INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

Washington DC
20436

January 1994

In This Issue:

UNITED STATES
INTERNATIONAL
TRADE COMMISSION

OFFICE OF ECONOMICS

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The *International Economic Review* is a monthly staff publication of the Office of Economics, U.S. International Trade Commission. The opinions and conclusions it contains are those of the authors and do not necessarily reflect the views of the Commission or of any individual Commissioner. The *Review* is produced as part of the Commission's international trade monitoring program. Its purpose is to keep the Commission informed about significant developments in international economics and trade, and to maintain the Commission's readiness to carry out its responsibility to provide technical information and advice on international trade matters to policy-makers in the Congress and the Executive branch. The *Review* is available to Government officials outside the Commission on a request basis. Inquiries or comment on items appearing in the *Review* may be made directly to the author, or to:

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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Productivity (as measured by output per hour of all persons engaged in production) posted higher gains in the third quarter, according to revised data reported by the U.S. Department of Labor. (All data are seasonally adjusted at annualized rates.)

Productivity in the business sector increased by 3.6 percent, output grew by 3.5 percent, and number of hours worked declined by 0.1 percent. These data are compared with previously reported productivity gains of 3.3 percent, output growth of 3.2 percent, and a decline in hours worked of 0.1 percent.[1]

Hourly compensation in business increased by 3.9 percent in the third quarter, compared with a 2.5-percent increase in the second quarter. Unit labor costs that reflect changes in hourly compensation and productivity increased by 0.3 percent. Real hourly compensation increased by 2.7 percent after falling by 0.4 percent in the second quarter.

Productivity in the nonfarm business sector rose by 4.3 percent in the third quarter, output rose by 4.4 percent, and number of hours worked increased by 0.1 percent. In the second quarter, productivity had fallen by 0.4 percent as output increased by 4.0 percent, but hours worked increased by 4.4 percent.

Hourly compensation in nonfarm business increased by 3.7 percent in the third quarter, compared with a 1.9-percent increase in the second. Real hourly compensation rose by 2.5 percent in the third quarter. Real hourly compensation had declined during the first two quarters of 1993. Unit labor costs fell by 0.6 percent, compared with a 2.3-percent rise during the second quarter of 1993. This marked the first quarterly decline in unit labor costs since 1987, according to the Department of Labor.

[1] Productivity as measured by the U.S. Department of Labor relates output to manhours. However, this measurement actually indicates the joint effects of changes in several other factors, including technology, capital investment, capacity utilization, and organizational and managerial skills—in addition to the effort of the labor force.

Productivity in manufacturing increased in the third quarter by 3.1 percent, compared with previously reported gains of 2.4 percent. Output grew by 2.5 percent and the number of hours worked declined by 0.6 percent. Within manufacturing, durable goods productivity surged 4.1 percent, as output increased by 3.9 percent, and number of hours worked declined by 0.2 percent. Nondurable goods productivity increased by 1.7 percent, output increased by 0.4 percent, and number of hours worked declined by 1.3 percent.

The productivity increase in manufacturing in the third quarter was lower than the gains reported in the more comprehensive business and nonfarm business sectors. This disparity is possible because manufacturing includes only about 20 percent of U.S. business employment.

Hourly compensation of all manufacturing workers increased 3.3 percent in the third quarter, compared with a 4.9-percent increase during the second. Real hourly compensation rose 2.1 percent in the third quarter. During the second quarter, real hourly compensation had increased by 1.9 percent. Unit labor cost rose by 0.2 percent at an annual rate in the third quarter of 1993. Unit labor cost had decreased 1.0 percent during the second quarter of 1993.

In November 1993, U.S. retail sales, when adjusted for seasonal variations but not for price changes, increased by 0.4 percent, following a revised 1.8-percent increase in October. The retail sales were above those of November 1992 by 7.1 percent, according to the U.S. Department of Commerce. Total sales in the September-through-November period were above those of the same period a year ago by 6.7 percent. Sales of durable goods increased by 0.9 percent from the rate of October: 13.7 percent more than the rate of the previous year. Nondurable goods increased by 0.1 percent from October: 3.3 percent more than the rate of November 1992.

The U.S. Current Account

The U.S. current account deficit increased to $28.0 billion in the third quarter of 1993, from $27.2 billion in the second, according to the Department of Commerce.

The deficit in goods and services trade increased to $22.2 billion in the third quarter, up from $19.9 billion in the second. The deficit in merchandise trade increased to $36.3 billion in the third quarter from $34.4 billion in the second. Merchandise exports decreased by $1.2 billion, to $111.9 billion; both agricultural and nonagricultural exports decreased. Merchandise imports increased by $0.7 billion, to $148.2 billion; an increase in nonpetroleum imports more than offset a decrease in petroleum imports.

The surplus in services trade decreased to $14.1 billion in the third quarter, down from $14.5 billion in the second. Services receipts decreased by $0.2 billion, down to $46.6 billion. Services payments increased by $0.2 billion, to $32.5 billion.

The surplus in investment income increased to $1.7 billion in the third quarter, compared with a small surplus in the second. Income receipts of U.S. assets abroad increased to $28.7 billion from $27.9 billion. Direct investment income receipts increased to $14.9 billion from $14.4 billion, mostly as a result of an increase in earnings of manufacturing affiliates in Latin America. Other private income receipts and U.S. Government income receipts also increased.

Income payments on foreign assets in the United States decreased to $26.9 billion from $27.8 billion. Direct investment income payments decreased to $2.2 billion from $2.7 billion, reflecting a decrease in operating earnings by manufacturing affiliates in the United States. Other private income payments decreased, and U.S. Government income payments increased.

