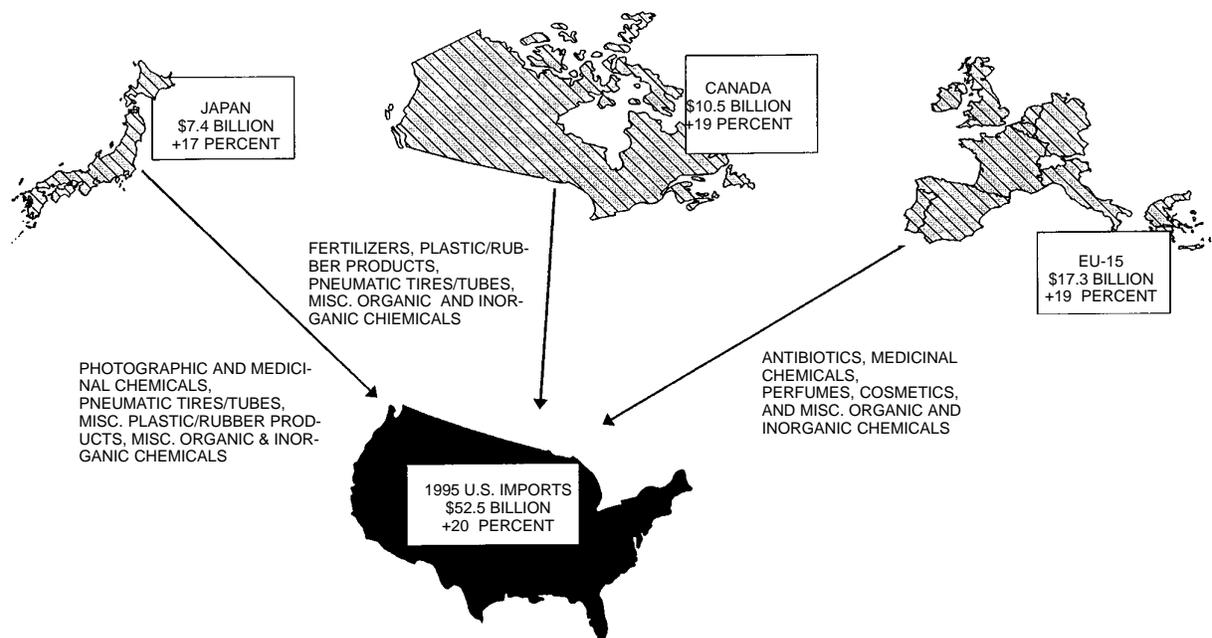
There are several reasons for the increase in imports of medicinal chemicals. Most of the increases in imports was probably due to the implementation of the Uruguay Round Agreement on Pharmaceuticals (Agreement), which provided duty-free status for thousands of pharmaceuticals and chemical intermediates used to produce pharmaceuticals covered in chapters 28, 29, and 30 of the *HTS*. Higher import levels can be attributed both to actual growth in imports resulting from the elimination of tariffs under the Agreement and from changes in statistical collection capabilities resulting from the Agreement. In 1995, duty-free U.S. imports of

Commodity Analysis

Medicinal Chemicals, Except Antibiotics

The United States has traditionally maintained a fluctuating trade surplus in medicinal goods (not including antibiotics). However, in 1995, for the first

Figure 5-2
U.S. chemical and related products sector imports, 1995: Leading U.S. imports, by major sources, and overall percentage change since 1994



Source: Derived from official statistics of the U.S. Department of Commerce.

products under the Agreement were valued at \$9.4 billion. Another reason for the rise in U.S. imports was increased related party trade, in which the importer is often either the patent holder or the U.S. licensee. The increase can also be attributed to the expiration of U.S. patents on approximately 200 products during 1990-95. As a result, more companies are likely to be importing bulk product to manufacture generic formulations to supply the market or, for newer products, to obtain marketing approval from the U.S. Food and Drug Administration.

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Plastics and Rubber

Other plastics in primary forms

The United States maintained a large and growing trade surplus of \$3.5 billion in other plastics in primary forms during 1995. The trade surplus was propelled by export growth of \$728 million

(16 percent) to \$5.4 billion, with only modest import growth of \$253 million (15 percent) to \$1.9 billion. The increase in U.S. exports of these plastics was due to increased demand for downstream products manufactured from these plastic raw materials in the major export markets. Canada, Mexico, and Belgium remained the major export markets in 1995, accounting for 20 percent (\$1.1 billion), 8 percent (\$428 million), and 8 percent (\$426 million) of the total U.S. export market, respectively.³ U.S. imports of other plastics in primary forms increased from \$1.7 billion in 1994 to \$1.9 billion in 1995. The principal sources of U.S. imports of these products in 1995 were Japan, which accounted for 23 percent of total U.S. imports (\$450 million); Canada, 18 percent (\$341 million); and Germany, 17 percent (\$337 million).⁴

³ The most significant growth in U.S. exports of plastics in primary forms in 1995 was to Canada, up by \$100 million (11 percent) to \$1.1 billion; Hong Kong, up by \$83 million (45 percent) to \$267 million; Belgium, up by \$83 million (24 percent) to \$426 million; and Korea, up by \$68 million (31 percent) to \$291 million.

⁴ The largest growth in imports was from Japan, up by \$76 million (21 percent) to \$450 million; and Canada, up by \$61 million (22 percent) to \$341 million.

Other plastics in primary forms comprises a wide category of raw material plastics that are specialized in their application, and generally are produced in low volumes and at relatively higher prices compared with high-volume commodity plastics. The plastics are both thermoplastic and thermosetting in type and include the following: polyisobutylene, vinylidene chloride polymers, fluoropolymers, vinyl acetate polymers, acrylic polymers, epoxide resins, polycarbonates, unsaturated polyesters, nylon, melamine resins, urea resins, phenolics, petroleum resins, cellulose plastics, and natural polymers. As raw materials, these plastics are processed or formed into intermediate goods such as film and sheet, or into a variety of finished goods.

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Natural rubber

A 69-percent increase (\$664 million) in the value of natural rubber imports in 1995 propelled imports to \$1.6 billion, and caused the trade deficit for natural rubber to increase 70 percent (\$655 million) to \$1.6 billion. The amount of natural rubber (1,044,000 mt) imported into the United States was only 5 percent greater in 1995, but substantial price increases caused the large increase in the value of imports. These price increases were mainly attributable to heavy demand resulting from strong economic growth and recovery in the industrialized countries, the major consumers of natural rubber. Substantial growth in the automobile and manufacturing sectors in China also was a significant factor as China accounts for approximately 10 percent of global net imports of natural rubber.

As an internationally traded commodity, natural rubber is subject to international obligations imposed under the International Natural Rubber Agreement (INRA) on signatory nations. The emphasis of the INRA is to stabilize fluctuations in natural rubber prices (through a buffer stock arrangement) without distorting long-term market trends.

Natural rubber is not produced in the United States, and therefore, reported U.S. exports of natural rubber are re-exports of imported material. Because specific climatic conditions are necessary for the growth of rubber trees, natural rubber is produced by only about 10 countries worldwide. The concentration of rubber producers is even more significant in that Indonesia, Malaysia, and Thailand accounted for 74 percent of world natural rubber production in 1995. These three countries also were the principal suppliers of natural rubber to the United States, accounting for 94 percent of total imports in 1995. U.S. imports from Indonesia grew

by \$408 million (71 percent) in 1995 to \$981 million; Thailand, by \$156 million (78 percent) to \$357 million; and Malaysia, by \$67 million (48 percent) to \$205 million.

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Polyethylene resins in primary forms

The trade surplus in polyethylene resins widened by \$119 million (18 percent) to \$796 million in 1995 as exports climbed to \$2 billion and imports reached \$1.2 billion. Although the growth of imports (52 percent), in terms of value, outpaced the growth of exports (36 percent), exports still grew by a greater amount (\$529 million), thus contributing to the widening of the trade surplus. Part of the substantial growth in the export and import values of polyethylene can be attributed to world price increases⁵ for this commodity in 1995. Measured by quantity, the amount of polyethylene exports increased by 7 percent and imports increased by 13 percent. Export growth was propelled by strong demand in major consuming markets such as Hong Kong and China, which do not have enough domestic capacity to meet their growing needs. During 1994-95, exports to Hong Kong increased by 119 percent (from \$52 million to \$114 million), while those to China increased by 297 percent (from \$29 million to \$115 million). As a basic plastic raw material, polyethylene resins are processed into a variety of products and intermediate goods such as containers, bags, bottles, novelty items, and sheet and film. After processing, the polyethylene product is often exported and returned to the United States as packaging, an intermediate good, or a finished product.

U.S. imports of polyethylene in primary forms, and the overall increase of these imports in 1995, were almost solely attributable to imports from Canada (\$1.1 billion), which accounted for 92 percent of total imports in 1995. The major producers in the United States and Canada are leading multinational petroleum and chemical companies that produce in numerous countries throughout the world. Thus, trade of this commodity between the United States and Canada generally is attributable to these major firms serving their customers from either their U.S. or Canadian production facilities. Major Canadian producers include Dow, Novacor, Union Carbide, and Imperial (Exxon subsidiary). In addition to being the major import source of polyethylene resins, Canada is also the largest export market for U.S. polyethylene, with 1995 exports amounting to \$319

⁵ Price increases were attributed to increased feedstock prices and strong worldwide demand driven by growing economies of major consuming nations.

million. The composition of U.S. imports is about equally split between high-density polyethylene and low-density polyethylene; while the export trade is dominated by low-density polyethylene.

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Plastic or rubber in semifabricated form

A substantial growth in exports of semifabricated rubber and plastic articles combined with a slight increase in imports resulted in an increase in the trade surplus of \$159 million (12 percent) to \$1.5 billion in 1995. U.S. exports (\$4.1 billion) of these products rose by 14 percent (\$520 million), while imports (\$2.6 billion) rose by 16 percent (\$361 million). Leading U.S. export markets in 1995 were Canada (\$1.1 billion), Mexico (\$556 million), and the Netherlands (\$244 million). These countries also accounted for 52 percent of 1995 imports. Large export markets for these products exist with Canada and Mexico because of close proximity and interrelated markets with the United States (many of these products require additional manufacture before final consumption). Increased exports are attributable to the growth in world demand for packaging materials. Major import sources of semifabricated rubber or plastic goods, by value, were Canada and Japan, which accounted for 29 percent and 19 percent, respectively, of total imports in 1995. Canada also accounted for the major growth in U.S. imports in 1995, with imports advancing by \$107 million (16 percent) to \$764 million.

This category of products includes a variety of products such as waste, scrap, monofilaments, profiles, shapes, thread, cord, sheets, and film of plastic or rubber. The dominant category of traded goods, however, is plastic film and sheet. In 1995, film and sheet constituted 87 percent, by value, of U.S. imports and 92 percent of U.S. exports of these products. The majority of film and sheet is further processed into bags and other packaging materials, some of which is imported into the United States in association with manufactured products or as finished packaging. The United States maintained a trade deficit in plastic sacks and bags in 1994, which further deteriorated by 47 percent to \$180 million in 1995.

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Benzenoid Commodity Chemicals

The U.S. trade surplus in benzenoid commodity chemicals increased by \$281 million (24 percent) to \$1.4 billion in 1995 primarily because of the growth in U.S. exports of monomers used to make plastics resins. A monomer is one of the repeating molecular units comprising the long chain of a polymeric substance. For example, styrene is the monomer for polystyrene, a common plastic resin.

