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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Latest statistics confirm the lingering weakness of the U.S. economic recovery. Factory orders sank 0.8 percent in May 1992, orders for durable goods fell 2.1 percent and orders for nondurable goods rose only 0.5 percent. Retail sales, a measure of consumer demand, rose in June by a scant 0.5 percent. Moreover, a decline in total industrial production and a sharp rise in the unemployment rate reflect lingering weakness in both the manufacturing and services sectors. Total industrial production dropped in June 1992 by 0.3 percent and the unemployment rate rose to 7.8 percent from a level of 7.5 percent in May. The job losses were greater in manufacturing than in services as factories and construction trimmed their payrolls, according to the U.S. Department of Labor. Job losses in services occurred in retail and wholesale trades, health, and other personal services. Hours worked rose, but at an annual rate of 0.7 percent in the second quarter compared with a rise of 1.1 percent in the first quarter. Unless labor productivity and hours worked increase more proportionately, GDP is expected to grow at a slower pace in the second quarter than the first quarter's 2.7 percent gain.

Following the increase in the unemployment rate in June, the Federal Reserve lowered the discount and Federal funds rates by half a point each, to 3.0 percent and 3.25 percent respectively, their lowest levels since 1963. Whether the net effect of lowered interest rates on consumer spending will be positive or negative is unclear. A robust increase in consumer spending is vital for a speedy, healthy recovery. The most important effect of lowering interest rates is to help consumers and businesses refinance their debts, thus boosting their cash flow and buying power. On the down side, however, lower interest rates have an adverse effect on savers' incomes. Meanwhile, weak foreign demand caused U.S. exports to decline and led to a worsening of the May merchandise trade deficit by 4.2 percent over that of the previous month. The January-May trade deficit amounted to $69.9 billion at an annual rate compared to a $65.4 billion deficit in the corresponding period of 1991.

U.S. Economic Performance Relative to Other Group of Seven Members

Economic Growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—increased in the first quarter of 1992 by 2.7 percent at an annual rate, up from an increase of 0.4 percent in the fourth quarter of 1991. Real GDP declined by 0.7 percent for all of 1991, the first year-to-year decline since 1982.

The annualized rate of real economic growth in the first quarter of 1992 was -1.8 percent in the United Kingdom, 4.5 percent in France, 7.3 percent in Germany, 1.7 percent in Canada, and 3.4 percent in Japan. The annualized rate of real economic growth in the fourth quarter of 1991 was 1.2 percent in Italy.

Industrial Production

Seasonally adjusted U.S. industrial production declined in nominal terms by 0.3 percent in June after four consecutive monthly increases: 0.5 percent in May, 0.5 percent in April, 0.4 percent in March, and 0.5 percent in February. The June decline was due to a sharp drop in production of motor vehicles, construction supplies, and coal mining. Manufacturing output fell 0.3 percent with durable goods falling 0.4 percent and nondurables 0.1 percent. Capacity utilization in manufacturing, mining, and utilities declined by 0.4 percentage points to 78.5 percent in June from 78.9 percent in May 1992. Total industrial output in June 1992 was just 0.8 percent higher than in June 1991. For the second quarter, the index increased at an annual rate of 4.5 percent after falling at a 2.9 percent rate in the first quarter.

Other major industrial countries reported the following annual growth rates of industrial production: for the year ending May 1992, Japan reported a decrease of 8.8 percent and Germany reported an increase of 1.2 percent. For the year ending April 1992, France reported an increase of 1.3 percent, the United Kingdom an increase of 1.4 percent, Italy an increase of 0.4 percent, and Canada an increase of 0.5 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.3 percent in June after rising by 0.1 percent in May and 0.3 percent in April 1992. The consumer price index rose by 3.1 percent during the 12 months ending June 1992.

During the 1-year period ending June 1992, prices increased 4.3 percent in Germany and 5.4 percent in Italy. During the 1-year period ending May 1992, prices increased 1.3 percent in Canada, 3.1 percent in France, 4.3 percent in the United Kingdom and by 2.0 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States increased to 7.8 percent in June from 7.5 percent in May 1992. In June 1992, unemployment was 6.6 percent in Germany. In May 1992, unemployment was 11.2 percent in Canada, 9.6 percent in the United Kingdom, 2.1 percent in Japan, 10.0 percent in France, and 11.0 percent in Italy. (For foreign unemployment rates adjusted to U.S.

statistical concepts, see the tables at the end of this issue.)

U.S. Net International Investment Position, 1991

The U.S. Department of Commerce reported that the negative U.S. net international investment position in 1991 (valued at the current cost of replacing plant, equipment and other tangible assets) increased by $66.7 billion to a negative $361.5 billion from a negative $294.8 billion in 1990. U.S. assets abroad increased from $1,884.2 billion in 1990 to $1,960.3 billion in 1991 whereas foreign assets in the United States increased from $2,179.04 billion in 1990 to $2,321.8 billion in 1991.

U.S. direct investment abroad at current replacement cost grew by $31.67 billion from $623.59 billion in 1990 to $655.26 billion in 1991 whereas foreign direct investment in the United States grew by $20.51 billion from $466.52 billion in 1990 to $487.03 billion in 1991. Capital flows, price changes, and exchange rates changes accounted for most of the changes in U.S. direct investment positions.

Net capital inflows continued to decline in 1991, reaching $4.8 billion, well below their 1987 peak of $167.6 billion. Larger U.S. purchases of foreign stocks than foreign purchases of U.S. securities partially accounted for the decline in net capital inflows. Also, continued economic weakness and the necessity to rebuild balance sheets at home and abroad reduced other capital flows in 1991.

U.S. direct investment abroad at historical cost:

Estimates of the U.S. direct investment position abroad are only measured on a historical-cost basis. Table 1 shows the U.S. direct investment position abroad by country and by industry. In 1991, the U.S. direct investment position abroad grew by $26.1 billion, or 6 percent, to $450.2 billion, following a 14-percent increase in 1990. The dollar depreciation in 1990 raised the dollar value of affiliates' net foreign-currency-denominated assets and resulted in an increase of $13.7 billion. In 1991, the rise in the foreign value of the dollar resulted in a decrease of $2.3 billion.

The $26.1 billion increase in U.S. direct investment abroad in 1991 was spread among all major geographical areas. The largest increases were in Europe, Latin America and other western hemisphere countries, and the Asian and Pacific countries, including Australia, Japan, and New Zealand.

Within Europe, U.S. direct investment in Germany increased the most, mainly through intercompany debt outflows and reinvested earnings. Earnings and reinvested earnings of German affiliates were boosted by the upturn in German consumer spending that followed reunification. In the EC as a whole, U.S. direct investment increased by $11.1 billion.

In the "Latin America and other western hemisphere countries" category, U.S. direct investment increased by $5.7 billion, or 8 percent. The increases were largest in Panama, Mexico, and Venezuela.

In Asia and Pacific countries, U.S. direct investment increased by $4.7 billion, or 8 percent. The increase was primarily in Japan, as U.S. direct investment was raised by positive valuation adjustments related to dollar depreciation against the yen. In the rest of Asia, U.S. direct investment increased at double-digit rates in both manufacturing and petroleum, as U.S. parents expanded their presence in the region.

Foreign direct investment in the United States at historical cost:

Table 2 shows foreign direct investment in the United States measured on a historical cost basis. Foreign direct investment in the United States grew by $10.9 billion (3.0 percent) in 1991 to $407.6 billion following an 8.0 percent increase in 1990. Decreased capital inflows accounted for the slowdown in foreign direct investment in 1991.

Capital inflows for foreign direct investment in the United States dropped to $12.6 billion in 1991 from $46.1 billion in 1990, largely due to the decline in foreign acquisitions of U.S. businesses. Factors contributing to the decline in capital inflows included continued economic weakness in the United States, which made new investments and expansions less attractive, and economic weakness and bank restructuring in several industrialized countries, which reduced the availability of funds for investment.

At 1991 yearend, the United Kingdom had the largest investment in the United States ($106.1 billion), followed by Japan ($86.7 billion) and the Netherlands ($63.8 billion).

Japan showed the largest increase in its position of $4.9 billion. Several of the largest inflows were capital contributions to existing U.S. affiliates of Japanese firms. France had the second-largest increase in investment position ($4.1 billion).

