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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Economic growth and productivity slackened in the first quarter of 1993, with the composite index of leading indicators dipping in March. Several analysts attributed the slackened growth to the impact of the stormy weather that swept most of the nation during that period. While weather presented one factor, structural problems of businesses, consumer debt, and corporate and defense downsizing also played significant roles.

Productivity in the business sector rose at a seasonally adjusted rate of 0.1 percent in the first quarter of 1993 after growing by 4.3 percent in the fourth quarter of last year. (See below.) As the same time, the nation's output of goods and services slowed. The Department of Commerce reported that real gross domestic product (GDP) grew to $5,002.5 billion in the first quarter, an increase of $11.7 billion at an annual rate of 0.9 percent, a much slower rate than the 4.7 percent annualized growth rate for the fourth quarter.

The GDP slowdown reflected flagging consumer, investment, and government spending, and export decline. Real personal consumption expenditures, a major component of the GDP, increased by a mere $10.0 billion (to $3,370 billion) in the first quarter, compared with an increase of $41.5 billion in the fourth. Consumer spending on nondurable goods decreased by $6.4 billion, following an increase of $17.4 billion in the fourth quarter. Spending on durable goods increased by a mere $0.7 billion in the first quarter, following an increase of $14.6 billion in the fourth. In contrast, spending on services remained buoyant increasing by $15.6 billion in the first quarter, following an increase of $9.6 billion in the fourth.

Meanwhile, businesses increased their investment spending on fixed structures and on durable equipment, but this spending was insufficient to bolster GDP growth in the first quarter compared with the fourth. Real, nonresidential fixed investment spending increased by $14.5 billion, following an increase of $12.2 billion in the fourth. Real, residential fixed investment barely increased by $0.1 billion starting out 1993, following the previous quarter's increase of $11.0 billion. Producers' durable equipment purchases increased $15.1 billion, after increasing by $12.9 billion in the fourth quarter of 1992. Business inventories swelled because of the decline in aggregate domestic demand, adding $27.0 billion to the 1993 first quarter's change in real GDP, after subtracting $5.2 billion from the 1992 fourth quarter's.

Defense downsizing reduced federal government purchases of goods and services and hence reducing GDP growth. Real federal spending decreased by $17.9 billion in the first quarter, following a decrease of $4.5 billion in the fourth. National defense purchases decreased $19.1 billion after a decrease of $2.4 billion. In contrast, nondefense purchases increased quarterly by $1.4 billion, following a decrease of $2.2 billion.

Moreover, the economic slowdown in several European countries and in Japan reduced U.S. exports to these areas. Exports of goods and services in real terms decreased by $3.8 billion in the first quarter, following an increase of $12.4 billion in the fourth. Imports decreased $18.3 billion, following an increase of $8.7 billion. As a result, the trade deficit on goods and services rose by $22.1 billion in the first quarter, after declining by $3.7 billion in the fourth.

Weakened consumer spending caused a build up of personal savings despite the slower increase in disposable income. Real disposable personal income increased by 2.7 percent ($24.5 billion) in the first quarter, following an increase of 4.3 percent ($37.7 billion) in the fourth. Yet, personal savings grew by $19.0 billion in the first quarter, following a decline of $3.3 billion in the fourth. The savings rate — as a percentage of disposable personal income — increased to 4.8 percent, from 4.4 percent in the fourth quarter.

The large decline in the index of leading indicators reflected the slowdown in the general economic activity. Commerce reported that the composite index of leading indicators dropped 1.0 percent in March, after increasing by 0.5 percent in February. The drop was the largest monthly decline since November 1990. The following 9 of the 11 indicators contributed to the March decrease in the index: building permits, average weekly initial claims for state unemployment insurance (including claims made under the July 1992 Emergency Unemployment Compensation amendments), average workweek, the index of consumer expectations, contracts and orders for plant and equipment in 1982 dollars, manufacturers' new orders for consumer goods and materials in 1982 dollars, the money supply in 1982 dollars, vendor performance (slower deliveries diffusion index), and the change in manufacturers' unfilled orders in 1982

dollars. Two of the 11 indicators made positive contributions; these are stock prices and change in sensitive materials prices. The composite index of coincident indicators increased by 0.1 percent in March, after increasing by 0.2 percent in February. The composite index of lagging indicators decreased 0.2 percent in March, after increasing by 0.1 percent in February.

More recent statistics, however, show that consumer demand has bounced back in April. The Department of Commerce reported that advance estimates of U.S. retail sales for April adjusted for seasonal variations increased by 1.2 percent from the previous month and were 5.9 percent above April 1992. Total sales in the February-through-April period were 5.2 percent above the same period a year ago. Durable goods sales increased by 2.2 percent from the previous month and were 8.8 percent above April 1992. Nondurable goods sales increased by 0.6 percent from March and were 4.4 percent above April 1992. General merchandise stores sales increased by 2.2 percent from March and were 7.9 percent above the previous year.

U.S. Productivity and Costs

The U.S. Department of Labor reported that productivity — as measured by output per hour of all persons — rose in the first quarter of 1993 at a seasonally adjusted annual rate of 0.1 percent in the business sector and declined by 0.1 percent in the nonfarm business sector. In both sectors, output gains were smaller than fourth-quarter growth rates, whereas gains in hours worked accelerated.

In manufacturing, productivity gains in the first quarter were 4.8 percent. Gains of 8.1 percent were recorded in durable goods, and gains of 0.6 percent were recorded in nondurable goods. Productivity advances in manufacturing reflect strong output gains, particularly in durable goods industries. Productivity and costs of the different sectors are shown in table 1.

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

Economic Growth

Real GDP — the output of goods and services produced in the United States measured in 1987 prices — grew at an annualized rate of 0.9 percent in the first quarter of 1993, following a growth rate of 4.7 percent in the fourth quarter of 1992.

The annualized rate of real economic growth in the first quarter of 1992 was 1.1 percent in the United Kingdom, and the annualized rate of real economic growth in the fourth quarter of 1992 was -2.0 percent in France, -3.3 percent in Germany, 3.5 percent in Canada, -0.3 percent in Japan, and -2.3 percent in Italy.

Table 1
Productivity and costs, first quarter, 1993

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
	Percent change from preceding quarter					
Business	0.1	2.0	1.9	3.8	-0.1	3.6
Nonfarm business	-0.1	2.3	2.4	3.3	-0.5	3.4
Manufacturing	4.8	7.1	2.2	0.1	-3.6	-4.5
Durable	8.1	10.3	2.1	-2.0	-5.6	-9.3
Nondurable	0.6	3.0	2.4	3.4	-0.4	2.8
	Percent change from same quarter a year ago					
Business	2.2	3.1	0.9	3.7	0.5	1.5
Nonfarm business	2.1	3.1	1.0	3.6	0.4	1.4
Manufacturing	5.0	4.8	-0.2	3.4	0.2	-1.6
Durable	7.0	6.0	-0.9	3.2	0.0	-3.5
Nondurable	2.4	3.2	0.7	3.7	0.5	1.2

Note.—Annual rates are seasonally adjusted.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Industrial Production

Seasonally adjusted U.S. nominal industrial production on a nominal basis increased 0.1 percent in April, after remaining unchanged in March. This production increased by 0.4 percent in February 1993 and by 0.5 percent in January. The April change reflects a gain of 0.4 percent in the output of the manufacturing sector following a loss of output in March because of severe weather nationwide. Output of textiles, steel, furniture, tobacco, and coal mining was most affected by the stormy weather. Output of utilities declined because of the return of mild temperatures. Total industrial capacity utilization in manufacturing, mining, and utilities remained unchanged at 81.4 percent. For the year ending April 1993, industrial production increased by 3.4 percent above its level in April 1992.

