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In This Issue:

International Economic Comparisons

U.S. Trade Developments

International Trade Developments:

U.S. releases statement on GATT textiles and clothing talks

Mexico issues new automotive and maquiladora decrees

EC signs trade pact with USSR, forges closer links with Eastern Europe

Regional effects of the United States-Canada Free Trade Agreement

Statistical Tables

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CONTENTS

Page

International Economic Comparisons
(Michael Youssef, 252-1267) 1

U.S. Trade Developments
(Michael Youssef, 252-1267) 3

International Trade Developments:

U.S. releases statement on GATT textiles and clothing talks
The United States presented a long-awaited position paper to the Uruguay Round negotiating group on textiles and clothing.
(Paul Gibson, 252-1270) 3

Mexico issues new automotive and maquiladora decrees
Mexico's new Automotive Decree, published on December 11, substantially lowers domestic content requirements, while its new Maquiladora Decree, published on December 22, allows for increased maquila sales in the Mexican market.
(Janice Fair, 252-1237) 4

EC signs trade pact with USSR, forges closer links with Eastern Europe
The bilateral agreement concluded between the European Community and the Soviet Union in late 1989 further bolstered the EC's leading role among Western nations in trade with the Soviet Union. The EC has comprehensive, bilateral trade agreements with Hungary, Poland, and Romania, and it wants to upgrade its commercial relations to the same level with East Germany, Czechoslovakia, and Bulgaria.
(Peter Pogany, 252-1267) 5

Regional effects of the United States-Canada Free Trade Agreement
After one year of operation, the North American FTA has produced mixed results.
(Alan Bicker, 252-1912 and Thomas Jennings, 252-1260) 6

STATISTICAL TABLES
(Dean Moore, 252-1259) 9

INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

The 1980's witnessed several structural changes in the United States: the longest economic expansion since the fifties, debt-driven corporate take-overs, the ballooning of the Federal and trade deficits, growth in foreign ownership, and the shift of the U.S. international position from the world's major creditor to the world's major debtor.

As the economy grew steadily in the eighties, employment increased and the level of unemployment continued to decline. Meanwhile, inflation remained moderate. Real exports progressively expanded. Export growth coupled with the growth in domestic demand were the major sources of the economic expansion. On the financial side, a Federal deficit and a decline in household savings accentuated the saving/investment imbalance. Foreign savings filled the gap. As U.S. demand grew faster than supply, the excess demand spilled to foreign markets. As a result, the trade deficit ballooned and foreign investment in the United States expanded.

Real GNP grew in the eighties at an average annual rate of 3.0 percent, compared with an average annual growth rate of 3.2 percent in the seventies. It reached $4.2 trillion in 1989 (third quarter). Gross domestic private investment grew by 78.5 percent reaching $791 billion in the third quarter of 1989. Meanwhile, industrial production rose by 32.8 percent, which is a yearly average of 2.9 percent. Real personal consumption spending rose slightly from 63.4 percent of GNP in 1980 to 66.5 percent in 1989 (third quarter). Total exports expanded, contributing $618.6 billion to GNP in 1989 (third quarter). The decade started with a small trade surplus of $32 billion in 1980. The trade deficit began in 1983, and it reached a peak in 1987 of $152.1 billion and decreased to an annualized level of approximately $101.7 billion in 1989 (January–November seasonally adjusted).

In 1990, prospects for growth seem to be good. A majority of analysts agree that the present expansion will continue. Exports and investment spending will continue to be the two engines propelling the economic expansion. Growing foreign demand and the potential for new markets in the Eastern Bloc should spur export growth. The services sector is expected to grow, providing more jobs and more exports.

While business plans to increase spending 4.8 percent in real terms in 1990 over the levels of 1989, service industries plan to spend 10.8 percent more in 1990 than in 1989. Services are expected to spur job growth in the nineties. The Bureau of Labor Statistics projects that the industrial employment share in total nonagricultural employment will fall to 21.0 percent by the end of the 1990s from 24.0 percent in the 1980s. Meanwhile, the share of employment in services will grow 21.0 percent in the 1990s. Four out of five nonagricultural workers will be employed in services by the turn of this century, the Labor Department projects.

