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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

U.S. economic conditions are expected to improve in 1993 faster than in other advanced industrial countries. The Organization for Economic Cooperation and Development (OECD) expects, however, that growth will be lackluster for its members.

The OECD forecasts a slow recovery in the United States, Japan, Canada and the United Kingdom and a slowdown in Germany, France and Italy. The main reasons cited for the weak economic performances in these countries are the heavy debt burden of governments, corporations, and households; falling asset prices; weakening consumer spending; fiscal deficits; and bank credit contraction. All of these factors combine to reduce output, private investment and employment. The forecast suggests a 2.0-percent growth rate in 1993 for the OECD countries as a group.

OCED's 1993 growth rates forecast are 2.4 percent in the United States, 2.2 percent in Japan, 1.2 percent in Germany, 1.6 percent in France, 0.8 percent in Italy, 1.3 percent in the United Kingdom, and 3.2 percent in Canada. U.S. prospects for growth appear better than those for other OECD countries because of the easing of credit constraints, an improvement in business debt-equity ratios, the low level of business inventories, lower interest and inflation rates, and the lower value of the dollar.

The easing of the constraints that have been straining U.S. economic growth and a modest fiscal stimulus applied during the second half of 1992 led to an improvement of U.S. economic performance starting with the third quarter of the year. This improvement was reflected in a surge in consumer expectations, a strengthening of the manufacturing sector, greater demand for retail goods, increased capital spending, and a rise in personal income.

The surge in consumer expectations and the strengthening in manufacturing have led to a big increase in the Composite Indexes of leading, coincident, and lagging indicators. According to the Commerce Department, the leading index jumped in November by 0.8 percent, the biggest increase since January 1992. In October the index rose by 0.5 percent. The two consecutive monthly advances in the index point to brighter prospects for recovery than in the past—particularly in manufacturing—that could carry into 1993. According to Commerce data, 8 of the 11 indicators contributed to the November increase in the index. In the order of their contributions to recovery, they were (1) consumer expectations; (2) the number of hours worked per week; (3) initial claims for state unemployment insurance; (4) stock prices; (5) vendor performance; (6) new orders for consumer goods and materials; (7) manufacturer's unfilled orders; and (8) the money supply.

Four of the eight indicators are directly related to manufacturing, pointing to a turnaround in this sector. Overall demand for manufactured goods has shown a rising trend. A decline of 1.9 percent in the November index, due mainly to a drop in orders for transportation equipment (defense and civilian aircraft) followed a large, 4.6-percent advance in October. However, new orders in October and November together stood 3.7 percent above their third-quarter level.

A Department of Commerce survey suggests that U.S. business is expected to increase real capital spending (in 1987 dollars) by 7.6 percent in 1993, compared with an increase of 5.4 percent in 1992. Notably, manufacturing industries plan a 5.2-percent increase in 1993 capital spending, compared with a decrease of 5.1 percent in 1992. More capital spending translates into higher output, incomes, and employment. The rise in the nation's industrial output by 0.3 percent in December, and by 3.7 percent in the entire fourth quarter, is generally perceived as a prolog to U.S. business revival.

Rising consumer demand and spending resulted in better retail sales. The Department of Commerce reported that seasonally adjusted retail sales were up 1.2 percent in December from the previous month, and they were 8.0 percent above the same month a year ago. Retail sales in all of 1992 were up by 5.1 percent from their 1991 total. Durable goods sales increased by 2.5 percent from November to December, and they were 12.0 percent above the level of the previous year. Nondurable goods sales increased by 0.4 percent and 5.7 percent, respectively.

Consumer demand and spending were stimulated by a rise in personal income. According to Commerce, personal income rose by 0.2 percent in November, following a 1.1-percent rise in October. Income growth during the last 3 months averaged 0.6 percent per month, double the average monthly pace during the first 8 months of the year. Personal consumption expenditures rose by 0.5 percent in November in nominal terms and by 0.3 percent in real terms. Even with no further change in December, real personal consumption expenditures would rise at an annual rate of 4.2 percent for the fourth quarter as a whole. This increase would mark the third solid rise in consumer spending in the last four quarters.

Unemployment, however, remains a problem in spite of the relative improvement in general economic activity. Having fallen from its June high of 7.7 percent, unemployment is still hovering around 7.3 percent according to Department of Labor data. This level is nearly 2 percentage points higher than it was in July 1990, when the recent recession began, and half a percentage point higher than in March 1991, when the recession officially ended. A plausible explanation is that the recent growth in overall economic activity was attained mainly through a rise in U.S. productivity rather than through new hiring.

In the foreign trade sector, the U.S. trade deficit widened in November to $7.6 billion due to a large decline in exports. Exports decreased by $1.1 billion, and imports decreased by $733 million. The January-November 1992 deficit rose to $82.4 billion from $65.4 billion in January-November 1991.

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

Economic Growth

Real Gross Domestic Product (GDP)—the output of goods and services produced in the United States measured in 1987 prices—grew in the third quarter by a 3.4-percent annualized rate, following an increase of 1.5 percent in the second quarter of 1992. The corresponding real economic growth rate was 0.4 percent in the United Kingdom, 1.2 percent in France, -1.9 percent in Germany, 1.4 percent in Canada, -1.5 percent in Japan and -2.4 percent in Italy.