Other G-7 member countries reported the following annual growth rates of industrial production. For the year ending March 1993, Japan reported a decrease of 2.2 percent, and Germany reported a decrease of 10.5 percent. For the year ending February 1993, the United Kingdom reported an increase of 1.7 percent; Canada, an increase of 4.2 percent; France, a decrease of 2.4 percent; and Italy a decrease of 4.5 percent.

Prices

The seasonally adjusted Consumer Price Index rose 0.4 percent in April, following an increase of 0.1 percent in March. The CPI advanced 3.2 percent during the 12 months ending April 1993.

During the 1-year period ending April 1993, prices increased 4.3 percent in Germany, and 4.1 percent in Italy; during the year ending March 1993, prices increased 1.9 percent in Canada, 2.2 percent in France, 1.9 percent in the United Kingdom, and 1.2 percent in Japan.

Employment

The U.S. Department of Labor reported that the unemployment rate of 7.0 percent remained unchanged from March to April.

In other G-7 countries, unemployment in April 1993 was 11.4 percent in Canada, and, in March 1993, unemployment was 7.8 percent in Germany, 10.0 percent in Italy, 10.7 percent in France, 2.3 percent in Japan, and 10.5 percent in the United Kingdom. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasters expect real growth in the United States to improve from the first quarter growth of 1.8 percent at an annual rate to 3.0 percent in the second quarter. The real growth rate is expected to increase further to 3.6 percent in the third quarter and then decline to 3.3 percent in the fourth, with the average for 1993 expected to be 3.3 percent. Factors that are likely to restrain the recovery to such a moderate average rate of growth include the general slowdown in foreign economic growth, particularly in Japan, Germany, and France, and the uncompleted structural adjustments in the financial and nonfinancial sectors. Although consumer confidence and spending have improved in recent months, forecasters expect consumer spending to moderate unless personal incomes keep rising strongly enough to encourage more spending. Also, the expected tax increase and the cuts in government spending, if passed by the Congress, could reduce consumer spending and confidence and thus moderate the recovery. Table 2 shows macroeconomic projections for the U.S. economy for April 1993 to March 1994 period 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.

Several factors working in favor of growth rates stronger than those projected for 1993 could include:

- Improvement in the general economic conditions as the adjustments in the business sector continue and as consumer confidence, income, and spending strengthen;

- An expected rise in investment spending because of the reduction of the budget deficit and the ensuing release of funds crowded out by federal borrowing; lower long-term interest rates and the moderation of inflation rates should be stimulating factors; and

- An expected increase in export growth as a result of the relative moderation of the foreign value of the dollar and the anticipated improvement in the industrial countries' economic conditions.

The average of the forecasts points to a small decline in unemployment throughout 1993. Inflation (as measured by the GDP deflator) is expected to moderate, averaging about 2.6 percent. The slow rise in wages and compensations and the slow rise in incomes are expected to hold down inflation below the 3-percent rate.

Table 2
Projected quarterly percentage changes of selected U.S. economic indicators, Apr. 1993-Mar. 1994

Quarter	UCLA Business Fore-casting Project	Merrill Lynch Capital Markets	Data Resources Inc.	Wharton E. F. A. Inc.	Mean of 4 fore-casts
	GDP current dollars				
1993:					
Apr.-June	6.9	4.9	4.5	5.6	5.5
July-Sept	7.0	5.9	5.7	6.8	6.3
Oct.-Dec	5.7	6.0	5.8	6.5	6.0
1994:					
Jan.-Mar	6.1	5.9	6.4	6.2	6.2
	GDP constant (1987) dollars				
1993:					
Apr.-June	4.0	2.5	2.6	2.9	3.0
July-Sept	3.8	3.6	3.3	3.8	3.6
Oct.-Dec	3.0	3.5	3.2	3.5	3.3
1994:					
Jan.-Mar	3.0	3.1	3.4	2.9	3.1
	GDP deflator index				
1993:					
Apr.-June	2.8	2.4	1.8	2.8	2.5
July-Sept	3.1	2.3	2.3	2.8	2.6
Oct.-Dec	2.8	2.6	2.6	2.8	2.7
1994:					
Jan.-Mar	3.0	2.7	2.8	3.2	2.9
	Unemployment, average rate				
1993:					
Apr.-June	6.8	7.0	7.0	7.0	7.0
July-Sept	6.5	7.0	6.9	6.9	6.8
Oct.-Dec	6.4	6.9	6.8	6.7	6.7
1994:					
Jan.-Mar	6.3	6.8	6.5	6.5	6.5

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: May 1993.

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

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of $39.0 billion and imports of $49.2 billion in March 1993 resulted in a merchandise trade deficit of $10.2 billion, $2.3 billion more than the February deficit of $7.9 billion. The March deficit was 85.5 percent higher than the deficit registered in March 1992 ($5.5 billion), 37.8 percent higher than the average monthly deficit registered during the previous 12 months ($7.4 billion), and the highest monthly deficit since May 1989.

Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 3.

Nominal export changes and trade balances in March 1993 for specified major commodity sectors are shown in table 4. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 5.

Table 3
U.S. merchandise trade, seasonally adjusted

Item	Exports		Imports		Trade balance	
	March 93	February 93	March 93	February 93	March 93	February 93
Current dollars—						
Including oil	39.0	36.9	49.2	44.8	-10.2	-7.9
Excluding oil	38.5	36.4	44.8	40.7	- 6.3	-4.3
1987 dollars	35.4	35.7	42.9	42.9	-7.6	-7.3
Three-month-moving average	37.8	37.9	46.4	45.4	-8.6	-7.5
Advanced-technology products (not seasonally adjusted)	9.8	8.4	6.9	5.7	+2.9	+2.7

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

Table 4
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors and agriculture, January 1992-March 1993

Sector	Exports: January-March 1993	Exports: March 1993	Change: January-March 1993 over January-March 1992	Change: March 1993 over February 1993	Share of total January-March 1993	Trade balances January-March 1993
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	6.8	2.6	3.2	25.7	6.0	-2.84
Airplanes	5.3	2.0	-32.3	18.2	4.6	4.55
Airplane parts	2.4	0.8	-0.4	12.5	2.1	1.67
Electrical machinery	8.8	3.3	11.6	16.0	7.7	-1.78
General industrial machinery	4.7	1.7	1.7	17.6	4.1	0.64
Iron & steel mill products	0.9	0.3	-6.5	10.7	0.8	-1.02
Inorganic chemicals	1.1	0.3	5.9	-8.3	1.0	0.31
Organic chemicals	2.8	1.0	3.4	14.9	2.4	0.46
Power-generating machinery	4.9	1.9	13.2	32.2	4.3	0.70
Scientific instruments	3.7	1.4	3.6	16.7	3.3	1.82
Specialized industrial machinery	4.3	1.7	6.9	25.9	3.8	1.19
Telecommunications	3.0	1.1	13.8	6.1	2.6	-2.67
Textile yarns, fabrics and articles	1.5	0.5	0.7	12.8	1.3	-0.54
Vehicle parts	4.8	1.8	17.9	16.4	4.2	0.40
Other manufactured goods[1]	6.5	2.2	-3.6	7.2	5.7	-1.62
Manufactured exports not included above	27.4	10.3	8.0	20.9	24.1	-22.48
Total manufactures	88.7	33.1	3.1	18.2	78.0	-21.21
Agriculture	11.2	3.8	0.7	1.3	9.8	5.02
Other exports	14.1	5.1	-0.1	19.8	12.2	-4.45
Total	113.9	42.0	2.4	16.7	100.0	-20.64

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

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

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

Table 5
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1992-March 1993

(Billion dollars)

Area or country	March 1993	February 1993	March 1992	January March 1993	January March 1992
Japan	-5.26	-4.13	-4.07	-13.29	-11.04
Canada	-0.64	-0.91	-0.37	-2.58	-1.23
Western Europe	0.44	1.42	+2.32	+3.59	+6.73
EC	0.86	1.42	+2.50	+4.03	+6.95
Germany	-0.60	-0.59	-0.33	-1.45	-0.63
European Free Trade Association(EFTA)[1]	-0.61	-0.16	-0.22	-0.92	-0.45
NICs[2]	-0.97	-0.41	-0.75	-2.16	-2.69
Russia	+0.03	+0.06	+0.15	+0.19	+0.19
China	-1.46	-1.17	-0.80	-4.21	-3.43
Mexico	+0.30	+0.32	+0.58	+0.99	+1.74
OPEC	-1.04	-0.96	-0.41	-3.11	-1.56
Trade balance	-8.63	-5.91	-3.53	-20.65	-11.17

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

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

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

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

INTERNATIONAL TRADE DEVELOPMENTS

Data on Trade With the Czech and Slovak Republics Are Available, but Beware!

