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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Latest economic data show higher gains in output and productivity than previously estimated. These gains, combined with moderating labor costs, rising demand for durable goods, and growing profitability and investment, are expected to bolster growth in 1994.

The U.S. Department of Commerce reported that real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew in the fourth quarter of 1993 at an annual rate of 7.0 percent, the highest growth rate in 10 years. This rate is compared with an earlier estimate of 7.5 percent. In the third quarter, real GDP increased 2.9 percent.

More complete subsequent data show the increases in major GDP components that accounted for the increase in the fourth quarter. Real personal consumption expenditures increased by $37.3 billion, compared with an increase of $36.9 billion in the third quarter. Real spending on nonresidential fixed investment increased by $30.9 billion, following an increase of $10.5 billion in the third. Real residential fixed investment increased by $14.8 billion. Producers' durable equipment purchases posted an increase of $25.4 billion. The buildup of producers' inventory in the fourth quarter added another $2.0 billion to the fourth quarter change in real GDP.

In addition, exports grew substantially faster than imports, adding to GDP growth and resulting in a smaller trade deficit. Real exports increased by $28.1 billion, in contrast to a decrease of $1.3 billion in the previous quarter. Imports increased by $23.0 billion, compared with an earlier increase of $9.8 billion. As a result, the merchandise trade deficit declined by $1.8 billion in the fourth quarter, in contrast to an increase of $11.1 billion in the third.

Productivity, measured by output per hour of all persons engaged in production, surged in the fourth quarter of 1993 but gained moderately in 1993 overall, according to the Department of Labor. Manufacturing recorded the highest productivity gains as a result of downsizing and cost cutting. Profits rose, setting the stage for new rounds of investment spending and hiring. (For more details, see section on productivity and costs.)

Industry data show rising demand for manufactures, particularly for durable goods. New orders for manufactured goods increased in January 1994 by $5.6 billion (2.1 percent) to $272.0 billion, the sixth monthly increase in a row. New orders for durable goods increased in January by $5.2 billion (4.4 percent) to $148.8 billion, the sixth monthly increase in a row and the longest string of consecutive monthly increases since July 1987. New orders for transportation equipment grew for the fourth consecutive month, increasing by $5.0 billion (14.0 percent) to $40.7 billion, due to increased orders for aircraft and parts. Orders for electronic and other electrical equipment increased $1.4 billion (6.8 percent) to $22.1 billion, with increases in all industry categories except communications equipment. This upward trend, however, was interrupted by a 2.5-percent decline in durable goods orders in February due to the decline in aircraft sales and in defense spending. Analysts regard the February decline in durable goods orders as only temporary. Excluding transportation and defense spending, factory orders for durable goods rose a solid 5.7 percent in February, according to the U.S. Commerce Department (Commerce).

Reflecting the recent economic strength, the index of leading indicators increased by 0.3 percent in January, according to Commerce. The index increased by 0.7 percent in December and by 0.4 percent in November. Eight of eleven indicators contributed to the January increase in the index. From the largest positive contributor to the smallest, they were the index of consumer expectations, vendor performance (slower deliveries diffusion index), change in manufacturers' unfilled orders of durable goods in 1987 dollars, change in prices of sensitive materials, manufacturers' new orders for consumer goods and materials in 1987 dollars, contracts and orders for plant and equipment in 1987 dollars, stock prices, and money supply in 1987 dollars.

Two of eleven indicators made negative contributions. The larger of the two was the average of weekly initial claims for State unemployment

insurance (including claims made under the July 1992 Emergency Unemployment Compensation amendments); the smaller was the issue of building permits.

In the foreign sector, the U.S. current account recorded a higher deficit in 1993 compared to 1992. (See the section on U.S. international transactions.)

Productivity and costs

The U.S. Department of Labor revised upward its estimates of productivity changes for the fourth quarter and for the full year 1993. In the fourth quarter, productivity (measured by output per hour of all persons) increased briskly in business, nonfarm business, and manufacturing, with the strongest gains recorded in durable goods manufacturing. In the fourth quarter, unit labor costs declined in all sectors except nondurable manufacturing, partly reflecting the strong gains in productivity. The fourth quarter productivity gains were 6.9 percent in the business and 6.1 percent in the nonfarm business sectors.

In 1993 productivity gains in business averaged 1.8 percent and in nonfarm business productivity gains averaged 1.7 percent. The pace of output growth picked up in 1993, increasing more rapidly than in 1992 in business and nonbusiness sectors. Hours of labor input increased for the first time since 1990.

Manufactures productivity recorded the highest gains in 1993, reflecting output growth that was faster than in 1992. Productivity grew in manufactures by 7.2 percent in the fourth quarter and by 5.1 percent in 1993. Durable goods manufacturing recorded the highest productivity gains of 12.3 percent in the fourth quarter and of 7.5 percent in 1993 (table 1).

Despite the strong gains in productivity, hourly compensation increased at a slower annual rate of 2.9 percent during the fourth quarter of 1993, compared with a 3.9-percent increase during the third quarter. This measure includes wages and salaries, supplements, employer contributions to employee-benefit plans, and taxes. Unit labor costs, which reflect changes in hourly compensation and productivity, decreased at a 3.8-percent annual rate during the fourth quarter, compared with a 0.5-percent increase one quarter earlier. The decline in unit labor costs partly reflects the faster gains in productivity in the fourth quarter and the impact of corporate downsizing and reduced hiring. It was the first decrease in this series since the first quarter of 1988 and the largest since 1955.

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

Economic Growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew at a 7.0-percent annual rate in the fourth quarter of 1993 following a revised annual rate of 2.9 percent in the third quarter.

The annualized rate of real economic growth in the fourth quarter was 2.8 percent in the United Kingdom, 3.8 percent in Canada, -1.9 percent in Germany; the annualized growth rate in the third quarter was 2.0 percent in Japan, 0.5 percent in France, and -1.9 percent in Italy.

Industrial Production

Seasonally adjusted U.S. nominal industrial production rose by 0.4 percent in February, following a gain of 0.5 percent in January 1994. Severe weather in January and the earthquake in California constrained the growth of manufactures output in both months. For the fourth quarter as a whole, total output advanced at a seasonally adjusted annual rate of 6.7 percent. Output of mines rose by 0.8 percent. For the year ending February 1994, industrial production increased by 4.8 percent above its level in February 1993.

Total capacity utilization in manufacturing, mining, and utilities grew by 0.1 percent to 83.4 percent in February 1994, following a gain of 0.3 percent in January. Capacity utilization in manufactures increased by 0.3 percent in February. From February 1993 to February 1994, total capacity utilization increased by 2.0 percent and capacity utilization in manufacturing increased by 2.3 percent.

Other Group of Seven countries reported the following annual growth rates of industrial production. For the year ending January 1994, Japan reported a decrease of 3.1 percent, Germany an increase of 0.2 percent, and the United Kingdom an increase of 4.0 percent. For the year ending December 1993, France reported an increase of 0.1 percent, Italy an increase of 1.5 percent, and Canada an increase of 4.5 percent.

Prices

The seasonally adjusted Consumer Price Index (CPI) rose by 0.3 percent in February 1994, following

Table 1
Productivity and costs: Revised seasonally adjusted fourth-quarter 1993 rates of change
(Percent)

Sector	Productivity	Output	Hours	Hourly compen-sation	Real hourly compen-sation	Unit labor costs
	Changes from preceding quarter					
Business	6.9	9.3	2.2	2.9	-0.1	-3.8
Nonfarm business	6.1	8.6	2.3	2.8	-0.1	-3.1
Manufacturing	7.2	8.6	1.3	3.1	0.1	-3.8
Durable	12.3	14.4	1.8	3.8	0.8	-7.6
Nondurable	0.1	0.6	0.5	2.0	-0.9	1.9
	Change from same quarter a year ago					
Business	2.1	4.1	2.0	3.1	0.4	1.0
Nonfarm business	1.9	4.3	2.3	2.8	0.1	0.9
Manufacturing	5.2	5.1	-0.1	2.2	-0.5	-2.8
Durable	7.8	7.7	-0.1	1.8	-0.9	-5.5
Nondurable	1.5	1.5	0.0	2.8	0.1	1.3

Source: U.S. Department of Labor, Bureau of Labor Statistics.

no change at all in January. The CPI advanced by 2.5 percent during the 12 months ending February 1994.

During the 1-year period ending February 1994, prices increased by 3.5 percent in Germany. During the year ending January 1994, prices increased by 4.2 percent in Italy, 1.3 percent in Canada, 1.9 percent in France, 2.5 percent in the United Kingdom, and 1.2 percent in Japan.

Employment

In February 1994, the unemployment rate declined slightly, to 6.4 percent from its January level of 6.5 percent.

In other Group of Seven countries, unemployment in February 1994 was 8.2 percent in Germany, 11.1 percent in Canada, 11.2 percent in Italy, 9.8 percent in the United Kingdom, 12.2 percent in France and 2.7 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasters expect real growth in the United States to average 3.2 percent in 1994. Factors likely to restrain the recovery in 1994 to such a moderate rate of growth include the impact on output and income inflicted early in the year by the earthquake in California and the intemperate winter weather on the East Coast, the general slowdown in foreign economic growth (particularly in Japan, Germany and other European Union (EU) countries), which is expected to continue into 1994; and the ongoing cutting of costs by corporations, which is weakening employment and incomes. Although consumer spending has increased in recent months, forecasters expect consumer spending to increase at a slower rate unless personal incomes keep rising strongly enough, and employment prospects improve sufficiently to encourage more spending. Also, the upcoming tax increase and the cuts in government spending, unless counterbalanced by monetary and fiscal expansion targeting more productive sectors, could dampen consumer spending and confidence and thus further moderate the recovery in 1994. Table 2 shows macroeconomic projections for the U.S. economy for January to December 1994, by four 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 figures, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 6.5 percent in the first quarter, then a decline to 6.1 percent in the fourth quarter of 1994. Inflation (as measured by the GDP deflator) is expected to average about 2.4 percent in 1994. Productivity growth and a slow rise in labor costs, wages, and compensation are expected to hold inflation down, within the 2.4-percent rate throughout 1994.