Industrial Production

In December 1992, seasonally adjusted U.S. industrial production rose by 0.3 percent (nominal terms), following an increase of 0.4 percent in November and 0.7 percent in October. The December increase was due to significant hikes in the production of motor vehicles and parts (0.5 percent). Capacity utilization in manufacturing, mining, and utilities rose to 79.3 percent in December from 79.2 percent in November. This utilization ratio was the highest since November 1991. Total industrial output in December 1992 was 2.9 percent above its level in December 1991. For the fourth quarter as a whole, industrial production rose at an annual rate of 3.7 percent, compared with a rise of 2.3 percent in the third quarter. Industrial output rose by a 5.2-percent annual rate in the second quarter after falling by 2.9 percent in the first.

In comparison, for the year ending November 1992, Japan reported a decrease in industrial output of 8.0 percent, Germany reported a decrease of 5.1 percent, and France reported a decrease of 3.8 percent. For the year ending October 1992, the United Kingdom reported an increase of 0.5 percent, Italy reported a decrease of 1.4 percent, and Canada reported an increase of 0.7 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.1 percent in December 1992, following a rise of 0.2 percent in November. The consumer price index rose by 2.9 percent during the 12 months ending December 1992. In calendar year 1992, prices increased by 3.8 percent in Germany, 4.7 percent in Italy, 2.0 percent in France, and 2.6 percent in the United Kingdom, and during the year ending November 1992, prices increased by 1.7 percent in Canada and 0.7 percent in Japan.

Employment

The 7.3-percent seasonally adjusted U.S. unemployment rate in December 1992 compares with 11.5 percent in Canada, 7.4 percent in Germany, and 10.0 percent in Italy. In November 1992, unemployment was 10.5 percent in France, 2.3 percent in Japan, and 10.3 percent in the United Kingdom. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasters expect that real growth in the United States to average about 2.5 percent (annualized) in the fourth quarter of 1992. In the first three quarters of 1993, real growth rate is expected to be only a little higher, ranging from 2.8 percent to 3.0 percent. Factors likely to restrain the recovery include the general slowdown in foreign economic growth-particularly in industrialized countries-and the incomplete status of needed structural adjustments in the financial and nonfinancial sectors.

Although consumer confidence has improved in recent months, forecasters expect consumer spending to moderate, unless personal incomes increase strongly enough to encourage more spending. Table 1 shows macroeconomic projections for the U.S. economy for October 1992-September 1993 by four major forecasters and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, Oct. 1992-Sept. 1993

Quarter	UCLA Business Fore-casting Project	Merrill Lynch Capital Markets	Data Resources Inc	Wharton E.F.A. Inc.	Mean of 4 fore-casts
			GDP current dollars		
Oct.-Dec. 1992	4.8	5.6	5.7	6.5	5.6
1993:					
Jan.-Mar	5.6	5.1	5.3	6.1	5.5
Apr.-June	5.7	5.2	4.5	5.8	5.3
July-Sept	5.7	5.7	4.5	6.7	5.6
			GDP (constant (1987) dollars)		
Oct.-Dec. 1992	1.6	2.4	3.1	3.0	2.5
1993:					
Jan.-Mar	3.2	2.4	2.9	3.4	3.0
Apr.-June	3.0	2.6	2.3	3.3	2.8
July-Sept	3.0	2.8	2.1	3.7	2.9
			GDP deflator index		
Oct.-Dec. 1992	3.2	3.1	2.4	3.5	3.0
1993:					
Jan.-Mar	2.2	2.7	2.4	2.6	2.5
Apr.-June	2.6	2.5	2.2	2.4	2.4
July-Sept	2.6	2.8	2.4	2.9	2.7
			Unemployment, average rate *(percent)*		
Oct.-Dec. 1992	7.3	7.5	7.3	7.3	7.3
1993:					
Jan.-Mar	7.3	7.5	7.2	7.2	7.3
Apr.-June	7.1	7.4	7.2	7.1	7.4
July-Sept	7.0	7.3	7.1	6.9	7.1

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: Jan. 1993.

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

Several factors could be working in favor of stronger-than-expected U.S. growth in the first half of 1993, including—

- Probable improvement in the general economic conditions as the adjustments in the business sector continue and as consumer confidence, income, and spending strengthen;
- Expected employment gains and subsequent income rise due to future fiscal stimuli;
- An expected rise in investment spending, due to the moderation of wage increases, cost cutting and corporate restructuring, and low interest and inflation rates;
- An expected increase in export growth as a result of the relative moderation of the foreign value of the dollar; and
- The anticipated improvement in the industrial countries' economic conditions, which improvement should increase foreign demand for U.S. exports.

The average of the forecasts points to an average unemployment rate of 7.3 percent in the last quarter of 1992 and some fluctuation around this rate thereafter. Inflation (as measured by the GDP deflator) is expected to slow in the first and second quarters of 1993 and to start rising again in the third quarter, due to more vigorous gneral economic activity.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit increased from $7.2 billion in October to $7.6 billion in November 1992. The November 1992 deficit was 85.4 percent higher than the one registered in November 1991 and 22.6 percent higher than the average monthly deficit registered during the previous 12 months. A $1.1 billion decline in exports and a $733 million decline in imports accounted for the $400 billion worsening in the November trade balance. The trade deficit increased to $75.6 billion in January-November 1992 from $59.2 billion in the corresponding period of 1991. Seasonally adjusted U.S. merchandise trade in billions of dollars, as reported by the U.S. Department of Commerce, is shown in table 2.