Forecasts

Forecasts point to a moderate rebound of real economic growth in the United States for the remainder of 1992, followed by slightly stronger growth in the first half of 1993. Moderating the economic recovery in the first half of 1992 will be the general slowdown in global economic growth, particularly in industrialized countries and sluggishness in consumer and business spending. Although business sentiments and consumer confidence improved and their indebtedness eased up a little, consumers and businesses still are exercising caution in their spending. Table 3 shows macroeconomic projections for the U.S. economy for April 1992-June 1993, by four

Table 1
U.S. direct investment position abroad on a historical–cost basis at yearend, 1990 and 1991[1]

(In Billions of dollars)

Area and year	*All industries*	*Petroleum*	*Manufacturing*	*Wholesale–trade*	*Banking*	*Finance except banking*	*Service*	*Other indust–ries*
All countries								
1990	424.1	57.0	164.5	38.2	19.8	112.4	11.4	20.1
1991	450.2	59.2	175.4	43.2	18.8	117.1	13.4	23.2
Canada								
1990	67.0	11.4	31.8	4.1	1.0	11.4	2.0	5.4
1991	68.5	10.9	32.4	4.4	1.1	12.2	2.2	5.5
All Europe (including EC and EFTA)								
1990	211.2	22.5	83.3	21.8	8.1	64.4	6.8	4.3
1991	224.6	22.8	89.1	24.9	7.0	67.4	8.2	5.2
European Communities (12)								
1990	177.6	17.7	80.5	13.3	6.4	49.7	6.0	4.1
1991	188.7	17.8	85.7	16.2	5.2	51.5	7.3	5.1
Germany								
1990	27.3	2.9	16.3	1.5	1.5	3.8	0.3	1.0
1991	32.9	3.6	20.1	2.0	1.5	4.3	0.4	1.0
Netherlands								
1990	22.7	1.5	6.8	1.1	0.2	11.2	1.4	0.5
1991	24.7	1.8	7.7	1.6	0.1	11.0	1.8	0.7
United Kingdom								
1990	68.2	10.6	22.0	2.2	2.7	27.2	2.2	1.5
1991	68.3	9.5	20.9	2.9	1.8	28.4	2.7	2.1
Japan								
1990	21.0	3.8	9.9	4.0	0.2	2.3	0.3	0.4
1991	22.9	4.2	10.4	4.9	–	2.6	0.4	0.5
Australia, New Zealand, and South Africa								
1990	18.9	3.2	6.5	1.7	1.1	1.5	0.3	4.6
1991	19.5	3.4	7.2	1.3	0.9	1.8	0.5	4.5
Developing countries								
1990	102.4	13.6	32.9	6.7	9.3	32.7	2.0	5.1
1991	111.6	15.5	36.3	7.8	9.9	33.1	2.1	6.8
Latin America and other western hemisphere countries								
1990	71.6	4.1	23.7	2.7	6.4	29.4	1.6	3.6
1991	77.3	4.3	25.7	3.4	6.8	29.9	1.7	5.5
OPEC								
1990	8.5	4.4	1.9	0.3	0.3	0.9	([2])	0.7
1991	11.0	5.4	2.4	0.4	0.2	1.1	([2])	1.7

[1] Figures may not add to totals due to rounding and the exclusion of certain areas.

[2] Not available.

Source: U.S. Department of Commerce, *Press Release BEA 92–29.*

Table 2
Foreign direct investment position in the United States on a historical–cost basis at yearend, 1990 and 1991[1]
(In Billions of dollars)

Area and year	All industries	Petro– leum	Manu– factring	Trade	Banking	Finance except banking	Insur– ance	Real estate	Other indust– ries
All countries									
1990	396.7	42.2	157.4	59.6	18.7	10.1	24.9	34.6	49.1
1991	407.6	40.0	162.9	59.7	20.7	9.2	33.3	33.8	48.2
Canada									
1990	30.0	1.4	9.7	1.3	1.8	2.0	4.0	4.7	5.2
1991	30.0	0.9	9.7	0.3	2.0	2.5	5.3	4.1	5.4
All Europe (including EC and EFTA)									
1990	251.0	33.6	121.3	27.5	8.2	2.6	18.6	10.6	28.5
1991	258.1	32.0	126.8	25.9	8.6	–1.4	25.2	10.7	30.4
European Communities (12)									
1990	224.5	33.2	104.1	24.7	8.0	2.4	14.1	10.1	27.9
1991	232.0	31.7	110.2	23.3	8.4	–1.4	19.7	10.2	30.0
Germany									
1990	28.3	0.2	15.7	7.7	0.8	–1.1	2.8	1.3	0.9
1991	28.2	0.6	16.6	7.6	0.8	–4.2	4.8	1.2	0.8
Netherlands									
1990	63.9	12.7	24.7	6.4	2.4	2.1	3.7	4.8	7.2
1991	63.9	12.3	24.1	5.5	1.9	3.2	5.2	5.1	6.5
United Kingdom									
1990	102.8	15.8	47.3	7.7	2.0	3.7	6.9	3.5	15.9
1991	106.1	14.2	50.1	7.3	2.3	2.5	7.8	3.5	18.4
France									
1990	18.7	(D)	13.7	1.1	1.2	–3.2	0.2	0.1	(D)
1991	22.7	3.0	14.8	0.9	1.3	–2.0	1.4	0.1	3.2
Latin America and Other Western Hemisphere									
1990	19.6	2.4	5.4	3.8	1.6	(D)	(D)	2.2	(D)
1991	17.7	2.4	3.7	4.3	1.8	0.1	2.0	2.0	1.5
Asia and Pacific (including Australia and Japan)									
1990	91.1	2.6	20.8	26.6	6.6	7.3	(D)	16.1	(D)
1991	96.7	2.8	22.4	28.9	7.5	7.7	0.9	15.9	10.6
Australia									
1990	6.5	2.6	2.1	(D)	–	–1.2	(D)	0.4	(D)
1991	6.6	2.7	2.1	(D)	–0.1	(D)	(D)	0.4	1.9
Japan									
1990	81.8	–	17.2	26.4	5.9	8.6	0.4	15.1	8.2
1991	86.7	0.1	18.7	28.0	6.8	9.1	0.6	15.0	8.4
OPEC									
1990	4.3	2.4	(D)	0.4	0.2	(D)	([2])	1.0	0.3
1991	4.3	2.2	–	(D)	0.2	(D)	([2])	1.3	0.2

D– Suppressed to avoid disclosure of data of individual companies.
[1] Figures may not add to totals due to rounding and the exclusion of certain areas.
[2] Not available.
Source: U.S. Department of Commerce, *Press Release BEA 92–29.*

Table 3
Projected quarterly percentage changes of selected U.S. economic indicators, April 1992-June 1993

Quarter	UCLA Business Fore-casting Project	Merrill Lynch Capital Markets	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore-casts
			GDP current dollars		
1992					
April-June	4.3	4.7	5.5	5.7	5.1
July-September	6.3	4.3	6.2	6.0	5.7
October-December	6.3	5.5	5.4	6.9	6.0
1993					
January-March	7.7	6.3	6.3	5.9	6.6
April-June	7.5	6.1	5.6	5.5	6.2
			GDP constant (1987) dollars		
1992					
April-June	2.1	1.8	2.2	2.5	2.2
July-September	2.3	1.5	3.6	2.6	2.5
October-December	2.6	2.8	2.6	2.8	2.7
1993					
January-March	3.8	3.0	2.9	3.3	3.3
April-June	4.3	3.1	2.7	3.2	3.3
			GDP deflator index		
1992					
April-June	2.2	2.8	3.2	3.2	2.9
July-September	4.0	2.7	2.4	3.3	3.1
October-December	3.6	2.7	2.7	4.0	3.3
1993					
January-March	3.8	3.2	3.3	2.5	3.2
April-June	3.1	2.9	2.8	2.2	2.8
			Unemployment, average rate		
1992					
April-June	7.3	7.5	7.4	7.5	7.4
July-September	7.2	7.6	7.2	7.5	7.4
October-December	7.1	7.5	7.1	7.4	7.3
1993					
January-March	6.9	7.1	7.0	7.3	7.1
April-June	6.6	6.7	6.8	7.0	6.8

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: July 1992.

Source: Compiled from data provided by The Conference Board. Used with permission.

major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

Several factors appear to be working in favor of stronger growth in the second half of 1992 and in the first half of 1993: an expected improvement in consumer confidence and spending due to gains in employment and incomes; an expected rise in business spending due to the moderation of wage increases resulting from cost cutting and corporate restructuring and expected low interest and inflation rates; an expected increase in export growth as a result of the relative moderation of the foreign value of the dollar; and the anticipated improvement in the industrial countries' economic conditions that should increase foreign demand for U.S. exports. Also, the buildup of the currently low levels of business inventories is expected to generate new rounds of production that could propel the recovery in the industrial sector. The average of the forecasts points to a slow decline in the unemployment rate in the second half of 1992 and a slightly larger decline in the first half of 1993. Inflation (as measured by the GDP deflator) is expected to rise in the second half of 1992, and then slow down in the first half of 1993.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit increased from $7.1 billion in April to $7.4 billion in May 1992. A $920 million decline in May exports and a $604 million decline in imports accounted for the $317 million worsening in the monthly balance. Exports declined to $35.5 billion in May and imports decreased to $42.9 billion. The trade deficit increased to $29.1 billion in January-May 1992 from $25.8 billion in the corresponding period of 1991. At an annual rate, the deficit increased from $65.4 billion in January-May 1991 to $69.9 billion in the corresponding period in 1992. Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 4.

The May 1992 deficit was 27.6-percent higher than the $5.8 billion average monthly deficit registered during the previous 12-month period and 48-percent higher than the $5.0 billion deficit registered in May 1991. When oil is excluded, the May 1992 merchandise trade deficit increased by $188 million from the previous month.

Nominal export changes and trade balances in May 1992 for specified major commodity sectors are shown in table 5. Inorganic chemicals, telecommunications, airplane parts, electrical machinery, power-generating machinery, scientific instruments and vehicle parts were the sectors that showed marked export increases from April to May 1992. Airplanes led the sectors showing export declines in the month, although the sector recorded the largest trade surplus in the January-May 1992 period.