Since the split of the Czech and Slovak Federal Republic (CSFR or Czechoslovakia) into the Czech Republic and Slovak Republic (Slovakia) on January 1, 1993, separate data on U.S. trade with the two countries have become available. The following tabulation shows U.S. census data on exports to and imports from the two new countries during the first quarter of 1993 (in millions of U.S. dollars):

	Exports	Percent	Imports	Percent
Czech Republic ...	61.7	95	57.2	89
Slovak Republic ...	3.1	5	7.4	11
Total	64.8	100	64.6	100

According to Czech estimates, roughly 90 percent of the exports from the former Czechoslovakia to the United States originated in the Czech area, and 10 percent in the Slovak area during recent years. The distribution of imports from the United States was roughly the same. As shown in the above tabulation, data on U.S. exports are far from this expected benchmark, with 95 percent originating in the Czech Republic and only 5 percent from Slovakia, while those on U.S. imports are close to it, with close to 90 percent from Czech territory and just over 10 percent from Slovak territory.

The Washington representatives of the two countries and officials at the U.S. Bureau of the Census maintain that the above data on U.S. exports to the Czech Republic are significantly overstated at the expense of U.S. exports to Slovakia. Survival of the well-established Czech and Slovak cooperation in foreign trade largely explains the distortion.

For decades, Prague-based trading companies conducted most of the former Czechoslovakia's foreign trade. These companies had both the authority and expertise to deal with firms of industrialized countries. They also played a major role in the domestic distribution of imports and in the foreign delivery of exports. U.S. firms selling to these trading companies did not know whether the end user of their products was in Czech or Slovak territory, nor did it matter. Similarly, U.S. firms buying from these companies did not know the "territory of origin" of their purchases within the former Czechoslovakia.

After the fall of communism in 1989, market reforms changed relations between the Czech-trading companies and Slovak end-user companies without breaking them. Most Slovak firms realized that the continued use of the trading companies located in the Czech Republic was more efficient than developing market connections and gaining experience from scratch. Many such long-term partnerships, complete with arrangements for warehousing, transportation, and payments, survived the test of profitability under increasingly competitive conditions in the trading sectors of both countries.

Currently, Czech distributors take title of 50 to 60 percent of all commodities imported by Slovak entities from Western Europe and the Americas. According to U.S. Census officials, in most of those cases in which Czech companies take title of the imports that are later shipped to Slovak territory, U.S. companies are likely to mark the Czech Republic as the final destination on export documents (such as the bill of lading and manifest). Therefore, the bulk of the U.S. exports to Slovakia tabulated above must be the result of direct business deals between Slovakian importers and U.S. merchants.

The current level of cooperation between Slovak end-user companies and Czech trading companies was made possible by the customs union that was formed by the two countries at the beginning of 1993. In the absence of a customs union, parties would have to pay tariffs twice, once when the merchandise enters the Czech Republic and again when it crosses the Czech-Slovak border. The introduction of nontariff barriers, such as import quotas, or other measures leading to the curtailment of Slovak imports from the Czech Republic such as the devaluation of the Slovak crown against the Czech crown, would also harm Czech and Slovak cooperation in trade with third countries.

U.S. data on exports to the territory of the former Czechoslovakia could become more distorted with the implementation of the free-trade agreements concluded by each of the successor states with members of the European Community (EC), the European Free-Trade Association, Hungary, and Poland. Census officials

concede that all data on U.S. exports destined to EC members and to other countries that form a customs union suffer from similar random distortions. Data can be corrected by studying the "mirror" statistics of U.S. exports to a country, that is, its imports from the United States. (Studies designed to correct U.S. data on exports to particular countries are conducted at some cost on a selective basis under the U.S. Government's Trade Data Reconciliation Program.)

Unlike the import data of most other countries, U.S. import data are much more dependable. U.S. Customs enforces strict rules to identify the country of origin through customs declarations, which are increasingly transmitted electronically, and through strictly enforced requirements to mark the country of origin on imported commodities. Although distributors in the Czech Republic in many cases may still take title of Slovak commodities to be shipped to the United States, the country of origin will be identified as Slovakia.

The improvement of data on U.S. exports to the two new countries, based on their import statistics, will certainly emerge as an issue in U.S. commercial relations with them. The flaw in export data disallows the analysis of U.S. exports to the two countries and distorts the balance of trade. Moreover, since the Czech Republic and the Slovak Republic have been in the process of reaccession to the GATT, the United States may need to identify to the world trade organization the major U.S. commodities exported to them for which it has a principal supplier interest in either market. As set out in Article XXVIII of the GATT, the United States may enter into negotiations with these two countries to modify tariff schedules between the United States and each one of them for those commodities for which it is a principal supplier.

An encouraging sign for U.S. businesses is that overall trade between the United States and the two new nations is increasing. Combined U.S. exports to the two countries rose by 61.2 percent, from $40.2 million during the first quarter of 1992 to $64.8 million during the first quarter of 1993. Machinery and equipment represent the largest commodity group on the combined export list. U.S. imports from the two countries grew by 23.5 percent, from $52.3 million to $64.6 million over the period. Footwear, glassware, machinery and equipment, and textile goods represented the largest individual product categories among imports from the Czech Republic. Machinery and equipment, textile items, and footwear led the list of imports from the Slovak Republic.

President Salinas Reaffirms Mexico's Petroleum Policy

While Mexico demonstrated its willingness to make concessions in most areas negotiated in the North American Free-Trade Agreement (NAFTA), it firmly stuck to its original position of excluding foreign ownership in the petroleum industry. Mexico's rigidity on this issue disappointed many who believed that the integration of North American energy markets in the NAFTA would provide a great opportunity to use the energy resources of the entire North American continent more effectively. Many analysts, including some in Mexico, believe that all three partners would benefit from such an integration.

The fundamental obstacle to foreign entry in the Mexican oil industry is the Constitution of 1917, which reserves subsoil rights exclusively to Mexican citizens, and prohibits foreign participation in the "strategic" sectors of the economy, which include oil, natural gas, electricity, and nuclear energy. The implementing Petroleum Regulatory Law of November 1958 provides that all aspects of Mexico's oil and gas industries, including exploration, drilling, production, refining, distribution (including pipeline transmission), trade, and oilfield services are under the sole purview of Petroleos Mexicanos (PEMEX), Mexico's state-owned oil and gas monopoly. PEMEX was formed in 1938, after Mexico nationalized the industry and expropriated foreign companies. (See also *IER*, January 1991 and July 1992.)