Excluding oil, the November 1992 merchandise trade deficit increased by $700 million from the previous month.

Nominal export changes and trade balances in November 1992 for specified major commodity sectors are shown in table 3. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 4.

Table 2
U.S. merchandise trade, seasonally adjusted, Oct.-Nov. 1992.

	Exports		Imports		Trade balance	
Item	Nov 92	Oct 92	Nov 92	Oct 92	Nov 92	Oct. 92
Current dollars—						
Including oil	38.0	39.1	45.6	46.3	-7.6	-7.2
Excluding oil	37.4	38.5	40.9	41.3	-3.5	-2.8
1987 dollars	36.3	37.2	43.1	43.5	-6.9	-6.3
Three-month moving average	38.3	37.6	46.1	45.9	-7.8	-8.3
Advanced-technology products (not seasonally adjusted)	8.4	9.4	6.3	6.7	+2.1	+2.7

Source: *U.S. Department of Commerce News*, FT (900), Jan. 1993.

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors and agriculture, Jan. 1991-Nov. 1992.

Sector	Exports: Jan Nov 1992	Exports: Nov 1992	Change: Jan.-Nov 1992 over Jan Nov 1991	Change: Nov 1992 over Oct 1992	Share of total Jan Nov 1992	Trade balances Jan Nov. 1992
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	24.2	2.3	2.9	0	5.9	-8.48
Airplanes	24.0	1.9	8.6	-15.9	5.9	20.53
Airplane parts	8.6	0.7	-9.0	-10.0	2.1	5.39
Electrical machinery	29.4	2.7	5.6	- 8.1	7.2	-6.96
General industrial machinery	17.0	1.5	7.8	- 6.8	4.1	2.73
Iron & steel mill products	3.3	0.3	-15.1	3.5	0.8	-4.33
Inorganic chemicals	3.8	0.3	0.8	-33.3	1.0	0.75
Organic chemicals	10.2	0.8	1.3	-14.7	2.5	1.84
Power-generating machinery	16.3	1.5	6.0	-8.0	4.0	1.78
Scientific instruments	13.1	1.2	6.0	-7.1	3.2	6.23
Specialized industrial machinery	15.3	1.3	-0.8	-6.3	3.7	4.57
Telecommunications	10.2	1.0	11.9	-15.0	2.5	-13.58
Textile yarns, fabrics and articles	5.3	0.5	4.3	-7.7	1.3	-1.87
Vehicle parts	15.3	1.6	14.9	15.2	3.7	0.73
Other manufactured goods[1]	25.4	2.3	13.6	-6.5	6.2	-4.68
Manufactured exports not included above	96.5	9.0	7.3	-7.2	23.6	-82.81
Total manufactures	317.7	28.8	6.2	-7.2	77.6	-78.16
Agriculture	38.4	3.8	10.4	-7.3	9.4	16.96
Other exports	53.3	5.0	1.1	-1.2	13.0	-15.34
Total	409.4	37.6	5.9	-6.4	100.0	-76.54

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

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

Source: *U.S. Department of Commerce News*, (FT 900), Jan. 1993.

Table 4
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, Jan. 1991-Nov. 1992

(Billion dollars)

Area or country	Nov 1992	Oct 1992	Nov 1991	Jan.-Nov 1992	Jan.-Nov. 1991
Japan	-4.69	-4.96	-3.45	-43.60	-38.90
Canada	-0.74	-0.98	-0.54	-6.78	-4.91
Western Europe	-0.64	+0.03	+1.68	+6.50	+15.30
EC	-0.29	+0.41	+1.73	+8.99	+15.84
Germany	-1.05	-0.81	-0.45	-6.60	-4.22
European Free Trade Association (EFTA)[1]	-0.45	-0.51	-0.12	-3.91	-1.76
NIC[2]	-1.04	-1.33	-1.24	-13.22	-12.51
Former Soviet Union	+0.37	+0.27	+0.36	+2.67	+2.49
China	-1.62	-2.00	-1.36	-17.10	-11.68
Mexico	+0.38	+0.05	+0.26	+ 4.86	+1.64
OPEC	-1.31	-1.09	-0.89	-10.19	-12.91
Total trade balance	-8.73	-9.61	-4.81	-76.54	-59.64

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

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

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

Source: *U.S. Department of Commerce News*, (FT 900), Jan. 1993.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Central European Countries Conclude Free-Trade Agreement

On December 21, 1992, the Czech Republic, Hungary, Poland, and Slovakia signed the Central European Free-Trade Agreement (CEFTA) in Krakow, Poland, calling for the reciprocal elimination of tariffs and other impediments to the free flow of trade among them by the year 2001. The parliaments of the four countries must ratify this agreement for it to enter into force. The signatories designated March 1, 1993, as the earliest date of implementation. The schedules for the elimination of tariffs are based on this date.