Total exports of benzenoid commodity chemicals rose by \$702 million (45 percent) to \$2.3 billion in 1995. Combined exports of ϵ -caprolactam, styrene, terephthalic acid (PTA), and p-xylene, valued at a total of \$1.9 billion in 1995, accounted for 85 percent of the total increase in U.S. exports of benzenoid commodity chemicals. The principal 1995 export market for this latter group of chemicals was Taiwan (\$729 million). Production problems occurring in the Asia/Pacific region in 1994 at plants producing these chemicals were not fully resolved in 1995, thus necessitating an increase in imports of intermediate chemicals from other world producers, principally the United States.

Exports of styrene, an intermediate chemical used in the production of polystyrene resins, increased by \$275 million (38 percent) to \$1.0 billion in 1995. Styrene exports represented 19 percent of the value of U.S. styrene production in 1995. Taiwan (\$440 million) and Japan (\$131 million), combined, accounted for 57 percent by value of all U.S. exports of this chemical. According to trade journal sources, demand for styrene and its derivatives is growing faster in Asia than in any other part of the world.⁶ However, styrene production plants in the Asia/Pacific region are expected to come fully on stream over the next 3 years, reducing the area's need for imports of this product from the United States and Europe.⁷ Like styrene, PTA and ϵ -caprolactam are utilized as monomers in the manufacture of plastics resins. The principal markets for PTA in 1995 were Taiwan (\$126 million), Malaysia (\$97 million), and China (\$81 million). The principal markets for ϵ -caprolactam, a monomer used to produce nylon 6 and nylon 6/6, were Taiwan (\$84 million) and Canada (\$34 million). p-Xylene, another feedstock, is used in the manufacture of PTA. Mexico was the principal market for U.S. exports of this chemical in 1995, accounting for \$182 million

⁶ *Chemical Marketing Reporter*, "Styrene is Finally Reaching the Bottom," Dec. 25, 1995, pp. 3, 12. See also, *Chemical Marketing Reporter*, "Aromatics Makers Face Dilemma," Apr. 1, 1996, pp. 4, 13.

⁷ *Chemical Week*, "New Asia Plants Will Hurt Profits," Jan. 24, 1996, p. 44. Also, *Chemical Week*, "Pending Surpluses Spoil Upbeat Mood," Apr. 10, 1996, p. 44.

or 53 percent of all exports of this chemical. Because of limited production capacity, Mexico must source p-xylene externally as a raw material for the production of PTA and dimethyl terephthalate.

Imports of benzenoid commodity chemicals grew by \$421 million (107 percent) to \$813 million in 1995. Such imports represented only about 6 percent of apparent U.S. consumption of these chemicals in 1995. Canada was the largest foreign source, and accounted for the greatest increase in imports of these chemicals during 1995, representing 51 percent of the value of total imports. The principal product imported from Canada in 1995 was styrene, valued at \$209 million. U.S. styrene production could not meet both the increased U.S. and foreign demand for this chemical, hence imports were needed to supplement domestic supply. Virtually all styrene imported from Canada entered duty free under the provisions of the North American Free Trade Agreement (NAFTA). Total NAFTA imports of this group of chemicals was \$223 million in 1995, with Canada and Mexico accounting for 82 percent and 18 percent, respectively, of the total value of these products.

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Salts and Certain Other Inorganic Chemicals

During 1994-95, the U.S. trade surplus for chemical salts and certain other inorganic chemicals rose by \$262 million (81 percent) to \$583 million. The value of U.S. exports of these products, including catalysts and certain doped electronic chemicals, rose by \$632 million (25 percent) to \$3.1 billion. Increased U.S. exports to the EU, Japan, Canada, and Korea accounted for most (63 percent) of the change. Buoyed by a relatively strong economy, imports also rose in 1995, but less sharply, climbing by \$370 million (17 percent) to \$2.5 billion. Increased U.S. imports from Japan, the EU, China, and Canada accounted for almost all (93 percent) of the 17-percent increase. About one-half of the total increase was accounted for by a sharp rise of imports of certain doped chemicals to be used in electronics. According to industry observers, the U.S. semiconductor industry experienced sharp growth in 1995, thereby accounting for most of the rise in these imports.⁸

About one-half of the increase in U.S. exports for these products during 1994-95 was accounted for by a rise of U.S. exports of catalytic preparations, including reaction initiators and accelerators, (up by \$200 million (28 percent) to \$925 million and by

increased U.S. exports of certain doped chemicals to be used in electronics, (up by \$116 million (33 percent) to \$467 million. Industry sources attribute the increased value of U.S. exports of catalysts and reaction initiators and accelerators during 1994-95 to new chemical capacity overseas, which increased the demand for catalysts, and to higher prices for precious metals during that period (some catalysts include a precious metal component, usually palladium or platinum). Catalysts are used in catalytic converters for automobiles, in petroleum refining, in environmental retrofitting of industrial plants, and in chemical manufacture. Reaction initiators and accelerators, which are closely related to catalysts, are used in chemical processing, especially in the polymerization of olefins to form plastics.

The United States exported these catalysts to 74 countries in 1995. The top five markets for these exports in 1995 were Canada (\$153 million), Japan (\$110 million), the Netherlands (\$67 million), South Korea (\$62 million), and Mexico (\$55 million). The broadly distributed nature of these exports is demonstrated by the fact that exports to these top five countries accounted for less than one-half (48 percent) the total value of catalyst exports in 1995. About one-half of the increase in catalyst exports in 1995 (\$200 million) was attributed to a rise in exports to Canada (up by \$39 million), South Korea (up by \$33 million), and China (up by \$31 million).

U.S. exports of doped chemicals in the form of discs or wafers rose in value by \$116 million (33 percent) to \$467 million in 1995. Most of the increase was accounted for by a growth of exports to Japan, which rose in value by \$69 million (69 percent) to \$169 million. Industry sources attribute the rise in exports to Japan to increased Japanese investments in U.S. plants producing electronic materials. The investment was reportedly stimulated by a relatively cheap U.S. dollar compared with the Japanese yen. The average unit value of U.S. exports of these doped chemicals to other markets rose steeply, by 37 percent. According to an industry source, the rise in the average unit value of these exports was likely related to an increase in the average diameter of doped discs or wafers that were exported, thereby allowing more electronic chips to be made per disc or wafer.

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Fertilizers

A significant export increase yielded a \$222 million (30-percent) expansion in the U.S. trade surplus in fertilizers to \$962 million in 1995. U.S. fertilizer exports grew by \$539 million (19 percent) to \$3.3 billion owing to significant increases in exports to China and India.

⁸ U.S. industry representative, telephone interview by USITC staff, Aug. 15, 1996.

China and India are traditionally the major export markets for U.S. nitrogenous and phosphatic fertilizers. The \$260 million increase (28 percent) to \$1.2 billion in U.S. exports to China of fertilizers is characteristic of Chinese purchasing patterns, which frequently exhibit significant annual changes. Although China tends to purchase fertilizers from foreign suppliers primarily during periods when the country has ample hard currency to pay for these products and when prices are as low as they were during 1995, other nonfiscal factors may take precedence in procurement decisions. For example, significant lag times in fertilizer distribution to end users in the Chinese market, caused by lack of a modern infrastructure, often disrupts procurement and can result in major shifts in U.S. fertilizer exports to China. The increase in fertilizer exports to India of \$150 million (113 percent) to \$284 million was largely attributed to increased purchases of diammonium phosphate during July-December of 1995 to ensure adequate supplies for set-in crops and to build inventory for the spring. Indian fertilizer procurement traditionally defies market norms in order to keep suppliers off-guard and ensure favorable prices.

U.S. imports of fertilizers increased by \$317 million (16 percent) in 1995 to \$2.4 billion. This growth was due primarily to nitrogenous fertilizer

imports, particularly ammonia. The United States has sustained import reliance in nitrogenous fertilizers for many years. Reported increases in purchases of ammonia from Trinidad and Tobago of \$92 million (39 percent) to a \$330 million total and ammonia and ammonium nitrate from Russia of \$110 million (112 percent) to a \$208 million total were the major contributors to the rise in the total value of fertilizer imports in 1995. Ammonia is the building block of all nitrogenous fertilizer production and U.S. ammonia production is currently inadequate to satisfy domestic demand. U.S. direct investment joint ventures in Trinidad and Tobago increased export-oriented ammonia production capacity during 1995. U.S. production of nitric acid,⁹ a key input for ammonium nitrate production, is also inadequate to satisfy domestic demand. Available U.S. nitric acid production was primarily used as an intermediate input for use in the production of urea ammonium nitrate solution fertilizers and ammonium nitrate. U.S.-produced ammonium nitrate was primarily consumed in explosives used by the U.S. coal industry. Fertilizer grade ammonium nitrate was imported primarily from Russia.

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⁹ From ammonia as primary input.

Table 5-3

Chemical and related products sector: U.S. trade for selected industry/commodity groups, by specified periods, Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, 1995 from 1994	
				Amount	Percent
			<i>Million dollars</i>		
CH008	Other olefins:				
	Exports	190	242	52	27.4
	Imports	38	53	15	39.5
	Trade balance	152	189	37	24.3
CH009	Primary aromatics:				
	Exports	138	208	70	50.7
	Imports	158	246	88	55.7
	Trade balance	-20	-38	-18	-90.0
CH010	Benzenoid commodity chemicals:				
	Exports	1,555	2,258	703	45.2
	Imports	392	813	421	107.4
	Trade balance	1,163	1,445	282	24.2
CH011	Benzenoid specialty chemicals:				
	Exports	4,073	4,551	478	11.7
	Imports	2,281	3,179	898	39.4
	Trade balance	1,792	1,372	-420	-23.4
CH012	Miscellaneous organic chemicals:				
	Exports	5,890	8,013	2,123	36.0
	Imports	4,442	4,968	526	11.8
	Trade balance	1,448	3,045	1,597	110.3
CH013	Selected inorganic chemicals and elements:				
	Exports	790	997	207	26.2
	Imports	1,235	1,658	423	34.3
	Trade balance	-445	-661	-216	-48.5
CH014	Inorganic acids:				
	Exports	160	166	6	3.8
	Imports	199	209	10	5.0
	Trade balance	-39	-43	-4	-10.3
CH015	Salts and other inorganic chemicals:				
	Exports	2,487	3,119	632	25.4
	Imports	2,166	2,536	370	17.1
	Trade balance	321	583	262	81.6
CH016	Chlor-alkali chemicals:				
	Exports	594	899	305	51.3
	Imports	149	210	61	40.9
	Trade balance	445	689	244	54.8
CH017	Industrial gases:				
	Exports	105	114	9	8.6
	Imports	42	47	5	11.9
	Trade balance	63	67	4	6.3
CH018	Fertilizers:				
	Exports	2,780	3,319	539	19.4
	Imports	2,040	2,357	317	15.5
	Trade balance	740	962	222	30.0
CH019	Paints, inks, and related item, and certain components thereof:				
	Exports	2,057	2,340	283	13.8
	Imports	1,148	1,425	277	24.1
	Trade balance	909	915	6	0.7
CH020	Synthetic organic pigments:				
	Exports	299	283	-16	-5.4
	Imports	339	341	2	0.6
	Trade balance	-40	-58	-18	-45.0
CH021	Synthetic dyes and azoic couplers:				
	Exports	227	267	40	17.6
	Imports	595	569	-26	-4.4
	Trade balance	-368	-302	66	17.9
CH022	Synthetics tanning agents:				
	Exports	11	14	3	27.3
	Imports	6	6	(³)	4.4
	Trade balance	5	8	3	60.0
CH023	Natural tanning and dyeing materials:				
	Exports	19	17	-2	-10.5
	Imports	58	52	-6	-10.3
	Trade balance	-39	-35	4	10.3
CH024	Photographic chemicals and preparations:				
	Exports	383	506	123	32.1
	Imports	650	749	99	15.2
	Trade balance	-267	-243	24	9.0

See footnotes at end of table.

