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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Business investment spending continues to rise, boosting income and employment. The largest employment gains were recorded in the retail trade and services sectors.

Nonresidential fixed investment increased by 11.8 percent in 1993, and producers' durable equipment investment increased by 16.3 percent, according to the Department of Commerce's latest GDP release. A Department of Commerce survey indicates that the expansion will continue. The survey shows that U.S. business plans to increase investment spending in new plant and equipment by 8.3 percent in 1994. The new level of planned spending for 1994 is $634 billion, up from $586 billion in actual investment spending in 1993.

Manufacturing industries plan a 6.9-percent increase in current dollar spending in 1994, following an increase of 3.0 percent in 1993. Durable goods industries plan a 10.8-percent increase in 1994. Product groups for which large increases are planned include blast furnaces, motor vehicles, electrical machinery, and stone clay glass. Large decreases are planned for aircraft, nonferrous metals, nonelectrical machinery, and fabricated metals. Nondurable goods industries plan a 3.7-percent increase in spending in 1994. Large increases are planned in rubber, chemicals, textiles, and paper.

Personal income increased at a seasonally adjusted annual rate of $36.1 billion (0.6 percent) to $5.71 trillion in May 1994, following similar increases in April and March. Disposable personal income increased by $60.2 billion (1.2 percent) to $4.98 trillion. Personal saving increased from $193.7 billion in April to $236.3 billion in May. Saving amounted to 4.7 percent of disposable personal income. From January to May, personal income grew by 3.6 percent.

Employment registered large gains in retail trade and services, raising analysts' concerns over tight labor markets, rising labor costs, and higher inflation. According to a Department of Labor survey of business establishments, the number of payroll jobs increased by 379,000 in June. Three-quarters of the gain occurred in the services and retail trade industries. Manufacturing employment also showed strength. Building on a slow growth trend, manufacturing employment increased by 34,000 jobs. Virtually all of this improvement was in durable goods industries, including fabricated metals, industrial machinery, electronic equipment, and motor vehicles and equipment. Employment declines continued in aircraft and other defense-dependent industries.

Construction added 16,000 jobs in June. Monthly job increases have averaged 31,000 in 1994 compared with an average of 19,000 in 1993. However, gains in construction employment have slowed in the last 2 months, following the increase in interest rates. According to estimates reported by the U.S. Bureau of the Census, starts of privately owned housing declined by 10 percent in June compared with their level in May and single family housing starts fell by 3 percent.

Nominal retail sales adjusted for seasonal variations increased in June by 0.6 percent from the previous month and were 6.6 percent above June 1993. Total retail sales during the second quarter of 1994 were 6.8 percent above the level of sales during the corresponding quarter a year ago. Durable goods sales in June increased by 11.4 percent and nondurable goods sales increased by 3.7 percent compared with their levels in June 1993.

Relatively high rates of growth in the United States resulted in a surge in U.S. imports. (For details, see the section on trade developments.) From January to May 1994, U.S. exports of goods and services totaled $276.6 billion and imports totaled $318.6 billion, resulting in a cumulative trade deficit of $42.0 billion. Nonetheless, improved prospects for economic growth in Europe and in Japan could work in favor of increased exports and the narrowing of the trade deficit in the forthcoming year. (For details, see the section on prospects for growth in the OECD countries.) Also, the declining value of the dollar against the Deutsche mark and the Japanese yen could help reduce the U.S. trade imbalance.

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

Economic Growth

Real GDP—the output of goods and services in the United States measured in 1987 prices—grew at a 3.7-percent annual rate in the second quarter of 1994, following a revised annual rate of 3.4 percent in the first quarter.

The annualized rate of real economic growth in the first quarter of 1994 was 2.9 percent in the United Kingdom, 2.2 percent in Germany, 4.2 percent in Canada, 1.9 percent in France, and 3.9 percent in Japan. In the fourth quarter of 1993, the annualized rate of real economic growth was 3.2 percent in Italy.

Industrial Production

Seasonally adjusted U.S. nominal industrial production rose by 0.5 percent in June, following an increase of 0.1 percent in May and of 0.2 percent in April 1994. A surge in the demand for electricity because of unseasonably hot weather resulted in a sharp increase in utilities output. Apart from the rise in utilities production, total industrial output increased by 0.1 percent in June. Total industrial production increased at an annual rate of 4.4 percent in the second quarter, down from an 8.3-percent increase in the first. The slowdown in the second quarter resulted from a decrease in the seasonally adjusted production of motor vehicles, which was hindered by capacity constraints. For the year ending June 1994, total industrial production was 5.8 percent above its level in June 1993.

Manufacturing output increased by 0.2 percent in June, about the same as in May and April. Excluding motor vehicles and parts, factory output rose by 0.2 percent, down from the 0.5-percent gains in May and April. The slower rate of increase in June reflected a softening of nondurable output. Manufacturing output, excluding motor vehicles and parts, grew at an annual rate of 7.5 percent in the second quarter, up from an annualized growth rate of 5.75 percent in the first quarter.

Total capacity utilization in manufacturing, mining, and utilities edged up 0.3 percentage point in June to 83.9 percent, mainly because of the increase in electrical output. For the year ending June 1994, total capacity utilization increased by 2.3 percent. Capacity utilization in manufacturing was 82.8 percent in June, virtually unchanged from its level in May and 2.7 percent above its level in June 1993.

Other Group of Seven (G-7) member countries reported the following annual growth rates of industrial production: for the year ending May 1994, Japan reported a decrease of 1.3 percent; Germany reported an increase of 1.6 percent; and the United Kingdom reported an increase of 3.9 percent. For the year ending April 1994, France reported an increase of 3.3 percent, and Italy reported an increase of 6.7 percent. For the year ending March 1994, Canada reported an increase of 2.4 percent.

Prices

The seasonally adjusted Consumer Price Index increased by 0.3 percent in June, following an increase of 0.2 percent in May and of 0.1 percent in April 1994. The CPI advanced 2.5 percent during the 12 months ending June 1994.

During the 1-year period ending June 1994, prices increased by 2.9 percent in Germany, 0.8 percent in Japan, 1.8 percent in France, 3.7 percent in Italy, -0.2 percent in Canada, and 2.6 percent in the United Kingdom.

Employment

The U.S. unemployment rate was 6.0 percent in June 1994, the same as in May. It increased slightly to 6.1 percent in July.

In other G-7 countries, unemployment in June 1994 was 8.4 percent in Germany, 9.4 percent in the United Kingdom, 10.3 percent in Canada, 11.6 percent in Italy, 12.7 percent in France, and 2.8 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasters expect real growth in the United States to average around 3.0 percent in the third quarter and 2.9 percent in the last quarter of 1994. Real growth is expected to slow to 2.7 percent in the first quarter of 1995. Factors that are likely to restrain the recovery in 1994 include the impact of rising interest rates on new investment, output, and incomes; the contractionary impact of cutting the budget deficit; the decline in Government spending; and the general slowdown in foreign economic growth, particularly in Japan and in Germany and other EU countries, which is expected to continue into 1995. Table 1 shows macroeconomic projections for the U.S. economy from April 1994 to March 1995 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 changes of selected U.S. economic indicators, by quarters, Apr. 94-Mar. 95

(Percent)

Period	UCLA Business Fore-casting Project	Merrill Lynch Capital Markets	Regional Financial Assoc.	Wharton EFA Inc.	Mean of 4 fore-casts
			GDP current dollars		
1994:					
Apr.-June	5.8	6.0	6.5	4.4	5.7
July-Sept.	4.4	5.4	5.4	5.4	5.1
Oct.-Dec	4.7	5.3	5.6	5.2	5.2
1995					
Jan.-Mar.	4.5	5.6	5.9	6.0	5.5
			GDP constant (1987) dollars		
1994:					
Apr.-June	3.9	3.5	3.3	2.6	3.3
July-Sept.	3.1	3.1	2.8	3.1	3.0
Oct.-Dec.	3.3	3.0	2.5	3.0	2.9
1995:					
Jan.Mar.	2.4	2.8	2.6	2.9	2.7
			GDP deflator index		
1994:					
Apr.-June	1.6	2.4	3.1	1.7	2.2
July-Sept.	1.3	2.2	2.6	2.2	2.1
Oct.-Dec.	1.3	2.3	3.0	2.1	2.2
1995:					
Jan.-Mar.	2.0	2.7	3.2	3.0	2.7
			Unemployment, average rate		
1994:					
Apr.-June	6.3	6.5	6.2	6.3	6.3
July-Sept.	5.9	6.7	6.4	6.3	6.3
Oct.-Dec.	5.8	6.5	6.2	6.3	6.2
1995:					
Jan.-Mar.	5.8	6.4	6.0	6.2	6.1

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: July 1994.

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

The average of the forecasts points to an unemployment rate of 6.3 percent in the third quarter of 1994 and of 6.2 percent in the fourth quarter. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.2 percent during the second through the fourth quarters of 1994. Productivity growth combined with a slow rise in labor costs are expected to hold down the rate of inflation during 1994.

Economic Prospects of OECD Countries

The prospects for economic growth seem to be improving, according to a forecast by the *OECD Economic Outlook* of June 1994. Economic growth is gathering strength, particularly in the United States where output continues to grow at a healthy pace and unemployment continues to decline. Inflation is projected to remain low in Europe but rise slightly in the United States. In Germany, output growth will remain weak and unemployment high. In Japan, output growth will remain weak because of the continued decline in net exports owing to the appreciation of the yen (table 2).