However, the performance of PEMEX does not argue for the continuation of a state monopoly. Among the several reasons that point to the desirability of foreign participation in Mexico's oil industry, undercapitalization is the most compelling. Mexico's 1982 foreign debt crisis, coupled with plummeting petroleum prices, necessitated deep Federal budget cuts, including major cuts in appropriations for PEMEX. This left PEMEX without adequate funds for exploration and development and resulted in poor maintenance of oilfields, obsolescence of refineries, and the inadequacy of facilities for transporting petroleum and gas. The productivity of the Mexican oil industry is now believed to be considerably below that of Venezuela. Venezuela is Mexico's Latin American competitor for the U.S. market (*IER*, July 1992).

In addition, PEMEX has been plagued by mismanagement, corruption, and accidents. The most notable and recent accident was the gas pipeline rupture that led to a series of underground explosions in Guadalajara in April 1992, causing deaths and injuries. The long isolation of PEMEX from international competition through global developments in oil production and safety technologies and the negligence by top officials — many of them political appointees — were widely blamed.

Although PEMEX was reorganized in the wake of this catastrophe, investments in exploration and new production are still seen far below internationally accepted levels. According to PEMEX statistics, Mexican crude oil production averaged 2.7 mb/d in 1992, about the same as in 1991, but the ability of PEMEX to sustain this level of production in the future is now being questioned. An unpublished internal forecast by the planning department of PEMEX reportedly predicts that the declining production and the rising domestic demand for petroleum might wipe

out the availability of Mexican oil for exports by as early as 1997.

In 1992, Mexico exported half of its crude oil production, and PEMEX provided some 30 percent of Mexico's total export earnings, of which 60 percent came from the United States. Because Mexico still relies heavily on petroleum for its foreign debt payments and its standing in international capital markets, the implications for the Mexican economy of losing its hard-currency income from petroleum would be grave. Yet, at a recent ceremony commemorating the 55th anniversary of the Mexican oil industry's nationalization, President Salinas reaffirmed that "...oil ownership and control will remain permanently in Mexican hands. The integrity of the oil industry has been preserved, as have productive unity and reserves for the national market. There will be no risk contracts, concessions for oil exploitation...no foreign petrol stations, and reserved areas will be managed exclusively by the state."

With the Mexican Government's unwavering adherence to the Constitution as it applies to petroleum in regard to the NAFTA, Mexico's problem with funding the industry and with the dwindling availability of oil for exports appears self-imposed. Yet, the lack of emphasis on oil exports in Mexican petroleum policy appears deliberate for reasons other than budgetary. Mr. Francisco Rojas, general director of PEMEX, was cited as saying that his administration is still concerned about Mexico being excessively dependent on oil for hard-currency revenues.

Mexico's dependence on oil had been overwhelming (oil accounted for over two-thirds of all export earnings) before the de la Madrid administration launched a strategy of economic restructuring and export diversification in the early 1980s. Although the reduction of such dependence is considered to be one of Mexico's stellar accomplishments, the petroleum industry's impending deterioration makes the government's petroleum policy controversial. Critics reportedly argue that for reaching short-term economic goals and paying for the imports required by industrialization, Mexico must use its oil resources fully.

Meanwhile, some degree of softening in the Mexican Government's dogmatism concerning petroleum-related activities is still in evidence, both in the minor concessions officials made to partners in the NAFTA, and in certain actions taken recently by PEMEX. For example, under the NAFTA's government procurement provisions, U.S. and Canadian firms will be able to bid on PEMEX contracts for oilfield equipment and other supplies and services on a nondiscriminatory basis through a transparent bid and evaluation process. Also, PEMEX began privatizing part of its petrochemical operations so it can give higher priority in the future to exploration and production. PEMEX is currently offering some of its petrochemical plants for purchase by foreigners and also selling off many of such secondary operations on making valves, pumps, and ships. In the area of refining, PEMEX is seeking exposure to foreign technologies and management skills and, therefore, facilitating joint ventures. For example, PEMEX entered into a joint venture with the Dutch-owned Shell Oil Company in February this year, buying 50 percent of the latter's Deer Park oil refinery near Houston. This facility will be supplied by PEMEX's own "Maya" crude oil. These new developments are expected to open up important opportunities for U.S. and Canadian firms.

Also, because of the scarcity of domestic oilfield services, PEMEX increasingly contracts them out. The terms of these contracts continue to be specified in flat fees although, under the NAFTA, U.S. and Canadian oil field service companies also stand to benefit from performance clauses in contracts, which would allow them a bonus for exceeding contract targets.

Yet, the bottom line is, as has been recently reiterated by President Salinas, that the NAFTA will not change the exclusion of ownership or "risk sharing" for the foreign provider. Equity participation in exploration, production, and retailing, which the investors of NAFTA partners are seeking and which could radically expand the capacity of the Mexican crude oil industry, will continue to be denied.

GATT Membership Continues To Elude China

During 1992, China's leaders launched an all-out effort to attain membership in the General Agreement on Tariffs and Trade (GATT). As the year began, Chinese officials were saying that their aim was to qualify by the end of 1992 or early 1993, but many now concede that membership by yearend 1993 may be an optimistic goal. Douglas Newkirk, the chief U.S. negotiator in talks with China on its GATT accession, indicated during a recent bilateral meeting that the reentry process could take several years. China was an original contracting party to the GATT in 1948, withdrew in 1950 after the Communists came to power, and reapplied for membership in 1986. The meetings of the GATT working party considering China's membership application were suspended as a result of the Chinese Government's military suppression of the prodemocracy movement in June 1989 and of the slowdown in economic reforms that followed. They were not resumed until February 1992.

To speed up its readmission to the GATT, but also because of pressure from the United States to expand access to its markets, China launched a series of trade reforms during 1992. To bring its method of reporting trade into conformity with the system used by most of the GATT-member trading nations, China implemented the Harmonized Commodity Description and Coding System, commonly referred to as the Harmonized System or HS, on January 1, 1992. Chinese customs also cut tariffs on 125 commodities on the same date and reduced import duties on another 3,371

commodities effective January 1, 1993. The unilateral reductions were made because China's tariffs were, and still are, high compared with the average rates of GATT-member countries. The recent duty-rate cuts reduced China's overall nominal rate by 7.3 percent, but the average rate on a range of 6,000 products is still approximately 42 percent.

Acting mainly under U.S. pressure, China also began to dismantle its complex system of nontariff barriers, the Government's primary means of controlling imports, and committed itself to a timetable for continuing the process (see *IER*, December 1992). In addition, the number of export commodities subject to license and quota control was halved during 1992, and trade in all but 16 export commodities whose domestic use was regarded as too important to permit their decontrol was freed from Government monopoly. Other reforms included the elimination of the import regulatory tax, a surtax that had been applied over and above the tariff on many imports, and the publication of some of its previously restricted internal trade directives. The release of these directives was China's first step toward complying with the GATT requirement that member countries maintain trade transparency, that is, publish all trade rules and regulations.

The GATT working party charged with examining whether China's trade regime is in conformity with GATT rules and with drafting its protocol of accession held three meetings during 1992. The decision on whether China should be readmitted to the GATT was postponed at the February meeting and again at the October meeting. The delay in making a decision during the October meeting was caused by doubts about its readiness for admission raised by several delegations, including the United States, the European Community, Canada, Brazil, and Japan. At the same time, the working party accepted a proposal made by India and Pakistan to adopt a two-tier approach. At the meeting held in December, the working party continued examining recent reforms of China's trading system but also started work on a preliminary draft of its GATT accession protocol.