The U.S. agricultural trade surplus decreased from $1.5 billion in April to $1.1 billion in May 1992 and is running 14.6 percent below the level recorded in the January-May 1991 period. The U.S. oil import bill increased from $2.84 billion to $3.18 billion.

U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 6. In May 1992, the United States registered a decline in bilateral merchandise trade deficits with Japan, Germany, and the East Asian newly industrialized countries (NICs), and deficit increases with the Organization of Petroleum Exporting Countries (OPEC), Canada, European Free Trade Association (EFTA), and China. The U.S. deficit with Japan decreased by $700 million. From January-May 1991 to the corresponding period in 1992, the United States registered a significant decline in its bilateral trade deficits with OPEC, and deficit increases with Japan, Canada, Germany, EFTA, NICs, and China. The U.S. trade surpluses with the EC, and Western Europe declined, and the trade surplus with Mexico increased markedly.

Table 4
U.S. merchandise trade, seasonally adjusted

	Exports		*Imports*		*Trade balance*	
Item	*May 92*	*April 92*	*May 92*	*April 92*	*May 92*	*April 92*
Current dollars—						
Including oil	35.5	36.4	42.9	43.5	-7.4	-7.1
Excluding oil	34.9	35.9	38.7	39.5	-3.8	-3.6
1987 dollars	33.6	34.4	40.3	40.9	-6.7	-6.5
Three-month-moving average	36.3	37.0	43.0	42.4	-6.7	-5.4
Advanced-technology products (not seasonally adjusted)	8.0	8.3	5.3	5.7	+2.7	2.7

Source: *U.S. Department of Commerce News, FT 900,* July 1992

Table 5
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors and agriculture, January 1991-May 1992

Sector	Exports: January-May 1992	Exports: May 1992	Change: January-May 1992 over January-May 1991	Change: May 1992 over April 1992	Share of total January-May 1992	Trade balances January-May 1992
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	10.9	2.1	-0.5	-4.6	5.9	-2.45
Airplanes	11.7	1.7	31.0	-22.7	6.3	10.06
Airplane parts	4.0	0.8	-3.2	3.9	2.2	2.47
Electrical machinery	13.1	2.7	4.0	3.9	7.1	-2.50
General industrial machinery	7.8	1.6	10.0	0.6	4.2	1.40
Iron & steel mill products	1.6	0.3	-11.1	-9.1	0.9	-1.90
Inorganic chemicals	1.7	0.4	-5.6	33.3	0.9	0.20
Organic chemicals	4.6	1.0	-9.8	1.0	2.5	0.90
Power-generating machinery	7.2	1.5	6.2	3.5	3.9	0.92
Scientific instruments	6.0	1.2	9.1	2.6	3.2	3.10
Specialized industrial machinery	6.8	1.4	-2.9	0.7	3.7	2.10
Telecommunications	4.3	0.9	10.3	7.1	2.3	-5.20
Textile yarns, fabrics and articles	2.4	0.5	10.0	–	1.3	-0.78
Vehicle parts	6.9	1.4	21.1	2.1	3.7	0.40
Other manufactured goods[1]	11.4	2.3	14.3	–	6.2	-1.57
Manufactured exports not included above	43.4	9.0	6.5	-1.1	23.5	-32.85
Total manufactures	143.7	29.0	7.2	-1.0	77.8	-25.70
Agriculture	17.8	3.1	9.2	-14.6	9.6	7.70
Other exports	23.3	4.7	-5.1	2.6	12.6	-4.45
Total	184.8	36.5	5.6	-1.9	100.0	-22.45

[1] This is an official U.S. Department of Commerce commodity grouping.

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

Source: *U.S. Department of Commerce News, FT 900,* July 1992.

Table 6
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas and countries, January 1991-May 1992

Area or country	May 1992	April 1992	May 1991	January-May 1992	January-May 1991
	(Billion dollars)				
Japan	-3.50	-4.21	-2.48	-18.47	-16.10
Canada	-0.90	-0.61	-0.39	-2.89	-2.03
Western Europe	+0.97	+0.61	+1.27	+8.17	+9.28
EC	+1.22	+0.91	+1.30	+8.94	+9.17
Germany	-0.46	-0.72	-0.41	-1.82	-1.80
European Free trade Association (EFTA)[1]	-0.44	-0.40	-0.25	-1.29	-0.53
NICs[2]	-0.85	-0.92	-0.81	-4.47	-3.32
USSR (former)	+0.18	+0.23	+0.07	+1.15	+1.19
China	-1.22	-1.09	-0.76	-5.75	-3.60
Mexico	+0.43	+0.58	+0.20	+2.77	+0.31
OPEC	-0.84	-0.30	-1.37	-2.66	-6.31
Total trade balance	-5.62	-5.71	-4.03	-22.44	-20.06

[1] EFTA includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.

[2] NICs includes Hong Kong, the Republic of Korea, Singapore, and Taiwan.

Note.—Country/area figures might not add to totals because of rounding. Also, exports of certain grains, oilseeds and satellites were excluded from country/area exports but were included in total export table.

Source: *U.S. Department of Commerce News, FT-900,* July 1992.

INTERNATIONAL TRADE DEVELOPMENTS

Europe's Maastricht Treaty: Subsidiarity to the Rescue?

The Treaty of European Union, agreed to at the Dutch city of Maastricht last December, calls for a greater degree of political and economic cooperation among the 12 members of the European Community (EC). Specifically, it calls for movement towards a common currency and greater coordination of monetary and other macroeconomic policies. It also commits members to the pursuit of common defense and foreign policies. Eleven of the member states also agreed to pursue a common social policy; the UK opted out of the so-called Social Dimension Protocol. Important institutional changes would also result. The directly elected European Parliament would be given a greater role in EC decisions and the EC Commission would be held more accountable to it. The changes also would make it easier to pass most Community-level legislation on protecting the environment, public health, or consumers. Current voting procedures give the smaller member states collectively an effective veto over Community legislation in these fields, a privilege individual larger members also enjoy.

Slated to become effective on January 1, 1993 if all 12 member states ratify it, the fate of the treaty was placed in doubt with Denmark's June 2 "no" vote in a popular referendum. Ireland's subsequent endorsement provided some relief, even if it was attributed to the large share of regional and other aid Ireland receives from more developed EC members. Nevertheless, the June 26-27 Lisbon summit of EC heads of state and government provided clear evidence that little else will happen in the Community until member state ratification of the treaty among the remaining 10 members is assured.

At Lisbon it became apparent that while measures intended to achieve the completion of the internal market program by yearend 1992 will proceed, expansion of Community membership and agreement on budgetary matters may be held up. Countries knocking at the EC door for membership were essentially given a informal order for consideration after Maastricht is approved, with EFTA being first in line, Central and Eastern European countries next, and the Mediterranean countries of Turkey, Cyprus, and Malta a distant third. On July 20, EC Foreign Ministers asked the EC Commission to complete a study on Finland's suitability for EC membership by early October and on Switzerland's by December. A study of Sweden's readiness is expected to be completed by July 31.

The Lisbon meeting also shed light on the strategy European leaders will use to convince so-called Euroskeptics. Prime ministers of all persuasions were touting a little noticed element of the Maastricht Treaty as a safety valve, should movement towards centralizing authority in Brussels gain too much momentum. The concept is "subsidiarity," and essentially it provides a test for determining which decisions should be taken at the Community level and which ones are best achieved by member states or their subdivisions. The summit leaders suggested that the rule would mean that the EC would only be vested with enough power to achieve ends not otherwise achieveable at lower levels of government. Fears of being overriden by small states such as Denmark and of a loss of power by Germany's powerful laender are therefore unfounded, the leaders said.

In fact, the term subsidiarity appears twice in the Maastricht Treaty. Amendments to article 3B of the Treaty of Rome agreed to at Maastricht would change the Treaty to read—

> In areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the member states and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.

The term also appears in the Treaty of European Union's preamble, in which EC leaders resolve "to continue the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen in accordance with the principle of subsidiarity."

The Single European Act of 1987 first added the subsidiarity principle to the Treaty of Rome, which established the European Economic Community (EEC) in 1957. The principle was embodied in article 25 of the Single European Act, which added an environmental title to the Treaty. Article 130r, paragraph 4 of the revised EEC Treaty provides that, "The Community shall take action relating to the environment to the extent to which the objectives of protecting the environment can be better attained at the Community level than at the level of the member states." This clause has been the source of some controversy, with member states such as Britain challenging the EC foray into areas such as drinking water standards, the regulation of which it charges should be strictly a local issue. In 1989, subsidiarity was enshrined by the Council of Ministers as one of the cornerstones of efforts to revise the Treaty of Rome to include eventual economic, monetary, and political union.

The subsidiarity principle later became a key issue during the intense discussion about the need to add a "social dimension" to the 1992 program. Powerful unions argued that guaranteeing workers certain rights and benefits throughout the Community was vital to convince them that the economic dislocations resulting from the program would not also be accompanied by "social dumping" by member states with lower health and safety protections. Big businesses, meanwhile, urged the EC to leave labor-management issues to the member states or collective bargaining contracts. It suggested that the Community only set its sights on broad, widely accepted standards for occupational health and safety, and Communitywide

issues like labor mobility and recognition of professional qualifications between member states. These discussions revealed the subsidiarity concept to be relevant not only for allocating responsibilities within government, but between the government and the private sector as well.

