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**United States International Trade Commission
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International Trade Developments

NAFTA: An Optimal Currency Area?

Interpreting "Home Bias" in U.S.-Canada Trade

Special Focus

*WTO Agriculture and Services Negotiations Proceed
After Seattle Conference Suspended*

U.S. Trade Developments

International Economic Comparisons



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Robert B. Koopman, *Director*

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Interpreting "Home Bias" in U.S.-Canada Trade

The literature documenting "home bias" in interregional trade patterns may eventually help policymakers understand the likely extent to which the U.S. economy is distinct from that of the rest of the world. This article provides a guide to possible interpretations for the empirical evidence of home bias, the plausibility of each interpretation, and its implications for policymakers.

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Special Focus

WTO Agriculture and Services Negotiations Proceed After Seattle Conference Suspended

A new round of multilateral trade negotiations was expected following the WTO Third Ministerial Conference in Seattle from November 30 to December 3, 1999. Instead, differences over what subjects to include in these negotiations—as well as over the actual decisionmaking process used to pick these subjects—led to suspension of the conference, followed by weeks of consultations among WTO Members. In February 2000, WTO Members agreed to move forward with negotiations mandated under the Uruguay Round Agreements on agriculture, services, and aspects of intellectual property and government procurement, while continuing discussions on possible negotiation of other subjects.

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INTERNATIONAL TRADE DEVELOPMENTS

NAFTA: An Optimum Currency Area?

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The increasing convergence of the NAFTA countries has stimulated a debate on the issues of adopting a common currency and forming an American monetary union among Canada, Mexico, and the United States. Of direct and central relevance to the economic suitability of such a monetary union is the concept of the optimum currency area (OCA). Criteria for an OCA are discussed in this article, as are the costs and benefits associated with forming an OCA. The bottom line, however, could be more political than economic and is a function of the willingness of the potential members of an area to agree to the terms of formation.

An issue that surfaces in the discussion of dollarization is related to international trade and the likelihood of increasing the gains from trade as a result of adopting a stronger, more stable currency.² Coupled with the movement toward increased reliance on regional trading blocs, this convergence has highlighted the concept of the optimum currency area (OCA). An OCA is a region in which it is economically preferable to have a single official currency rather than multiple official currencies. The adoption of a common currency, the euro, by the EU has added impetus to the discussion of a similar arrangement within the North American Free Trade Area (NAFTA), the trading bloc that includes Canada, Mexico, and the United States. The arrangement being considered has been dubbed the North American Monetary Union (NAMU).³

The concept of the optimum currency area (OCA) is directly relevant to considering the economic suitability of NAMU. The awarding of the Nobel Prize in Economics to Robert Mundell for his significant work in the theory of the OCA,⁴ along with the inauguration of the euro on January 1, 1999, has given additional credence to the OCA concept. In addition to the European Monetary and Economic Union (EMU), the United States can also be considered an OCA. It is inconceivable that the current volume of commerce among the 50 states would occur as efficiently in a monetary environment of 50 different currencies.

OCA Criteria

Following Mundell's concept of an OCA, much literature⁵ has focused on four criteria that are used to evaluate the inter-relationships between potential members of an OCA. They are: 1) the extent to which international trade in goods and services between potential OCA members is integrated; 2) the similarity of

¹ The views and conclusions expressed in this article are those of the authors. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

² Dollarization is the term given to the adoption of the U.S. dollar as the official currency of a country or territory other than the United States. In a broader sense, the term can also mean the adoption of any major currency as the official currency of a country other than the issuing government. The concept of dollarization was addressed in a previous *IER* article, "Dollarization: a Primer," *International Economic Review (IER)*, April/May 2000, USITC publication 3298.

³ Sources consulted for this article include National Policy Association, *Looking Ahead*, "Is Monetary Convergence the Economic Future for the Hemisphere?" Vol. XXI, No. 2, Sept. 1999. The article contains information on the United States, Canadian, and Mexican perspectives on a common NAFTA currency.

⁴ See R.A. Mundell (1961), "A Theory of Optimum Currency Areas," *American Economic Review*, Vol. 51, No., XX, pp. 657-665.

⁵ For example: Barry Eicheingreen, "Is Europe an Optimum Currency Area," National Bureau of Economic Research, *NBER Working Paper No. 3579*, 1991; T. Bennett McCallum, "Theoretical Issues Pertaining to Monetary Unions," *NBER Working Paper No. 7393*, 1999; and Luca A. Ricci, "A Model of an Optimum Currency Area," *IMF Working Paper WP/97/76*, 1997.

economic structures in terms of regional-specific shocks⁶ and business cycles across countries; 3) the degree of mobility (both geographically and among economic sectors) in the factors of production (both capital and labor); and 4) the extent to which the federal fiscal systems can provide regional insurance against region-specific shocks, usually through government-funded transfers. The greater the linkages between countries with respect to these four criteria, the more suitable it is for countries to form an optimum currency area. The greater the linkages between potential OCA partner countries, it can be argued, the less the effect of borders on the economic relationship.⁷

Because an analysis of the last two criteria is beyond the scope of this article, the focus of this article will be on the first two criteria - the degree of economic integration and the similarity of economic structures among the three NAFTA members.

As expected, trade within NAFTA is quite substantial. Canada and Mexico rank as the first and second, respectively, largest trading partners of the United States in terms of trade turnover (imports plus exports). Likewise, the United States is the largest trading partner of Canada and Mexico. According to table 1, the degree of trade integration between the United States and the other two members of NAFTA in 1999 is much higher in comparison to the degree of trade integration between the United States and the rest of the Americas. Of total U.S. exports to all the Americas in 1999, approximately 58 percent and 30 percent, went to Canada and Mexico, respectively, while 5 percent went to Brazil and less than 2 percent went to each of the other main Latin American countries. Also, the share of total U.S. imports from Canada and Mexico was 57 percent and 32 percent, respectively, while 3 percent came from Brazil and Venezuela and less than 2 percent came from each of four other Latin American countries.⁸

The second indicator of OCA potential focuses on the similarity of economic structures among potential OCA members, particularly whether or not the economies respond to external disturbances in the same man-

ner. Canada's advanced industrial economy resembles that of the United States—the main economic indicators are quite similar in both countries. As shown in table 2, Canada's average real GDP per capita, inflation rate, and interest rate for the 1988-1999 period were very close to those of the United States over the same period. Mexico, however, is a growing economy that is aspiring to maintain economic and financial stability with a much lower average real GDP per capita and significantly higher inflation and real interest rates compared with those of Canada and the United States. Furthermore, the value of the peso relative to the dollar seems volatile; 1.38 pesos exchanging per 1 U.S. dollar in 1988 and as high as 7.92 pesos per U.S. dollar in 1998. On the other hand, the Canadian-U.S. exchange rate is more stable, ranging from 1.15 Canadian dollars per U.S. dollar in 1991 to as high as 1.48 Canadian dollars per U.S. dollar in 1998. Other problems endured by Mexico are high levels of external debt, balance of payments imbalances, and weak financial markets. In terms of any comparison of economic structures, the statistical data of table 2 illustrate the similarity in performance between the United States and Canada, while at the same time pointing out the difference between Mexico and her two other NAFTA trading partners.⁹

Moreover, according to the Chief of the Bank of Canada's International Department, terms of trade are negatively correlated between the United States and Canada.¹⁰ Because Canada is a strong resource-based exporter and the United States is a strong commodity importer, an increase in commodity prices (e.g., petroleum or natural gas) could impact one country positively and the other negatively. Furthermore, Frankel and Rose have argued that various OCA criteria may be functions of economic activity within the economy as distinct from external stimuli.¹¹ Specifically, the authors argued that international trade integration (first criteria) and international business cycle correlation (second criteria) are more internally driven because common shocks and/or intra-industry trade. Using data for 20 industrialized countries over a 30-year period, Frankel and Rose found that countries with greater trade integration tend to be more synchronized in their

⁶ A regional-specific shock is any external disturbance or disruption that affects the economies of potential OCA partners. For example, a natural disaster, or an event that occurs elsewhere, but impacts commercial relations between partners, such as a sudden change in the price of oil.

⁷ The effect of borders and "home bias" on interregional trade patterns is addressed in another article contained in this issue of the *IER*. See, Russell Hillberry, "Interpreting 'Home Bias' in U.S.-Canada Trade."

⁸ A different perspective on integration in the U.S.-Canada trade relationship is offered by the Hillberry article in this issue of the *IER*.

⁹ Any comparison between countries at different levels of economic development will yield generally disparate results.

¹⁰ Information obtained from the *Looking Ahead* article, previously cited.

¹¹ See A. Jeffrey Frankel and Andrew K. Rose, "The Endogeneity of the Optimum Currency Area Criteria," *The Economic Journal*, July 1998.

Table 1
Share of U.S. international trade in goods and services with major American trading partners (1999)

Country	U.S. exports	U.S. imports
	Percent	
Canada	58.1	57.3
Mexico	30.4	31.7
Argentina	1.7	0.8
Brazil	4.6	3.3
Chile	1.1	0.8
Columbia	1.2	1.8
Ecuador	0.3	0.5
Peru	0.6	0.6
Venezuela	1.9	3.3

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

Table 2
Main Economic Indicators (Average 1988-98)

Country	Real GDP per capita	Inflation	Interest rate
		Percent	
Canada	\$17,104.30	2.66	6.11
Mexico	6,071.39	29.24	10.27
U.S.	18,673.04	3.33	5.46

Source: World Bank tables.

business cycles. The implication is that since international trade in goods and services is highly integrated within NAFTA, the more correlated are regional shocks and business cycles among its members, thereby making members of NAFTA more economically suitable and desirable as potential OCA partners than would otherwise be the case.

Advantages and Disadvantages

It has been argued that a common currency enhances the likelihood of trade and investment between trading partners. Countries with the same currency, it is reported, trade three times as much with each other as with countries with different currencies.¹² Among the reasons for such convergence are the following:

- § the risks associated with exchange fluctuations and devaluations, etc. are eliminated within a common currency area;

¹² Andrew Rose, "Currency ties lead to much stronger trade," *Journal of Commerce*, Feb. 25, 2000, p. 25. Other statistically significant (and intuitively obvious) indicators of increased trade are a common land border, a common language, and/or a regional trade agreement.