Table 5-3—Continued

Chemical and related products sector: U.S. trade for selected industry/commodity groups, by specified periods, Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, 1995 from 1994	
				Amount	Percent
			<i>Million dollars</i>		
CH025	Pesticide products and formulations:				
	Exports	1,736	1,969	233	13.4
	Imports	852	1,017	165	19.4
	Trade balance	884	952	68	7.7
CH026	Adhesives and glues:				
	Exports	308	348	40	13.0
	Imports	134	138	4	3.0
	Trade balance	174	210	36	20.7
CH027	Medicinal chemicals, except antibiotics:				
	Exports	6,086	6,470	384	6.3
	Imports	5,691	7,075	1,384	24.3
	Trade balance	395	-605	-1,000	(⁴)
CH028	Antibiotics:				
	Exports	1,528	1,621	93	6.1
	Imports	1,280	1,580	300	23.4
	Trade balance	248	41	-207	-83.5
CH029	Essential oils and other flavoring materials:				
	Exports	848	910	62	7.3
	Imports	624	810	186	29.8
	Trade balance	224	100	-124	-55.4
CH030	Perfumes, cosmetics, and toiletries:				
	Exports	1,715	1,875	160	9.3
	Imports	1,055	1,168	113	10.7
	Trade balance	660	707	47	7.1
CH031	Soaps, detergents, and surface-active agents:				
	Exports	1,454	1,644	190	13.1
	Imports	556	653	97	17.4
	Trade balance	898	991	93	10.4
CH032	Miscellaneous chemicals and specialties:				
	Exports	1,371	1,572	201	14.7
	Imports	733	901	168	22.9
	Trade balance	638	671	33	5.2
CH033	Explosives, propellant powders and related items:				
	Exports	252	250	-2	-0.8
	Imports	196	187	-9	-4.6
	Trade balance	56	63	7	12.5
CH034	Polyethylene resins in primary forms:				
	Exports	1,459	1,988	529	36.3
	Imports	783	1,192	409	52.2
	Trade balance	676	796	120	17.8
CH035	Polypropylene resins in primary forms:				
	Exports	449	660	211	47.0
	Imports	155	190	35	22.6
	Trade balance	294	470	176	59.9
CH036	Polyvinyl chloride resins in primary forms:				
	Exports	671	856	185	27.6
	Imports	182	192	10	5.5
	Trade balance	489	664	175	35.8
CH037	Styrene polymers in primary forms:				
	Exports	662	790	128	19.3
	Imports	300	351	51	17.0
	Trade balance	362	439	77	21.3
CH038	Saturated polyester resins:				
	Exports	491	640	149	30.3
	Imports	197	242	45	22.8
	Trade balance	294	398	104	35.4
CH039	Other plastics in primary forms:				
	Exports	4,670	5,398	728	15.6
	Imports	1,684	1,937	253	15.0
	Trade balance	2,986	3,461	475	15.9
CH040	Styrene-butadiene rubber in primary forms:				
	Exports	298	353	55	18.5
	Imports	137	159	22	16.1
	Trade balance	161	194	33	20.5
CH041	Other synthetic rubber:				
	Exports	874	1,011	137	15.7
	Imports	491	557	66	13.4
	Trade balance	383	454	71	18.5

See footnotes at end of table.

Table 5-3—Continued

Chemical and related products sector: U.S. trade for selected industry/commodity groups, by specified periods, Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, 1995 from 1994	
				Amount	Percent
			<i>Million dollars</i>		
CH042	Pneumatic tires and tubes (new):				
	Exports	1,614	1,869	255	15.8
	Imports	2,960	3,073	113	3.8
	Trade balance	-1,346	-1,204	142	10.6
CH043	Other tires:				
	Exports	79	73	-6	-7.6
	Imports	114	121	7	6.1
	Trade balance	-35	-48	-13	-37.1
CH044	Plastic or rubber semifabricated forms:				
	Exports	3,596	4,116	520	14.5
	Imports	2,286	2,647	361	15.8
	Trade balance	1,310	1,469	159	12.1
CH045	Plastic containers and closures:				
	Exports	1,060	1,264	204	19.2
	Imports	968	1,210	242	25.0
	Trade balance	92	54	-38	-41.3
CH046	Hose, belting and plastic pipe:				
	Exports	1,027	1,137	110	10.7
	Imports	855	991	136	15.9
	Trade balance	172	146	-26	-15.1
CH047	Miscellaneous rubber or plastics products:				
	Exports	3,110	3,253	143	4.6
	Imports	4,456	4,914	458	10.3
	Trade balance	-1,346	-1,661	-315	-23.4
CH048	Gelatin:				
	Exports	36	42	6	16.7
	Imports	90	102	12	13.3
	Trade balance	-54	-60	-6	-11.1
CH049	Natural rubber:				
	Exports	33	42	9	27.3
	Imports	965	1,629	664	68.8
	Trade balance	-932	-1,587	-655	-70.3

¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

² This coding system is used by the U.S. International Trade Commission to identify major groupings of HTS import and export items for trade monitoring purposes.

³ Less than \$500,000.

⁴ Not meaningful for purposes of comparison.

Source: Compiled from official statistics of the U.S. Department of Commerce.

CHAPTER 6

Energy-Related Products

The overall U.S. trade deficit in terms of energy-related products increased by \$1.6 billion (4 percent) to \$47.5 billion in 1995, compared to the previous year (table 6-1). Historically, the United States has maintained a trade deficit in the energy-related products sector primarily because of an increased reliance on imported crude petroleum. The primary sources of U.S. imports of energy-related products are Canada, Venezuela, Saudi Arabia, and Mexico (figure 6-1). U.S. imports of energy-related products increased by \$3 billion (5 percent) in 1995 to \$60.3 billion. Crude petroleum accounted for 70 percent of these imports in 1995. The primary markets for U.S. exports of energy-related products are Canada, Japan, and Mexico. U.S. exports of energy-related products increased by \$1.4 billion (12 percent) in 1995 to \$12.8 billion. Petroleum products accounted for 52 percent of these exports and coal, coke, and related products accounted for 35 percent in 1995.

The United States and Canada are connected by a sophisticated and intricate system of pipelines that carry natural gas, crude petroleum, and refined petroleum products between the two countries. Also, an intricate system of interconnection grids shares electricity across the border. The U.S. trade deficit with Canada rose by \$1.1 billion (10 percent) in 1995 to \$12.6 billion, primarily as a result of increased imports of electricity that fluctuate regularly depending upon usage, and a nearly \$2.00 per barrel increase in the price of crude petroleum imports.

Venezuela and Saudi Arabia are also major sources of both crude petroleum and refined petroleum products for the U.S. market. The U.S. bilateral trade deficits with Saudi Arabia and Venezuela, both of which are members of OPEC, as well as with all of the OPEC nations combined, increased in 1995. Overall, the U.S. trade deficit with OPEC increased by \$1.7 billion. Venezuela, historically a major supplier of petroleum products to U.S. markets, accounted for \$1.2 billion of this deficit.

The U.S. trade deficit with the EU in energy-related products declined by \$1.9 billion in 1995 to \$1 billion because of increased U.S. exports of coal to these markets. U.S. exports of coal to the EU increased because production in the EU-coal-producing countries was unable to keep pace with de-

mand in Europe, where several states were emerging from recession. The U.S. energy-related products trade deficit with Latin America increased by \$2.1 billion in 1995 to \$14.6 billion, primarily as a result of increased U.S. imports of petroleum products, mainly motor fuels from Mexico.

Commodity Analysis

Crude Petroleum

U.S. imports of crude petroleum, which accounted for \$42.1 billion (22 percent) of the total U.S. trade deficit in 1995, accounted for 55 percent of domestic consumption (in terms of both quantity and value) in 1995. U.S. imports began to increase in late 1985 when crude petroleum prices declined because of an oversupply on the world market. This development resulted in the reduced profitability of certain high-cost U.S. stripper wells, many of which were then shut down.¹ Consequently, annual U.S. production has declined steadily from 3.3 billion barrels in 1985 to 2.4 billion barrels in 1995.

The quantity of U.S. imports of crude petroleum actually decreased slightly in 1995, falling by 2 percent to 2.7 billion barrels; however, the price per barrel of crude increased by an average of \$2.00 per barrel, resulting in the value of imports increasing from \$38.5 billion in 1994 to \$42.1 billion in 1995, or by 9 percent. World crude prices rose in 1995 in response to increased production by non-OPEC producers, which tend to be the high-price producers, and decreased production by some OPEC producers, which tend to be the low-priced producers. Saudi Arabia, Canada, Venezuela, and Mexico continued to be the principal sources of U.S. imports. OPEC nations together accounted for more than 50 percent of total U.S. imports of crude petroleum in 1995. Industry sources forecast that U.S. imports of crude petroleum could account for over 60 percent of domestic consumption by the year 2000, as demand increases and domestic production continues to decrease.

¹ A stripper well is one in which the average per well production rate in a given field is 10 barrels per day or less during the year under consideration.