Subsidiarity is closely related to the well-established EC legal principle of "proportionality." Various cases before the European Court of Justice over the past 20 years have created a litmus test for determining whether member state and EC actions are justified. The gist of these Court of Justice opinions is that the means used to achieve a given end must be proportional to the objective—that is, no more than is reasonable and necessary to achieve the desired end. The Community's jurisprudence is consistent with German constitutional principles and English legal traditions.

The subsidiarity concept is not only key to member-state ratification of the Maastricht treaty, but to the reach of already passed and future Community legislation. At Lisbon, the leaders agreed to further refine the concept by their next summit in December 1992. They also decided to undertake a review of existing Community legislation to determine whether it meets the subsidiarity test. The results of this review are to be reported at their semiannual meeting planned for December 1993. In the meantime, EC Commission President Jacque Delors has indicated that prior to drafting legislation, the EC Commission will evaluate whether the proposal meets a Community objective, does so in the most efficient manner, and is proportional in scope to its objective.

Some areas are considered clearly within the EC Commission's exclusive competence, notably trade relations with third countries, agricultural policy, and attainment of the single internal market. In other areas, the EC Commission shares responsibility with the member states. Transportation and competition policy are considered areas where the EC Commission has a high degree of competence. Environmental and social policies are areas in which the Commission has a somewhat more limited role. President Delors has suggested that in the future the EC Commission will focus on setting minimum standards for these areas across the Community, allowing individual member states to exceed these so long as they do not constitute obstacles to imports from other member states. Education, public health, and cultural policies will, Delors suggested, remain centered at the member-state level.

President Delors subsequently was said to identify application of EC law on environment and on the circulation of goods as "ripe" for subjection to the subsidiarity principle. Complaints about obstacles to trade could, Delors was said to suggest, be handled by member-state courts rather than by the European Court of Justice. Of particular interest to U.S. firms, he noted that it might be possible for local authorities, rather than the EC Commission, to be charged with ensuring that Community rules on public procurement are obeyed. Because the concept is actually embodied in an amendment to the Treaty of Rome, however, the European Court of Justice will have the final say on its interpretation.

Whether the "subsidiarity" offensive will assuage opponents of the Maastricht treaty is unclear. Smaller member states such as Denmark reportedly have found little comfort from the clause, charging that it could be used by larger member states to preclude action at the EC level the smaller states desire. Since the EC Commission has up until now very narrowly interpreted the instances in which member states can impose more stringent requirements in areas such as the environment, there is a fear that the effect will be to diminish the smaller states' capacity to pursue their own agendas in these fields. Furthermore, its existence does not alter the fundamental fact that the new voting rules embodied in the Maastricht Treaty will reduce the influence of smaller member states over important Community matters. Finally, those larger states suspicious of too great a role for Brussels over sovereign matters, including some British and German interests, may find the subsidiarity principle a double-edged sword. The European Court of Justice just might use the rule to establish the preeminence of the EC in certain policy areas.

In the meantime, French President Mitterand announced his intention to put the Maastricht treaty to the test in a September 20 plebiscite. Many analysts believe that affirmation may be complicated by Mitterand's declining popularity and dissatisfaction by French farmers with recent EC reductions in price supports. For the United States, the Group of Seven meeting held on July 6-8 confirmed what most analysts had surmised: that the Uruguay Round deadlock on agriculture will not be broken until the late September French vote (see related article, below).

United States Initiates Andean Trade Benefits

On July 6, 1992, President Bush announced the formal initiation of special trade preferences under the newly enacted Andean Trade Preference Act (ATPA) for Bolivia and Colombia. The administration is considering the extension of similar trade benefits to Ecuador and Peru.

The ATPA has two principal objectives. One is to increase market access in the United States for legal products of the Andean mountain countries in South America. This increased market access is part of U.S. policy efforts to discourage the production of illicit coca, the raw material of cocaine, which is grown and processed in large quantities in the Andean region. The other objective is to advance the broader U.S. goal of free trade throughout the hemisphere.

In 1989, President Bush directed the USTR to lead an interagency effort to develop a package of trade initiatives to discourage coca production in the Andean countries. Legislation to establish the ATPA was first introduced in Congress in October 1990. The ATPA legislation was reintroduced in the new legislative session in January 1991, approved in November, and finally signed into law by President Bush on December 4, 1991 (Public Law 102-82). In

February 1992, the United States formally requested, and eventually secured, a waiver of GATT most-favored-nation obligations to implement the ATPA. Such a waiver was necessary because GATT Articles I and II require members to apply the lowest, or most-favored-nation (MFN), tariffs equally to all GATT trading partners. (The waiver permits ATPA to be considered a trade-and-development-promoting program that will not adversely affect other GATT members or whose benefits are nonetheless desireable if it does.) Until Bolivia and Colombia were formally designated in July 1992, however, the ATPA was nonoperational.

Bolivia, Colombia, Ecuador, and Peru are the only countries cited in the legislation as eligible ATPA beneficiaries. Venezuela, although technically an Andean country, was not made eligible for ATPA benefits because its per capita GDP is significantly higher than that of the other Andean countries. In addition, there was concern that Venezuelan industrial exports under the ATPA would compete with sensitive sectors of the U.S. economy.

The ATPA was modeled after the Caribbean Basin Economic Recovery Act (CBERA). Since 1984, the CBERA has provided the basic authority for the President to grant preferential trade benefits for eligible Caribbean Basin countries to promote economic development and diversification of exports in that region. Both the CBERA and the ATPA afford duty-free entry into the United States to a wide range of products. However, both programs exclude textiles and apparel subject to textile agreements, footwear, canned tuna, and petroleum and petroleum products. The CBERA also excludes rum because of U.S. concern over potential damage to the rum industries in Puerto Rico and the U.S. Virgin Islands. Both the ATPA and the CBERA offer reduced duties for handbags, luggage, flat goods, work gloves, and leather wearing apparel. Duties on these items are being lowered by 20 percent in 5 equal annual stages beginning January 1, 1992.

Products from ATPA beneficiaries, as under the CBERA, must meet certain rules of origin. Generally, they either must be wholly grown, produced, or manufactured in an eligible country or must be "new or different" from any foreign materials used in their manufacture (i.e., undergo so-called substantial transformation) to receive duty-free or reduced-duty entry into the United States. Products not wholly grown, produced, or manufactured in a beneficiary country must meet minimum local content rules. These rules require that (1) 35 percent of the customs value product be attributable to one or more beneficiaries (including Puerto Rico and the U.S. Virgin Islands) or (2) 20 percent of the value be added in one or more beneficiaries with the additional 15 percent attributable to U.S.-made components. The CBERA differs from the ATPA in one key area. Trade benefits under the CBERA have no statutory expiration date, whereas ATPA benefits are afforded only for a period of 10 years.

Trade benefits under the ATPA overlap with benefits afforded to developing countries worldwide under the U.S. Generalized System of Preferences (GSP), which became effective in 1975. The GSP is the only other preferential trade program offered by the United States to products from Andean nations. The ATPA covers over 6,000 of the categories listed in the U.S. Harmonized Tariff Schedule (HTS), or about 69 percent, whereas the GSP covers only about 4,200 HTS categories, or less than 50 percent. Like the ATPA, the GSP program has a statutory expiration date. The United States renewed the GSP program in 1984, and the program currently is scheduled to expire in 1993.

Where APTA and GSP eligibility overlap, APTA is in some situations more favorable than GSP for beneficiary countries. A country may lose GSP benefits for duty-free entry of specific products when imports of those products exceed so-called competitive-need limits—either a specific annually-adjusted value ($97.2 million in 1991) or 50 percent of the value of total U.S. imports of the product in the preceding calendar year. In such instances, the normal rate of duty is applied. The ATPA has no such provisions. Thus, products such as cut flowers from Colombia and copper wire and gold rope from Peru, which exceeded the competitive-need limits and were excluded from duty-free entry under GSP, would be eligible for duty-free entry under the ATPA.

Combined U.S. imports from the four eligible ATPA countries totaled $5.0 billion in 1991, down slightly from $5.5 billion in 1990. Bananas ranked as the largest nonoil import ($1.3 billion), followed by coffee ($474 million), shellfish ($219 million), and cut flowers ($371 million).

Based on current U.S. import patterns, approximately 5 percent of the products imported from Bolivia, Colombia, Ecuador, and Peru that are not already eligible for GSP duty-free entry will benefit from duty-free status under the ATPA. Products most likely to benefit include rice, cut flowers, spices, and wood products from Bolivia; fresh tuna, cut flowers (including roses and chrysanthemums), raspberries, grapes, tropical fruits including mango and passion fruit, and glazed ceramic products from Colombia; fresh tuna, cut flowers, pineapple and grape juice, limes, tropical fruits, and iron and steel wire from Ecuador; and seafood (including mackerel and sardines), asparagus, tomatoes, dried potatoes, rope, zinc, copper wire, lead, and precious metals (including gold) from Peru.

Section 206 of the ATPA requires the United States International Trade Commission (USITC) to report on the economic impact of the trade preferences established by the act on U.S. industries and consumers. The act also requires the USITC, in conjunction with other Federal agencies, to report on the effectiveness of the ATPA in promoting illicit drug-related crop eradication and crop substitution. The first of these annual reports is scheduled to be completed by September 30, 1994.