- § the transaction costs (e.g., costs of currency conversion) are also lessened;
- § the economies are insulated from monetary disturbances and speculation; and
- § political pressures for trade protection are reduced.

On the other hand, there are costs associated with the adoption of a common currency:

- § absence of individual domestic monetary policy to counter macroeconomic shocks;
- § inability of an individual country to use inflation to reduce public debt in real terms;
- § the transition from individual currencies to a single currency could lead to speculative attacks; and
- § the loss of seigniorage¹³ revenues to individual countries may be problematic.

¹³ Seigniorage is the profit a country earns from issuing currency that results from the use of the dollar in another country. It is the difference between the cost of production of a unit of currency and its value. For example, if one dollar costs \$0.04 to produce, the profit would be \$0.96 per dollar. From another perspective, seigniorage could be viewed as the interest earned by the central bank on the dollar reserves held to back the domestic currency.

From the perspective of Mexico, Augustín Del Río Toffé¹⁴ argued that adopting the U.S. dollar would be costly to Mexico. The Mexican central bank's inability to use monetary policy to impact production and employment in the face of shocks could further weaken its economy, especially since the country has repeatedly suffered from external shocks (e.g., natural disasters, terms of trade deterioration, etc.) However, in Toffé's opinion, adopting the U.S. dollar offers Mexico many advantages, including achievement of long-term credibility in Mexican financial markets; long-term monetary stability and reduced interest rates; increased discipline and confidence as a result of reducing inflation to the levels of the United States; lower inflation would also cover the loss of seigniorage revenue (estimated to be U.S. \$2.6 billion) as a result of currency union; less uncertainty would stimulate production and employment; and increased banking supervision and regulation and strengthened financial intermediation as a result of the legalization of the operations of foreign banks.

From the perspective of Canada, nearly two-thirds of Canadians would oppose the adoption of the U.S. dollar, according to *The Ottawa Citizen Newspaper Survey* last December 1999. However, 42 percent of the Canadians surveyed favored the idea of adopting a North American currency different from the U.S. dollar.¹⁵ Likewise, John McCallum¹⁶ argues that there is no added benefit of credibility to monetary and fiscal discipline, since Canada, like the United States, is already committed to achieving low inflation, low interest rates, and a low debt-to-gross domestic product (GDP) ratio. Furthermore, it is still uncertain whether eliminating currency risks will improve Canada-U.S. trade; further research is still needed according to McCallum. Also, the costs associated with currency union for Canada are considered significant. They include: a reduction in Canada's freedom to respond to unanticipated external shocks; substantial transitional costs of a currency union, e.g., estimated loss of seigniorage revenue is about CDN\$1.5 billion per year; and an irreversible loss of sovereignty.

¹⁴ Augustín Del Río Toffé is Director of Research, Centro de Análisis y Difusión Económica (CADE). Information obtained from the *Looking Ahead* article, previously cited.

¹⁵ This is a rather dramatic illustration of the degree of Canadian sensitivity to the influence of the United States in any interregional entity. One can draw similar conclusions with the inauguration of the Euro. European countries found it easier to adopt a new common currency rather than elevate any of the existing currencies—Deutsche mark, Pound sterling, etc.—to the status of a European-wide common currency unit.

¹⁶ John McCallum is Senior Vice President and Chief Economist, Royal Bank of Canada. Information obtained from the *Looking Ahead* article, previously cited.

On the other hand, Stephen Poloz¹⁷ contends that Canadian monetary independence has its costs. Poloz argues that having a floating exchange rate has cost Canadian borrowers an average of a 1-percentage-point premium between U.S. and Canadian 10-year bond yields. As a result, the cost to Canadian borrowers is estimated to be approximately CND\$24 billion in additional debt service.

From the perspective of the United States, Philip Suttle (1999)¹⁸ argues that the formation of a North American monetary union makes more sense than the formation of an American monetary union (a larger union including all the Americas—north, central, and south) due to the higher degree of international trade integration and the similarity in economic structure that already exists among the members of NAFTA.

Future Outlook

An examination of two of the four criteria that arguably should underlie the formation of an OCA indicate that, at present, Canada and the United States are more natural partners for a common currency area than is Mexico in any linkage with either or both of its North American partners. However, popular opposition and concern over political sovereignty are strong issues in Canada—issues which impede the convergence to a common currency.

Mexico, on the other hand, demonstrates more political acceptance of the notion, while at the same time experiencing less common economic performance than the other NAFTA partners. Thus, the case for Mexican participation in any North American OCA is less strong on economic grounds than politically. The newly elected President of Mexico recently called for an expansion of the country's trading relationship with the United States including the creation of a North American common market and a common currency.

The increasing convergence of the NAFTA countries could, *in the long-run*, pull Mexico and Canada to enter a monetary union with the United States, despite Canada's initial opposition. The example of the European euro offers some perspective on the adoption of a common currency across a broad geographic area. The OCA option is one that takes a considerable amount of

¹⁷ Stephen Poloz is the Chief Economist of Canada's Export Development Corporations. Information obtained from the *Looking Ahead* article, previously cited.

¹⁸ Philip Suttle is Managing Director and Senior International Economist, J.P. Morgan & Co. Incorporated. Information obtained from the *Looking Ahead* article, previously cited.

time to be examined and weighed.¹⁹ While one could argue that a certain convergence seems to be taking place in the economies of the North American region since the initiation of NAFTA, it is still too early to

speculate on the likelihood of NAFTA adopting a common currency in the near term. The ultimate decision, however, is most likely to be based more on political realities than on economic indicators.

¹⁹ The notion of a European monetary union and a common currency was under consideration for decades before it came into being.

Interpreting “Home Bias” in U.S.-Canada Trade

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It is widely believed that the United States is becoming fully integrated into a “global” economy in which distance and borders no longer pose important barriers to trade. Yet recent empirical studies find that even the relatively open U.S.-Canada border still plays an important role in determining trade patterns. The literature documenting “home bias” in interregional trade patterns may eventually help policymakers understand the likely extent to which the U.S. economy is distinct from that of the rest of the world. This article provides a guide to possible interpretations for the empirical evidence of home bias, the plausibility of each interpretation, and its implications for policy-makers.

One might expect that if the United States were integrated with any other economy, it would be that of Canada. These two countries share a language and similar cultures and histories. They also share a common border, the largest bilateral trade volume in the world, and a recent history of free trade initiatives stretching from the 1965 Auto Pact to NAFTA.

A number of international economists have set out to measure the degree of integration between Canada and the United States by comparing the volume of trade within each country to the volume of cross-border trade. While it seemed likely that *intranational* trade exceeded *international* trade, the degree of “home bias” in the data was quite surprising. In the initial study, John McCallum found that trade between pairs of Canadian provinces exceeded trade between equivalent province-state pairs by more than a factor of twenty.²

Current research efforts, both at the U.S. International Trade Commission and in academia, hope to understand the significance of such sizable home bias. Competing explanations have far different implications for subsequent international trade policy. This article presents a non-technical guide to four possible explanations for home bias, the plausibility of each, and its implications for trade policy.

¹ The views and conclusions expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

² John T. McCallum, “National Borders Matter: Canada-U.S. Regional Trade Patterns,” *American Economic Review* 85 (June, 1995): 615-23.

Measuring home bias

Measuring the degree to which domestic trade exceeds international trade is equivalent to asking the question, “How much trade would have occurred if there were no border?” The answer to this hypothetical question requires a model that predicts, for example, how much Ontario would trade with California if the U.S.-Canadian border did not exist. To calculate home bias, the predicted borderless trade volume is divided by the actual Ontario-California trade volume. The model McCallum uses to predict borderless trade volumes is a simple but intuitive one - the gravity model.

The gravity model is based upon two intuitive ideas: 1) trade between two large regions will exceed trade between two small regions, and 2) trade between two adjacent or nearby regions will exceed trade between two distant regions.³ By controlling for the size of regions and their physical distance apart, the gravity model allows one to measure the “extra” trade that occurs within a country, relative to cross-border trade. As an example, John Helliwell compares Ontario’s trade with California to its trade with British Columbia. Ontario is roughly the same distance from California as it is from British Columbia, and California’s economy is 12 times larger than British Columbia’s.⁴ The gravity model would predict that Ontario’s trade with California would exceed its trade with British Columbia

³ The intuition for the gravity model comes from physics, where the gravitational attraction between two objects depends positively on their respective masses and inversely with the distance between them.

⁴ John F. Helliwell, *How Much Do National Borders Matter?* Washington, DC: Brookings Institution Press, 1998.

by a factor of 12. In fact, Ontario's trade with British Columbia is almost twice as large as its trade with California. A simple calculation suggests that after controlling for distance and size, trade within Canada is more than 20 (roughly 12^2) times larger than cross-border trade.

Using standard statistical techniques, McCallum compared trade among Canadian provinces to those same provinces' trade with thirty U.S. states. He found that, on average, province-province trade exceeded province-state trade by a factor of twenty. This finding suggests that the Ontario-California-British Columbia example is not an aberration, but is typical of a broader pattern. Other economists have verified the result using slightly different data, and the home bias estimate of twenty appears reasonably robust.⁵

Interpretations

How should the large home bias estimates be understood? There are 4 categories of explanations available, and each has different implications. The explanations are: 1) that preferences for domestic goods impose limits on integration; 2) that the costs of trading internationally are still much higher than trading within a country; 3) that U.S. and Canada produce goods that are reasonably similar, and so they should not be expected to trade so much; or 4) that the composition of cross-border trade differs from that of domestic trade.

Each of these explanations draws upon a different understanding of how the gravity model works. While there is consensus among trade economists that the gravity model predicts trade volumes quite well, there is still considerable disagreement about why it does so, and what its estimates imply about the nature of economic behavior that it measures. Our understanding of the home bias literature will ultimately depend on economists' ability to understand the source of the gravity model's success in predicting trade volumes. While each explanation may be true in some respect, research efforts are focused on understanding which of these explanations is most appropriate. This section, looks at each explanation in turn, assessing its plausibility and discussing its implications for trade policy.

⁵ For a review, see Russell Hillberry, "Regional Trade and 'the Medicine Line': The National Border Effect in U.S. Commodity Flow Data," *Journal of Borderlands Studies*, (Fall 1998), pp. 1-17.