Table 6-1

Energy-related products: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by selected countries and country groups, 1994 and 1995¹

Item	1994	1995	Change, 1995 from 1994	
			Amount	Percent
			<i>Million dollars</i>	
U.S. exports of domestic merchandise:				
Canada	1,527	1,663	136	8.9
Venezuela	137	160	23	16.9
Saudi Arabia	30	37	7	21.8
Mexico	1,089	1,357	269	24.7
Nigeria	3	19	17	608.4
United Kingdom	295	370	75	25.6
Angola	1	1	(2)	-10.2
Japan	1,695	1,744	49	2.9
Norway	20	38	18	93.1
Algeria	16	11	-5	-33.3
All other	6,657	7,441	784	11.8
Total	11,470	12,842	1,373	12.0
EU-15	2,549	3,140	590	23.2
OPEC	287	329	42	14.5
Latin America	2,773	3,283	510	18.4
CBERA	716	819	103	14.4
Asian Pacific Rim	3,890	3,706	-184	-4.7
ASEAN	769	662	-108	-14.0
Central and Eastern Europe	118	160	43	36.3
U.S. imports for consumption:				
Canada	12,975	14,213	1,238	9.5
Venezuela	6,541	7,804	1,263	19.3
Saudi Arabia	7,420	7,596	176	2.4
Mexico	5,027	6,083	1,056	21.0
Nigeria	4,530	4,784	254	5.6
United Kingdom	3,399	2,784	-615	-18.1
Angola	2,067	2,287	220	10.6
Japan	212	235	23	10.7
Norway	1,257	1,699	442	35.2
Algeria	1,539	1,676	137	8.9
All other	12,376	11,176	-1,200	-9.7
Total	57,344	60,336	2,993	5.2
EU-15	5,491	4,206	-1,285	-23.4
OPEC	23,562	25,305	1,743	7.4
Latin America	15,186	17,835	2,649	17.4
CBERA	1,242	974	-267	-21.5
Asian Pacific Rim	2,084	1,796	-288	-13.8
ASEAN	971	802	-169	-17.4
Central and Eastern Europe	76	5	-72	-93.9
U.S. merchandise trade balance:				
Canada	-11,448	-12,550	-1,102	-9.6
Venezuela	-6,404	-7,644	-1,240	-19.4
Saudi Arabia	-7,389	-7,559	-170	-2.3
Mexico	-3,939	-4,726	-787	-20.2
Nigeria	-4,527	-4,764	-237	-5.2
United Kingdom	-3,104	-2,414	690	22.2
Angola	-2,066	-2,286	-220	-10.7
Japan	1,483	1,509	27	1.8
Norway	-1,238	-1,661	-424	-34.2
Algeria	-1,523	-1,665	-142	-9.3
All other	-5,720	-3,735	1,985	34.7
Total	-45,874	-47,494	-1,620	-3.5
EU-15	-2,942	-1,066	1,876	63.8
OPEC	-23,275	-24,976	-1,701	-7.3
Latin America	-12,413	-14,552	-2,139	-17.2
CBERA	-526	-155	371	70.5
Asian Pacific Rim	1,806	1,910	104	5.8
ASEAN	-202	-140	62	30.7
Central and Eastern Europe	41	156	114	276.5

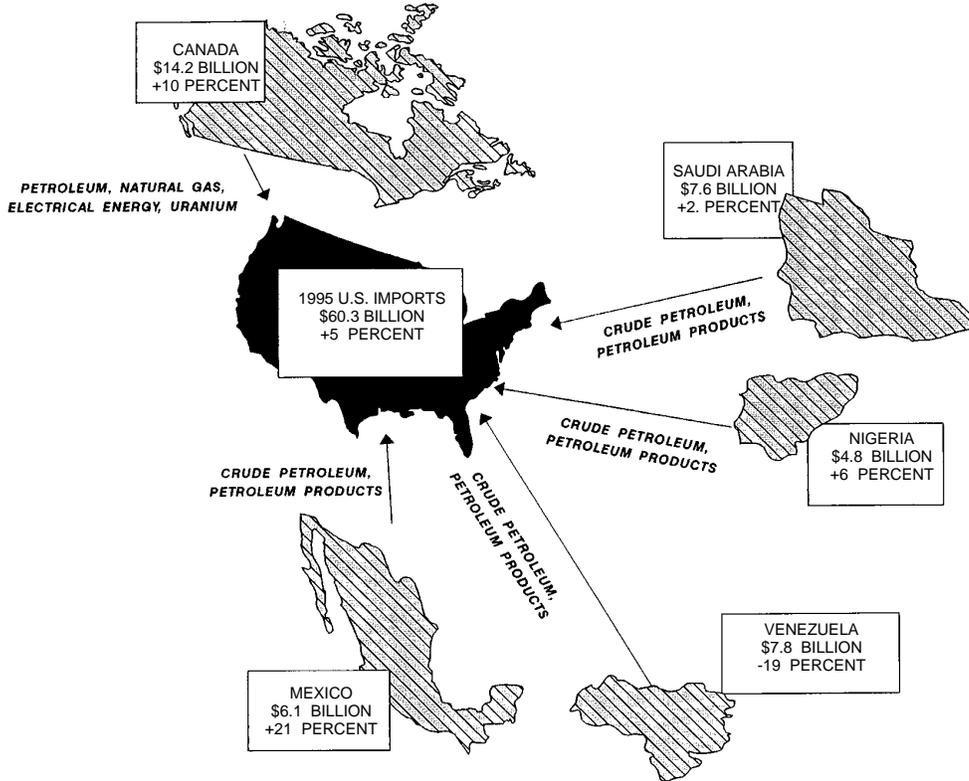
¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

² Less than \$500,000.

Note.—Because of rounding, figures may not add to the totals shown. The countries shown are those with the largest total U.S. trade (U.S. imports plus exports) in these products in 1995.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 6-1
U.S. energy-related products sector imports, 1995: Leading U.S. imports, by major sources, and overall percentage change since 1994



Source: Derived from official statistics of the U.S. Department of Commerce.

U.S. exports of crude petroleum do little to ease the total U.S. trade deficit. Since 1973, U.S. exports of crude petroleum have been prohibited, except as approved by the U.S. Government. Canada has been the only consistent market for these exports as part of a commercial exchange agreement between U.S. and Canadian refiners, and approved by the Secretary of the Department of Energy. In 1987, small shipments of Alaskan North Slope crude petroleum were approved for export to Korea, Taiwan, and Australia. U.S. exports decreased from 2.2 million barrels (valued at \$44 million) in 1994 to 73,000 barrels (valued at \$1.4 million) in 1995. Canada accounted for 99 percent of these exports. The decrease was primarily attributed to the rupture in the Colonial Pipeline that carries crude petroleum between the United States and Canada.

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products decreased from \$10.5 billion in 1994 to \$9.8 billion in 1995, or by 6 percent. Canada, Venezuela, and Algeria were the leading import sources of petroleum products, primarily gasoline and fuel oils. U.S. imports decreased primarily as a result of the inability of some nations to meet the environmental baselines for toxic air pollutants (TAPs) established as a performance measure for gasoline, under the provisions of the Clean Air Act Amendments.

The United States is not a major world exporter of petroleum products. The value of U.S. exports of petroleum products increased slightly in 1995, advancing by \$569 million (9 percent) to \$6.6 billion in 1995. Canada and Mexico were the major U.S. markets for these exports.

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Petroleum Products

The U.S. trade deficit in petroleum products decreased by \$1.2 billion (28 percent) in 1995 to \$3.2 billion. The value of U.S. imports of petroleum

Coal, Coke, and Related Chemical Products

The United States is one of the world's largest suppliers of coal and remains a net exporter. The U.S. trade surplus in these products increased by \$816

million (31 percent) in 1995 to \$3.5 billion. U.S. exports of coal, coke, and related products increased by \$864 million (25 percent) to \$4.3 billion in 1995. The major markets for U.S. exports of these products continued to be Canada at \$543 million (13 percent); Japan, \$487 million (11 percent); and Italy, \$425 million (10 percent). Canada and Japan increased their imports of cleaner burning U.S. bituminous coals in order to meet environmental standards established in these nations. U.S. exports of coal to the EU and Eastern Europe increased by \$470 million to satisfy rising demand for cleaner coals and to offset production declines in Poland. U.S. exports of bituminous and lignite coals accounted for about 90 percent of total exports. These are high-quality, low-sulfur coals used

primarily for the generation of electricity. The United States, which leads the world in total reserves and production of coal, is viewed as a secure source of coal on the world market.

U.S. imports of coal, coke, and related chemical products increased by 48 million (6 percent) in 1995 to \$847 million. Canada was the leading source of U.S. imports of coal and related chemical products, while Japan was the top source of U.S. imports of coke. Historically, Japan has imported metallurgical coal from several nations, including the United States, to produce and export coke, which is used in the production of steel.

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Table 6-2
Energy and related products sector: U.S. trade for selected industry/commodity groups, by specified periods, Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, from 1994 to 1995	
				Amount	Percent
<i>Million dollars</i>					
CH001	Electrical energy:				
	Exports	30	47	17	56.7
	Imports	960	856	-104	-10.8
	Trade balance	-930	-809	121	13.0
CH002	Nuclear materials:				
	Exports	1,226	965	-261	-21.3
	Imports	1,114	1,127	13	1.2
	Trade balance	112	-162	-274	(³)
CH003	Coal, coke, and related chemicals products:				
	Exports	3,464	4,328	864	24.9
	Imports	799	847	48	6.0
	Trade balance	2,665	3,481	816	30.6
CH004	Crude petroleum:				
	Exports	44	1	-43	-97.7
	Imports	38,530	42,077	3,547	9.2
	Trade balance	-38,486	-42,076	-3,590	-9.3
CH005	Petroleum products:				
	Exports	6,014	6,583	569	9.5
	Imports	10,450	9,777	-673	-6.4
	Trade balance	-4,436	-3,194	1,242	28.0
CH006	Natural gas and components:				
	Exports	568	775	207	36.4
	Imports	5,201	5,157	-44	-0.8
	Trade balance	-4,633	-4,382	251	5.4
CH007	Major primary olefins:				
	Exports	123	145	22	17.9
	Imports	289	496	207	71.6
	Trade balance	-166	-351	-185	-111.4

¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

² This coding system is used by the U.S. International Trade Commission to identify major groupings of HTS import and export items for trade monitoring purposes.

³ Not meaningful for purposes of comparison.

Source: Compiled from official statistics of the U.S. Department of Commerce.

CHAPTER 7

Textiles, Apparel, and Footwear¹

The U.S. trade deficit in textiles and apparel continued to widen in 1995, but by much less than in 1994, owing to a sharp pickup in exports and slower growth of imports. The deficit rose by \$1.5 billion (5 percent) to a record \$35.1 billion in 1995, compared with an increase of \$2.5 billion (8 percent) in 1994 (table 7-1). Exports grew by \$2.1 billion, or 16 percent, to a high of \$15.1 billion in 1995, up from a gain of \$1.3 billion, or 12 percent, in 1994. Imports advanced by \$3.6 billion, or 8 percent, to \$50.2 billion, down from an increase of \$3.8 billion, or 9 percent, in 1994. The decelerated rate of growth in imports mirrored the slowdown in consumer spending on apparel, which accounted for almost 80 percent of sector imports in 1995. Real personal consumption expenditures on apparel grew by 4.4 percent in 1995, after rising by 6.3 percent in 1994. The pickup in U.S. sector exports partly reflected larger shipments to Latin America, a major portion of which consisted of garment parts to be assembled and returned to the United States.

The structure of U.S. textile and apparel trade will become less restrictive as a result of the implementation of the Uruguay Round Agreement on Textiles and Clothing (ATC), which entered into force on January 1, 1995, as part of the World Trade Organization (WTO) agreements. The ATC replaced the Multifiber Arrangement (MFA), which had governed world trade in these goods since 1974, when it was established under the General Agreement on Tariffs and Trade (GATT). The MFA permitted the use of quotas without compensation, which is contrary to the general prohibition against their use under the GATT. Under the ATC, textiles and apparel will be gradually “integrated” into the GATT regime; that is, brought under GATT discipline and subject to the same rules as goods of other sectors. As WTO countries integrate their textile and apparel trade into the GATT regime, they are obligated to eliminate quotas on imports of such items from WTO countries and they cannot establish new quotas on the integrated items other than as provided under normal GATT rules.²

¹ The analysis for footwear appears at the end of this chapter.