Capital Account

Net recorded capital inflows were $22.5 billion in the third quarter, compared with $13.0 billion in the second. U.S. assets abroad increased by $44.0 billion in the third quarter, compared with a $29.3 billion increase in the second. Record third-quarter purchases of foreign securities almost equaled total purchases for all of 1992.

U.S. claims on foreigners reported by U.S. banks decreased $7.5 billion in the third quarter, compared with a decrease of $5.3 billion in the second. U.S. interbank claims decreased in the third quarter as a result of large repayments of loans by affiliated offices in Japan, as well as weak interbank demand from Western Europe.

Net U.S. purchases of foreign securities reached a record $45.3 billion in the third quarter, compared with $24.1 billion in the second. U.S. residents sharply stepped up their purchases of both foreign stocks and bonds. Net stock purchases were a record $24.4 billion in the third quarter, compared with $13.5 billion in the second. Declining interest rates abroad and rising foreign stock prices encouraged an increase in purchases of foreign stocks during the third quarter, as U.S. investors regarded these developments as signs of improving prospects for economic recovery. Net foreign bond purchases were a record $20.9 billion, compared with $10.6 billion in the second quarter. Third-quarter purchases reflected record foreign issues of new bonds in the United States, prompted in part by falling U.S. long-term interest rates.

Net capital outflows for U.S. direct investment abroad were $5.6 billion in the third quarter, compared with net capital outflows of $11.6 billion in the second. A large shift to intercompany debt inflows and a small decrease in equity capital outflows were partly offset by an increase in reinvested earnings abroad.

Foreign assets in the United States increased by $66.5 billion in the third quarter, compared with a $42.4 billion increase in the second. Net inflows to U.S. banks were larger than net inflows on foreign direct investment.

U.S. liabilities to private foreigners reported by U.S. banks, excluding U.S. Treasury securities, increased $23.5 billion in the third quarter, in contrast to a decrease of $1.4 billion in the second. The inflows reflected borrowing of U.S. foreign-owned banks from the overseas interbank market. Also the volatility in European foreign exchange markets encouraged a movement into dollar assets that increased capital inflows.

Net foreign purchases of U.S. Treasury securities were $4.0 billion in the third quarter, in contrast to net sales of $0.6 billion in the second. Net foreign purchases of U.S. securities other than U.S. Treasury securities were $17.4 billion in the third quarter, compared with $15.0 billion in the second. Net foreign purchases of U.S. stocks were $2.5 billion, compared with $0.2 billion. Net foreign purchases of U.S. bonds were $14.9 billion, compared with $14.8 billion; a step-up in inflows from sales of outstanding bonds was nearly offset by a decrease in new issues sold abroad by U.S. corporations.

Net capital inflows for foreign direct investment in the United States were $1.9 billion in the third quarter, compared with $10.3 billion in the second. A large shift in intercompany debt transactions from inflows to outflows more than accounted for the change. Equity capital inflows remained at about the same pace as in the previous quarter.

Foreign official assets in the United States increased by $19.6 billion in the third quarter, compared with a $17.7 billion increase in the second. Unusually large increases in assets of non-OPEC developing countries and in assets of industrial countries more than offset a small decrease in assets of OPEC members.

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

Economic Growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew at a 2.9-percent annual rate in the third quarter, following a revised annual rate of 1.9 percent in the second quarter of 1993 and a growth rate of 0.8 percent in the first quarter.

The annualized rate of real economic growth in the third quarter was 2.0 percent in the United Kingdom, 2.4 percent in Canada, and 2.6 percent in Germany. The annualized rate of real economic growth in the second quarter of 1993 was -1.6 percent in Japan, 1.0 percent in France, and 3.1 percent in Italy.

Industrial Production

Seasonally adjusted U.S. nominal industrial production increased 0.9 percent at an annual rate in November, following a revised gain of 0.7 percent in October. The acceleration in recent months was fueled by a 20-percent increase in the production of motor vehicles and parts between August and November. Excluding motor vehicles and parts, industrial production grew by 0.5 percent in November. For the year ending November 1993, industrial production increased by 4.4 percent above its level in November 1992.

Total capacity utilization in manufacturing, mining, and utilities grew by 0.6 percent, to 83.0 percent in November 1993, and capacity utilization in manufactures grew by 0.7 percent, to 82.2 percent. From November 1992 to November 1993, total capacity utilization increased by 1.6 percent and capacity utilization in manufacturing increased by 1.8 percent.

Other G-7 member countries reported their annual growth rates of industrial production for the year ending October 1993. Japan reported a decrease of 6.2 percent, and Germany a decrease of 3.8 percent. For the year ending September 1993, the United Kingdom reported an increase of 2.1 percent, France a decrease of 3.5 percent, Italy a decrease of 0.8 percent, and Canada an increase of 5.1 percent.

Prices

The seasonally adjusted Consumer Price Index rose by 0.2 percent, following an increase of 0.4 percent in October and no change in September 1993. The CPI advanced by 2.7 percent during the 12 months ending November 1993. During the 1-year period ending November 1993, prices increased by 3.7 percent in Germany, 4.1 percent in Italy, 1.9 percent in Canada, 2.2 percent in France, 1.4 percent in the United Kingdom, and 1.3 percent in Japan.

