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# INTERNATIONAL ECONOMIC COMPARISONS

## Summary of U.S. Economic Conditions

Latest indicators confirm the tenuous nature of the current economic recovery. The composite index of leading indicators increased by 0.1 percent in June, following a decrease of 0.4 percent in May. New orders for manufactured durable goods declined by 1.6 percent in May, the third consecutive monthly drop. Market analysts had expected a modest increase. Although May's decline was fairly widespread among major industries, orders for nondefense capital goods (excluding aircraft) increased above their first-quarter levels. The rise in orders for capital goods is an indicator of increased business investment in machinery and equipment. Nonetheless, the decline in total new orders, together with the drop in industrial production and manufacturing employment, confirm the general slowdown of activity in the manufacturing sector.

Consumer demand and spending rose in May, apparently stimulated by moderation in the rise of the general price level. The seasonally adjusted U.S. retail sales increased by 0.4 percent in June from the previous month and were 6.7 percent above the June 1992 level. Total sales during the second quarter of 1993 were 6.4 percent above those during the corresponding period of 1992. Sales of durable goods were 0.7 percent higher in June than in the previous month and were 10.9 percent above the level registered for June 1992. Nondurable goods sales increased by 0.2 percent in June from May and were 4.3 percent above their level in the corresponding month of 1992. In June 1993, general merchandise stores' sales were 8.8 percent above their level in June 1992, and sales at eating and drinking establishments were up by 8.9 percent. In the foreign sector, the U.S. merchandise trade deficit narrowed in May because of a small rise in exports coupled with a large decline in imports.

## 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 a 1.6-percent annualized rate in the second quarter of 1993, following a growth rate of 0.7 percent in the first quarter. The annualized rate of real economic growth in the first quarter of 1992 was -5.6 percent in Germany, 1.8 percent in the United Kingdom, 2.7 percent in Japan, 3.8 percent in Canada, -2.2 percent in France, and -0.2 percent in Italy.

### *Industrial Production*

Seasonally adjusted U.S. nominal industrial production decreased by 0.2 percent in June. The level of industrial production remained unchanged from April to May. Total industrial capacity utilization in manufacturing, mining, and utilities was 81.2 percent in June, a decline from 81.5 percent in May. For the year ending June 1993, industrial production increased by 3.8 percent above its level in June 1992. The growth of industrial output slowed from an annual rate of 5.5 percent during the first quarter of 1993 to 1.9 percent during the second quarter.

Other member countries reported the following annual growth rates of industrial production: for the year ending May 1993, Japan reported a decrease of 4.2 percent, Germany reported a decrease of 7.8 percent, the United Kingdom reported an increase of 3.9 percent, and France reported a decrease of 3.4 percent; for the year ending April 1993, Canada reported an increase of 4.6 percent, and Italy reported a decrease of 3.4 percent.

## *Prices*

The seasonally adjusted U.S. Consumer Price Index (CPI) remained unchanged in June, after edging up by 0.1 percent in May 1993. The CPI advanced 3.0 percent during the 12 months ending June 1993.

During the 1-year period ending June 1993, prices increased by 4.2 percent in Germany, 4.2 percent in Italy, 1.9 percent in France, 1.6 percent in Canada and 1.2 percent in the United Kingdom; during the year ending May 1993, prices increased by 0.9 percent in Japan.

## *Employment*

The U.S. unemployment rate was 7.0 percent in June, virtually unchanged since the beginning of 1993. Following substantial gains in May, payroll jobs in manufacturing declined by 53,000 in June.

Unemployment in June 1993 was 11.3 percent in Canada, 8.2 percent in Germany, 10.8 percent in Italy, and 10.4 percent in the United Kingdom; unemployment in May was 11.5 percent in France and 2.5 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

# Forecasts

The real annual growth rate in the United States is expected to be 3.6 percent during the third quarter and 3.3 percent during the fourth quarter of 1993. The average growth rate for 1993 is expected to be 3.0 percent. Factors that are likely to restrain the recovery include the general slowdown in foreign economic growth (particularly in Japan, Germany and other EC countries) and the uncompleted structural adjustments in the financial and nonfinancial sectors. Although consumer confidence and spending have improved in recent months, forecasters project consumer spending to remain moderate. Also, the expected tax increase and the cuts in government spending, if not counterbalanced by monetary expansion, could reduce consumer spending and confidence and thus moderate the recovery.

Table 1 shows macroeconomic projections for the U.S. economy for April 1993 to March 1994, by four major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators, except of unemployment, are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 6.8 to 6.9 percent throughout 1993 and 6.7 percent in 1994. Inflation (as measured by the GDP deflator) is expected to moderate, averaging about 2.8 percent. The slow rise in wages and compensations is expected to hold down inflation below the 3-percent rate throughout 1993.

During 1994, several factors could work in favor of growth rates stronger than those projected for 1993. These include—

- An improvement in general economic conditions as adjustments in the business sector continue and as consumer confidence, income, and spending strengthen;
- The planned increase in real spending on investment by U.S. businesses in 1993. The spending increase will include both the manufacturing and nonmanufacturing sectors.
- A further rise in investment spending because of the reduction of the budget deficit and the ensuing release of funds crowded out by Federal borrowing. Lower short- and long- term interest rates and the moderation of inflation rates will be stimulating factors.
- 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. (Germany and other EC countries are expected to lower their interest rates, which would spur new investment and bolster economic growth in Europe.) U.S. exports should increase as foreign demand revives.

## *Prospects of growth in the EC*

The European Community (EC) is in an economic recession. For the first time since 1975, the EC will experience a negative economic growth rate (-0.5 percent) in 1993 and a positive, although weak, growth rate (1.25 percent) in 1994. According to the EC Economic and Financial Affairs Commission, depressed economic conditions will prevail until mid-1994; unemployment will exceed 12 percent in 1994; and budget deficits will rise to a record level of GDP for the EC as a whole. Inflation will average 4.25 percent. The Commission projects better economic conditions for the United States and Japan than for the EC as a whole in 1994.

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, Apr. 1993-Mar. 94
*(In percent)*

| 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 | 4.3 | 4.6 | 4.6 | 5.3 | 4.7 |
| July-Sept. | 6.4 | 6.0 | 6.2 | 7.5 | 6.5 |
| Oct.-Dec. | 6.6 | 6.1 | 5.5 | 6.5 | 6.2 |
| 1994: | | | | | |
| Jan.-Mar. | 7.4 | 5.9 | 6.4 | 6.4 | 6.5 |
| | | | **GDP constant (1987) dollars** | | |
| 1993: | | | | | |
| Apr.-June | 1.7 | 1.8 | 2.4 | 2.6 | 2.1 |
| July-Sept. | 2.7 | 3.5 | 3.6 | 4.5 | 3.6 |
| Oct.-Dec. | 3.2 | 3.5 | 2.9 | 3.6 | 3.3 |
| 1994: | | | | | |
| Jan.-Mar. | 3.4 | 3.1 | 3.6 | 2.8 | 3.2 |
| | | | **GDP deflator index** | | |
| 1993: | | | | | |
| Apr.-June | 2.6 | 2.7 | 2.1 | 2.6 | 2.5 |
| July-Sept. | 3.6 | 2.3 | 2.4 | 3.0 | 2.8 |
| Oct.-Dec. | 3.3 | 2.5 | 2.6 | 2.8 | 2.8 |
| 1994: | | | | | |
| Jan.-Mar. | 3.9 | 2.7 | 2.7 | 3.5 | 3.2 |
| | | | **Unemployment, average rate** | | |
| 1993: | | | | | |
| Apr.-June | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 |
| July-Sept. | 6.9 | 6.9 | 6.9 | 6.8 | 6.9 |
| Oct.-Dec. | 6.8 | 6.9 | 6.8 | 6.6 | 6.8 |
| 1994: | | | | | |
| Jan.-Mar. | 6.6 | 6.8 | 6.7 | 6.5 | 6.7 |

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: July 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 $47.3 billion in May 1993 resulted in a merchandise trade deficit of $8.4 billion, $1.8 billion lower than April's deficit. Nonetheless, the May deficit was 9.1 percent higher than the deficit registered in May 1992 ($7.7 billion) and 3.7 percent higher than the average monthly deficit registered during the previous 12 months ($8.1 billion).

Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2.

Nominal export changes and trade balances in May 1993 for specified major commodity sectors are shown in table 3. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 4.

**Table 2**
**U.S. merchandise trade, seasonally adjusted, Apr.-May. 1993**

| Item | Exports | | Imports | | Trade balance | |
|---|---|---|---|---|---|---|
| | May 93 | Apr. 93 | May 93 | Apr. 93 | May 93 | Apr. 93 |
| Current dollars— | | | | | | |
| Including oil | 39.0 | 38.5 | 47.3 | 48.7 | -8.4 | -10.2 |
| Excluding oil | 38.3 | 37.9 | 42.8 | 43.7 | -4.5 | -5.9 |
| 1987 dollars | 37.2 | 36.7 | 45.5 | 46.9 | -8.3 | -10.2 |
| Three-month-moving average | 38.8 | 38.1 | 48.4 | 47.6 | -9.7 | -9.5 |
| Advanced-technology products (not seasonally adjusted) | 8.8 | 9.1 | 6.2 | 6.2 | 2.7 | 2.8 |