Table 2
Projected changes of selected U.S. economic indicators, by quarters, Jan.-Dec. 1994
(Percent)

Period	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				
1994:					
Jan.-Mar.	5.3	6.0	6.1	5.0	5.5
Apr.-June	6.2	5.5	7.0	5.5	6.1
July-Sept.	5.9	5.5	5.5	5.1	5.5
Oct.-Dec	6.1	5.4	4.7	5.1	5.3
	GDP constant (1987) dollars				
1994:					
Jan.-Mar.	2.5	3.5	3.4	2.4	3.0
Apr.-June	3.8	3.2	4.0	3.4	3.6
July-Sept.	4.0	3.0	2.5	3.1	3.2
Oct.-Dec.	4.0	2.3	2.1	2.8	2.8
	GDP deflator index				
1994:					
Jan.-Mar.	2.8	2.4	2.6	2.1	2.5
Apr.-June	2.3	2.2	2.9	2.0	2.4
July-Sept	1.8	2.3	2.9	2.0	2.3
Oct.-Dec.	2.0	3.0	2.6	2.3	2.5
	Unemployment, average rate				
1994:					
Jan.-Mar.	6.4	6.6	6.6	6.5	6.5
Apr.-June	6.3	6.6	6.2	6.3	6.3
July-Sept.	6.1	6.5	6.0	6.2	6.2
Oct.-Dec	6.0	6.4	5.9	6.3	6.1

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: March 1994.

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

U.S. International transactions

Current account

Commerce reported that the U.S. current-account deficit increased to $109.2 billion in 1993 from $66.4 billion in 1992. An increase in the merchandise trade deficit and a decrease in the surplus on investment income accounted for the deficit increase. The surplus on services decreased slightly, and net unilateral transfers were slightly lower (table 3).

The merchandise trade deficit increased to $132.5 billion in 1993 from $96.1 billion in 1992. Merchandise exports increased to $456.8 billion from $440.1 billion; nonagricultural exports more than accounted for the increase. Merchandise imports increased to $589.2 billion from $536.3 billion; nonpetroleum imports accounted for the increase.

The surplus on services was slightly lower at $55.7 billion in 1993, compared with $56.4 billion in 1992. The year 1993 was the first year the surplus failed to grow in the past 7 years.

Service receipts were $186.8 billion, compared with $179.7 billion. Travel and other private services accounted for the increase. Service payments were $131.1 billion, compared with $123.3 billion in 1992. Travel, passenger fares, and other private services were higher. The surplus on investment income approached zero in 1993, compared with $6.2 billion in 1992. Receipts of income on U.S. assets abroad decreased slightly to $110.3 billion. An increase in receipts on U.S. direct investment abroad was more than offset by

Table 3
U.S. international transactions, seasonally adjusted, 1992-1993
(Billion dollars)

Item	1992	1993
(debits -, credits +)		
Current account:		
1. Exports of merchandise	440.2	456.8
2. Imports of merchandise	-536.3	-589.3
3. Balance on merchandise trade	-96.1	-132.5
4. Exports of services	179.7	186.8
5. Import of services	-123.3	-131.1
6. Balance on services trade	56.4	55.7
7 Income receipts on U.S. assets abroad	110.6	110.3
8 Income payments on foreign assets in the U.S	-104.4	-110.3
9 Balance on investment income	6.2	.7
10. Balance on merchandise, services, and income	-33.5	- 76.7
11. Unilateral transfers, net	-32.9	- 32.5
12. Balance on current account	- 66.4	-109.2
Capital account:		
13. U.S. assets abroad, net (14+15)	-51.0	-143.9
14. U.S. official assets	3.9	- 1.4
15. U.S. private assets, net (16+17+18+19)	-53.3	-142.4
16. U.S. direct investment abroad	-34.8	- 50.3
17. Foreign securities	-48.0	-125.4
18. U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	4.6	n.a.
19. U.S. claims reported by U.S. banks, not included elsewhere	25.0	34.6
20. Foreign assets in the United States (21+22)	129.6	226.4
21. Foreign official assets	40.7	71.2
22. Foreign private assets (23+24+25+26)	88.9	155.2
23. Foreign direct investment in the Unites States	2.4	31.5
24. U.S. treasury securities	36.9	24.3
25. Securities other than U.S. treasury securities	30.3	79.6
26. Other	19.3	19.8
27. Statistical discrepancy	-12.2	26.7
28. Balance on capital account (13+20+27)	66.4	109.2

Note.—Details may not add to totals because of rounding.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

decreases in other private receipts and in U.S. Government receipts.

Payments of income on foreign assets in the United States increased to $110.3 billion in 1993 from $104.4 billion in 1992. Payments of income on foreign direct investment in the United States were sharply higher, but were partly offset by a decrease in other private payments.

Net unilateral transfers were $32.5 billion in 1993, compared with $32.9 billion in 1992. Small changes occurred in all the major components.

Capital account

Net recorded capital inflows increased to $82.5 billion in 1993 from $78.6 billion in 1992. In 1993, increases in both U.S. assets abroad and foreign assets in the United States were sharply higher, boosted by unprecedented flows in securities.

U.S assets abroad

U.S. assets abroad increased by $143.9 billion in 1993, compared with an increase of $51.0 billion in 1992. The increase was mostly due to a large expansion in net U.S. purchases of foreign securities and in direct investment outflows.

Net U.S. purchases of foreign securities reached a record $125.4 billion in 1993, more than double the investment of $48.0 billion in 1992. Net purchases of foreign stocks reached $64.9 billion, compared with $30.6 billion in 1992, and net purchases of foreign bonds reached $60.5 billion, compared with $17.3 billion in 1992.

U.S. claims on foreigners reported by U.S. banks decreased by $34.6 billion in 1993, following a decrease of $24.9 billion in 1992. Economic slowdown in industrial countries and the continued withdrawal of

Japanese banks from the U.S. market were the primary reasons for the reduction in 1993.

Net capital outflows for U.S. direct investment abroad were $50.2 billion in 1993, compared with $34.8 billion in 1992. Most of the gain was attributable to the increase in reinvested earnings. Equity capital outflows increased by a small amount, and intercompany debt outflows decreased by a small amount. U.S. official reserve assets increased by $1.4 billion in 1993, compared with a decrease of $3.9 billion in 1992.

Foreign assets in the United States

Foreign assets in the United States increased by $226.4 billion in 1993, compared with an increase of $129.6 billion in 1992. The rise was mostly due to a large increase in foreign net purchases of U.S. securities, by both private and official foreigners.

Net foreign purchases of U.S. securities other than U.S. Treasury securities more than doubled to an unprecedented $79.6 billion in 1993, up from $30.3 billion in 1992. Net foreign purchases of U.S. stocks were a record $18.2 billion, in contrast to net sales of $4.4 billion. Net foreign purchases of bonds were a record $61.4 billion, up from $34.6 billion. Net foreign purchases of U.S. Treasury securities were $24.3 billion in 1993, compared with $36.9 billion in 1992.

U.S. liabilities to foreigners reported by U.S. banks, excluding U.S. Treasury securities, increased by $12.2 billion in 1993, compared with an $18.6 billion increase in 1992. In 1993, U.S. bank demand for foreign funds was subdued.

Net capital inflows for foreign direct investment in the United States were $31.5 billion in 1993, compared with $2.4 billion in 1992. The gain was mostly attributable to an unusually large shift to intercompany debt inflows from outflows. In addition, reinvested earnings were less negative than a year earlier, and equity capital inflows were slightly less than those a year earlier.

Foreign official assets in the United States increased by $71.2 billion in 1993, compared with an increase of $40.7 billion in 1992. Assets of both industrial and developing countries increased strongly in 1993.

U.S. TRADE DEVELOPMENTS

Commerce provided trade data that include new monthly estimates of trade in services along with data on trade in goods. Total import and export values of goods are presented on a balance of payments (BOP) basis. Services trade estimates are not available on a balance of payments basis, however.

Commerce data show that U.S. exports of goods and services totaling $54.5 billion in January 1994, and imports totaling $60.8 billion resulted in a goods and services trade deficit of $6.3 billion, $2.2 billion more than the December deficit of $4.1 billion. The January 1994 deficit was 53.7 percent higher than the deficit registered in January 1993 ($4.1 billion) and slightly lower than the average monthly deficit registered during the previous 12 months ($6.4 billion).

The deficit on goods increased by 26.4 percent in January to $11 billion from $8.7 billion in December, and the surplus on services increased to $4.7 billion from $4.6 billion. Seasonally adjusted U.S. total trade in goods and services in billions of dollars as reported by Commerce is shown in table 4.

Exports of manufactured goods declined to $29.7 billion in January 1994, from $32.4 billion in December, and were $0.7 billion less than the $30.4 billion January to December 1993 monthly average. Imports of manufactured goods rose to $41.1 billion from $38.9 billion in December and were $1.1 billion less than the $40 billion January to December 1993 monthly average.

Exports decreased in several major commodity sectors: data processing equipment and office machinery ($650 million), general industrial machinery ($137 million), power-generating machinery ($118 million), vehicle parts ($188 million). Exports of electrical machinery increased by $220 million. Agricultural commodities exports declined to $3.7 billion in January from $4 billion in December.

Table 4
U.S. International trade in goods and services, seasonally adjusted, Dec. 1993-Jan. 1994

(Billion dollars)

	Exports		Imports		Trade balance	
	Jan. 94	Dec. 93	Jan. 94	Dec. 93	Jan. 94	Dec. 93
Trade in goods:[1]						
Current dollars—						
Including oil	38.7	41.5	49.8	50.2	-11.0	-8.7
Excluding oil	38.9	41.5	46.3	46.3	-7.3	-4.8
1987 dollars	38.1	40.8	49.0	49.0	-10.9	- 8.2
3-month-moving average	39.9	40.1	50.3	51.0	-10.4	-10.9
Advanced-technology (not seasonally adjusted)	9.6	10.9	6.7	7.8	3.0	3.0
Services trade:[2]						
Current dollars	15.7	15.8	11.0	11.2	4.7	4.6
3-month moving average	15.6	15.6	11.2	11.3	4.4	4.2

[1] Data presented on a balance of payments basis which reflects adjustments for timing, coverage, and valuation of the data compiled by the Census Bureau. The major adjustments are to exclude military trade, and include additional nonmonetary gold transactions and estimates of inland freight in Canada and Mexico not included in the Census trade data.