Employment

In November 1993, the U.S. unemployment rate declined to 6.4 percent from its October level of 6.8 percent. In other G-7 countries, unemployment in November 1993 was 9.0 percent in Germany, 11.0 percent in Canada, 11.7 percent in Italy, 10.2 percent in the United Kingdom, 12.0 percent in France, and 2.7 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasters expect real growth in the United States to improve in the fourth quarter, to a 3.8-percent annual rate, compared to the second-quarter growth rate of 2.9 percent. The real growth rate for the first half of 1994 is expected to average between 3.1 percent and 3.3 percent. Factors likely to restrain the recovery to such a moderate average rate of growth include (1) the general slowdown in foreign economic growth, particularly in Japan, Germany, and other EU[2] countries, which is expected to continue into 1994, and (2) the ongoing structural adjustment in the financial and nonfinancial sectors, which is weakening domestic demand, incomes, and employment. Although consumer spending has modestly increased in recent months, forecasters expect consumer spending to increase slowly unless personal incomes keep rising strongly enough, and employment prospects improve sufficiently to encourage more spending. Also, the upcoming tax increase and the cuts in government spending, unless counterbalanced by monetary and fiscal expansion targeting more productive sectors, could have dampening effects on consumer spending and confidence, and thus further moderate the recovery in 1993 and 1994. Table 1 shows macroeconomic projections for the U.S. economy for October 1993 to

[2] With the Maastricht Treaty entering into effect on November 1, 1993, the official name of the organization formerly called the "European Community" became the "European Union" (EU).

Table 1
Projected changes of selected U.S. economic indicators, by quarters, July 1993-June 1994

(In percent)

Period	UCLA Business Fore-casting Project	Merrill Lynch Capital Markets	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore-casts
			GDP current dollars		
1993:					
Oct.-Dec.	6.2	6.8	5.6	6.7	6.3
1994:					
Jan.-Mar.	6.6	5.6	6.2	5.7	6.0
Apr.-June	6.2	5.3	5.9	5.7	5.8
July-Sept.	5.9	5.8	5.4	5.9	5.7
			GDP *constant (1987) dollars*		
1993:					
Oct.-Dec.	4.1	4.2	3.1	4.0	3.8
1994:					
Jan.-Mar.	3.9	2.7	3.1	2.8	3.1
Apr.-June	3.8	2.9	3.3	3.0	3.3
July-Sept.	4.0	3.1	2.9	3.1	3.3
			GDP deflator index		
1993:					
Oct.-Dec.	1.9	2.5	2.4	2.6	2.3
1994:					
Jan.-Mar.	2.6	2.8	3.1	2.9	2.8
Apr.-June	2.3	2.3	2.5	2.6	2.4
July-Sept	1.8	2.6	2.5	2.7	2.4
			Unemployment, average rate		
1993:					
Oct.-Dec.	6.6	6.7	6.7	6.6	6.7
1994:					
Jan.-Mar.	6.4	6.7	6.5	6.5	6.5
Apr.-June	6.3	6.6	6.3	6.3	6.3
July-Sept.	6.1	6.5	6.2	6.3	6.3

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: January 1994.

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

September 1994, by four major forecasters, and the simple average of their 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 6.7 throughout 1993 and then a decline to 6.3 percent in the second and third quarters of 1994. Inflation (as measured by the GDP deflator) is expected to rise to an average of about 2.4 percent. Productivity growth combined with a slow rise in labor costs, wages, and compensations is expected to hold down inflation within the 2.4-percent rate throughout 1994.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of $40.1 billion and imports of $50.6 billion in October 1993 resulted in a merchandise trade deficit of $10.5 billion, nearly $200 million less than the September deficit of $10.6 billion. The October deficit was 44.5 percent higher than the deficit registered in October 1992 ($7.2 billion) and 14.2 percent higher than the average monthly deficit registered during the previous 12 months ($9.1 billion). In the period January through October 1993, the trade deficit reached $98.2 billion, 44 percent higher than the January-October 1992 deficit ($68.2 billion).

Table 2 shows seasonally adjusted U.S. merchandise trade in billions of dollars, as reported by the U.S. Department of Commerce. Table 3 shows nominal export changes and trade balances for specific major commodity sectors. Table 4 shows U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners.

Table 2
U.S. merchandise trade, seasonally adjusted, Sep.-Oct. 1993

(Billion dollars)

	Exports		Imports		Trade balance	
	Oct.	Sep.	Oct.	Sep.	Oct.	Sep.
Current dollars— Including oil	40.1	38.9	50.6	49.5	-10.5	-10.6
Excluding oil	39.6	38.4	46.2	45.3	-6.5	-6.9
1987 dollars	38.9	37.7	49.5	48.3	-10.6	-10.6
3-month-moving average	39.0	38.0	49.4	48.4	-10.4	-10.4
Advanced-technology products (not seasonally adjusted)	9.8	8.5	7.2	7.2	2.6	1.3

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

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors and agriculture, Jan. 1992-Oct. 1993

	1993 Exports		Change			
	Jan.-Oct. 1993	Oct. 1993	Jan.-Oct. 1993 over Jan.-Oct. 1992	Oct. 1993 over Sep. 1993	Share of total, Jan.-Oct. 1993	Trade balances, Jan.-Oct. 1993
	Billion dollars		*Percent*			*Billion dollars*
ADP equipment & office machinery	22.0	2.3	-.1	0	5.8	-13.14
Airplane	17.3	1.8	-21.6	50.0	4.5	14.36
Airplane parts	7.8	.9	-0.4	16.9	2.0	5.64
Electrical machinery	30.4	3.4	13.7	9.9	7.9	-7.80
General industrial machinery	16.3	1.7	4.8	3.7	4.3	2.09
Iron & steel mill products	2.8	.3	-7.0	7.1	.7	-4.46
Inorganic chemicals	3.3	.4	-6.7	50.0	.9	.62
Organic chemicals	9.2	.9	-1.7	1.1	2.4	1.47
Power-generating machinery	15.9	1.6	6.8	4.5	4.1	1.81
Scientific instruments	12.7	1.4	6.4	4.6	3.3	5.84
Specialized industrial machinery	14.6	1.5	4.7	5.6	3.8	3.41
Telecommunications	10.6	1.2	14.7	5.1	2.8	-11.64
Textile yarns, fabrics and articles	4.9	.5	1.6	4.1	1.3	-2.13
Vehicle parts	15.8	1.7	14.2	0	4.1	1.16
Other manufactured goods[1]	21.9	2.2	-3.1	-4.4	5.7	-7.00
Manufactured exports not included above	95.0	10.6	8.6	8.4	24.8	-85.14
Total manufactures	300.6	32.4	4.1	7.5	78.5	-94.91
Agriculture	34.0	3.8	-1.8	20.6	8.9	14.31
Other exports	48.4	5.0	-0.1	5.9	12.6	-16.29
Total	383.0	41.2	3.0	8.4	100.0	-96.89