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

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, by specified manufacturing sectors and agriculture, Jan. 1992-May 93

| Sector | 1993 Exports | | Change | | Share of total Jan. May 1993 | Trade balances Jan-May 1993 |
|---|---|---|---|---|---|---|
| | Jan. May 1993 | May 1993 | Jan.-May 1993 over Jan. May 1992 | May 1993 over Apr. 1993 | | |
| | Billion dollars | | Percent | | Billion dollars | |
| ADP equipment & office machinery | 11.1 | 2.1 | 1.9 | 0 | 5.7 | -5.13 |
| Airplane | 9.2 | 1.8 | -21.1 | -16.7 | 4.8 | 7.88 |
| Airplane parts | 3.9 | 0.8 | -2.3 | 6.8 | 2.0 | 2.77 |
| Electrical machinery | 14.9 | 3.1 | 13.0 | 1.0 | 7.7 | -3.09 |
| General industrial machinery | 8.1 | 1.7 | 2.8 | 0.6 | 4.2 | 1.09 |
| Iron & steel mill products | 1.5 | 0.3 | -7.1 | -12.9 | 0.8 | -1.74 |
| Inorganic chemicals | 1.8 | 0.4 | 5.3 | 21.9 | 0.9 | 0.46 |
| Organic chemicals | 4.7 | 0.9 | 0.9 | -4.1 | 2.4 | 0.86 |
| Power-generating machinery | 8.1 | 1.6 | 11.7 | 5.8 | 4.2 | 1.07 |
| Scientific instruments | 6.4 | 1.3 | 5.8 | 4.7 | 3.3 | 3.08 |
| Specialized industrial machinery | 7.3 | 1.5 | 7.2 | 3.4 | 3.8 | 1.88 |
| Telecommunications | 5.1 | 1.1 | 16.8 | 10.0 | 2.6 | -4.62 |
| Textile yarns, fabrics and articles | 2.5 | 0.5 | 1.2 | 10.4 | 1.3 | -0.93 |
| Vehicle parts | 8.2 | 1.7 | 17.7 | -3.5 | 4.2 | 0.76 |
| Other manufactured goods[1] | 11.0 | 2.2 | -2.7 | -8.0 | 5.7 | -3.01 |
| Manufactured exports not included above | 47.6 | 10.4 | 9.6 | 6.8 | 24.7 | -36.74 |
| Total manufactures | 151.1 | 31.4 | 5.0 | 1.3 | 78.3 | -35.41 |
| Agriculture | 18.0 | 3.3 | 1.1 | -7.6 | 9.3 | 7.83 |
| Other exports | 23.8 | 5.1 | 2.2 | 5.8 | 12.4 | -8.26 |
| Total | 193.0 | 39.8 | 4.2 | 1.0 | 100.0 | -35.84 |

[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)*, July 1993.

Table 4
U.S. merchandise trade deficits and (surpluses), not seasonally adjusted, by specified areas or countries, Jan. 1992-May 93

*(Billion dollars)*

| Area or country | May 1993 | Apr. 1993 | May 1992 | Jan.-May 1993 | Jan.-May 1992 |
|---|---|---|---|---|---|
| Canada | -0.83 | -0.87 | -0.80 | -4.30 | -2.62 |
| Mexico | +0.25 | +0.26 | +0.44 | +1.51 | +2.75 |
| Western Europe | +0.33 | +0.45 | +0.99 | +4.37 | +8.32 |
| European Community (EC) | -0.04 | +0.05 | +1.25 | +4.00 | +9.10 |
| Germany | -0.70 | -0.70 | -0.46 | -2.85 | -1.81 |
| European Free Trade Association(EFTA)[1] | +0.12 | -0.01 | -0.44 | -0.80 | -1.29 |
| Japan | -3.75 | -5.50 | -3.36 | -22.54 | -18.76 |
| China | -1.80 | -1.49 | -1.23 | -7.50 | -5.76 |
| NICs[2] | -0.52 | -0.67 | -0.84 | -3.35 | -4.45 |
| Eastern Europe/ FSR | +0.31 | +0.45 | +0.21 | +1.32 | +1.34 |
| Former Soviet Republics | +0.25 | +0.23 | +0.19 | +0.84 | +1.23 |
| Russia | +0.18 | +0.09 | +0.13 | +0.47 | +0.48 |
| Other EE | +0.06 | +0.22 | +0.02 | +0.48 | +0.11 |
| OPEC | -1.04 | -1.41 | -0.89 | -5.56 | -2.80 |
| Trade balance | -6.53 | -8.43 | -5.41 | -35.87 | -22.35 |

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

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

Note.—Country/area figures 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 total export table.

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

# INTERNATIONAL TRADE DEVELOPMENTS

## Generalized System of Preferences Resuscitated

The U.S. Generalized System of Preferences (GSP), which affords duty-free entry to eligible articles shipped directly from designated beneficiaries, formally expired at midnight July 4, 1993. Congress could not find a means to offset revenue losses because of uncollected customs duties. However, to the great relief of U.S. trade officials, the beneficiary country governments and their U.S. distributors, Congress agreed to extend the program shortly before the August recess. But the worries about the future of the program are far from over, because the extension is good only for 15 months.

The GSP is a framework under which all major industrialized countries provide nonreciprocal temporary preferential tariff treatment to certain goods exported by developing and former Eastern Bloc countries as a way to further their economic development. Although each country that grants such preferential treatment administers its own GSP program (including the establishment of country and product eligibility requirements and duration of such preferences), the United Nations Conference on Trade and Development (UNCTAD) oversees the many GSP programs globally. Had the GSP been eliminated as a result of Congressional disagreement, the United States would have been the sole major industrial democracy without such a program. This development might have created a sour climate for providing the beneficiary countries with much needed export opportunities.

The U.S. GSP duty-free entry applies to more than 4,300 Harmonized Tariff System (HTS) tariff categories—including automotive parts, telephones, radios, tape recorders, video display units, refrigerators, wooden furniture, jewelry, sugar, toys and dolls, microwave ovens, and zinc—from more than 140 countries. Estonia, Ethiopia, Latvia, Lithuania, and each of the former republics of the Socialist Federal Republic of Yugoslavia other than Serbia and Montenegro (that is, Bosnia-Herzegovina, Croatia, Macedonia (Skopje), and Slovenia) were designated as beneficiaries in 1992.

Legislative authority for the U.S. GSP was provided in title V of the Trade Act of 1974 (Public Law 93-618), and was originally granted for a period of 10 years, beginning January 3, 1975. The scheme became fully operational on January 1, 1976, making the United States the 19th industrialized country to implement such a program. Title V of the Trade and Tariff Act of 1984 (Public Law 98-573) renewed the U.S. GSP and extended the program through July 4, 1993. This legislation also mandated that the President consider whether a country affords worker rights recognized internationally and provided that the President may consider such issues as intellectual property rights and barriers to investment and trade in services in determining a country's eligibility for GSP benefits. The U.S. program is reviewed annually by a committee headed by the U.S. Trade Representative.

In 1992, $16.7 billion in imports received duty-free treatment under the U.S. GSP program. This figure compares with $109.7 billion in total U.S. imports from GSP beneficiaries in 1992 and with $523.3 billion in total imports from the world. The tabulation below lists the top 10 beneficiaries under the U.S. GSP program and the value of U.S. imports under the program in 1992 (*in millions of dollars*):

| Country | Value | Country | Value |
|---|---|---|---|
| Mexico | 4,832 | Indonesia | 643 |
| Malaysia | 2,538 | India | 637 |
| Thailand | 1,862 | Israel | 492 |
| Brazil | 1,559 | Venezuela | 304 |
| Philippines | 1,054 | Argentina | 291 |

The products of a number of smaller GSP beneficiaries—including Israel, the South American Andean countries of Bolivia, Ecuador, and Colombia, and the Caribbean Basin countries—are eligible for duty-free entry into the United States under special bilateral preferential trade arrangements such as the U.S.-Israel Free-Trade Agreement, the Andean Trade Preferences Act, or the Caribbean Basin Economic Recovery Act. Unlike the larger GSP beneficiaries, these countries would be less affected by the loss of GSP benefits because many of their GSP-eligible products may enter the United States duty free under the special bilateral preferential arrangements.

Duty collection on articles that had been eligible for GSP treatment began on July 5, 1993. However, being virtually certain that legislation renewing the GSP would be enacted retroactively, U.S. Customs implemented a mechanism to facilitate the refund of duties collected during the interim.[1] The U.S. GSP is arguably the most generous system of trade concessions extended by any industrial democracy. Nonetheless, the current hesitation about extending the program undermines its efficiency and reputation, and could harm global U.S. interests.

The USITC reviews the U.S. GSP program in its annual report *The Year in Trade: 1992*. Copies of the most recent report, published in July 1993, are available from the GPO, by calling 202-783-3238.

# Market-Access Agreement Revitalizes Uruguay Round

The heads of state and government of the Group of Seven (G-7) industrialized countries, meeting on July 6-8, 1993 in Tokyo, announced the outlines of a market-access agreement designed to lower tariffs on a wide range of goods and services, thereby helping bolster world trade and economic growth. (The G-7 is composed of the United States, Japan, Germany, France, Great Britain, Italy, and Canada.) The far-reaching market-access package has already renewed momentum in the Uruguay Round of multilateral trade negotiations.

Following an agreement between the trade ministers of the United States and the European Community (EC) in late March 1993 to make market-access talks a priority for concluding the Uruguay Round, a push in negotiations had begun among the quadrilateral (quad) group comprising Canada, the EC, Japan, and the United States. Meetings were held in April, May, and June to pave the way for an agreement at the G-7 economic summit in Tokyo.

The agreement announced on July 7 is provisional; that is, it is contingent on a satisfactory outcome of other aspects of the Uruguay Round. Acceptance by the remainder of the 116 participants in the Round will be needed, along with whatever additional contributions to the market-access package they may offer. The agreement addresses trade in 18 industrial-goods sectors among the quad countries. It eliminates tariffs in 8 sectors, reduces tariffs to a minimum in 5 sectors, cuts "tariff peaks" in 4 other sectors, and "harmonizes" tariffs in 1 sector:

- *Elimination of tariff and nontariff measures.* Tariff and nontariff barriers for the following sectors will be eliminated: pharmaceuticals, construction equipment, medical equipment, steel (subject to reaching a multilateral steel agreement), and beer. Barriers in furniture, farm equipment, and distilled spirits will also be eliminated, subject to certain agreed exceptions. These sectors all represent areas in which the United States called for the mutual elimination of tariffs. Participants agreed to try to include additional sectors in the ongoing talks on the mutual elimination of tariffs.