Economic activities in January 1990 seem to have been bolstered by the most recent credit action on the part of the Federal Reserve. Lower interest rates have added some momentum to investment spending and have revived the sagging housing and auto markets. Auto sales jumped by 27 percent in January 1990 and housing sales rebounded a little. In December 1989, unemployment on a total labor force basis remained at 5.3 percent, unchanged from the previous month. Industrial production rose 0.4 percent in December. Nevertheless, the monthly U.S. merchandise trade deficit widened to $10.5 billion in December from $10.2 in October. The worsening of the trade deficit was due to the decline in airplane exports, which was due to the labor strike at the Boeing Company.

Economic Growth

The annualized rate of real economic growth in the United States during the second and third quarters of 1989 was 2.5 percent and 3.0 percent respectively. The annualized rate of real economic growth during the third quarter of 1989 was 3.9 percent in the United Kingdom, 2.3 percent in Canada, and 2.1 percent in West Germany. The annualized rate of real growth during the second quarter of 1989 was 3.2 percent in France, 1.7 percent in Italy, and 3.1 percent in Japan.

Industrial Production

U.S. industrial production rose 0.4 percent in December 1989 after a gain of 0.3 percent in November. The index was 1.7 percent higher than it was in December 1988. The December 1989 increase was effected by the rise in electric utilities output (6.3 percent) that was caused by the bitter cold wave, and by the increase in airplane and parts production after the end of an aircraft industry labor strike.

Capacity utilization in manufacturing, mining, and utilities stood at 83.3 percent in December 1989, up from 83.1 percent in November. This was largely the result of a 5.0 percent surge in the operating rate for utilities during the December cold wave.

Other major industrial countries reported the following annual growth rates of industrial production: during the year ending October 1989, Japan reported an increase of 5.4 percent, and West Germany reported an increase of 3.3 percent; during the year ending September 1989, the United Kingdom reported a decrease of 0.4 percent, France reported an increase of 1.2 percent, and Canada reported an increase of 0.3

percent; during the year ending August 1989, Italy reported an increase of 2.1 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.4 percent, from November to December 1989, and by 4.6 percent during the year ending December 1989.

During the 1-year period ending November 1989, consumer prices increased 3.3 percent in West Germany, and 6.4 percent in Italy. During the year ending October 1989, consumer prices increased 7.3 percent in the United Kingdom, 3.5 percent in France, 5.1 percent in Canada, and 2.9 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor force basis, including military personnel) remained unchanged at 5.3 percent in December, from November 1989. In November, the unemployment rate was 7.9 percent in West Germany and 7.6 percent in Canada. In October, the unemployment rate was 16.6 percent in Italy, 5.9 percent in the United Kingdom, 5.9 percent in France, and 2.3 percent in Japan. For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.

Investment

The U.S. Department of Commerce reported that U.S. business plans to spend $505 billion for new plant and equipment in 1990. This represents a 6.4-percent increase over 1989 spending. The 1989 spending estimate is $475 billion, 10.0 percent more than the 1988 level. Real spending (adjusted for price changes) is estimated to reach $490 billion in 1990. This represents an increase of 4.9 percent over the 1989 spending level. In 1988, real investment spending increased by 8.9 percent over 1987.

Estimates of real spending in 1990 show that capital spending will increase by 1.4 percent in manufactures, and 7.1 percent in nonmanufacturing. Spending in mining and public utilities is expected to decline.

Forecasts

Table 1 shows macroeconomic forecasts for the U.S. economy for January to December1990, projected 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. All the forecasts, except UCLA's, pro-

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, 1989-90

Quarter	UCLA Business Forecasting Project	Merrill Lynch Capital Market	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore-casts
GNP:[1]					
1990:					
January-March	4.5	5.6	5.1	7.0	5.5
April-June	6.6	6.9	6.0	6.5	6.5
July-September	7.3	6.9	5.5	6.1	6.4
October-December	7.2	6.8	6.2	6.5	6.7
GNP:[2]					
1990:					
January-March	-0.8	1.0	1.5	1.8	0.9
April-June	2.1	2.3	1.7	2.2	2.1
July-September	3.5	2.5	1.6	2.5	2.5
October-December	3.3	2.4	2.6	2.6	2.7
GNP deflator index:					
1990:					
January-March	5.3	4.5	3.6	5.1	4.6
April-June	4.4	4.5	4.2	4.2	4.3
July-September	3.7	4.3	3.9	3.6	3.9
October-December	3.8	4.3	3.6	3.8	3.9
Unemployment, average rate:					
1990:					
January-March	5.6	5.5	5.4	5.6	5.5
April-June	5.8	5.6	5.4	5.8	5.6
July-September	5.8	5.5	5.5	5.8	5.6
October-December	5.7	5.5	5.5	5.7	5.6

[1] Current dollars.
[2] Constant (1982) dollars.

