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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

U.S. productivity, as measured by output per manhour of all persons, rose in the first quarter of 1994 by 0.5 percent in the broad business sector and by 0.5 percent in the nonfarm business sector, according to data released by the Bureau of Labor Statistics. Output gains in these two sectors were much smaller than in the fourth quarter of 1993. Productivity in manufacturing advanced by 6.6 percent, reflecting strong output growth and declining unit labor costs. Productivity advanced by 7.9 percent in durable goods manufacturing and by 4.3 percent in nondurable goods manufacturing. Output in manufacturing grew 8.0 percent and unit labor costs declined by 1.7 percent. In durable goods industries, output grew by a hefty 10.9 percent and unit labor costs declined by 2.4 percent. Output in nondurable goods industries grew by 3.8 percent, and unit labor costs declined by 0.8 percent.

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

Economic Growth

Real GDP is the output of goods and services produced in the United States measured in 1987 prices. GDP grew at a 3.0-percent annual rate in the first quarter of 1994, following a revised annual rate of 7.0 percent in the fourth quarter of 1993.

The annualized rate of real economic growth in the first quarter of 1994 was 2.9 percent in the United Kingdom. In the fourth quarter of 1993, the rate of real economic growth was 3.8 percent in Canada, -1.9 percent in Germany, -2.2 percent in Japan, 0.5 percent in France, and 3.2 percent in Italy.

Industrial Production

Seasonally adjusted U.S. nominal industrial production rose by 0.3 percent in April 1994, following gains of 0.5 percent in each of the 3 preceding months. Increased production was widespread; however, a drop in the production of motor vehicles caused the index to decline from that of previous months. Manufactures output increased by 0.3 percent in April, following an increase of 0.8 percent in March. For the year ending April 1994, industrial production increased by 5.0 percent above its level in April 1993. Total capacity utilization in manufacturing, mining, and utilities was unchanged at 83.6 percent in April.

Other Group of Seven (G-7) member countries reported the following annual growth rates of industrial production. For the year ending March 1994, Japan reported a decrease of 3.2 percent, Germany reported a decrease of 0.8 percent, and the United Kingdom reported an increase of 3.7 percent. For the year ending February 1994, France reported a decrease of 1.3 percent, Italy reported a decrease of 0.6 percent, and Canada reported an increase of 2.7 percent.

Prices

The seasonally adjusted Consumer Price Index (CPI) increased by 0.1 percent in April 1994, following an increase of 0.3 percent in March. The CPI advanced by 2.4 percent during the 12 months ending April 1994.

During the 1-year period ending April 1994, prices increased 3.2 percent in Germany, 4.1 percent in Italy, 0.2 percent in Canada, 1.7 percent in France, 2.3 percent in the United Kingdom, and 1.3 percent in Japan.

Employment

In April 1994, the U.S. unemployment rate was 6.4 percent, slightly lower than the March 6.5-percent level. Unemployment in March 1994 was 9.7 percent in the United Kingdom, 8.3 percent in Germany, 11.0 percent in Canada, 11.2 percent in Italy, 12.2 percent in France, and 2.9 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasters expect real growth in the United States to average 3.4 percent in the second quarter and then to decline to 2.9 percent in the last quarter of 1994. One factor that is likely to restrain the recovery in 1994 is the impact of rising interest rates on new investment, output, and incomes. Another factor is the general slowdown in foreign economic growth, particularly in Japan and in Germany and other European Union (EU) countries, which is expected to continue through 1994. Also, the tax increase and the cuts in government spending initiated by the Federal Government to balance the Federal budget, combined with the Federal Reserve hike of interest rates, could have further dampening effects on investment and consumer spending and confidence and thus further moderate the recovery in 1994. Table 1 shows macroeconomic projections for the U.S. economy for April to December 1994, 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.

The average of the forecasts points to an unemployment rate of 6.4 percent in the second quarter, then a decline to 6.3 percent and 6.2 percent in the third and fourth quarters of 1994, respectively. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.2 percent in the second and third quarters of 1994 and then increase afterwards to 2.3 percent. Productivity growth combined with a slow rise in labor costs, wages, and compensations, are expected to hold down inflation to the 2.2-percent rate throughout 1994.

Table 1
Projected changes of selected U.S. economic indicators, by quarters, Jan-Dec. 1994

(Percent)

Period	UCLA Business Fore-casting Project	Merrill Lynch Capital Markets	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore-casts
	GDP current dollars				
1994:					
Apr.-June	6.4	5.5	5.7	5.1	5.7
July-Sept.	5.8	5.6	4.8	5.1	5.3
Oct.-Dec	5.7	6.4	4.5	5.3	5.5
	GDP constant (1987) dollars				
1994:					
Apr.-June	4.2	3.5	2.9	3.1	3.4
July-Sept.	3.8	3.1	2.1	3.0	3.0
Oct.-Dec.	3.9	3.0	1.7	3.1	2.9
	GDP deflator index				
1994:					
Apr.-June	2.1	2.0	2.7	2.0	2.2
July-Sept	1.7	2.3	2.7	2.1	2.2
Oct.-Dec.	1.8	2.3	2.8	2.2	2.3
	Unemployment, average rate				
1994:					
Apr.-June	6.3	6.5	6.3	6.5	6.4
July-Sept.	6.1	6.5	6.1	6.4	6.3
Oct.-Dec	6.1	6.4	6.0	6.5	6.2

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 1994.

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

Prospects for growth in the European Union

A forecast by the EU Economic and Financial Affairs Committee shows that the EU expects to post positive rates of economic growth in 1994, following the 1993 negative growth rate of 0.3 percent. The recovery in the EU will be export led, boosted by the U.S. economic recovery and further driven by increased business investment and strengthened consumer confidence. An easing of EU monetary policy and shrinking budget deficits will also play important roles in increasing investment, productivity, and employment.

The EU Committee forecasts growth of 1.6 percent in 1994 and 2.5 percent in 1995. Forces shaping growth include the successful conclusion of the Uruguay Round, improved performance of the U.S. economy, a decline in EU short-term interest rates, relaxation of EU monetary policy in the wake of declining inflation and wage moderation, and improved business and consumer confidence due to heightened expectations of recovery and fading uncertainties over European integration and the stability of foreign exchange markets of the European Exchange Rate Mechanism.