Table 2
Economic indicators for OECD countries,[1] seasonally adjusted at annual rates, 1993-95

	Actual 1993	Projected 1994	Projected 1995
	Percent change from previous period		
Real total domestic demand:			
United States	3.8	4.4	3.0
Japan	0.4	1.5	3.4
Germany	-1.4	1.0	2.2
OECD Europe	-1.2	1.1	2.6
Total OECD	1.1	2.6	3.6
	Percent change from previous period		
Real GDP:			
United States	3.0	4.0	3.0
Japan	0.1	0.8	2.7
Germany	-1.3	1.8	2.6
OECD Europe	-0.2	1.9	2.8
Total OECD	1.2	2.6	2.9
	Percent		
Inflation:			
United States	2.5	2.1	2.8
Japan	1.0	0.8	0.8
Germany	3.9	2.8	2.0
OECD Europe (excl. Turkey)	3.6	2.9	2.4
Total OECD	3.4	3.5	3.3
	Percent of labor force		
Unemployment:			
United States	6.8	6.3	5.8
Japan	2.5	2.9	2.8
Germany	8.9	10.0	10.0
OECD Europe	10.7	11.7	11.8
Total OECD	8.2	8.5	8.3
	Percent of GDP		
Current accounts:			
United States	-1.7	-2.1	-2.1
Japan	3.1	2.8	2.5
Germany	-1.1	-0.7	-0.2
OECD Europe	0.3	0.7	1.0
Total OECD	0.1	0.1	0.1
	Percent		
Short-term interest rates:			
United States	3.0	4.2	5.5
Japan	2.9	2.3	2.7
Germany	7.3	5.1	4.3
	Percentage change from previous period		
World trade	3.3	6.7	7.2

[1] United States, Japan, OECD Europe (Germany, France, Italy, United Kingdom, Austria, Belgium- Luxembourg, Denmark, Finland, Greece, Iceland, Ireland, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and Turkey), Canada, Australia, and New Zealand.

Source: *OECD Economic Outlook 55*, June 1994.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of goods and services of $56.3 billion and imports of $65.4 billion in May 1994 resulted in a goods and services trade deficit of $9.2 billion, $0.6 billion more than the April deficit of $8.5 billion. The May 1994 deficit was $4.2 billion more than the deficit registered in May 1993 ($5.0 billion) and $1.9 billion higher than the average monthly deficit registered during the previous 12 months ($7.3 billion).

The May trade deficit in goods was $14.1 billion, approximately 0.8 billion more than the April deficit of $13.3 billion. The May services surplus was $4.9 billion, 0.1 billion more than the April surplus of $4.8 billion.

Seasonally adjusted U.S. trade in goods and services in billions of dollars as reported by the U.S. Department of Commerce is shown in table 3. Nominal export changes and trade balances for specific major commodity sectors are shown in table 4. U.S. trade in services by major category is shown in table 5. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 6.

Table 3
U.S. trade in goods and services, seasonally adjusted, Apr.-May 1994
(Billion dollars)

Item	Exports		Imports		Trade balance	
	May 94	Apr. 94	May 94	Apr. 94	May 94	Apr. 94
Trade in goods, BOP basis:						
Current dollars—						
Including oil	40.5	40.4	54.5	53.7	-14.1	-13.3
Excluding oil	40.7	40.6	49.9	49.2	-9.1	-8.7
3-month moving average, incl. oil	41.0	39.9	53.9	52.7	-12.9	-12.8
Trade in services:						
Current dollars	15.8	15.8	10.9	11.0	4.9	4.8
3-month moving average	15.9	15.7	11.1	11.2	4.8	4.4
Trade in goods and services, BOP basis:						
Current dollars	56.3	56.1	65.4	64.7	-9.2	-8.5
3-month moving average	56.8	55.6	65.0	64.0	-8.2	-8.3
Trade in goods, Census basis:						
1987 dollars	39.6	39.4	52.7	52.1	-13.1	-12.7
Advanced-technology products (not seasonally adjusted)	9.4	9.9	7.5	7.3	1.8	2.6

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

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

Table 4
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors, and agriculture, Jan. 1993- May 1994

Sector	1994 Exports: Jan.-May 1994	1994 Exports: May 1994	Change Jan.-May 1994 over Jan.-May 1993	May 1994 over Apr. 1994	Share of total, Jan.-May 1994	Trade balances, Jan.-May 1994
	Billion dollars		— Percent —		Billion dollars	
ADP equipment & office machinery	11.9	2.3	7.7	1.3	5.8	-7.15
Airplanes	8.9	1.4	-2.7	-30.6	4.4	7.19
Airplane parts	3.9	.8	1.3	-5.0	1.9	2.85
Electrical machinery	17.6	3.6	17.7	2.2	8.6	-4.03
General industrial machinery	8.5	1.9	5.4	6.8	4.2	-0.06
Iron & steel mill products	1.4	.3	-0.7	10.7	.7	-3.53
Inorganic chemicals	1.5	.4	-14.6	28.6	.7	-0.05
Organic chemicals	5.0	1.1	6.8	0	2.4	0.49
Power-generating machinery	8.4	1.8	3.5	-1.1	4.1	0.44
Scientific instruments	6.7	1.4	5.7	3.8	3.3	2.90
Specialized industrial machinery	7.8	1.7	7.2	5.0	3.8	1.02
Telecommunications	6.0	1.3	17.6	12.8	2.9	-5.56
Textile yarns, fabrics, and articles	2.6	.6	2.4	9.8	1.2	-1.04
Vehicle parts	8.4	1.9	0.1	6.3	4.1	0.26
Other manufactured goods[1]	11.3	2.4	3.7	-4.1	5.5	-4.80
Manufactured exports not included above	52.2	11.0	6.1	4.2	25.5	-38.82
Total manufactures	162.3	33.6	7.2	0.5	79.3	-49.89
Agriculture	17.8	3.5	-1.4	3.0	8.7	7.14
Other exports	24.5	5.3	2.5	8.7	12.0	-5.11
Total exports of goods	204.6	42.4	5.8	1.6	100.0	-47.86

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

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

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

Table 5
U.S. exports and trade balances of services by sector, seasonally adjusted, Jan. 1993-May 1994

	Exports		Change		Trade balances	
	Jan.-Dec. 93	Jan.-May 94	Jan.-Dec. 93 over Jan.-Dec. 92	Jan.-May 94 over Jan.-May 93	Jan.-Dec. 93	Jan.-May 94
	Billion dollars		Percent		Billion dollars	
Travel	57.6	24.2	6.2	2.3	17.06	6.61
Passenger fares	1.5	6.8	-2.5	-1.0	5.13	1.69
Other transportation	23.1	10.0	2.0	3.3	-1.35	-.43
Royalties and licence fees	20.4	8.6	2.4	2.3	15.56	6.11
Other private services[1]	54.9	23.8	7.6	6.7	22.75	9.63
Transfers under U.S. military sales contracts	11.4	4.0	5.4	-23.3	-0.77	-0.64
U.S. Govt. miscellaneous services	0.8	0.4	-5.8	2.8	-1.53	-0.65
Total	184.8	77.8	4.7	1.7	56.85	22.32

[1] Other private services consist of transactions with affiliated and unaffiliated foreigners. These transactions include education, financial services, insurance. telecommunications, such technical services as business, advertising, computer and data processing services and such other information services as research, engineering, consulting, etc.

Note.—Services trade data are on balance of payments basis. Details may not equal totals because of seasonal adjustment and rounding.

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

Table 6
U.S. merchandise trade deficits and surpluses, not seasonally adjusted, with specified areas, Jan. 1993-May 1994

(Billion dollars)

Area or country	May 1994	Apr. 1994	May 1993	Jan.-May 1994	Jan.-May 1993
Canada	-.73	-.93	-.82	-4.46	-4.09
Mexico	.35	.01	.24	.90	1.49
Western Europe	-1.43	-.01	.31	-1.55	4.38
European Union	-.99	-.15	-.06	-.51	4.05
Germany	-1.22	-.87	-.70	-4.44	-2.82
European Free-Trade Association(EFTA)[1]	-.54	-.08	.12	-1.61	-.80
Japan	-4.39	-5.48	-3.70	-24.91	-22.56
China	-2.22	-1.79	-1.79	-9.24	-7.49
NICs[2]	-1.12	-.59	-.51	-3.67	-3.43
FSU[3]/Eastern Europe	-.06	.12	.30	.13	1.31
FSU	-.04	.13	.24	.21	.84
Russia	-.08	.09	.18	.02	.46
OPEC	-1.03	-1.07	-1.02	-3.76	-5.55
Trade balance	-10.70	-9.84	-6.46	-47.85	-35.48

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

[2] NICs includes 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. Also some countries are included in more than one area. Data are presented on a Census basis.

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

INTERNATIONAL TRADE DEVELOPMENTS

Genuine Progress is Made at EU Summit Despite Bitter Dispute Over a New Commission President

The European Union (EU) plummeted into a political crisis at its recent semiannual summit when the member countries' heads of government and state failed to agree on a successor for Mr. Jacques Delors, the Commission President who has held the post for the past 10 years. The summit, held on the Greek island of Corfu June 24 and 25, ended in an 11 to 1 vote for Mr. Jean-Luc Dehaene, the 53-year-old conservative Belgian Prime Minister. This was not enough to secure Mr. Dehaene the post, however, because such selections require a unanimous vote from all 12 member states. Not only did British Prime Minister John Major's decision to veto Mr. Dehaene's candidacy offset the EU's schedule for selecting a new Commission President, it also uncovered long-standing internal divisions over the course of European integration and overshadowed progress that was made in other areas at the Corfu Summit.

At stake in the debate over the next Commission President is nothing less than the outcome of crucial decisions that the EU will face in the coming years. The successor to Mr. Delors will inherit more than the prestigious figurehead position of the EU's executive arm; the new President will have a strong say in the 1996 review conference of the Maastricht Treaty for economic, monetary, and political union and in the overhaul of the Union's institutions to prepare for an expanded EU of 20 or more members. In addition, he will lay the ground for the next 5-year EU budget in 1999.

Although the debate over the new Commission President was eventually resolved, the political indecision at the summit reflected poorly on the EU particularly at a time when it is trying to project an image of competence. The EU is scheduled to accept four new members on January 1, 1995, given that the possible future member countries ratify the accession agreement in their own national referendums. Although Austria has already voted "yes" to joining the EU by a 66.4-percent margin, the other three countries' referendums will not take place until later this fall. Hence, it is important for the EU to project a favorable impression by demonstrating that it can accomplish tasks with 12 members before taking on 4 more.