[2] Data not available on a BOP basis.

Source: *U.S. Department of Commerce News (FT 900)*, Mar. 1994.

Trade in services recorded surpluses in travel, passenger fares, and other private services. Other private services consisted of transactions with affiliated and nonaffiliated foreigners in such areas as education, financial services, insurance, business and technical services, computers and data processing, research and development, and consulting. Services trade by major category is shown in table 5.

U.S. bilateral trade balances show surpluses in billions of dollars with Mexico ($0.3), Argentina ($0.2), Western Europe ($0.2) and Korea ($.02). Deficits were recorded with Japan (-$4.6), China (-$2.2), Canada (-$1.1) and the Organization of Petroleum Exporting States (OPEC) (-$0.3).

Table 5
U.S. trade in services by major categories, Jan. 1993-Jan. 1994

(Billion dollars)

	Jan.- Dec. 93		Jan. 94	
	Exports	Imports	Exports	Imports
Travel	56.5	42.3	4.9	3.5
Passenger fares	17.8	11.3	1.6	0.9
Other transportation	23.5	24.5	2.0	2.0
Royalties and license fees	20.4	4.7	1.7	0.4
Other private services	56.4	33.6	4.7	3.0
Transfers under U.S. military sales	11.3	12.3	0.8	1.0
U.S. Govt. miscellaneous services	0.8	2.4	0.1	0.2
Total	186.8	131.1	15.7	11.0

Note.—Services trade data are not available on balance of payments (BOP) basis. Details may not equal totals due to seasonal adjustment and rounding.

Source: *U.S. Department of Commerce News (FT900)*, Mar.1994.

INTERNATIONAL TRADE DEVELOPMENTS

Mexico Joins NAFTA With a Sluggish Economy

When Mexico began considering a free-trade accord with the United States in the summer of 1990, its economy was in a position of relative strength. However, by the time Mexico formally joined the United States and Canada in the North American Free-Trade Agreement (NAFTA) on January 1, 1994, the Mexican economy had lost some of its luster.

Following an impressive performance in 1989-91, Mexican real economic growth slowed from 4.4 percent in 1990 to 3.6 percent in 1991 and 2.6 percent in 1992, and came to a virtual halt at an estimated 0.9-percent growth rate in 1993. This rate amounted to a 1.1-percent annual decline of the country's real per capita GDP. Although as a developing country Mexico has a growth potential greater than its highly industrialized NAFTA partners, its 1993 growth rate was significantly less than the comparable figures of 2.9 percent for the United States and 3.0 percent for Canada.

In the third quarter of 1993, with an annualized decline of 1.2 percent, Mexico registered its worst economic performance since 1986. This quarterly contraction disappointed many who had hoped that the slowdown had bottomed out in the first half of the year, when a modest 1.3-percent gain was registered. Agriculture employs 22 percent of the Mexican working population, but agricultural output contracted by 1.2 percent in the first 9 months of 1993. Manufacturing, which generates 11 percent of Mexican jobs, contracted by 1.5 percent. Performance of the services sector was less lackluster than that of the industrial sectors, registering 1.4-percent overall growth, driven by financial services, which expanded 5.1 percent, and construction services. The latter, fueled by petroleum, petrochemicals, electricity and communications projects, grew by 3 percent during the first 9 months of 1993.

The Salinas administration began to address the problem of economic stagnation in October by introducing various economic stimuli (see *IER*, Dec. 1993). These included measures boosting consumption through wage increases and tax reductions, and benefiting business through corporate tax relief and price controls for selected public service inputs. The October package also included direct aid to farmers. The farm aid program and wage increases were aimed at assisting the poorest segment of Mexican society.

The Salinas Government also responded to public pressure by allowing the country's high interest rates to decline. Nominal interest rates (as measured by the 28-day Treasury bill rate) dropped from 17.99 percent in March 1993 to 12.49 percent in early December. Keeping interest rates high had been a key factor behind the Salinas administration's impressive accomplishment of bringing Mexico's annual rate of inflation (as measured by the consumer price index) down from 52 percent in December 1988, to single-digit levels in 1993. In June 1993, the rise of consumer prices dipped below 10 percent for the first time (see *IER*, Dec. 1993) and it has remained in the single digits ever since. For 1993 as a whole, Mexican inflation was estimated at 8.2 percent.

The Salinas war on inflation required strict fiscal discipline. Mexico's large annual budget deficits were turned into a surplus in 1992, and the budget attained an accumulated surplus of 13.3 billion new pesos (some 4.3 billion dollars) by the end of September 1993. Despite their success, the Salinas administration's frugal fiscal and interest rate policies were widely blamed for the virtual halt of Mexican economic growth. To reactivate the economy, the Salinas administration began to spend pesos from the accumulated budget surplus during the fourth quarter of the year, and it promised to continue in 1994.

The economic slowdown in Mexico had other causes too, besides fiscal and monetary austerity. Heightened international competition had also taken its toll in painful structural adjustments. Small- and medium-size Mexican manufacturing industries—such as toys, textiles, furniture, and electrical products—manifestly suffered from the effects of new import competition. The contraction of Mexican agriculture was an unintended effect of the profound January 1992 reforms that changed the longstanding Mexican system of land tenure (see *IER*, June 1992). Prolonged uncertainties about NAFTA's prospects and

sluggish global economic performance also handicapped Mexico's economic performance in 1993.

The NAFTA's entry into force on January 1, 1994, is expected to stimulate the economy through new export opportunities and increased foreign investment. MACROASESORIA, a leading Mexican economic research organization, announced last December that the economy had hit bottom in 1993 and predicted that it would see a recovery (3.5-percent growth) in 1994 as a result of resurgent private-sector investment and improved export performance. This group also predicted that inflation in Mexico will remain under control, despite the new fiscal stimuli applied by the Salinas administration.

To be sure, these predictions were made before the March 23 assassination of Luis Donaldo Colosio, the Presidential candidate of the leading political party, and the March 29 selection of Ernesto Zedillo as the party's new presidential candidate. Despite the selection of a candidate who seems likely to continue the economic policies of the Salinas administration, as March ended economic forecasters were projecting growth in Mexico ranging between 0.3 percent and 0.6 percent for the first quarter of 1994, down significantly from previous projections of about 1 percent.

Economic Reform and Integration in Latin America: A Conference

The eventual creation of a Western Hemisphere free-trade area is now the foremost issue in U.S. economic relations with Latin American and Caribbean countries. The emergence in Latin America of democratically elected leaders committed to free-market economic policies has encouraged the growth of a network of regional free-trade agreements. To further encourage these trends, the Clinton administration recently announced that the United States will host a summit meeting of the hemisphere's democratic leaders in Miami, FL, in December 1994. The summit is to focus on ways to promote greater economic integration and the consolidation of democracy in Latin America. It will mark the first meeting of the hemisphere's democratic leaders since the 1967 summit in Punta del Este, Uruguay, attended by President Johnson.

Anticipation of the summit formed the backdrop for the 1994 Hemispheric Policy Forum, convened March 2-4, 1994 under the rubric "Reform and Integration: The Challenge for a New Generation." The forum was sponsored by the Institute of the Americas, an independent, inter-American institution on the campus of the University of California, San Diego, CA.

Discussions at the forum addressed four broad themes—democracy and governance, growth with equity (i.e., income equality), recent macroeconomic performance, and regional economic integration. Edgardo Boeninger, Minister of the Presidency under former Chilean President Aylwin, opened the forum with an overview of two "megatrends" evident now in Latin America—movement, sometimes not exactly linear, towards democratic political systems and a drive toward predominately private-enterprise market economies integrated with and open to the global economy. Summaries of the key points made at the forum follow.

Governance.—A shift to reform-minded democratic government has been a key factor behind Latin America's post-1990 economic recovery. The consolidation of democracy is evident by the number of Presidential elections scheduled during 1994-1995. New presidents were inaugurated earlier this year in Venezuela and Chile. Countries with Presidential elections scheduled during 1994 include Colombia, Dominican Republic, El Salvador, Panama, Mexico, Brazil, and Uruguay. Argentina and Peru are to elect Presidents in 1995. A few countries have experienced setbacks to democratic rule or sudden leadership changes. Peruvian President Alberto Fujimori suspended constitutional rule between April 1992 and November 1993. Guatemalan President Serrano unsuccessfully also attempted to suspend constitutional rule in 1993. Brazilian President Fernando Collor was removed from office on corruption charges in 1992. Venezuelan President Carlos Andrés Pérez, who successfully put down two coup attempts in 1992, was removed from office in June 1993 on corruption charges.

Chilean President Eduardo Frei, in a presentation read on his behalf at the forum, said that good governance—i.e., "clean," efficient and streamlined government, not just democratically elected leaders—must precede the consolidation of economic reforms and the creation of a stable business and investment environment. The need to strengthen both legislative bodies and political parties in most Latin American countries was a key theme in Edgardo Boeninger's presentation. World Bank economist Sebastian Edwards outlined the further work needed in many Latin American countries to set up modern regulatory and supervisory frameworks. Abraham F. Lowenthal, director, University of Southern California Center for International Studies, discussed how hard some countries find it to balance the need to streamline government with the need to strengthen government administrative, management, and delivery services. Antonio Aranfbar Quiroga, Bolivia's Minister of

Foreign Relations, and Jorge Camet Dickman, Peru's Economy Minister, reported on their countries' efforts to improve governance in ways to reinforce market-oriented economic reforms. Former Brazilian finance minister Marcilio Marques Moreira highlighted the steps his country has taken to pare back bureaucracy by merger of ministries and privatization of government-owned entities.