The EU Economic and Financial Affairs Committee anticipates output growth sufficient enough to allow for a rise in employment. In 1994, real GDP is expected to grow by 1.6 percent in the EU, 1.3 percent in Germany, 1.6 percent in France, 1.5 percent in Italy, and 2.5 percent in the United Kingdom. Inflation is expected to average 3.3 percent in the EU and unemployment to average 11.7 percent. Among the EU member states, the highest unemployment rate of 12 percent is expected in Italy, followed by 11.5 percent in France, 9.9 percent in the United Kingdom, and 9.3 percent in Germany.

Forecasts for 1995 look brighter, with higher rates of growth and lower rates of inflation, although unemployment will likely remain high. Real GDP growth is expected to average 2.5 percent in the EU as a whole, 2.8 percent in both France and Italy, 2.4 percent in Germany, and 2.3 percent in the United Kingdom. Inflation is expected to rise by 2.9 percent in the EU, and unemployment is expected to stay at 11.6 percent. The EU recovery would have a favorable impact on U.S. exports and growth.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of goods and services of \$58.3 billion and imports of \$65.8 billion in March 1994 resulted in a trade deficit of \$7.5 billion, \$1.7 billion less than the February deficit of \$9.2 billion. The March 1994 deficit was \$600 million more than the deficit registered in March 1993 (\$6.9 billion) and \$460 million higher than the average monthly deficit registered during the previous 12 months (\$7.0 billion).

The March trade deficit in goods was \$12.0 billion, 1.5 billion less than the February deficit of \$13.5 billion. The March services surplus was \$4.6 billion, 0.2 billion more than the February surplus of \$4.4 billion.

Seasonally adjusted U.S. trade in goods and services in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2. Nominal export changes and trade balances for specific major commodity sectors are shown in table 3. U.S. trade in services by major category is 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 2
U.S. trade in goods and services, seasonally adjusted, Jan.-Mar. 1994
(Billion dollars)

Item	Exports		Imports		Trade balance	
	Mar. 94	Feb. 94	Mar. 94	Feb. 94	Mar. 94	Feb. 94
Part 1						
Trade in goods BOP basis:						
Current dollars—						
Including oil	42.2	37.4	54.2	50.9	-12.0	-13.5
Excluding oil	42.4	37.7	49.4	46.6	-7.0	-8.9
3-month-moving average	39.4	39.1	51.7	50.3	-12.3	-11.2
Trade in services:						
Current dollars	16.2	15.8	11.6	11.5	4.6	4.4
3-month moving average	15.9	15.8	11.4	11.2	4.5	4.6
Trade in goods and services BOP basis:						
Current dollars	58.3	53.2	65.8	62.4	-7.5	-9.2
3-month-moving average	55.3	54.9	63.0	61.6	-7.7	-6.6
Part 2						
Trade in goods: Census basis:						
1987 dollars	41.5	36.9	52.4	49.7	-10.9	-12.8
Advanced-technology products (not seasonally adjusted)	11.0	8.9	8.3	6.7	2.7	2.2

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

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

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors, and agriculture, Jan. 1993-March 1994

Sector	1994 Exports Jan.-Mar. 1994	1994 Exports Mar. 1994	Change Jan.-Mar. 1994 over Jan.-Mar. 1993	Change Mar. 1994 over Feb. 1994	Share of total, Jan.-Mar. 1994	Trade balances, Jan.-Mar. 1994
	Billion dollars		Percent		Billion dollars	
ADP equipment & office machinery	7.3	2.9	7.5	31.5	6.1	-4.00
Airplane	5.4	1.8	2.5	18.0	4.5	4.35
Airplane parts	2.4	.8	1.3	10.8	2.0	1.76
Electrical machinery	10.4	3.9	18.7	23.3	8.6	-2.32
General industrial machinery	4.9	1.9	4.3	25.0	4.1	-0.09
Iron & steel mill products	0.8	.3	-2.3	32.0	.7	-2.04
Inorganic chemicals	0.9	.3	-16.8	14.3	.7	0.00
Organic chemicals	2.9	1.1	5.0	24.1	2.4	0.15
Power-generating machinery	4.8	1.9	-1.0	29.0	4.0	0.09
Scientific instruments	4.0	1.5	7.5	25.2	3.3	1.76
Specialized industrial machinery	4.6	1.7	5.3	23.0	3.8	0.57
Telecommunications	3.5	1.4	17.8	33.3	2.9	-3.25
Textile yarns, fabrics and articles	1.5	.6	2.8	24.0	1.2	-0.63
Vehicle parts	4.8	1.9	0.0	22.4	4.0	-0.17
Other manufactured goods[1]	6.6	2.3	2.3	9.5	5.5	-2.74
Manufactured exports not included above	30.4	12.3	10.9	33.6	25.2	-24.19
Total manufactures	95.3	36.7	7.5	26.4	79.0	-29.26
Agriculture	11.0	3.8	-1.9	12.2	9.1	4.50
Other exports	14.4	5.5	3.0	18.2	11.9	-2.51
Total exports of goods	120.7	46.0	6.0	24.0	100.0	-27.25

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

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

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

Table 4
U.S. exports and trade balances of services by sector, Jan. 1993-Mar. 1994, seasonally adjusted

	Exports		Change		Trade balances	
			Jan.-Dec. 93 over	Jan.-Mar. 94 over		
	Jan.-Dec. 93	Jan.-Mar. 94	Jan.-Dec. 92	Jan.-Mar. 93	Jan.-Dec. 93	Jan.-Mar. 94
	Billion dollars		Percent		Billion dollars	
Travel	56.5	14.7	4.8	5.5	14.17	3.78
Passenger fares	17.8	4.6	2.9	3.2	6.59	1.60
Other transportation	23.5	6.1	3.1	4.3	-1.00	0.02
Royalties and license fees	20.4	5.2	0.8	5.3	15.66	3.64
Other private services[1]	56.4	14.5	5.3	2.7	22.84	5.41
Transfers under U.S. military sales contracts	11.3	2.5	2.3	-18.3	-1.03	-0.38
U.S. Govt. miscellaneous services	0.8	0.2	-4.6	31.3	-1.56	-0.37
Total	186.8	47.8	3.9	2.8	55.68	13.60

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

Note.—Services trade data are on a Balance of Payments (BOP) basis. Details may not equal totals due to seasonal adjustment and rounding.