The EU has often been criticized for having an inefficient and secretive decisionmaking process, and it seems that the summit leaders further reinforced this opinion. However, the EU's inability to agree on a new Commission President runs much deeper than its mode of decisionmaking. Rather, it stems from differing opinions on the future direction of the European Union. The main reason why the British leader, Mr. Major, vetoed the near-consensus vote for Mr. Dehaene was that he felt that Mr. Dehaene was overly zealous about further integrating Europe economically and politically, a characteristic that the French and Germans find appealing but the so-called Euro-skeptics in Mr. Major's Conservative party dislike. Mr. Dehaene has been labeled a Euro-federalist since he favors even closer European economic, monetary, and political integration policies that the British historically have been slow to embrace because of perceived threats to their national sovereignty.

Santer Emerges as a Compromise Choice for EU Commission President

The renewed search for a candidate agreeable to all the member states was largely left up to Germany, which assumed the 6-month rotating EU presidency of the Council of Ministers on July 1. Acting on his new responsibility, Mr. Kohl called for an emergency summit meeting to be held in Brussels on July 15. Although a handful of names circulated as possible candidate choices, only Prime Minister Jacques Santer of Luxembourg garnered enough support from all 12 member states. As a 57-year-old Christian Democrat from Luxembourg, Mr. Santer meets the three unwritten criteria for the successor to Mr. Delors. The criteria, which were agreed upon during the last selection round, were intended to offset Delors' presidency as a socialist from a large member country.

Consequently, the heads of government and state decided that Delors' successor should come from their own ranks, from a small member state, and from the center-right.

Mr. Santer is an experienced politician who has served as Luxembourg's Prime Minister since 1985 and was its finance minister from 1979 to 1985. Above all, Mr. Santer supports free trade, EU enlargment, a single European currency, and the EU social chapter. Mr. Santer is also a strong advocate of "subsidiarity," the principle of devolving decisionmaking to the lowest appropriate national, regional, or local level.

The decision was reached just in time for the President-designate to be scrutinized by the newly elected members of the European Parliament at their inaugural session on July 19. Under the provisions of the Maastricht Treaty, the European Parliament has been granted the power to disapprove the new EU Commission, including its President. Although there was the threat that the Parliament would exercise its newly acquired power, it approved Jacques Santer on July 21 by a narrow margin of 260 to 238 votes, with 23 abstentions. Mr. Santer is scheduled to succeed Mr. Delors as the new EU Commission President on January 1, 1995.

Progress on 11 Trans-European Network Projects

Despite the time-consuming debate over the next EU Commission President, the heads of government and state did manage to reach a consensus on a few very important issues at the Corfu Summit. First, the leaders agreed to give priority to 11 trans-European transport network projects (TENs), which are scheduled to be set in motion between now and January 1, 1996. These projects were outlined in the EU's *White Paper on Growth, Competitiveness and Employment*, issued in an effort to make a dent in the EU's persistent double-digit unemployment rate. The present priority status of the projects should encourage the member states to remove the administrative, regulatory, and legal obstacles that have delayed these projects thus far. A report presented at the summit by EU Economic Affairs Commissioner Henning Christophersen requested an extension of the Christophersen Group's mandate to work on these obstacles until the next European Council Summit in Essen at the end of the year. The report also outlined significant prospects for attracting private financing and extending the TENs to neighboring countries, in particular to Central and East European and to Mediterranean countries.

In addition to transport networks, the Christophersen Group has been concentrating on eight priority energy projects that are of strategic importance in completing the single market in energy. The energy projects generally present less of a financing problem and more of an administrative problem than the transport projects. These administrative problems, such as delays in authorization procedures, are often a result of long debates on environmental issues. There could also be financing problems in peripheral regions of the EU where the projects are less profitable than in the core regions.

The eight priority energy projects were selected for their economic impact, their significant size, and their relative maturity (work could start within a period of 2 to 3 years); however, *The White Paper on Growth, Competitiveness and Employment* lists over 50 additional TEN projects that will be necessary to meet increased EU demand for natural gas and electricity in the coming decade, at a total cost of ECU 90 billion.

The EU Signs Partnership and Cooperation Agreement With Russia

Important advances were also made in the EU's relations with its Eastern neighbors. Russian President Boris Yeltsin was among the many heads of state present at the EU Summit. The monumental occasion was the signing of a broad trade and cooperation accord between Russia and the EU, which Mr. Yeltsin hailed as an important step in ending his country's economic isolation. The Partnership and Cooperation Agreement (hereinafter Agreement), which marks a steady improvement in East-West ties, is considered the basis for a free trade zone between Russia and the EU by the end of the century. The Agreement also supports Russia's eventual accession to the General Agreement on Tariffs and Trade (GATT) or to its successor organization, the World Trade Organization (WTO).

The EU-Russia Agreement will lift quotas and other quantitative restrictions on the sale of Russian goods in the EU, with the exception of certain textiles and steel products. Since Russian tariffs on imports from the EU are higher in comparison, they will be removed more slowly, allowing Russian industry time to adjust. The Agreement also encourages investment in Russia's flagging economy by ensuring that European companies receive the same treatment as domestic companies and by guaranteeing them the right to repatriate profits earned in the Russian market.

The Agreement also provides for regular meetings between EU and Russian heads of Government, ministers, and other officials. Hans van den Broek, EU Commissioner for External Political Relations, believes that regular bilateral meetings will set the

European Union's political ties with Russia on a far sounder footing and contribute to the overall security and stability in Europe. He also believes that the Agreement, which is based on a shared commitment to human rights and fundamental freedom, will reinforce political reform in Russia. At the base of the Agreement is the commitment by both sides to respect the rule of law, protect ethnic minorities, and preserve human rights and a multiparty democracy, as well as to encourage the establishment of a market economy in Russia.

The negotiations on the Agreement were complicated by debate in the banking sphere and on trade in nuclear materials. Problems in the banking sphere stemmed from Dutch objections to a banking decree introduced by Mr. Yeltsin and adopted last November. The Dutch concerns were a result of the legislation's threat to their two foremost banking institutions operating in Russia, Amro and ING. The decree imposed severe restrictions on the access of foreign banks and curtailed the activity of those already in operation in the country. Under a compromise reached at the beginning of May, Mr. Yeltsin agreed to repeal the law by the beginning of 1995. He also promised that the five European banks currently operating in Russia under licenses (Credit Lyonnais, Generale de Banque, Dresdner Bank, Amro Bank, and ING Bank) would not be adversely affected in the interim period until 1995.

The other issue was trade in nuclear fuels. As the Union's largest producer of enriched uranium products, France feared that the Agreement would produce a flood of cheap Russian imports of enriched uranium. This fear was quelled when the French were granted a deçlaration that will safeguard France from imports in this sector. The issue was formally resolved at the meeting of Foreign Ministers in Luxembourg on June 13 and 14 and cleared the way for the Agreement.

Accession Treaties With Austria, Finland, Sweden, and Norway

The Corfu Summit was also the site for the signing of accession treaties with Austria, Sweden, Finland, and Norway. The four candidates have now entered into an "interim period" during which they have the right to be observers in certain EU governing bodies, including the Council of Ministers Committee of Permanent Representatives and the European Parliament. Full membership in the EU still rests on ratification in each of the 12 member states and on the referendums in the 4 candidate countries. Austria's vote in favor of joining the EU is seen as likely to have a positive impact on the other three countries' referendums, where previous polls have shown that the majority of people currently oppose EU membership. The remaining referendums have been scheduled in the sequence that is most likely to achieve a "yes" vote in all three countries, with the referendum in Finland, the country with the most EU supporters, scheduled first and the referendums in Sweden and Norway next.

Commitment to EU Economic Guidelines Renewed

EU leaders also used the Corfu Summit to reaffirm their commitment to the economic guidelines for the European Union. These economic criteria, which are necessary for the convergence of economies in the final stage of Economic and Monetary Union (EMU), include a budget deficit down to 3 percent of GDP and accumulated debt down to 60 percent of GDP. In 1993, Luxembourg was the only one of the 12 member countries that managed to achieve these budgetary criteria, which are stipulated in Article 104c of the Maastricht Treaty. Moreover, although the majority of the member states are now emerging from recession, the average public deficit is likely to remain at 5.6 percent of GDP in 1994. National debt levels are also expected to rise further this year, with average indebtedness reaching 70 percent of GDP. In an effort to curb this, experts from the European Monetary Institute (EMI) have asked the Commission to open the "excessive deficit procedure" under Article 104c of the Maastricht Treaty. This procedure can be enacted against any member who fails repeatedly to get its deficit and debt down to the target figures and can result in fines or a loss of credit with the European Investment Bank. Unfortunately, the procedure is somewhat ambiguous, and it is doubtful whether it could be enacted against all 11 member states that presently fail to meet the criteria.

In addition to monetary affairs, other items on the Corfu Summit agenda included the Franco-German plan for nuclear safety in Eastern Europe, spurred on by efforts to help Ukraine close down the Chernobyl nuclear reactor; a declaration against racism and xenophobia; and initiatives toward the Europol organization to curb drug smuggling and organized crime. Although discussion on liberalizing the telecommunications sector was scheduled for the summit's agenda, it was temporarily put aside as a result of the time-consuming presidential debate.

Shock Therapy in French-Speaking Africa Promises Success

In early 1994, the 14 countries of the African Financial Community (Benin, Burkina Faso, Cameroon, the Central African Republic, Chad, the Comoro Islands, Congo, Equatorial Guinea, Gabon, the Ivory Coast, Mali, Niger, Senegal, and Togo) underwent shock therapy to restart their economic growth.[1] As part of their joint economic strategy, these countries devalued their common currency, the African Financial Community (CFA) franc. The devaluation, by far the largest in post-war history, caused an unprecedented upheaval among the Community's 84 million residents. However, 7 months after the introduction of the new economic program, which also includes complementary macroeconomic policies and measures for economic integration, reports indicate positive developments. International organizations and the industrialized democracies, including the United States, firmly support the Community's efforts. Economic recovery in the Community could increase U.S. trade with the whole of Sub-Saharan Africa.