The CEFTA classifies goods into three categories. Category A comprises mostly raw materials and semifinished products but also includes some machinery and equipment. The signatories assumed that the member states do not have significant, direct competition in the markets of these commodities, therefore tariffs on these items are to be eliminated on March 31, 1993. Category B contains all industrial products, with the exception of those defined as "sensitive," such as cars, textiles, and steel, which are classified in category C. The agreement provides that tariffs and quantitative restrictions on category B items be eliminated in equal stages between 1995 and 1997. It also provides that tariffs and quantitative restrictions on category C items should be eliminated between 1995 and 2001. The targeted cumulative tariff reduction on these items is as follows: 10 percent in 1995, 15 percent in 1996, 40 percent in 1997, 55 percent in 1988, 70 percent in 1999, 85 percent in 2000, and 100 percent in 2001. The largest trade of commodities among the four countries occurs in category B, followed by categories C and A.

The liberalization of agricultural trade will be achieved through separate bilateral accords involving individual product groups, such as grains, feedstock, fruits, vegetables, and wine. For example, Hungary and Poland might negotiate a deal whereby Poland would reduce or eliminate tariffs on Hungarian wine in exchange for similar concessions on Polish fruits and vegetables.

The CEFTA provides for consultations in case of market disruption or financial problems experienced by the member states as a result of CTFTA implementation. The agreement also allows a signatory to take unilateral steps in case its implementation results in critical damage to a domestic industry. Since the Czech Republic and Slovakia form a customs union, the union's permanent executive agency (in Bratislava, the Slovakian capital) will jointly represent the two countries in future CEFTA negotiations and will develop common positions before deliberations with the rest of the signatories.

Alliance among Hungary, Poland, and the former Czech and Slovak Federal Republic (CSFR), based on sovereign national interests, began to develop in early 1991, soon after the establishment of democratic governments. The quick transition to parliamentary democracy, combined with deliberate strides toward building a market economy, set the three countries apart from the rest of post-Communist Europe. They saw in trilateral cooperation a source of economic and political security and a means to enhance their influence in international affairs. Their shared aspirations to become full members of the European Community (EC) reinforced close cooperation among them.

The EC treated the three countries as a group and concluded on December 22, 1991, similar bilateral association agreements with each. These accords contained equal terms designed to establish a free-trade zone of the country in question with the Community by the year 2001. The association agreements defined EC membership as the ultimate goal for the central European states. The establishment of two sovereign states in lieu of the former CSFR on January 1, 1993, has left EC relations with these countries unchanged. Although the EC might choose to conclude separate association agreements with the Czech Republic and Slovakia, the implementation of the agreement with the former CSFR would continue during eventual negotiations. Once they are concluded, the new association agreements are expected to be similar to each other as well as to the agreement concluded with the former CSFR in 1991. (For an update on EC-central European relations, see *IER*, December 1992.)

Increasingly free interaction between the EC and each of the central European states, with total fusion with the Community as the ultimate goal, requires the elimination of trade barriers among the central European states themselves. The determination to establish a free-trade zone among the three countries first emerged at the Visegrad, Hungary, meeting of their heads of state in February 1991. (Hence the name the "Visegrad group" or "Visegrad countries," often used in reference to the region.) The EC immediately encouraged the realization of this idea.

A further motive for concluding the free-trade agreement is the need to revitalize regional trade. The dramatic expansion of trade with the advanced industrial countries during 1989-92 helped the Visegrad countries to earn increased amounts of hard currency. However, this expansion could not compensate for the loss in output and employment caused by the reduction of trade among themselves and with other former members of the Council for Mutual Economic Assistance (CMEA), which dissolved in 1991. (At the time of its dissolution, CMEA included Bulgaria, Romania, the former Soviet Union, Mongolia, Vietnam, and Cuba, in addition to the three central European states.)

During 1992 it became evident that surging exports from the Visegrad group to the industrialized countries during 1989-92 were largely the result of increased shipments in products already exported to them before the collapse of communism. In other words the industrialized countries have not absorbed those products that the Visegrad countries were increasingly unable to sell to each other and to other CMEA customers. The high technological, product service, and marketing requirements in the EC and other industrialized countries are effectively constraining the growth of industrial exports from the CEFTA countries and will continue to do so for at least the rest of the 1990s. Consequently, the revitalization of trade among the CEFTA countries, as well as between each of these and the rest of the former CMEA partners, is a critical condition of economic recovery in the CEFTA area. Movement toward free trade in the area will certainly help in this process, and other former CMEA countries also stand to benefit from it.

The proximity and significant commercial relations among the four countries provide fertile ground for the expansion of trade among them. Despite the one-fifth reduction in their interstate trade during 1989-92 and the expansion of trade with all major industrialized countries during the same period, the Visegrad countries remained important trading partners for each other. After the EC and the Commonwealth of Independent States (CIS), Hungary and Poland combined represented the third largest-trading partner for the former CSFR during 1992. Similarly, after the EC and the CIS, Hungary and the former CSFR together represented the third largest-trading partner for Poland. For Hungary, the rest of the Visegrad group collectively represented the fourth-largest trading partner after the EC, the CIS, and Austria. Most forecasts indicate that trade among the CEFTA countries is likely to grow and economic recovery, with the likely exception of Slovakia, will occur in the area during 1993.

The road from the February 1991 summit in Visegrad to the signing ceremony in Krakow was not an easy one. In addition to the usual procedural wrangles and disagreements that inevitably surface in the preparation of complex international agreements, the Czech and Slovak divorce and tensions between Hungary and Slovakia over the Danube dam threatened to delay the agreement. Analysts attribute the determination of the signatories to overcome their difficulties in a relatively short time to the high stakes involved. Immediately after signing the agreement, the signatories declared their intention to accelerate its implementation. They evidently want to ensure that trade liberalization among themselves proceeds at least as fast as it does between each of them and the EC.