Note.—Percentage changes in the forecast represent compounded annual rates of change from the preceding period. Quarterly data are seasonally adjusted.

Source: Compiled from data published by the Conference Board, *Statistical Bulletin*. December 1989. Used with permission.

ject a rise in the nominal and real growth rates of GNP throughout 1990. UCLA's forecast projects a lower growth rate in nominal GNP and a negative growth rate in real GNP in the first quarter of 1990. The average of the forecasts predicts a slight increase in the unemployment rate in 1990. The causes of the predicted economic growth are: (1) a projected rebound in export growth due to the higher growth rates in Western Europe, in particular, the opening of the EC market to U.S. exports (i.e., post 1992), and (2) a boost in U.S. domestic investment due to the decline in U.S. interest rates. Inflation (measured by the GNP deflator index) is expected to rise in the first quarter of 1990, and then to moderate during the remainder of the year.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit widened by 2.4 percent, to $10.5 billion in November 1989 from $10.2 billion in October. The November deficit was 11.7 percent higher than the $9.4 billion average monthly deficit registered during the previous 12-month period, and slightly lower than the deficit registered in November 1988.

U.S. exports declined 2.7 percent in November, to $30.2 billion from $31.0 billion in October. Imports declined by 1.4 percent, to $40.7 billion in November from $41.3 billion in October.

Export declines in November were concentrated in airplanes and parts, which dipped 62.5 percent and 4.9 percent respectively for the month. On a cumulative eleven-month basis, however, exports of airplanes rose by 18.6 percent and airplane parts rose by 18.3 percent. The dip in airplane and parts exports in November was, reportedly, due to the strike in this industry. Other sectors also experienced monthly export declines. These included power generating machinery (down 12.2 percent), electrical machinery (down 5.8 percent), iron and steel mill products (down 45.3 percent), specialized industrial machinery (down 15.1 percent), general industrial machinery (down 3.2 percent), and vehicle parts (down 5.7 percent).

On a cumulative eleven-month basis, exports of most of these sectors showed increases. Power-generating machinery exports rose 11.1 percent, exports of electrical machinery rose 11.1 percent, exports of iron and steel mill products rose 70.3 percent, exports of specialized industrial machinery rose 16.4 percent, and exports of general industrial machinery rose 26.1 percent.

Import decreases were concentrated in new Japanese passenger cars (down 14.1 percent), clothing and footwear (down 14.6 percent), electrical machinery (down 6.0 percent), general industrial machinery (down 3.6 percent), iron and steel mill products (down 14.1 percent), and telecommunications equipment (down 11.8 percent). Imports of automatic data processing equipment and office machinery remained virtually unchanged. Increases were shown in imports of airplanes, new passenger cars, and gem diamonds.

Meanwhile, the U.S. agricultural trade surplus increased in November to $1.8 billion from $1.5 billion in October. In addition, the U.S. oil-import bill remained almost unchanged at $4.4 billion.

From October to November, the United States experienced a worsening in merchandise trade deficits with Canada, the EC, Mexico, OPEC, and China, and improvements in merchandise trade deficits with Japan, Brazil, South Africa, and the NICs. The defict with certain countries grew as follows: with Canada, from $823 million to $1.2 billion; with EC, from $148 to $325 million; with Mexico, from $90 million to $353 million; with China, from $783 million to $824 million; with OPEC, from $1.5 billion to $1.8 billion. The deficit with newly industrialized countries declined from $2.8 billion to $2.1 billion, and the deficit with Japan declined from $4.9 billion to $4.0 billion. The trade surplus with the U.S.S.R. rose from $123 million to $379 million, and the surplus with Egypt rose from $177 million to $199 million.

INTERNATIONAL TRADE DEVELOPMENTS

U.S. Releases Statement on GATT Textiles and Clothing Talks

In a statement to a December meeting of the Uruguay Round Textile Negotiating Group, the United States committed itself to the "eventual" integration of textiles and clothing trade into the GATT. The U.S. proposed that the integration could take place through one of three possible means: (1) by applying the existing systems of restraint under the Multifiber Arrangement (MFA); (2) by converting existing restraints into a multilaterally agreed system, tariff rate quotas, or global type quotas; or (3) by agreeing that different participants could use different systems according to a multilaterally agreed set of rules. The United States would like to see no regulation of textiles trade outside of the GATT once the transition is complete.