Explanation 1: "National" preferences

Overview: One possible explanation for the large home bias is that consumers prefer to buy from domestic producers. In the context of the gravity model, the national preference interpretation suggests that consumers are even willing to pay additional transport costs to buy from faraway countrymen rather than nearby foreigners. Because overland transport costs associated with interprovincial trade in Canada are not insignificant, the national preference explanation requires that consumers be willing to pay a substantial premium for domestically produced goods.

Plausibility: If the national preference explanation is to be accepted as the cause of the border effect, studies will have to show that buyers are willing to pay a sizable premium for domestically produced goods. One feature of U.S.-Canadian trade makes it seem unlikely that such a premium is routinely paid. Much of the interregional trade that occurs in these two countries is in intermediate goods. It seems unlikely that buyers of intermediate goods would be willing to pay a large premium for domestically produced goods, given that they might have to compete downstream with firms that choose not to pay the premium. One difficulty with testing this hypothesis is that interregional trade data do not contain all the price, freight and insurance cost information that is necessary to credibly estimate the premium that is actually paid.

Implications: If national preferences can explain home bias, the anxiety/optimism about globalization would appear to be greatly overstated. Such sizable home bias could not arise without a strong preference for domestically produced goods. While consumers with national preferences might still choose to buy low-priced imports, the size of the estimated home bias suggests that the price differential would have to be very large before consumers would substitute imports for domestic products. In effect, this interpretation of home bias implies that there is an effective upper limit on the degree to which domestic producers face effective competition from imports.

Explanation 2: Border-related hindrances to trade are larger than had been realized

Overview: A second explanation is that there are real costs of trade across borders that have not been fully appreciated by economists. Firms that engage in cross-border trade have to face a variety of hindrance costs that are commonly viewed as relatively unimportant. The hindrance costs of borders are too numerous

to list here, but might include the costs and risks associated with dealing in multiple currencies, the costs associated with developing trade relationships in a different cultural and legal climate, and more.⁶

Plausibility: It does not appear that these hindrance costs are the best explanation for home bias. Hillberry uses 1993 U.S. Commodity Flow data to measure home bias in 136 commodities, finding no statistically significant relationship between a commodity's sensitivity to each of these costs and the size of its home bias. A second plausibility check is the estimates of the size that these costs would have to be if they are to explain home bias by themselves. Using the gravity model estimates, it appears that hindrance costs would have to have an effect equivalent to a tariff of between 60 and 200 percent. These costs seem implausibly large, given that they appear to have escaped detection by any method other than the gravity model.

Implications: If the measured home bias was explained by unmeasured hindrance costs of trade, there would be considerable scope for government action to remove these implicit costs of trade. Tariff-equivalent costs of 60-200 percent with the United States' largest trading partner would produce significant welfare losses, and would certainly represent a top priority for trade policymakers. Efforts to reduce these costs would presumably include coordinating regulatory, monetary and transportation policies with the Canadian government in an effort to facilitate cross-border trade. While NAFTA makes some effort in this regard, the size of home bias suggests that much more aggressive measures would be warranted if this explanation is the correct one.⁷

Explanation 3: U.S. and Canadian goods are very similar

Overview: The third explanation for excessive home bias between Canada and the United States comes from standard trade theory of comparative advantage. In models of comparative advantage, trade takes place between countries with different skill levels and/or resource endowments. Since Canada and the

⁶ A more thorough list of possible border-related trade costs appears in Russell Hillberry, "Disaggregating the Border Effect: What Can We Learn from Disaggregated Commodity Flow data?" *Indiana University Graduate Student Working Paper Series #9802*, (April 1999).

⁷ For example, currency risk and exchange transaction costs could be eliminated if the two countries were to accept a common currency, a proposal discussed in another article in this issue.

United States are both advanced countries with similar endowments, there may be less need for trade because the goods produced in the two countries are more similar than are the goods produced in countries with more different endowments.

Plausibility: This explanation has considerable appeal. Perhaps these countries are so similar that even small border-related trade costs are sufficient to cause a large switch from imports to domestic producers. Consider a theory that says most interregional trade is an exchange of manufactured goods for primary products. If this is the model, one might expect more East-West than North-South trade, as both countries have large manufacturing bases in the Great Lakes Region and significant primary extraction industries in the west.

While the comparative advantage explanation is appealing from a theoretical point of view, there does not appear to be substantial empirical support for the broadest interpretation of the theory. McCallum tests the theory explicitly, including broad measures of manufacturing and primary production in each state and province to control for comparative advantage. He finds that the inclusion of these variables has little effect on the size of the measured home bias.

Implications: The comparative advantage theory of home bias also suggests that it need not imply serious harm. In this theory, home bias need not arise from government-imposed costs on interregional trade. The observed pattern may simply arise as an artifact of the natural endowment of resources. In this explanation of home bias, even borderless trade is East-West trade, so we should not be concerned that we observe East-West trade dominating North-South trade.

Explanation 4: The border induces changes in the composition of trade

Overview: The fourth explanation for the border effect takes aim at a fundamental assumption of most theoretical gravity models, that a region exports the same basket of goods to every other region. Under an alternative theory, borders and distance affect not only the level, but also the composition, of trade. If so, simple gravity-model estimates may misrepresent the economic meaning of interruptions in the geographic trade pattern.⁸

⁸ This is not to say that gravity model is inappropriate for the statistical exercise of predicting aggregate bilateral trade volumes. The criticism is aimed at the use of some theoretical models of economic behavior to interpret statistical relationships that have been estimated in a gravity model.

Plausibility: This theory has received empirical support in a number of recent studies. This empirical support seems particularly credible because it has been found using a variety of different methods. Wolf finds that freight shipment volumes are larger when the two states have more similar production.⁹ Hummels finds that controlling for composition effects reduces the role of distance in international trade flows.¹⁰ Hillberry finds wide variation in commodities' individual sensitivities to the border. Collectively these results suggest that the composition trade depends upon: (1) output composition in the destination region, (2) the distance between the two regions, and (3) the existence of a border between the regions. In short, the composition of trade changes with geographic barriers like distance and borders.

Implications: Evidence of border-induced changes in trade composition appear to indicate that the welfare costs of borders are not as significant as gravity-model derivations might lead one to expect. Hillberry finds that commodities produced by geographically concentrated industries are less sensitive to borders than those produced by dispersed industries. This finding should imply lesser harm from border costs, because it suggests that borders most affect trade patterns in the industries that rely least on interregional trade (in this case, geographically dispersed industries).

⁹ Holger C. Wolf, "Patterns of Intra- and Inter-State Trade," NBER Working Paper 5939, (February 1997).

¹⁰ David Hummels, "Toward a Geography of Trade Costs," University of Chicago *mimeo* (January 1999).

For example, a geographically dispersed industry like soft-drink bottling can serve the entire market without much need for interregional trade. If both Seattle and Vancouver have an XYZ Cola bottling plant, there is relatively little benefit from uninhibited cross-border trade in XYZ Cola. In geographically concentrated industries (orange-growing in Florida or software development in Silicon Valley), border-induced barriers to trade might be more problematic, as these products are most efficiently produced in a single location. Canada can easily produce its own soft-drinks, but it is probably less costly to import oranges and specialized software products than to incur the higher costs of producing them in Canada.

Conclusion

Empirical evidence of home bias in U.S.-Canada trade has cast doubt on the conventional wisdom that the U.S. economy is becoming fully integrated into a global economy. At first glance, the border's sizable influence over interregional trade patterns appeared to suggest that there were significant limits to integration. To the degree that the lack of integration revealed real costs to international trade, this result would imply substantial harm to the U.S. and Canadian economies. More recent work has found that the border affects the composition of trade, as well as its volume. This evidence appears to suggest a more benign role of borders, and that there is considerably less room for concern. It appears that borders reduce trade in those goods for which cross-border trade provides the smallest benefit.

FOCUS

**WTO Agriculture and Services Negotiations Proceed
After Seattle Conference Suspended**

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A new round of multilateral trade negotiations was expected following the WTO Third Ministerial Conference in Seattle from November 30 to December 3, 1999. Instead, differences over what subjects to include in these negotiations—as well as over the actual decisionmaking process used to pick these subjects—led to suspension of the conference, followed by weeks of consultations among WTO Members. In February 2000, WTO Members agreed to move forward with negotiations mandated under the Uruguay Round Agreements on agriculture, services, and aspects of intellectual property and government procurement, while continuing discussions on possible negotiation of other subjects.

It was widely expected that WTO Members would launch a new round of multilateral trade negotiations to further liberalize world trade at the WTO Third Ministerial Conference in Seattle, Washington, held from November 30 to December 3, 1999. The “built-in agenda” of the Uruguay Round Agreements (so-called because of embedded provisions in certain agreements) already called for renewed negotiations in 2000 on agriculture, services, and certain aspects concerning intellectual property and government procurement. More than a year before the Seattle conference, WTO Members opened active debate on whether additional subjects should be included for negotiation along with negotiations on the core subjects called for under the built-in agenda.

**Pre-Seattle Discussions: No
Agreement to Launch
New Negotiations**

Following the WTO Second Ministerial Conference in May 1998 in Geneva, WTO Members began to focus on preparations for the Third Ministerial Conference to be held in December 1999. In September 1998, the WTO General Council started to hold special preparatory sessions to consider topics for a new round of negotiations. Developed country and transition economy Members tabled proposals, many of which

suggested negotiations on market-access liberalization of industrial tariffs and nontariff barriers, investment measures, competition policy, as well as other subjects such as regional trade agreements.

Developing country Members, however, voiced concerns that no new negotiations should begin until the present obligations of the Uruguay Round Agreements were more certainly under control. In one sense, these countries were unwilling to open negotiations on new obligations when a number of countries had not yet met their transition-period deadlines to implement current Uruguay Round obligations concerning subjects such as customs valuation, investment measures, subsidies, and intellectual property rights. In another sense, these countries were dissatisfied with the overall implementation of the Uruguay Round Agreements, which they considered had not yet delivered the expected economic benefits that might allow them to meet and implement their Uruguay Round obligations.