- *Other tariff reductions.* An overall goal of tariff reductions of at least 33 percent was agreed for scientific equipment, wood, paper and pulp, nonferrous metals, and electronics. In some cases, tariffs may be reduced further. At the summit, some quad participants indicated an interest in further cuts in the wood, paper and pulp, scientific equipment, and electronics areas.

- *Tariff peaks to be cut.* The quad countries agreed to negotiate for the maximum achievable tariff reductions on products with tariffs above 15 percent. The quad countries also adopted the objective of cutting in half all tariff peaks, subject to agreed exceptions and to the attainment of effective market access through additional tariff reductions and nontariff liberalization. Non-U.S. participants showed particular interest in cutting U.S. peaks in ceramics, glass, textiles, and apparel.

  For textiles and apparel, the quad partners agreed that they would phase in tariff cuts and quota reductions to end the present Multifiber Arrangement (MFA), but over a period longer than the 10 years currently set out in the Round's "Draft Final Act" (known also as the "Dunkel text"). The United States offered some reductions in peak tariffs where quad partners are principal or substantial suppliers.

- *Tariff harmonization.* Chemical products will have their tariffs harmonized at low rates including, in some cases, a zero tariff rate. Talks will continue to harmonize other sectors as well.

The market-access agreement is seen as adding momentum toward finishing the Round by December 15, 1993. To help ensure this momentum, on June 30, the United States Congress renewed its authorization for "fast-track" legislative consideration of the Round's results. Under fast-track, omnibus legislation implementing a concluded package of Uruguay Round trade agreements will be subject to a simple "yes-or-no" vote by the Congress within a set period.

[1] These provisions are described in detail in "Procedures If Generalized System of Preferences Program Expires," *Federal Register*, vol. 58, no. 125, July 1, 1993, p. 35506.

This allows U.S. negotiators to assure other countries that a negotiated settlement will not be changed or partially overturned by later Congressional amendments.

Renewed negotiations in Geneva will focus on expanding market access in agriculture and services. Substantial progress has already been made in services negotiations. Existing offers cover the following service sectors: insurance, banking, securities, construction, distribution, tourism, software and computer services, and professional and business services (for instance, consulting, engineering, accounting, and legal services).

Reports from the Tokyo summit suggested that progress was made in further opening financial services markets, although negotiations on liberalizing basic telecommunications services are likely to extend beyond the conclusion of the Round. (Near the end of 1992, the United States and the EC had begun to explore the possibility of extending negotiations on basic telecommunications services. One stumbling block between the two sides has been differences between government regulation versus monopoly provision of such basic telecommunications services. Whereas in the United States telecommunications firms are government-regulated private firms, in much of the EC these firms are government-owned and operated monopolies.) Negotiations reportedly also continued on maritime services, audiovisual services, and government procurement, areas where the United States and the EC have major differences.

Although the announced market-access agreement breathed new life into the nearly moribund Uruguay Round, the upcoming negotiations in Geneva promise to be difficult. Agriculture remains one of the most contentious areas. France continues to contest the so-called Blair House agreement, establishing a formula for liberalization, although it was concluded through duly authorized EC negotiators. Other agricultural issues remaining on the agenda include disaggregation, and tariffication. Disaggregation involves ensuring that the 20-percent internal subsidy reduction, set out in the Draft Final Act and affirmed by U.S. and EC negotiators in the Blair House agreement, applies to specific agricultural products individually (see *IER*, Dec. 1992). The agreement would allow subsidies on some products to be reduced less than the 20-percent average if subsidies are reduced more on other goods so that the average internal subsidy reduction reaches the 20-percent overall goal. Tariffication is the conversion of nontariff barriers, such as the EC's variable import levy, into tariff barriers. Although such conversions could result in prohibitive duties on some products, potential traders, consumers, and policymakers would be better placed to assess the real cost of protecting particular industries from import competition.

# U.S. Imports from the Caribbean Basin Continue to Increase

The United States maintained a merchandise trade surplus of $1.8 billion with the Caribbean Basin in 1992.[2] In the past few years, however, this surplus has eroded as U.S. imports outpaced exports to the region (figure 1). These developments reflect an ongoing, although slow, transformation of the Caribbean economies and concomitant changes in U.S. import patterns from the region since the Caribbean Basin Economic Recovery Act (CBERA) went into effect. The CBERA is a U.S. Government program that features nonreciprocal preferential access to the U.S. market for the exports of Caribbean nations as its key component.

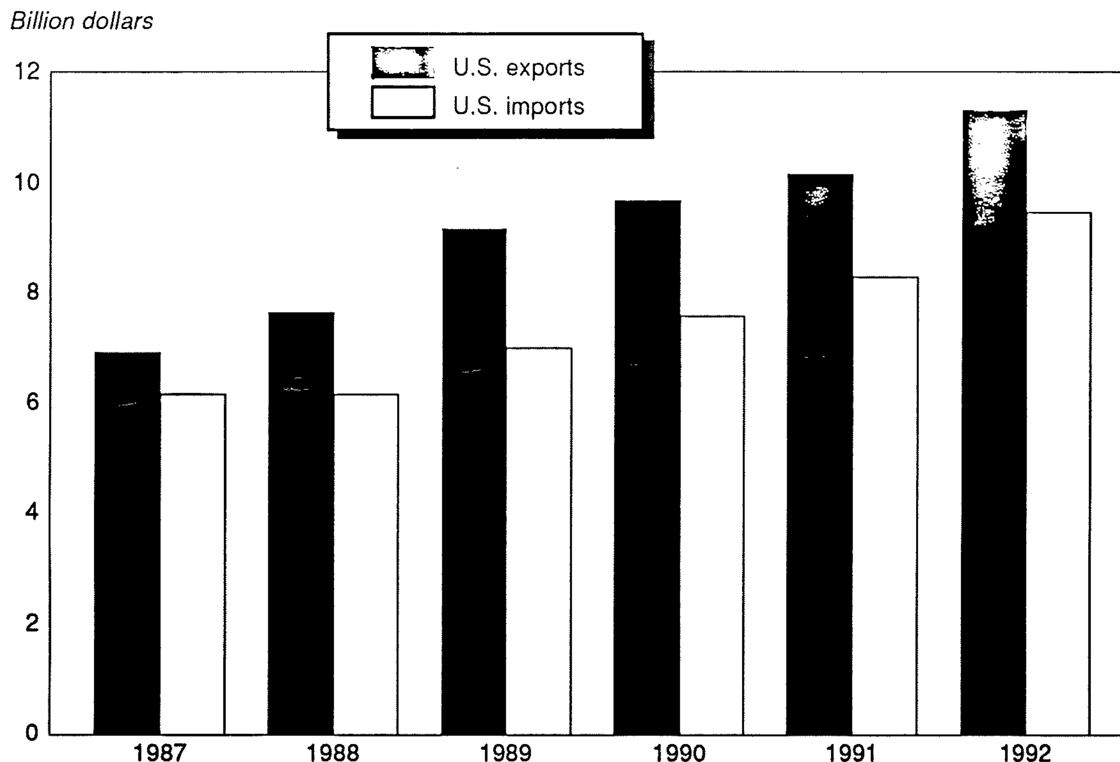
In 1984, when the program was launched, petroleum still dominated Caribbean shipments to the United States, and the region accounted for 2.8 percent of overall U.S. imports. By 1988, this figure dropped to 1.4 percent as a result of declining petroleum shipments, but began to rise each year thereafter. In 1992, 1.8 percent of all U.S. imports were Caribbean items. Total U.S. imports from the Caribbean countries amounted to $9.5 billion in 1992, an increase of 14.3 percent over the 1991 value. In 1989-92, the share of the Caribbean countries among all U.S. exports was 2.6 percent.

Nontraditional items have gradually gained significance over petroleum and other traditional Caribbean exports (such as coffee, bananas, bauxite) on the U.S. market. The most spectacular shift in imports from the Caribbean countries occurred in the category of textiles and apparel (mostly apparel). Textiles and apparel constituted only 4.5 percent of overall U.S. imports from the region in 1983, but accounted for almost one-third of the total in 1992. In 1992, shipments of Caribbean textiles and apparel amounted to $3.0 billion, twice as high as imports of petroleum and related products.

Textiles and apparel (as well as petroleum) are not eligible for duty-free access to the U.S. market under CBERA. However, Caribbean apparel exporters benefited from concessions, such as "guaranteed access levels," granted to them in bilateral textile accords with the United States. Caribbean apparel products also owe

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

Figure 1
U.S. trade with the Caribbean Basin countries, 1987-92




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

their competitiveness on the U.S. market to their producers' geographic proximity and to low production costs even when compared with some Asian producers.

In 1992, approximately two thirds of overall U.S. imports from the Caribbean Basin were duty-free—either under the CBERA or, unconditionally, under most-favored-nation (MFN) column 1 tariff rates, or under the Generalized System of Preferences (GSP). Some shipments from the region may have also entered the duty-free U.S.-value portion of imports under chapter 98 of the Harmonized Tariff System (HTS). A sizable portion of U.S. imports from the Caribbean area qualify under more than one of the above categories of duty-free entry, thus, duty exemptions under the CBERA sometimes overlap with those under other programs.

The growth of U.S. imports from the Caribbean countries may at least be partially attributed to the CBERA. In 1984—its first year—the CBERA was responsible for only $576 million or 6.7 percent of overall U.S. imports from the region. By comparison, duty-free imports under the CBERA amounted to $1.5 billion in 1992 and were responsible for 15.9 percent of the total. The existence of the CBERA also has attracted foreign investors into the region, who, in turn, helped diversify Caribbean exports.

The CBERA gained in absolute and relative importance as regional traders gradually discovered how to benefit from the program. They realized, for example, that country-of-origin conditions for duty exemptions are less stringent under the CBERA than under the GSP. As a result, traders increasingly shifted their eligible exports from the GSP to the CBERA. Another reason for the shift might have been that the CBERA has no statutory deadline, whereas the GSP is subject to annual reviews.