Income equality.—Despite Latin America's generally improved political and economic climate of the 1990s, few countries have succeeded in narrowing the gap between rich and poor. According to economic data presented by Sebastian Edwards, poverty (percent of population earning less than $60 per month) and extreme poverty (percent of population earning less than $30 per month) increased between 1980 and 1989 in Argentina, Bolivia, Brazil, Guyana, Honduras, Mexico, Panama, Peru, and Venezuela. Conditions improved marginally in Colombia, Costa Rica, and Paraguay.

Forum speaker Nora Lustig, Brookings Institution senior fellow, maintained that sustainable economic growth is necessary, but not sufficient, for greater income equality. Edgardo Boeninger surmised that the persistence of income inequality in most Latin American countries may explain the growing distrust of free-market economic principles evident in some countries. Stephan Haggard, of the University of California, San Diego, and Abraham Lowenthal agreed that the persistence of poverty may be an underlying cause for the backlash against economic reforms in some countries. Imbalances within a country on a regional basis—both in terms of income distribution and in the provision of social services—also may be sources of social unrest. By way of example, several forum participants speculated that regional imbalances and localized poverty may be primary causes of the January 1994 Zapatista uprising in Chiapas, one of the poorest States in Mexico.

Abraham Lowenthal was one of several speakers who outlined the origins of the "downward mobility" of Latin America's middle and working classes. These groups suffered the brunt of Latin America's economic crises during the 1980s and suffered significant deteriorations in their living conditions. Nancy Birdsall, executive vice president, Inter-American Development Bank, cited data on educational spending patterns in Latin America. Data showed a disproportionately low level of funding of primary education that should benefit large numbers of people and overgenerous funding of higher education that benefits relatively fewer. She suggested that such educational spending patterns contribute to the decline of competitive job skills. Sebastian Edwards underscored the importance of continuous improvements in labor skills for Latin American countries to remain globally competitive.

Recent macroeconomic performance.—Overall economic growth trends in Latin America have improved since 1990. The region as a whole experienced 3.3-percent real economic growth between 1990 and 1992, versus just 1.0-percent growth during the 1980s. Nevertheless, current growth remains far below the 5.8-percent regional growth rate achieved during the 1970s. Moreover, only a few countries—notably Chile, Mexico, and Argentina—have achieved sustainable low-inflation economic growth. Others have experienced only marginal or transitory improvements in macroeconomic performance. Brazil, Latin America's largest economy, has been least successful in stabilizing its economy and curbing inflation.

Sebastian Edwards noted the encouraging sign of an increased flow of voluntary capital into many countries in the region after net capital outflows between 1982 and 1989. However, he offered three reasons why this trend may not last. First, a significant part of the inflow is flight capital originally taken out of Latin America during the 1980s; such capital could be quickly withdrawn from Latin America at the first sign that reforms may be failing. Second, the current volume of capital inflows may not be sustainable in the long run because global capital flows are highly interest-rate sensitive and eventually will shift to other markets as global interest rates rise. Third, a significant part of the inflow represents portfolio investment that will stop once international investors acquire their desired share of Latin American securities. Mark L. Schneider, Latin America and Caribbean assistant administrator at U.S. Agency for International Development, noted the persistence of relatively high levels of foreign debt facing most Latin American countries. Although the ratio of foreign debt interest payments to country exports has fallen sharply, from 29.9 percent in 1989 to 17.2 percent in 1992, the stock of debt remains at a record high, in excess of $446 billion for Latin America as a whole.[1] Myles Frechette of the U.S. State Department cited inflation as a lingering threat to full economic recovery in many Latin American countries. Sluggish economic growth or growth of questionable sustainability in Latin America's main export markets—the United States, Europe, and Japan—also may indicate additional difficulties for Latin American economic recovery.

[1] Inter-American Development Bank, *Economic and Social Progress in Latin America: 1993 Report* (Washington, DC: The Johns Hopkins University Press, 1993).

Like several others, Sebastian Edwards expressed his concern that unless Latin America's market-oriented economic reforms generate demonstrable and more broadly felt results, reforms may not take root solidly and possibly could be reversed. Recent events in Venezuela may support this view. Venezuelan President Rafael Caldera, railing against "usury and speculation," declared a state of economic emergency in February 1994 to combat recession and deteriorating social conditions. The ongoing state of emergency suspends congressional authority, reverses some recently implemented economic reforms, and grants the Venezuelan President wide discretionary powers to intervene in the economy.

Economic integration.—Central to the economic reforms underway throughout Latin America is increased attention to regional economic cooperation and a proliferation of subregional trade agreements (see *IER*, January 1994). One unresolved issue is how these regional trade blocs will eventually be linked to the United States and the enlarged market created by the North American Free-Trade Agreement (NAFTA). The United States and Canada currently have no other free-trade agreements (FTAs) within the hemisphere, although both countries have preferential trade regimes for certain countries in the region. Mexico, however, has several FTAs linking it to other countries in the hemisphere.

Section 108 of the NAFTA implementing legislation directs the United States Trade Representative, by May 1, 1994 and May 1, 1997, to submit a report to the President and the Congress, listing foreign countries that give fair market access to U.S. exports, that have made significant progress in opening their markets, and that show the greatest potential for increased U.S. trade. The President then is directed to make proposals for free-trade negotiations by July 1, 1994, and July 1, 1997. Such FTAs could be negotiated bilaterally by the United States or with all three NAFTA partners under the NAFTA accession clause (article 2205).

Forum participants broadly agreed that economic integration among Latin American countries is especially important because individual country markets are small. They also generally agreed that free-trade agreements, if properly negotiated, can reinforce democracy and market-oriented economic reforms in Latin America. Bolivian Minister Antonio Aranîbar Quiroga spoke of how important it is that hemispheric free-trade agreements allow transition periods to facilitate the integration of less developed economies.

Discussions among forum participants, however, uncovered a wide range of attitudes towards subregional and hemispheric free-trade agreements. Moisés Naím, senior associate at the Carnegie Endowment and former Venezuelan minister, warned that subregional free-trade agreements could become stumbling blocks—rather than building blocks—to hemispheric free trade if subregional trade bloc members resisted opening their regional market to competition from the larger economies such as those of Mexico or the United States. In contrast, Myles Frechette emphasized that outward-oriented subregional trade blocs are compatible with progress toward hemispheric free trade. A few Latin American participants were concerned that their countries not be made to pay "NAFTA-like entry fees" such as the environmental and labor supplemental agreements, as the price for free-trade agreements with the United States.

Tariffication or Duty Free?

With passage of the North American Free Trade Agreement (NAFTA) by the United States, Canada, and Mexico, and with the completion of the drawn-out Uruguay Round (UR) agreements in the General Agreement on Tariffs and Trade (GATT) by yearend 1993, many observers hoped for a lessening of tension among major trading partners. As the final details of the agreements take shape and ramifications for specific action become clearer, it appears that differences in understanding are developing.

The difference of opinion centers on the goal of zero tariffs enshrined in the CFTA/NAFTA and the conversion of existing nontariff barriers to tariffs as part of the recently concluded UR/GATT agreements. Canada asserts that GATT tariffication holds precedence over NAFTA free trade. The United States disagrees.

Two major UR agreements cover subsidies and countervailing measures on the one hand, and agriculture on the other. The subsidies agreement sets out three categories of subsidies and remedies—prohibited subsidies, permissible subsidies that are countervailable, and permissible subsidies that are noncountervailable. Export subsidies on industrial goods fall under the class of prohibited subsidies.

The agreement on agriculture, however, includes commitments in the area of export subsidies on agricultural products. (A series of "peace" provisions allows for a 9-year period within which certain trade remedy actions that would be allowable under the subsidies agreement will not be applied to export subsidies maintained in conformity with the commitments included in the package on agriculture.) The agriculture agreement contains elements that allow for reductions in export subsidies within specific numeric requirements (21-percent reduction in the allowable quantity of product exported with subsidy,

and 36-percent reduction in the allowable budgetary outlays for export subsidies.) The market access portion of the agriculture package provides for the simultaneous conversion and reduction of certain nontariff barriers (for example quotas, variable levies, restrictive licenses, etc.) into tariffs, a process known as "tariffication." In addition, the goal is a 36-percent reduction in ordinary rates of duty, including the rates established by the tariffication procedure, as specified in the market-access schedules of concessions concerning agriculture.

The practical effect of these measures is that countries that presently impose certain nontariff barriers will have to convert such measures into tariff equivalents and then reduce them in six equal installments, tentatively scheduled to begin in 1995.

The UR commitments would mean that the United States will have to diminish its own export-subsidy program, including the Export Enhancement Program (EEP).[2] Section 22 measures, designed to support programs that stabilize U.S. domestic agricultural prices, also would have to be replaced by tariffs and then reduced. Similarly, Canada and other countries with supply management systems for agricultural products would have to replace such systems with tariffs and then reduce them in accordance with the schedule contained in the UR agreements. Thus, Canadian peanuts, sugar, cotton products and dairy products would be directly impacted.

In January, Canada announced the new tariff rates for certain agricultural products that will go into effect on July 1, 1995, as a result of tariffication. Even after the 6-year reduction, such Canadian duties would equal 299 percent for imported butter, 241 percent for eggs, 245 percent for cheese, and 155 percent for turkey.

The U.S. reaction to the Canadian announcement was to point out that all duties between the two countries were to be eliminated by 1998, according to the terms of CFTA now incorporated into NAFTA. Canada maintains that the GATT UR agreement takes precedence over both CFTA and NAFTA.

The question of the precedence of one accord over another is nothing new to international legal practice. However, usually the method to resolve such matters is spelled out in the rules for dispute settlement as part of each individual international agreement.