U.S. subsidiaries with investments in the CEFTA countries welcomed the free-trade agreement, since the expansion of the marketplace may permit them to rationalize and expand their sales in this region. Nevertheless, some U.S. exporters fear that tariff reductions among the four central European countries, as well as between each of them and other European nations, mean higher tariff walls against non-European suppliers. While encouraging U.S. direct investment in the CEFTA area, these reduction would tend to discourage some U.S. exports to CEFTA members.

Mexico: "Open for Business" or "Business as Usual"?

In his November 1992 "informe" (annual state-of-the-nation message), President Salinas appeared relatively unconcerned about the steady growth of Mexico's trade and current account deficits. Nonetheless, there are recent indications that he is trying to control the worsening imbalance of these deficits, especially by curbing imports. In the informe the President reassured his constituents that the deficit is counterbalanced in Mexico's balance of payments by a capital account surplus, which is generated by massive inflows of foreign capital to the country. He pointed out that the capital inflow even made possible a buildup in Mexico's foreign exchange reserves, despite the widening yearly trade deficits. Mr. Salinas also argued that these massive imports, which consist mostly of the capital and intermediate goods needed to modernize the economy and strengthen its export potential, are beneficial to Mexico's economic growth.

The data below show Mexican merchandise trade flows in recent years and the steady deterioration of the country's trade balance since 1987. In 1989, the first full year of the Salinas administration, a trade deficit replaced the positive balances that the previous administration had attained through 1988. Subsequently, the deficit rapidly widened each year. (See table 5)

Mexico's trade imbalance continued to grow in 1992. The $11.4 billion deficit in the first 7 months of the year exceeded Mexico's deficit in all of 1991. Because corporate and individual demand for foreign

Table 5

(Billion dollars)

Item	1987	1988	1989	1990	1991	Jan.-July 1991	Jan.-July 1992
Merchandise Exports	20.5	20.5	22.8	26.8	27.1	15.7	15.9
of which oil products	8.6	6.7	7.8	10.1	8.7	4.7	4.6
Merchandise Imports	13.3	20.3	25.4	31.3	38.2	21.1	27.3
Trade balance	7.2	0.2	-2.6	-4.5	-11.1	-5.4	-11.4

Note.—Data are from the Mexican balance of payments. Data do not include the transactions under the the maquiladora program.
Source: *Comercio Exterior*, July, and Sept. 1992.

goods had not been met for many years in the formerly highly protectionist Mexico, the removal of barriers in the late 1980s sparked a surge of imports. Mexican exports continued to perform well, but they could not keep pace with the rapid rate of import growth. Although faster growing imports than exports had several causes unrelated to the liberalization of trade in Mexico, pent-up import demand freed by liberalization was a major factor.

A November 1992 acceleration of the peso's daily depreciation (in effect, a slowdown in its real-term appreciation) was one indication that the administration is now seeking to control the trade deficit. By raising the daily rate of depreciation from 20 centavos to 40 centavos, authorities made imports more expensive while rendering exports more competitive (*IER*, Jan. 1993). The balance-correcting effect of this measure was, however, minor. In fact, many who expected a drastic peso devaluation criticized the measure for not going far enough. More notable than this foreign exchange measure are actions with purely. These actions include the sudden enforcement of certain standards for imported consumer goods new tariffs levied on cattle and beef products, and efforts to hold importers rigidly to their obligations under tax laws.

Last summer Mexico started enforcing rules for the labeling of most imported consumer products and of compliance with quality and safety standards for some. The rules on labeling had already been on the books since 1987 but have not been immediately enforced. In 1990 authorities began to implement the labeling requirements, but they allowed Mexican importers to be the ones who attach the required Spanish-language labels at their facilities in Mexican customs territory. However, on July 1, 1992, the Salinas administration ruled that the labelling must be performed by exporters prior to their products' entering Mexico.

In August and November 1992 the Mexican Government published decrees identifying product categories that, in addition to labeling requirements, were made subject to certification of compliance with existing quality and safety standards. The certificates were to be issued to importers by the Mexican Secretariat of Commerce and Industrial Development (SECOFI). Under the new rules, imported products subject to both labeling and certification requirements could not enter Mexico anywhere else but the border zone or a free-trade zone.

Last September the Mexican Customs Bureau, acting on a December 1991 implementing regulation of the Federal Customs Law, began to halt all imports that haven't met the rules then in effect. This caused huge customs delays along the border, where merchandise began piling up. In large part this delay resulted from a shortage of Mexican laboratories accredited for quality testing. Imports of automobile tires were a notable case in point. Another problem for exporters was lack of clarity in the labeling rules for certain products, such a those made of leather.

In response to protests by U.S. authorities on behalf of frustrated U.S. exporters, SECOFI waived the implementation of the new requirements in late November, but only in the border zone, and only until February 1, 1993. In exchanges that followed between officials of the two countries on this issue, the U.S. side requested that the suspension last longer and apply also outside the border zone. U.S. officials pointed out that Mexico's sudden enforcement of certain requirements hurt trade relations and was perceived by U.S. exporters as a new import barrier.