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

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

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

Table 4
U.S. merchandise trade deficits and surpluses, not seasonally adjusted, with specified areas, Jan. 1992-Oct. 1993

(Billion dollars)

Area or country	Oct. 1993	Sep. 1993	Oct. 1992	Jan.-Oct. 1993	Jan.-Oct. 1992
Canada	-1.23	-1.03	-1.09	-8.86	-6.06
Mexico	-.39	-.10	.04	1.36	4.46
Western Europe	-.17	-.39	-.07	-.48	7.10
European Union (EU)	-.02	-.27	.29	.01	9.28
Germany	-.83	-.88	-.86	-7.49	-5.59
European Free-Trade Association (EFTA)[1]	-.26	-.24	-.50	-2.43	-3.49
Japan	-6.09	-5.33	-4.89	-48.29	-39.75
China	-2.65	-2.51	-2.00	-19.35	-15.47
NICs[2]	-1.24	-1.60	-1.32	-10.21	-12.17
FSU[3] Eastern Europe	.24	.08	.33	2.08	2.75
FSU	.17	.06	.30	1.39	2.42
Russia	.11	.03	.21	.78	1.36
OPEC	-.73	-1.09	-1.18	-11.28	-8.98
Trade balance	-12.19	-12.52	-9.71	-96.89	-68.58

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

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

[3] Former Soviet Union.

Note.— Because of rounding, country/area figures may not add to the totals shown. 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)*, Dec. 1993.

INTERNATIONAL TRADE DEVELOPMENTS

South Korea To Allow Rice Imports

Rice was one of the most sensitive issues facing South Korea in the Uruguay Round. In the last days of the General Agreement on Tariffs and Trade (GATT) negotiations, Korea agreed to lift its ban on rice imports. After talks between U.S. Secretary of Agriculture Mike Espy and South Korean Foreign Minister Shin Hua Haeng, Korea announced that it would open 1 percent of its rice market to imports by 1995. The agreement provides a 10-year grace period for tariffication of rice import controls. The share of foreign rice would rise to 4 percent by 2005. U.S. officials estimate that Korea consumes 4.5 to 5.0 million tons of rice annually.

President Kim Young-Sam, who has enjoyed considerable popularity during the first year of his reform-oriented administration, announced the agreement to remove the import ban with an apology: "I sincerely apologize for having failed to block rice imports. . . . As president, I frankly take the responsibility." He added that "I decided that we can neither survive nor develop by becoming an international orphan. I thought we should open the door and go outward rather than close the door and defend what we have." He pledged that his government would actively support restructuring the Korean farming sector. USTR Mickey Kantor described Korea's commitment to import foreign rice "courageous."

Less than a week before agreeing to open the rice market, the Korean Government announced it was abandoning its efforts at the GATT talks to maintain its imported rice ban. In Seoul the day before the announcement, more than 20,000 people rallied against the agreement. "It's a grave crime," said opposition leader Lee Kie Tack. A farmer chided President Kim, saying "the government has been telling us it would protect us. Even Kim Young-Sam said he would protect the rice market during his presidency, now we hear this about-face on policy, just overnight."

In a gesture to show shared responsibility for allowing rice imports, President Kim's entire Cabinet offered to resign. The President replaced 2 Deputy Prime Ministers and 12 Cabinet Ministers. The question of whether to import rice has long been contentious between the United States on one side and Japan, Korea, and Taiwan on the other. Japan agreed to increase the foreign share of its rice to 4 percent of domestic consumption in 1995. The share is scheduled to rise to 8 percent by 2000. Taiwan agreed to allow rice imports after its admission to GATT. Representatives from Taiwan said that the Uruguay Round outcome will form the basis for Taiwan membership in GATT. A GATT working party is currently considering the Taiwan application.

After the agreement was announced in Korea, thousands reportedly protested at demonstrations scattered nationwide, against the prospect of rice imports. Led by farmers, civic leaders, and politicians, some demonstrators called for a national referendum on the question of opening agricultural markets to imports. Demonstrators criticized both U.S. pressure to allow rice imports and Korean Government officials who consented to opening the rice sector to imports. Some farmers set fire to crops while others symbolically burned the United States in effigy. After the agreement was announced, a spokesman for the opposition Democratic Party said, "We will refuse to ratify the agreement when it comes to the National Assembly."

Korea has long resisted U.S. and multilateral efforts to open its rice market. The Korean Government had argued that the rice ban should remain in effect to maintain food security. Korea also argued that rice imports would create serious political and economic difficulties by severely harming the livelihood of the 8 million rice farmers in Korea.

The Korean Consumers Union released results of a recent nationwide poll shortly before President Kim's announcement. Forty-one percent of respondents said it was inevitable that the rice market would be opened at least partially. Fifty-eight percent of respondents said the Korean Government should never allow rice imports, down from 77 percent of respondents in October. Those who said that opening the rice market was inevitable cited international trade principles and concern about harm to Korean exports. Some 90 percent of the 1,053 Koreans polled nationwide said that the Korean Government had mishandled the rice issue in Uruguay Round negotiations.