Pressure for Action Became Overwhelming

The CFA franc is freely convertible because it is tied to the French franc through a fixed parity. Under the arrangements of the Community, established in 1948, the French Treasury pays French francs to any holder of CFA francs. In exchange, the African countries keep 65 percent of their foreign exchange holdings at the French Treasury. The arrangements ensure that the supplies of the CFA franc remain in balance with those of the French franc. The parity of the CFA franc was fixed at 50 CFA francs to the French franc in 1948 and it remained unchanged until January 1994.

The entire system, including its concomitant close economic and financial relations between the African countries and France, seemed to work to the satisfaction of all parties until the mid-1980s. However, from that time onward, the Community's economic and financial situation deteriorated. The consensus of analysts is that much of this deterioration could have been avoided by an earlier recognition of the need to devalue the CFA franc.

Between 1985 and 1993, the Community's terms of trade with the rest of the world (the ratio of the average price of exported goods to the average price of imported goods) deteriorated by nearly 50 percent. This means that in 1993 the countries of the Community had to export roughly twice as many goods as they did in 1985 to be able to pay for the same amount of imports. The deterioration occurred primarily as a result of shifts in world market conditions that reduced the prices of the Community's most significant exports (petroleum, cocoa, coffee, bananas, rice, pineapple, cotton, and uranium). In addition, the French franc, and along with it the CFA franc, appreciated over the period against the U.S. dollar, the major currency used in trade between the Community and its non-French trading partners. To maintain market shares, exporters from the Community had to lower their already low prices to counterbalance the price-raising effects of appreciation. The struggling export sectors gobbled up the member countries' productive resources, bringing economic growth to a halt.

The weighted average of annual real growth in the Community countries was zero during 1985-93, compared with 2.5 percent in the rest of Sub-Saharan Africa. Population growth and austerity measures reduced the real per capita income by up to 40 percent over the period. Both the urban masses and the rural poor were hard hit.

As the economic situation deteriorated throughout the Community, those with a basis abroad (mainly foreign investors, the local elite, and expatriate wage earners) wanted to exchange their earnings and wealth for French francs. The increase in unilateral transfers created rising current account deficits. Even the four consistent trade surplus producers, Cameroon, Congo, and Gabon, which export oil, and the Ivory Coast, which is the world's largest exporter of cocoa and a major exporter of coffee, bananas, pineapples, and cotton, began to register deficits in their current accounts. After the Community's monetary reserves kept at the French Treasury were drawn down to a minimum, French budgetary allocations covered some of the current account deficits. However, the rest of the deficits had to be financed. Community members borrowed heavily from France and other sources, and they sank into debt.

The total debt of the Community's countries increased by an estimated 107 percent, from $27 billion in 1985 to $56 billion in 1993. During the same period, total debt in the rest of Sub-Saharan Africa increased by an estimated 85 percent, from $72 billion to $133 billion. The external debt of the Community's countries rose from 54 percent of their combined GDP

[1] All of the Franc Zone countries are in Western and Central Sub-Saharan Africa with the exception of the Comoro Islands, which are located at the northern entrance of Mozambique Channel off Eastern Africa. The population of the Comoro Islands is less than one million.

in 1985 to 94 percent in 1993. In the rest of Sub-Saharan Africa, the same index grew from 41 percent to 55 percent.

Although the overvaluation of the CFA franc was identified as a major cause for the deterioration of the Community's economic situation and the increasing financial burden France had to bear to maintain its deal with the Community, policymakers hesitated to act. Devaluation is a controversial policy tool. Experience shows that it can undermine investor confidence and cause price inflation without achieving its intended goal of improved trade performance and sustained economic growth.

At the end, the Community and France had to "bite the bullet." The deteriorating external financial position and domestic economic situation promised no automatic reversal. The danger of social explosion from the festering economic problem became greater, however, than the consequences of confronting it.

The Program of Economic Renewal

The countries of the Community and France worked out a program of economic renewal in close cooperation with the International Monetary Fund (IMF). The program has three components: the devaluation of the CFA franc, a set of accompanying measures, and steps toward economic integration.

On January 12, 1994, the exchange value of the CFA franc was reduced by 50 percent from 50 CFA francs to 100 CFA francs for a French franc. (In the Comoro Islands, the CFA franc was devalued by only 33 percent, from 50 CFA francs to 75 CFA francs for a French franc.) The devaluation of the CFA franc was by far the largest devaluation of a convertible currency since World War II. (The second largest was the 32-percent devaluation of the British Pound in September 1949.) Policymakers considered smaller rates of devaluation insufficient to improve trade balances and to keep CFA franc supplies from leaking abroad.

The measures that accompanied devaluation were designed to mitigate its short-term effects on living standards and to help bolster its expected stimulative influence on economic growth. The first group of measures included price controls on strategic consumer products, such as rice, sugar, and flour, and public services. The measures designed to stimulate economic recovery included investment tax credits, tariff reductions, and public works projects.

The countries of the Community pledged to increase their collective economic self-reliance. To carry out this task, they have established the West African Economic and Financial Community. The member countries plan to establish a free trade area and form a customs union.

Initial Havoc Gave Way to Positive Developments

Initially, the devaluation caused frustration throughout the Community. The prices of many imported products doubled. Some local food vendors ignored measures against price gouging. Labor unions announced wage demands and tension grew. In several countries, including Senegal, Mali, Gabon, and Congo, street demonstrations erupted. An undetermined number of people left the Community countries to look for work in Nigeria or elsewhere in the region. Losses in the asset value of foreign investments were estimated at $2 billion.

In the 2 months following the devaluation, most prices of locally produced goods without major import content settled in the range of 10 to 50 percent above predevaluation levels. Since imported food became expensive, local farmers turned to planting crops on land that had been left fallow for years. Measures to soften the impact of higher prices began to take effect, and new government spending began to provide an added stimulus to food production.

Recent reports indicate further consolidation in the Community's economic situation. Farm incomes are rising throughout the Community, and a number of countries, including the Ivory Coast, the group's most significant exporter, have reported rapid increases in exports. Just as policymakers expected, foreign investors have begun to expand their activities to regain predevaluation level earnings in French francs. Some analysts predict the resumption of capital inflow into the Community in the near future.

International Support

The IMF, the World Bank, and the governments of the developed countries actively support the new economic program. During 1994, the IMF is expected to make over $600 million available to the countries of the Community through standby credits or enhanced structural adjustment programs. The World Bank plans to provide loans and grants of up to $1.5 billion during 1994. France forgave $4.4 billion in debt to the Community's countries. It has also set up a special development fund to create jobs in urban areas and invited the European Community to make contributions.

U.S. officials regard the program as significant in restoring economic vitality to the region. Since January 1994, the United States has forgiven $183 million in concessional debt owed by members of the Community and agreed to join other Paris Club creditors in offering debt reduction under enhanced Toronto terms to the poorest member countries.[2]

The U.S. Agency for International Development (USAID) missions in the Community countries have partially reprogrammed existing funds in response to the new economic and social environment. The USAID is providing $17 million in new funds to the region in the following areas: education, health care, technical assistance in market liberalization, support to promote regional cooperation and trade, and support for West African researchers to monitor the impact of the new economic program.

Debate Over the Program Continues

Some private analysts remain skeptical about the Community's economic program. In particular, they doubt that the large-scale unilateral devaluation of the CFA franc will improve the member countries' trade balances. They have advanced two major arguments. First, devaluation makes exports more competitive only as long as the competitors do not devalue their own currencies. The competitive edge of Community exporters derived from the devaluation of the CFA franc would diminish in proportion with the devaluation of currencies in other African countries that compete for market shares with Community members. Although there have been no reports about such retaliatory devaluation, it may be too early to discount the possibility.

Second, devaluation can improve the balance of trade only if the domestic demand for foreign imports and foreign demand for domestic exports are sufficiently elastic.[3] The skeptics do not believe that this condition is fulfilled. They argue that, since the region has a small industrial base, it is very dependent on manufactured imports. Consequently, the elasticity of demand for imported industrial goods is very low. Import bills in the Community could rise as a result of devaluation, since the member countries will continue to import roughly the same amount of goods as before at prices twice as high. The elasticity of demand for West and Central African exports has always been a contentious issue. Skeptics embrace the view that the elasticity of world demand for these exports is generally low and that the West and Central African countries wield enough market power to bring down the world price. Under these assumptions, export revenues might decline as a result of devaluation since export prices (expressed in foreign currencies) would decrease more than export volumes would increase. The bottom line of the skeptical view is that devaluation has either made things worse or it has left things as they were before.

The supporters of the program point to important periodic exemptions from the general rule that the elasticity of primary products is low. They argue that current market conditions mean a relatively high elasticity for a number of West and Central African products. Moreover, in a number of products, exporters in the Community are marginal and do not affect the world price. Therefore, a reduction in export prices, induced by the devaluation, could result in relatively significant increases in the sales volume and earnings of many exporters in the Community. Supporters of the program also point out that the program contains several measures, such as public projects for infrastructure development, private investment incentives, and regional integration, that are designed to engender economic growth to some extent independently of extra-Community trade. They also cite the determination of international organizations and the industrialized countries to see economic recovery get underway in West and Central Africa. Finally, they point out that the Community's program will be reinforced by the economic recovery anticipated in Nigeria and the Republic of South Africa, the continent's two largest economies.

U.S. Trade With the Region

The Community is a minor trading partner with the United States. Community members represent only about 12 percent of total U.S. trade with Sub-Saharan Africa. (The largest U.S. trading partners in Sub-Saharan Africa are Nigeria, Angola, and the Republic of South Africa.) Total U.S. exports to the 14 countries amounted to $396.0 million during 1993, and imports from these countries amounted to $1.8 billion. U.S. exports to the group have been declining since 1991 and are projected to decline further during 1994. The $1.4 billion deficit registered during 1993 is expected to widen during 1994.