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

Table 5
U.S. merchandise trade deficits and surpluses, not seasonally adjusted, with specified areas, Jan. 1993-Mar. 1994

(Billion dollars)

Area or country	Mar. 1994	Feb. 1994	Mar. 1993	Jan.-Mar. 1994	Jan.-Mar. 1993
Canada	-.59	-.96	-.66	-2.66	-2.61
Mexico	.17	.05	.30	.54	.99
Western Europe	.32	.53	.44	-.04	3.59
European Union (EU)	.40	-.09	.86	.62	4.02
Germany	-.94	-.81	-.61	-2.35	-1.45
European Free-Trade Association (EFTA)[1]	-.18	-.50	-.60	-.99	-.92
Japan	-5.80	-4.63	-5.26	-15.04	-13.29
China	-1.38	-1.66	-1.46	-5.23	-4.21
NICs[2]	-.31	-.91	-.97	-1.96	-2.16
FSU[3]/Eastern Europe	.03	-.01	.19	.07	.56
FSU	.02	.01	.12	.11	.36
Russia	.01	-.05	.03	0.01	.19
OPEC	-.68	-.71	-1.04	-1.67	-3.11
Trade balance	-8.70	-9.60	-8.89	-27.25	-20.90

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

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

[3] Former Soviet Union.

Note.—Because of rounding, country/area figures may not add to the totals shown. Also, exports of certain grains, oilseeds and satellites were excluded from country/area exports but were included in total export table. Also some countries are included in more than one area. Data are presented on a U.S. Census Bureau basis.

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

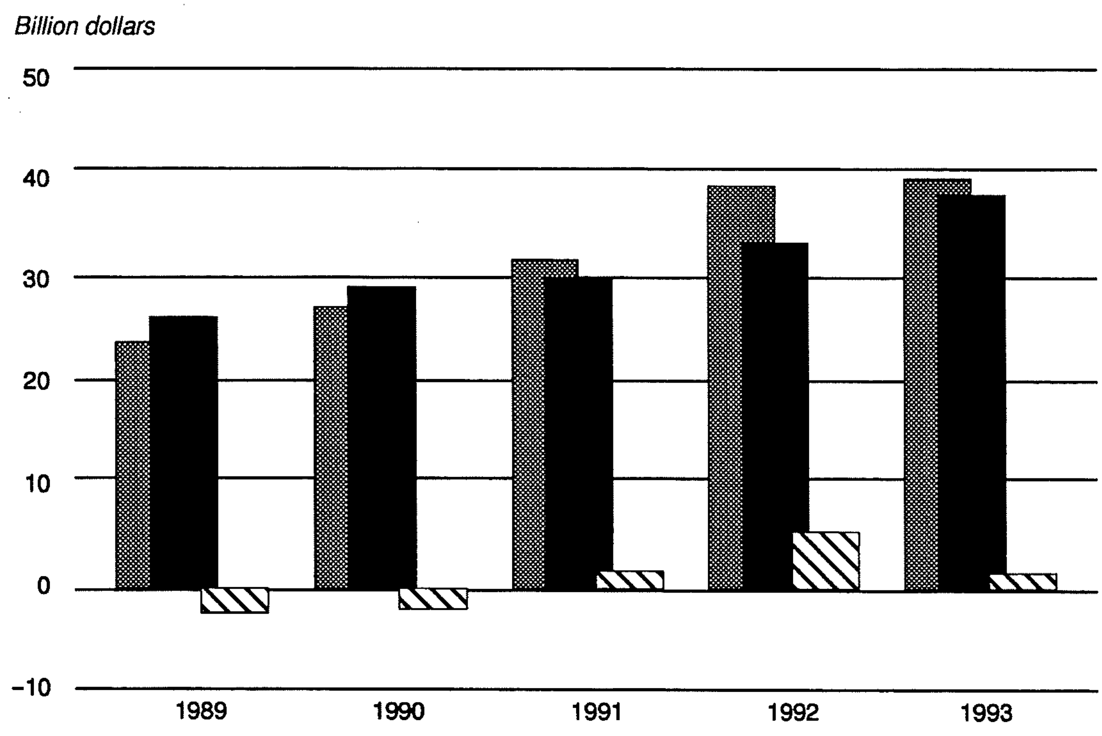
INTERNATIONAL TRADE DEVELOPMENTS

U.S. Trade Surplus with Mexico Shrinks in 1993

U.S.-Mexican trade reached a record level of $79.0 billion in 1993 (figure 1). Mexico continued to rank third, after Canada and Japan, as a U.S. trading partner on both the export and import side, accounting for 9.2 percent of overall U.S. exports and 6.7 percent of total U.S. imports. (By contrast, Mexico depended on the U.S. market for an estimated 70.0 percent of its exports and sourced an estimated 62.5 percent of its imports in the United States.) However, the trend of surging U.S. exports and a consistently improving annual trade balance with Mexico stopped in 1993.

One of the reasons for the shrinking U.S. surplus was the slowdown of the Mexican economy, which grew by less than 1 percent in 1993 (see *IER*, March 1994,) resulting in fewer imports from all countries. But the Salinas Government also made a deliberate effort to bring Mexico's widening trade and current account deficits under control, as indicated by various

Figure 1
U.S. trade with Mexico: Exports, imports, and trade balance, 1989–93



	1989	1990	1991	1992	1993
Exports	$24.1	$27.5	$32.2	$39.6	$40.3
Imports	$26.5	$29.5	$30.4	$33.9	$38.7
Balance	-$2.4	-$2.0	-$1.8	$5.7	$1.6

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

regulatory changes that began in the second half of 1992 (see *IER*, February 1993.) For example, the Government began enforcing strict quality standards and labeling requirements for certain imported products in September 1992. These provisions had already been on the books but had not been rigidly applied before. In addition, authorities accelerated the peso's daily rate of depreciation in November 1992, halting the overvalued currency's further *de facto* appreciation. This step favored exports by lowering their prices, and disadvantaged imports by reducing the peso's purchasing power. Officials also cut the statutory $300 duty-free allowance for residents reentering Mexico by land transport, down to $50 in December 1992, which had some additional effect in discouraging imports.