In early March 1993, U.S. and Chinese officials held bilateral talks to discuss the terms for China's readmission to the GATT. At this meeting, the United States announced the minimum conditions that China must meet for U.S. support of its accession: a single national trade policy common to all provinces and regions; full transparency of trade regulations; the continuing gradual removal of nontariff barriers to trade; a commitment to move to a full market economy; and, until the transition to a market economy is completed, the acceptance of a "safeguard system" to protect other GATT-member countries from possible surges in Chinese exports. Although GATT article XIX provides GATT-member countries with safeguard protection against import surges, the need to pay compensation and the complications that arise involving imports of the same products from other GATT members have led a number of member countries to address such safeguard problems outside the GATT system through the use of the so-called "voluntary restraint" or "voluntary export" agreements. Yet, because of the sheer size and the continued likelihood of some form of centralized control of the Chinese economy, key importers appear to be seeking additional safeguard guarantees from China before agreeing to move forward with its application for reaccession to the GATT.

China expressed its willingness to continue a program of reforms to meet the first three demands. It was unwilling, however, to make an outright commitment to move to full market economy. Its decision in October 1992 to establish a "socialist market economy" envisions the operation of all enterprises on the basis of market principles, but with the Government continuing to own state enterprises. In addition, China flatly refused to accept an additional system of safeguards that would allow other GATT members to enact emergency quotas or tariffs should they face a sudden onslaught of Chinese goods. Chinese negotiators pointed out that such a requirement for admission would be unprecedented since it was not a condition for membership imposed on the Central and East European countries that were admitted to GATT when they were still nonmarket economies.

During a March meeting of the GATT working party on China's accession that followed the U.S.-Chinese talks, the European Community joined the United States in demanding that China's protocol include a safeguard system. Since this condition is unacceptable to China, its bid for GATT membership now appears to be stalled. Another meeting of the working party on China was held at the end of May, but reports on any progress made were unavailable.

That the United States and other major trading nations want the protection of a safeguard system specific to China is indicative of China's growing importance in the international trade. In particular, its trading partners have become increasingly concerned about China's burgeoning exports in recent years and about the meaning of this competition in the future once China joins GATT and becomes a full-fledged member of the international trading community. The challenge they face is reflected in their ballooning trade deficits with China. During 1992, the U.S. trade deficit with China increased to $18.2 billion, and the European Community's deficit reached $9.3 billion, whereas Japan's was roughly $5 billion.

Barriers to Trade: A Growth Industry?

Every March 31, as required by the U.S. Omnibus Trade and Competitiveness Act of 1988, the Office of the United States Trade Representative (USTR) issues a report entitled the *National Trade Estimate Report on Foreign Trade Barriers*, or NTE report, listing obstacles to trade that affect U.S. exports. The 1993

NTE report, the eighth in the series, contains information on more than 44 countries and 2 regional trading organizations. Barriers are classified into the eight following categories: (1) import policies; (2) standards, testing, labeling, and certification; (3) government procurement; (4) export subsidies or incentives; (5) lack of intellectual property protection; (6) service barriers; (7) investment barriers; and (8) others. The most frequently encountered barriers were in the areas of import policies and intellectual property rights. The countries or areas that figured most prominently in the NTE report are Japan, the European Community, and Canada. Because of the difficulty of providing a quantitative estimate of the effect of a given impediment, USTR has taken the position that it is not always possible to assess the overall monetary damage of each country's barriers to U.S. trade.

Publication of the NTE report seems to have prompted other governments to resort to the same practice of formally listing barriers encountered in international trade. Unlike USTR's report, however, which is rather broad and comprehensive in its country coverage, other governments' trade-barrier reports are selective, containing only a codification of the obstacles encountered in doing business with the United States. Three such reports — from Canada, from the European Community, and from Japan — will be briefly examined here. None of these reports attempts to quantify the effect of the U.S. barriers on Canadian, EC, or Japanese exports.

In April 1993, the European Community issued its *Report on United States Trade and Investment Barriers, 1993—Problems in Doing Business with the US.* The report, the [illegible]h in a series of annual compilations, states that its original purpose was "to redress the impression given by the annual U.S. NTE report that trade barriers are primarily a problem encountered by U.S. business abroad." According to the EC, the compilation of U.S. barriers has "become a useful tool for focusing dialogue and negotiations, both bilateral and multilateral, on the elimination of the obstacles inhibiting the free flow of trade and investment." The EC report cited as its main concerns (1) unilateral elements in U.S. trade legislation and (2) the extraterritorial reach of U.S. legislation. In the former instance, section 301 authority was referred to; in the latter, the EC expressed its concern over the Marine Mammal Protection Act (MMPA) and the Cuban Democracy Act (CDA). The MMPA established a direct embargo on tuna imports into the United States from Mexico and Venezuela; EC interests were affected when tuna shipped through intermediary countries came under the scope of the ban. The CDA prohibits foreign firms owned by U.S. companies from trading with Cuba and bars vessels that have carried goods to or from Cuba from landing in the United States.

Within a day of USTR's release of the NTE report, the Canadian Departments of External Affairs and International Trade issued their *Register of United States Barriers to Trade - 1993*. Although the report is not an attempt to mirror its EC counterpart, there are similarities. The 1993 Canadian report introduces a section on measures having an extraterritorial effect and specifically cites the Cuban Democracy Act. It acknowledges the deletion of two barriers from last year's edition, resulting from the successful negotiation of bilateral agreements on meat inspection and on potatoes. An unusual facet of the Canadian report is that it accents the Canadian responses to the U.S. barriers. In that chapter of the report, Canadian actions under both the General Agreement on Tariffs and Trade (GATT) and the U.S.-Canada Free-Trade Agreement (FTA) are featured. The Canadian register admits that passage and implementation of the NAFTA will result in the elimination of "a number of" U.S. barriers.

On May 8, 1993, the Japanese Government officially endorsed its second issue of its report on trade barriers. Entitled *Report on Unfair Trade Policies*, it was the result of an examination by a subcommittee of the council of the Ministry of International Trade and Industry (MITI) of unfair trade policies and measures of Japan's 10 leading trading partners. The Japanese report sets out 12 categories of measures, finding that U.S. actions in 9 out of the 12 were "unfair." (The comparable count was 6 for the EC, 5 for South Korea, 4 for Malaysia, and, for Indonesia and Thailand, 3 each. Two of Japan's largest trading partners, China and Taiwan, are excluded from the report because they are not GATT members.) Among the specific U.S. trade policy measures cited in the MITI report, were procurement regulations and procedures of state and local governments; unilateral imposition of sanctions under the "super 301" provisions; import restrictions imposed in the name of national security; and voluntary restraint or voluntary export agreements (VRAs or VERs). Although such restraint agreements are not expressly prohibited by the GATT, the MITI report asserts that they are a variant of quantitative import restraints. Japan currently has VRAs in place on Japanese exports of textiles, cars, steel, and machine tools. Sensitive to charges of unbalanced reporting, the report also includes three appendices with critiques of Japanese trading practices by the United States, the EC, and by the GATT.

The major barriers attributed to Canada in the U.S. report fell under two areas — import policies and investment restrictions. Included among the former were the perennial problem of provincial liquor boards and their control over pricing, distribution and sales of foreign (U.S.) wines and beer; the import licensing requirements of the Canadian Wheat Board; restrictions on the importation of certain dairy products; poultry import quotas; and restrictions on fresh fruit and vegetable imports. Canadian investment barriers included provisions restricting new or expanded investment under the Investment Canada, Act discriminatory publishing policy, restrictions on investment in the film industry and in the energy sector, and performance requirements in association with approval for foreign investment.

The USTR report details barriers in the EC, but considerable attention is given to the areas of import policies and to a basket category of "other barriers" into which is lumped any impediment that does not fit readily into the general categories outlined above. Included here for the EC are oilseed production subsidies, the ban on the use of hormones in livestock production, the third country meat directive, restricted access in the telecommunications market, and government support for Airbus and for the shipbuilding industry.