Barter and Countertrade is once again on the Rise in Central and Eastern Europe and the Former Soviet Area

Most economists consider barter and countertrade (BCT), which allows payment of a vendor or investor in goods and services rather than in convertible currencies, harmful to world trade. These unconventional trading methods, which spread rapidly following the 1973 oil crisis, peaked during the mid-1980s and declined through 1991. The decline of BCT was particularly sharp in the trade of Central and Eastern Europe (CEE) (Bulgaria, the Czech and Slovak Federal Republic (CSFR), Hungary, Poland, and Romania) and the former Soviet Union during 1989-91. However, owing to the shortage of convertible currencies and the severe recession, BCT deals are occurring in increasing numbers in the region. Most analysts think that once economic reforms begin to take effect there and economic recovery gets underway, the significance of these trading methods for the region will decline again. The resurgence of BCT in regional trade is not expected to reverse the long-term trend for the continued decline of BCT in global trade. The present article provides further details.

The Sharp Rise of BCT Following the 1973 Oil Price Hikes

Skyrocketing oil and energy prices in 1973 led to unusually large trade deficits in all net oil-importing countries. For several developing countries that had sunk deep into debt, commercial credit financing almost completely dried up. These countries began to exert pressure on their trading partners to accept their products and services in lieu of convertible currencies.[1]

CEE and the former Soviet Union, eager to develop their trade relations with the Western industrialized countries during the 1970s, enthusiastically joined the South in demanding BCT in world markets. These countries lacked both the foreign exchange to satisfy their growing appetite for Western goods and the marketing skills and networks needed to expand nonregional exports. Communist ideologues also saw in BCT a movement away from reliance on multilateral markets and toward simpler, bilateral relations, history's justification of planned trade as it was practiced under the Council for Mutual Economic Assistance (CMEA). (At its dissolution in 1991, CMEA included CEE and the former Soviet Union, which together were also referred to as the "European CMEA," Cuba, Mongolia, and Vietnam.)

The significance of BCT increased across the globe. The total value of BCT in world trade increased from about 2 percent in 1973 to about 10 percent in the mid-1980s.[2] Analysts estimate that about 25 percent of trade between the former European CMEA and the West, 30 percent between these and the developing countries (South), and about 40 percent of intra-European CMEA trade involved BCT during the mid-1980s.[3] Further, an estimated 2 percent of West-West, 10 percent of West-South, and 25 percent of South-South involved BCT.

The Decline of BCT since the Mid-1980s.

The decline of BCT in global trade since the mid-1980s may be attributed to the consolidation of the current account deficits of heavily indebted developing countries, to the collapse of communism in Europe beginning in 1989, and to the successful campaign of multilateral organizations (most prominently the International Monetary Fund and GATT) and private economists across the globe against these trading methods. The main objections against BCT were, and are, that these trading methods are costly and time consuming, that they reduce the transparency of markets, and, that, by encouraging bilateral swaps between firms and nations, they undermine the multilateral trade system. Most economists share the view that BCT weakens market forces in the determination of the optimum value, volume and composition of trade on the national level and, therefore, on the aggregate reduce global welfare.

Estimates indicate that the total value of BCT transactions in world trade declined from the above indicated 10 percent in the mid-1980s to 6 percent in 1991. Analysts concur that during that period BCT transactions fell precipitously in trade between the former European CMEA and the industrialized countries, between these and the developing countries, and among the former European CMEA countries themselves.[4]

The Resurgence of BCT in the Former European CMEA

Reports during the past few months have indicated a proliferation of BCT deals involving firms from the former European CMEA area. All of the regional governments are in principle opposed to the use of BCT, but under the current difficult, and sometimes desperate, economic situation, they have apparently accepted its temporary resurgence. Several of these

[1] For an analysis of the worldwide growth of BCT and definitions of its main categories, see USITC, *Assessment of the Effects of Barter and Countertrade Transactions on U.S. Industries,* USITC publication 1766, Oct. 1985.

[2] For the most recent, comprehensive assessment of global BCT, see a paper by Nazir Bhagat, *Countertrade in Perspective,* U.S. Department of Commerce, Finance and Countertrade Division, Office of Finance, Industry and Trade Information.

[3] The figure for East-East trade excludes the exchange of commodities under government-level clearing agreements between each pair of former CMEA members. Analysts consider trade under such agreements less restrictive than the specific reciprocal transactions normally associated with BCT.

[4] There are no dependable estimates on the extent of the decline.

governments themselves are currently engaged in BCT deals with governments both inside and outside the region. For example, under government-to-government deals, Russia barters oil and oil products for Polish textile goods and German grains; the CSFR barters machinery, equipment, and construction services for Nigerian oil. It has also been reported that state foreign trade organizations (FTOs), the major and in some cases exclusive practitioners of foreign trade during the communist era in both CEE and the former USSR, continue to play a leading role in arranging and fulfilling BCT transactions. Western firms that have engaged in BCT with firms from the region reportedly appreciate the expertise and network of contacts of these organizations.

In analyzing the new BCT environment in the former European CMEA area, Western specialists draw a line between the three Central European (CE) countries of CSFR, Hungary, and Poland, and the rest of the region. The major criterion for this division is that Western businessmen have reported considerably lower pressure to accept BCT in the three CE countries than in the rest of the region.[5]

In the three CE countries, firms enjoy relatively easy access to convertible currencies for the purpose of importing. However, the price of convertible currencies in local currencies and the interest rates charged for import loans are high. Under these circumstances, a financially troubled company, wanting to improve the quality or the quantity of its output by importing Western capital goods would naturally turn to BCT. Such a company would typically find a Western firm willing to finance the purchase of required machinery and would pay it back in commodities produced with the new capital goods. (Such an arrangement is called a "compensation" or "buy-back" deal.) Buy-back arrangements often involve leasing—the Western firm leases machinery to the CE firm, which pays the leasing fee in commodities produced with the machinery.[6]

In other instances, CE firms borrow the convertible currency required for the import from local banks, but sign sales contracts with Western partners only if they are willing to enter into a joint venture or provide engineering or marketing services. (Such an arrangement is called "industrial offset.") In a number of instances, when Western firms were particularly interested in acquiring the products of a CE firm or selling to a CE buyer, they have reportedly themselves initiated compensation deals and industrial offsets.[7]

Pressure on Western firms to engage in BCT is considerably stronger in Bulgaria and Romania, and even stronger than that in the successor states to the Soviet Union, where convertible currencies are rare these days. In addition, the proportion of financially troubled enterprises in these markets is higher than in the CE countries. Western firms engaging in BCT under the poor economic conditions prevailing in these countries often have either already developed business contacts with local firms and now must adjust to lower profits, or are relative newcomers who are willing to trade lower profits for gaining a foothold.

Some firms may find themselves not only reaping lower profits, but incurring higher risks. Whereas transactions between Western firms and their CE partners are sophisticated, financial risks in the rest of the former European CMEA encourage the more primitive versions of BCT, such as pure barter (e.g., the simple exchange of Pepsi syrup for Russian vodka.) Western firms often insist that their partners from the former Soviet area deliver first. They place the proceeds from the sale of the delivered products in escrow accounts against which their partners can draw. Western firms also hedge their bets by using Western-owned financial institutes for BCT transactions. But recent reports also indicate that foreign trade banks in Bulgaria and Romania now offer relatively safe guarantees on deposits made in connection with BCT deals. In these two countries, FTOs can reportedly offer a short or long list of products to the Western seller or investor. The FTOs there are thus facilitating the conclusion of counterpurchase agreements, which Western firms consider more palatable than simple barter, because it allows room to choose products that may be easier to sell to a third party.[8]

The significance of BCT transactions is also increasing in trade between the former European CMEA and the developing countries. BCT is gaining particular significance in the expanding trade of Romania, Bulgaria and some former Soviet republics with the Middle East. For instance, Ukraine and Iran are negotiating a substantial long-term deal, whereby Ukraine would ship chemical products, building materials, and various machines for Iranian oil.

BCT is also growing in trade among the former members of European CMEA. With the dissolution of CMEA in 1991, the former members attempted to reform their trade relations.[9] The goal was to move from the system of bilateral commodity swaps that characterized trade under CMEA to multilateral, currency-based trade. But mainly as a result of the

[5] *Business Eastern Europe,* June 1, 1992, p. 262.

[6] Leasing arrangements generally involve four parties. The Western firm sells the capital equipment to the leasing company, which then leases it to the CE end user. The goods produced are then sold to a trading company that sells them in world markets, and from the proceeds takes its fee and pays the leasing rentals in convertible currency to the leasing company.

[7] For example, as part of its offset commitment in the sale of jetliners to the Polish airlines LOT, Boeing reportedly offered to build a regional maintenance hanger in Warsaw. DP Publications Co., *Countertrade Outlook,* Feb. 10, 1992, p. 4.

[8] When a trading house, rather than the original BCT contractor, sells the products or services obtained after counterdeliveries, the transaction is called "switch trade" in BCT terminology.

[9] For details on the trade reform, see USITC, *66th Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During January-March 1991,* USITC publication 2406, July 1991.

shortage of convertible currencies, many enterprises began to revert to BCT agreements in trading with enterprises from the former CMEA partner states. Such agreements sometimes replaced long-term supply relations that existed as a part of the planned exchange of commodities between these firms under the old trade regime.