Gabon is the largest U.S. trading partner in the Community, followed by the Congo, the Ivory Coast, and Cameroon. Crude oil is the leading U.S. import from Gabon, the Congo, and Cameroon; cocoa and coffee are the largest imports from the Ivory Coast. The most significant U.S. exports to the four countries are machinery and equipment and cereals. The United States has relatively important market shares in Senegal, Mali, and the Ivory Coast. An eventual economic recovery in the Community, combined with the ongoing recovery in Nigeria and the Republic of South Africa, are expected to boost significantly U.S. economic contacts with Sub-Saharan Africa.

[2] Enhanced Toronto terms are the Paris Club's best offer. They entail a 50-percent reduction in the amount due on nonconcessional loans, with the remaining debt rescheduled on soft terms.

[3] Economic theory stipulates that for devaluation to improve the balance of trade, the sum of import and export elasticities has to exceed a threshold value. The famous Marshall-Lerner condition says that the sum must exceed unity.

SPECIAL FOCUS

U.S-Caribbean Trade During the First 10 Years of CBERA

U.S.-Caribbean Trade Balance

January 1, 1994, marked the tenth anniversary of the Caribbean Basin Economic Recovery Act (CBERA) taking effect. CBERA is a U.S. Government program that provides as its key component nonreciprocal preferential access to the U.S. market for certain exports of 24 Caribbean nations (hereinafter CBERA countries).[4] It was reasonable to expect that in these 10 years the Caribbean export side of bilateral trade would grow faster than the opposite trade flow because of the boost it received from CBERA. Yet, whereas in the first CBERA years the United States had a collective trade deficit with the CBERA countries, in the fourth year of the program the trade balance shifted in favor of the United States, which maintained its surplus throughout the rest of the period. In 1993, the U.S. surplus amounted to $1.9 billion (table 1).

The explanation for this seemingly paradoxical development is to be found largely in that sphere of Caribbean exports which is outside CBERA provisions and which was, therefore, unaffected by them. The trend of the entire Caribbean export basket in the first CBERA decade has been determined in large measure by the trends in the region's petroleum and apparel exports, both of which have been largely ineligible for CBERA duty-free treatment. As oil prices plummeted in the 1980s, the prices of Caribbean petroleum products declined, and oil refining operations were cut back. Petroleum products had constituted the mainstay of Caribbean exports to the United States at the beginning of CBERA, and the diminishing volume and value of petroleum-related exports severely depressed the overall value of regional exports in the early CBERA years. By 1993, U.S. imports of Caribbean petroleum products dropped to 30.1 percent of their value in 1984, the first CBERA year (see also *IER*, Sept. 1991).

Even apart from petroleum, the terms of trade have not been kind to the region's other traditional, resource-based exports—bauxite, coffee, sugar, and bananas. The prices of these products declined relative to the prices of goods the region had to import—vehicles, machinery and equipment, and consumer goods. Nonetheless, there was one major development that relieved the devastation to the region's trade balance and economy caused by adverse terms of trade: the spectacular growth of Caribbean textile and apparel production and exports. By 1993, U.S. imports of Caribbean textiles and apparel had multiplied to seven times their 1984 value.

The fundamental objective of CBERA and its parent, the Caribbean Basin Initiative (CBI), was to encourage the Basin's economic development in order to stabilize the Caribbean nations economically, socially, and politically. The trade preferences granted under CBERA and positive developments outside CBERA mitigated the adverse effects on Caribbean exports of global market forces during the first CBERA decade. At the same time, the Basin's economic modernization fostered the opposite trade flow—Caribbean imports from the United States. Economic restructuring in the CBERA era boosted the region's demand for materials and equipment from the United States, expanding the Caribbean market for U.S. goods.

U.S. Imports

In 1984 when CBERA was launched, the Basin accounted for 2.7 percent of U.S. imports from the world (table 1). This figure dropped to 1.4 percent by 1988. Beginning in 1990, the Caribbean share in total U.S. imports began to rise slowly, attaining 1.8 percent in 1992 and 1993. U.S. imports from the Caribbean countries amounted to $10.1 billion in 1993, an increase of 7.4 percent over 1992. This was the sixth consecutive year of rising U.S. imports from the region, following 4 years of decline (figure 1).

Nontraditional items have gradually replaced some of the petroleum and other traditional Caribbean shipments to the U.S. market as regional policy makers adopted the recruitment of export-oriented assembly operations as the best instrument for industrializing their economies. As pointed out earlier, the most spectacular shift in U.S. imports from Caribbean countries occurred in the area of textiles and apparel (hereinafter apparel). Apparel constituted 5.9 percent of U.S. imports from the region in 1984, but accounted for 36.0 percent in 1993. Since 1987, the value of U.S. apparel imports from the Caribbean has increasingly exceeded that of petroleum products (table 1). In 1993, U.S. imports of Caribbean apparel amounted to $3.6 billion, almost three times the import value of petroleum and related products.

[4] Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, the British Virgin Islands, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, the Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

Table 1
U.S. trade with CBERA countries, 1984-93

Year	U.S. exports[1]	Share of U.S. exports to the world	U.S. imports[2]	Share of U.S. imports from the world	U.S. trade balance
	Million dollars	*Percent*	Million dollars	*Percent*	Million dollars
1984	5,952.9	2.8	8,649.2	2.7	-2,696.4
1985	5,743.0	2.8	6,687.2	1.9	-944.2
1986	6,064.6	2.8	6,064.7	1.6	-0.1
1987	6,668.3	2.7	6,039.0	1.5	629.3
1988	7,421.8	2.4	6,061.1	1.4	1,360.7
1989	8,105.0	2.3	6,637.4	1.4	1,467.6
1990	9,307.1	2.5	7,525.2	1.5	1,781.9
1991	9,885.5	2.5	8,229.4	1.7	1,656.1
1992	10,901.7	2.6	9,425.6	1.8	1,476.1
1993	11,941.9	2.7	10,094.0	1.8	1,847.9

[1] Domestic exports, f.a.s. basis.

[2] Imports for consumption, customs value.

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

During 1989-93, U.S. apparel imports from the Caribbean nations climbed by 126 percent, making the region the fastest growing supplier among all countries, according to a recent report of the U.S. International Trade Commission.[5] During the same period, apparel imports from Mexico increased by 112 percent and from China by 52 percent, making these two countries the second and third fastest growing suppliers.

Although most apparel is ineligible for duty-free access to the U.S. market under CBERA provisions, Caribbean apparel producers are competitive on the U.S. market principally because of their geographic proximity and lower production costs, even when compared with some Asian apparel producers. In addition, since the late 1980s some apparel products have benefited from a so-called Special Access Program (SAP) initiated to broaden CBERA benefits. The SAP provides for participating CBERA governments to negotiate bilateral textile trade agreements with the United States that include preferential U.S. quotas known as "guaranteed access levels" (GALs).[6] The GALs apply to apparel products from these countries that were assembled from fabric both made and cut in the United States.

Figure 2 shows U.S. imports in 1984 and in 1993 by major product categories, as classified by the Standard Industrial Trade Classification (SITC). The figure shows the significant narrowing in the share of "mineral fuels" imports between the first and last years of the CBERA decade. It also illustrates that the category of "miscellaneous manufactured products," which includes apparel, had become the dominant U.S. import category from the region by 1993. In addition to finished goods and components for apparel, this "miscellaneous" category also includes footwear uppers, scientific instruments, medical goods, and jewelry, which are leading imports under CBERA provisions.

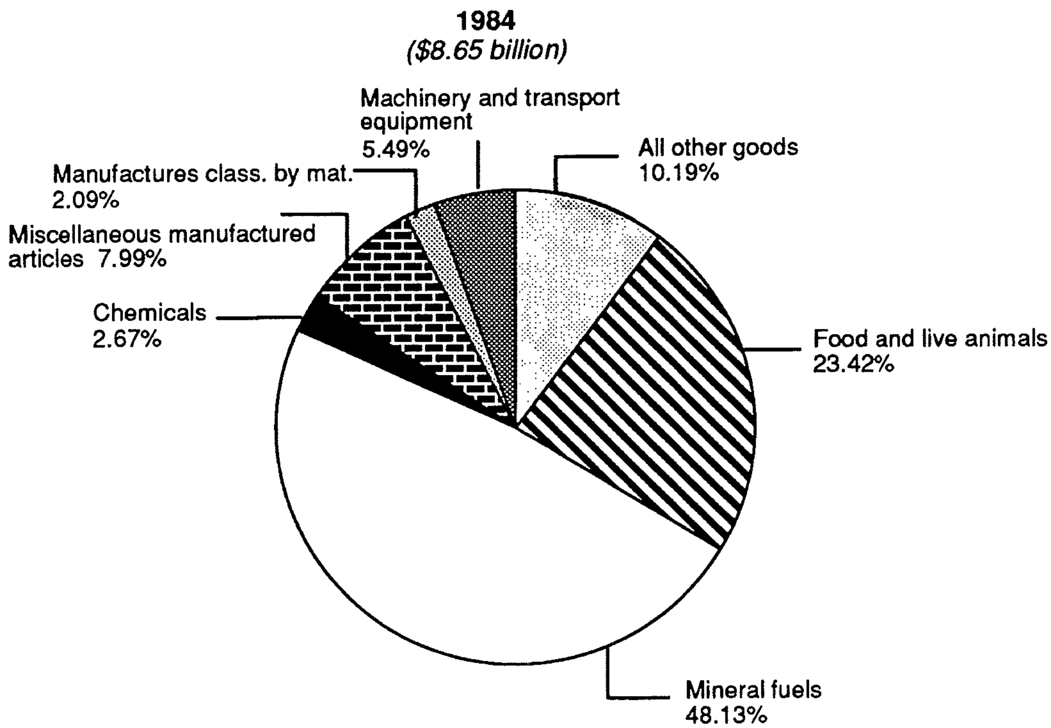
Table 2 shows that, in 1993, some two-thirds of overall U.S. imports from the Caribbean Basin were duty free under one of the following U.S. provisions: (1) under the U.S.-value portion of imports in chapter 98 of the *Harmonized Tariff System* (21.2 percent); (2) unconditionally under most-favored-nation (MFN) column 1 tariff rates (20.8 percent); (3) conditionally under CBERA (18.8 percent); (4) under the General System of Preferences (3.6 percent); or (5) under other special provisions, including some CBERA amendments since 1992 (1.2 percent).