Another factor depressing Mexican imports in the latter part of 1993 was the so-called reference price system, introduced by the Salinas Government in August 1993. The new measure amounted to a minimum price system to be used in customs valuation for selected imported consumer goods. Although Mexican officials explained that this action was taken with the objective of preventing widespread customs fraud, the new practice also had the effect of a new nontariff barrier to Mexican imports. Concerned U.S. officials told their Mexican counterparts that the reference prices conflicted with the letter and the spirit of the General Agreement on Tariffs and Trade (GATT), an argument that Mexico contested. Although Mexico made some changes in the latter part of 1993, the essential features of the reference price system are still in effect.

Merchandise Trade Balance

The U.S. trade balance with Mexico steadily improved for the 8 years prior to 1993, particularly from 1988 onwards, as the ongoing liberalization of Mexican imports began to be seriously felt. By 1991, the balance returned to its profile before Mexico's 1982 debt crisis, showing once more a surplus for the United States. The 1991 U.S. surplus amounted to $1.8 billion, and it more than tripled to $5.7 billion in 1992. The long-term improvement stopped in 1993, however, when the U.S. surplus dropped below its 1991 size to $1.6 billion.

Manufactured goods, which accounted for 81.8 percent of U.S. exports to Mexico and 74.2 percent of U.S. imports from that country still contributed to the U.S. trade surplus in 1993. The principal sectors accounting for this surplus were manufactures classified chiefly by material and chemicals (figure 2). U.S.-Mexican trade in manufactures can be characterized as largely "intra-industry," since a considerable portion in both directions takes place within the same large product categories, such as "machinery and transport equipment" and "manufactured products classified chiefly by material." A significant portion of intra-industry trade (some 25 percent of U.S. exports and 49 percent of U.S. imports) is generated by production sharing between U.S. and Mexican plants. The United States shipped more crude materials to Mexico than received from that country, but in the area of mineral fuels Mexico maintained a significant trade surplus.

U.S. Exports

In 1993, exports edged up by only 1.8 percent to $40.6 billion, compared with a surge of 23.0 percent in 1992. Exports of machinery and transportation equipment, which are responsible for almost half of the total, remained virtually flat. This mirrors a 2.6-percent decline in Mexican imports of capital goods from all countries in the first 9 months of 1993. Within the broad category of machinery and equipment, shipments to Mexico of certain subgroups, such as aircraft, declined conspicuously. Shipments of other subgroups, including auto parts and electronic equipment, continued to climb.

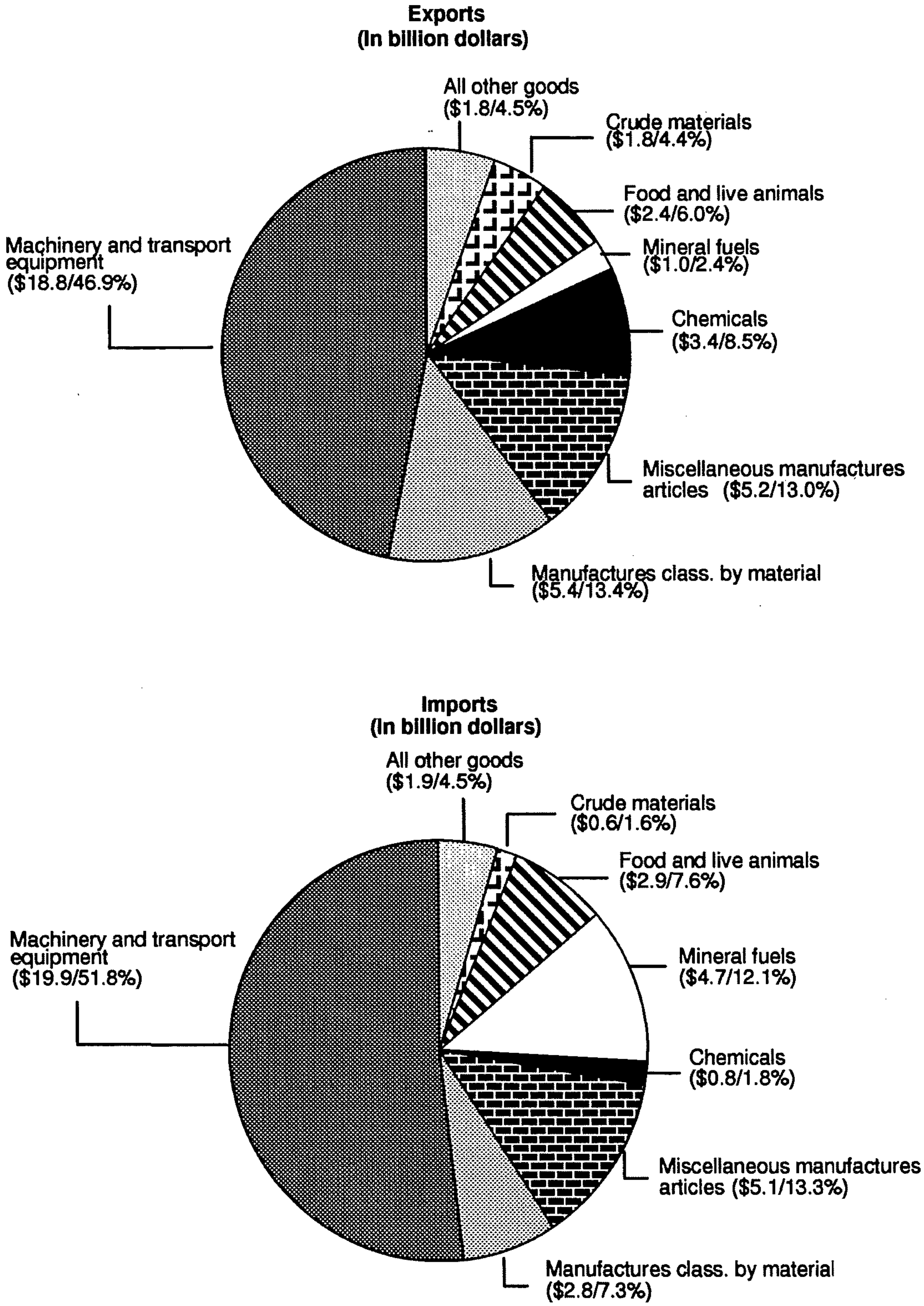
The major product categories in which U.S. exports to Mexico were up during the year were as follows: miscellaneous manufactured articles (8.6 percent), chemicals (9.7 percent), and the relatively small category of beverages and tobacco, whose exports continued to rise rapidly (58.5 percent). By contrast, U.S. exports declined in the categories of food and live animals, crude materials, and mineral fuels. U.S. exports of soybeans, which soared in 1992 in response to discontinued agricultural price support in Mexico, dropped in 1993, exports of grain sorghum fell below their 1991 value, and exports of live animals also declined.