The Mexican side, though recognizing the disruption caused to U.S. exporters, argued that the regulations were designed with the sole purpose of protecting against deficient merchandise. Mexican officials denied categorically that a new policy was in effect to limit imports. They pointed out that the standards in question apply to domestic products as well as imported ones, though they conceded that enforcement for imported products at the point of entry is easier than for domestic products. In these talks Mexicans held out little hope to U.S. officials for an extended suspension. As regarded their own limited testing capacity, the Mexicans stated that a crash course for speedy accreditation of testing facilities was already under way.

Another Mexican move harming imports was a November 10, 1992, imposition of "temporary" tariffs ranging up to 25 percent on live cattle and beef products. In this case Mexico admitted that the objective was to protect domestic producers from imports that surged 513 percent between January 1989 and July 1992. Mexican officials emphasized, however, that once the North American Free-Trade Agreement

(NAFTA) is implemented, tariffs will revert to zero for NAFTA partners. On their part, U.S. lawmakers from beef-producing States warned that these duties could undermine congressional support for NAFTA.

Also, a new recent measure (not officially published but communicated to customs brokers) requires Mexican importers to prove that they are up to date on their taxes. In order to provide such proof, habitual importers must register with the Ministry of Finance and must make their tax identification numbers available to customs officials. Mexican officials claim that this provision serves primarily to improve enforcement against smuggling and tax evasion by importers.

U.S. exporters to Mexico generally believe that there is something more than coincidental in the concerted timing of these actions. The U.S. negotiators pointed out to their Mexican counterparts that at the threshold of NAFTA these measures could easily undermine U.S. confidence in the Government of Mexico's sincerity in opening its markets further to U.S. goods. Some warn that, despite NAFTA, instead of "open for business," it may be "business as usual" in Mexico.

Uruguay Round Meetings Sputter

Agriculture Agreement

U.S. and EC negotiators reached agreement in November over both bilateral and multilateral agricultural issues, removing what was widely regarded as the foremost impediment to further progress in the stalled Uruguay Round of multilateral trade talks. (See *IER*, Dec. 1992.) The widespread hope was that progress over agriculture would spur negotiations in other areas. But, the expectation that remaining Uruguay Round issues might be resolved at least in principle by the end of 1992 has not materialized, leaving it to the Clinton administration to wrap up the 6-year effort to liberalize trade in goods and services.

French Protests

French objections to the U.S.-EC agriculture agreement have been raised throughout negotiation of the Round, but protestors became more vocal upon the November 20 announcement of the accord. Protests and demonstrations by French farmers were matched by French Government accusations that the EC Commission had exceeded its negotiating mandate.

However, the French Government's room for maneuvering in challenging the U.S.-EC agriculture deal has proved extremely limited. To agree to the deal struck by EC negotiators would surely channel French farmers' ire toward the Government. It would alienate voters at a time when parliamentary elections are scheduled for March 1993, and the ruling party is already weakened following the lackluster vote in September 1992 in favor of the "Maastricht Treaty," of which France has been a prime architect. On the other hand, rejecting the deal would further isolate France within the EC at a time when the rest of the Community appears to be trying to move the Uruguay Round forward rather than allow it to languish over the question of agriculture.

Such meager choices left the French Government to take a "wait-and-see" approach. The Government is objecting within the Community that the agreement overstepped the negotiating authority granted by the member states to the EC Commission. This authority limits EC negotiators from exceeding the internal reforms in the EC Common Agricultural Policy agreed to in May 1992. With this objection France was able to express its displeasure over the agreement without resorting to the extreme sanction permitted a member state under EC procedures to veto a Community decision for reasons of "national interest."

Services Meetings

Negotiations in other areas stalled while awaiting an agriculture accord. They resumed in December in the hope of reaching agreement, at least in principle, before meetings broke for the holidays in late December. However, a new complication arose that delayed substantive work when France challenged the EC Commission's authority to negotiate on behalf of EC member states. France argued that trade in services is not yet an area in which the Community is authorized to represent the member states. This challenge led the EC representative to suspend negotiations in Geneva with other countries for several days while the French Government and the EC Commission sorted out their internal differences over the Commission's legal competence to negotiate.

No resolution of the several difficulties that still beset the services negotiations has yet been found, however. The U.S. refusal to make any commitments in the maritime transport area has led the EC to insist upon its own derogation in the audiovisual sector. The United States had also previously insisted on a derogation from applying financial services commitments to any country on a most-favored-nation (MFN) basis without obtaining significant market access commitments from that country. However, the United States has softened this stance somewhat and entered in league with the EC on this issue. Both countries warned that they may withdraw or lessen their current offers or reassert their right to a derogation in this sector unless more forthcoming offers on financial services are presented by others. Both the United States and the EC are seeking expanded offers in particular from Japan and a number of Asian and Latin American developing countries.

Japan did present a revised services offer, detailing commitments and reservations for over 100 service sectors in its national schedule list. The offer retained MFN exemptions in legal consulting services, freight forwarding, radio station licenses, and cabotage (internal transport links) and lifted the demand for an exemption on land ownership by non-Japanese and on foreign personnel entry into Japan.