The United States did not commit itself to a fixed timetable for such a transition, although-some developing countries would like to see the transition by June 1991, the expiration date for the current MFA, the mechanism by which coun-

tries may establish limits on international trade in textiles.

In the U.S. view, reintegration of textiles and clothing into the GATT cannot take place in isolation, but must be accompanied by progress in other negotiating areas of the Uruguay Round, particularly in those that involve strengthening GATT rules and disciplines. The U.S. proposal, the last to be tabled by a major textile-importing nation, was described by U.S. officials as a negotiating paper that can be refined during the remaining 12 months of the Uruguay Round.

Textiles and clothing negotiations are intended to develop a means to eventually eliminate the MFA and bring textiles under GATT rules. The MFA allows signatories to establish quantitative limits on textile and apparel imports to prevent market disruption in the importing country. These restrictions are a departure from the GATT provision of MFN treatment. The only principal textile importing or exporting country that has not signed the MFA is Taiwan.

Textile and clothing negotiations have been the subject of much dispute during the Uruguay Round. A lack of consensus in the textiles and clothing area was one of the major areas of disagreement at the December 1988 Montreal midterm review of the Uruguay round, a disagreement that stalled the round until April of 1989. In April, the contracting parties agreed on the importance of trade liberalization in this sector, and resolved to undertake "substantive negotiations" to that end in order to reach agreement by December 1990 on how to integrate the sector into the GATT.

Mexico Issues New Automotive and Maquiladora Decrees

Since its accession to GATT in 1986, Mexico has taken a number of steps to liberalize its trade and investment policies, specifically, the removal of import license requirements for most imports, a reduction of import tariff rates from as high as 100 percent to a maximum of 20 percent, and the opening of about two-thirds of the Mexican economy to 100-percent foreign ownership through new foreign investment regulations published in May 1989 (*IER*, July 1989). Until this past December, however, the automotive and maquiladora industries continued to be regulated by restrictive sectorial decrees.

While foreign automakers were allowed to establish wholly-owned subsidiaries (foreign participation in other sectors was generally limited to a 49 percent share prior to May 1989), the automotive industry was strictly regulated by means of the Automotive Decree of September 13, 1983. The decree established a number of restrictions affecting automobile and auto parts production. For instance, between model years 1984 and 1987, the number of car lines and models that auto assemblers were allowed to produce was reduced while domestic content requirements were increased. Auto parts companies continued to be restricted to a capital structure with a maximum of 40 percent foreign investment and were also subject to increasing national content requirements.

The new Automotive Decree, published on December 11, 1989, incorporates several major policy changes. Under the new decree, automakers will no longer be restricted in the number of lines and models they produce in Mexico, but rather will be allowed to decide which types of vehicles to produce based on the capabilities of their existing plants. To open auto parts manufacturing to increased foreign investment, the decree redefined the industry so that fewer firms would be classified as auto parts companies. This will reduce the number of entities subject to the 40 percent foreign ownership limitation. The new decree also reiterates the recent changes made in Mexico's foreign investment rules that allow foreign participation in auto parts companies above the 40 percent limit by means of a temporary trust mechanism.

National content requirements were also liberalized in the December decree. For the auto assembly industry, auto parts and components produced in Mexico must account for 36 percent of the overall value added (labor and parts) in Mexico for the company. For each auto parts company, the average domestic value added (labor plus materials) must reach at least 30 percent. Previously, for each car model and auto parts product line the required national content share was 60 percent on a "cost-of-parts" basis. Coupled with a requirement that automakers maintain a balanced, if not positive, trade balance for each model year, the new domestic content rule still encourages the use of Mexican parts but in a less direct way.

Another major change presented in the decree is that automakers with production facilities in Mexico (i.e. GM, Ford, Chrysler, Volkswagen, and Nissan) will now be allowed to import new vehicles of their own manufacture and brand name to supplement their domestic production, if they maintain a favorable balance of trade. Previously, importation of finished automobiles was effectively prohibited by the Government's refusal to issue requisite import permits. Under the new rules, in order to be eligible to import vehicles, the following balances of trade must be met: for each peso unit used for the import of new vehicles, companies must achieve exports worth 2.5 pesos in model year 1991, 2.0 pesos in model years 1992 and 1993, and 1.75 pesos in model year 1994. The new Automotive Decree will not take effect until November 1, 1990.