² The United States has textile and apparel quotas with 45 countries, 36 of which are WTO members. Non-WTO members, such as China and Taiwan, are not entitled to the benefits

The GATT integration process will occur over a 10-year transition period in three stages. The first stage began on January 1, 1995, when WTO countries were obligated to integrate into the GATT regime at least 16 percent of their sector trade, based on 1990 import volume, and to increase the annual growth rates for quotas still in place with major suppliers by 16 percent.³ The second stage begins in 1998, when at least another 17 percent of the trade is to be integrated, followed by at least an additional 18 percent in 2002. The rest of the trade is to be integrated at the end of the 10-year period. None of the products integrated by the United States in the first stage was under quota, and most of the goods scheduled for integration in the second and third stages either were not under quota or had underutilized quotas.⁴

For sector goods that have yet to be integrated into the GATT regime during the 10-year period, the ATC allows WTO countries to apply a “transitional safeguard” when imports of an item cause or threaten serious damage to a domestic industry making a like or directly competitive item. In 1995,

²—*Cont.*

of quota liberalization under the ATC. U.S. imports of textiles and apparel that had been covered by the MFA (i.e., goods of cotton, other vegetable fibers, wool, manmade fibers, and silk blends) totaled \$44 billion in 1995.

³ The acceleration of quota growth rates is based on the rates specified in the bilateral MFA agreements and in place on Dec. 31, 1994. The annual quota growth rates with the traditional Big Three Asian suppliers (Hong Kong, Korea, and Taiwan) and China are less than 3 percent, and those with most other suppliers are less than 7 percent. In the second and third stages of GATT integration, quota growth for major suppliers is to be increased by another 25 and 27 percent, respectively. For small suppliers (those accounting for 1.2 percent or less of an importing country’s total quotas as of December 31, 1991), quota growth is to be advanced by one stage, that is, growth rates were to be increased by 25 percent in the first stage and are to be raised by another 27 percent in both the second and third stages.

⁴ In the Statement of Administrative Action that accompanied the Uruguay Round Agreements Act, Public Law 103-465, the Clinton administration committed to defer the integration of the most sensitive goods until the end of the 10-year period. See Committee for the Implementation of Textile Agreements, “Final List of Products for Second, Third and Final Phase Integration of Textile and Apparel Products into GATT 1994,” 60 *Federal Register* 21075, May 1, 1995.

Table 7-1

Textiles and apparel: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by selected countries and country groups, 1994 and 1995¹

Item	1994	1995	Change, 1995 from 1994	
			Amount	Percent
			<i>Million dollars</i>	
U.S. exports of domestic merchandise:				
China	152	260	108	70.9
Mexico	2,237	2,399	162	7.2
Hong Kong	356	421	65	18.3
Canada	2,348	2,684	336	14.3
Taiwan	126	118	-8	-6.2
Korea	200	235	35	17.5
Dominican Rep	902	994	92	10.2
Japan	1,076	1,315	238	22.2
Italy	134	151	17	12.4
India	36	44	8	23.9
All other	5,467	6,502	1,035	18.9
Total	13,033	15,123	2,089	16.0
EU-15	1,798	2,059	261	14.5
OPEC	440	433	-8	-1.8
Latin America	5,550	6,458	908	16.4
CBERA	2,588	3,159	570	22.0
Asian Pacific Rim	2,445	2,925	480	19.6
ASEAN	314	357	43	13.6
Central and Eastern Europe	36	55	19	53.4
U.S. imports for consumption:				
China	7,349	7,048	-302	-4.1
Mexico	2,431	3,704	1,273	52.4
Hong Kong	4,606	4,556	-50	-1.1
Canada	1,689	2,012	323	19.1
Taiwan	2,924	2,818	-105	-3.6
Korea	2,934	2,588	-346	-11.8
Dominican Rep	1,623	1,781	158	9.7
Japan	809	688	-121	-14.9
Italy	1,634	1,820	186	11.4
India	1,798	1,861	62	3.5
All other	18,778	21,326	2,548	13.6
Total	46,574	50,201	3,627	7.8
EU-15	4,072	4,308	236	5.8
OPEC	1,597	1,804	207	12.9
Latin America	8,134	10,289	2,155	26.5
CBERA	4,639	5,586	947	20.4
Asian Pacific Rim	25,006	24,907	-98	-0.4
ASEAN	5,654	6,299	646	11.4
Central and Eastern Europe	350	382	33	9.3
U.S. merchandise trade balance:				
China	-7,197	-6,787	410	5.7
Mexico	-194	-1,305	-1,111	-573.0
Hong Kong	-4,250	-4,135	115	2.7
Canada	659	673	13	2.0
Taiwan	-2,798	-2,701	98	3.5
Korea	-2,734	-2,354	381	13.9
Dominican Rep	-721	-787	-66	-9.1
Japan	267	627	359	134.3
Italy	-1,500	-1,669	-169	-11.3
India	-1,763	-1,817	-54	-3.1
All other	-13,311	-14,824	-1,513	-11.4
Total	-33,541	-35,078	-1,537	-4.6
EU-15	-2,275	-2,249	25	1.1
OPEC	-1,157	-1,371	-215	-18.6
Latin America	-2,584	-3,830	-1,247	-48.3
CBERA	-2,051	-2,427	-376	-18.3
Asian Pacific Rim	-22,560	-21,982	579	2.6
ASEAN	-5,339	-5,943	-603	-11.3
Central and Eastern Europe	-314	-327	-13	-4.3

¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

Note.—Because of rounding, figures may not add to the totals shown. The countries shown are those with the largest total U.S. trade (U.S. imports plus exports) in these products in 1995.

Source: Compiled from official statistics of the U.S. Department of Commerce.

the United States issued 21 “calls” to WTO countries for the purpose of setting quotas. Eight of the calls led to the negotiation of quotas, 11 were rescinded, and 2 led to the imposition of unilateral quotas. For the unilateral quotas set on cotton and manmade-fiber underwear from Costa Rica and woven wool shirts and blouses from India, the WTO Dispute Settlement Body agreed to requests from these countries to establish a dispute settlement panel to examine the United States’ application of transitional safeguards on their respective goods.⁵

developing countries that year totaled \$29.9 billion, while U.S. sector exports to these markets amounted to just \$1.8 billion. However, the potential exists for Asian developing countries to become significant growth markets for U.S. sector exports, particularly for industrial and specialty textiles, brand-name apparel, and home furnishings. In connection with the Uruguay Round, a number of the Asian developing countries that are significant exporters of textiles and apparel to the U.S. domestic market agreed to reduce tariffs and otherwise open their markets to U.S. sector exports.

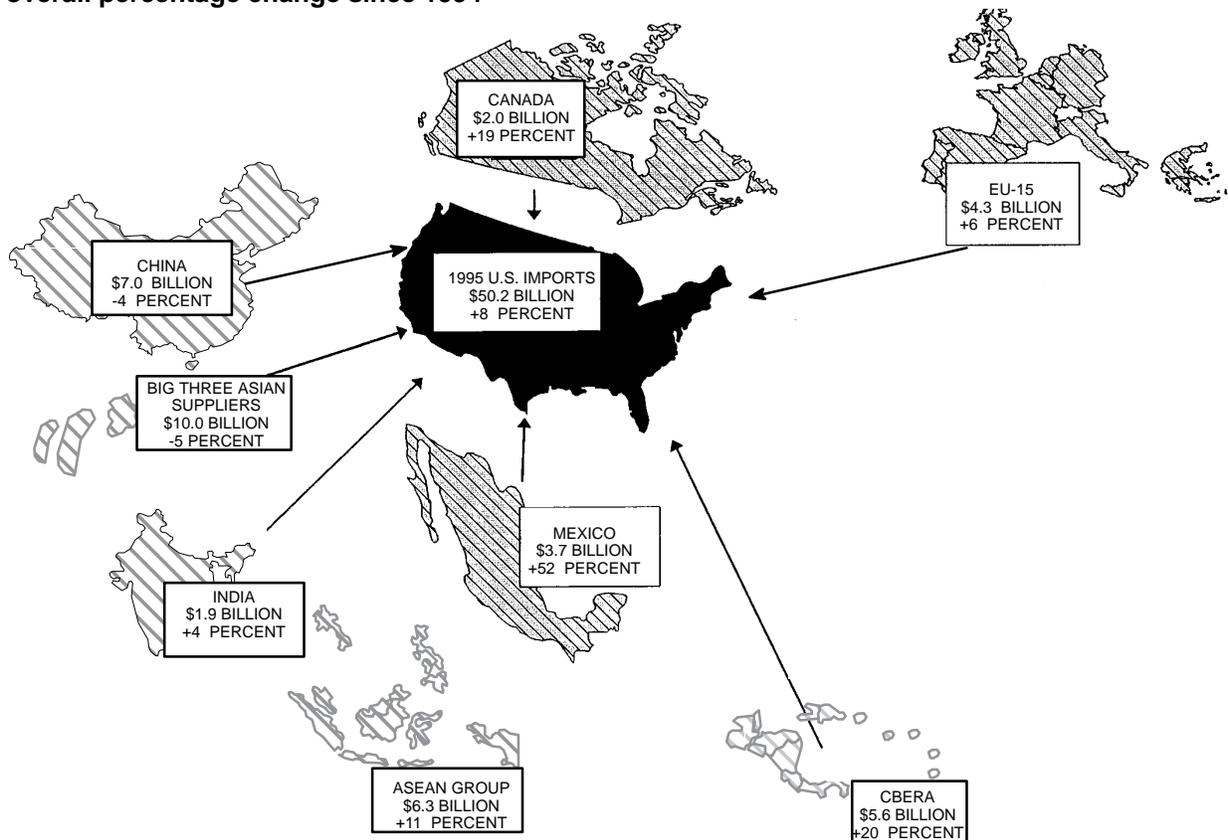
U.S. Bilateral Trade

The U.S. trade deficit in textiles and apparel is driven mainly by trade with developing countries in Asia, which accounted for about 80 percent of the trade gap in 1995. U.S. sector imports from Asian

The largest bilateral trade deficit in textiles and apparel in 1995 was \$6.8 billion with China, the largest source of sector imports to the United States. The U.S. sector trade deficit with China narrowed by \$410 million (6 percent), as imports fell by \$302 million (4 percent), but remained at a historically high level of \$7.0 billion, while exports rose by \$108 million (71 percent) to just \$260 million (figure 7-1). The decline in sector imports from China was the first such drop in many years and was concentrated in silk apparel, which had accounted for a major portion of the sector import growth from China during the late 1980s and early

⁵ USTR, “WTO Dispute Settlement Proceedings Concerning U.S. Restrictions on Cotton and Manmade Fiber Underwear from Costa Rica,” 61 *Federal Register* 12129, Mar. 25, 1996, and “WTO Dispute Settlement Proceedings Concerning U.S. Restrictions on Woven Wool Shirts and Blouses from India,” 61 *F.R.* 24516, May 15, 1996.

Figure 7-1
U.S. textile and apparel sector imports, 1995: Leading U.S. imports, by major sources, and overall percentage change since 1994



Source: Derived from official statistics of the U.S. Department of Commerce.

1990s. In 1994, the United States signed a silk agreement with China that brought the silk goods under quota for the first time (see “apparel” below for further discussion).⁶ In addition, a separate 3-year textile agreement that is currently in force with China, covering goods that had been subject to the MFA, provided for no quota growth in 1994 and for just 1-percent annual growth in 1995 and 1996.