One group of developing country Members considered that the principle of “special and differential” treatment—embodied in GATT/WTO trade rules to favor developing and least-developed country Members—was not being honored by other WTO Members. Moreover, they further considered that a number of Uruguay Round Agreements were being implemented in a manner that favors developed country Members. Key among these are WTO agreements and disciplines on balance-of-payments, sanitary and phytosanitary measures, textiles, subsidies, and services, as well as other of the Uruguay Round Agreements. As a consequence, a range of developing countries had echoed caution during these preparations about launching a

¹ The views and conclusions expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

new round of trade negotiations, including countries such as Colombia, Egypt, Guatemala, India, Jamaica, Pakistan, Sri Lanka, Tanzania, and Uganda.

Seattle Discussions: Conference Suspended

The draft ministerial text developed in September 1999 prior to the Seattle conference by the chairman of the WTO General Council failed to narrow the differences between developed and developing countries. As a result the heavily bracketed draft ministerial text representing essentially a “compendium text” was presented to ministers as the basis from which to start negotiations at Seattle. The Committee of the Whole that administered the conference, in turn, delegated specific subject areas to five Ministerial working groups on: (1) Agriculture, (2) Implementation and Rules, (3) Market Access, (4) Singapore Agenda and other issues, and (5) Systemic Issues.²

Agriculture

In agriculture, negotiators discussed a number of major topics: a timetable for agriculture negotiations; provisions in favor of developing countries; integration of agricultural products into WTO rules on a par with industrial products; market-access issues; further subsidy reductions and possible elimination of export subsidies; domestic support issues; and non-trade concerns (“multifunctionality” of agriculture).

Two camps emerged during discussions. One camp sought to liberalize trade in agriculture on a par with that in manufactures, a position supported by participants such as the Cairns Group and the United States. The other camp sought to retain a role for subsidies in agriculture and supported the concept of multifunctionality, that is, that the agricultural sector provides benefits to the economy and society beyond their measurable output and so cannot be treated as industrialized

² WTO, “Ministers start negotiating Seattle Declaration,” *WTO Briefing Note* (Summary of December 1 meetings), found at Internet address http://www.wto.org/wto/seattle/english/about_e/summary_01.htm, retrieved Dec. 15, 1999; World Trade Organization, “Ministers consider new and revised texts,” *WTO Briefing Note* (Summary of December 2 meetings), found at Internet address http://www.wto.org/wto/seattle/english/about_e/summary_02.htm, retrieved Dec. 15, 1999; and World Trade Organization, “3 December - The final day and what happens next,” *WTO Briefing Note* (Summary of December 3 meetings), found at Internet address http://www.wto.org/wto/seattle/english/about_e/summary_03.htm, retrieved Dec. 15, 1999. Reporting on events at the Seattle Ministerial Conference is also based on USITC staff attendance.

agricultural production on a par with industrial manufactured production. This position attracted support from participants such as the EU, Japan, and Korea. Discussions reached an impasse on the final day of the Seattle discussions with the EU unwilling to agree to text that might indicate the possible elimination of subsidies in the agricultural sector.

Implementation

The Implementation Working Group faced issues that divided delegates previously in trying to narrow differences over the draft ministerial text. On one side, developed country Members were pressing developing country Members to comply with the transition deadlines they had missed for implementing obligations under various Uruguay Round Agreements such as those covering customs valuation, trade-related investment measures, intellectual property rights, and others.

On the other side, developing country Members were pressing developed countries to “fully” implement all the Uruguay Round Agreements before undertaking new obligations in any new round of trade negotiations. A number of developing countries found that expected benefits from the Uruguay Round Agreements had failed to materialize. Others considered that current implementation of the Uruguay Round Agreements failed to honor the “special and differential treatment” provisions embodied in GATT/WTO disciplines aimed specifically at favoring developing countries.

Should a new round be launched, developing countries indicated that, for many of them, improving implementation meant re-negotiating a number of existing agreements that they contended favor developed country Members—such as agreements on agriculture, sanitary measures, textiles, antidumping measures, subsidies, safeguards, services, intellectual property rights, and others.

Market Access

The Market-Access Working Group addressed both goods and services trade, focusing on: product coverage; tariff reduction goals; tariff reduction methods; plurilateral initiatives for tariff elimination; non-tariff measures; and provisions in favor of developing countries. A number of delegations sought a “common approach” to tariff reductions in any new round, to offset the difficulties encountered during the Uruguay Round’s “request/offer approach” which made comparison of various market-access offers difficult. Other delegates sought to ensure that multiple approaches to tariff reduction were permitted in any new round so

that interested parties could undertake deeper tariff reductions on a plurilateral basis, as desired. Mutual tariff elimination schemes—also known as “zero-for-zero” initiatives—are a key objective in this context, with a current example being the recently negotiated Accelerated Tariff Liberalization initiative, brought forward by ministers from the Asia Pacific Economic Cooperation forum to the WTO in an effort to garner wider multilateral support for eliminating tariffs in nine sectors ranging from chemicals to toys. Discussions at Seattle concerning market-access negotiations on trade in services set the stage for the decisions reached in April 2000 to take up mandated services negotiations in 2000 on rules issues and on market-access issues in 2001 (see below).

Singapore Agenda

The working group focusing on the WTO work program that was adopted at the WTO First Ministerial Conference held in Singapore in 1996, took up on the first day in Seattle whether and how to approach negotiations on trade-related aspects of investment or competition policy. These negotiations were strongly supported by the EU delegation. The group largely determined that neither subject was ready for multilateral negotiation, whereby the chairman suggested that WTO Members work on developing elements regarding these issues, for incorporation into an investment or competition policy agreement to be negotiated at some future date—possibly beginning at the WTO Fourth Ministerial Conference.

The second day, the group addressed other issues, touching on intellectual property rights, government procurement, trade facilitation, and other issues. A draft initiative was compiled that aimed at concluding an Agreement on Transparency in Government Procurement of goods and services by the WTO Fourth Ministerial Conference, circa December 2001. The group also assembled a partial draft text that might establish a “working forum” that would examine the inter-relationship between trade, globalization, development, and labor issues, coordinated through relevant international organizations such as the WTO and the International Labor Organization (ILO).³

³ Although not attending the actual conference, President Clinton did come to Seattle to lend support to the U.S. position seeking to establish a WTO working group to examine the relation between trade and core labor standards. While in Seattle, President Clinton ratified on behalf of the United States ILO Convention 182, “Convention Concerning the Prohibitions and Immediate Action for the Elimination of the Worst Forms of Child Labor,” which the U.S. Senate had consented to the previous month.

Systemic Issues

The Working Group on Systemic Issues discussed both internal and external transparency, that is, issues involving the organizational decisionmaking of and the public’s participation in the WTO, respectively. Countries such as the EU and the United States submitted proposals regarding external transparency that would improve relations and establish more formal communications channels between the WTO and non-governmental organizations (NGOs). Other countries such as Mexico questioned the role of NGOs in an inter-governmental organization such as the WTO.

Rather than improve communications and information flow with outside groups, a key concern of a number of delegates—both in the working group and at the Ministerial Conference more broadly—was improving internal communications regarding WTO decisionmaking. In particular, many developing country Members were critical at Seattle of the “Green Room” decision-making procedures.⁴ Fashioned when membership was only 23 GATT contracting parties in 1948, this decisionmaking process has been overtaken by growth in WTO membership that reached 137 WTO Members by June 2000.

Thus, it may be unsurprising that at Seattle developing countries were critical of the internal transparency of WTO institutional decisionmaking, where most developed country Members are included in Green Room deliberations as a consequence of their major trader status in the world economy, but most developing country Members find themselves excluded due to sheer numbers.

Conference Suspended

Although the deliberations of the five working groups were assembled into a single document on the final day of the conference in Seattle, negotiators had been unable to narrow their differences substantially, leaving them essentially where they were when the conference began. With objections from developing country delegates that internal WTO decisionmaking was not transparent, as well as the added burden of tens of thousands of anti-WTO demonstrators protesting outside the conference center throughout the week, no immediate prospect of an agreed ministerial text seemed at hand. Thus, the U.S. Trade Representative, Charlene Barshefsky, as host of the conference, suspended the conference on December 3, 1999.

⁴ The name of the process was for the color of a former conference room at GATT/WTO headquarters in Geneva where a reduced number of delegations met to draft compromise language with which to hammer out final agreements.

Post-Seattle Discussions: Mandated Negotiations to Proceed

Following weeks of consultations between the WTO Director-General Mike Moore and WTO Members in the aftermath of the Seattle conference, the WTO General Council convened several formal and informal meetings in early 2000 to discuss how the organization should proceed. At the General Council meeting on February 7 and 8, 2000, WTO Members agreed to move forward with the negotiations mandated under the Uruguay Round Agreements' "built-in agenda," namely the core negotiations on agriculture and services.⁵

Agriculture

The WTO Agriculture Committee held its first special negotiating session during March 23-24, 2000.⁶ Delegates agreed on three areas regarding the "first phase" of negotiations: (1) a meeting schedule, (2) a deadline for submitting proposals, and (3) technical work.

The Agriculture Committee will hold special sessions of the committee immediately before or after their regular committee meetings. These negotiating sessions began in June and will continue in September and November 2000, during which time governments will submit proposals setting out negotiating objectives, with some flexibility for a January 2001 meeting to allow for improved proposals before a review of submissions in March 2001. No date has been set yet for concluding the talks. The deadline for receiving proposals was set so that the committee may review submissions in March 2001 and take stock of the negotiations. The WTO Secretariat also carried out technical work on the impact to date of the current round of reductions in agricultural subsidies and protection, reported to the delegates at the June 2000 session.

⁵ WTO, "WTO services and agriculture negotiations: meetings set for February and March," press release, PRESS/167, Feb. 7, 2000, found at Internet address <http://www.wto.org/wto/new/press167.htm>, retrieved Feb. 8, 2000.

⁶ WTO, "Agriculture negotiations 23-24 March 2000 - Talks reach swift agreement on Sphase 1'," press release, PRESS/172, Mar. 27, 2000, found at Internet address <http://www.wto.org/wto/new/press172.htm>, retrieved May 25, 2000.