The NAFTA text recognizes the possibility of overlap between agreements. Article 103 states that "[i]n the event of any inconsistency between this Agreement and such other agreements, this Agreement shall prevail to the extent of the inconsistency, except as otherwise provided in this Agreement." Concerning agricultural measures, article 704 recognizes that "domestic support reduction commitments may result from agricultural multilateral negotiations under the GATT." While this article acknowledges that a signatory may change domestic support measures at its discretion, the article makes no specific mention of the tariffication that may accompany domestic support reduction commitments in the UR. NAFTA Art. 2004 provides recourse to NAFTA dispute settlement procedures for disputes regarding interpretation or application of the NAFTA, or "whenever a Party considers than an actual or proposed measure of another Party is or would be inconsistent with the obligations of this agreement." NAFTA Art. 2005 states that disputes involving matters covered by both the NAFTA and the GATT (except those pertaining to international environmental agreements, sanitary and phytosanitary matters, and standards-related measures) may be settled in either forum at the sole discretion of the complaining party.

Article XXIV of GATT allows Contracting Parties to enter into regional arrangements that liberalize economic measures among members of the union. Implicitly such arrangements will call for liberalization over and above that required in the GATT. The major GATT requirement of the article is that whatever barriers continue to exist for nonparticipants in the arrangement may be no greater than those that existed prior to the formation of the arrangement. In other words, a new regional trade arrangement may not erect greater trade barriers than those in place before. When a newly formed arrangement is submitted to the GATT, a working party is formed to assess the conformity of the arrangement with existing GATT rules.

Currently it is unclear how the differences in interpretation of the CFTA/NAFTA duty elimination requirements and the UR tariffication procedures will be resolved. Both the United States and Canada are actively discussing a package of agricultural issues, and exploration of the legal ramifications of this difference in interpretation continues. It appears doubtful that Canada and the United States will completely open their agricultural markets to one another by 1998.

[2] The EEP is a U.S. Department of Agriculture program, designed to increase U.S. competitiveness in world agricultural markets and to counter unfair foreign practices that interfere with U.S. price support programs. Under EEP, certain products are sold at reduced prices in specific markets.

SPECIAL FOCUS

U.S.-Japan Relations After the Summit

The recent hiatus in U.S.-Japan trade negotiations has provoked yet another round of debate regarding the current U.S. approach towards Japan. The Framework talks, initiated last July, represented a shift in U.S. policy from an emphasis on changes in rules and procedures to a results-oriented policy. This article provides a review of the Framework talks and of developments following the cessation of talks on February 11, 1994.

Background

After several weeks of intensive discussions, on July 9, 1993 the United States and Japan reached agreement on a framework for a "new economic partnership". (*IER*, Sept. 1993) The "Framework Agreement" provided a mechanism for conducting future negotiations on both structural and sectoral issues to "substantially increase access and sales of competitive foreign goods and services through market-opening and macroeconomic measures." In terms of macroeconomic issues, Japan agreed to take measures to promote domestic demand-led growth and to increase access to its markets for competitive foreign goods and services. These measures were "intended to achieve over the medium term a highly significant decrease in its current account surplus. . ." This clause became an immediate source of bilateral dispute. U.S. officials interpreted the clause to mean that Japan would reduce its global trade surplus to 1.5 to 2.0 percent of GDP. Japanese officials disagreed, saying that no numerical target was set.

Regarding sectoral and structural issues, the five initial major "basket" areas for negotiation included government procurement, regulatory reform and competitiveness, other major sectors, economic harmonization, and implementation of existing arrangements and measures.[3] A final section of the framework agreement called for collaboration on global issues of mutual interest, such as environment, technology and human resources development, population growth, and AIDs.

According to the framework accord, agreements were to be reached in priority areas by the time of the first meeting of heads of government in 1994 (later scheduled for mid-February) or within 6 months of the agreement. The four priority sectors selected for negotiations were automotive industries, insurance and, in the area of government procurement, telecommunications and medical equipment. For other areas, "agreements on measures" were to be announced at the second meeting of heads of governments in July 1994. An assessment of progress under the framework agreement was to be reported during biannual meetings between the leaders of the two countries. The assessments were to be "based upon sets of objective criteria, either qualitative or quantitative, or both as appropriate."

Beginning in September 1993, negotiations were held in all five basket categories. Differences in views between the two countries quickly emerged on several issues, including over the reason for holding the negotiations. The United States stressed that the basis for its proposals in each negotiating basket was to address certain asymmetries that, in the Administration's view, were represented by its persistent, high current account surplus; low level of manufactured imports; low levels of inward foreign direct investment; and higher domestic prices on average, compared with that of other developed countries.[4] During the negotiations, U.S. negotiators frequently cited high market share statistics for U.S. products in third countries and low market shares for comparable U.S. products in Japan to support U.S. claims that its firms are competitive worldwide but unable to sell in Japan. The Japanese disputed such statistics regarding Japan's purchasing record of foreign products and indicated that third country market shares were not a valid measure of the openness or closedness of a country's economy.[5]

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[3] The first area focused on "significantly expanding Japanese government procurement" of computers, supercomputers, satellites, medical technology and telecommunications. In the area of regulatory reform, measures were to be taken to address laws, regulations and guidance that impede market access to imported foods and services. Financial services, insurance, competition policy, transparent procedures and distribution were the subject of negotiations under this basket category. Autos and parts were to be the subject of discussions under the "other major sector" category, with the aim of "achieving significantly expanded sales opportunities to result in a significant expansion of purchases of foreign parts by Japanese firms in Japan and through their transplants." Economic harmonization was to address issues affecting foreign direct investment in the United States and Japan,

[3]—*Continued*
such as intellectual property rights, access to technology and long-term, buyer-supplier relationships. Finally, under the fifth basket category, all existing bilateral arrangements and commitments made under SII were to be "closely monitored and fully implemented."

[4] Charlene Barshefsky, "Status of U.S.-Japan Framework Talks," address before the Japan Information Access Project, National Press Club, Dec. 16, 1993, Federal Information Systems Corporation, LEGI-SLATE, Dec. 20, 1993.

[5] As of March 10, neither country's views had changed much. These same arguments were stated by government officials from the United States and Japan at a conference on U.S. trade policy. See remarks by White House Economic Advisor Bowman Cutter and Japanese Ambassador to the U.S. Takakazu Kuriyama to

A main source of dispute between the two countries for many sectors was the type of criteria that was to be included in the agreements for measuring progress in increasing market access. U.S. officials indicated that they favored some type of numerical targets or market shares as one type of indicator of progress in securing market access, but stressed that they were willing to consider numerous indicators, tailored for each the sector.[6] The Japanese opposed the use of market shares or sales figures, citing the semiconductor agreement as an example of how such numbers tend to take on a "life of their own" once they are incorporated in agreements. Finally, Japanese negotiators claimed that the talks were reciprocal, that is that they could make requests of the United States, while the United States stressed that they were not. U.S. negotiators also indicated that if the negotiations did not make requisite progress, it reserved the right to use other approaches under U.S. trade law, including Section 301 of the Trade Act of 1974.

At yearend, the two countries remained "very far apart" in the negotiations. Progress in reaching agreements was characterized as "disappointing" by U.S. negotiators, particularly in insurance, autos and parts and government procurement.[7] In late December, U.S. officials found it necessary to counter charges by Japan that the United States' insistence on quantitative indicators represented a broader move toward managed trade. At the same time, they insisted that there had been no softening of the U.S. resolve to incorporate quantitative and qualitative indicators into agreements with Japan.[8] Despite the slow pace of negotiations, U.S. negotiators indicated that texts of agreements had been tabled for some areas and that they hoped agreements could be finalized by February 11, 1994, the date scheduled for a summit meeting between President Clinton and Prime Minister Hosokawa.

Recent Developments

By mid-January, it became more apparent that no agreement would be reached by the February summit in the four priority sectors of the framework talks. White House Economic Advisor Bowman Cutter met with Deputy Foreign Minister Koichiro Matsuura on January 24 and 25, hoping to break the deadlock in the negotiations, but they failed to narrow their differences. One week before the summit, U.S. Trade Representative Kantor met with Foreign Minister Hata, MITI Minister Kumagai, Minister of Finance Fujii and Prime Minister Hosokawa in Tokyo without success. In a final effort to salvage the talks, Foreign Minister Tsutomu Hata, serving in the role of Deputy Prime Minister, flew to Washington to meet with USTR Kantor and other high-level U.S. officials, beginning in the morning of February 10 and lasting until the early hours of February 11. Once again, negotiators failed to bridge the gap between the two countries' divergent views but the final word on how to proceed was left up to the leaders of each country.[9]

On February 11, 1994, President Clinton and Prime Minister Hosokawa held a news conference at the White House to announce that the two countries had failed to reach agreement under any of the four priority areas under the U.S.-Japan Framework Agreement talks. President Clinton noted that Japan's offers had not met the standards agreed to in July at the beginning of the talks, namely with regard to the inclusion of "objective criteria that would result in tangible progress." He indicated that "it is better to have reached no agreement than to have reached an empty agreement" and that if Japan had other proposals to offer, the United States was ready to listen to them.[10]

Prime Minister Hosokawa said that the two countries' views on objective criteria and numerical targets "did not converge." Prime Minister Hosokawa referred to his proposed economic stimulus package and his support for deregulating Japan's economy as signs that Japan was taking steps in the direction of meeting U.S. demands.[11] Both leaders stressed that they had confidence that the political and security dimensions of the bilateral relationship would not be adversely affected by the failure to come to agreement under the framework talks.[12]

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[5]—*Continued*
the Economic Strategy Institute/Pacific Basin Council Conference, March 10, 1994, LEGI-SLATE, Federal Information System Corp.

[6] Joan Spero, Undersecretary of State for Economic and Agricultural Affairs "U.S.-Japan Framework Talks," briefing, USIA Foreign Press Center Briefing, LEGI-SLATE, Dec. 21, 1993.

[7] Press Conference with U.S. Trade Representative Mickey Kantor," Washington, D.C., LEGI-SLATE, Jan. 12, 1994; and "U.S., Japan 'Far Apart' in Trade Talks," *The Wall Street Journal*, Jan. 3, 1994, p. 3.