The Outlook

Growth in the volume of BCT transactions and their proportion in the region's total trade are expected to peak in the mid-1990s and then decline. As sustained growth guided by market forces gets underway, import demand and export supply is expected to be better aligned.[10] The resultant improvement in the conditions of producers, access to foreign exchange, and the introduction of international convertibility for at least some of the region's national currencies should lead to the refutation of BCT by an increasing number of firms. Some analysts think that the establishment of a regional clearing agreement, perhaps in combination with a payment union, would help eliminate the current incentives for BCT in the former European CMEA area. Such an arrangement would promote the development of multilateral, currency-based trade by stretching the sparse regional convertible currency reserves available for financing trade among the countries of the region. The European Community-financed Center for European Policy Studies and the United Nations Economic Commission for Europe are currently studying possible forms of clearing and payments mechanisms for the region.

Most economists, including U.S. Government experts on BCT, expect further declines in the relative significance of BCT in the rest of the world to continue even as the BCT in the former European CMEA area spreads. Most developing countries have firmly embraced market-oriented economic policies and commercial financing for trade continues to expand. The declining trend should be further strengthened by the projected decline of arms trade that traditionally included a significant BCT component and by the expected commercialization of government procurement practices.[11]

A small minority of experts, mainly business executives and analysts associated with trading companies that practice BCT, disagree. These experts see the upsurge of BCT in the former European CMEA as the harbinger of a new trend. They maintain that the improvement in the balance of payments situation of the debtor countries is temporary and that commercial trade financing will shrink rather than expand in the 1990s. They also think that, thanks to the information revolution, BCT techniques are undergoing a refinement that will make them increasingly attractive to the global business community. The partisans of BCT are criticizing fiercely the U.S. Congress and the Bush administration for not providing as much moral and practical support as other governments provide to businesses wanting to engage in BCT. This policy, the supporters of BCT assert, reduces the competitiveness of American firms across the globe.

[10] Economic recovery is projected to begin in 1993 in the CE countries and in 1994-95 in the rest of the former European CMEA area.

[11] For details on negotiations concerning procurement practices under the Uruguay Round, see USITC, *Operation of Trade Agreements Program*, 43d report, forthcoming later this month.

Taiwan and Japan Extend Machine Tool VRAs With United States

On June 30, 1992, the United States signed agreements with Taiwan and Japan to extend and phaseout voluntary restraint agreements (VRAs) on exports of machine tools to the U.S. market. Under the new arrangements, Japan and Taiwan will continue to restrict exports of certain categories of machine tools to the United States through 1993. In return, the U.S. Government has agreed to raise the ceilings on machine tool exports, gradually exposing the U.S. machine tool industry to greater foreign competition before the VRAs are completely eliminated on December 31, 1993. The Association for Manufacturing Technology, which represents the bulk of U.S. machine tool producers, welcomed the new 1992 agreements, indicating that the extra period of protection would allow the U.S. industry to further prepare for foreign competition.

The original VRAs with Taiwan and Japan were signed in 1986, when both countries agreed to limit their exports of machine tools to their estimated 1981 market share. The U.S. machine tool industry, at that time under considerable pressure from foreign competition, convinced then-President Reagan to seek VRAs with the United States' two key competitors on the grounds of national security. The agreements were scheduled to run for 5 years, and they expired on December 31, 1991.

The U.S. machine tool industry, which began lobbying the Bush administration for an extension of the VRAs as early as March 1991, claims that significant gains were made during this initial period of protection. Industry sources estimate that U.S. exports of machine tools (including those categories not covered by VRAs) rose from roughly $600 million in 1986 to $1.1 billion in 1990 and 1991—an increase of 83 percent.

The Bush decision to phase out the VRAs with Japan and Taiwan came as part of a larger effort to increase the competitiveness of the U.S. machine tool industry. When President Bush announced the decision to eliminate machine tool VRAs by yearend 1993, he also announced a seven-point program to help prepare the U.S. machine tool sector for the rigors of foreign competition. The program called for more actively promoting U.S. exports; reviewing export-control regulations; monitoring industry performance; improving training, management, and application of new technologies; examining R&D programs that could be applied to machine tool pro-

duction; and continuing joint efforts by the Departments of Commerce and Defense to assist in revitalizing the industry.

The new agreements are basically patterned after those that were in effect during the 1986-91 period, and only cover numerically controlled (NC) machine tools. The two new VRAs, however, do differ in several respects, reflecting the different status of Taiwan and Japan as suppliers to the U.S. market. The significant points of each agreement are outlined below.

Japan

The new machine tool VRA with Japan was signed in Washington on June 30, 1992, by United States Trade Representative (USTR) Carla Hills and Japanese Ambassador Takakazu Kuriyama. It was the result of several rounds of negotiations, and followed a tentative agreement reached by the two sides in late April 1992. Under the new VRA, Japan has agreed to restrict exports of four categories of machine tools to the U.S. market: NC lathes, NC milling machines, machining centers, and NC punching and shearing machines. Shipments of these products will be limited to the shares of apparent 1992-93 U.S. consumption as indicated in table 7.

Table 7
Percentage share of U.S. apparent consumption of Japanese machine tools allowed under the 1992 U.S.-Japan VRA

Category	*1992*	*1993*
NC Lathes	57.47	60.27
NC Milling Machines	7.17	7.47
Machining Centers	51.54	54.03
NC Punching and Shearing Machines	19.25	21.56

Source: U.S. Department of State.

As with the previous VRA, the apparent consumption shares indicated in table 7 will be translated into ceilings for actual numbers of machine tools based on projections of U.S. apparent consumption supplied to Japan by the U.S. Government.[12] Adjustments will periodically be made to these ceilings to reflect revised projections.

Taiwan

The new VRA with Taiwan was signed in Washington on June 30, 1992, by representatives of the American Institute in Taiwan (AIT) on behalf of the United States, and the Coordination Council for North American Affairs (CCNAA) on behalf of Taiwan.[13] The agreement was the result of four rounds of negotiations between the United States and Taiwan, and followed a draft agreement initialed on June 18, 1992. Under the new arrangement, CCNAA agreed to limit exports of three categories of machine tools to the United States: NC lathes, NC milling machines, and machining centers. CCNAA will limit the export of these three categories of machine tools through the issuance of export permits. The export ceilings for Taiwan are expressed in absolute numbers of machine tool units, as shown in table 8.

The export ceilings indicated in table 8 will allow Taiwan to export 310 more machine tools to the United States than would have been the case if the numerical limits imposed by the 1986 VRA had been extended unchanged. Although the VRA with Japan is based on estimated market share, Taiwan authorities requested absolute numerical limits for export ceilings to ease the administrative burden of implementing the VRA. A special provision was included in the U.S.-Taiwan VRA, however, that will allow CCNAA to shift to market share ceilings (as is the case with Japan) rather than absolute numerical limits in 1993. Under this provision, if projected U.S. apparent consumption increases more than 15 percent over the 1991 level, and import penetration of the U.S. machine tool market by countries not covered by a VRA grows by more than 10 percent, CCNAA may request to convert Taiwan's export ceilings to market shares rather than absolute numbers.

Both VRAs contain provisions for consultations if Taiwan or Japan believe that it is not receiving fair and equitable treatment vis-a-vis non-VRA country exports to the United States. The agreement with Taiwan also contains a provision for emergency consultations if the VRA in some way should prejudice Taiwan's application to the General Agreement on Tariffs and Trade (GATT).

Uruguay Round Developments In 1992

Progress in the Uruguay Round during 1992 has been in large measure constrained by stalemated negotiations over agriculture. Other countries, particularly developing ones, appear to be waiting for the United States and the EC to reach substantive agreement on farm trade before they make specific offers to improve access to their markets for foreign manufactured goods and services. Recent high level efforts have yet to produce a breakthrough.

U.S.-EC Agriculture Talks at the Political Level

In December 1991, GATT Director-General Arthur Dunkel issued a draft proposal for a comprehensive Uruguay Round agreement reflecting the balance of Uruguay Round concessions achieved by that date as

[12] The U.S. Department of Commerce has contracted the task of estimating U.S. apparent consumption to Data Resources, Inc., a private research firm. Estimates will be made on a yearly basis with semiannual updates.

[13] Because it maintains diplomatic ties with the People's Republic of China, the United States does not formally recognize Taiwan. Consequently, agreements such as the VRA are handled through unofficial channels by the nonprofit organizations AIT and CCNAA.

well as potential compromises offered by Dunkel on his own responsibility. Countries participating in the round have agreed to use the so-called Dunkel text as the basis from which final negotiations will proceed. The Dunkel text provisions on agriculture call for specific, binding commitments in each of three areas:

- a 20-percent reduction in internal support (subsidy) expenditures;
- conversion of nontariff import barriers to tariffs, followed by a 36-percent reduction in these tariffs; and
- a 24-percent reduction in export subsidies in volume terms as well as a 36-percent reduction in export subsidies in terms of budget outlays.

All these reductions are to take place over a 6-year period beginning in 1993.

The main tension between the U.S. and EC positions now lies in the degree of flexibility in implementing commitments that will be permitted. The United States wants separate, binding commitments to reduce market distortions in each of three areas: internal support, export subsidies, and market access (tariffs and quotas). The EC appears willing to accept such disciplines in principle, but would like the option of offsetting sharper-than-agreed reductions in, say, internal support measures, with lower-than-agreed reductions in export subsidies. It therefore proposes to bind commitments only for all three areas combined.