Although delegates could not agree initially on a committee chairman, by May they had chosen Ambassador Jorge Voto-Bernales (Peru) as chairman to direct the negotiations taking place under Article 20 (Continuation of the Reform Process) of the WTO Agreement on Agriculture, as well as Minister-Counselor Yoichi Suzuki (Japan) as vice chairman to direct the standing business of the committee.⁷

The WTO General Council in May 2000 also decided that participation in both the agriculture and services negotiations will be largely comparable to the practice in the Uruguay Round whereby only WTO Members will be able to take decisions on matters relating to the negotiations whereas countries acceding to the WTO will not, although acceding countries may participate wherever Members do not object.⁸

Services

The WTO Council for Trade in Services will also hold special negotiating sessions. The council, chaired by Sergio Marchi (Canada), set out its 2000 services program on April 14, 2000, where delegates agreed to hold four "services weeks" during which the council's subsidiary committees will meet first, followed by a meeting of the Services Council, and finally followed by a special session for negotiations.⁹ The subsidiary committees include the Committee on Specific Commitments, Working Party on Domestic Regulations, and the Working Party on GATS Rules. During the meetings of the Services Council, delegates will review MFN exemptions taken regarding service commitments, then the Annex on Air Transport Services, as well as possibly the Understanding on Accounting Rates in Basic Telecommunications.¹⁰

⁷ The delay in selection of a committee chairman was resolved when negotiations settled on Ambassador Voto-Bernales, but participants such as the Cairns Group countries favoring agricultural exporters remain leery of the possibility that vice chairman Suzuki would assume direction of the agriculture negotiations should the chairman become unavailable, given the position of Japan with regard to the issue of the "multifunctionality" of agriculture. Inside Washington Publishers, "WTO agrees on Peru to chair agriculture; Singapore to chair TRIPS," *Inside U.S. Trade*, vol. 18, no. 19, May 12, 2000, found at Intranet address <http://www.inside-trade.com>, retrieved May 25, 2000.

⁸ U.S. Department of State telegram, "WTO General Council formal on May 3 and 8, 2000," prepared by U.S. Mission, Geneva, message reference No. Geneva 003594, May 31, 2000.

⁹ WTO, "Services council adopts negotiating timetable for this year," press release [unnumbered], issued Apr. 17, 2000, found at Internet address <http://www.wto.org/wto/new/Services2.htm>, retrieved May 25, 2000.

¹⁰ WTO, "WTO organizes a seminar on services for delegations," press release [unnumbered], issued Feb. 25, 2000, found at Internet address <http://www.wto.org/wto/new/servsem.htm>, retrieved May 25, 2000.

Delegates agreed to hold services negotiating sessions circa May 26, July 13, October 5, and December 7, 2000. At the April 2000 meeting, several delegations (Australia, Singapore, and MERCOSUR) proposed that following the first phase of negotiations concentrating on rulemaking, final submissions concerning the scope and structure of the negotiations be set for the end of December 2000 so that the second phase concentrating on market-access negotiations can begin in March 2001. In addition, the WTO Secretariat held a seminar on May 10-11, 2000 to brief WTO Members on the various issues involved in the GATS and the services negotiations. At the services negotiating session held on May 26, 2000, the Council sought to discuss elements of the first phase of services negotiations mandated under Article XIX of the GATS; negotiating guidelines and procedures; and an assessment of trade in services during the GATS' first 5 years of operations.

Intellectual Property

On March 21, 2000, the Council on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Council") held an extensive discussion regarding its mandated review of the TRIPS Agreement and mandated negotiations to establish a multilateral system of notification and registration of geographical indications for wines under TRIPS Article 23.¹¹ Ambassador Chak Mun See (Singapore) was selected in May 2000 as chairman of the TRIPS Council.

Ongoing Consultations

In addition to the February 2000 General Council meeting deciding to move ahead with mandated negotiations on agriculture, services, as well as those under the TRIPS Agreement, delegates continued to debate four areas directed as "confidence building" measures toward developing country and least-developed country Members: (1) market-access measures in favor of least-developed countries, (2) improving WTO trade-related "capacity building" and technical assistance for

¹¹ TRIPS Article 23 (Additional Protection for Geographical Indications for Wines and Spirits) says in Art. 23.4 "In order to facilitate the protection of geographical indications for wines, negotiations shall be undertaken in the Council for TRIPS concerning the establishment of a multilateral system of notification and registration of geographical indications for wines eligible for protection in those Members participating in the system."

developing country Members, (3) various implementation issues, and (4) improving WTO transparency and effective Member participation.¹²

Measures for Least-Developed Countries

By May 2000, a number of major traders had agreed to improve market access for least-developed countries (LDCs) by giving both tariff- and quota-free access to essentially all products from LDCs, carried out through autonomous measures consistent with domestic requirements and international agreements under their respective preferential schemes—such as the U.S. Generalized System of Preferences or the EU Lomé Convention. Although these major traders have underlined that market access is not the sole consideration in this "continuing process" on measures in favor of LDCs, it is nonetheless a major WTO priority concerning Members' economic development objectives. The 13 countries agreeing to unilateral market-access initiatives for LDCs include the so-called quadrilateral (or "Quad") members—Canada, the EU, Japan, and the United States— as well as Chile, the Czech Republic, Hungary, Iceland, Korea, New Zealand, Norway, Slovenia, and Switzerland.¹³ In April 2000, some LDCs criticized this market-access package as providing too little access, and countries such as Brazil and Pakistan had criticized the package as possibly diverting trade from their exporters supplying industrialized country markets to LDC sources.¹⁴

Improving WTO Technical Assistance

The primary focus on WTO technical assistance has been continuing discussion about regular budgetary funding to ensure stable and predictable technical assistance that would allow moving from voluntary extra-budgetary contributions that help fund individual

¹² WTO, "General Council sets dates for negotiations, Services Council and Agriculture Committee to meet in special sessions," press release [unnumbered] [undated], issued Feb. 8, 2000, found at Internet address http://www.wto.org/wto/new/gc_feb00.htm, retrieved Feb. 10, 2000.

¹³ WTO, "Measures in favour of least-developed countries - Director-General's report on consultations," May 3, 2000; found at U.S. Department of State telegram, "WTO General Council formal on May 3 and 8, 2000," prepared by U.S. Mission, Geneva, message reference No. Geneva 003594, May 31, 2000.

¹⁴ Inside Washington Publishers, "WTO could miss may deadline for confidence building measures," *Inside U.S. Trade*, vol. 18, no. 15, Apr. 15, 2000, found at Intranet address <http://www.insidetrade.com>, retrieved May 25, 2000.

projects to stable funding to promote technical assistance programs. Currently, 90 percent of technical assistance is funded through bilateral donations into the WTO Global Trust Fund. The WTO Director-General has proposed increasing the approximately SF 750,000 (about US\$450,000) current annual budget for technical assistance to a level of SF 10 million (about US\$6 million) over 3 years, approximately the amount needed to meet current demand for such assistance.

Another main focus of debate has been how to improve coordination of multilateral trade assistance through the Integrated Framework for Trade-Related Technical Assistance ("IF"), which is targeted at LDCs' trade-related technical infrastructure. The IF is sponsored by six international organizations significantly involved in such assistance programs: the International Monetary Fund, the International Trade Centre, the United Nations Conference on Trade and Development, the United Nations Development Programme, the World Bank, and the World Trade Organization. A meeting of the heads of these core agencies is scheduled for July 6, 2000 in New York to report at the Mandated Review of the Integrated Framework on suggestions to improve such coordination.

Implementation Issues

Although WTO Members were able to launch the mandated agriculture and services negotiations at the February 2000 meeting of the WTO General Council, they were unsuccessful in resolving implementation issues that in part have put a damper on beginning a broader Round of multilateral trade negotiations.

One set of implementation issues revolves around the failure of many developing countries to implement some WTO obligations by the January 1, 2000 deadline—in particular, transition period deadlines for WTO agreements regarding customs valuation, investment measures, intellectual property, and subsidies. Developing countries would like these transition deadlines to be extended on a "multilateral" basis, that is, a blanket extension, without further negotiations or concessions in order to secure this extension. Other countries, such as the EU, Japan, and the United States, argue for a case-by-case approach to these extensions.

Another set of implementation issues involves overall implementation of the Uruguay Round Agreements. A number of developing countries have been resisting new trade negotiations (other than under the built-in agenda) until benefits expected from the Uruguay Round Agreements are forthcoming. These countries consider that a number of WTO agreements—particularly regarding agriculture, sanitary measures, tech-

nical standards, textiles, services, and others—are written and implemented in a manner that favors the developed countries and denies developing countries the special and differential treatment called for under GATT rules.

By May 2000, WTO Members had reached a compromise on how to approach several of these implementation issues, which was announced at the General Council meetings on May 3 and 8. Regarding implementation and transition periods, Members responded to calls to preserve a multilateral character to the requests for extension of the transition period under the TRIMS Agreement, thereby directing the Council for Trade in Goods "to give positive consideration to individual requests presented in accordance with Article 5.3 by developing countries for extension of transition periods for implementation of the TRIMS Agreement."¹⁵ The chairman of the Council for Trade in Goods—working under the aegis of the General Council—will address the issue of WTO Members that have not yet notified measures under the TRIMS Agreement or that have not yet requested an extension of their transition period deadline.

Transition period issues involving other agreements such as the Customs Valuation Agreement or the TRIPS Agreement remained unresolved. Whereas requests for transition period extensions regarding customs valuation are currently under review in the Committee on Customs Valuation, the issue regarding the transition period and developing countries' implementation of the TRIPS Agreement is highly sensitive and is likely to require further consultations on how to proceed.¹⁶

¹⁵ WTO, "Implementation and transition periods - Chairman's remarks," May 3, 2000; found at U.S. Department of State telegram, "WTO General Council formal on May 3 and 8, 2000," prepared by U.S. Mission, Geneva, message reference No. Geneva 003594, May 31, 2000; Inside Washington Publishers, "WTO decision on TRIMS transition periods," *Inside U.S. Trade*, vol. 18, no. 19, May 12, 2000, found at Intranet address <http://www.insidetrade.com>, retrieved May 25, 2000.

Under the TRIMS Agreement (Article 5 - Notification and Transitional Arrangements), Members were to notify the WTO Council for Trade in Goods of their trade-related investment measures that did not conform with the agreement within 90 days of the date of entry into force of the WTO Agreement, that is, by April 1, 1995. Members were then to eliminate these notified TRIMS within particular transition periods from the Jan. 1, 1995 establishment of the WTO—developed country Members within 2 years (by 1997), developing country Members within 5 years (by 2000), and least-developed country Members within 7 years of the establishment of the WTO on Jan. 1, 1995 (by 2002).