After China, the largest bilateral deficits in the sector were with the traditional Big Three Asian suppliers of textiles and apparel to the United States—Hong Kong (\$4.1 billion), Taiwan (\$2.7 billion), and Korea (\$2.4 billion). Sector deficits with all 3 countries narrowed in 1995, by a total of \$592 million, largely reflecting a drop in imports. U.S. sector imports from the Big Three fell by \$502 million (5 percent) to just under \$10 billion in 1995. The Big Three supplied 20 percent of U.S. sector imports that year, down from 37 percent in 1989. Faced with rising operating costs, labor shortages, and growing competition from lower cost countries, the Big Three have moved production of basic sector goods for export to lower cost areas, such as the Association of South East Asian Nations (ASEAN) countries, which include Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and, most recently, Vietnam. The U.S. sector trade deficit with the ASEAN countries widened by \$603 million to \$5.9 billion in 1995, largely reflecting an increase in U.S. imports of \$646 million (11 percent) to \$6.3 billion.

Other major beneficiaries of the ongoing shift in U.S. sector trade from the major Asian suppliers are countries that benefit from preferential access to the U.S. market, especially Mexico and Caribbean Basin Economic Recovery Act (CBERA) countries.⁷ Following the implementation of the North American Free-Trade Agreement (NAFTA) on January 1, 1994, U.S. sector imports from Mexico rose by 31 percent in 1994 and by 52 percent (\$1.3 billion) in 1995, to \$3.7 billion. Two-thirds, or almost \$2.5 billion, of U.S. sector imports from Mexico in 1995 consisted of garments and other

⁶ The silk garments covered by the 1994 agreement with China are those containing 70 percent or more by weight of silk, which were not covered by the MFA. China is the only country with which the United States has quotas on such silk apparel.

⁷ The CBERA, enacted in 1984, grants duty-free entry to most goods from 24 beneficiary countries. Most textile and apparel goods are among the items statutorily excluded from the CBERA. For further information on the CBERA, see USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers - Tenth Report 1994* (investigation No. 332-227), USITC publication 2927, Sept. 1995.

textile products that were assembled from fabric “formed and cut” in the United States and that entered free of duties under NAFTA. U.S. sector exports to Mexico rose by 27 percent in 1994, but by just 7 percent (\$162 million) in 1995 to \$2.4 billion. The 50-percent devaluation of the Mexican peso during December 1994-January 1995 effectively raised prices of U.S. goods in Mexico’s domestic market, while lowering them for Mexican goods in the U.S. market. Weak economic conditions in Mexico in 1995 also reduced demand for U.S. goods. Since U.S. sector trade with Mexico and CBERA countries consisted mostly of apparel, a detailed discussion of U.S. sector trade with these countries appears in “apparel” below.

The largest bilateral trade surpluses in textiles and apparel in 1995 were with Canada and Japan, which, along with Mexico, were the largest markets for U.S. sector exports. U.S. sector trade with Canada has grown rapidly since the adoption of the United States-Canada Free-Trade Agreement (CFTA) in 1989.⁸ The trade surplus with Canada remained fairly stable at \$673 million in 1995, as exports to Canada rose by \$336 million (14 percent) to \$2.7 billion and imports from Canada grew by \$323 million (19 percent) to \$2.0 billion. Textiles continued to dominate U.S. sector trade with Canada, accounting for 81 percent (\$2.2 billion) of the exports and 56 percent (\$1.1 billion) of the imports in 1995. The U.S. sector trade surplus with Japan rose by \$359 million (135 percent) to \$627 million in 1995, following an increase in the exchange value of the yen in 1994 and in early 1995. U.S. sector exports to Japan rose by \$238 million (22 percent) to \$1.3 billion in 1995, whereas U.S. sector imports from Japan fell by \$121 million (15 percent) to \$688 million.

Commodity Analysis

*Textiles*⁹

The U.S. trade deficit in textiles declined by \$239 million (11 percent) to slightly less than \$1.9 billion in 1995. Both exports and imports reached new highs that year, with the former rising by 14 percent (\$1.1 billion) to \$8.5 billion and the latter rising by 9 percent (\$0.8 billion) to \$10.4 billion. The

⁸ The duty phaseout schedule for the CFTA was incorporated and continued under NAFTA.

⁹ Textiles include manmade fibers, yarns, fabrics, home furnishings, carpets, and industrial goods such as cordage. These products are covered in USITC industry/commodity groupings CH050 to CH061 and CH079 (nonwoven fabric).

share of the U.S. textile market supplied by imports remained at just under 10 percent in 1995, as U.S. producers' shipments of textile mill products rose by less than 1 percent to \$74.9 billion.

The improvement in the U.S. textile trade balance in 1995 largely reflected decreased bilateral deficits with the European Union (EU) and Japan and an increased bilateral surplus with Canada. The textile deficit with the EU, the major U.S. trading partner in textiles, narrowed by \$189 million to \$856 million. The improvement resulted mainly from an increase in exports of \$216 million (16 percent), to \$1.5 billion, while imports from the EU remained fairly stable at just under \$2.4 billion. The improvement with Japan stemmed from both a decline in imports of \$105 million (15 percent), to \$579 million, and an increase in exports of \$65 million (22 percent), to \$365 million. Favorable exchange rates contributed to the improvement in the U.S. sector trade balances with the EU and Japan.

The U.S. textile trade surplus with Canada rose by \$119 million (13 percent) to \$1.0 billion in 1995, as exports to Canada grew by \$266 million (14 percent) to \$2.2 billion, and imports increased by \$147 million (15 percent) to \$1.1 billion. Canada trailed only China as the largest single-country supplier of textiles in 1995, supplying almost 11 percent of U.S. imports. A major portion of U.S. textile trade with Canada is intracompany trade (i.e., cross-border trade between separate operations of individual firms).

The largest U.S. bilateral trade deficit in textiles continued to be posted with China, although the deficit widened by just \$7 million in 1994 and by \$32 million (4 percent) to \$893 million in 1995. The deficit had widened by \$223 million in 1992. Imports from China rose by \$138 million (14 percent) to \$1.1 billion in 1995, while exports to China, which totaled just \$251 million, grew by \$107 million (74 percent). The growth in U.S. textile imports from China in 1995 was concentrated in carpets, which were up by \$59 million (41 percent) to \$203 million, and miscellaneous made-up textiles, up by \$61 million (18 percent) to \$389 million.¹⁰ The vast majority of U.S. textile exports to China consisted of raw materials such as manmade fibers and yarns.

The U.S. textile trade surplus with Mexico declined by \$335 million (64 percent) to \$185 million in 1995, following the peso crisis and reduced economic activity there. U.S. textile exports to Mexico

¹⁰ U.S. imports of miscellaneous textiles from China in 1995 were concentrated in subheading 6307.90.9989 of the HTS, a "catch-all" provision for other made-up textile articles. Imports of such goods from China totaled \$221 million in 1995; these imports are not subject to quota.

fell by \$48 million (5 percent) to \$1 billion in 1995, whereas U.S. textile imports from Mexico grew by \$287 million (53 percent) to \$827 million.

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Apparel¹¹

The U.S. trade deficit in apparel rose by \$1.8 billion (6 percent) to \$33.3 billion in 1995, compared with an increase of \$2.3 billion in 1994. Both imports and exports reached record highs in 1995, with the former rising by \$2.8 billion (8 percent) to \$36.9 billion and the latter growing by \$1 billion (18 percent) to \$6.4 billion. In comparison, U.S. producers' shipments of apparel are estimated to have increased by just 2 percent to \$56.7 billion in 1995.¹² As a result, imports supplied roughly one-half of the U.S. apparel market in 1995.¹³

Most of the 1995 gain in apparel imports came from CBERA countries and Mexico, which mainly compete with one another for assembly work from U.S. apparel firms.¹⁴ The pattern of apparel competition in the region, however, has changed since NAFTA came into force in 1994. In the 4 years before NAFTA, U.S. apparel imports from CBERA countries and Mexico rose at similar rates of 23 to 24 percent a year. The growth in CBERA shipments since 1994, though still quite rapid, has lagged behind that of Mexico. In 1994, the growth rate slowed to 13 percent for CBERA countries but accelerated to 33 percent for Mexico. In 1995, CBERA shipments grew by 21 percent (\$943 million), but Mexico's shipments rose by 52 percent (\$987 million). While CBERA countries have nearly doubled their share of U.S. apparel imports since 1989, to 14 percent in 1995, Mexico has tripled its share to 7 percent. Mexico is now the third-largest, single-country source of U.S. apparel imports, with 1995 shipments of \$2.9 billion, trailing only China (\$5.9 billion) and Hong Kong (\$4.3 billion). The

¹¹ Apparel is covered in USITC industry/commodity groupings CH062 to CH080, excluding the nonwoven fabrics in CH079. It includes garments of textile and nontextile (e.g., leather) materials.

¹² U.S. shipments for 1995 were estimated by USITC staff based on data for 1993, the last year for which official data are available on a four-digit SIC basis. The 1993 data were adjusted to eliminate double counting of contract receipts reported as shipments by both the contractor and the firm for which the work was done.

¹³ Import penetration is calculated on the basis of the landed, duty-paid value of imports, which totaled \$46.8 billion in 1995.

¹⁴ CBERA countries and Mexico in 1995 supplied 88 percent of the \$8 billion in U.S. apparel imports under the 9802 tariff provision, which provides a duty exemption for U.S.-made components that are returned to the United States as parts of articles assembled abroad. For a discussion of 9802 apparel trade, see USITC, *Production Sharing, 1991-1994*, USITC publication 2966, ch. 5.

CBERA countries as a group, however, are the second-largest supplier, with 1995 shipments of \$5.5 billion.

Part of the growth in U.S. apparel imports from Mexico since NAFTA entered into force may have come at the expense of CBERA, as well as Asian, shipments. Whereas garments assembled in Mexico from U.S. formed and cut fabric enter free of duty under NAFTA, such goods from CBERA countries are still subject to duty on the value added offshore.¹⁵ Continued uncertainty over the passage of legislation introduced in 1995 to extend NAFTA parity to CBERA goods may reduce incentives for apparel investment in the CBERA region.¹⁶ Moreover, the 50-percent devaluation of the Mexican peso during December 1994 through January 1995 further affected the competitive balance between Mexico and CBERA countries by effectively reducing dollar prices of Mexican goods in the U.S. market.

U.S. apparel imports from China fell for the first time in many years in 1995, by \$443 million (7 percent) to \$5.9 billion. China is still the largest source of U.S. apparel imports, although its share of the total fell to 15 percent in 1995 from a high of 18 percent in 1993. The 1995 decline in U.S. apparel imports from China resulted mainly from much smaller shipments of silk apparel brought under quota for the first time in 1994. Imports of such silk garments from China fell by \$369 million (25 percent) to just under \$1.1 billion in 1995, largely owing to a saturated market for these goods. For MFA-covered apparel, U.S. imports from China fell by \$71 million (2 percent) to \$3.5 billion in 1995, partly owing to a shift in trade from China to other low-cost countries subject to fewer U.S. quota restrictions.

U.S. apparel imports from the traditional Big Three Asian sources (Hong Kong, Korea, and Taiwan) fell by \$568 million (6 percent) to \$8.3 billion in 1995, reflecting their declining competitive position in the global apparel market. The share of U.S. apparel imports supplied by the Big Three in 1995 was 21 percent, down 10 percentage points since 1992, when their shipments peaked at \$9.5 billion. U.S.

apparel imports from Hong Kong fell by 1 percent in 1995, although they remained at a near record level of \$4.3 billion, second only to China. U.S. imports of apparel from Korea and Taiwan, which have declined annually since at least 1991, declined by \$403 million (18 percent) to \$1.8 billion and by \$113 million (5 percent) to \$2.2 billion, respectively, in 1995.