The new Maquiladora Decree, on the other hand, was published on December 22, 1989, and became effective the following day. Maquiladora

generally refers to an off-shore assembly operation involved in export-manufacturing processing or secondary assemblage. The maquiladora "in-bond" program was established by Mexico in 1965 as part of its Border Industrialization Program. Under the program, materials and equipment to be processed into exports are imported into Mexico under a bond, in lieu of customs duties, hence the term "in-bond processing." It is estimated that Mexico now has as many as 1,600 maquiladoras.

One of the most significant changes presented in the new Maquiladora Decree relates to the issue of domestic sales by maquila enterprises. Initially, to obtain the program's duty-free privileges, the entire output of the maquila had to be exported. Under an August 15, 1983 decree, maquilas were allowed to sell up to 20 percent of production on the Mexican domestic market, but only under certain conditions. For the most part, the conditions imposed, such as required levels of domestic content and an absence of or insufficient level of Mexican production, severely limited maquila sales on the Mexican market. Under the new decree, the value of a maquila's domestic sales may equal up to 50 percent of its export sales for the preceding 12 months; the domestic sales must be in addition to its established export level. The only requirement for approval of domestic sales is that the maquila maintain an overall positive foreign currency budget (i.e., the value of imports used in the items sold on the domestic market must be more than offset by maquila expenditures of foreign currency in Mexico for operating expenses, purchase of supplies, wages, etc). In another change, rather than pay duties on a finished product basis for the imports incorporated in products sold on the domestic market, if certain local content requirements are met, the maquilas may choose to pay the lower rates that would be applicable to the components. Permits for domestic sales are now valid for 2 years instead of 1 year.

Other changes outlined in the new Maquiladora Decree include an extension of the maquila license to cover an indefinite period, rather than the previous 2-year limit; an expansion of the list of items that maquilas may import duty-free (to include such items as computers and telecommunications equipment); and the streamlining of the administrative process with respect to formation and operation of a maquila by means of a "single window" for registrations at the Mexican Department of Commerce and Industrial Development (SECOFI).

In both the new Automotive Decree and the new Maquiladora Decree, Mexico has opted for a regulatory approach that moves away from a reliance on strict domestic content integration and protection of national manufacturers. By emphasizing positive foreign currency budgets over protection policies, the Government of Mexico has given greater decision-making freedom to affected business enterprises, setting the stage for the more rational development of these industrial sectors.

EC Signs Trade Pact with USSR, Forges Closer Links with Eastern Europe

The European Community (EC) and the Soviet Union signed a 10-year trade and cooperation agreement at the end of 1989. Providing a framework for commercial and technical cooperation in a wide range of areas, the agreement includes the reciprocal extension of most-favored-nation tariff status (MFN) and a pledge by the EC to abandon most of its quantitative restrictions (quotas) on imports from the Soviet Union by 1995. The EC will facilitate the training of Soviet entrepreneurial cadres in the West, while the Soviets will further ease the conditions for EC firms to get established and function in the Soviet Union. Under this rubric, the EC is reportedly asking the Soviets to simplify border crossings into the Soviet Union, to expand fax communication with the West, and to speed up the process of granting residence visas to people doing business on behalf of EC firms. Using the momentum that the agreement has created toward improving bilateral relations, the EC will reportedly also seek Soviet adoption of European industrial standards in television technology, mobile communication equipment, and rail gauges.

Rough estimates indicate that trade turnover (exports plus imports) between EC members and the Soviet Union amounted to $26 billion during 1989, whereas Japan-Soviet trade was $6 billion and U.S.-Soviet trade was $5 billion. Food and machinery and equipment make up the bulk of EC exports to the Soviet Union; well over half of the EC's imports from the Soviet Union consist of oil, natural gas, and other raw materials. Although the new bilateral treaty has doubtlessly sharpened the EC's competitive edge in the Soviet market, it is unlikely to lead to a substantial change in the Soviet Union's current, less than 2 percent, share in overall EC trade in constant prices over the next five years.

The imbalance that exists in the Soviet Union between outstanding ruble purchasing power and the supply of domestic goods available for purchase already prompted Soviet authorities to restrain the growth of exports last year, particularly those of consumer goods. The growth of Soviet exports to the EC will also be limited by the tough competition Soviet firms will continue to face there. Members of the European Free Trade Association (EFTA) export their industrial goods duty-free to the EC, and many developing countries enjoy tariff concessions as a result of the Community's various trade preference programs. The broadening ties between the EC and Eastern Europe further limit the growth potential of So-

viet export revenues from the EC. The constraints on the export earning potential, in turn, will hinder the growth of Soviet imports from the EC and elsewhere.