Although the Korean Government may allow future rice imports, foreign rice suppliers may face difficulty finding Korean customers. Sixty-four percent of those willing to allow rice imports (about 26 percent of all those polled) said that they would never buy imported rice. Fourteen percent of total respondents said they were willing to buy foreign rice, but only if it cost about half as much as domestic rice.

The Miami Conference: Brainstorming About the Caribbean Basin

On December 1, 1993, President Clinton met with the Presidents of seven Central American countries and learned officially that they were about to establish a Commission to investigate the implications of joining the North American Free-Trade Agreement (NAFTA). President Clinton promised that shortly after the New Year his administration would begin studying the possibility of NAFTA expansions.

The seven Central American leaders interrupted their participation at the annual Miami Conference on the Caribbean Basin to meet with President Clinton. The Miami Conference was sponsored by the U.S. Government and the Caribbean/Latin American Action Group (CLAA,) which is a nongovernmental, nonprofit organization. Upon return from Washington, DC to Miami, the Presidents used the term "historic" for their meeting with the U.S. President. While addressing the customary broad range of issues, participants at the 1993 conference had to face squarely what NAFTA implied for all Caribbean and Latin American countries.

The Caribbean Basin spokesmen could see the sweeping economic policy changes pioneered in Latin America by Mexico in the past decade. Some leaders—including the Presidents of the Dominican Republic, Guatemala, and El Salvador—reported on the market-oriented measures their own Governments have taken or now contemplate. The Caribbean Basin representatives spoke frankly of how they felt about challenge from international competition, and they acknowledged their need to search for how to apply the concept of free competition to their own particular countries. The conference presentations showed some "deep thinking" about the merits of protectionism *versus* free trade, bilateralism *versus* multilateralism, and the appropriate levels and groupings for effective Caribbean integration.

For some time, Caribbean Basin nations have enjoyed financial aid from supranational institutions and **one-way** trade preferences from countries or country groups (for example, the General System of Preferences, the Caribbean Basin Economic Recovery Act program [generally known as CBERA;] and benefits under the Lomé convention). Change to an new era of *reciprocity,* as typified by the NAFTA, seemed an uncomfortable prospect to some Caribbean speakers. Although seemingly anxious to attract foreign investment, they expressed concern about any obligation under reciprocity to grant intellectual property rights (IPR), to allow the repatriation of foreign funds, to liberalize their foreign investment laws, and to raise their environmental and labor standards, as Mexico is now required to do by its NAFTA partners. A few spokesmen even expressed concern that perceived but nonoccurring deficiencies in these areas could be used unfairly against their countries in trade negotiations.

At least one spokesmen raised the questions of whether Caribbean Basin countries would gain by joining NAFTA; whether joining would be only symbolic; and whether joining would be perceived as desirable but not really be so. But conference participants did not argue seriously against joining the NAFTA or doing so through some smaller free-trade arrangement. Virtually all seemed to think that their countries needed to join some community on a reciprocal basis and that staying out would result in trade diversion towards other nations (Mexico, in the case at hand) and would mean renouncing the long-term benefits of regional free trade. Nonetheless, many Caribbean leaders were aware that competitiveness is the key to gaining benefit from any reciprocal arrangement, so they mentioned the need for more time for their countries to adjust, while still enjoying unilateral assistance from the rich countries.

The President of Guatemala expressed concern to President Clinton about a decline of U.S. aid to the region. "We feel that this particular historic moment is the very worst one to be cutting back," he said. Others pointed out at the conference that the 3-year adjustment period was too short, as proposed in the Gibbons bill (H.R. 1430), at the end of which CBERA beneficiaries would have to decide for or against the NAFTA. In several presentations, the recurring theme was the realization that many nontraditional economic activities in Caribbean countries (except for their free-trade zones) are not competitive.

The question was raised: which current regional formation is most likely to speak for all Caribbean interests and to lead future Caribbean economic policy? For U.S. policy purposes in the past decade, the 28 Caribbean Basin countries were potentially eligible for the CBERA program: almost all countries of the Basin except Cuba and some French territories that the French Government did not wish to see participate (Martinique, Guadalupe, and French Guiana). But CBERA countries do not form a regional unit for their own policy-making purposes. The de facto Caribbean groupings most likely to speak with one voice are—(1) the Central American countries organizing as the Central American Common Market (CACM), and (2) the Caribbean Community countries (CARICOM), a group of the English-speaking countries of the Basin. A few speakers at the conference noted that all CBERA beneficiaries now share a common and preferential economic access to the U.S. market. Since access to the U.S. market matters to all of them, some participants suggested that the community of CBERA beneficiaries should be the *de facto* vehicle of the Caribbean economic integration process, rather than the smaller components of the Basin such as CACM and CARICOM.

Virtual Hemispheric Free Trade: What Mexico (and Chile) Bring to NAFTA[3]

Latin American and Caribbean countries have closely watched developments as the United States, Canada, and Mexico begin to implement the North American Free-Trade Agreement (NAFTA). Some Caribbean and Central American governments were concerned at first that NAFTA would divert to Mexico much of the region's North American trade and investment. However, even before the U.S. Congress voted to approve NAFTA in November 1993, most Latin American and Caribbean nations voiced support for the agreement and foresaw potential gains from the enlarged North American market of over 360 million people and over $6 trillion in annual output that NAFTA will create. Some Latin American leaders are particularly heartened by signals that President Clinton may follow up on a Bush administration pledge to negotiate FTAs with other Latin American and Caribbean countries—with Chile most likely to be the first candidate. Such subsequent FTAs could be negotiated either bilaterally with the United States or with all three NAFTA partners under the NAFTA accession clause (article 2205).