¹⁶ Inside Washington Publishers, "WTO resolves fight over implementation talks' impact on new round," *Inside U.S. Trade*, vol. 18, no. 18, May 5, 2000, found at Intranet address <http://www.insidetrade.com>, retrieved May 25, 2000; "WTO sets up review of TRIMS extensions, implementation demands," *Inside U.S. Trade*, vol. 18, no. 19, May 12, 2000, found at Intranet address <http://www.insidetrade.com>, retrieved May 25, 2000.

Regarding the broader issue of implementation, Members agreed to an implementation review mechanism, whereby the General Council will meet in special sessions to address outstanding implementation issues and concerns, particularly those raised during the preparations for the Third Ministerial Conference held in Seattle. The first special session on implementation opened discussions on June 26, 2000 and the process of resolving implementation issues is to be completed no later than the Fourth Ministerial Conference, circa December 2001.¹⁷

Improving WTO Transparency

In February 2000, many delegations considered that there were serious and valid complaints from a number of Members about the system's internal transparency and the opportunity to participate in small group consultations, even though most rejected the notion that the WTO decisionmaking system was the reason for the failure of the Seattle Ministerial Conference. At discussions in March, a number of delegations considered that, although not seriously flawed, the WTO decisionmaking system may require some modification. All agreed that the principle of decision by consensus should remain.

The United States made a number of suggestions in March regarding both external and internal transparency. On external transparency, the United States proposed derestricting WTO documents such as meeting agendas and minutes, as well as making dispute-settlement reports available on a more timely basis. The United States also suggested opening WTO General Council and committee meetings to NGOs that already

¹⁷ WTO, "Statement by Director-General Moore on First General Council Implementation Session," press release, Press/184, June 22, 2000, found at Internet address http://www.wto.org/english/news_e/pres00_e/pr184_e.htm, retrieved July 10, 2000.

participate in plenary sessions at WTO meetings. The U.S. proposal did not include previous suggestions such as allowing NGOs to file "friend of the court" briefs with WTO dispute-settlement panels. On internal transparency, the United States recommended more frequent consultations between members and the Director-General and General Council chairman, as well as more frequent informal sessions of the General Council. Video conference sessions with officials based in capitals, and hosting briefings to update smaller delegations were also suggested. Consultations among members should be broadened to make the process more inclusive and should retain the principle of reaching decisions by consensus.¹⁸

By May 2000, most delegations considered that the internal WTO decisionmaking process had been functioning better since the Seattle ministerial—for example, adequate informal meetings, small group consultations, follow-up meetings with heads of delegations, and so on.¹⁹ Some developing country delegations, such as Mexico and the Philippines, have separated issues of internal transparency regarding WTO decisionmaking from those of external transparency concerning WTO relations with outside groups, the latter an issue that countries such as Canada, Japan, and the United States have said needs to be addressed as well. Regarding derestriction of documents, some delegations such as Canada and the United States are looking to broaden derestriction rules whereas other delegations such as Mexico have resisted, noting that the vast majority—over 90 percent—of WTO documents are already derestricted or never were restricted originally.

¹⁸ Inside Washington Publishers, "U.S. lays out recommendations for transparency changes in WTO" *Inside U.S. Trade*, vol. 18, no. 14, Apr. 7, 2000, found at Intranet address <http://www.insidetrade.com>, retrieved May 25, 2000.

¹⁹ U.S. Department of State telegram, "WTO General Council formal on May 3 and 8, 2000," prepared by U.S. Mission, Geneva, message reference No. Geneva 003594, May 31, 2000.

U.S. TRADE DEVELOPMENTS

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The U.S. Department of Commerce (Commerce News FT 900 (00-04)) reported that seasonally adjusted exports of goods and services of \$86.7 billion and imports of \$117.1 billion in April 2000 resulted in a goods and services trade deficit of \$30.4 billion, \$0.2 billion less than the \$30.6 billion deficit of the month of March. April exports were virtually unchanged from March exports, but April imports were \$0.2 billion less than March imports of \$117.3 billion.

U.S. exports of goods increased slightly in April to \$62.6 billion from \$62.5 billion in March, but imports of goods decreased to \$99.5 billion from \$99.7 billion and the deficit on goods decreased to \$36.9 billion from \$37.2 billion. For services, exports decreased to \$24.1 billion from \$24.2 billion and imports decreased slightly to \$17.6 billion from \$17.7 billion, resulting in a surplus of \$6.5 billion, virtually the same as the March surplus.

The overall change in U.S. exports of goods in March-April 2000 reflected increases in capital goods of \$2.0 billion (primarily civilian aircraft). Decreases occurred in industrial supplies and materials, automotive vehicles, parts and engines, other goods, consumer goods, and foods, feeds and beverages. The overall changes in imports of goods reflected increases in capital goods of \$0.9 billion (primarily computers, computers accessories, and telecommunication equipments), consumer goods, and automotive vehicles, parts, and engines. Decreases occurred in industrial supplies and materials and foods, feeds and beverages. Additional information on U.S. trade developments in agriculture and specified manufacturing sectors, in January-April 2000, are highlighted in tables 3 and 4 and figures 1 and 2. Services trade developments are highlighted in table 5.

Advanced technology products exports were \$18.0 billion in April. Imports were \$16.5 billion resulting in a trade surplus of \$1.5 billion, higher than the \$1.2 billion March surplus.

¹ The views and conclusions expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

The April 2000 trade data showed U.S. surpluses with Australia, Argentina, Brazil, Egypt, and Hong-Kong. Deficits were recorded with Canada, Mexico, Western Europe, China, Japan, Korea, Taiwan, Singapore and the OPEC countries.

The January-April 2000 exports of goods totaled \$246.4 billion approximately 12.3 percent higher than \$219.4 billion exports in January-April 1999. The January-April 2000 imports of goods totaled \$389.1 billion, 22.3 percent higher than January-April 1999 imports of \$318.2 billion. The January-April 2000 deficit on goods increased by approximately 44.4 percent to \$142.8 billion from \$98.9 billion in the same period of 1999.

U.S. exports of goods and services in January-April 2000 increased 10.9 percent to \$341.7 billion from \$308.2 billion in January-April 1999. Imports of goods and services rose 20.7 percent to \$458.4 billion, up from \$379.8 billion in January-April 1999. The trade deficit on goods and services rose by about 62.9 percent to \$116.6 billion from \$71.6 billion. Exports of services in January-April 2000 increased to \$95.4 billion up from \$88.8 billion in the same period of 1999; imports were \$69.2 billion up from \$61.6 billion. The surplus on services trade decreased to \$26.1 billion from \$27.2 billion.

The January-April 2000 exports of advanced technology products totaled \$69.5 billion up from \$64.7 billion in January-April 1999, an increase of 7.4 percent. Imports increased to \$64.3 billion from \$53.2 billion, an increase of 20.9 percent. The trade surplus decreased 55.2 percent to \$5.2 billion from \$11.6 billion in January-April 1999.

The January-April 2000 trade data showed trade deficits with Canada, Mexico, Western Europe, the Euro-11 area, the European Union, EFTA, Eastern Europe, China, Japan, Korea, Singapore, Taiwan, other Pacific Rim, the members of OPEC and South Central America. Trade surpluses were recorded with Belgium, the Netherlands, Australia, Argentina, Hong Kong, and Egypt. U.S. trade developments with major trading partners are highlighted in table 6.

Table 3
U.S. trade in goods and services, seasonally adjusted, Jan.-Apr. 2000
(Billion dollars)

Item	Exports		Imports		Trade balance	
	Apr. 2000	Jan.-Apr. 2000	Apr. 2000	Jan.-Apr. 2000	Apr. 2000	Jan.-Apr. 2000
Trade in goods (see note)						
Current dollars—						
Including oil	62.6	246.4	99.5	389.1	- 36.9	-142.8
Excluding oil	62.2	245.9	90.3	350.6	- 28.1	- 104.7
Trade in services						
Current dollars	24.1	95.4	17.6	69.2	6.5	26.1
Trade in goods and services:						
Current dollars	86.7	341.7	117.1	458.4	- 30.4	-116.6
Trade in goods (Census basis)						
1998 dollars	68.8	272.2	107.6	418.6	- 38.8	- 146.4
Advanced-technology products (not seasonally adjusted)	18.0	69.5	16.5	64.3	1.5	5.2

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

Because of rounding details may not add to totals shown.

Source: U.S. Department of Commerce News (FT 900), June 20, 2000.

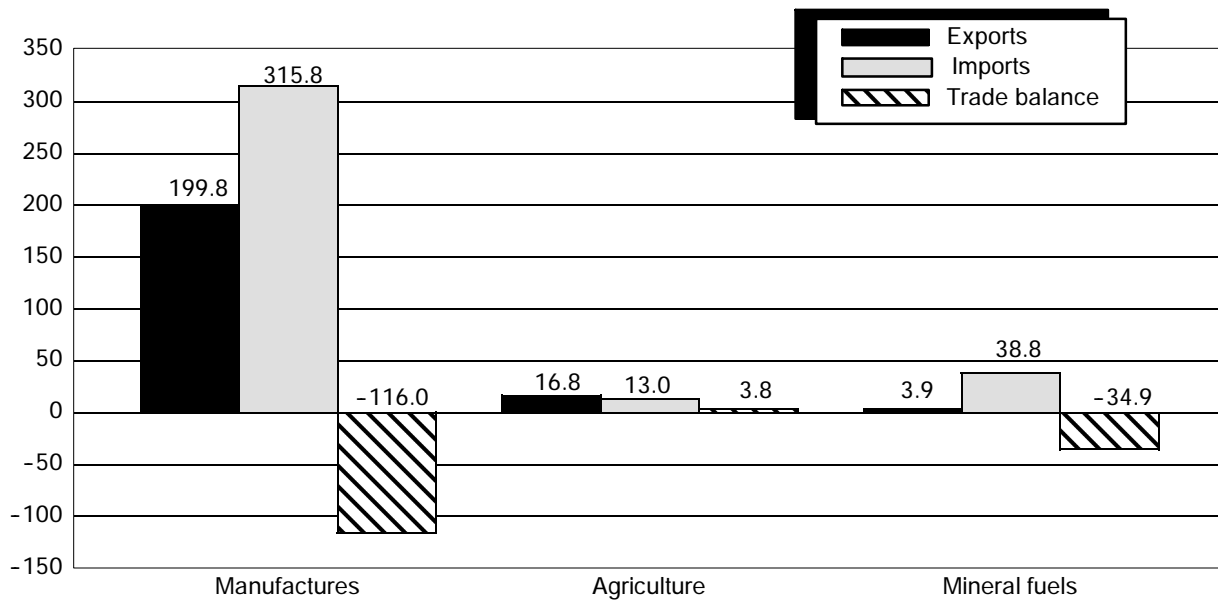
Table 4
Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan.1999-Apr. 2000