# Korea Widens Access for Foreign Beef

During June, the United States and South Korea (Korea) reached agreement to widen access for foreign beef in the Korean market. The agreement, signed after five rounds of negotiations over the previous 12 months, caps a dispute dating back to 1988. U.S. Trade Representative (USTR) Mickey Kantor hailed the pact saying "I am pleased that we have been able to

conclude an agreement providing new market opportunities for U.S. beef exporters."

Under the terms of the agreement, Korea's minimum beef import quotas will rise from the 1992 level of 66,000 metric tons to 99,000 metric tons in 1993, to 106,000 metric tons in 1994, and to 113,000 metric tons in 1995. Actual imports have exceeded the minimum import quota level in recent years as demand for foreign beef rose and Korean authorities attempted to reduce upward pressure on beef prices. For example, although the 1992 quota level stood at 66,000 metric tons, Korean authorities authorized a total of 132,000 tons of beef imports. This year, Korea's beef consumption is projected to top 234,000 metric tons, a 4.3-percent rise over 1992 levels.

The June accord stems from a 1988 dispute initiated when the American Meat Institute filed a petition with the Office of the USTR requesting a section 301 investigation of Korea's licensing system on imported beef. The petition alleged that the licensing system restricted imports in violation of GATT article XI (prohibition on quantitative restrictions). Korea had justified the import restrictions, which applied to 450 items, under GATT article XVIII(b), the balance-of-payments (BOP) exemption. In May 1989, a GATT panel ruled that Korea's beef import quotas were inconsistent with the BOP exception of the General Agreement. Korea accepted the panel's findings in November 1989, thereby paving the way for consultations on implementing the panel's results.

In the panel report, the GATT granted Korea until July 1, 1997, to phase out the BOP restrictions, "graduating" Korea from the status of a developing country eligible for BOP exceptions. Meanwhile, the United States and Korea have twice negotiated increases in the minimum beef import quota level. In April 1990, Korea agreed to increase beef quotas and to bring the restrictions criticized in the panel report into conformity with the GATT.

Korean farm groups have strongly opposed liberalization of the beef market. The Korean media quoted the Chairman of the Korea Peasant League as saying that Korean farmers are in a state of "raging indignation" over the beef plan. He called on the Korean Government to withdraw beef and other agricultural goods from the list of products to be "graduated" from the BOP list.

The beef agreement also revises the way foreign beef will be distributed in Korea. Prior to 1990, foreign beef sales were channeled through a quasi-governmental agency. The 1990 beef accord called for establishment of a simultaneous buy/sell (SBS) system for foreign beef in Korea, which would allow direct access between buyers and sellers in the beef market. In recent negotiations, the United States expressed concern about operation of the SBS system. The new agreement guarantees that foreign suppliers can sell beef directly to Korean distributors and retailers.

U.S. beef exports to Korea topped $220 million in 1992, making that country the third largest export market for U.S. beef. Australia and New Zealand, two other major exporters of beef to Korea, are also expected to benefit from the increased quota. Cattle farmers in Korea are likely to come under increased pressure to produce higher quality beef at prices competitive with imports. Despite the import restrictions, imported beef sells for less than half the price of domestically-raised beef. The Ministry of Agriculture, Forestry, and Fisheries estimates that approximately 81 percent of Korea's 585,000 cattle farms raise no more than 5 head of cattle each.

# Austria: First in Line to Join the EC?

At the head of the queue of nations applying to join the European Community (EC) is the Republic of Austria. Negotiations on accession terms began formally on February 1, 1993. Membership is expected sometime in 1995, perhaps simultaneously with fellow European Free Trade Association (EFTA) members—Sweden, Norway and Finland—which applied more recently (see *IER*, May 1993).

Austria's post-war economic integration with Western Europe began with its participation in the Marshall Fund, thus becoming a founding member of the Organization of European Economic Cooperation (OEEC). The OEEC later became the Organization for Economic Cooperation and Development (OECD). In 1956, Austria joined the Council of Europe and, shortly thereafter, helped form the EFTA. This was followed by an unsuccessful application to join the EC in 1963. The application faltered on the incompatibility between Austria's permanent neutrality and the general East-West political division at the time. Austrian ties with the EC strengthened with a 1973 agreement eliminating duties, quotas, and other barriers to trade in most industrial products (agricultural goods are not part of the agreement). In the April 1984 Luxembourg Declaration, EC and EFTA ministers declared their desire for strengthened cooperation. A further meeting in December 1990 led to an agreement on a structured framework to deepen relations.

On September 22, 1992, Austria ratified the resulting European Economic Area (EEA) agreement: basically calling for a wholesale assumption of existing Community laws, including most of the single market legislation. As a result, most goods, services, capital,

and people will move freely within this 19-nation, 380-million strong common market. The EEA agreement has significantly simplified Austria's path to joining the Community. Indeed, by complying with the terms of the EEA, Austria will anticipate fully two-thirds of the adjustments in national laws necessary for full EC membership.

## EC-Austrian Trade

Although actual trade between the EC and Austria is not large, the two economies are united with a strong link. According to 1991 EC Commission and GATT statistics:

- Austria is the EC's fifth largest supplier (accounting for 4.5 percent of the EC's total imports) and third largest export market (taking 6.5 percent of all EC exports in return).
- EC member states supply 68.6 percent of Austria's total imports and purchase 65.2 percent of its total exports. Germany and Italy represent the bulk of this total.
- In 1987-90, Community imports from Austria grew at a healthy 11.2 percent per year, whereas EC exports to Austria increased at a 10.2-percent annual pace.
- In 1991, Austria ran a 5,508.8 million ECU trade deficit with the EC (1 ECU = $1.15).

Chemicals, machinery, transport equipment, iron and steel, and textiles and clothing account for 85.2 percent of EC-Austrian trade. Highly protected agricultural goods on both sides account for just 6.2 percent.

According to the EC Commission's opinion on Austria's membership application: "From a trade standpoint ... Austria has, in fact, been integrated in the Community for some considerable time." This, combined with higher growth and lower inflation, unemployment, and budget deficit rates relative to the Community's average, explains Austria's attractiveness as a potential member. The Austrians, guarding their prosperity and noting the importance of the Community as their primary trading partner, want to join the Community, reportedly fearing that they would be adversely affected by the completion of the EC's internal market.

## Issues to be Negotiated

Several areas still need to be negotiated before full membership will be accorded. The most contentious area—agriculture—remains outside the EEA. External relations, budgetary cooperation, regional policy, and transalpine road transit will also have to be addressed before Austria can become an EC member.

## Agriculture

In the Austrian government's own words: "...we will need to subject this country's agricultural system to a critical review." Austrian agricultural subsidies are at twice the EC's level, and prices are up to 300 percent above world market prices. The eventual adoption of the EC's Common Agriculture Policy (CAP) and its lower price levels and subsidies could, according to a U.S. State Department bulletin, shift 25 percent of Austria's farm income and 40 percent of domestic market share to more efficient Community competitors when the barriers fall.

However, access to cheaper EC machinery, fertilizers, and raw materials will help Austrian efficiency and offset some of those losses. Austrian food-processing firms, the country's second largest industry, now pay up to 150 percent more for raw materials than their German counterparts.

U.S. farm exports to Austria will likely benefit from the harmonization of Austrian agricultural trade policies with the EC because it will lower some barriers. Some U.S. exports might be displaced, particularly grains, according to the U.S. Department of Commerce. However, displacement is not likely to approach levels that necessitated a separate market-share agreement between the United States and the Iberian countries when they joined the EC in 1986.

## Industry

A recent GATT review of Austrian trade barriers to industrial goods cites an OECD estimate stating that "sectors accounting for about half of total output are either by nature or design fully or partially sheltered from foreign competition." The review goes on to say that "... Austria's EC membership will result in stronger competition from Community sources ... in sectors which represent about 41 percent of industrial production." Food, chemical, electric, and electronic industries will be the most exposed.

According to the U.S. Department of Commerce, earlier EC-EFTA trade agreements displaced some U.S. exports, particularly in paper products. However, because EC-EFTA agreements have already eliminated most industrial tariffs on a bilateral basis, the redirection of trade from countries outside the agreement, as a result of Austria's membership should be limited. In addition, industrial tariffs are generally higher in Austria than in the EC. Therefore, U.S. exporters should benefit when Austria joins the EC and

lowers its tariffs against third countries to conform with the EC's tariff levels. Moreover, harmonizing standards—such as for health and safety—should simplify procedures and reduce costs for U.S. exporters.

## *Transport*

In the words of the EC Commission, "Austria has become the premier country of transit for the Community." The volume of EC freight on Austrian roads is among the heaviest in the Community, accounting for over 22 million tons in 1988, according to EC Commission statistics. Additionally, Austria has seen a dramatic rise in the use of its roads for commerce and tourism since the collapse of communism in Europe in 1989. Freight traffic from the East reached 18.0 million tons in 1992, up from 16.2 million tons in 1989. Tourism from the former Soviet Bloc increased significantly. (The number of "overnights" in Austria from countries of the former Soviet Bloc increased by 17.2 percent, from 1,366,722 in 1990 to 1,602,305 in 1992.)

Austria has enforced a series of road transit quotas, high tolls, and partial bans on night-time driving to curtail road usage. These restrictions seem to violate the Community's principle of free movement of goods within the member states. Furthermore, Austria's stricter environmental standards conflict with the Community's harmonized (and more lenient) levels of allowable pollution. The U.S. Department of State speculates that, given its strong environmental movement and the protests of communities living along the highways, as well as the importance of pristine mountainsides to its tourism industry, the Austrian Government will be highly sensitive to these issues. Thus, transport has emerged as perhaps the most difficult negotiating obstacle to EC membership. "Transit traffic," says the EC Commission, "will be one of the core issues of the accession negotiations."

Although it is widely anticipated that full EC membership awaits Austria—considering that the EC Commission issued a favorable opinion on Austrian membership in July 1991—membership is not likely before 1995 at the earliest. This "go-slow" approach to Austrian accession talks results from the ongoing debate over whether "widening" (or enlargement) of the EC should take priority over "deepening" the EC, as embodied in the Maastricht institutional reforms.