During 1993, Latin American and Caribbean countries continued to expand their network of regional FTAs in order to introduce market-oriented economic reforms and to liberalize trade on a regional basis (see *IER*, April 1991 and October 1992). Three large regional trade blocs have led the way: the Caribbean Community (CARICOM), the Central American Common Market (CACM), and the Latin American Integration Association (LAIA), which includes the two LAIA subregional trade blocs, the Andean Group and the Southern Common Market (MERCOSUR).[4]

Most Latin American and Caribbean countries also have stepped up efforts to conclude FTAs with Mexico that should facilitate their access to the new NAFTA market. Free-trade links with Mexico could leave a number of countries favorably positioned as low-cost offshore production platforms for Mexican industries that produce for the NAFTA market. Although goods generally must be wholly of North American origin to qualify under NAFTA (article 401), under certain conditions non-North American materials may be considered North American. The materials must be so transformed in the NAFTA region as to deserve a specific change in tariff classification or they may contain a specified percentage of North American content in addition to meeting the tariff classification requirement (article 402).

Some Latin American and Caribbean countries have also concluded or are negotiating FTAs with both Mexico and Chile, while anticipating that NAFTA may eventually become a hemispheric FTA. Mexico and Chile could become important regional anchors in a hemispheric FTA because of their successful records in implementing market-oriented economic reforms.[5] Free-trade links with either of these countries could help accelerate the lowering of tariff and nontariff barriers in Latin America and could elevate regional trade and investment regimes so that they would come closer to the NAFTA standard. Alternatively, some countries may consider an FTA with either Mexico or Chile as a way to gain limited *de facto* NAFTA

[3] This IER article is a revision of one last month in the *IER*, Dec. 1993.

[4] CARICOM members are Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. CACM members are Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. LAIA members are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. Andean Group members are Bolivia, Colombia, Ecuador, Peru, and Venezuela. MERCOSUR members are Argentina, Brazil, Paraguay, and Uruguay.

[5] Trade liberalization in Mexico began in 1985, and more widespread market-oriented domestic economic reforms were underway by 1986. These reforms are analyzed in USITC, *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations*, USITC publication 2275, Apr. 1990. Chile's record of free-market economic policies and trade liberalization since 1973 is discussed in more detail in USITC, *U.S. Market Access in Latin America: Recent Liberalization Measures and Remaining Barriers (With a Special Case Study on Chile)*, USITC publication 2521, June 1992.

partnership status while avoiding full compliance with NAFTA trade and investment protection standards or while circumventing such standards under a bilateral trade agreement with the United States. The following paragraphs sum up the FTAs that various Latin American and Caribbean countries have implemented or are negotiating with Mexico and Chile.

FTAs with Mexico

Mexico is negotiating FTAs with its Central American neighbors. Mexico also is establishing a network of FTAs with a number of South American and Caribbean countries.

Chile.—The bilateral Chile-Mexican FTA was the first new FTA in Latin America in the 1990s. This FTA entered into force January 1, 1992 and is scheduled to phase out most tariffs and eliminate nontariff barriers by January 1, 1996. Tariff elimination on 5,862 products under the agreement will cover 94 percent of items traded bilaterally. Bilateral trade in this combined market of over 96 million persons increased from $150 million in 1990 to $200 million in 1992.[6] The FTA also has an accession clause that permits other LAIA countries to accede to the agreement.

Colombia and Venezuela.—In September 1990, Mexico, Colombia, and Venezuela, known as the Group of Three (G-3), signed an agreement to expand economic ties and create common energy projects on the continental rim of the Caribbean Basin. After that initial agreement, the G-3 countries started to negotiate for a trilateral FTA that would create a combined market of over 136 million people. Trade among these three countries in 1992 totaled nearly $1.4 billion. In November 1993, G-3 representatives reportedly reached agreements in the areas of agriculture, services, investment, intellectual property rights, dispute resolution, and unfair trade practices. Still subject to negotiation are the tariff liberalization schedule, the automotive sector, government procurement, and rules of origin. The G-3 countries are discussing the creation of an enlarged Caribbean "economic space" with the CARICOM countries (see below).

CARICOM.—In October 1993, following a meeting of the heads of state of CARICOM and the G-3, an official communiqué from these leaders called for the creation of an Association of Caribbean States (ACS) to establish closer economic and political ties and to create an enlarged Caribbean "economic space"—possibly including Cuba—to promote intraregional trade and to integrate the regional economy. The Caribbean countries are scheduled to discuss the future role of ACS at the June 1994 CARICOM summit. In addition to duty-free access to the United States through CBI, many products of CARICOM countries already have duty-free access to Canada under a Caribbean-Canadian program known as CARIBCAN.[7]

CACM.—In January 1991, the Presidents of Mexico and the CACM countries signed a framework agreement that envisions the formation of a Mexico-Central America FTA by December 31, 1996. The agreement requires each CACM country to negotiate a separate bilateral agreement with Mexico. This procedure would give the less developed and less competitive CACM countries more time to integrate with Mexico. The CACM nations are scheduled to implement their own regional FTA by December 31, 1995.

Other Countries.—Mexico has initiated discussions for a bilateral FTA with both Bolivia and Brazil.

FTAs with Chile

Chile was a founding member of the Andean Group, but left that trade pact in 1976 to chart an independent economic course. For years, the Chilean Government subsequently declined to enter into FTAs with other Latin American countries that had not successfully deregulated their economies and resumed stable economic growth. After an FTA with Mexico entered into force in January 1992, Chile began negotiating FTAs with other Latin American countries.