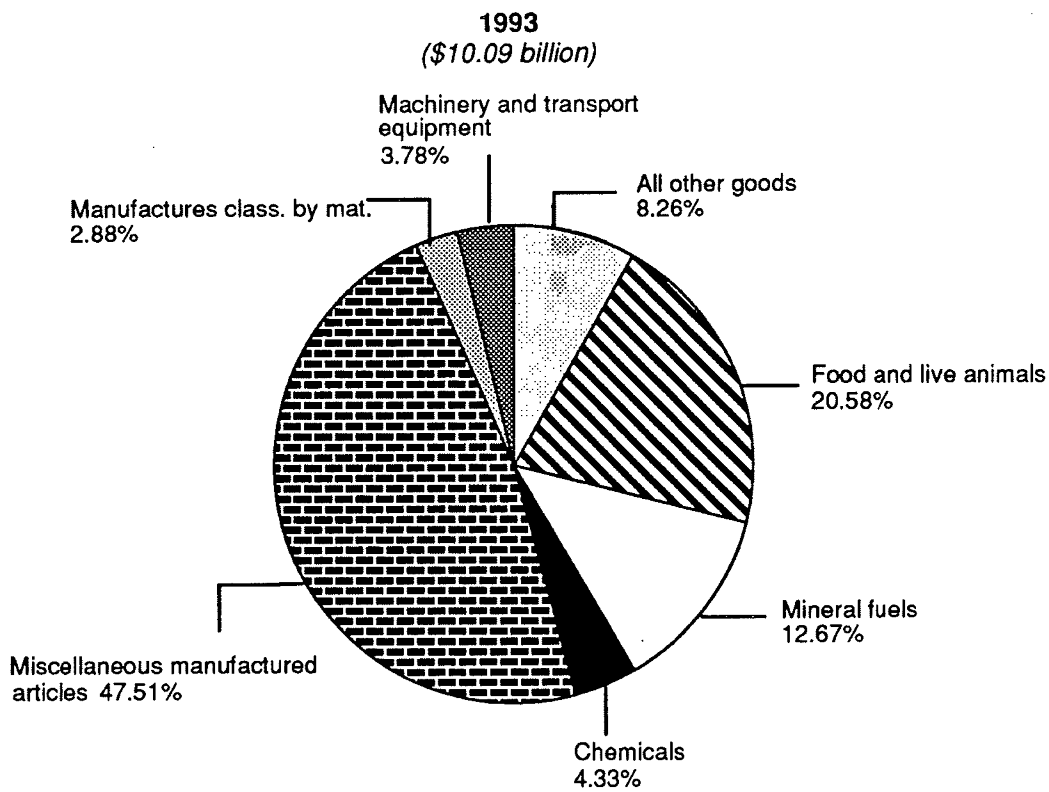
The growth of U.S. imports from the Caribbean countries may be at least partly attributed to CBERA duty exemptions. Table 2 shows that CBERA was responsible for only $576 million, or 6.7 percent, of the total U.S. imports from the region in 1984. By comparison, imports entering the U.S. market duty free under CBERA amounted to $1.9 billion in 1993, when they were responsible for 18.8 percent of the total. Many leading duty-free imports under CBERA are nontraditional manufactured products in the "miscellaneous" category, but they also include certain aromatic drugs, ethyl alcohol, frozen concentrated orange juice, and other nontraditional fruits, vegetables, and flowers. These items reflect the accomplishment of Caribbean nations in diversifying

[5] U.S. International Trade Commission, *U.S. Imports of Textiles and Apparel Under the Multifiber Arrangement: Annual Report for 1993*, USITC publication 2763, Mar. 1994.

[6] As of December 1993, GAL agreements were in effect with Jamaica, the Dominican Republic, Panama, Guatemala, and Costa Rica.

Figure 1
U.S. imports from CBERA countries by product sector

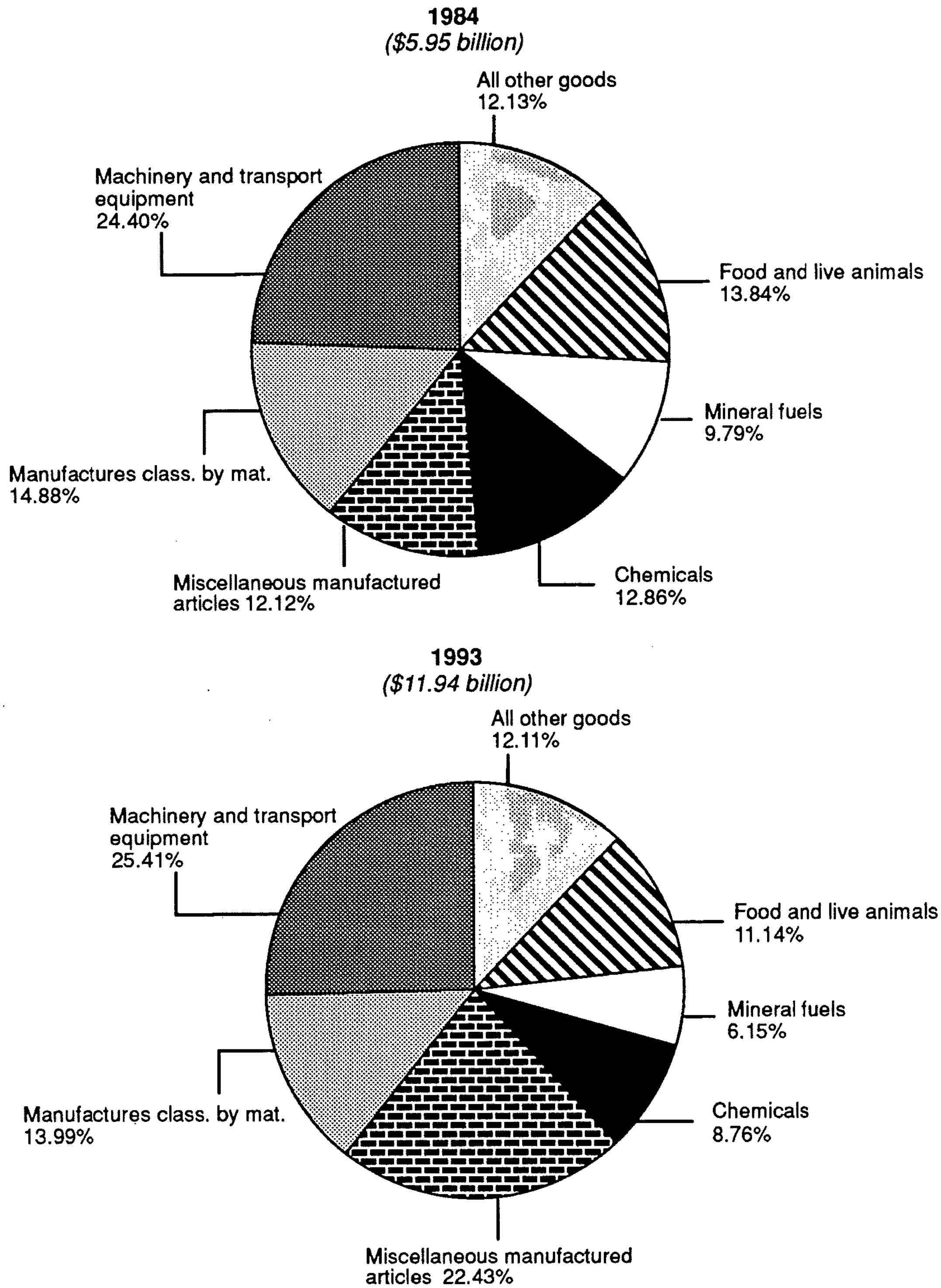




Note.—Product groups by S.I.T.C. classification (rev.3).

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

Figure 2
U.S. exports to CBERA countries, by product sector, 1984 and 1993



Note.—Product groups by S.I.T.C. classification (rev.3).