# Central European Free Trade Agreement Starts Smoothly

On March 1, 1993, the Central European Free-Trade Agreement (CEFTA), which was designed to remove all barriers to trade among the Czech Republic, Hungary, Poland, and Slovakia, went into effect on an interim basis. The agreement, signed in Krakow on December 21, 1992, will become final when it is ratified by the parliaments of all four countries. Hungary and Slovakia have already ratified the agreement, and the other two parties are expected to follow suit in the fall.

Alliance and economic cooperation among Hungary, Poland, and the former Czech and Slovak Federal Republic (C.S.F.R.), based on sovereign national interests, began to develop in early 1991, soon after the establishment of democratic governments in the region. The implementation of CEFTA is a high point in the economic and political cooperation among the region's new democracies.

One of the major motives behind the conclusion of the free-trade agreement is the prevalent conviction among officials in the four countries that a recovery of trade among them is indispensable for their overall economic recovery. The aspiration to join the European Community (EC) provided another, equally forceful motive for the agreement.

The EC held out the promise of full membership to the four countries in the association agreements, the so-called Europe Agreements, which it concluded separately with each of them. (See IER, Dec. 1992.) These agreements do not indicate whether or not the four countries will be considered as a group or on an individual basis when the question of membership is likely to be taken up by the EC toward the end of this decade. The CEFTA partner states have reasons to believe that they will be considered as a group because the EC has treated them in a uniform manner and has encouraged their economic and political rapprochement. Moreover, most officials in the CEFTA states appear to be convinced that, if the four partners are to be considered as a group, some measures of economic integration (at the very least, free trade among them) would be a requirement for EC membership.

Several proposals have emerged in the CEFTA countries to carry their integration beyond the free-trade agreement. The best known proposals are for the joint construction of highways and railways, the establishment of jointly owned banks, a multilateral

clearing system, a customs union, and the introduction of a common currency.

## The terms of CEFTA

Establishment of free trade zones between the EC and each of the Central European states based on the Europe Agreements began on March 1, 1992. CEFTA is similar to the free trade agreements with the EC in that it is divided into industrial, agricultural, and general provisions. It is also similar in that it divided industrial products into three categories, according to whether the dismantling of customs duties is to be carried out immediately (category A), in the medium term (category B), or in the long term (category C). Commodities produced by firms that are presumably not in significant, direct competition in the region were put in category A. All tariffs on these items were eliminated on March 31, 1993.[3] Category B contains the rest of industrial products, with the exception of those defined as "sensitive," such as transportation equipment, most textile goods, footwear, and most metallurgical products, which were classified in category C. The agreement provides that tariffs and quantitative restrictions on category B items, prevailing on February 28, 1993, should be eliminated in three equal stages between 1995 and 1997.[4] All tariffs and quantitative restrictions on category C items should be eliminated between 1995 and 2001.[5]

The liberalization of farm trade will be achieved through separate bilateral accords involving individual product groups, such as grains, feedstock, fruits, vegetables, and wine. As a general guideline, agricultural concessions aim at a 20-percent reduction in customs duties over 2 years and a 50-percent reduction over 5 years, with or without quantitative quotas. Hungary and Poland have already concluded an agricultural liberalization agreement.

The general provisions of CEFTA allow for consultations in case a partner state experiences market disruption or financial difficulties as a result of the agreement. Partner states may take unilateral steps to protect their industries against critical damage arising from the implementation of the agreement. Since the Czech Republic and Slovakia form a customs union, the union's permanent executive agency (in Bratislava, the Slovakian capital) will jointly represent the two countries in future CEFTA negotiations and develop common positions before deliberations with the rest of the signatories. (For background information on CEFTA, see *IER*, Feb. 1993 and Feb. 1992.) Several months have elapsed since the implementation of the first phase of the agreement. There have been no complaints about market disruption or about any other problem that would necessitate the invocation of the agreement's general provisions.

## Quadrilateral trade and tariffs

As a result of the regionwide recession and reorientation of trade toward the West, particularly toward the EC, trade among Hungary, Poland, and the former C.S.F.R., declined sharply during 1989-91. But the decline stopped in late 1991, and 1992 saw a modest recovery. During 1992, Hungary's merchandise trade with the former C.S.F.R. (exports plus imports) amounted to $1.1 billion (equally shared between the Czech and Slovak Republics) and with Poland amounted to $300 million. Trade between the former C.S.F.R. and Poland was $1.3 billion (roughly 70 percent with the Czech Republic and 30 percent with the Slovak Republic).

Manufactured goods account for 40 to 50 percent of total regional trade. During 1992, Hungary's manufactured goods trade with the former C.S.F.R. was $337.7 million and with Poland $115.7 million. Manufactured goods trade between the former C.S.F.R. and Poland amounted to $817.9 million. The following tabulation shows the distribution of bilateral trade in manufactured goods according to CEFTA categories during 1992 (*in percents*):

| | A | B | C | Total |
|---|---|---|---|---|
| C.S.F.R.-Hungary ... | 35 | 39 | 26 | 100 |
| C.S.F.R-Poland ..... | 20 | 43 | 37 | 100 |
| Hungary-Poland ..... | 60 | .26 | 14 | 100 |

[3] During 1992, the following were the largest items traded in the area among the goods classified into category A: chemical products, pharmaceuticals, petrochemical waste, rubber goods, wood products, glass products, steam boilers and some thermal power-generating equipment, parts for construction machinery and transport equipment, printing machines, food processing equipment, TV tubes, toys, sports equipment, and several other miscellaneous manufactures.

[4] During 1992, the following were the main items traded among CEFTA partners in category B: hard coal, selected steel products, high voltage electronic control equipment, synthetic fibers, aerospace equipment, power-generating equipment, computers and related equipment, some metallurgical machinery, paper products, some iron and steel products, semimanufactures, ceramics, selected chemicals, navigation equipment, electric conductors, paper industry machinery, and selected textile goods.

[5] During 1992, the most significant products traded in category C were the products of heavy metallurgy, cars and buses, men's and women's clothing, and footwear.

Statisticians in the Czech Republic have calculated the average tariffs charged in the former C.S.F.R.'s trade with Hungary and Poland during 1992. Their survey captured over 90 percent of the manufactured trade among the CEFTA states, since manufactured goods exchange between Hungary and Poland represented less than 10 percent of the total. The following tabulation shows the effective, average, ad valorem tariff rates (actually collected duties as a percentage of the value of shipments) for goods entering these countries in internal CEFTA trade during 1992, by categories:

| | A | B | C |
|---|---|---|---|
| To the C.S.F.R. from Hungary and Poland .... | 3.07 | 6.23 | 9.89 |
| To Hungary from the C.S.F.R. ............... | 8.83 | 12.60 | 11.83 |
| To Poland from the C.S.F.R. .............. | 11.15 | 16.09 | 21.21 |

Statistical estimates indicate that about 95 percent of the nominal rates of tariff lines for commodities belonging to category A ranged from zero percent to 14.58 percent in the CEFTA countries prior to March 1, 1993. At present, about 95 percent of the nominal rates for commodities belonging to category B range between 0.681 to 19.89 percent, and, for those belonging to category C, such rates range from 2.49 to 23.92 percent.

## *U.S. interests*

U.S. firms with interests in the CEFTA area have welcomed the free trade agreement. The elimination of tariff walls for Category A products has already permitted some U.S. companies to rationalize and expand their sales in the CEFTA countries. For example, since the signing of the agreement, Proctor and Gamble, with its distribution facility located in Prague, has expanded its sales of detergents to Poland. The new agreement also may allow U.S. manufacturers in the area to increase their scale of production. Business opportunities may be particularly significant in consumer goods production. Demand is also expected to grow for capital goods to be used in the region's growing number of small businesses seeking to seize the opportunities offered by the emerging free trade area.

Nevertheless, some analysts fear that tariff reductions among the four Central European countries, as well as between each of them and of other European nations, could prompt them to raise their tariff barriers against non-European suppliers. Such a development would tend to discourage some U.S. exports to the four countries but could encourage U.S. direct investment in the CEFTA area.

U.S. companies should be aware of quantitative quotas that might hamper the full realization of business opportunities provided by the elimination of tariffs. Internal economic difficulties in the member states may also prompt them to introduce temporary import surcharges that would be applicable against all imports, including those from the CEFTA partners. At present, Slovakia is reportedly contemplating the introduction of a temporary, 20-percent surcharge on selected commodities. Furthermore, several reports indicate that, despite the customs union between the Czech Republic and Slovakia, which is one of the fundamental premises of CEFTA, the movement of goods between the two countries is becoming less smooth. Shipments from the Czech Republic to Slovakia, or vice versa, face long delays at the customs houses on the new border. Some U.S. companies in Prague are reportedly finding it easier to export to Slovakia via Austria than via the new Czech-Slovak border.

The economic strength of the potentially duty-free CEFTA region is impressive. The combined population of the four countries is 65 million, about one-fourth of the U.S. population. Their combined territory is about 206,000 square miles, exceeding the combined territory of Germany, the Netherlands, Austria, and Switzerland. Their combined GDP is $129.3 billion. Their total exports and imports, including trade among themselves, are about $70.9 billion.

U.S. trade (exports plus imports) with the CEFTA countries increased from $1.5 billion during 1990 to $1.7 billion during 1991 and to $2.3 billion during 1992. Projections based on year-to-date data indicate that U.S.-CEFTA trade could reach $3.5 billion during 1993. Poland is the region's largest U.S. trading partner, followed by Hungary, the Czech Republic and Slovakia. During 1989-92, the four-state area weathered its worst economic downturn since World War II. With the possible exception of Slovakia, forecasters call for positive economic growth in the CEFTA countries during 1993.

# SPECIAL FOCUS

# Update on Japan's Retail Distribution System

Access to Japan's distribution system has been a recurring topic of bilateral discussions between the United States and Japan since 1989.[6] In 1990, the U.S. International Trade Commission released a study of Japan's distribution system, including options for improving U.S. access.[7] The two-part report noted that it is often difficult for new entrants to access Japan's existing distribution channels or to set up independent channels. This article updates information contained in the ITC report by summarizing the preliminary findings of research conducted in Japan from January through May of 1993.[8] The main topics addressed include the current composition of the retail sector and changing relationships among distribution participants. A forthcoming article will examine the use and effects of business practices on distribution activities and provide an assessment of the overall responsiveness of the system.