Bolivia.—Despite having had no diplomatic relations since 1962,[8] these two neighboring countries negotiated an FTA that entered into effect on July 1, 1993. Under the agreement, Chile will grant unilateral duty-free treatment to a small number of Bolivia's principal important exports. In addition, Bolivia will phase in duty-free treatment for 74 Chilean products while Chile phases in duty-free treatment for 94 Bolivian goods. Bilateral trade in 1992 reportedly was less than $100 million in a combined market of 21 million persons.

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[6] Data in this article are compiled from official government sources and from International Monetary Fund, *Direction of Trade Statistics*.

[7] CBI and CARIBCAN entered into force in 1984 and 1986, respectively. Both CBI and CARIBCAN exclude or restrict duty-free imports of such Caribbean products as textile and apparel that will not face similar restrictions when imported from Mexico when NAFTA becomes operative.

[8] Diplomatic relations were briefly reestablished during the period 1975-1978. Bolivia broke off diplomatic relations in 1962 as part of its demand that access to the Pacific Ocean, lost during the 1879 War of the Pacific, be restored.

Venezuela.—A bilateral FTA entered into effect on July 1, 1993, that aims to permit the free circulation of goods and services between these two nonneighboring countries with combined population of 33 million people. The agreement's Tariff Liberalization Program has a two-track tariff-lowering scheme. The schedule eliminates tariffs on 90 percent of bilaterally traded goods by 1997; tariffs on more sensitive products are scheduled to be eliminated by 1999. The FTA will exclude a small number of price-sensitive products. Bilateral trade totaled nearly $280 million in 1992.

Brazil and MERCOSUR countries.—The two nonneighboring countries have initiated discussions for a bilateral FTA despite Chilean Government assertions in the past that it would not negotiate with the MERCOSUR countries until they stabilize their economies. The Chilean resistance is probably directed towards Brazil, which has been unable to cure chronic inflation and stagnant growth. Dominated by large and populous Brazil, MERCOSUR has an internal market of over 195 million people and generates more than $4 billion annually in intraregional trade; Chile would add little to this group's economic weight. Chile also has signed "economic complementation" agreements with neighboring Argentina that may lead to FTA discussions.

Colombia.—The two nonneighboring countries have nearly completed negotiations for a bilateral FTA. The agreement would create a combined market of 47 million persons, and reportedly it will schedule the elimination of tariffs on most bilaterally traded products by 1999. Bilateral trade totaled nearly $235 million in 1992.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, Jan. 1990-Nov. 1993.
(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1990	1991	1992	1993 I	1993 II	III	May	June	July	Aug.	Sept.	Oct.	Nov.
United States	0.0	-1.8	2.3	5.5	2.3	2.4	-2.4	2.4	2.4	2.4	4.8	8.4	10.8
Japan	4.5	2.2	-7.6	(1)	(1)	(1)	(1)	-2.9	1.9	-2.2	(1)	(1)	(1)
Canada	0.3	-1.0	0.5	(1)	(1)	(1)	(1)	-0.2	1.2	-2.2	(1)	(1)	(1)
Germany	5.9	3.2	-1.4	(1)	(1)	(1)	(1)	1.0	-0.3	(1)	(1)	(1)	(1)
United Kingdom	-0.6	-3.0	-0.3	(1)	(1)	(1)	(1)	2.1	-0.5	(1)	(1)	(1)	(1)
France	1.3	0.6	-1.3	(1)	(1)	(1)	(1)	0.2	-0.3	(1)	(1)	(1)	(1)
Italy	-0.6	-1.8	-0.6	(1)	(1)	(1)	(1)	5.1	-2.8	(1)	(1)	(1)	(1)

1 Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Nov. 20, 1992; *Federal Reserve Statistical Release*; Dec. 15, 1993; and *International Financial Statistics*, International Monetary Fund, June 1993.

Consumer prices, by selected countries and by specified periods, Jan. 1990-Oct. 1993
(Percentage change from same period of previous year)

Country	1990	1991	1992	1992 IV	1993 I	II	III	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.
United States	5.4	4.2	3.0	3.0	3.2	3.1	2.7	3.6	3.2	3.2	3.0	2.8	2.8	2.7	2.8
Japan	3.1	3.3	1.6	1.0	1.3	0.9	1.8	3.6	0.9	0.9	0.9	1.9	1.9	1.5	(1)
Canada	4.8	5.6	1.5	1.8	2.1	1.7	1.7	-1.2	1.8	1.8	1.6	1.6	1.7	1.9	1.9
Germany	2.7	3.5	4.0	3.7	4.3	4.2	4.2	3.6	4.3	4.2	4.2	4.3	4.2	4.0	(1)
United Kingdom	9.5	5.9	3.7	3.0	1.8	1.3	1.6	4.8	1.3	1.3	1.2	1.4	1.7	1.8	1.4
France	3.4	3.2	2.4	1.8	2.1	2.0	2.2	6.0	2.1	2.0	1.9	2.1	2.2	2.3	2.2
Italy	6.4	6.4	5.1	4.7	4.5	4.5	(1)	4.8	4.6	4.6	4.9	5.1	4.9	(1)	(1)

1 Not available.

Source: *Consumer Price Indexes, Nine Countries*, U.S. Department of Labor, Dec. 1993.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, Jan. 1990-Oct. 1993

Country	1990	1991	1992	1993 I	II	III	Apr.	May	June	July	Aug.	Sept.	Oct.
United States	5.5	6.7	7.4	7.0	7.0	6.7	7.0	6.9	7.0	6.8	6.7	6.7	6.8
Japan	2.1	2.1	2.2	2.3	2.4	2.6	2.3	2.6	2.6	2.6	2.6	2.6	(2)
Canada	8.1	10.3	11.3	11.0	11.4	11.4	11.4	11.4	11.3	11.6	11.3	11.2	11.1
Germany[3]	5.2	4.4	4.7	5.4	5.8	6.1	5.7	5.8	5.9	6.0	6.1	6.2	6.4
United Kingdom	6.9	8.9	10.0	10.7	10.5	10.3	10.5	10.4	10.4	10.5	10.3	10.3	10.1
France	9.2	9.8	10.2	10.6	11.0	11.3	10.9	11.0	11.2	11.3	11.3	11.4	(2)
Italy[4]	7.0	6.9	7.3	9.4	10.8	10.6	(5)	(5)	(5)	10.6	(5)	(5)	(5)

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

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, Dec. 1993.

Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1990-Nov. 1993
(Percentage, annual rates)

				1993											
Country	1990	1991	1992	I	II	III	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.
United States	8.3	5.9	3.6	3.2	3.1	3.1	3.2	3.1	3.1	3.2	3.1	3.1	3.1	3.2	3.3
Japan	7.7	7.3	4.4	3.4	3.2	(2)	3.3	3.2	3.2	3.2	3.2	3.0	2.6	2.4	(2)
Canada	13.0	9.0	6.7	6.3	5.1	(2)	5.6	5.4	5.2	4.9	4.5	4.5	4.9	4.7	(2)
Germany	8.4	9.1	9.4	8.2	7.5	(2)	7.8	7.8	7.4	7.5	7.1	6.4	6.5	6.5	(2)
United Kingdom	14.7	11.5	9.5	6.3	5.8	(2)	5.9	5.9	5.9	5.8	5.8	5.7	5.9	5.7	(2)
France	10.2	9.5	10.1	11.4	7.7	(2)	10.9	8.7	7.4	7.1	7.7	7.4	7.1	6.8	(2)
Italy	12.1	12.0	13.9	11.7	10.7	(2)	11.3	11.4	10.7	10.1	9.4	9.2	9.0	8.7	(2)

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

Source: *Federal Reserve Statistical Release*, Dec. 20, 1993 *Federal Reserve Bulletin*, Dec. 1993.

Effective exchange rates of the U.S. dollar, by specified periods, Jan. 1990-Nov. 1993
(Percentage change from previous period)

				1992	1993									
Item	1990	1991	1992	IV	I	II	III	May	June	July	Aug.	Sept.	Oct.	Nov.
Unadjusted:														
Index[1]	86.5	85.5	84.5	86.3	88.7	86.2	87.8	85.9	86.7	88.2	88.0	87.3	88.2	89.3
Percentage change	-5.3	-1.2	-1.1	5.6	2.7	-2.9	1.8	-.2	.9	1.7	-.2	-.8	1.0	1.2
Adjusted: Index[1]	91.3	92.5	92.4	94.6	97.2	95.1	96.1	94.9	95.6	97.3	95.8	95.1	95.8	96.0
Percentage[2] change	-4.0	1.2	-.1	5.8	2.6	-2.2	1.0	1.0	.7	1.7	-1.5	-.7	.7	.2

[1] 1980-82 average=100.

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

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

Trade balances, by selected countries and by specified periods, Jan. 1990-Oct. 1993
(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

				1992	1993						
Country	1990	1991	1992	IV	I	II	III	July	Aug.	Sept.	Oct.
United States[1]	-101.7	-65.4	-84.3	-86.3	-103.1	-122.5	-125.4	-125.0	-120.5	-127.4	-125.4
Japan[3]	63.7	103.1	132.4	142	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Canada	9.4	4.9	8.9	14.4	9.8	12.5	(2)	15.7	7.1	(2)	(2)
Germany[3]	65.6	13.5	32.0	28.8	35.2	(2)	(2)	(2)	(2)	(2)	(2)
United Kingdom[3]	-33.3	-17.9	-24.5	-14.0	(2)	(2)	(2)	(2)	(2)	(2)	(2)
France[3]	-9.2	-5.4	1.7	3.6	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Italy[3]	-10.0	-12.8	2.1	12.0	(2)	(2)	(2)	(2)	(2)	(2)	(2)

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

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Nov. 20, 1992; *Advance Report on U.S. Merchandise Trade*, U.S. Department of

U.S. trade balance,[1] by major commodity categories and by specified periods, Jan. 1990-Oct. 1993

(In billions of dollars)

				1992	1993						
Country	**1990**	**1991**	**1992**	**IV**	**I**	**II**	**III**	**July**	**Aug.**	**Sept.**	**Oct.**
Commodity categories:											
Agriculture	16.3	16.2	18.6	5.7	4.9	3.9	3.4	1.2	1.0	1.2	1.8
Petroleum and selected product-- (unadjusted)	-54.6	-42.3	-43.9	-11.7	-11.0	-12.7	-11.3	-3.8	-3.7	-3.8	-4.1
Manufactured goods	-90.1	-67.2	-86.7	-26.5	-21.0	-25.3	-36.2	-12.3	-11.5	-12.4	-12.2
Selected countries:											
Western Europe	4.0	16.1	6.2	-.8	3.5	-0.9	-2.8	-1.7	-.8	-.3	-.2
Canada[2]	-7.7	-6.0	-7.9	-2.8	-2.5	-2.8	-2.1	-.5	-.5	-1.1	-1.2
Japan	-41.0	-43.4	-49.4	-14.7	-13.2	-14.4	-15.2	-4.7	-5.2	-5.3	-6.1
OPEC (unadjusted)	-24.3	-13.8	-11.2	-3.4	-3.0	-3.4	-3.6	-1.3	-1.2	-1.1	-.7
Unit value of U.S.imports of petroleum and selected products (unadjusted)	\$19.75	\$17.42	\$16.80	\$17.37	\$16.24	\$16.49	\$14.63	\$15.00	\$14.53	\$14.37	\$14.60

[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, Dec. 16, 1993.