The United States and the EC appear close to an understanding to extend negotiations for perhaps 2 or 3 years on basic telecommunications services, such as long distance telephone service. The ground rules for such an extension, as well as the length of extension, have not been agreed, however. This extension would allow the EC time to begin to liberalize its internal telecommunications market according to a Commission plan presented in October. It is reported that the EC would like an extension of talks to 1997, whereas the United States does not want them to go past July 1994.

Market Access Meetings

Negotiations on market access appear to remain stuck over "zero-for-zero" tariff concessions sought by the United States. The negotiations started out with U.S. offers to eliminate tariffs in as many as 10 sectors. However, in current negotiations the EC reportedly may support as few as three sectors—pharmaceuticals, medical devices, and construction equipment—and is adamantly opposed to zero tariffs in the wood, paper, and nonferrous metals sectors. At the same time, the EC reportedly may be supportive of tariff elimination for the steel sector in the context of a multilateral steel agreement that addresses subsidies and other unfair practices.

The United States continues to seek the elimination of semiconductor and chemical tariffs in particular, whereas the EC believes that a balanced market access agreement can be reached without zero-for-zero concessions. The EC is seeking the reduction of U.S. tariff peaks, which it appears to define as 15 percent or over, particularly for ceramics and glassware but also for the area of textiles, such as wool fabrics and apparel.

Outgoing and Incoming Administrations

On December 18 then U.S. President George Bush hosted the fifth semiannual summit between the United States and the EC, meeting with EC Commission President Jacques Delors and the current EC Council President, British Prime Minister John Major. High on their agenda was the status of the Urugay Round negotiations, and they expressed their intention to conclude substantive agreements by mid-January 1993. However, on January 20 the Clinton administration replaced the Bush administration, with a number of major issues still waiting for the new negotiators to tackle.

STATISTICAL TABLES

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

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

Country	1989	1990	1991	1991 IV	1992 I	II	III	IV	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
United States	2.6	1.0	-1.9	-0.7	-3.1	5.2	4.2	5.7	8.0	2.4	2.4	8.7	4.9	3.6
Japan	6.2	4.5	2.2	-5.1	-4.5	-2.6	3.0	(1)	4.0	-4.7	4.8	(1)	(1)	(1)
Canada	2.0	0.3	-1.0	-2.1	2.1	2.6	(1)	(1)	-0.7	(1)	(1)	(1)	(1)	(1)
Germany	5.3	5.9	3.2	-2.9	4.6	-2.2	-2.2	(1)	-5.2	2.0	-2.5	(1)	(1)	(1)
United Kingdom	0.3	-0.6	-3.0	-0.5	-3.3	-0.8	(1)	(1)	12.1	(1)	(1)	(1)	(1)	(1)
France	3.7	1.3	0.6	-1.4	0.6	-0.7	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Italy	3.9	-0.6	-1.8	-2.0	3.4	-1.8	(1)	(1)	7.6	(1)	(1)	(1)	(1)	(1)

1 Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 20, 1992, The Federal Reserve Statistical release, January 15, 1993 and *International Financial Statistics*, International Monetary Fund, December 1992.

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

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

Country	1989	1990	1991	1991 Dec.	1992 I	II	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
United States	4.8	5.4	4.2	2.6	2.8	3.4	6.2	2.6	1.7	3.5	1.7	3.5	(1)
Japan	2.3	3.1	3.3	-0.9	0.7	2.6	2.6	5.0	-1.0	4.9	-4.0	3.8	17.7
Canada	5.0	4.8	5.6	0	1.6	1.9	4.8	1.9	-0.9	1.9	1.9	1.9	(1)
Germany	2.8	2.7	3.5	1.1	3.0	4.1	6.5	1.1	5.4	3.2	2.1	4.2	(1)
United Kingdom	7.8	9.5	5.9	5.9	4.3	4.0	4.0	5.0	3.9	0.5	2.3	1.0	(1)
France	3.5	3.4	3.1	3.7	3.2	2.7	3.3	1.7	3.1	2.1	1.5	1.1	(1)
Italy	6.6	6.1	6.5	4.5	5.1	5.6	6.6	5.8	7.7	4.8	5.0	3.4	5.0

1 Not available.

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

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 20, 1992.

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

Country	1989	1990	1991	1992 I	II	III	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
United States	5.3	5.5	6.7	7.2	7.5	7.6	7.5	7.8	7.7	7.6	7.5	7.4	7.2
Japan	2.3	2.1	2.1	2.1	2.1	2.2	2.1	2.2	2.2	2.2	2.3	2.2	(5)
Canada	7.5	8.1	10.3	10.7	11.3	11.5	11.2	11.6	11.6	11.6	11.4	11.3	11.5
Germany[2]	5.7	5.2	4.4	4.4	4.6	4.8	4.6	4.7	4.7	4.8	4.8	5.0	5.0
United Kingdom	7.1	6.9	8.9	9.6	9.7	10.1	10.5	9.8	9.9	10.1	10.2	10.3	10.6
France	9.6	9.2	9.8	10.0	10.2	10.2	10.2	10.3	10.2	10.1	10.2	10.3	(5)
Italy[3]	7.8	7.0	6.9	7.0	6.9	6.9	(4)	(4)	(4)	(4)	(4)	(4)	(4)

1 Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.
2 Formerly West Germany.
3 Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11-12 percent in 1989-1990.
4 Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.
5 Not available.

e: *Unemployment Rates in Nine Countries*, U.S. Department of Labor ary 1993.