[6] The Large Scale Retail Store Law (LSRSL), which governs the opening and expansion of large retail stores, was the subject of discussions during the Structural Impediments Initiative (SII) during 1989-90. Under SII, certain measures were adopted relating to reform and administration of the law. During the past few years, several foreign firms, including Toys R Us and L.L. Bean have opened stores in Japan. However, their sales experiences have been mixed.

[7] U.S. International Trade Commission, "Japan's Distribution System and Options for Improving U.S. Access," Phases I and II, USITC publication Nos. 2291 and 2237, June and Oct. 1990.

[8] The primary methodology employed in the overall research project was an evaluation of statistical information, a review of written sources and the conduct of interviews. The main reference sources employed are as follows: Ministry of International Trade and Industry, *Statistics on Japanese Industries, 1993,* Ministry of International Trade and Industry, *Census of Commerce, 1991;* Management and Coordination Agency, *Annual Report on the Retail Price Survey, 1991;* The Distribution Economics Institute of Japan, *Statistical Abstract of Japanese Distribution, 1993;* and Small and Medium Enterprise Agency, Ministry of International Trade and Industry, *Small Business in Japan, 1992.* Interviews were conducted with businesspersons, government officials, and scholars in Japan and the United States to gain some perspective on current trends within the distribution sector.

## *Composition of the Retail Sector*

Many researchers have described the geographic, legal, and social factors that have contributed to the historical development of Japan's retail distribution system (Yoshino, 1971; Czinkota and Woronoff, 1986; Batzer and Laumer, 1989; Goldman, 1991). These include a high population density, the emergence of retail stores near rail lines, importance of the distribution sector in providing a social security net, and certain characteristics of consumer and corporate behavior (such as emphasis on loyalty and long-term relations). In addition, tax laws that provide incentives to small business and discourage property sales, regulations protecting small businesses, and weak enforcement of antitrust statutes have all helped to shape Japan's retail sector.

The retail distribution sector has been characterized as having both a relatively modern segment (including department stores, superstores, food supermarkets, self-service nonfood specialty stores, and convenience franchises) and a more traditional segment consisting of "mom-and-pop" stores, drugstores, specialty stores, and roadside stands. Yet another duality characterizes the food distribution sector, which consists of both modern supermarkets and convenience stores, as well as, traditional groceries and fresh food stalls (Goldman, 1991). Labor, capital, social and governmental factors described above encourage the continuance of these "dualities" (Potjes, 1992). Nonetheless, in reality, the modern and traditional retail formats are intertwined. The two sectors complement each other in terms of services provided, operating hours, and employment; they carry many of the same products, share suppliers, and serve some of the same customers (Goldman, 1992). However, the two retail segments differ in their relationships with wholesalers, who hold inventories and provide frequent deliveries. The large retail stores and chains are supplied by a single level of primary wholesalers. Small stores are serviced by at least two other levels of wholesalers, depending on the product.

## *Retailers*

The retail distribution sector continues to be characterized by a preponderance of small stores. In 1991, stores with fewer than 10 employees accounted for 93 percent of stores, or for 1,478,100 out of 1,591,186 total stores.[9] This was the same percentage

[9] See *Statistical Abstract of Japanese Distribution, 1993,* The Distribution Economics Institute of Japan, MITI, for statistics on Japan's retail and wholesale industries.

as in 1988. Stores with 1 to 2 employees accounted for 53 percent of all stores (843,329) compared to 54 percent (874,666) in 1988. There was a very slight increase in stores employing 3 to 4 persons and 5 to 9 persons.

Limited storage space in Japanese homes, congested traffic conditions that encourage traveling to stores by foot, and the importance of fresh food in the Japanese diet continue to support large numbers of small, neighborhood stores. In lieu of adequate social security income, these shops supplement the incomes of retirees, who often live on the premises and employ family members to keep operating costs low. In fact, several economists have determined that these conveniently located stores, which provide additional inventory space for consumers, are an efficient adaptation to the geographic and socio-economic environment in which they operate (Kidi and Kiji, 1991; Potjes, 1992; Maruyama, 1993; Flath, 1993).

Retail sales increased to 140,633.7 billion yen ($1,041.7 billion) in 1991 compared with 114,839.9 billion yen ($897.2 billion) in 1988.[10] The number of retail outlets declined by 1.8 percent, from 1,619,752 in 1988 to 1,591,186 in 1991. Despite the slight decline in the number of retail establishments, there was a 1.0-percent increase in the number of employees in the retail sector over the period. By type of store, there was an increase in the numbers of department stores, supermarkets, superstores, and convenience stores. Large-scale retail stores, or those with 500 square meters or more, accounted for less than 1 percent of all establishments during both 1988 and 1991. In 1992, retail sales in these establishments totaled 22.2 billion yen ($164 million).[11]

In 1991, there were 426 large department stores and 29 conventional department store firms operating approximately 2,496 stores. In 1991, almost 50 percent of department store sales were clothing, and food and beverages accounted for 21 percent of sales. Furniture accounted for almost 5 percent of sales, home appliances accounted for 4 percent, and electrical household appliances accounted for 1 percent. (The rest of the 19 percent comprised mostly unspecified and miscellaneous items.) There was little change in the composition of sales compared with 1988. During the boom economy, department stores were filling the demand for "top-end" retail goods perceived to be of high quality or prestigious by Japanese yuppies or "new rich". However, with sales for major department stores dropping to record lows during 1992 as a result of the downturn in Japan's economy, many stores were forced to discount products and adopt new marketing strategies to attract customers.

At the end of 1991, there were 6,837 chain stores or less than 1 percent of all stores (the same proportion as in 1988). However, chain stores accounted for 11 percent (the same proportion as in 1988) of total sales in 1991. These chains are diversified conglomerates and control other supermarkets, department stores, specialty stores, discount stores and convenience stores in regional markets. This type of retail store is able to achieve economies of scale through centralized purchasing and delivery operations. Chain stores account for more than 50 percent of sales of such products as nonperishable groceries, apparel and footwear. For fresh food, such as vegetables, rice, fish, cereals, confectionery or bakery products, chain stores account for only 20 to 30 percent of total sales.

The fastest growing segment of the retail sector are self-service convenience stores, mostly franchises owned by the major store chains mentioned above.[12] In 1990, there were 24,747 convenience stores and mini-marts. Of the top 10 companies in this segment, only 2 two are independent chains. Seven-Eleven (owned by Ito-Yokado) alone accounted for 41 percent of total convenience store sales in 1990. Self-service stores have been leaders in installing point-of-sales systems to gather information about consumer purchasing behavior for use in determining inventories and deliveries.

Discount stores, although increasing in number, continue to account for a small percentage of sales in Japan.[13] For example, in 1990, the top five discount stores accounted for less than 1 percent of total retail sales. This type of store usually purchases in bulk directly from the wholesaler or manufacturer and carries fewer types of products. Securing reliable supplies of goods has been a persistent problem for discounters. Well-known Japanese manufacturers or department stores are reportedly reluctant to supply discount stores with goods for fear of tarnishing their product's image and losing control over marketing activities. As a result, many discounters purchase their products directly from sources in East Asia or other countries, bypassing traditional Japanese suppliers.

10 Average annual yen per dollar rates used in this abstract are 128 yen = $1.00, 1988; 145 yen = $1.00, 1990; 135 yen = $1.00, 1991.

11 Total sales figures for the same category of stores of 500 square meters and larger (including department stores, general supermarket, other general supermarket, and specialty supermarket stores) is not available for 1991.

12 Some convenience store chains and their owners include Lawsons (Daiei), Seven-Eleven (Ito-Yokkaido), Sun Chain (Daiei) and Family Mart (Seiyu).

13 Data on discount stores are not disaggregated in Census of Commerce data.

These stores generally have fewer sales clerks and do not spend much money on the appearance of their stores. In the past, Japanese consumers found this format less appealing. However, an increase in automobile use and a growing interest in finding bargains by consumers during the current economic downturn are giving this segment a boost. In addition, the so-called "junior-boomers" or 12 to 22 year-olds, a large and influential group of consumers, are reportedly directing their limited spending money ($360 per month on average) towards these outlets and second-hand stores. The question for the future is whether or not these alternative merchandise outlets will be able to maintain the loyalty of their newly-won consumers once the economy picks up.

## *Wholesalers*

According to MITI's Census of Commerce, during 1988-91, there was an increase of 9 percent in the total number of wholesalers, from 436,421 to 475,967.[14] During this period, there was a decline of general wholesale traders from 824 to 705, but an increase in specialized wholesalers. The decline in general wholesale traders reflects a consolidation among national and regional wholesalers (Goldman, 1992). The increase in the total number of wholesalers is attributed to reorganization at the secondary level (especially in the growing convenience store sector) and to increasing specialization to serve retailers' demands. For example, wholesalers handling drugs and toiletries increased by 15 percent, coinciding with an increase in the number of drugstores.

Since 1988, annual sales in the wholesale industry increased by 28 percent to 572,981.6 billion yen, or $3,488.2 billion in 1991. The number of employees in the wholesale sector increased by 9 percent to 4.7 million over the period. Of this number, 1.9 million were employed by wholesalers handling retail goods. Approximately 47 percent of wholesale establishments employed fewer than 5 persons, and 75 percent employed fewer than 10 persons. Among wholesalers handling retail goods, 65 percent employed fewer than 5 persons and 89 percent employed fewer than 10 persons. Wholesalers handling retail goods accounted for 25 percent of total wholesalers' annual sales in 1991.