Negotiating away the EC's quantitative restrictions on imports from the Soviet Union also promises to be an arduous, time-consuming task. This is yet another factor that will moderate the immediate trade-enhancing effects of the bilateral pact. At the end of 1989, EC quantitative restrictions against imports from the Soviet Union were applied in 50-60 commodity categories on average, with the severity of quotas and their commodity coverage varying significantly among the member countries, according to Soviet sources.

Italy applies quotas against imports from the Soviet Union in 60 categories, West Germany in 52, France in 23, and the United Kingdom in 16. Whereas all EC countries restrict the importation of Soviet textiles (as well as textiles from other sources), there is a great deal of variation in other products subject to quotas. For example, Italy limits the importation of a long list of Soviet chemical products, urea, cars, cartons, and window panes. West Germany limits some Soviet chemicals, iron and steel, leather goods, and Christmas decorations made of glass. France limits the importation of Soviet coal, crude petroleum, microscopes, and vodka; the United Kingdom limits shoes, ceramic tableware and TV sets. Moreover, some countries (e.g., West Germany) require licenses to import Soviet products not subject to quantitative restrictions, whereas others (e.g., the United Kingdom) do not.

In addition to the commitment to do away with most of its quantitative restrictions against imports from the Soviet Union, the EC is well on its way to doing the same with restrictions limiting imports from Eastern Europe. The EC's action plan on Poland and Hungary, issued during the fall of 1989, calls for the "accelerated abolition of quantitative restrictions on imports of Polish and Hungarian products." It is likely that practically all quantitative restrictions against imports from Poland and Hungary will be lifted during 1990. These two countries have concluded comprehensive bilateral agreements with the EC during the past two years, which are similar in scope to the new EC-Soviet agreement. The suspension of the 1980 trade agreement with Romania in protest of Ceausescu's repressive domestic policies will reportedly soon be lifted, too. There are also indications that most—if not all—of the preparatory work needed to expand the existing agreement with Czechoslovakia, and conclude comprehensive agreements with East Germany, and Bulgaria is likely to be completed in 1990.

Conviction is apparently growing among West European business executives that Eastern Europe and the Soviet Union are "open for business" and that these markets offer significant long-term profits to those who get there first. According to news reports, companies in a position to help Eastern Bloc countries improve their infrastructure or provide consumer goods, food-processing machinery and equipment, and technological know-how are the most likely to succeed there.

There is some concern about the possibility of an onslaught of products from the Eastern Bloc. But on the whole, West Europeans appear optimistic that as the EC's internal economic integration unfolds, more cost-effective production in the Community will increase employment and incomes, allowing for the absorption of increased volumes of low-cost products from Eastern Europe and the Soviet Union.

Regional Effects of the United States–Canada Free Trade Agreement (FTA)

The U.S.–Canada FTA has been in operation for one year, and both positive and negative reviews are being formulated. Even though it is early to be making final judgments, some regions have already demonstrated "side effects" as a result of the Canadian agreement. Since January 1, 1989, economic performance within the provinces range from "questionable" in Ontario to "prosperous" in Quebec. In America, many border regions are experiencing greater interaction with Canada, and Buffalo, New York seems to be a prime example of a U.S. success story.

When the FTA was being negotiated, many Ontario businessmen joined the Liberal Government in opposing the deal with the Americans. The businessmen were concerned that removal of tariffs would threaten the strong manufacturing base that was established in Ontario. Since January 1, 1989, there have been some noticeable slowdowns in the Ontario economy. Ford Motor Company for example, extended the summer shutdown of its Ontario Plant from three to eight weeks. Another example of Ontario's economic slowdown is the plant closings of Gerber Canada and PPG Canada. These two shutdowns accounted for the loss of 490 jobs. Canada's Federal Minister of State for Finance, John McDermid, acknowledges that Ontario has experienced plant closings that have been related to the FTA. The Canadian exchange rate and the slowing U.S. demand may be partially responsible for Ontario's slowdown, but it is yet too early to tell how much of a role the FTA has played in the Ontario decline.

Quebec, on the other hand, seems to be experiencing a new emergence. Businessmen of the province were among the early, enthusiastic supporters of the FTA. Since its inception, the FTA seemed to spur new markets for French-Canadian firms. Success stories include: Bombardier (snowmobiles and rapid transportation), SNC Group (builder, engineer, and armament

maker), and Provigo (grocery store chain). The province of Quebec also has several characteristics that make it less threatened by the FTA. First, Quebecers are less dependent on American multinationals than are their English-speaking counterparts. This makes them less vulnerable to the employment shifts of the multinationals. Second, it is argued by some that the French language shields Quebec's economy from being overwhelmed by the influence of American multinationals. Third, Quebec's popular tax breaks for shareholders have created a vocal free-trade advocacy. Quebec seems to be poised to take advantage of the benefits of the prosperous U.S. market, which the FTA has enhanced.