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

Table 2
U.S. imports from CBERA countries, by duty treatment, 1984, 1986, 1988, 1990, 1992 and 1993

Item	1984	1986	1988	1990	1992	1993
			(1,000 dollars, customs value)			
Total imports	8,649,235	6,064,745	6,061,054	7,525,208	9,425,616	10,094,033
Dutiable value[1]	4,567,416	1,916,553	1,975,850	2,573,813	3,269,148	3,467,856
HTS 9802.00.60 and 9802.00.80[2]	587,560	261,632	427,144	520,107	863,225	1,108,532
GAL (HTS 9802.00.8010)	N/A	693	57,366	112,770	226,200	284,459
HTS 9802.00.8050	N/A	260,878	369,483	406,235	637,023	824,073
CBERA reduced duty[3]	N/A	N/A	N/A	N/A	29,418	38,069
Other dutiable	N/A	1,654,921	1,548,706	2,053,706	2,376,505	2,321,255
Duty-free value[4]	4,081,819	4,148,192	4,085,204	4,951,395	6,156,467	6,626,177
MFN[5]	2,170,537	2,340,473	1,927,912	1,968,007	2,097,079	2,101,160
CBERA[6]	575,994	670,711	790,941	1,022,686	1,498,556	1,865,544
HTS 9802.00.60 and 9802.00.80[7]	587,560	612,118	906,518	1,153,325	1,777,260	2,144,210
GAL (HTS 9802.00.8010)	N/A	562	161,708	318,106	618,245	787,500
HTS 9802.00.8050	N/A	611,513	744,723	815,542	1,158,839	1,356,638
GSP[8]	592,249	476,151	353,079	472,303	340,666	359,737
Other duty free[9]	155,478	48,738	106,754	335,074	442,904	155,526
			Percent of total			
Total imports	100.0	100.0	100.0	100.0	100.0	100.0
Dutiable value[1]	52.8	31.6	32.6	34.2	34.7	34.4
HTS 9802.00.60 and 9802.00.80[2]	N/A	4.3	7.0	6.9	9.2	11.0
HTS 9802.00.8010	N/A	(10)	1.0	1.5	2.4	2.8
HTS 9802.00.8050	N/A	4.3	6.1	5.4	6.8	8.2
CBERA reduced duty[3]	N/A	N/A	N/A	N/A	0.3	0.4
Other dutiable	N/A	27.3	25.6	27.3	25.2	23.0
Duty-free value[4]	47.2	68.4	67.4	65.8	65.3	65.6
MFN[5]	25.1	38.6	31.8	26.2	22.2	20.8
CBERA[6]	6.7	11.1	13.0	13.6	15.9	18.5
HTS 9802.00.60 and 9802.00.80[7]	6.8	10.1	15.0	15.3	18.9	21.2
HTS 9802.00.8010	N/A	(10)	2.7	4.2	6.6	7.8
HTS 9802.00.8050	N/A	10.1	12.3	10.8	12.3	13.4
GSP[8]	6.8	7.9	5.8	6.3	3.6	3.6
Other duty free[9]	1.8	0.8	1.8	4.5	4.7	1.5

[1] Reduced by the duty-free value of imports entering under HTS 9802.00.60 and 9802.00.80 and increased by the value of ineligible items that were reported as entering under the CBERA and GSP programs.
[2] Value of nondutiable exported and returned U.S.-origin products or components.
[3] Value of imports of handbags, luggage, flat goods, work gloves, and leather wearing apparel subject to 20-percent duty reductions under the CBERA between 1992 and 1996.
[4] Calculated as total imports less dutiable value.
[5] Value of imports that have a col. 1-general duty rate of zero.
[6] Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the CBERA program and the value of reduced-duty items (handbags, luggage, flat goods, work gloves, and leather wearing apparel) reported separately above as dutiable.
[7] Calculated as a remainder, and represents imports entering free of duty under special rate provisions.
[8] Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the GSP program.
-ducts are eligible for a 20-percent duty reduction under the CBERA beginning in 1992.
-an 0.05 percent.
-f rounding, figures may not add to totals given.
- official statistics of the U.S. Department of Commerc

their exports, partly in response to benefits and incentives codified in CBERA or those provided by CBI. Other top exports from the Basin that enter the United States under CBERA are traditional Caribbean products, such as beef, sugar, and bananas, which continue to play a significant role in the region's economies.

Products benefiting from CBERA gained in absolute and relative importance in overall U.S. imports from the Caribbean as regional traders gradually discovered how to take advantage of the program. Traders realized, for example, that country-of-origin conditions for U.S. duty exemptions are less stringent under CBERA than under the General System of Preferences (GSP). They also learned that, since CBERA II was enacted in 1990, CBERA has no statutory deadline, whereas the GSP program, which was originally scheduled to expire in July 1993, now operates under a 15-month extension. Traders responded by increasingly shifting their eligible exports from the GSP to the CBERA program.

Benefits other than the duty exemptions afforded by CBERA boosted Caribbean production and exports as well. Within the framework of CBI, the United States assisted Caribbean countries with various programs in addition to the benefits codified in the original CBERA, CBERA II, and other pertinent laws or regulations. Notably, the United States extended financial assistance to Caribbean Governments in exchange for their commitment to create a better legal environment for private-sector activity. As a result, foreign investors were attracted to the region and promoted the diversification process. Preferential financing of Caribbean ventures by Puerto Rico and the establishment of several Caribbean "twin-plants" to Puerto Rico-based U.S. companies under Puerto Rico's own Caribbean Development Program (CDP) became an important instrument of diversification. In 1986, the United States enlisted Puerto Rico's assistance in Caribbean industrial development by making the tax exemptions that are granted to U.S. companies located in Puerto Rico under section 936 of the Internal Revenue Code (so-called section 936 funds) available for preferential financing of projects in Caribbean countries.

In an ongoing investigation, the staff of the International Trade Commission recently questioned government and private industry representatives in Central America about their perception of CBERA's importance in light of the still relatively small share of total regional imports entering the U.S. market under CBERA provisions. All persons interviewed were emphatic in affirming CBERA's critical significance in contributing to Caribbean competitiveness in the U.S. market and its power to attract investment to the region.

U.S. Exports

Data show that, unlike U.S. imports, U.S. exports to the Caribbean kept up in the CBERA years with the expansion of U.S. exports to the world. The Caribbean share as a destination of overall U.S. exports dipped in some CBERA years only slightly below the 2.8 percent recorded in 1984 (table 1). In 1993, Caribbean countries accounted for 2.7 percent of U.S. exports to all countries, virtually the same in the tenth CBERA year as in the first. U.S. exports to the region doubled in current value since CBERA has been in existence, amounting to $11.9 billion in 1993, and up 9.2 percent over 1992.

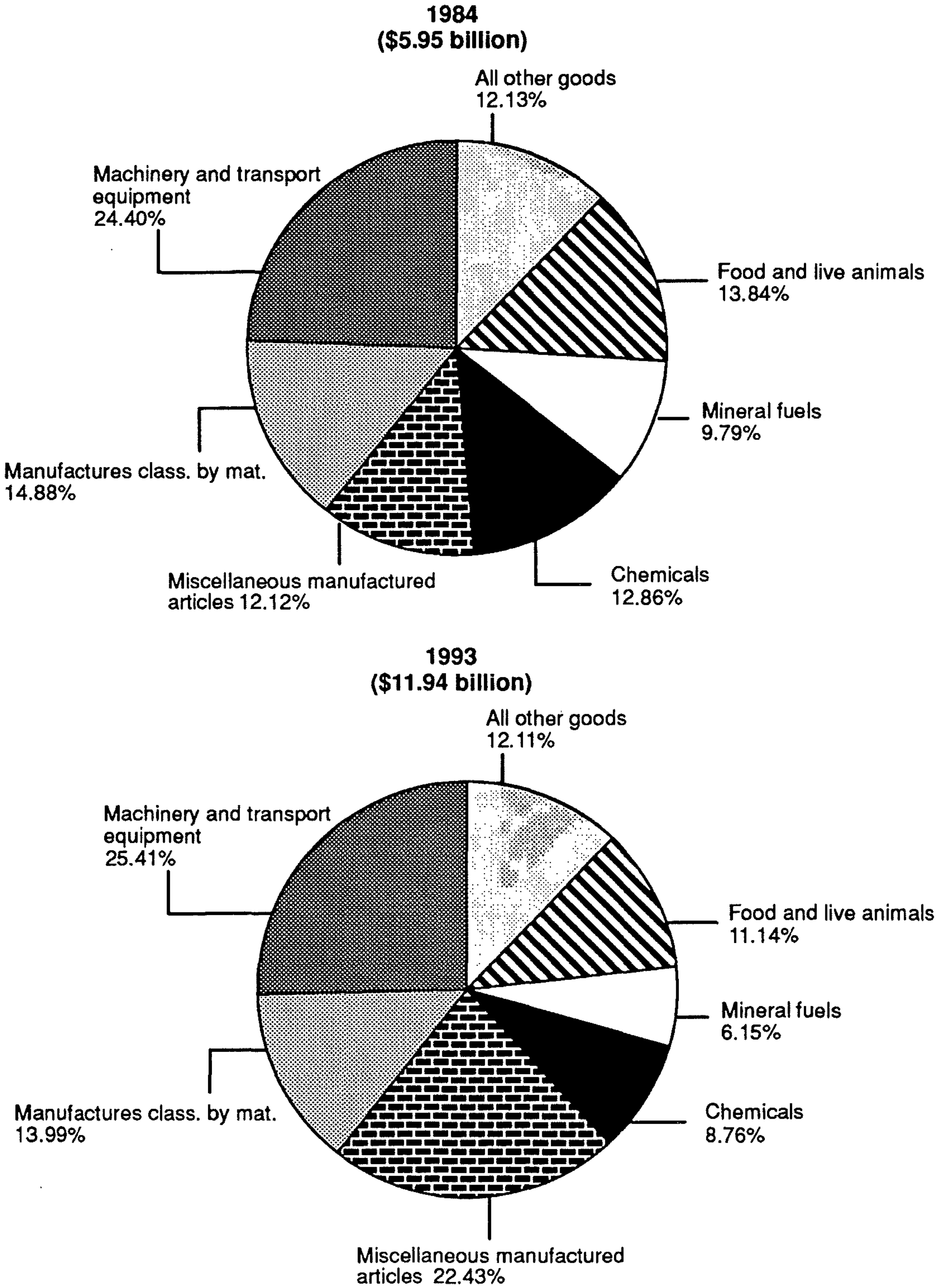
Manufactures dominated the composition of U.S. exports to the Caribbean countries even before the CBERA. In 1984, the four SITC manufactures sectors —chemicals and related products, manufactured goods classified chiefly by material, machinery and transportation equipment, and miscellaneous manufactured articles—accounted collectively for 64.3 percent of all U.S. exports to the region (figure 3). The importance of manufactures in overall exports to the Caribbean became even more pronounced by the tenth CBERA year, when these four groups were collectively responsible for 70.6 percent of the total.