Japanese barriers received the greatest amount of attention in the U.S. report. The USTR coverage of Japan in the NTE report provided one of the few instances in the report in which an overview of a country's commercial climate was presented. The problem of market access and the continuing structural problems faced by U.S. businesses attempting to enter the Japanese market or operate within its "multi-layered" distribution system are discussed. The Structural Impediments Initiative (SII), a bilateral process begun in 1989, was cited as a means by which both countries agreed to identify and solve structural problems. While commitments by Japan under SII are termed "noteworthy" in the NTE report, the thrust of the treatment points to the serious structural difficulties that still need to be addressed.

A number of specific Japanese barriers are cited in the report. Under the category of import policies are included high import tariffs or quotas in certain agricultural product areas, such as rice, fish products, feedgrains, wood products, and leather and leather footwear. The "other barriers" category contains detailed descriptions of problems affecting motor vehicles, semiconductors, glass, paper, coal, wine, amorphous metals, and liquor products.

While the U.S. report is mandated by law as part of an aggressive trade-policy approach to addressing foreign trade barriers, its stated objective is that the inventory "may facilitate negotiations aimed at reducing or eliminating these barriers." The Canadian, EC, and Japanese reports also include language that tracks the stated attempt to overcome the listed barriers. However, their ultimate purpose may have as much to do with regaining leverage in negotiations and raising the "glass house" specter as with resisting pressure to lower trade barriers.

The EC Commission Negotiates Toward A New Agreement With Russia

In December 1989, the EC and the U.S.S.R. signed their first bilateral trade and economic cooperation agreement, which covered trade in almost all products for a period of 10 years. Following the breakup of the U.S.S.R., the EC decided to begin negotiating broader trade agreements with the former Soviet republics. In October 1992, the EC Council of Ministers approved a mandate for the EC Commission to negotiate partnership and cooperation agreements with the 12 successor states to the former Soviet Union. Three rounds of negotiations had taken place between the EC and the newly independent state of Russia before talks began with other successor states, the Ukraine, Belarus, and Kazhakstan, on March 24, 1993. The EC also signed 10-year bilateral trade and cooperation agreements with the Baltic nations of Latvia, Lithuania, and Estonia on May 11, 1992 (see *IER*, December 1992).

At the first and second rounds of EC-Russian exploratory talks, held in December 1992, the two sides discussed the formation of companies, investment services and capital flows, intellectual property rights, and cultural and institutional provisions. The negotiations centered on steel and on the control of trade in nuclear fuels, both of which Russian officials hoped to include in the text of the agreement. The Russians were prepared to accept a controversial safeguard clause, most importantly affecting the steel sector, which would enable EC borders to be closed to preferential imports from Russia in the event of serious market disruption. The Russian delegation requested that improved financial provisions be made in the proposed agreement, notably the extension of the European Investment Bank's lending facilities to Russia.

At the third round of talks, held on February 18, 1993, the EC and Russian delegations decided that negotiations should move to an expert level to ensure the effective conclusion of discussions on the more sensitive areas of planned cooperation, such as free movement of people and the trade regime for goods. After a Russian request to extend the scope of the agreement to facilitate freer trade, EC Foreign Ministers decided on March 8 to speed up the negotiation process. On March 24, 1993, EC Foreign Commissioners Leon Brittan and Hans van den Broek proposed a revised negotiating mandate to the EC Council of Ministers. The revised mandate proposed that the European Community eventually negotiate, when appropriate economic and political circumstances in the countries concerned permit, a free-trade agreement with Russia and the other former Soviet states. On April 5, 1993, at the EC General Affairs Council meeting, EC Foreign Ministers agreed to offer Russia the prospect of eventual free trade under a partnership and cooperation agreement. Incorporated into the agreement is a so-called "evolutionary clause," which provides for the eventual creation of a free-trade area between the EC and Russia. The creation of a free-trade area is dependent on Russia being able to respect GATT-style economic disciplines and comply with GATT obligations. Although currently not a member of GATT, Russia hopes to join at some point. The EC Commission was also mandated to include a "safeguard clause" allowing the EC to take measures which the EC would invoke for the protection of sensitive products, in the event of a serious injury to

EC domestic producers of like or directly competitive products. Once Russia has joined the GATT, this clause could be invoked only in the event of a serious threat to EC manufacturers of similar or directly competing products. Finally, the "suspension clause," added to guard against any abuse of human rights in Russia, defines the revised mandate as a "package" which should be regarded, as such, subject to abrogation should Russia fail. In this way, the EC wants to make it quite clear that trade concessions are conditional upon respect for fundamental human rights and democracy.

The new mandate includes provisions on labor conditions, the free movement of people, social security, competition policy, investment protection, industrial standards and conformity assessment, as well as more favorable conditions for cooperation in the field of energy and trade in space industry services. The mandate also sets provisions in the field of cooperation for the prevention of illegal activities as well as cultural and financial cooperation.

By expressing a willingness to go beyond traditional trade and cooperation and to eventually achieve free trade with Russia, the EC Commission believes that the Community would relay an important signal to Moscow that it fully supports the reform process now under way. According to the EC, "the Community, which has taken the path of opening its markets to the countries of Central and Eastern Europe and the Republics of the Former USSR, would expect similar efforts on the part of other industrialized countries."

According to EC sources, revisions to the EC Commission's mandate applied only to Russia and were not extended at this stage to negotiations between the EC Commission and the other newly independent states of Belarus, Ukraine, and Kazakhstan. EC Commission officials report that the possibility exists for similar agreements to be negotiated with other former Soviet republics, but will be dealt with on an individual basis. The EC and the Russia hope to conclude the agreement in later 1993.

USTR Lists "Special 301" Countries; Promises Swift Action

On April 30, 1993, U.S. Trade Representative Mickey Kantor identified Brazil, India, and Thailand as "priority foreign countries" under the "special 301" provisions of the Trade Act of 1974. Ten other countries were placed on the "priority watch list" concerning intellectual property rights (IPR) issues.

In designating Brazil, India, and Thailand as priority foreign countries, Ambassador Kantor stated that "these countries deny adequate and effective protection of U.S. intellectual property (such as patents, trademarks, and copyrights) or fair and equitable market access for relevant U.S. products."

Along with announcing the priority foreign countries, required every April 30, USTR Kantor declared an end to "business as usual" regarding annual efforts by many countries to avoid designation under special 301 provisions. He said that "[w]e will give special attention to countries that do not enforce their laws or are centers for pirates or counterfeiters. We are committed to putting an end to the annual spring-time flurry of enforcement actions and replacing it with continuous efforts throughout the year." He added that "we will not let countries take up permanent residence on any list." Instead, Ambassador Kantor introduced "immediate action plans" and "out-of-cycle" reviews as a way to improve intellectual property rights protection in several countries.

In the U.S. view, Brazil provides insufficient protection of patents, trademarks, copyrights, and trade secrets. Presently, the Clinton Administration is most concerned about patent protection and maintains that the term of patent protection in Brazil is too short and the range of products covered too narrow. The United States also maintains that copyright protection for computer software in Brazil is too short and that Brazil imposes "market access barriers to copyrighted works." Brazil has been on the priority watch list since 1989, when special 301 provisions were implemented. Previous U.S. concerns have centered on copyrights of computer software, and on patents of pharmaceuticals.

Brazil announced it would file an "urgent" action with the General Agreement on Tariffs and Trade (GATT) to protest the U.S. designation of Brazil under special 301. In mid-May, Brazil's House of Representatives passed a bill designed to protect IPR. However, the United States reportedly considered protection offered by the bill to be inadequate. The Clinton Administration will announce by May 30, 1993, whether it will begin a special 301 investigation of Brazil's IPR practices.