U.S. apparel imports from all other developing countries in Asia rose by \$1.2 billion (12 percent) to \$11.5 billion in 1995. One-half of the increase came from the ASEAN countries, whose shipments rose by \$641 million (12 percent) to \$5.8 billion. Significant growth also occurred in shipments from Bangladesh, Macao, and Pakistan, which all rose by 21 to 25 percent to \$1.1 billion, \$757 million, and \$620 million, respectively. In contrast, apparel imports from India fell by 4 percent to \$1.3 billion in 1995, compared with a gain of 21 percent in 1994. A trade source attributed the drop in apparel imports from India to changing buying patterns in the U.S. market, more competition from low-cost countries like Bangladesh, and the technological obsolescence of India's apparel industry, among other factors.¹⁷

U.S. apparel trade with industrial countries was marked by a deficit of \$1.1 billion in 1995. The trade gap was more than accounted for by the EU. The deficit with the EU widened by \$168 million (14 percent) to \$1.4 billion. This deficit had widened by \$216 million in 1994, after remaining flat at about \$1.0 billion a year during 1991-93. The widening of the U.S. apparel trade deficit with the EU in 1995 mainly reflected an increase in U.S. imports of \$208 million (12 percent) to \$1.9 billion. U.S. apparel exports to the EU rebounded by \$41 million (9 percent) to \$495 million in 1995, after declining for 2 consecutive years from \$541 million in 1992.

The U.S. apparel trade deficit with Canada widened by \$105 million (37 percent) to \$388 million in 1995, as imports rose by \$174 million (24 percent) to \$890 million, and exports grew by \$69 million (16 percent) to \$501 million. The import growth was a continuation of the gains in shipments from Canada since the inception of the CFTA in 1989. The ongoing growth in U.S. imports of men's and boys' tailored clothing from Canada has raised concern among U.S. producers of tailored clothing and of wool fabrics. Imports of such Canadian clothing grew by \$37 million (30 percent) to \$161 million in 1995, and they were up by \$143 million (782 percent) since 1988, the year before the CFTA entered into force. The Canadian tailored clothing that

¹⁵ For every \$10 in f.o.b. value, a typical CBERA garment entered under the 9802 provision contains \$6.40 in duty-free U.S. components and \$3.60 in dutiable, foreign value-added. Applying the 1995 trade-weighted tariff for apparel of 16.1 percent to the foreign value-added, yields a duty of \$0.58, or an ad valorem equivalent of 5.8 percent.

¹⁶ Legislation introduced in both houses of the 104th Congress in 1995, the Caribbean Basin Trade Security Act (H.R. 553 and S. 529), would make available NAFTA-like treatment to qualifying apparel and all other goods now exempted from duty-free entry under the CBERA. The 1997 budget proposal submitted by the President to Congress in Mar. 1996 provided for funds for NAFTA parity for CBERA apparel and textiles, as well as footwear and petroleum.

¹⁷ Remarks attributed to the Apparel Export Promotion Council in India in an article by N. Vasuki Rao, "Stagnant Textile Exports Alarm Indian Industry," *Journal of Commerce* (New Delhi: Knight-Ridder/Tribune Business News), NewsEDGE/LAN, May 1, 1996.

is made of non-North American wool fabric is eligible for NAFTA preferential tariff treatment under a "tariff preference level" (TPL) for wool apparel. The TPL is an annual tariff-rate quota that permits limited quantities of Canadian wool apparel that do not meet specified rules of origin (e.g., suits of Asian fabric) to enter at the preferential tariff rates. Men's and boys' tailored clothing accounted for almost all of the imports from Canada entered under the TPL for wool apparel in 1995.¹⁸

The U.S. apparel trade surplus with Japan rose by \$179 million (28 percent) in 1995 to \$821 million, the largest bilateral trade surplus in apparel. The 1995 improvement reflected a pickup in exports and an ongoing drop in imports. Exports rose by \$164 million (22 percent) to a record \$914 million, making Japan the largest market for U.S. exports of apparel for consumption abroad. Imports fell by \$16 million (14 percent) to \$93 million in 1995. Favorable exchange rates and the popularity of U.S. goods among Japanese consumers contributed to the increase in demand for U.S. apparel exports.

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Footwear

The U.S. footwear trade deficit widened by \$357 million (3 percent) to \$11.4 billion in 1995, mainly because of increased imports from China (table 7-2). The growth in imports of \$381 million (3 percent) to \$12.1 billion far exceeded the gain in exports of \$25 million (4 percent) to \$671 million. The share of the U.S. footwear market supplied by imports in 1995 remained unchanged at 87 percent by quantity. The growth in real U.S. consumer spending on footwear slowed to 2 percent in 1995, down from just over 3 percent in 1994.

Nonrubber footwear accounted for 82 percent of the value of U.S. footwear imports in 1995. Another 14 percent consisted of rubber footwear, which includes protective footwear and fabric-upper footwear with rubber or plastic soles, such as sneakers. The volume of nonrubber footwear imports in 1995 fell by 2 percent to 1.1 billion pairs, the first such decline since 1989. In value terms, however, nonrubber footwear imports rose by 3 percent (\$300 million) to nearly \$10 billion, as the average cost

of these imports rose by 5 percent to \$9.22 a pair. The share of the domestic nonrubber footwear market supplied by imports in 1995 remained unchanged at 89 percent by volume. U.S. imports of fabric-upper footwear rose by 3 percent in quantity and by 11 percent in value to 309 million pairs valued at almost \$1.6 billion in 1995. Imports supplied 86 percent of the domestic market for fabric-upper footwear. Imports of protective footwear fell by 10 percent in quantity and by 8 percent in value to just under 11 million pairs valued at \$68 million. However, the share of the U.S. protective footwear market supplied by imports reached a high of 43 percent in 1995, as U.S. production of such footwear fell by 23 percent to slightly less than 16 million pairs.

The rise in the footwear trade deficit was more than accounted for by China, by far the largest U.S. supplier. The footwear trade deficit with China rose by \$562 million (11 percent) to \$5.8 billion in 1995, as two-way trade consisted almost entirely of imports from China (figure 7-2). China supplied 59 percent of the U.S. domestic market for nonrubber footwear and 62 percent of the market for fabric-upper footwear (by volume). China competes mainly in the low- to medium-priced segments of the U.S. footwear market. For footwear valued at less than \$16 a pair (f.o.b. value), China supplied 924 million pairs, or 73 percent, of total footwear imports in 1995. By contrast, China supplied just 17 percent of footwear imports valued at over \$16 a pair, down from 20 percent a year earlier. China's dominance in the world footwear market is attributable to its extremely low input factor production costs for labor, materials, and energy.

The footwear trade deficit with Brazil, the second-leading U.S. supplier, decreased by \$141 million (11 percent) to \$1.1 billion in 1995. The decline resulted almost entirely from a decrease in imports, which accounted for nearly all of the two-way trade in footwear between the United States and Brazil. This import decline partly reflected the reduced price competitiveness of Brazilian goods in global markets as a result of the appreciation of the Brazilian currency. The vast majority of the footwear imports from Brazil consisted of women's leather footwear with an f.o.b. value of between \$8.01 and \$12.00 a pair.

The footwear trade deficits with Indonesia and Thailand, the fourth- and the sixth-leading U.S. suppliers, respectively, widened by a total of \$92 million in 1995. The value of imports from Indonesia and Thailand both rose by 8 percent to \$956 million and \$406 million, respectively. However, the quantity of these imports fell by 4 percent to 93 million pairs and by 11 percent to 31 million pairs, respectively. Two-thirds of the imports from Indonesia and Thailand in 1995 consisted of athletic footwear, mostly with an f.o.b. value of between \$8.01 and \$16.00 a pair. The slowdown in the

¹⁸ On July 23, 1996, Senator Ernest F. Hollings (D-SC) introduced S. 1982, the Emergency Safeguard Act of 1996, "to provide a remedy to damaging imports of men's and boys' tailored wool apparel assembled in Canada from third country fabric and imported at preferential tariff rates." Under the bill, not more than 50 percent of the TPL provided in NAFTA for wool apparel from Canada can be tailored wool apparel and not more than 50 percent of such sublimit can be either men's and boy's wool suits (quota category 443), men's and boys' wool sport coats (433), or men's and boy's wool slacks (447).

Table 7-2

Footwear: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by selected countries and country groups, 1994 and 1995¹

Item	1994	1995	Change, 1995 from 1994	
			Amount	Percent
	<i>Million dollars</i>			
U.S. exports of domestic merchandise:				
China	8	9	1	13.9
Brazil	6	8	2	35.4
Italy	16	15	-1	-4.0
Indonesia	6	14	7	116.0
Korea	18	29	10	57.1
Thailand	3	4	(²)	7.8
Spain	6	5	-1	-16.7
Taiwan	12	11	-1	-11.0
Mexico	96	71	-24	-25.6
Dominican Rep	35	44	9	24.9
All other	440	462	22	5.0
Total	646	671	25	3.8
EU-15	139	130	-10	-6.9
OPEC	20	28	8	40.9
Latin America	198	193	-4	-2.2
CBERA	65	81	16	24.2
Asian Pacific Rim	171	210	40	23.3
ASEAN	18	26	8	47.4
Central and Eastern Europe	4	4	(²)	-3.2
U.S. imports for consumption:				
China	5,254	5,817	563	10.7
Brazil	1,266	1,127	-139	-11.0
Italy	887	1,017	130	14.6
Indonesia	885	956	71	8.0
Korea	689	515	-173	-25.1
Thailand	377	406	29	7.8
Spain	359	372	13	3.6
Taiwan	456	350	-106	-23.2
Mexico	206	237	30	14.8
Dominican Rep	285	247	-38	-13.3
All other	1,050	1,051	1	0.1
Total	11,714	12,095	381	3.3
EU-15	1,563	1,751	187	12.0
OPEC	889	957	69	7.7
Latin America	1,869	1,696	-174	-9.3
CBERA	321	283	-38	-11.8
Asian Pacific Rim	7,895	8,279	384	4.9
ASEAN	1,350	1,456	106	7.8
Central and Eastern Europe	133	125	-8	-6.1
U.S. merchandise trade balance:				
China	-5,247	-5,808	-562	-10.7
Brazil	-1,260	-1,119	141	11.2
Italy	-872	-1,002	-130	-14.9
Indonesia	-879	-942	-63	-7.2
Korea	-670	-487	183	27.4
Thailand	-373	-402	-29	-7.8
Spain	-353	-367	-14	-3.9
Taiwan	-443	-339	104	23.5
Mexico	-110	-165	-55	-49.7
Dominican Rep	-250	-203	47	18.7
All other	-610	-589	21	3.4
Total	-11,068	-11,424	-357	-3.2
EU-15	-1,424	-1,621	-197	-13.8
OPEC	-869	-929	-60	-7.0
Latin America	-1,671	-1,502	169	10.1
CBERA	-256	-202	54	21.0
Asian Pacific Rim	-7,724	-8,069	-344	-4.5
ASEAN	-1,333	-1,430	-98	-7.3
Central and Eastern Europe	-129	-121	8	6.2