[8] Joan Spero, Foreign Press Center, Dec. 21, 1993 and "U.S. Trade Policy in 1993 and Prospects for 1994," Briefing by Bowman Cutter, Deputy Assistant to the President for Economic Policy, Foreign Press Center, LEGI-SLATE, Dec. 23, 1993.

[9] "Susan MacKnight, "Abandoning the Negotiating Script: The Framework Talks," *Japan Economic Institute Report*, Feb. 18, 1994, pp. 12 and 13.

[10] President Bill Clinton and Prime Minister Hosokawa, press conference, The White House, Feb. 11, 1994, LEGI-SLATE.

[11] Ibid

[12] In fact, consultations regarding the North Korean nuclear issue had occurred during the week before the summit. President Clinton referred to the two countries' close cooperation in pursuing their nonproliferation interests at the beginning of his statement.

Reaction in the United States

Reactions around the world to the breakdown in talks was swift. In the United States, on the one hand, there was criticism of the Administration's pursuit of numerical targets during the negotiations. Some observers feared that the fallout could be increased distrust, uncertainty and anxiety which could escalate into a blow-for-blow economic sanctions war with Japan. This speculation was further fueled following USTR Kantor's announcement on February 15 of a section 1377 finding with regard to cellular telephones, even though negotiations in this area were unrelated to the framework accord and USTR's intentions had been announced a month before (see discussion below).

On the other hand, 110 economists, businessmen and academics signed a letter to the President prior to the summit supporting his results-oriented approach to negotiations with Japan.[13] The letter indicated that long-term access to Japan's market would occur "only through innovative mechanisms toward results that can be measured in a number of ways, other than market share arrangements." Many observers, including some Congressmen, urged President Clinton to keep up the pressure on Japan to obtain results, noting that past approaches which focused on changing procedures or rules had been relatively ineffective. In explaining their negotiating strategy during Congressional hearings, several high-level officials noted that the U.S. business community agreed with the Administration's position and that the United States was negotiating for market-opening on an MFN basis, not for unilateral market shares.

Several economists argued that the basis for the Administration's strategy was flawed in assuming that trade balances are an appropriate measure of trade barriers. They pointed out that Japan's trade surplus is inevitable as long as its savings and investment are higher than consumption, while the U.S. trade deficit should be expected given the relatively low per capita savings rate in the United States. Removing barriers in Japan is thus unlikely to have a major impact on Japan's trade surplus.[14]

One observer noted that the failure to reach agreement was a "historical tragedy" because the United States, in an unprecedented decision, refused to accept what it viewed as an inadequate agreement just when the most reform-minded leader in Japan's post-war history had come to power.[15] Others speculated that the two leaders had more to gain from their domestic political constituencies in standing up to their counterpart than they could get by yielding to them for the sake of maintaining bilateral relations.

Following the President's announcement several proposals were put forth with regard to how U.S. negotiators should proceed, both short- and long-term. Among the recommendations were to "trilateralize" the talks by encouraging the EU to participate, to pursue U.S. complaints in the GATT, to re-institute a Wiseman's group,[16] and to strengthen backchannels among key officials to solve trade issues.[17] Some economists urged the Administration to continue to put pressure on the yen and to encourage Japan to stimulate its economy.

In Congress, on February 23, Congressman Gephardt (D-MO) and Senator Rockefeller (D-WVa) introduced bills that would require the use of trade sanctions if Japan failed to reduce its trade surplus within a certain period of time. If the legislation is enacted, the Department of Commerce would be required to prepare reports on Japan's trade barriers and come up with "objective criteria that the U.S. could use to assess progress in gaining access to Japan's market.[18]

Senators Baucus (D-MT) and Danforth (R-MO) reintroduced Super 301 legislation[19] on February 22, having previously warned that such a step might become necessary if there were no success in the framework talks.[20] In doing so, Senator Baucus noted

[13] Letter to President Clinton sponsored by the Economic Strategy Institute, Feb. 1994.

[14] See for example, Gary Saxonhouse, "Confrontation is the Wrong Way to Deal with Japanese Trade Dispute," *Detroit Free Press*, Mar. 7, 1994 or letter of September 30 from Jagdish Bhagwati, Hugh Patrick and Gary Saxonhouse to Prime Minister Hosokawa, reprinted in *Inside U.S. Trade*, Oct. 8, p. 18.

[15] Failure in reaching agreements during the negotiations was blamed on various factors, in the United States and in Japan, including a lack of political leadership in Japan, a recalcitrant Japanese bureaucracy, USTR Kantor's tough negotiating style, inadequate preparation of U.S. negotiators, and cultural misunderstandings.

[16] Jimmy Carter, "Bring Back the Wise Man," *The New York Times*, Feb. 18, 1994, p. A27.

[17] See Gillian Tett, "U.S. Seeks EU Aid on Japan Market Battle," *Financial Times*, Feb. 23, 1994, p. 6.

[18] "Gephardt Takes Gentler Tack with New Japan Trade Bill," *The Journal of Commerce*, Feb. 25, 1994, p. 2A.

[19] Provision of the 1988 Omnibus Trade and Competitiveness act requiring USTR to identify priority countries and trade practices and initiate an investigation within 21 days of the determinations. Retaliation is mandatory if USTR determines that the terms of a trade agreement have been violated or that an "unjustifiable" practice impairs other U.S. legal rights unless a satisfactory solution is reached or the country offers acceptable compensation to the United States. For other practices USTR has the discretion to decide whether retaliation is appropriate.

[20] "Senators reintroduce Super 301 to press Japan," Knight-Ridder/Tribune Business News, NewsEDGE, Feb. 2, 1994.

that an executive order by the President would be a quicker way to revive the law than trying to pass the legislation. On March 3, President Clinton signed an executive order reinstating Super 301 for a period of two-years, in a move consistent with previous campaign promises and speeches.[21]

In announcing the President's reinstatement of the measure, USTR Kantor indicated that the Administration viewed Super 301 as an effective market-opening tool and stressed that no priority foreign country practice was being named at that time (the deadline is September 30). The President, in a telephone call to Prime Minister Hosokawa, attempted to reassure Japan that it was not being singled out for identification by reinstating Super 301. Japanese officials initially said that they considered the reactivation of Super 301 "regrettable" and warned that Japan would consider filing a complaint with the GATT or invoking unilateral sanctions if the United States took action under it.[22] However, Japan apparently softened its opposition within days of the announcement in Washington.

Reaction in Japan

In Japan, there appeared to be strong support among industry representatives, the opposition Liberal Democratic Party (LDP) and the public for Hosokowa's rebuke of U.S. requests for numerical targets during the negotiations. However, almost immediately there were some signs that Japan would eventually take steps to satisfy U.S. requests. For example, within 48 hours of the Clinton-Hosokawa announcement, Japan's Chief Cabinet Secretary announced that a new proposal and negotiating forum were being considered to continue the dialogue with the United States. In addition, Ichiro Ozawa, an influential member of Prime Minister Hosokawa's coalition, announced that he would support some type of non-binding import goals based on efforts for purchases of foreign goods.[23] MITI Minster Kumagai urged the private sector to increase spending on imports, but said that he was opposed to numerical targets.[24] A few weeks later, Japanese government officials were sending out signals that they were willing to set some type of voluntary targets for reducing Japan's trade surplus, but would not make binding commitments to specific numerical goals. Meanwhile, Prime Minister Hosokawa faced a series of political setbacks primarily related to the decision to allow imports of rice, the quick reversal on his decision regarding an income tax package, and concerns about the deterioration in U.S.-Japan relations following the collapse of the framework talks. Just before the Clinton-Hosokawa summit, the Hosokawa cabinet's popularity was reported at about 70 percent. By March 8, it had fallen to around 53 percent. At the time, tensions among the Prime Minister's coalition partners also appeared to be on the increase amidst speculation about a realignment of political parties and even the potential for Prime Minister Hosokawa's resignation.[25]

Amidst these hopeful gestures, bilateral relations took another plunge on February 18, when Japan's representative to the GATT accused the United States of reneging on tariff-cut offers under the Uruguay Round. The United States had repeatedly indicated the tariff cuts it offered in December were contingent upon bigger offers from Japan in the areas of wood, non-ferrous metals such as copper and aluminum, liquor (white spirits) and leather products. Japan, meanwhile, took the position that its December 15 offers were final. In response, U.S. officials said they would not cut tariffs on electronic products as earlier planned unless Japan agreed to further tariff reductions.[26]

In an attempt to ease some of the bilateral strains and to respond to U.S. requests to stimulate the economy, on February 26, the Japanese cabinet approved the outlines of an economic stimulus and market opening plan that could include deregulation, greater transparency in government procurement procedures, tougher enforcement of antitrust rules and measures to increase imports. The plan was immediately dismissed out of hand by Ambassador Walter Mondale in Tokyo[27] and at the G-7 meeting the

[21] "Press Conference with U.S. Trade Representative Mickey Kantor, Executive Order Reinstating Super 301," Washington, D.C., LEGI-SLATE, Mar. 3, 1994.

[22] James Sterngold, "Hint of U.S. Trade Escalation Draws Warning From Japan," *The New York Times*, Mar. 3, 1994, p. D1.

[23] "Comments on 'Endeavor Targets,'" Kyodo, Foreign Broadcast Information Service, Feb. 23, 1994, p. 2 and Michael Williams and David P. Hamilton, "Some Political, Business Leaders in Japan Seek to Avoid Trade War," *The Wall Street Journal*, Feb. 23, 1994, p. A15.

[24] Mark Magnier, "Japanese Rethinking Opposition to Targets," *The Journal of Commerce*, Feb. 23, 1994, p. 1A.

[25] "Power Struggle in Japan Stalls Trade Action," *The Wall Street Journal*, Feb. 28, 1994, p. A10.