Money-market interest rates,[1] by selected countries and by specified periods, January 1989-December 1992
(Percentage, annual rates)

Country	1989	1990	1991	1992 I	II	III	IV	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov	Dec.
United States	9.3	8.3	5.9	4.2	3.9	3.2	3.3	3.8	3.9	3.4	3.3	3.1	3.2	3.5	3.4
Japan	5.3	7.7	7.3	6.6	6.3	4.0	(2)	4.7	4.6	4.3	3.9	3.9	3.8	3.8	(2)
Canada	12.2	13.0	9.0	7.3	6.5	5.3	(2)	6.6	6.0	5.6	5.2	5.3	7.5	7.6	(2)
Germany	7.0	8.4	9.1	9.6	9.8	9.6	(2)	9.7	9.6	9.7	9.8	9.4	8.8	8.8	(2)
United Kingdom	13.9	14.7	11.5	10.5	10.2	10.0	(2)	10.0	9.9	10.1	10.2	9.9	8.2	7.1	(2)
France	9.3	10.2	9.5	9.9	9.9	10.3	(2)	9.8	9.9	10.1	10.3	10.5	10.8	9.5	(2)
Italy	12.4	12.1	12.0	12.2	12.9	16.1	(2)	12.4	13.4	15.5	15.3	17.5	15.5	14.4	(2)

1 90-day certificate of deposit.
2 Not available.

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

Source: *Federal Reserve Statistical Release*, January 19, 1993 *Federal Reserve Bulletin*, January 1993.

Effective exchange rates of the U.S. dollar, by specified periods, January 1989-December 1992
(Percentage change from previous period)

Item	1989	1990	1991	1992 I	II	III	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
Unadjusted: Index[1]	91.3	86.5	85.5	84.8	85.2	81.4	85.5	83.7	81.7	80.9	81.7	83.8	89.1	87.5
Percentage change	6.4	-5.3	-1.2	.8	.4	-3.8	-1.0	-2.1	-2.4	-.9	.9	2.5	5.9	-1.8
Adjusted: Index[1]	91.8	88.1	87.0	86.7	86.9	83.1	87.3	85.4	83.3	82.7	83.3	85.5	87.1	89.7
Percentage[2] change	6.8	-4.0	-1.2	1.3	.2	-3.8	-1.0	-2.2	-2.4	-.7	.7	2.5	1.8	2.8

1 1980-82 average=100.

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

Source: Morgan Guaranty Trust Co. of New York, January 1993.

Trade balances, by selected countries and by specified periods, January 1989-November 1992
(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

				1992							
Country	1989	1990	1991	I	II	III	Jul.	Aug.	Sept.	Oct.	Nov.
United States[1]	-109.1	-101.7	-66.2	-59.6	-91.2	-99.2	-87.3	-107.3	-102.9	-84.4	-91.0
Japan	77.6	63.7	103.1	131.6	129.2	(3)	138.0	(3)	(3)	(3)	(3)
Canada	6.0	9.4	6.4	6.8	(3)	(3)	6.0	(3)	(3)	(3)	(3)
Germany[2]	71.9	65.6	13.5	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
United Kingdom	-40.4	-33.3	-17.9	-21.6	-22.4	(3)	-26.4	-27.6	(3)	(3)	(3)
France	-7.0	-9.2	-5.4	3.6	8.0	(3)	14.4	-7.2	(3)	(3)	(3)
Italy	-12.9	-10.0	-12.8	-10.4	-18.4	(3)	-16.8	10.8	(3)	(3)	(3)

[1] Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.
[2] Imports, c.i.f. value, adjusted.
[3] Not available.

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

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 20, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, January 15, 1993

U.S. trade balance,[1] by major commodity categories,and by specified periods, January 1989-November 1992
(In billions of dollars)

				1992							
Country	1989	1990	1991	I	II	III	Jul.	Aug.	Sept.	Oct.	Nov.
Commodity categories:											
Agriculture	17.9	16.3	16.2	5.1	3.7	4.0	1.3	1.2	1.5	2.1	1.9
Petroleum and selected product—(unadjusted)	-44.7	-54.6	-42.3	-8.1	-10.8	-12.2	-4.2	-3.9	-4.1	-4.3	-3.9
Manufactured goods	-103.2	-90.1	-67.2	-14.5	-16.9	-27.9	-9.6	-9.2	-9.1	-9.6	-9.0
Selected countries:											
Western Europe	-1.3	4.0	16.1	6.6	1.4	-1.4	-1.1	-.1	.2	.1	-.6
Canada[2]	-9.6	-7.7	-6.0	-1.4	-1.8	-1.8	-.3	-.7	-.7	-1.0	-.7
Japan	-49.0	-41.0	-43.4	-10.8	-11.1	-12.0	-3.9	-3.7	-4.4	-4.9	-4.7
OPEC (unadjusted)	-17.3	-24.3	-13.8	-1.5	-2.2	-3.9	-1.5	-1.3	-1.1	-1.1	-1.3
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$16.80	$19.75	$17.49	$14.57	$16.82	$18.00	$18.18	$17.96	$17.86	$18.15	$17.72

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.
[2] Beginning with 1989, figures include previously undocumented exports to Canada.

Source: Advance Report on U.S. Merchandise Trade, U.S. Department of Commerce, January 15, 1993.

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