In 1993, as before, automobile parts destined for U.S. production facilities in Mexico were the top U.S. export. (The Mexican automobile industry consists principally of subsidiaries of the Big Three U.S. automakers, Volkswagen, and Nissan.) After Canada, Mexico has been consistently the second-biggest market for U.S. auto parts. In addition, telecommunications products (sold mainly to TELMEX, Mexico's privatized telephone monopoly), electrical machinery, and refined oil products and chemicals continued to be major U.S. manufactured exports.

U.S. Imports

In contrast to U.S. exports, the growth of U.S. imports from Mexico accelerated in 1993. Imports

Figure 2
U.S. trade with Mexico: Exports, and imports by product groups, 1993



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

amounted to $38.7 billion, up by 14.2 percent, more than the 11.5-percent rise in 1992. As on the export side, a major portion of U.S. imports from Mexico consists of machinery and transportation equipment. Imports in this dominant product category climbed by 17.2 percent in 1993, which was the major factor in the accelerated growth of all imports from Mexico. Automotive items account for a major part of this group; imports of cars and trucks from Mexico rose by 23 percent during the year. Imports of miscellaneous manufactured articles were also up, as well as imports of food and live animals. Live bovine animals and fresh tomatoes were the leading food import items from Mexico. Imports of fresh tomatoes more than doubled during the year.

As shown in table 6, U.S. imports from Mexico contain two large components that deserve special note: (1) imports under Harmonized Tariff Schedule (HTS) subheading 9802, much of them resulting from production sharing and therefore entering the United States at reduced duty rates, and (2) Mexican products free of duty under the U.S. program of the Generalized System of Preferences (GSP), for which Mexico had formerly been eligible as a developing country. Mexico was removed from eligibility by the President in late 1993, as required by the North American Free-Trade Agreement (NAFTA).

In the first category, the United States levies duties only on the part of imports representing value added in Mexico; the U.S. content of a product re-enters the United States duty free under HTS subheadings 9802.00.60 or 9802.00.80 after being further processed or assembled in Mexico. The facilities involved in production sharing on the Mexican side are generally "maquiladoras," in-bond production units established since 1965 under Mexico's Border Industrialization Program. The output of maquiladoras, considered a separate sector of the economy, ranks as Mexico's second-largest industry after petroleum production. U.S. imports under subheadings 9802.00.60 and 9802.00.80, i.e., imports sourced mostly from maquiladoras, accounted for almost half of total U.S. imports from Mexico in 1993, of which 51.0 percent was U.S. content returned duty-free. Thus, U.S. content returned was responsible for some one-quarter of all U.S. imports from Mexico.

Table 6
Value of U.S. imports from Mexico entered under HTS items 9802.00.60 and 9802.00.80 and under GSP provisions, and percent of total, by years, 1989–93

HTS and GSP	Year	Value	Percent of total
9802.00.60	1989	181.1	7
	1990	188.3	.6
	1991	183.5	.6
	1992	228.6	.7
	1993	203.0	.5
9802.00.80	1989	11,766.7	44.3
	1990	12,836.3	43.5
	1991	14,150.6	46.5
	1992	16,249.0	47.2
	1993	18,789.3	48.6
Subtotal	1989	11,947.8	45.0
	1990	13,024.6	44.1
	1991	14,334.1	47.1
	1992	16,477.6	47.9
	1993	18,992.3	49.1
GSP	1989	2,470.8	9.3
	1990	2,688.6	9.1
	1991	3,838.2	12.6
	1992	4,832.3	14.2
	1993	5,430.5	14.0
Total U.S. imports from Mexico	1989	26,556.6	100.0
	1990	29,505.9	100.0
	1991	30,445.1	100.0
	1992	33,934.5	100.0
	1993	38,667.7	100.0

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

The GSP program of the United States accounted in 1993 for 14 percent of imports from Mexico. As the leading beneficiary of the GSP program, Mexico was responsible for 27.8 percent of U.S. imports under GSP from all countries last year. Major Mexican products receiving GSP duty-free treatment included furniture, household electrical appliances, float glass, toys, games, and sporting goods. The duty-free share of U.S. imports from Mexico under GSP rose sharply in both 1991 and 1992 but dipped slightly in 1993 (table 6).

Petroleum had dominated U.S. imports from Mexico before the Mexican Government embarked on a highly successful export diversification program. In 1993, petroleum was responsible for only 10.6 percent of overall U.S. imports from Mexico, compared with more than one half of the total in 1982.

United States and EU Sign Government Procurement Agreement

Negotiations to broaden and improve the GATT Agreement on Government Procurement (GPA), which entered into effect in 1981, have been underway since 1986. Although they have not been formally part of the Uruguay Round, they have followed a similar timetable. In December, an agreement was reached on government procurement at the same time the Uruguay Round text was approved, but several issues remained unresolved. During 1994, negotiations between the United States and the European Union (EU) led to an expanded agreement on April 13, although the telecommunications sector is still not covered by the EU and will be subject to continued negotiation.

The purpose of the GPA (or "code") is to increase transparency in the laws, procedures, and practices relating to government procurement and to ensure that they do not serve to protect domestic products or suppliers from international competition. It requires signatories[1] to allow suppliers from other signatories to compete for covered government contracts on conditions no less favorable than those accorded to domestic suppliers. The code also establishes common procedures to improve transparency and ensure fair treatment by requiring signatories to provide information on proposed government purchases, on the opening and awarding of bids by signatories' agencies, and to establish mechanisms for settling disputes.

The original code applied to the following:

- Product contracts and services only if they are incidental to the supply of products and cost less than the products themselves, including leasing contracts.
- Central government entities listed in annexes to the GPA as a result of negotiations.
- Contracts above Special Drawing Rights (SDR) 130,000 (about U.S. $182,000).