[26] Frances Williams, "U.S. Finds Itself Friendless in GATT," *Financial Times*, Feb. 18, 1994, p. 5 and U.S. Officials Dismiss Japanese Tariff Complaints," *The Journal of Commerce*, Feb. 18, 1994, p. 3A. USTR Kantor, at a hearing on March 15, confirmed that U.S. negotiators had made a compromise offer to Japan several weeks before, but Japan did not accept it, so the United States had reduced its offer on some products. Mickey Kantor, U.S. Trade Representative, testimony before Hearing of the Trade Subcommittee of the House Ways and Means Committee, Mar. 15, 1994.

[27] William Dawkins, "U.S. dismisses Tokyo target to cut surplus," *Financial Times*, Feb. 27, 1994, p. 2.

same weekend, Secretary of the Treasury Lloyd Bentsen said that it was insufficient. Other European representatives agreed, emphasizing Japan's growing current account surplus.

Reaction of other countries

Other U.S. trading partners and trade officials were critical of the U.S. approach to negotiating with Japan. GATT Director General Peter Sutherland criticized the U.S. emphasis on managed trade saying that it was "misguided and dangerous" and that it jeopardized the Uruguay Round results.[28] The U.S. effort to secure European support for its approach fell short of expectations. Although expressing cautious support for USTR Kantor's request to assist the United States in discussions with Japan in late February, particularly with regard to pursuing some type of macroeconomic framework agreement, Sir Leon Brittan, EU Trade Commissioner, also indicated strong opposition to seeking numerical targets.[29] Following his visit with President Clinton in Washington, Great Britain's Prime Minister John Major indicated that he supported U.S. concerns about opening Japan's market, but said that it should be done within the context of the GATT. Australia and Singapore weighed in with their own criticism of the United States' approach. South Korean press reports indicated that it was concerned that its own exports to Japan would be adversely affected if Japan agreed to buy more U.S. products. In general, despite reassurances by U.S. officials, several countries feared that the United States could decide to pursue a results-oriented policy with them and that this approach could also create risks for the multilateral trading system.

Subsequent Developments

On March 9, Under Secretary of State Joan Spero met with Deputy Foreign Minister Koichiro Matsuura to set the stage for Secretary of State Christopher's visit over the next two days. The Japanese press characterized the meetings as fruitful while Under Secretary Spero was less optimistic. Before Christopher left for Tokyo, Assistant Secretary of State Winston Lord said that the Secretary was "not going as a negotiator because there's nothing to negotiate about at this point." Secretary of State Warren Christopher met with Prime Minster Hosokawa and Foreign Minister Hata, reportedly engaging in general discussions of trade and security issues to keep up the pressure on Japan. In a speech before Japanese business representatives, he stated that Japan should keep its commitments under the framework agreement, particularly with regard to reducing its trade surplus. Following his talks in Japan, Secretary of State Christopher indicated while there was a realization among Japanese leaders that the status quo was unacceptable, there was no breakthrough.[30]

On March 29, Prime Minister Hosokawa announced a package of measures intended to open its markets to foreign products. The package includes provisions relating to macroeconomic measures, deregulation, antitrust enforcement, import and investment promotion, government procurement and voluntary steps to be taken in the priority sectors of the framework talks. U.S. officials, including USTR Mickey Kantor and Ambassador Mondale responded by saying that the proposal was too vague, lacked substance and appeared to be half-finished. However, Kantor also said that he was not discouraged, noting that this was only a first step.

Conclusions

Despite the official break in bilateral negotiations, at least in the short-term, a few positive steps have been taken towards moving relations back on track. Despite Prime Minister HosoKawa's recent resignation, Japan still plans to flesh out its economic package and market-opening measures. In addition, the two countries managed to reach an agreement on the cellular telephone case within one month of the breakdown in the framework talks.[31] While the latest firestorm has certainly stretched the seams of the "most important bilateral relationship in the world", it remains to be seen what, if any, permanent scars remain in terms of trust and cooperation in other areas.

The events of the past two months in U.S.-Japan trade relations indicate that major differences in views over U.S. trade policy, both domestically and between the two countries, continue to exist. The reactions of other countries and organizations to tensions between the United States and Japan reflect their heightened concerns about the potential spillover effect of such disputes into trade relations with other parties and the multilateral trading system generally.

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[28] Frances Williams, "Washington's Japan Policy Under Fire," *Financial Times*, Mar. 4, 1994, p. 3 and Thomas L. Friedman, "President Revives Tough Trade Step to Pressure Japan," *The New York Times*, Mar. 4, 1994, p. A1.

[29] Gillian Tett, "U.S. Seeks EU Aid on Japan Market Battle," *Financial Times*, Feb. 13, 1994, p. 6.

[30] Michiyo Nakamoto, "U.S. Warns Japan on Surplus," *Financial Times*, Mar. 11, 1994 and Mark Magnier, "Christopher: Japan Talks Fail to Yield Results," *Journal of Commerce*, Mar. 11, 1994.

[31] Immediately following this latest agreement, there was reportedly some differences in views between the two countries over the extent that the Government of Japan was prepared to guarantee provisions regarding progress under the agreement.

Status of Priority Sectors Under the Framework Negotiations and Cellular Telephones

Autos and parts

Since the breakdown of the framework talks, Japanese auto producers have attempted to satisfy U.S. demands to increase parts purchases, while avoiding numerical targets. At the urging of MITI, Toyota, Mitsubishi and Nissan recently announced plans to purchase more foreign auto parts in the future. Toyota indicated that it would increase its imports of parts from the world to $9.7 billion in JFY 1996, compared to $6.3 billion in JFY 1992. Of this amount, it plans to purchase JFY $6.5 billion from U.S. suppliers for use in its U.S. production facilities compared to $4.4 billion in JFY 1992. Mitsubishi plans to import $870 million in foreign parts and materials in JFY 1996 compared to $680 million in JFY 1993. Nissan announced plans to increase its imports of parts from the world to $1.4 billion for JFY 1997 compared to $870 million for JFY 1992. It will purchase $3.4 billion from local U.S. suppliers by JFY 1997. Honda said that it would increase its imports of vehicles and parts from $1.07 billion in JFY 1992 to $1.27 billion in JFY 1994. Mazda announced that it would increase its purchases of imported parts from $560 million in JFY 1993 to $870 million in JFY 1997. During the same period it will increase procurement of parts from local suppliers from $1.65 billion to $1.9 billion in the United States.

Insurance

During the framework negotiations, the United States sought greater access for U.S. suppliers of life and non-life insurance to Japan's insurance market, the world's second-largest, with a premium volume of $308 billion in 1991. Currently, U.S. companies can participate only in the so-called Third Area of Japan's insurance market, which consists of personal accident and medical insurance. Before the framework negotiations began, the Ministry of Finance had indicated that it intended to deregulate this sector first, before beginning to liberalize the markets for life and non-life insurance. The United States called for a delay in deregulating the Third Area and urged that priority be given to opening the other markets, including fire insurance and auto insurance where U.S. firms are considered competitive. Other issues raised by the United States were delays in approving new products, the role of trade associations in setting premium rates and anticompetitive business practices. The United States indicated that in the absence of such barriers, the foreign market share in Japan should be closer to that of the United States, where the foreign market share is between 8 and 10 percent. Although some progress occurred in this sector before February 11, Japanese negotiators remain opposed to setting quantitative targets.

Medical Equipment

In bilateral talks on medical equipment, the United States initially urged Japan to implement procedural reforms, including increasing transparency in its government procurement practices for medical equipment. The United States originally suggested that new tendering procedures be applied to all government procurement contracts with a value greater than 5,000 SDRs ($3,600) In early January, the United States revised its proposal upward to 50,000 SDRs ($36,000). Japan argued that the threshold should be set at the level established under the Government Procurement Code during the Uruguay Round at 130,000 SDRs ($93,600). The United States also shifted the focus of its proposal from emphasizing procedural reforms to requesting that Japan encourage both public and private hospitals to increase their purchases of medical equipment. To monitor progress, the institutions would have been required to submit regular reports. At the end of final working level meetings in mid-January, questions relating to the threshold level for open tenders and procedural reform were unresolved. The issue of including quantitative criteria in any agreement had yet to be addressed.

Telecommunications

During discussions on telecommunications under the Framework, the United States presented Japan with a draft agreement containing provisions on increasing purchases of foreign-made equipment by government agencies in Japan. Among the issues that the United States sought to address in the agreement were restrictive specifications, standards and solicitation terms used in awarding contracts; inadequate subcontracting opportunities for foreign firms; inadequate time for submitting bids; restrictive qualification processes; unfair selection decisions; and sole source selection and tendering. Differences remained over issues relating to quantitative criteria, bidding procedures and coverage of the agreement, including whether the agreement would be extended to NTT.

Cellular Telephones

On February 15, USTR Kantor announced a determination under Section 1377 of the Omnibus Trade and Competitiveness Act of 1988,[32] that Japan had not complied with a 1989 agreement to open its cellular telephone market to U.S. companies. According to Kantor, this was the third agreement on cellular telephones (including the MOSS agreements in 1985-1987; the cellular agreement in 1989 and a follow-up agreement in 1992) that had not been fulfilled. USTR claimed that IDO, a competitor to Motorola and also the consortium that was designated for installing the Motorola system within the Tokyo-Nagoya area had only partially fulfilled its commitment to build enough stations that would allow subscribers to roam within the Tokyo-Nagoya region. As evidence of Motorola's competitiveness, Kantor cited market share statistics of close to 50 percent or 438,000 subscribers in the area outside of Tokyo-Nagoya where Motorola has been able to compete freely, but only 1.17 percent or 12,900 subscribers within the Tokyo-Nagoya region.

Following the USTR's announcement, Japan's Minister of Posts and Telecommunications indicated that Japan would appeal to the GATT if the United States imposed sanctions in conjunction with the Motorola dispute. If the GATT upheld the complaint, the Minister indicated that Japan was prepared to impose retaliatory sanctions of its own on certain U.S. imports.