On the U.S. side, Buffalo, New York is an example of an American beneficiary of free trade. Located only two hours from Toronto, Buffalo has been experiencing a rebirth for the past two years. Toronto's cosmopolitan economy has directed Canadian eyes southward to the affordable city of Buffalo. First-class office space in downtown Buffalo can be leased for $18 (Canadian) a square foot, compared to $50 in Toronto. After the FTA was implemented, many Canadian firms began to realize that Buffalo could be a geographic springboard into the new U.S. market. Since 1987, 450 Canadian firms have settled in the Buffalo area. With FTA in effect, Buffalo should become even more attractive to Canadian firms seeking access to the U.S. market.

The FTA has also had the effect of increasing same day visits to the United States by Canadians. During the first nine months of 1989, same-day visits to the United States rose 19.1 percent, compared to the same period a year earlier. Much of the increase in travel is due to Canadians who travel to the United States to shop and buy gasoline. There are two possible explanations to account for this increase in cross border commerce. One is the exchange rate. In 1989, the Canadian dollar appreciated to $.8600, up from $.8125 in 1988. The high exchange rate makes U.S. goods less expensive for Canadian consumers. The high Canadian dollar gives an incentive to Canadian consumers to buy cheaper U.S. goods. The other is the institution of the FTA. Since the inception of the FTA, Canadians may perceive the U.S. market as being more open, and, as a result, they may increase their purchases from the nearby United States.

STATISTICAL TABLES

Trade balances, by selected countries and by specified periods, January 1986–December 1989

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

				1989							
Country	*1986*	*1987*	*1988*	*I*	*II*	*III*	*IV*	*Sept.*	*Oct.*	*Nov.*	*Dec.*
United States[1]	-137.5	-152.2	-119.5	-111.2	-103.4	-107.2	-98.4	-121.2	-102.0	-122.4	-126.0
Canada	7.1	8.3	7.2	7.6	3.6	3.6	4.8	2.4	1.2	4.8	(3)
Japan	92.5	96.2	94.6	96.8	80.0	76.0	74.4	76.8	76.8	58.8	64.8
West Germany[2]	52.6	65.6	72.8	80.8	68.4	75.6	69.6	86.4	72.0	67.2	(3)
United Kingdom	-12.6	-16.9	-36.0	-41.6	-38.4	-42.8	-49.2	-44.4	-36.0	-34.8	(3)
France	.1	-5.2	-5.8	-2.4	-8.4	-9.2	-14.4	-16.8	3.6	-16.8	(3)
Italy	-2.0	-8.7	-10.0	-17.2	-12.0	-11.6	-8.4	-14.4	-10.8	-14.4	(3)

[1] 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted.Beginning with 1987, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f.value.
[2] Imports, c.i.f value, adjusted.
[3] Not available.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, January 12, 1989, and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, January 17, 1990.