India "fails to effectively protect intellectual property rights," Kantor said. In particular, the United States contends that India's patent law contains numerous deficiencies and that protection of pharmaceuticals in India is particularly inadequate. A 1991 special 301 investigation resolved certain U.S. concerns about India's trademark and copyright regime and market access for motion pictures. Last year, the Bush Administration declared that India's policies regarding protection of patents, copyrights and trademarks were "unreasonable and restricted U.S. commerce." Ambassador Kantor ordered the creation of an interagency task force to explore future action regarding IPR protection in India.

Thailand's copyright enforcement and deficiencies in a new patent law raise "serious concerns," Ambassador Kantor stated. Although the Thai Government has taken recent action to step up copyright enforcement, Kantor insists that only through "sustained enforcement" and strengthened IPR laws and regulations can U.S. concerns be satisfied. The USTR stated that Thailand must also modify IPR laws "to conform to internationally accepted standards" and

revise its patent regime regarding compulsory licensing." As in the case of India, USTR will also convene an interagency task force to examine future action regarding Thailand's IPR climate.

The United States and Thailand reached a tentative agreement in early May 1993 to increase protection of IPR in Thailand. As a result, the United States will defer any special 301 decision regarding Thailand. Thailand has until July 31 to satisfy U.S. IPR concerns. At that time, the United States may restore Thailand's duty exemptions that were suspended in 1989 under the generalized system of preferences program because of U.S. concerns about insufficient IPR protection in Thailand.

At a meeting of the GATT Council in early May 1993, Brazil's Ambassador to the GATT said that the special 301 action "represents another blow against the credibility of the multilateral trading system [and] reinforces doubts the international community has as to the sincerity of the U.S. commitment to the multilateral trade rules." India's Ambassador to the GATT criticized the special 301 action saying that "we wish to impress upon the U.S. government that issues such as these must be resolved through the multilateral [process] . . . and any unilateral action on their part is unwarranted." Thailand, defending its IPR protection, said that its laws measure up to international standards and criticized the U.S. practice of demands coupled with the threats of unilateral action. The United States responded to the criticism by noting that until intellectual property rights are protected by the GATT, the United States will assert its interests unilaterally.

Ten countries — Hungary, Taiwan, Argentina, Egypt, Korea, Poland, Turkey, Australia, the European Community, and Saudi Arabia — were placed on the priority watch list. The Administration has developed "immediate action plans" for improvement of IPR protection in Hungary and Taiwan. Ambassador Kantor said that "[w]e've given to both Hungary and Taiwan very specific plans of action that we would like them to meet." Failure to meet the U.S. requirements by July 31, 1993, will mean reclassification as priority foreign countries. Out-of-cycle reviews were announced for Argentina, Egypt, Korea, Poland, and Turkey. The Clinton Administration will monitor these 5 countries to determine if the environment for protection of IPR in each country improves. Should a review uncover a lack of "sufficient progress" by a country under review, the Administration plans to reconsider that country's status under special 301 provisions.

To determine priority foreign countries according to the U.S. law, the USTR must identify those countries (1) that "have the most onerous and egregious acts, policies, and practices which have the greatest adverse impact (actual or potential on the relevant U.S. products;" and, (2) that "are not entering into good faith negotiations or making significant progress in negotiations to address these problems." Under the Trade Act of 1974, as revised by the Omnibus Trade and Competitiveness Act of 1988 to include the so-called special 301 provisions, USTR must begin a 6 to 9 month investigation of the "acts, policies and practices that were the basis for identifying the country as a priority foreign country" within 30 days of a country's designation. The special 301 procedures apply to intellectual property rights whereas regular section 301 provisions apply to acts of unfair foreign trade that burden or restrict U.S. commerce.

STATISTICAL TABLES

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

Country	1990	1991	1992	1992 I	II	III	IV	Dec.	1993 I	Jan.	Feb.	Mar.	Apr.
United States	1.0	-1.9	2.1	-2.9	5.2	2.3	3.9	6.0	2.4	3.6	6.0	0.0	1.2
Japan	4.5	2.2	(1)	-4.5	-2.6	3.0	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Canada	0.3	-1.0	(1)	2.1	2.6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Germany	5.9	3.2	(1)	4.6	-2.2	-2.2	(1)	(1)	(1)	(1)	(1)	(1)	(1)
United Kingdom	-0.6	-3.0	(1)	-3.3	-0.8	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
France	1.3	0.6	(1)	0.6	-0.7	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Italy	-0.6	-1.8	(1)	3.4	-1.8	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 20, 1992, *Federal Reserve Statistical Release*, Federal Reserve Board, February 18, 1993 and *International Financial Statistics*, International Monetary Fund, April 1993.

Consumer prices, by selected countries and by specified periods, January 1990-April 1993
(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1990	1991	1992	1992 I	II	III	IV	Oct.	Nov.	Dec.	1993 I	Jan.	Feb.	Mar.	Apr.
United States	5.4	4.2	2.7	2.8	3.4	3.2	1.7	4.3	1.7	-0.8	4.0	6.0	3.6	1.2	4.8
Japan	3.1	3.3	(1)	0.7	2.6	5.8	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Canada	4.8	5.6	(1)	1.6	1.9	1.0	(1)	1.8	2.7	(1)	(1)	(1)	(1)	(1)	(1)
Germany	2.7	3.5	(1)	3.0	4.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
United Kingdom	9.5	5.9	(1)	4.3	4.0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
France	3.4	3.1	(1)	3.2	2.7	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Italy	6.1	6.5	(1)	5.1	5.6	4.4	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)

[1] Not available.

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

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 20, 1992. *Consumer Price Index data*, U.S. Department of Labor, May 14, 1993.

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

Country	1990	1991	1992	1992 I	II	III	IV	Nov.	Dec.	1993 I	Jan.	Feb.	Mar.
United States	5.5	6.7	7.4	7.3	7.5	7.5	7.3	7.3	7.3	7.0	7.1	7.0	7.0
Japan	2.1	2.1	2.2	2.1	2.1	2.2	2.3	2.3	2.4	(5)	2.3	2.4	(5)
Canada	8.1	10.3	11.3	10.7	11.3	11.5	11.4	11.5	11.5	11.0	11.0	10.8	11.0
Germany[2]	5.2	4.4	4.7	4.4	4.6	4.8	5.0	5.0	5.1	5.5	5.4	5.5	5.6
United Kingdom	6.9	8.9	10.0	9.6	9.7	10.1	10.6	10.6	10.8	10.7	10.7	10.7	(5)
France	9.2	9.8	10.2	10.2	10.2	10.2	10.5	10.4	10.4	10.6	10.5	10.6	10.8
Italy[3]	7.0	6.9	7.3	6.9	6.9	7.0	8.3	(4)	(4)	9.4	(4)	(4)	(4)

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

[illegible]: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, [illegible] 993.

Money-market interest rates,[1] by selected countries and by specified periods, January 1990-April 1993

(Percentage, annual rates)

Country	1990	1991	1992	1992 I	II	III	IV	Oct.	Nov	Dec.	1993 I	Jan.	Feb.	Mar.	Apr.
United States	8.3	5.9	3.6	4.2	3.9	3.2	3.3	3.2	3.5	3.4	3.2	3.3	3.2	3.2	3.1
Japan	7.7	7.3	4.4	6.6	6.3	4.0	3.8	3.8	3.8	3.7	3.4	3.7	3.3	3.3	(2)
Canada	13.0	9.0	6.7	7.3	6.5	5.3	7.6	7.5	7.6	7.9	6.3	7.0	6.4	5.6	(2)
Germany	8.4	9.1	9.4	9.6	9.8	9.6	8.8	8.8	8.8	8.9	8.2	8.5	8.3	7.8	(2)
United Kingdom	14.7	11.5	9.5	10.5	10.2	10.0	7.5	8.2	7.1	7.1	6.3	6.8	6.1	5.9	(2)
France	10.2	9.5	10.1	9.9	9.9	10.3	10.3	10.8	9.5	10.7	11.4	11.7	11.7	10.9	(2)
Italy	12.1	12.0	13.9	12.2	12.9	16.1	14.5	15.5	14.4	13.6	11.7	12.5	11.4	11.3	(2)

[1] 90-day certificate of deposit.