U.S. exports increased in the first CBERA decade in all of the SITC categories shown in figure 3. Some agricultural products, including wheat, corn, and soybeans, were leading U.S. export items throughout the period. Meanwhile, the relative significance of the four manufacturing groups shifted during the CBERA years. The share of miscellaneous manufactured articles expanded significantly on the export side as well as on the import side. Miscellaneous manufactured articles accounted for 12.1 percent of total U.S. exports to the Caribbean in 1984 and for 22.2 percent in 1993. This group contains cut apparel pieces and other semifinished apparel products that reach the Caribbean as U.S. inputs for further processing and reenter the United States enhanced by value added in the Caribbean. It also includes scientific instruments and a variety of consumer items for which Caribbean demand increased in the first CBERA decade.

The share of the "machinery and transportation equipment" category also increased. This group includes aircraft, automobile and automobile parts, and machinery and equipment and their parts, items for which the Caribbean market expanded due to modernization, diversification, and production sharing.

Caribbean nations that actively promoted export-oriented investments and production sharing were the fastest growing markets for U.S. exports. Consequently, the increase in U.S. exports to such Caribbean countries as the Dominican Republic, Costa Rica, Guatemala, Jamaica, and Honduras outpaced U.S. exports to such countries as Panama, Trinidad and Tobago, the Netherlands Antilles, and the Bahamas.

Figure 3
U.S. exports to CBERA countries, by product sector, 1984 and 1993



Note.—Product groups by S.I.T.C. classification (rev.3).

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

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, Jan. 1991-May 1994.
(Total Industrial production, 1985=100)

				1993					1994					
Country	1991	1992	1993	I	II	III	IV	Dec.	I	Jan.	Feb.	Mar.	Apr.	May
United States[1]	104.2	104.3	109.2	109.7	110.3	111.1	112.9	109.0	115.1	114.6	115.1	115.7	115.9	116.1
Japan	127.7	120.4	115.3	116.3	114.6	115.8	114.7	111.6	112.6	112.7	112.8	125.5	114.7	(2)
Canada[3]	113.8	114.9	118.0	112.9	118.3	121.2	119.6	115.5	116.9	112.3	118.4	120.1	(2)	(2)
Germany[4]	100.0	98.1	91.5	91.8	90.6	88.8	95.1	89.7	92.6	87.4	90.1	100.2	(2)	(2)
United Kingdom	109.0	108.6	111.3	114.3	108.5	105.4	116.7	110.3	118.9	110.5	120.7	123.7	(2)	(2)
France	114.2	112.9	108.6	114.9	110.8	97.3	111.5	110.2	(2)	115.4	116.4	(2)	(2)	(2)
Italy	115.4	113.6	110.7	117.3	116.9	93.7	114.8	104.3	(2)	(2)	(2)	(2)	(2)	(2)

1 1987=100.
2 Not available.
3 Real domestic product.
4 1991=100

Source: *Main Economic Indicators,* Organization for Economic Cooperation and Development, June 1994; *Federal Reserve Statistical Release,* June 15, 1994.

Consumer prices, by selected countries and by specified periods, Jan. 1991-May 1994
(Percentage change from same period of previous year)

				1993						1994					
Country	1991	1992	1993	I	II	III	IV	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.	May
United States	4.2	3.0	3.0	3.2	3.1	2.7	2.7	2.7	2.7	2.5	2.5	2.5	2.5	2.4	2.3
Japan	3.3	1.6	1.3	1.3	0.9	1.8	1.1	0.9	1.0	1.2	1.2	1.1	1.3	0.8	0.8
Canada	5.6	1.5	1.8	2.1	1.7	1.7	1.8	1.9	1.7	0.6	1.3	0.2	0.2	0.2	-0.2
Germany	3.5	4.0	4.2	4.3	4.2	4.2	3.7	3.6	3.7	3.3	3.5	3.3	3.2	3.1	(1)
United Kingdom	5.9	3.7	1.6	1.8	1.3	1.6	1.6	1.4	1.9	2.4	2.5	2.4	2.3	2.6	2.6
France	3.2	2.4	2.0	2.1	2.0	2.2	2.1	2.2	2.1	1.7	(1)	1.8	1.5	1.7	1.7
Italy	6.4	5.1	4.4	4.5	4.5	4.5	4.4	4.4	4.3	(1)	4.4	4.4	4.3	4.1	(1)

1 Not available.

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

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

				1993				1994					
Country	1991	1992	1993	II	III	IV	Dec.	I	Jan.	Feb.	Mar.	Apr.	May
United States	6.7	7.4	6.8	7.0	6.7	6.5	6.4	6.6	6.7	6.5	6.5	6.4	6.0
Japan	2.1	2.2	2.5	2.4	2.6	2.8	2.9	2.8	2.8	2.9	2.9	2.8	2.8
Canada	10.3	11.3	11.2	11.4	11.4	11.1	11.2	11.0	11.4	11.1	10.6	11.0	10.7
Germany[3]	4.4	4.7	5.9	5.8	6.1	6.4	6.5	6.4	6.6	6.7	6.5	6.6	(2)
United Kingdom	8.9	10.0	10.4	10.4	10.5	10.1	10.0	10.0	10.0	9.9	9.8	9.7	9.6
France	9.8	10.2	11.3	11.0	11.3	11.7	11.7	12.3	12.3	12.3	12.4	12.4	(2)
Italy[4]	6.9	7.3	9.4	10.8	10.6	(2)	(5)	(5)	(5)	(5)	(5)	(5)	(5)

1 Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.
2 Not available.
3 Formerly West Germany.
4 Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts.
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, July 1994.

Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1991-June 94
(Percentage, annual rates)

Country	1991	1992	1993	1993				1994							
				II	III	IV	Dec.	I	II	Jan.	Feb.	Mar.	Apr.	May	June
United States	5.9	3.7	3.2	3.1	3.1	3.3	3.4	3.4	4.3	3.1	3.6	3.7	4.0	4.5	4.5
Japan	7.3	4.4	2.9	3.2	2.9	2.2	2.0	2.2	([2])	2.1	2.2	2.2	2.2	2.1	([2])
Canada	9.0	6.7	5.1	5.1	4.6	4.3	4.0	4.0	([2])	3.8	3.8	4.4	4.4	6.3	([2])
Germany	9.1	9.4	7.1	7.5	6.6	6.2	5.9	5.7	([2])	5.7	5.7	5.7	5.4	5.0	([2])
United Kingdom	11.5	9.5	5.8	5.8	5.8	5.4	5.2	5.2	([2])	5.3	5.1	5.1	5.1	5.1	([2])
France	9.5	10.1	8.3	7.7	7.4	6.5	6.3	6.1	([2])	6.1	6.1	6.1	5.8	5.5	([2])
Italy	12.0	13.9	10.0	10.7	9.2	8.7	8.5	8.3	([2])	8.3	8.4	8.3	8.0	7.7	([2])

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

Source: *Federal Reserve Statistical Release*, July 11, 1994; *Federal Reserve Bulletin*, July 1994.

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

Item	1991	1992	1993	1993			1994					
				II	III	IV	I	Feb.	Mar.	Apr.	May	June
Unadjusted:												
Index[1]	98.5	97.0	100.1	98.1	99.6	101.2	101.6	101.5	100.9	100.9	100.0	99.1
Percentage change	-1.5	-1.5	3.1	-3.2	1.4	1.6	.4	-.9	-.5	0	-.9	-.9
Adjusted: Index[1]	101.1	100.9	104.2	103.0	103.7	104.1	104.7	104.6	103.9	104.2	103.2	102.5
Percentage change	1.0	-.1	3.3	-2.5	.7	.4	.6	-1.1	-.6	.3	-.9	-.6

[1] 1990 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 18 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, July 1994.

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

(In billions of U.S. dollars, Exports less Imports (f.o.b - c.i.f), at an annual rate)

Country	1991	1992	1993	1993 III	1993 IV	1993 Dec.	1994 I	1994 Feb.	1994 Mar.	1994 Apr.	1994 May
United States[1]	-65.4	-84.5	-115.7	-125.4	-111.7	-103.9	-129.1	-144.8	-114.9	-144.5	-152.1
Japan	77.6	106.4	120.3	39.0	41.7	44.7	42.4	124.8	123.8	(2)	(2)
Canada[3]	9.0	12.1	13.3	4.1	3.8	3.4	4.2	13.5	8.6	(2)	(2)
Germany	13.2	21.0	35.8	9.4	17.9	47.0	13.1	41.4	36.8	(2)	(2)
United Kingdom	-24.8	-30.8	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
France[3]	-5.2	5.8	15.8	5.6	6.4	27.1	3.6	9.7	18.6	(2)	(2)
Italy	-13.2	-6.6	20.6	7.1	7.5	14.8	(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] Imports are f.o.b.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, July 19, 1994; *Main Economic Indicators*, Organization for Economic Cooperation and Development, June 1994.

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

(In billions of dollars)

Country	1991	1992	1993	1993 III	1993 IV	1993 Dec.	1994 I	1994 Feb.	1994 Mar.	1994 Apr.	1994 May
Commodity categories:											
Agriculture	16.2	18.6	17.8	3.4	5.6	2.0	4.4	1.4	1.4	1.2	1.3
Petroleum and selected product—(unadjusted)	-42.3	-43.9	-45.7	-11.3	-10.7	-2.9	-9.6	-3.2	-3.5	-3.6	-3.8
Manufactured goods	-67.2	-86.7	-115.3	-36.2	-32.8	-8.6	-29.1	-10.4	-9.5	-9.7	-10.7
Selected countries:											
Western Europe	16.1	6.2	-1.4	-2.8	-1.2	.1	-.1	-.5	.3	-.1	-1.4
Canada[2]	-6.0	-7.9	-10.2	-2.1	-2.8	-.8	-2.7	-1.0	-.6	-.9	-.7
Japan	-43.4	-49.4	-59.9	-15.2	-17.1	-5.3	-15.0	-4.6	-5.8	-5.5	-4.4
OPEC (unadjusted)	-13.8	-11.2	-11.6	-3.6	-1.6	-.2	-1.6	-.7	-.7	-1.1	-1.0
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$17.42	$16.80	$15.13	$14.63	$13.52	$12.26	$11.80	$12.03	$11.78	$12.77	$14.04

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

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, July 19, 1994.