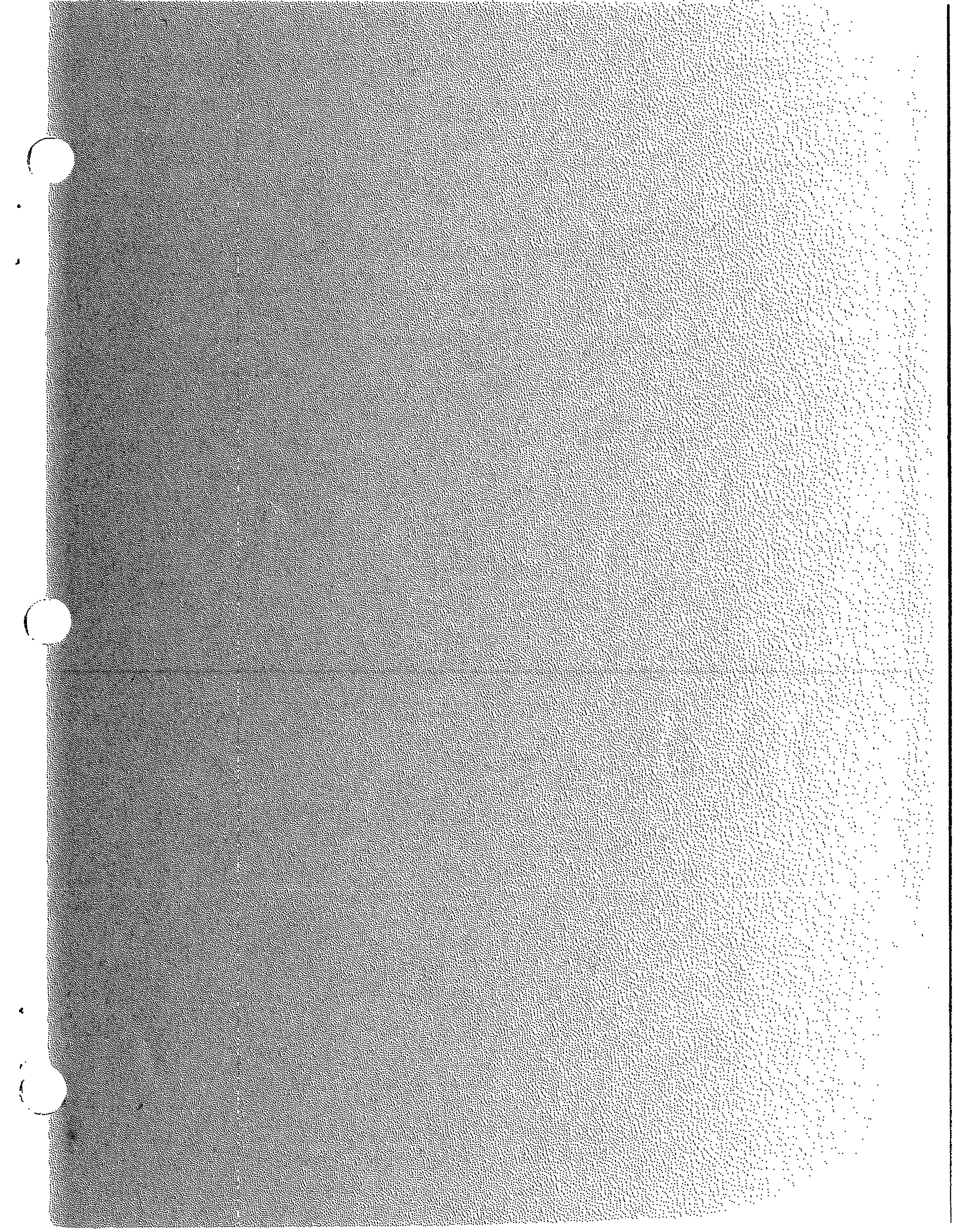
U.S.trade balance,[1] by major commodity categories, by selected countries, and by specified periods, January 1986–November 1989

(In billions of U.S. dollars, customs value basis for imports)

				1989								
Country	*1986*	*1987*	*1988*	*I*	*II*	*III*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*
Commodity categories:												
Agriculture	4.5	7.0	13.9	1.6	1.4	1.2	1.3	1.2	.9	1.4	1.5	1.8
Petroleum and selected products (unadjusted)	-31.8	-39.5	-38.1	-3.2	-4.0	-3.8	-3.9	-3.9	-3.9	-3.6	-3.9	-3.9
Manufactured goods	-134.3	-146.1	-146.7	-8.4	-7.8	-9.0	-8.4	-9.3	-10.2	-7.6	-10.6	-10.3
Selected countries:												
Western Europe	-28.2	-27.9	-17.2	-.08	-.02	-.9	-.8	-.8	-.7	1.2	-.4	-.7
Canada[2]	-23.0	-11.5	-12.6	-.9	-.5	-.7	-.5	-.4	-1.2	-.6	-.8	-1.2
Japan	-55.3	-58.0	-55.5	-4.1	-4.0	-4.0	-3.9	-4.0	-3.9	-4.1	-4.9	-3.9
OPEC (unadjusted)	-8.9	-13.7	-10.7	-1.0	-1.6	-1.6	-1.6	-1.7	-1.8	-1.5	-1.5	-1.7
Unit value of U.S.imports of petroleum and selected products (unadjusted)[3]	$15.02	$18.12	$14.19	$15.17	$17.96	$16.54	$17.67	$17.12	$16.14	$16.38	$17.09	$17.33

[1] Exports, f.a.s. value, unadjusted. 1986-88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.
[2] Beginning with February 1987, figures include previously undocumented exports to Canada.
[3] Beginning with 1988, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f. value.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, December 17, 1989.



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