The three major goals of negotiations to revise the GPA were (1) to extend coverage to services, including construction services; (2) to expand application of the GPA to subcentral levels of government (for example, e.g., state and local) and certain public utilities; and (3) to improve the text of the existing agreement. The agreement reached in December expanded central government coverage from goods to services and construction above thresholds of SDR 130,000 and SDR 5 million ($6.5 million) respectively. The United States did not offer to cover certain sensitive services sectors, such as transportation, research and development, and management and operation of Federal research centers and laboratories.

The December agreement also included some coverage of subcentral and government-owned utilities. Three signatories—Hong Kong, Israel, and Korea—offered access to government-owned telecommunications, heavy electrical generating utilities, ports, airports, and rails. The threshold for purchases of goods and services by subcentral government entities varies around SDR 200,000 ($280,000). The threshold for goods and services in the utilities sectors varies around SDR 400,000 ($560,000). In return, the United States agreed to cover procurement by 24 states, including the 5 largest states (California, Illinois, New York, Florida, and Texas),[2] and the Federally owned utilities. The offer excludes Federally funded mass transit and highway projects.

Other improvements to the agreement were made. For example, a bid-protest system was established. Such a system exists in the United States, but is less common abroad. It requires government entities to provide nondiscriminatory, timely, transparent, and effective procedures enabling suppliers and service providers to challenge alleged breaches of the procedural provisions. The December agreement also

[1] The signatories as of the end of 1993 were Austria, Canada, the European Union, Finland, Hong Kong, Israel, Japan, Norway, Singapore, Sweden, Switzerland, and the United States. Because Hong Kong did not sign the agreement in Marrakesh, it will not be a signatory to the new code when it enters into effect on January 1, 1996. Korea recently acceded but is not scheduled to assume obligations until January 1, 1997.

[2] No specific provisions nor implementing legislation will bind the states. Congressional passage of the GPA will give the agreement the force of domestic law, which should override state laws. USTR has indicated that this issue is one to watch.

prohibits the use of offsets as a condition for the award of a contract. Examples of offsets include local content requirements, investment requirements, and licensing of technology. Finally, the new dispute settlement procedures established under the Uruguay Round agreements will be used for disputes subject to the GPA.

Although the December agreement was a large first step, it did not expand coverage to subcentral and government-owned utilities to many of the GPA signatories. The United States and EU agreed to continue negotiations bilaterally with the goal of expanding such coverage by April 15, 1994. On April 13, the United States and EU reached an agreement that achieved some of their objectives, but not all of them.

First, the April agreement makes permanent the expanded coverage to the electrical utility sector reached under the 2-year U.S.-EU Memorandum of Understanding (MOU) on Procurement of May 1993. The MOU partially resolved a bilateral dispute last year resulting from the EU implementation of discriminatory public procurement rules in the utilities sectors. Among other things, it covered procurement of goods and construction by central and subcentral governments in the electrical sector. U.S. Trade Representative Mickey Kantor said the new provision would "secure permanent access for our producers of heavy electrical equipment to the $28 billion EU electrical utilities sector."

The new code also expands coverage to subcentral government entities. The United States gained access to $23 billion in EU subcentral government procurement of goods as well as about $700 million in procurement by EU ports of goods, services, and construction. The United States agreed to cover procurements by 37 states. Although not covered by the code nor subject to dispute settlement, the United States committed an additional two states (North Dakota and West Virginia) and seven cities to treat EU suppliers no less favorably than non-state or nonlocal U.S. suppliers. With respect to ports, the United States agreed for the code to cover the Port Authority of New York and New Jersey and the Port of Baltimore, and it committed the Massachusetts Port Authority to treat EU suppliers the same as nonlocal U.S. suppliers. Several U.S. airports, which do not benefit from Federal aid, are also covered under the new code.

Although the United States and EU failed to reach a bilateral deal on procurement by government-owned telecommunications utilities, they agreed to continue negotiations. The EU had wanted the United States to phase out "Buy American" requirements on Federally funded mass transit, highway, airport projects, and wastewater projects, among other things. However, the United States objected to linking these unrelated areas to telecommunications, a sector the United States considers already open. No schedule has been set for future telecommunications talks. Because of the lack of a telecommunications agreement, the United States decided to continue to impose sanctions under Title VII of the 1988 Trade Act on certain EU-member states that were originally imposed in May 1993.

The expanded U.S. coverage under the U.S.-EU bilateral agreement will only be extended automatically to Israel and Korea, which had agreed in December to cover subcentral government entities and government-owned utilities (see above). Although Hong Kong made the same agreement in December, it did not sign the new code agreement on April 15 in Marrakesh, so it will not be a signatory to the new code. The United States and others anticipate that coverage of subcentral entities and utilities will be extended swiftly to the other European signatories to the GPA—Austria, Finland, Norway, Sweden, and Switzerland—either individually or as they join the EU, currently scheduled for January 1, 1995, for all of these countries except Switzerland. Finally, negotiations with Canada and Japan will likely continue. To date, Canada has been reluctant to provide access to its provincial hydro-electric generating utilities, known as Crown Corporations. Japan has refused to lower its threshold for procurement of construction services.

The new GPA is scheduled to enter into effect on January 1, 1996, for all countries except Korea, who will assume obligations on January 1, 1997. The U.S.-EU MOU set to expire in May 1995, will be extended until that date.

Taiwan to Face Wildlife Trade Sanctions

The United States will ban imports of wildlife products from Taiwan, the Clinton Administration announced recently. The ban comes in the wake of the administration's finding that Taiwan has failed to eliminate trade in endangered species. In particular, Taiwan has not shown measurable, verifiable, and substantial progress ending trade in rhinoceros horn and tiger bones. At the same time, the administration deferred imposing sanctions against China, citing progress in China's efforts to stop the illegal trade.

Trade in endangered species is banned by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). In early April, the CITES Standing Committee reaffirmed its 1993 recommendation that Taiwan and China consider stricter measures to stem trade in wildlife. The Standing Committee did note "with satisfaction" progress made by China in prohibiting trade in wildlife species, but expressed "concern that the actions agreed by the authorities in Taiwan . . . towards meeting the minimum requirements have not yet been implemented."

On April 11, the President announced the ban on imports of wildlife specimens and products from Taiwan. Certain items classified as fish, wildlife, or products of fish or wildlife will be banned. The ban will not apply to plants, shellfish, or fish products for human consumption. The ban will take effect after a period of public comment on specific products proposed for exclusion.