The large number of wholesalers in Japan has been shown to be an efficient means for manufacturers to supply stores spread out over many neighborhoods with just-in-time deliveries (Maruyama, 1988 and 1993). High inventory costs for both consumers and retailers in Japan result in a need for many nearby wholesalers to fulfill demands for prompt restocking. Wholesalers also serve as consolidators of goods for highly specialized manufacturers and help minimize the risks of holding speculative inventories close to the consumers. For products, such as fresh food, where the demand for holding speculative inventories is high, there may be more wholesale steps compared with other products (Nariu and Flath, 1993). Even though the total number of wholesaling steps for many products may be higher in Japan than in Western countries, given the multitudes of small retail stores, existing channels have been shown to be highly effective.

## *Consumers*

In 1988, Japanese consumers spent 20.2 percent of their disposable income on food, 6.0 percent on clothing, and 5.5 percent on furniture. (The corresponding figures for the United States were 13.0 percent, 6.5 percent, and 6.0 percent, respectively.) During the boom years of the late 1980s, Japanese consumer spending was increasingly directed toward purchases of luxury goods, such as jewelry, fine arts and designer fashions. Since the economic downturn began, however, consumers continued to purchase high-price shoes, children's clothing, and accessories, but sought bargains for such items as automobiles and apparel.

Japanese consumers continue to place a heavy emphasis on quality over price and to show a preference for domestically produced goods. According to a 1992 survey of consumers by the Japan External Trade Organization, 75 percent of consumers surveyed said that they preferred domestic goods over Western goods, if price and quality are equivalent. Japanese consumers indicated that quality, not price, was the most important consideration in their purchasing decisions for apparel, accessories, sporting goods, furniture, and foods and beverages. However, consumers are cutting back on spending and looking for less costly goods during the current slowdown. Companies, such as Dell Computer, Container Home Supply, L.L. Bean and Pier 1 (which plans to enter Japan's market) may have more of a chance to reach Japanese consumers now than at any other time in recent years.

[14] Wholesalers dealing with the retail sector totaled approximately 142,727 in 1991 or 30 percent of all wholesalers. The number of retail wholesalers was calculated based on those handling the following products: electrical household appliances; apparel, apparel accessories and notions; food and beverages; drugs and toiletries; furniture, fixtures and home furnishings; sporting goods, recreation goods and toys; and tobacco products.

## *Manufacturers and Channel Relationships*

Since World War II and the advent of mass manufacturing, Japanese manufacturers have held the position of "channel leaders" vis-a-vis retailers and wholesalers for many products. They are able to enforce pricing or brand loyalty policies in distribution channels through a variety of practices, such as resale price maintenance, territorial restrictions, rebates and return of unsold goods policies.[15] The benefits of business practices, from the manufacturer's viewpoint, are to invoke loyalty among channel members, lower selling risks, achieve national market coverage, assure product promotions and after-sales service, gain direct information about product sales, and maintain prices. Retailers and wholesalers benefit from assured supplies, financial assistance, and maintenance of "reasonable profits" (Ishida, 1983; Czinkota and Woronoff, 1989; Flath, 1989; Itoh, 1989). Although "unfair business practices" are prohibited under Japan's Antimonopoly Law, enforcement of this law has been historically weak (Ishida, 1983; Young, 1986; Tajima, 1991). In general, the effects of close ties within distribution channels, no matter what the arrangement, is to reduce risks for all parties, to ensure loyalty to the distributor or maker's products, and, in many cases, to support a minimum price.

Business practices used to enforce pricing policies or brand loyalty are more likely to occur in channels where keiretsuka or systemization has occurred.[16]

[15] For a description of the use of business practices in Japan's distribution channels, see: Dodwell Marketing Consultants, *Retail Distribution in Japan,* 1985; Industrial Bank of Japan, "Changing Japanese Distribution System," *IBJ Review,* Feb. 20, 1990; Ishida Hideto, "Anticompetitive Practices in the Distribution of Goods and Services in Japan: The Problem of Distribution Keiretsu", *Journal of Japanese Studies,* v. 2 (1983); Erich Batzer and Helmut Laumer, *Marketing Strategies and Distribution Channels for Foreign Companies in Japan* (Boulder: Westview Press, 1989); and David Flath, "The Economic Rationality of the Japanese Distribution System" (North Carolina: University of North Carolina, 1989).

[16] Shibayama and Kiji characterize this phenomenon as ". . . actions by a manufacturer to organize distributors so that the distributors' sales activities reflect the manufacturer's own marketing policies in order to promote sales of its own products. More specifically, this kind of behavior includes both vertical restraints and selective distribution, or limiting distribution to only those retailers fulfilling certain conditions."

Some of these industries include automobiles, electronics, household appliances, cosmetics, toiletries, alcoholic beverages, and confectionery-bakery goods. In order for such manufacturers to reach consumers in neighborhood stores, they have developed extensive networks of retailing outlets (Shimaguchi, 1993; Shibayama and Kiji, 1990). For example, in the consumer electronics and household appliances industry, where keiretsuka is prevalent, Matsushita has 27,000 stores; Toshiba, 14,000; Hitachi, 12,000; Sanyo, 6,000; Mitsubishi, 5,500; and Sharp, 5,800 (Czinkota, 1991). The extent of keiretsuka is difficult to measure, but there are reportedly 40 vertical groupings (which handle capital goods as well) with at least 1 trillion yen in sales (Dodwell, 1988).

Some wholesalers and retailers have attempted to gain control over supplies by establishing their own "private brand" manufacturing operations for such products as foodstuffs, sporting goods, toys, and apparel. Private brands reportedly account for approximately one-tenth of total sales turnover (Czinkota, 1991). The sogo shosha, or trading companies, usually tied to one of the keiretsu, have set up their own specialized wholesalers. They, as well as wholesalers and retailers, may act as sole import agents, promising to handle only the products of one manufacturer.

Small retailers and wholesalers continue to depend heavily on manufacturers for supplies, financial assistance and other support. However, the introduction of point-of-sale (POS) systems, electronic ordering systems (EOS) and electronic information networks has allowed some chain stores to develop market power vis-a-vis the manufacturers by obtaining accurate ordering and inventory information. As of March 31, 1992, a total of 300,507 JAN-type POS scanners had been introduced in approximately 122,141 stores (Distribution Code Center). In 1992, approximately 54 percent of large stores had introduced POS systems within the past 3 years, compared with 27 percent of small and medium-sized businesses.[17] In addition, the downturn in the Japanese economy and the concurrent decline in the profits of department stores led to increased purchases from non-Japanese, particularly East Asian suppliers. This phenomenon could further erode long-term supply relationships. Nevertheless, given that stores need assistance for remodeling, additional sales personnel, or credit when their own financial reserves are low, the continued reliance on their traditional suppliers is expected to remain significant.

[17] In a survey, 25 percent of large stores and 48 percent of small and medium-sized stores indicated that they had no plans to introduce POS.

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# STATISTICAL TABLES

**Industrial production, by selected countries and by specified periods, January 1990-June 1993.**

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

| Country | 1990 | 1991 | 1992 | 1992 III | 1992 IV | 1993 I | 1993 II | Jan. | Feb. | Mar. | Apr. | May | Jun. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | 1.0 | -1.9 | 2.1 | 2.3 | 3.9 | 2.4 | 1.9 | 3.6 | 6.0 | 2.4 | 2.4 | 2.4 | 3.8 |
| Japan | 4.5 | 2.2 | (1) | 3.0 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| Canada | 0.3 | -1.0 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| Germany | 5.9 | 3.2 | (1) | -2.2 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| United Kingdom | -0.6 | -3.0 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| France | 1.3 | 0.6 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| Italy | -0.6 | -1.8 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |

[1] Not available.

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

**Consumer prices, by selected countries and by specified periods, January 1990-June 1993**

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

| Country | 1990 | 1991 | 1992 | 1992 II | 1992 III | 1992 IV | 1992 Dec. | 1993 I | 1993 II | Jan. | Feb. | Mar. | Apr. | May. | Jun. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | 5.4 | 4.2 | 2.7 | 3.4 | 3.2 | 1.7 | -0.8 | 4.0 | 2.9 | 6.0 | 3.6 | 1.2 | 4.8 | 1.2 | 3.0 |
| Japan | 3.1 | 3.3 | (1) | 2.6 | 5.8 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| Canada | 4.8 | 5.6 | (1) | 1.9 | 1.0 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| Germany | 2.7 | 3.5 | (1) | 4.1 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| United Kingdom | 9.5 | 5.9 | (1) | 4.0 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| France | 3.4 | 3.1 | (1) | 2.7 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| Italy | 6.1 | 6.5 | (1) | 5.6 | 4.4 | (1) | (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, July 2, 1993.

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

| Country | 1990 | 1991 | 1992 | 1992 I | 1992 II | 1992 III | 1992 IV | 1993 I | Jan. | Feb. | Mar. | Apr. | May |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | 5.5 | 6.7 | 7.4 | 7.3 | 7.5 | 7.5 | 7.3 | 7.0 | 7.1 | 7.0 | 7.0 | 7.0 | 6.9 |
| Japan | 2.1 | 2.1 | 2.2 | 2.1 | 2.1 | 2.2 | 2.3 | 2.3 | 2.3 | 2.4 | 2.3 | 2.3 | (5) |
| Canada | 8.1 | 10.3 | 11.3 | 10.7 | 11.3 | 11.5 | 11.4 | 11.0 | 11.0 | 10.8 | 11.0 | 11.4 | 11.4 |
| Germany[2] | 5.2 | 4.4 | 4.7 | 4.4 | 4.6 | 4.8 | 5.0 | 5.4 | 5.4 | 5.5 | 5.6 | 5.7 | 5.8 |
| United Kingdom | 6.9 | 8.9 | 10.0 | 9.6 | 9.7 | 10.1 | 10.6 | 10.7 | 10.7 | 10.6 | 10.6 | 10.6 | 10.4 |
| France | 9.2 | 9.8 | 10.2 | 10.2 | 10.2 | 10.2 | 10.5 | 10.6 | 10.5 | 10.6 | 10.8 | 10.9 | (5) |
| Italy[3] | 7.0 | 6.9 | 7.3 | 6.9 | 6.9 | 7.0 | 8.3 | 9.4 | (4) | (4) | (4) | (4) | (4) |

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

e: *Unemployment Rates in Nine Countries*, U.S. Department of Labo ;993.