The two sides also disagree on the extent of reductions that should be required, but the distance between them on this score has narrowed considerably since early 1992, when efforts to resolve the differences were bumped up to high-level political officials. On March 7, U.S. President George Bush wrote to Jacques Delors, President of the EC Commission, attempting to resolve the impasse. President Bush proposed an exemption from the 20-percent internal subsidy reductions called for in the 1991 Dunkel text for direct payments to producers that do not affect agricultural production. President Delors responded that the EC was willing to accept a 36 percent reduction in internal supports, export subsidies, and market access combined, rather than differing reductions applied to each category individually, in return for acceptance of two conditions. One was "rebalancing," an EC concept that would permit it to offset market access liberalization in some areas by increasing tariffs on products such as oilseeds and nongrain feeds. The other was a "peace clause" whereby the United States would agree to forego unilateral action in matters likely to be covered in a Uruguay Round agriculture agreement and instead submit such disagreements to the GATT for resolution under existing dispute settlement procedures. [Dispute settlement in the GATT has heretofore been rather unsuccessful in resolving agricultural disputes, largely because of weak or unclear GATT obligations in this area.]

German Chancellor Helmut Kohl arrived in the United States March 22 for talks with President Bush about the upcoming summit of the seven industrial democracies (G-7) to be held in Munich, Germany. Chancellor Kohl had expressed his desire to keep the Uruguay Round off the summit agenda, preferably by reaching a successful conclusion before then. High-level talks concerning agricultural trade resumed April 22 when EC Commission President Jacques Delors visited President Bush. The U.S. side offered to extend the 6-year timeframe in the Dunkel text by 2 years, if the EC would accept the remainder of the text as is. The EC side sought a 2-year delay in the text's schedule for cutting export subsidies and offered to cut export subsidies in individual product categories by 15-18 percent. It was not reported whether this was in return for rebalancing.

On May 21, the EC agreed to a package of measures aimed at reforming its Common Agricultural Policy (CAP). (See *IER*, September 1991.) Although this reform is considered an internal EC matter and does not address the market access or export competition issues raised in the Uruguay Round, the reform may provide a basis from which the EC can come to agreement with other Round participants over agricultural trade. Shortly thereafter, on May 27, discussions on the EC agricultural reforms and their relation to the Uruguay Round were held in Washington between the United States Trade Representative, Carla Hills, Secretaries of State and Agriculture James Baker and Edward Madigan, and the EC Commissioners for External Affairs and Agriculture Frans Andriessen and Ray MacSharry.

Table 8
Absolute number of Taiwan machine tools allowed into the United States under the 1992 U.S.-Taiwan VRA

Category	*Jan.-Jun 1992*	*Jul.-Dec 1992*	*Jan.-Jun 1993*	*Jul.-Dec. 1993*
NC Lathes	72	100	119	144
NC Milling Machines	181	181	181	181
With Controls Attached	23	23	23	23
Machining Centers	112	140	186	227

Source: U.S. Department of State.

G-7 Munich Summit

While the obstacles to an Uruguay Round agricultural agreement were not a formal part of the G-7 agenda, a flurry of bilateral talks on the issue did take place on the margins of the July 6-8 meeting. U.S. President Bush met with French President Mitterand over dinner even before the summit officially began. President Bush also held separate talks with Chancellor Kohl and President Delors. U.S. Secretary of State Baker held talks with EC Commissioner Andriessen and British Foreign Minister Douglas Hurd. Hurd is acting as EC Council President on behalf of Britain, which holds the EC Council Presidency for the second half of 1992. British Prime Minister John Major also reportedly broached with French President Mitterand the possibility of a compromise whereby the 6-year timeframe of the Dunkel text would be extended and the 24-percent reduction in export subsidies would be lessened. Despite the intense activity, no breakthrough resulted.

Some analysts viewed these discussions as hopeful. Indeed, Chancellor Kohl of Germany said that he was "not only optimistic" about a breakthrough in agriculture but that he expected to successfully conclude the Round by the end of 1992. Others were less sanguine. Following talks between President Bush and President Delors on the morning of July 7, an EC Commission spokesman reported that "No substantial progress was made. If anyone was expecting a breakthrough this morning, it did not happen." Ambassador Carla Hills said later that the Munich summit left the agriculture stalemate effectively intact. A senior U.S. official summarized this viewpoint, saying "Substantively, I don't think anything took place. I know of no detail that was settled there, no issue set in concrete."

One of the sole understandings to emerge from the summit was that few concessions that could advance the negotiations would be forthcoming from the EC, and France in particular, until after the referendum in France on the Maastrict Treaty slated for September 20, 1992 (see previous article). Nonetheless, the summit declaration did repeat previous calls to wrap up the Round by yearend.

Idling Uruguay Round Negotiations

As the U.S.-EC agriculture stalemate continued, progress in other aspects of the Uruguay Round was losing momentum. At an informal meeting on April 13 of the Trade Negotiations Committee, GATT Director-General Dunkel highlighted two major obstacles: (1) difficulty in developing market access offers based on across-the-board tariffication without agriculture, and (2) the tradeoff between initial commitment offers being made and the exemptions from MFN treatment sought by "one major participant" (namely, the United States) in the services negotiations.

Following is a review of work during 1992 in two of the negotiating groups charged with bringing the Round to fruition. A third, the legal drafting group, is continuing its review of the proposed Multilateral Trade Organization and individual agreements.

Market Access Group

The GATT Director-General had set March 31, 1992, as the deadline for submitting final line-by-line schedules of concessions and other maket access commitments for all products, as well as supporting data for agricultural offers. The chairman of the market access group had received 37 submissions by that time, and 14 further submissions were to follow. None was complete, some having only qualitative assessments on industrial goods pending further bilateral negotiations. For agriculture, 23 draft schedules of commitments were received in various states of completeness.

Nonetheless, the chairman announced that these submissions evidenced "good prospects for a substantial and broad-based package of trade liberalization results." He explained that many participants will meet and some may significantly exceed the overall 33-percent tariff reduction goal sought in the Round, due particularly to trade reform programs underway in a number of developing countries. Moreover, many developing countries had offered to bind tariffs at meaningful rates—some binding their whole tariff schedule at ceiling rates for the first time—as well as to lower or eliminate nontariff barriers.

Trade in Services Group

The aim of the group was to complete initial commitments to liberalize trade in services and to incorporate them into final commitment schedules, with an agreed list of MFN exemptions, for submission to the GATT Secretariat by March 31, 1992. By that date, the chairman of the group had received initial offers from 47 participants and 32 draft lists requesting MFN exemptions.

While these offers represented a considerable advance, the chairman pointed out that many participants had expressed concern about "the scope and nature of the intended MFN exemptions proposed by one major participant." The United States has requested derogations from applying MFN treatment to the air- and maritime-transport sectors, as well as to basic telecommunications and financial services, although U.S. negotiators have made it clear they consider derogations covering the latter two fields bargaining chips to induce other participants to make substantive offers. The EC services offer has few formal derogations, although observers find that the EC prevents unbridled competition in the services sector in other ways.

The chairman summarized that "It is clear that this situation has contributed to the lack of impetus and the standstill currently experienced. It is also clear that the lack of progress elsewhere in the Uruguay Round has also affected the environment in the services negotiations." Many developing countries, for example, consider greater market access in services

of marginal value compared to improved market access for their agricultural goods, and so await the outcome of an agricultural agreement before negotiating more actively over services.

Issues Outstanding

In their communiqué from Munich, the G-7 leaders acknowledged "the slow pace of the negotiations since we met in London last year" but went on to state that "there has been progress in recent months. Therefore we are convinced that a balanced agreement is within reach." They welcomed the EC's CAP reform as a step in the right direction and characterized the status of agricultural negotiations thus—

> Progress has been made on the issue of internal support in a way which is consistent with the reform of the common agricultural policy, on dealing with the volume of subsidized exports and on avoiding future disputes. These topics require further work. In addition, parties still have concerns in the areas of market access and trade in cereal substitutes that they should seek to address."