[2] Not available.

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

Source: *Federal Reserve Statistical Release*, May 24, 1993 *Federal Reserve Bulletin*, May 1993.

Effective exchange rates of the U.S. dollar, by specified periods, January 1990-April 1993

(Percentage change from previous period)

Item	1990	1991	1992	1992 I	II	III	IV	Nov.	Dec.	1993 I	Jan.	Feb.	Mar.	Apr.
Unadjusted:														
Index[1]	86.5	85.5	84.5	84.8	85.2	81.4	86.3	89.1	87.5	88.7	88.9	89.1	88.1	86.1
Percentage change	-5.3	-1.2	-1.1	.8	.4	-3.8	5.6	5.9	-1.8	2.7	1.5	.2	-1.1	-2.3
Adjusted:														
Index[1]	88.1	87.0	86.4	86.7	86.9	83.1	88.3	87.1	89.7	91.2	91.1	91.1	90.7	88.7
Percentage change[2]	-4.0	-1.2	-.7	1.3	.2	-3.8	5.8	1.8	2.8	3.1	1.5	0	-.4	-2.2

[1] 1980-82 average=100.

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

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

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

				1992				1993			
Country	1990	1991	1992	II	III	IV	Dec.	I	Jan.	Feb.	Mar.
United States[1]	-101.7	-65.4	-84.3	-91.2	-99.2	-86.3	-83.5	-103.1	-92.0	-94.8	-122.4
Japan	63.7	103.1	(3)	129.2	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Canada	9.4	6.4	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Germany[2]	65.6	13.5	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
United Kingdom	-33.3	-17.9	(3)	-22.4	(3)	(3)	(3)	(3)	(3)	(3)	(3)
France	-9.2	-5.4	(3)	8.0	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Italy	-10.0	-12.8	(3)	-18.4	(3)	(3)	(3)	(3)	(3)	(3)	(3)

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

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

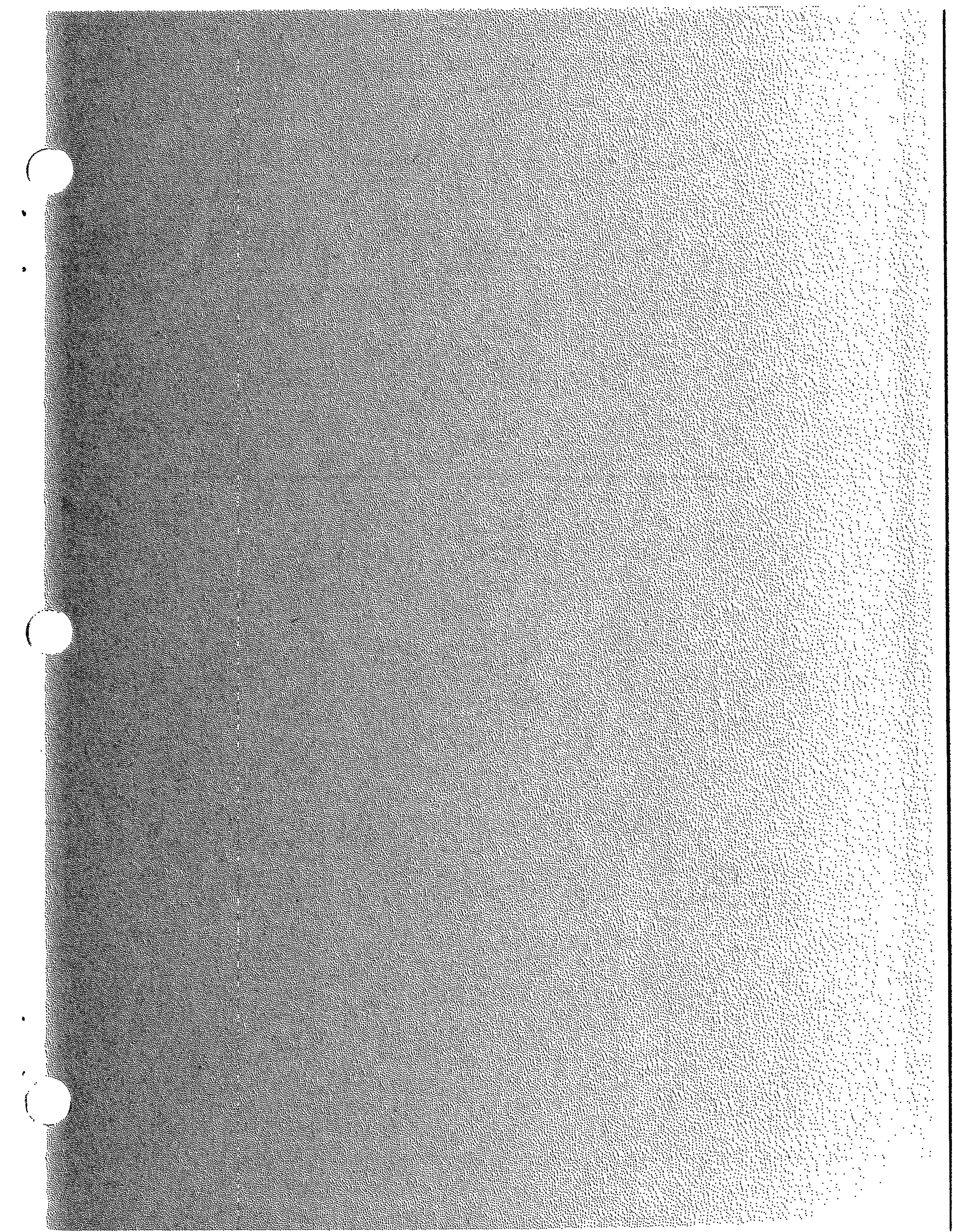
Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 20, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, May 19, 1993.

U.S. trade balance,[1] by major commodity categories, and by specified periods, January 1990-March 1993
(In billions of dollars)

				1992				1993			
Country	1990	1991	1992	II	III	IV	Dec.	I	Jan.	Feb.	Mar.
Commodity categories:											
Agriculture	16.3	16.2	18.6	3.7	4.0	5.7	1.7	4.9	1.6	1.8	1.5
Petroleum and selected product—(unadjusted)	-54.6	-42.3	-43.9	-10.8	-12.2	-11.7	-3.5	-11.0	-3.7	-3.2	-4.1
Manufactured goods	-90.1	-67.2	-86.7	-16.9	-27.9	-26.5	-7.8	-21.0	-6.1	-6.4	-8.5
Selected countries:											
Western Europe	4.0	16.1	6.2	1.4	-1.4	-.8	-.3	3.5	1.7	1.4	.4
Canada[2]	-7.7	-6.0	-7.9	-1.8	-1.8	-2.8	-1.1	-2.5	-1.0	-.9	-.6
Japan	-41.0	-43.4	-49.4	-11.1	-12.0	-14.7	-5.1	-13.2	-3.9	-4.1	-5.2
OPEC (unadjusted)	-24.3	-13.8	-11.2	-2.2	-3.9	-3.4	-1.0	-3.0	-1.1	-.9	-1.0
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$19.75	$17.42	$16.80	$16.82	$18.00	$17.37	$15.88	$16.24	$15.49	$15.70	$16.47

[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, May 19, 1993.



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