**Money-market interest rates,[1] by selected countries and by specified periods, January 1990-June 1993**
*(Percentage, annual rates)*

| Country | 1990 | 1991 | 1992 | 1992 II | 1992 III | 1992 IV | 1992 Dec. | 1993 I | 1993 II | 1993 Jan. | 1993 Feb. | 1993 Mar. | 1993 Apr. | 1993 May | 1993 Jun. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | 8.3 | 5.9 | 3.6 | 3.9 | 3.2 | 3.3 | 3.4 | 3.2 | 3.1 | 3.3 | 3.2 | 3.2 | 3.1 | 3.1 | 3.2 |
| Japan | 7.7 | 7.3 | 4.4 | 6.3 | 4.0 | 3.8 | 3.7 | 3.4 | (2) | 3.7 | 3.3 | 3.3 | 3.2 | (2) | (2) |
| Canada | 13.0 | 9.0 | 6.7 | 6.5 | 5.3 | 7.6 | 7.9 | 6.3 | (2) | 7.0 | 6.4 | 5.6 | 5.4 | (2) | (2) |
| Germany | 8.4 | 9.1 | 9.4 | 9.8 | 9.6 | 8.8 | 8.9 | 8.2 | (2) | 8.5 | 8.3 | 7.8 | 7.8 | (2) | (2) |
| United Kingdom | 14.7 | 11.5 | 9.5 | 10.2 | 10.0 | 7.5 | 7.1 | 6.3 | (2) | 6.8 | 6.1 | 5.9 | 5.9 | (2) | (2) |
| France | 10.2 | 9.5 | 10.1 | 9.9 | 10.3 | 10.3 | 10.7 | 11.4 | (2) | 11.7 | 11.7 | 10.9 | 8.7 | (2) | (2) |
| Italy | 12.1 | 12.0 | 13.9 | 12.9 | 16.1 | 14.5 | 13.6 | 11.7 | (2) | 12.5 | 11.4 | 11.3 | 11.4 | (2) | (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*, July 6, 1993 *Federal Reserve Bulletin*, June 1993.

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

| Item | 1990 | 1991 | 1992 | 1992 III | 1992 IV | 1992 Dec. | 1993 I | 1993 II | 1993 Jan. | 1993 Feb. | 1993 Mar. | 1993 Apr. | 1993 May | 1993 Jun. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unadjusted: | | | | | | | | | | | | | | |
| Index[1] | 86.5 | 85.5 | 84.5 | 81.4 | 86.3 | 87.5 | 88.7 | 86.2 | 88.9 | 89.1 | 88.1 | 86.1 | 85.9 | 86.7 |
| Percentage change | -5.3 | -1.2 | -1.1 | -3.8 | 5.6 | -1.8 | 2.7 | -2.9 | 1.5 | .2 | -1.1 | -2.3 | -.2 | .9 |
| Adjusted: Index[1] | 88.1 | 87.0 | 86.4 | 83.1 | 88.3 | 89.7 | 91.2 | 89.2 | 91.1 | 91.1 | 90.7 | 88.7 | 88.8 | 89.8 |
| Percentage2 change | -4.0 | -1.2 | -.7 | -3.8 | 5.8 | 2.8 | 3.1 | -2.2 | 1.5 | 0 | -.4 | -2.2 | .1 | 1.1 |

[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, July 1993.

**Trade balances, by selected countries and by specified periods, January 1990-May 1993**

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

| | | | | 1992 | | 1993 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Country** | **1990** | **1991** | **1992** | **IV** | **Dec.** | **I** | **Jan.** | **Feb.** | **Mar.** | **Apr.** | **May** |
| United States[1] | -101.7 | -65.4 | -84.3 | -86.3 | -83.5 | -103.1 | -92.0 | -94.8 | -125.4 | -122.2 | -100.4 |
| Japan | 63.7 | 103.1 | (3) | (3) | (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) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) |
| France | -9.2 | -5.4 | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) | (3) |
| Italy | -10.0 | -12.8 | (3) | (3) | (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, July 16, 1993

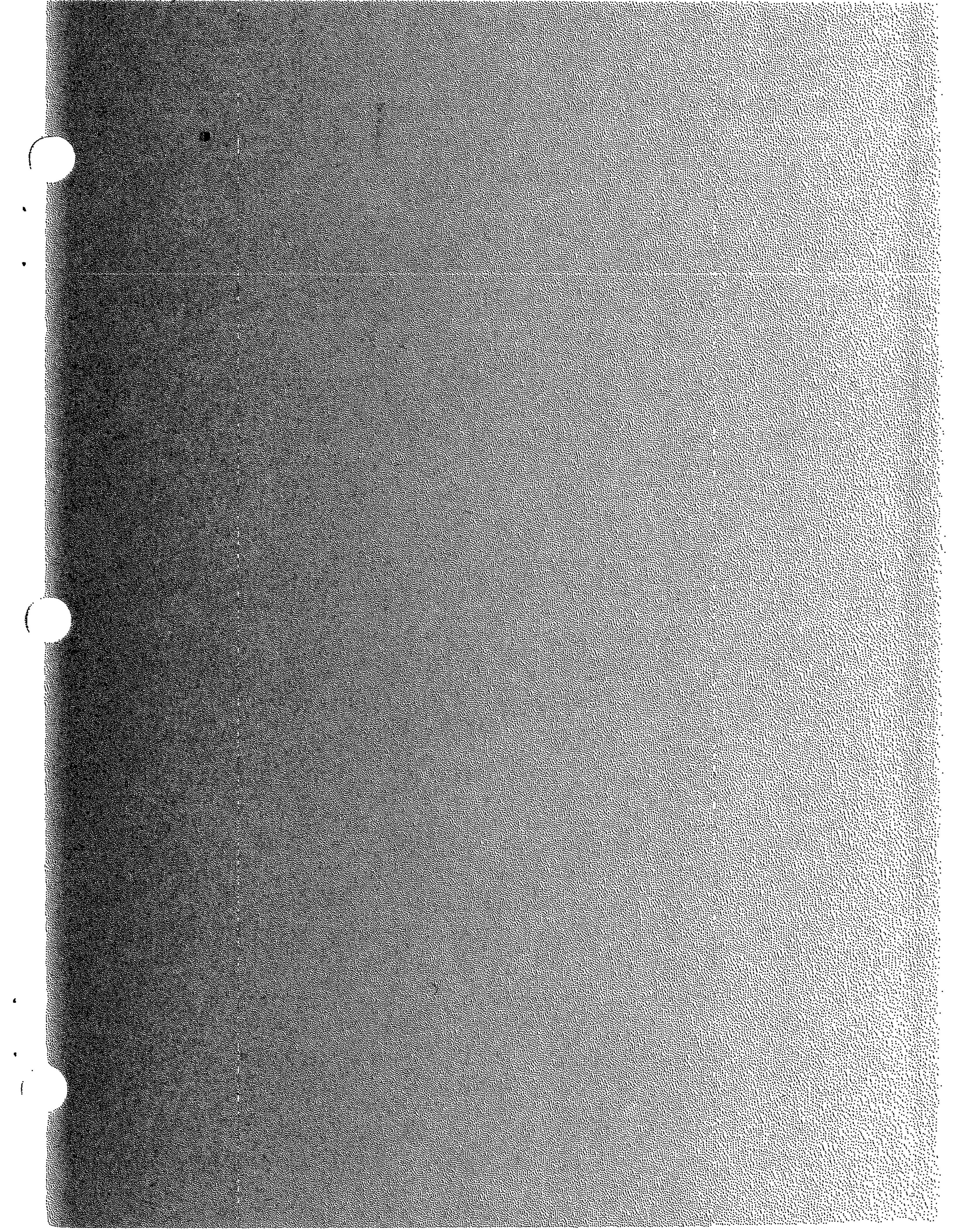
**U.S. trade balance, [1] by major commodity categories,and by specified periods, January 1990-May 1993**

*(In billions of dollars)*

| | | | | 1992 | | 1993 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Country** | **1990** | **1991** | **1992** | **IV** | **Dec.** | **I** | **Jan.** | **Feb.** | **Mar.** | **Apr.** | **May** |
| Commodity categories: | | | | | | | | | | | |
| Agriculture | 16.3 | 16.2 | 18.6 | 5.7 | 1.7 | 4.9 | 1.6 | 1.8 | 1.5 | 1.5 | 1.3 |
| Petroleum and selected product-- (unadjusted) | -54.6 | -42.3 | -43.9 | -11.7 | -3.5 | -11.0 | -3.7 | -3.2 | -4.1 | -4.3 | -4.2 |
| Manufactured goods | -90.1 | -67.2 | -86.7 | -26.5 | -7.8 | -21.0 | -6.1 | -6.4 | -8.5 | -8.0 | -6.2 |
| Selected countries: | | | | | | | | | | | |
| Western Europe | 4.0 | 16.1 | 6.2 | -.8 | -.3 | 3.5 | 1.7 | 1.4 | .4 | .4 | .3 |
| Canada[2] | -7.7 | -6.0 | -7.9 | -2.8 | -1.1 | -2.5 | -1.0 | -.9 | -.6 | -.9 | -.8 |
| Japan | -41.0 | -43.4 | -49.4 | -14.7 | -5.1 | -13.2 | -3.9 | -4.1 | -5.2 | -5.5 | -3.7 |
| OPEC (unadjusted) | -24.3 | -13.8 | -11.2 | -3.4 | -1.0 | -3.0 | -1.1 | -.9 | -1.0 | -1.4 | -1.0 |
| Unit value of U.S.imports of petroleum and selected products (unadjusted) | $19.75 | $17.42 | $16.80 | $17.37 | $15.88 | $16.24 | $15.49 | $15.70 | $16.47 | $16.71 | $16.72 |

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

Source: Advance Report on U.S. Merchandise Trade, U.S. Department of Commerce, July 16, 1993.



**U.S. International Trade Commission**
**Washington, DC 20436**

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