The G-7 leaders called yet again for a conclusion to the Uruguay Round negotiations, saying "we expect that an agreement can be reached before the end of 1992." However, notwithstanding such expectations, a principal consideration remains the approaching end of U.S. negotiating authority under "fast-track" procedures, extended once already by Congress for 2 years through May 31, 1993. (See *IER*, May 1991.) A second renewal of negotiating authority under the "fast-track" provision is considered most unlikely and U.S. negotiators deem holding talks without it an impossibility. Moreover, the U.S. administration must notify the Congress 90 days prior to entering into any trade agreement, making March 1, 1993, the effective deadline for expiration of U.S. negotiating authority. Fortunately for participants in the Round, Arthur Dunkel agreed in July to extend his tenure as GATT Director- General through June 30, 1993, beyond his previously planned exit date of yearend 1992. He has been Director-General since 1980.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1989-April 1992

(Percentage change from previous period, seasonally adjusted at annual rate)

				1991						1992				
Country	*1989*	*1990*	*1991*	*III*	*IV*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*I*	*Jan.*	*Feb.*	*Mar.*	*Apr.*
United States	2.6	1.0	-1.9	6.8	-0.7	2.2	0	-3.3	-7.5	-3.1	-8.6	7.0	4.6	6.9
Japan	6.2	4.5	2.1	1.3	-5.1	5.8	-0.9	0	-14.9	-11.7	-13.4	-5.6	-27.0	8.3
Canada	2.0	0.3	-1.1	-3.3	-2.1	-2.2	0	-1.1	-1.1	2.3	1.1	-9.3	2.2	-3.3
Germany	5.3	5.9	3.2	-4.7	-2.9	18.3	-5.7	-1.0	-13.8	4.6	11.5	22.8	-11.9	([1])
United Kingdom	0.3	-0.6	-3.0	4.2	-0.5	1.1	8.2	-5.5	-4.4	-3.7	-10.8	-13.4	-11.8	([1])
France	3.7	1.3	0.6	2.0	-1.4	-15.6	14.7	-8.1	-13.8	0.6	22.2	-9.0	-4.1	([1])
Italy	3.9	-0.6	-1.8	-9.1	-2.0	51.7	-3.1	25.6	-31.3	3.1	24.7	-9.8	-5.0	([1])

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 19, 1992.

Consumer prices, by selected countries and by specified periods, January 1989-May 1992

(Percentage change from previous period, seasonally adjusted at annual rate)

				1991						1992					
Country	*1989*	*1990*	*1991*	*III*	*IV*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*I*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*
United States	4.8	5.4	4.2	2.7	3.6	4.5	0.9	4.5	2.6	2.8	0.9	3.5	6.2	2.6	([1])
Japan	2.3	3.1	3.3	2.0	3.8	-3.9	7.7	9.0	-0.9	1.5	-1.5	1.0	8.9	-1.2	2.5
Canada	5.0	4.8	5.6	1.8	0.2	0	-2.8	2.9	0	1.6	1.0	1.9	4.8	1.9	([1])
Germany	2.8	2.7	3.5	7.6	3.4	3.3	3.3	5.5	1.1	3.0	0	6.6	6.5	1.1	([1])
United Kingdom	7.8	9.5	5.9	4.2	4.0	3.3	3.7	5.3	5.9	4.3	3.3	4.0	3.9	5.0	([1])
France	3.5	3.4	3.1	3.1	3.5	2.9	3.7	4.2	3.7	3.2	2.4	3.5	3.3	1.7	([1])
Italy	6.6	6.1	6.5	5.7	5.7	5.2	5.7	7.2	4.5	5.0	7.7	-0.5	6.6	5.5	8.6

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 19, 1992.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, January 1989-May 1992

				1991				1992					
Country	*1989*	*1990*	*1991*	*IV*	*Oct.*	*Nov.*	*Dec.*	*I*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*
United States	5.3	5.5	6.7	6.9	6.9	6.9	7.1	7.2	7.1	7.3	7.3	7.2	7.5
Japan	2.3	2.1	2.1	2.2	2.1	2.2	2.2	2.1	2.1	2.0	2.1	2.0	([5])
Canada	7.5	8.1	10.3	10.3	10.3	10.3	10.3	10.7	10.4	10.6	11.1	11.0	11.2
Germany[2]	5.7	5.2	4.4	4.4	4.6	4.4	4.4	4.4	4.4	4.4	4.4	4.5	4.6
United Kingdom	7.1	6.9	8.9	9.8	10.2	10.3	10.5	10.2	10.1	10.3	10.3	10.4	10.5
France	9.6	9.2	9.8	10.3	10.2	10.3	10.3	10.1	10.1	10.1	10.1	10.2	([5])
Italy[3]	7.8	7.0	6.9	6.9	([4])	([4])	([4])	7.0	7.0	([4])	([4])	([4])	([4])

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.

[2] Formerly West Germany.

[3] Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11-12 percent in 1989-1990.

[4] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

[5] Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, July 1992.

Money-market interest rates,[1] by selected countries and by specified periods, January 1989-June 1992

(Percentage, annual rates)

				1991				1992							
Country	*1989*	*1990*	*1991*	*IV*	*Oct.*	*Nov.*	*Dec.*	*I*	*II*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*Jun.*
United States	9.3	8.3	5.9	5.0	5.3	4.9	4.4	4.2	3.9	4.5	4.1	4.4	4.0	3.8	3.9
Japan	5.3	6.9	7.5	7.2	7.4	7.3	7.0	6.6	(2)	6.8	6.6	6.5	(2)	(2)	(2)
Canada	12.2	13.0	9.0	7.8	8.3	7.7	7.5	7.3	(2)	7.3	7.3	7.5	6.7	6.5	(2)
Germany	7.1	8.5	9.2	9.5	9.2	9.4	9.6	9.6	(2)	9.5	9.6	9.7	9.9	9.7	(2)
United Kingdom	13.9	14.8	11.5	10.6	11.5	10.5	10.8	10.5	(2)	10.6	10.4	10.8	10.5	10.0	(2)
France	9.4	10.3	9.6	9.6	10.4	9.5	10.1	9.9	(2)	9.9	9.9	10.0	9.9	9.9	(2)
Italy	12.8	12.7	12.1	12.0	11.5	11.9	12.6	12.2	(2)	12.1	12.2	12.3	12.4	12.4	(2)

1 90-day certificate of deposit.

2 Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Federal Reserve Statistical Release*, July 13, 1992 *Economic and Energy Indicators*, Central Intelligence Agency, June 19, 1992.

Effective exchange rates of the U.S. dollar, by specified periods, January 1989-June 1992

(Percentage change from previous period)

				1991			1992							
Item	*1989*	*1990*	*1991*	*IV*	*Nov.*	*Dec.*	*I*	*II*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*Jun.*
Unadjusted:														
Index[1]	91.3	86.5	85.5	84.0	83.8	82.8	84.8	85.2	83.0	84.8	86.8	86.4	85.5	83.7
Percentage change	6.4	-5.3	-1.2	-4.1	-1.7	-1.2	.8	.4	.2	2.1	2.3	-.4	-1.0	-2.1
Adjusted: Index[1]	91.8	88.1	87.0	85.6	85.4	84.4	86.7	86.9	84.6	86.4	88.6	88.2	87.3	85.4
Percentage change	6.8	-4.0	-1.2	-3.2	-1.7	-1.2	1.3	.2	.2	3.1	2.5	-.4	-1.0	-2.2

[1] 1980-82 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations.The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co.of New York, July 1992.

Trade balances, by selected countries and by specified periods, January 1989-May 1992

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1989	1990	1991	1991 IV	1991 Dec.	1992 I	1992 Jan.	1992 Feb.	1992 Mar.	1992 Apr.	1992 May
United States[1]	-109.1	-101.7	-66.2	-66.8	-71.9	-59.6	-69.6	-39.5	-67.0	-83.6	-87.6
Japan	77.6	63.7	103.1	119.6	129.6	130.4	123.6	140.4	128.4	111.6	(3)
Canada	6.0	9.4	6.4	3.2	7.2	(3)	9.6	13.2	8.4	(3)	(3)
Germany[2]	71.9	65.6	13.5	29.2	(3)	(3)	-7.2	16.8	(3)	(3)	(3)
United Kingdom	-40.4	-33.3	-17.9	-18.0	-15.6	-22.0	-25.2	-22.8	-18.0	-28.8	(3)
France	-7.0	-9.2	-5.4	1.2	-9.6	3.6	8.4	1.2	2.4	16.8	(3)
Italy	-12.9	-10.0	-12.8	-10.8	-6.0	-10.0	-8.4	-16.8	-4.8	-14.4	(3)

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

[2] Imports, c.i.f value, adjusted.

[3] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 19, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, July 17, 1992.

U.S. trade balance,[1] by major commodity categories,and by specified periods, January 1989-May 1992

(In billions of dollars)

Country	1989	1990	1991	1991 IV	1991 Dec.	1992 I	1992 Jan.	1992 Feb.	1992 Mar.	1992 Apr.	1992 May
Commodity categories:											
Agriculture	17.9	16.3	16.2	5.4	1.8	5.1	1.6	1.9	1.6	1.5	1.1
Petroleum and selected product—(unadjusted)	-44.7	-54.6	-42.3	10.0	-3.2	-8.1	-3.0	-2.2	-2.9	-3.3	-3.5
Manufactured goods	-103.2	-90.1	-67.2	-21.5	-6.2	-14.5	-5.7	-3.9	-4.9	-5.8	-5.4
Selected countries:											
Western Europe	-1.3	4.0	16.1	3.3	1.1	6.6	1.7	2.6	2.3	.6	.9
Canada[2]	-9.6	-7.7	-6.0	-2.1	-.9	-1.4	-.2	-.7	-.5	-.6	-.8
Japan	-49.0	-41.0	-43.4	-12.4	-4.4	-10.8	-3.8	-3.0	-4.0	-4.2	-3.5
OPEC (unadjusted)	-17.3	-24.3	-13.8	-2.5	-.6	-1.5	-.7	-.4	-.4	-.3	-.8
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$16.80	$19.75	$17.49	$17.52	$16.55	$14.59	$14.85	$14.42	$14.46	$15.49	$16.72

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.

[2] Beginning with 1989, figures include previously undocumented exports to Canada.

Source: Advance Report on U.S. Merchandise Trade, U.S. Department of Commerce, July 17, 1992.