	Exports				Trade balance	
	Apr. 2000	Jan.- Apr. 2000	Change Jan.- Apr. 2000 over Jan.-Apr. 1999	Share of total Jan.- Apr. 2000	Jan.-Apr. 2000	Jan.-Apr. 1999
	<i>Billion dollars</i>		<i>Percentage</i>		<i>Billion dollars</i>	
ADP equipment & office machinery	3.7	14.5	11.5	5.8	-13.2	-12.6
Airplanes	2.1	7.8	-33.9	3.1	4.5	9.3
Airplane parts	1.2	4.8	-7.7	1.9	3.1	3.2
Electrical machinery	7.1	27.1	14.8	10.8	-5.5	-2.8
General industrial machinery	2.7	10.7	7.0	4.3	-1.0	-0.4
Iron & steel mill products	0.5	1.9	18.8	0.8	-3.5	-2.6
Inorganic chemicals	0.4	1.7	21.4	0.7	-0.1	-0.1
Organic chemicals	1.5	5.8	20.8	2.3	-2.6	-2.4
Power-generating machinery	2.6	10.7	4.9	4.3	-0.8	0.1
Scientific instruments	2.5	9.5	15.9	3.8	2.9	2.8
Specialized industrial machinery	2.5	9.7	22.8	3.9	2.1	0.3
Televisions, VCRs, etc	2.3	8.6	13.2	3.4	-10.7	-5.7
Textile yarns, fabrics and articles	0.9	3.3	10.0	1.3	-1.6	-1.3
Vehicle parts	5.0	19.9	7.6	8.0	-34.8	-28.4
Manufactured exports not included above	15.8	63.8	13.7	25.5	-54.8	-47.7
Total manufactures	50.8	199.8	9.2	79.9	-116.0	-88.3
Agriculture	3.8	16.8	9.8	6.7	3.8	2.8
Other exports not included above	8.3	33.5	30.4	13.4	-14.9	-0.3
Total exports of goods	62.9	250.1	11.7	100.0	-127.1	-85.8

Note.—Because of rounding, figures may not add to the totals shown. Data are presented on a Census basis.

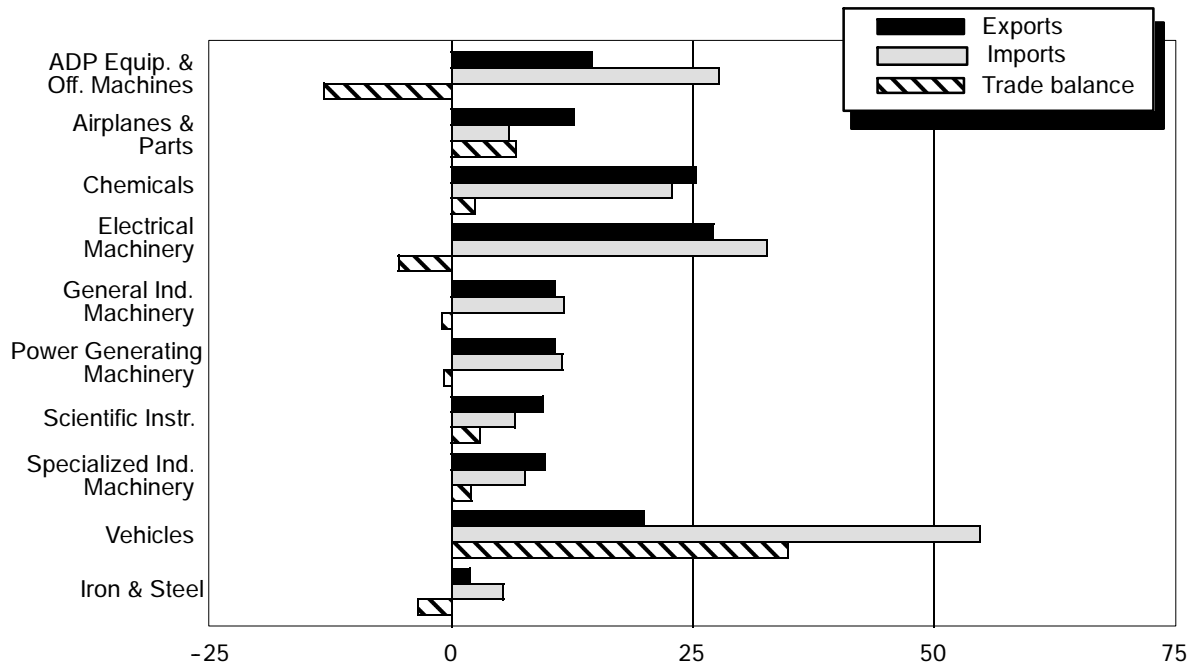
Source: U.S. Department of Commerce News (FT 900), June.20, 2000

Figure 1
U.S. trade by major commodity, billion dollars, Jan.-Apr. 2000



Source: U.S. Department of Commerce.

Figure 2
U.S. trade in principal goods, billion dollars, Jan.-Apr. 2000



Source: U.S. Department of Commerce.

Table 5
Nominal U.S. exports and trade balances of services, by sectors, Jan.1999- Apr.2000,
seasonally adjusted

	Exports		Change Jan.-Apr. 2000 over Jan.-Apr. 1999	Trade balances	
	Jan.- Apr. 2000	Jan.- Apr. 1999	Jan.-Apr. 1999	Jan.- Apr. 2000	Jan.- April 1999
	— Billion dollars —		Percent	— Billion dollars —	
Travel	26.5	24.3	9.1	5.1	4.8
Passenger fares	6.7	6.4	4.7	-1.1	-0.6
Other transportation	9.7	8.7	11.5	-2.9	-1.7
Royalties and license fees	12.3	12.2	0.8	7.2	8.0
Other private sales	35.2	31.2	12.8	18.3	15.9
Transfers under U.S. military sales contracts	4.7	5.7	-17.5	0.1	1.3
U.S. Govt. miscellaneous service	0.3	0.3	0.0	-0.7	-0.6
Total	95.4	88.8	7.4	26.0	27.1

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

Source: U.S. Department of Commerce News (FT 900), June 20, 2000.

Table 6
U.S. exports and imports of goods with major trading partners, Jan. 1999-Apr. 2000

(Billion dollars)

Country/areas	Exports			Imports			Trade balances	
	Apr. 2000	Jan.-Apr. 2000	Jan.-Apr. 1999	Apr. 2000	Jan.-Apr. 2000	Jan.-Apr. 1999	Jan.-Apr. 2000	Jan.-Apr. 1999
Total	62.9	250.1	223.9	94.9	377.2	309.7	-127.0	-85.8
North America	23.7	95.2	79.9	29.0	117.1	96.2	-21.9	-16.3
Canada	14.6	60.2	54.3	18.5	74.9	63.1	-14.7	-8.8
Mexico	9.1	35.0	25.6	10.5	42.2	33.1	-7.2	-7.5
Western Europe	14.9	59.3	56.1	19.6	76.9	65.6	-17.6	-9.5
Euro Area	9.6	36.9	36.2	13.3	51.9	44.7	-15.0	-8.5
European Union (EU-15)	13.4	52.8	51.9	17.8	70.3	60.4	-17.5	-8.5
France	1.7	6.5	6.6	2.5	9.5	8.1	-3.0	-1.4
Germany	2.7	9.7	9.3	5.0	19.3	16.9	-9.5	-7.6
Italy	0.9	3.4	3.4	2.0	7.9	7.0	-4.5	-3.6
Netherlands	1.7	6.9	6.4	0.8	3.2	2.5	3.8	3.9
United Kingdom	3.2	13.4	13.2	3.4	14.1	12.1	-0.7	1.0
Other EU	0.9	3.7	3.9	1.6	5.9	4.7	-2.2	-0.8
EFTA ¹	1.0	4.8	2.9	1.4	5.3	4.0	-0.5	-1.1
FSR/Eastern Europe	0.4	2.1	1.8	1.2	5.2	3.5	-3.1	-1.7
Russia	0.1	0.9	0.4	0.6	2.6	1.9	-1.7	-1.5
Pacific Rim Countries	16.2	62.6	54.6	32.0	125.0	106.9	-62.4	-52.3
Australia	1.1	4.1	3.4	0.5	1.9	1.5	2.3	1.9
China	1.2	4.4	3.8	7.1	27.0	22.2	-22.6	-18.4
Japan	5.0	20.7	19.5	12.4	47.2	41.4	-26.5	-21.9
NICs ²	6.9	25.9	21.7	8.2	33.1	28.0	-7.2	-6.4
Latin America	4.7	18.2	18.1	5.4	23.0	16.9	-4.8	1.1
Argentina	0.4	1.5	1.5	0.2	1.0	0.8	0.5	0.7
Brazil	1.0	4.3	4.1	1.0	4.3	3.3	-0.1	0.8
OPEC	1.4	6.1	6.9	4.9	19.7	10.6	-13.6	-3.8
Other Countries	2.2	9.5	9.0	4.9	19.7	15.7	-10.2	-6.6
Egypt	0.2	1.1	1.0	0.1	0.3	0.2	0.8	0.8
South Africa	0.2	0.8	0.8	0.3	1.2	1.0	-0.4	-0.1
Other	1.9	7.6	7.3	4.5	18.3	14.5	-10.7	-7.3

¹ EFTA includes Iceland, Liechtenstein, Norway, and Switzerland.

² The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan. FSR=Former Soviet Republics.