The administration proposed to ban imports from Taiwan of:

- Reptile leather shoes, handbags, etc.
- Jewelry made from coral, mussel shells and bone
- Edible frogs' legs
- Live goldfish and tropical fish for the aquarium trade
- Bird feathers, down, and specimens

The administration solicited public comments until May 31 on the categories of products for the proposed ban.

A final list of products to be banned will be announced in June. According to the most recent estimates by the U.S. Fish and Wildlife Service, U.S. imports of these products from Taiwan was about $22 million in 1992. Taiwan authorities estimate that the sanctions could cost Taiwan between $8 million and $25 million in lost exports to the United States.

Demand for rhinoceros and tiger parts for medicinal purposes in Taiwan and China has fueled poaching of the animals in their native habitats. According to Clinton administration estimates, the world rhinoceros population suffered a 90-percent decline since 1971, to its current level of about 10,000. The world's tiger population has fallen by 95 percent since 1900, to about 5,000. The administration stated that both populations will likely be extinct within 2-5 years if the illegal trade is not eliminated.

Premier Lien Chan said the designation was "unjust and selective." He added that Taiwan's "past efforts and achievements in protecting wildlife have been completely overlooked." Taiwan's Foreign Minister Frederick Chien offered to resign because of the planned U.S. sanctions. Taiwan authorities announced a plan to increase enforcement of the Wildlife Conservation Law. The plan includes a crackdown on illegal trade in endangered species, an increase in conservation education and international conservation cooperation, and establishment of an identification system for wildlife and wildlife products. The Taiwan authorities also plan to give wildlife conservation high-level attention in relevant ministries and increase spending on wildlife conservation.

In September 1993, the Secretary of the Interior determined that illegal trade in rhinoceros and tiger parts and products by Taiwan and China was diminishing the effectiveness of CITES. CITES, with over 120 member countries, is an international agreement designed to control trade in endangered species. Appendix I of CITES identifies the tiger and five species of rhinoceros as threatened with extinction and therefore prohibited from commercial trade.

Last November, the Clinton administration determined that efforts by both Taiwan and China to stop trade in rhinoceros and tiger parts did not meet international standards. The United States urged Taiwan and China to demonstrate their commitment to elimination of the trade, offered technical assistance to that end, and threatened sanctions if the parties made no progress by March 1994.

The administration also decided that sanctions against China were not warranted at present because of progress by China in seeking to stop trade in the endangered species. The administration noted that China had recently consolidated stocks of rhinoceros and tiger parts, engaged in a public education campaign on new laws to protect wildlife, seized stocks of wildlife parts, and prosecuted violators of the ban in wildlife trade. The administration instructed the Departments of State, Justice, and Treasury to explore technical and law enforcement assistance with China to ensure continued progress on eliminating the trade. The administration's interagency Rhino/Tiger Task Force will review China's progress in December 1994.

The Clinton administration cited Taiwan for its insufficient effort to identify, register, and mark stocks of tiger and rhinoceros parts and products; failure to amend its Wildlife Conservation Law to make such registration mandatory; inadequate prosecution of individuals selling rhinoceros and tiger parts; and its need to strengthen and then enforce the Wildlife Conservation Law to address the illegal trade.

The United States also announced that it will explore providing technical and law enforcement assistance to Taiwan. In addition, the interagency Rhino/Tiger Task Force will monitor and report progress in December 1994. Finally, the United States noted that enactment of adequate laws followed by enforcement actions that reduce illegal trade in rhinoceros and tiger parts would "be ground for an immediate reconsideration of the decision."

Update on China's Bid for GATT Membership

During the early months of 1994, China intensified its efforts to attain membership in the General Agreement on Tariffs and Trade (GATT). Effective January 1, it abolished its overvalued official exchange rate in favor of a market-determined rate, a first step toward eventual convertibility of the yuan; implemented further cuts in tariffs; lifted additional nontariff import barriers; and introduced a sweeping series of tax and banking reforms in a further move toward establishing a "socialist market economy." As a result of these trade and economic reforms, its request to become a GATT member by no later than the end of 1994 was in general favorably received at a March meeting of the GATT working party on China's accession. The United States opposes this positiion and has warned the other contracting parties, that it will not support an "early" conclusion to the negotiations.

China is pressing for completion of its GATT accession negotiations by yearend in order to qualify for "founding" membership in the World Trade Organization (WTO), which will overtake the GATT as the world's trade forum as early as January 1, 1995. However, since original membership will neither expand nor diminish a country's WTO rights and obligations, the United States contends that the objective of the GATT working party must be to conclude the negotiations on China's accession on terms that provide for bringing its trade regime and economic system into compliance with both the GATT and the WTO. Following the successful conclusion of the Uruguay Round in December 1993, the working party negotiations with China were broadened to also cover WTO obligations. They now include a schedule of goods—agricultural as well as industrial—and a services schedule that go well beyond the traditional GATT tariff schedule negotiations. China's current trade regime is not yet compatible with the GATT, the United States maintains, and is much less so with the WTO.

The Republic of China was one of the founding members of the GATT in 1947, but the Nationalist Government on Taiwan withdrew in 1950 after the Communists had gained control of the mainland and established the People's Republic of China (China). China reapplied for membership in 1986 and, as an original signatory to the GATT, views this current bid as a "resumption" of GATT contracting party status—a position that the United States and most other member countries oppose but about which no decision has been made. A GATT working party was set up in 1987 to begin the process of reviewing China's trading system and economy in terms of compliance with GATT rules. However, the process was suspended as a result of the Chinese Government's military suppression of the prodemocracy movement in June 1989 and of the slowdown in reforms that followed. A resurgence of reforms prompted the resumption of the GATT working party meetings in early 1992.

China implemented a series of both trade and domestic economic reforms in 1992 and 1993. It unilaterally reduced tariffs on a wide range of products; eliminated an import regulatory tax, a surtax that had been applied to many imports over and above the regular tariff rate; and began dismantling the complex system of import licenses, quotas, bans, and other nontariff barriers that are its primary means of controlling imports. Other reforms included the publication of hundreds of previously secret trade directives, a major step toward complying with the GATT requirement that the trade regimes of its member countries be transparent. In October 1992, the Chinese Communist Party committed China to becoming a "socialist market economy." The adoption of this concept, which fundamentally assumes that the market mechanism is necessary for rapid economic growth and that central economic controls must be replaced by indirect macroeconomic methods, paved the way for further broadening the reform process.