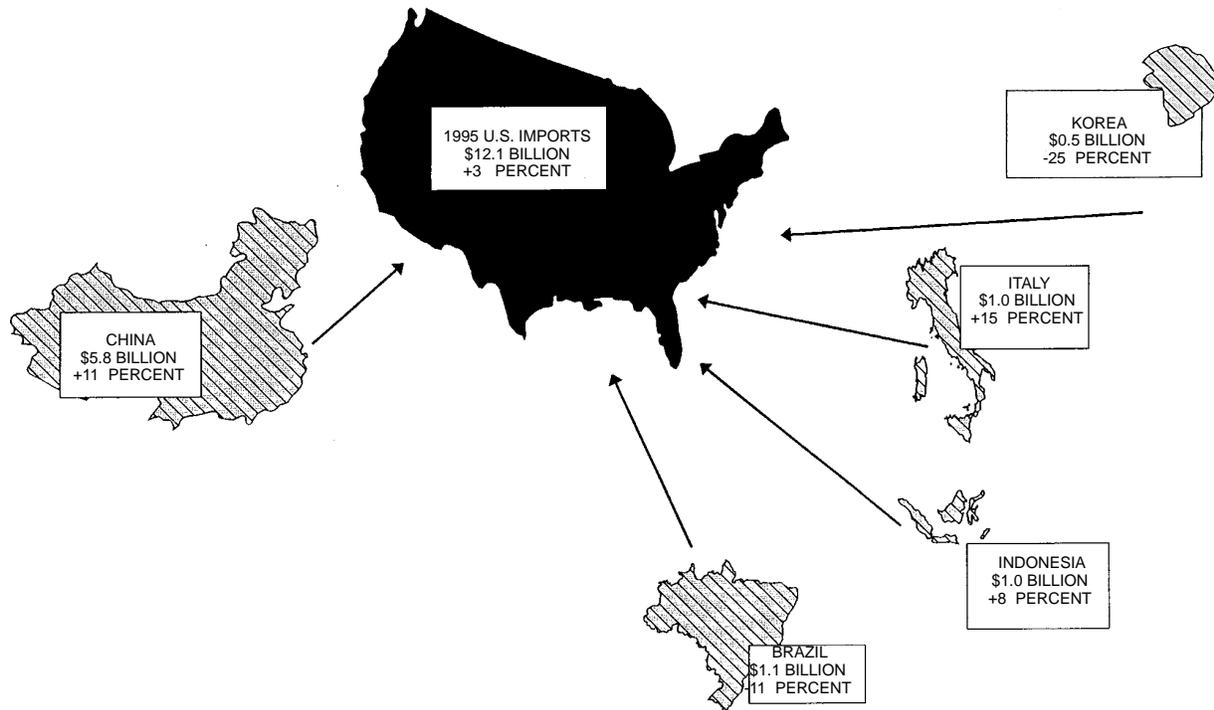
¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.

² Less than \$500,000.

Note.—Because of rounding, figures may not add to the totals shown. The countries shown are those with the largest total U.S. trade (U.S. imports plus exports) in these products in 1995.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 7-2
U.S. footwear sector imports, 1995: Leading U.S. imports, by major sources, and overall percentage change since 1994



Source: Derived from official statistics of the U.S. Department of Commerce.

growth of these shipments, compared with that in the early 1990s, was partly attributable to soft U.S. demand for athletic footwear.

The U.S. footwear deficit with the EU widened by \$197 million (14 percent) to \$1.6 billion in 1995, as imports rose by \$187 million (12 percent) to almost \$1.8 billion and exports fell by \$10 million (7 percent) to \$130 million. Italy was the only major EU footwear supplier that showed significant growth in shipments to the United States, in part reflecting favorable exchange rates. Footwear imports from Italy, which accounted for slightly more than one-half of the EU total, grew by \$130 million (15 percent) to \$1 billion in 1995.

The footwear trade deficit with Korea and Taiwan, once the dominant suppliers, declined by a combined \$287 million (26 percent) in 1995 to \$826 million. The decrease in the trade deficit with these suppliers stemmed almost entirely from a decline in

imports of \$279 million (24 percent) to \$865 million. Footwear production continued to move from Korea and Taiwan to lower cost countries such as China.

U.S. footwear imports from Mexico in 1995 increased by \$30 million (15 percent) to \$237 million. Shipments of nonrubber footwear from Mexico rose by 63 percent in quantity but by just 25 percent in value, to almost 9.8 million pairs valued at \$123 million, and imports of fabric-upper footwear grew by 12 percent in quantity and by 20 percent in value, to 22.8 million pairs valued at \$46 million. The growth in imports from Mexico was partly attributable to the peso devaluation, which effectively reduced dollar prices of Mexican footwear in the U.S. market.

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Table 7-3

Textiles, apparel, and footwear sector: U.S. trade for selected industry/commodity groups, by specified periods, Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, 1995 from 1994	
				Amount	Percent
		<i>Million dollars</i>			
CH050	Manmade fibers and filament yarns:				
	Exports	1,585	2,064	479	30.2
	Imports	1,299	1,381	82	6.3
	Trade balance	286	683	397	138.8
CH051	Spun yarns and miscellaneous yarns:				
	Exports	458	574	116	25.3
	Imports	594	613	19	3.2
	Trade balance	-136	-39	97	71.3
CH052	Boardwoven fabrics:				
	Exports	1,747	1,888	141	8.1
	Imports	3,362	3,462	100	3.0
	Trade balance	-1,615	-1,574	41	2.5
CH053	Knit fabrics:				
	Exports	344	437	93	27.0
	Imports	336	334	-2	-0.6
	Trade balance	8	103	95	1,187.5
CH054	Miscellaneous fabrics:				
	Exports	234	268	34	14.5
	Imports	130	151	21	16.2
	Trade balance	104	117	13	12.5
CH055	Coated, covered, impregnated, or laminated textile fabrics:				
	Exports	450	492	42	9.3
	Imports	227	243	16	7.0
	Trade balance	223	249	26	11.7
CH056	Cordage, nets, and netting:				
	Exports	43	48	5	11.6
	Imports	147	162	15	10.2
	Trade balance	-104	-114	-10	-9.6
CH057	Certain textile articles and fabrics suitable for industrial use:				
	Exports	282	277	-5	-1.8
	Imports	202	235	33	16.3
	Trade balance	80	42	-38	-47.5
CH058	Miscellaneous textiles and articles:				
	Exports	848	976	128	15.1
	Imports	1,179	1,417	238	20.2
	Trade balance	-331	-441	-110	-33.2
CH059	Sacks and bags of textile materials:				
	Exports	22	26	4	18.2
	Imports	52	76	24	46.2
	Trade balance	-30	-50	-20	-66.7
CH060	Carpets and rugs:				
	Exports	713	686	-27	-3.8
	Imports	748	858	110	14.7
	Trade balance	-35	-172	-137	-391.4
CH061	Home furnishings:				
	Exports	261	266	5	1.9
	Imports	1,075	1,258	183	17.0
	Trade balance	-814	-992	-178	-21.9
CH062	Men's and boys' suits and sports coats:				
	Exports	148	149	1	0.7
	Imports	748	850	102	13.6
	Trade balance	-600	-701	-101	-16.8
CH063	Men's and boys' coats and jackets:				
	Exports	136	125	-11	-8.1
	Imports	1,773	1,692	-81	-4.6
	Trade balance	-1,637	-1,567	70	4.3
CH064	Men's and boys' trousers:				
	Exports	1,050	1,082	32	3.0
	Imports	3,145	3,755	610	19.4
	Trade balance	-2,095	-2,673	-578	-27.6
CH065	Women's and girls' trousers:				
	Exports	409	486	77	18.8
	Imports	3,583	3,670	87	2.4
	Trade balance	-3,174	-3,184	-10	-0.3
CH066	Shirts and blouses:				
	Exports	1,021	1,285	264	25.9
	Imports	10,840	11,986	1,146	10.6
	Trade balance	-9,819	-10,701	-882	-9.0

See footnotes at end of table.

Table 7-3—Continued

Textiles, apparel, and footwear sector: U.S. trade for selected industry/commodity groups, by specified periods, Jan. 1994-Dec. 1995¹

USITC code ²	Industry/commodity group	1994	1995	Change, 1995 from 1994	
				Amount	Percent
			<i>Million dollars</i>		
CH067	Sweaters:				
	Exports	30	32	2	6.7
	Imports	2,052	1,750	-302	-14.7
	Trade balance	-2,022	-1,718	304	15.0
CH068	Women's and girls' suits, skirts, and coats:				
	Exports	255	274	19	7.5
	Imports	3,261	3,548	287	8.8
	Trade balance	-3,006	-3,274	-268	-8.9
CH069	Women's and girls' dresses:				
	Exports	103	112	9	8.7
	Imports	1,260	1,443	183	14.5
	Trade balance	-1,157	-1,331	-174	-15.0
CH070	Robes, nightwear, and underwear:				
	Exports	569	712	143	25.1
	Imports	2,197	2,673	476	21.7
	Trade balance	-1,628	-1,961	-333	-20.5
CH071	Hosiery:				
	Exports	220	257	37	16.8
	Imports	291	363	72	24.7
	Trade balance	-71	-106	-35	-49.3
CH072	Body-supporting garments:				
	Exports	344	431	87	25.3
	Imports	751	927	176	23.4
	Trade balance	-407	-496	-89	-21.9
CH073	Neckwear, handkerchiefs, and scarves:				
	Exports	26	29	3	11.5
	Imports	336	339	3	0.9
	Trade balance	-310	-310	(³)	-0.2
CH074	Gloves, including gloves for sports:				
	Exports	168	175	7	4.2
	Imports	1,499	1,733	234	15.6
	Trade balance	-1,331	-1,558	-227	-17.1
CH075	Headwear:				
	Exports	112	115	3	2.7
	Imports	821	842	21	2.6
	Trade balance	-709	-727	-18	-2.5
CH076	Leather apparel and accessories:				
	Exports	93	122	29	31.2
	Imports	1,456	1,199	-257	-17.7
	Trade balance	-1,363	-1,077	286	21.0
CH077	Fur apparel and other fur articles:				
	Exports	58	72	14	24.1
	Imports	187	146	-41	-21.9
	Trade balance	-129	-74	55	42.6
CH078	Rubber, plastic, and coated-fabric apparel:				
	Exports	87	91	4	4.6
	Imports	172	192	20	11.6
	Trade balance	-85	-101	-16	-18.8
CH079	Nonwoven and related products:				
	Exports	526	577	51	9.7
	Imports	437	476	39	8.9
	Trade balance	89	101	12	13.5
CH080	Other wearing apparel:				
	Exports	603	910	307	50.9
	Imports	2,292	2,297	5	0.2
	Trade balance	-1,689	-1,387	302	17.9
CH081	Apparel fasteners:				
	Exports	88	84	-4	-4.5
	Imports	122	127	5	4.1
	Trade balance	-34	-43	-9	-26.5
CH082	Footwear and footwear parts:				
	Exports	646	671	25	3.9
	Imports	11,714	12,095	381	3.3
	Trade balance	-11,068	-11,424	-356	-3.2

¹ Import values are based on Customs value; export values are based on f.a.s. value, U.S. port of export.² This coding system is used by the U.S. International Trade Commission to identify major groupings of HTS import and export items for trade monitoring purposes.³ Less than \$500,000.

Source: Compiled from official statistics of the U.S. Department of Commerce.