On March 12, USTR Kantor announced that the two countries had reached a "results-oriented agreement" which includes "a highly detailed schedule of quarterly commitments" to provide comparable access for U.S. cellular telephone systems in Japan.[33] Under the agreement IDO agreed to build 159 more relay stations by September 1995, bringing the total to 385. This would extend the Motorola cellular service area to about 95 percent of the Tokyo-Nagoya market. Within 30 days of the agreement, the precise geographic location of each base station within the Tokyo-Nagoya area will be specified under a deployment plan. The completed network will contain 9,900 more voice channels than had originally been planned, bringing the total to 15,552 voice channels by December 1995. The system will have the capacity to handle 450,000 subscribers compared to the present 12,000 subscribers on the Motorola system.[34] Another key element of the agreement is a commitment by Japan to reallocate 1.5 megahertz of spectrum, presently reserved for the NTT—type system, for use on the Motorola system. There will be quarterly meeting to assess implementation of the agreement.

USTR Kantor announced that once the Government of Japan had responded to the actions laid out in the agreement, including completion and submission of a "mutually satisfactory deployment plan within 30 days," he would terminate action under section 1377. Until that time, section 1377 is formally suspended.[35]

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[32] This provision requires USTR to conduct an annual review of all agreements relating to telecommunications trade in goods and services. If a violation is found, USTR is required to treat it as a final affirmative determination under section 301 and subject to retaliation.

[33] For complete details of the agreement, see Office of the U.S. Trade Representative, "United States-Japan Arrangement on Cellular Telephone Systems," press release no. 94-17, Mar. 12, 1994 and accompanying fact sheet. The agreement was finalized in an exchange of letters between Ambassador Kantor and Japan's Ambassador Takakaza Kuriyama.

[34] Susan MacKnight, "Tokyo Averts Showdown with Washington Over Cellular Telephones," *Japan Economic Institute Report*, Mar. 18, 1994, p. 9.

[35] Ibid.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, Jan. 1991-Feb. 1994

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

Country	1991	1992	1993	1993 I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	1994 Jan.	Feb.
United States	-1.8	2.3	4.8	5.5	2.3	2.4	8.4	2.4	2.4	7.2	9.6	8.4	6.0	4.8
Japan	2.2	-7.6	(1)	(1)	(1)	(1)	(1)	-2.2	(1)	(1)	(1)	(1)	(1)	(1)
Canada	-1.0	0.5	(1)	(1)	(1)	(1)	(1)	-2.2	(1)	(1)	(1)	(1)	(1)	(1)
Germany	3.2	-1.4	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
United Kingdom	-3.0	-0.3	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
France	0.6	-1.3	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Italy	-1.8	-0.6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Nov. 20, 1992; *Federal Reserve Statistical Release*; Mar. 15, 1994; and *International Financial Statistics*, International Monetary Fund, Jan. 1994.

Consumer prices, by selected countries and by specified periods, Jan. 1991-Jan. 1994

(Percentage change from same period of previous year)

Country	1991	1992	1993	1993 I	II	III	IV	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1994 Jan.
United States	4.2	3.0	3.0	3.2	3.1	2.7	2.7	3.0	2.8	2.8	2.7	2.8	2.7	2.7	2.5
Japan	3.3	1.6	1.3	1.3	0.9	1.8	1.1	0.9	1.9	1.9	1.5	1.3	0.9	1.0	1.2
Canada	5.6	1.5	1.8	2.1	1.7	1.7	1.8	1.6	1.6	1.7	1.9	1.9	1.9	1.7	1.3
Germany	3.5	4.0	4.2	4.3	4.2	4.2	3.7	4.2	4.3	4.2	4.0	3.9	3.6	3.7	3.5
United Kingdom	5.9	3.7	1.6	1.8	1.3	1.6	1.6	1.2	1.4	1.7	1.8	1.4	1.4	1.9	2.5
France	3.2	2.4	2.0	2.1	2.0	2.2	2.1	1.9	2.1	2.2	2.3	2.2	2.2	2.1	(1)
Italy	6.4	5.1	4.4	4.5	4.5	4.5	4.4	4.4	4.5	4.5	4.2	4.5	4.4	4.3	4.4

[1] Not available.

Source: *Consumer Price Indexes, Nine Countries*, U.S. Department of Labor, Mar. 1994.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, Jan. 1991-Jan. 1994

Country	1991	1992	1993	1993 I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	1994 Jan.
United States	6.7	7.4	6.8	7.0	7.0	6.7	6.5	6.7	6.7	6.8	6.5	6.4	6.7
Japan	2.1	2.2	(2)	2.3	2.4	2.6	(2)	2.6	2.6	(2)	2.8	(2)	(2)
Canada	10.3	11.3	11.2	11.0	11.4	11.4	11.1	11.3	11.2	11.1	11.0	11.2	11.4
Germany[3]	4.4	4.7	5.9	5.4	5.8	6.1	6.4	6.1	6.2	6.4	6.5	6.5	(2)
United Kingdom	8.9	10.0	10.4	10.7	10.5	10.3	10.1	10.3	10.3	10.1	10.1	10.0	10.0
France	9.8	10.2	11.3	10.6	11.0	11.3	11.7	11.3	11.4	(2)	11.7	11.7	(2)
Italy[4]	6.9	7.3	9.4	9.4	10.8	10.6	(2)	(5)	(5)	(5)	(5)	(5)	(5)

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

[2] Not available.

[3] Formerly West Germany.

[4] 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.

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

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, Mar. 1994.

Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1991-Feb. 1994
(Percentage, annual rates)

				1993										1994	
Country	1991	1992	1993	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	5.9	3.7	3.2	3.2	3.1	3.1	3.3	3.1	3.1	3.2	3.2	3.4	3.4	3.1	3.6
Japan	7.3	4.4	2.9	3.4	3.2	2.9	2.2	3.2	3.0	2.6	2.4	2.3	2.0	2.1	(2)
Canada	9.0	6.7	5.1	6.3	5.1	4.6	4.3	4.5	4.5	4.9	4.7	4.3	4.0	3.8	(2)
Germany	9.1	9.4	7.1	8.2	7.5	6.6	6.2	7.1	6.4	6.5	6.5	6.2	5.9	5.7	(2)
United Kingdom	11.5	9.5	5.8	6.3	5.8	5.8	5.4	5.8	5.7	5.9	5.7	5.5	5.2	5.3	(2)
France	9.5	10.1	8.3	11.4	7.7	7.4	6.5	7.7	7.4	7.1	6.8	6.5	6.3	6.1	(2)
Italy	12.0	13.9	10.0	11.7	10.7	9.2	8.7	9.4	9.2	9.0	8.7	8.9	8.5	8.3	(2)

[1] 90-day certificate of deposit.
[2] Not available.
Source: *Federal Reserve Statistical Release*, Mar. 14, 1994 *Federal Reserve Bulletin*, Mar. 1994.

Effective exchange rates of the U.S. dollar, by specified periods, Jan. 1991-Feb. 1994
(Percentage change from previous period)

				1993							1994	
Item	1991	1992	1993	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.
Unadjusted:												
Index[1]	98.5	97.0	100.1	101.3	98.1	99.6	101.2	100.1	101.3	102.1	102.5	101.5
Percentage change	-1.5	-1.5	3.1	2.4	-3.2	1.4	1.6	1.1	1.2	.8	.3	-.9
Adjusted: Index[1]	101.1	100.9	104.2	105.6	103.0	103.7	104.1	103.1	103.9	104.2	105.8	104.6
Percentage change	1.0	-.1	3.3	2.5	-2.5	.7	.4	.4	.8	.3	1.5	-1.1

[1] 1990 average=100.
Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 18 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.
Source: Morgan Guaranty Trust Co. of New York, Mar. 1994.

Trade balances, by selected countries and by specified periods, Jan. 1991-Jan. 1994

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

Country	1991	1992	1993	1993 I	1993 II	1993 III	1993 IV	1993 Oct.	1993 Nov.	1993 Dec.	1994 Jan.
United States[1]	-65.4	-84.5	-115.7	-103.1	-122.5	-125.4	-111.7	-130.7	-116.1	-88.4	-118.2
Japan[3]	103.1	132.4	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Canada	4.9	8.9	(2)	9.8	12.5	(2)	(2)	(2)	(2)	(2)	(2)
Germany[3]	13.5	32.0	(2)	35.2	(2)	(2)	(2)	(2)	(2)	(2)	(2)
United Kingdom[3]	-17.9	-24.5	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
France[3]	-5.4	1.7	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Italy[3]	-12.8	2.1	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)

[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] Not available.
[3] Converted from ECU to dollars.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Nov. 20, 1992; *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Mar. 22, 1994; *Canadian Economic Observer*, Dec. 1993 and *Eurostatistics Short-term Trends*, Oct. 1993.

U.S. trade balance,[1] by major commodity categories and by specified periods, Jan. 1991-Jan. 1994

(In billions of dollars)

Country	1991	1992	1993	1992 I	1992 II	1992 III	1992 IV	1993 Oct.	1993 Nov.	1993 Dec.	1994 Jan.
Commodity categories:											
Agriculture	16.2	18.6	17.8	4.9	3.9	3.4	5.6	1.8	1.8	2.0	1.6
Petroleum and selected product—(unadjusted)	-42.3	-43.9	-45.7	-11.0	-12.7	-11.3	-10.7	-4.1	-3.7	-2.9	-2.9
Manufactured goods	-67.2	-86.7	-115.3	-21.0	-25.3	-36.2	-32.8	-12.2	-12.0	-8.6	-9.2
Selected countries:											
Western Europe	16.1	6.2	-1.4	3.5	-0.9	-2.8	-1.2	-.2	-1.1	.1	-.3
Canada[2]	-6.0	-7.9	-10.2	-2.5	-2.8	-2.1	-2.8	-1.2	-1.0	-.8	-1.0
Japan	-43.4	-49.4	-59.9	-13.2	-14.4	-15.2	-17.1	-6.1	-5.7	-5.3	-4.6
OPEC (unadjusted)	-13.8	-11.2	-11.6	-3.0	-3.4	-3.6	-1.6	-.7	-.7	-.2	-.2
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$17.42	$16.80	$15.13	$16.24	$16.49	$14.63	$13.52	$14.60	$13.69	$12.26	$11.61

[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, Mar. 22, 1994.