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

Source: U.S. Department of Commerce News (FT 900), June 20, 2000

INTERNATIONAL ECONOMIC COMPARISONS

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

Economic growth

U.S. real GDP—the output of goods and services produced in the United States measured in 1996 prices—grew at an annual rate of 5.4 percent in the first quarter of 2000. It grew by 7.3 percent in the fourth quarter of 1999 and 5.7 percent in the third, according to revised estimates by the U.S. Department of Commerce (Commerce News BEA 00-09). For the year 1999 real GDP grew by 4.2 percent.

The annualized rate of real GDP growth in the first quarter of 2000 was 2.2 percent in the United Kingdom, 4.9 percent in Canada, 2.8 percent in France, and 2.7 percent in Germany. The annualized rate of real GDP growth in the fourth quarter of 1999 was 1.7 percent in Italy and -5.5 percent in Japan. The annualized rate of real GDP growth in the fourth quarter of 1999 was 3.7 percent in the Euro-11 area.

Industrial production

The Federal Reserve Board (Federal Reserve Statistical Release -G.17 (419) reported that U.S. industrial production increased by 0.4 percent in May 2000 following advances of 0.7 percent in April and March. The output of utilities increased by 1.4 percent, while output for both manufacturing and mining increased by 0.3 percent. Total industrial production in May 2000 was 5.8 percent higher than in May 1999. Overall industrial capacity utilization was 3.8 percent higher in May 2000 than in May 1999.

¹ The views and conclusions expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

Other Group of Seven (G-7) member countries reported the following growth rates of industrial production. For the year ended April 2000 Japan reported an increase of 6.5 percent. For the year ended March 2000, the United Kingdom reported an increase of 1.3 percent, Canada reported an increase of 6.2 percent, France reported an increase of 4.4 percent, Germany reported an increase of 3.8 percent, and Italy reported an increase of 3.7 percent. The Euro-11 area reported an increase of 5.0 percent for the year ended March 2000.

Prices

Seasonally adjusted U.S. Consumer Price Index (CPI) rose 0.1 percent in May 2000, after registering no change in April, according to the U.S. Department of Labor (USD L-00-175). For the 12-month period ended in May 2000, the CPI has increased by 3.1 percent.

During the 1-year period ended May 2000, prices increased 1.5 percent in Germany and 2.5 percent in Italy. During the 1-year period ended April 2000, prices increased 2.1 percent in Canada, 1.3 percent in France, and 3.0 percent in the United Kingdom, but prices decreased 0.8 percent in Japan. Prices increased 1.9 percent in the Euro-11 area in the year ended April 2000.

Employment

The Bureau of Labor Statistics of the U.S. Department of Labor (USD L 00-163) reported that the unemployment rate rose to 4.1 percent in May 2000. The rate dipped to 3.9 percent in April 2000 and has been below 4.2 percent since October 1999. Employment fell in manufacturing and construction but increased in the services industry.

In other G-7 countries, their latest unemployment rates were: 6.8 percent in Canada, 9.8 percent in France, 9.6 percent in Germany, 11.2 percent in Italy, 4.8 percent in Japan, and 5.8 percent in the United Kingdom. The unemployment rate in the Euro-11 area was 9.4 percent.

Forecasts

The U.S. economic expansion is expected to continue into 2000 and inflation will remain subdued according to the Federal Reserve Board and six private forecasters projections. However, the performance of the economy will depend importantly on the course of productivity, according to Federal Reserve Board projections (Federal Reserve Bulletin, March 2000). The following is a summary of the Fed's report followed by projections of six private forecasters

Gains in U.S. labor productivity driven by technological changes will propel strong economic growth at an annual rate of 3.5 percent to 3.75 percent, according to the Federal Reserve's report. A substantial part of the gain in output will likely come from further gains in productivity. This rate of growth should create new jobs to keep the unemployment rate in a range of 4.0 percent to 4.25 percent. Inflation is projected to range from 1.75 to 2.0 percent. However, the report indicates that inflation could increase due to wage and price pressures associated with lagged effects of past year's oil price rise and larger increases in costs that might result from another year of tight labor market.

The performance of the economy, as in the past, will depend importantly on the course of productivity. In past business expansions, gains in labor productivity eventually slowed as rising demand placed increased pressures on plant capacity and on the workforce, and a similar slowdown from the recent rapid pace of productivity gains cannot be ruled out. But with so many firms still in the process of implementing technologies that have proved effective in reorganizing internal operations or in gaining speedier access to outside resources and markets, and with the technologies themselves still advancing rapidly, a further rise in productivity growth is possible. To the extent that rapid productivity growth can be maintained, aggregate supply can grow faster than would otherwise be possible. However, the processes that are giving rise to faster productivity growth are also influencing the growth of aggregate spending. With firms perceiving abundant profit opportunities in productivity-enhancing high-tech applications, investment in new equipment has been surging and could well continue to rise rapidly for sometime. Moreover, expectations that the investment in new technologies will generate high returns reportedly have been lifting the stock market prices, helping to maintain consumer spending at a pace in excess of the current growth in real disposable income.

Domestic spending has been able to grow faster than production without engendering inflation partly because the external sector has provided a safety valve,

helping to relieve the pressures on domestic resources. The rapid growth in demand has been met in part by a huge increase in imports of goods and services. The sluggishness in foreign economies has restrained the growth of U.S. exports. However, foreign economies have been firming, and if recovery of these economies strengthens, analysts expect that U.S. exports should increase faster than they have been over the past 2 years. External adjustments—a depreciation in the foreign exchange value of the dollar—could help increase exports and decrease imports and slow the recent rapid rates of increase in the trade and the current account deficits. Such adjustments also could give a boost to industries that have been hurt by the export slump such as agriculture and some manufactures. At the same time external adjustments are likely to add to the risk of an upturn in the inflation trend since imports will be more expensive, and also because a strengthening of exports will add to the pressures on U.S. resources raising costs and reducing to some degree the price competitiveness of U.S. products

In addition to the Federal Reserve's projections, six major forecasters expect real GDP growth in the United States to average about 3.4 percent (at an annual rate) in the second quarter of 2000, to increase to 3.6 percent in the third quarter and to decline to 3.2 percent in the fourth quarter. The annual average growth rate for the year 2000 would reach 3.9 percent. Table 5 shows macroeconomic projections for the U.S. economy from January to December 2000, and the simple average of these forecasts. Forecasts of all the economic indicators, except unemployment, are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of about 4.1 percent. Inflation (as measured by the GDP deflator) is expected to remain subdued to about 2.5 percent in the second quarter and then decrease in the third and fourth quarters reaching an annual average rate of 2.2 percent, and 1.8 percent respectively.

STATISTICAL TABLES

Unemployment rates (civilian labor force basis)¹ in G-7 countries, by specified periods, 1995-Apr. 2000

Country	1995	1996	1997	1998	1999 IQ	1999 II	1999 III	1999 IV	2000			
									Jan	Feb.	Mar.	Apr.
United States	5.6	5.4	4.9	4.5	4.3	4.3	4.2	4.1	4.0	4.1	4.1	3.9
Japan	3.2	3.4	3.4	4.1	4.7	4.8	4.8	4.7	4.7	4.9	5.0	4.9
Canada	9.7	9.6	9.1	8.3	7.9	7.8	7.6	7.0	6.8	6.8	6.8	6.8
Germany	8.2	8.9	9.9	9.4	9.0	9.0	9.1	9.0	8.7	8.6	8.4	8.4
United Kingdom	8.7	8.2	7.0	6.3	6.3	6.1	5.9	5.9	5.9	5.9	5.9	5.8
France	11.8	12.5	12.4	11.7	11.3	11.2	11.0	10.6	10.3	10.0	9.8	9.8
Italy	12.0	12.1	12.3	12.3	12.3	12.1	12.1	12.1	12.1	12.1	11.3	11.3

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

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, June 2, 2000

Consumer prices of G-7 countries, by specified periods, Jan. 1995- Apr. 2000

(Percentage change from same period of previous year)

Country	1995	1996	1997	1998				1999				2000			
				I	II	III	IV	IQ	II	III	IV	Jan	Feb	Mar	Apr
United States ...	2.8	3.0	2.3	1.5	1.6	1.6	1.5	1.7	2.1	2.3	2.6	2.7	3.2	3.7	3.0
Japan	-0.1	0.2	1.7	2.0	0.3	-0.2	0.5	-0.1	-0.3	-0.0	-1.0	-0.9	-0.6	-0.5	-0.8
Canada	2.2	1.6	1.6	1.0	1.0	0.9	1.1	2.6	2.3	2.2	2.6	2.3	2.7	3.0	2.1
Germany	1.7	1.4	1.9	1.2	1.4	0.7	0.4	0.7	0.8	1.0	1.2	1.6	1.8	1.9	1.5
United Kingdom .	3.4	3.4	3.1	3.4	4.0	3.3	3.0	1.1	1.2	1.4	1.8	2.0	2.3	2.6	3.0
France	1.7	2.0	1.2	0.7	1.0	0.7	0.4	0.7	0.8	0.9	1.3	1.6	1.4	1.5	1.3
Italy	5.2	4.0	2.0	2.0	2.0	2.0	1.7	1.8	2.1	2.1	2.1	2.2	2.4	2.5	2.3

Source: Department of Labor, June 2, 2000.

U.S. trade balances by major commodity categories and by specified periods, Jan. 1995 - Apr. 2000

(In billions of dollars)

Commodity categories	1995	1996	1997	1998	1999				2000					
					July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Agriculture	25.6	26.7	20.5	14.9	0.8	0.8	0.9	1.4	1.4	1.0	1.0	1.2	1.0	0.5
Petroleum and selected products (unadjusted) . . .	-48.8	-60.9	-65.5	-43.4	-5.2	-5.9	-6.3	-6.4	-6.5	-6.0	-7.1	-9.0	-9.6	-8.6
Manufactured goods	-173.5	-175.9	-179.5	-241.1	-31.8	-29.9	-29.3	-30.9	-31.1	-25.5	-27.9	-27.8	-31.6	-28.7
Unit value of U.S. imports of petroleum and selected products (unadjusted)	\$15.83	\$18.98	\$17.67	\$10.81	\$16.0	17.8	19.5	\$20.7	\$20.90	\$22.67	\$23.18	25.01	26.38	24.42

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

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, June 20, 2000.