Despite the progress that China has made toward achieving compatibility with GATT rules, U.S. officials cite "substantive issues" that must be resolved before China can become a member entitled to the rights and obligations inherent in the multilateral trading system. One difficult pending issue involves including a "special safeguard system" in China's protocol of accession to protect other member countries from possible surges in Chinese exports. Since early 1993 this has been one of the conditions for membership that both the United States and European Union have insisted must be met. However, China has only recently agreed to accept the principle of a special safeguard clause and wants to negotiate a strict time frame and limits on its use. GATT article XIX already provides member countries with safeguard protection against import surges, but unlike the proposed safeguard system that would apply to China, its provisions obligate the importing country to pay compensation and also raise complications involving imports of the same products from other GATT members.

Other substantive issues that the United States wants resolved include uncertainty about China's ability to enforce its GATT and WTO commitments throughout the country, as well as at the central government level, and about its ability to ensure national treatment for foreign firms with respect to access to foreign exchange, the prices paid for domestically produced inputs, and trading rights. The continuing lack of transparency in China's trade regime, in particular its maintenance of a system of "secret" import quotas, and its inadequate enforcement of intellectual property rights are also major U.S concerns.

Reciprocal most-favored-nation (MFN) tariff treatment is one of the cardinal principles of the GATT, and Chinese officials have repeatedly stated that "unconditional" MFN status is one of the primary reasons that China is seeking membership. This objective relates particularly to its relations with the United States. This Nation is the only GATT-member country that, because of national legislation (the Trade Act of 1974), annually reviews specified policies and practices of the Chinese Government and determines whether China meets the conditions for continuation of its MFN status. However, when China becomes a member of the GATT, the United States can still refuse to extend it GATT benefits, in particular unconditional MFN status, by invoking article XXXV of the GATT. As originally written, this article allowed any individual GATT member to refuse to apply benefits to an incoming member, or vice versa, provided the two countries had not entered into tariff negotiations with one another.

At a March meeting of the GATT Council, the United States secured formal approval for a modification of article XXXV that will allow a country to invoke this "nonapplication" rule even after tariff negotiations have been started. The rule change means that the United States will be able to begin bilateral tariff negotiations with China, an integral part of the bargaining process on GATT entry terms, while still maintaining its conditional MFN status. On May 26, President Clinton announced that he was delinking improvement in China's human rights from MFN renewal. Nevertheless, section 402 of the Trade Act of 1974 requires the President to continue to review China's emigration policies and practices annually and determine on that basis whether its MFN status should be renewed. To reconcile its GATT obligations with this legislation, the United States must invoke article XXXV when China becomes a member.

North American Beer Issue Finally Resolved?

A longstanding conflict over the sale and distribution of U.S. beer in Canada may have come to a close in early May when an agreement was reached between Federal authorities of both countries. The agreement involved both Federal Governments and the Provinces of Quebec and British Columbia as well. The Canadian Government agreed to review the antidumping duties currently in effect against U.S. beer exported to British Columbia. The Province of Quebec has agreed to allow the sale of American beer in over 12,000 outlets, including convenience stores, where most beer is sold in Canada. The Province of British Columbia agreed to improve the handling of beer in area warehouses to ensure smoother distribution of the U.S. product. Concern over minimum pricing practices in a number of Provinces remains unresolved even after the May "agreement." In return, the United States continues to object to minimum pricing regimes in principle, but has agreed to delay any immediate retaliatory action against Canadian beer exports in favor of holding future consultations on the issue.

The May accord follows more than 3 years of differences over the cross-border sale of beer, and stems in part from the fact that in Canada the Provinces, not the Federal Government, have complete control over the regulation of the sale and distribution of alcoholic beverages.

The U.S.-Canada Free-Trade Agreement (CFTA), signed in 1988, preserved the State and Provincial controls that then existed and exempted the brewing industry from the requirement to eliminate the trade barriers in effect. As a result of the grandfathering, procedures involving the sale of beer on both sides of the border became the focus of intense bilateral disputes.

The United States maintained that Canadian Provincial liquor boards discriminated against U.S. beer in regard to listing (the process by which an imported brand is made available for sale through a Provincially approved outlet), distribution, and pricing. A GATT dispute settlement panel eventually found, in 1991, that the Canadian practices were inconsistent with Canada's obligations under the General Agreement. When arbitration proved inconclusive, retaliatory duties were imposed against the product of Canada's largest breweries, Molson and Labatts.

In 1991 a GATT panel also upheld Canadian complaints against discriminatory U.S. measures affecting the pricing, distribution, and sale of Canadian alcoholic and malt beverages imported into the United States. At the same time, dumping duties were imposed against the importation of U.S. beer into the Province of British Columbia.

An agreement had seemingly been reached in August 1993, when Canada took action to open up provincial beer distribution systems and outlets to sales of American beer. The deal removed the retaliatory duties that both governments had imposed on beer. It also gave U.S. brewers immediate access to a significant number of privately owned retail outlets in the Province of Ontario. Commitments to ease price controls and minimum price schemes were also extended under the terms of the August agreement.

The agreement, in the form of a memorandum of understanding, provided for formal consultations between the parties for a period of up to 30 days, and allowed for either side to abrogate the accord, given formal notice. U.S. brewers charged in December that the terms of that agreement were not being fully met and called for an embargo on Canadian beer. (U.S. sales of Canadian beer are at record levels, but U.S. beer sales in Canada have declined.)

Consultations that occurred early in 1994 progress was slow. A minimum pricing policy in Quebec (not the only Canadian Province to have such a policy for beer) occasioned heightened attention to the bilateral beer situation. The Canadians maintained (1) that the MOU did not preclude the setting new barriers in the future, and (2) that U.S. beer must be treated only in the same way as Canadian beer, which is the principle of national treatment. U.S. breweries argued that sales of their otherwise lower cost product were being undercut by the minimum price regulations. Provincial spokesmen argued that the minimum price rules were established to discourage beer consumption, particularly among young people. The May "agreement" failed to resolve a number of contentious issues.

Banana Deal Splits EU and Widens Rift with Latin America

The European Union (EU) recently agreed to improve market access for bananas from Colombia, Costa Rica, Nicaragua, and Venezuela. Other Latin American banana producers have rejected the EU offer and continue to challenge the EU banana import regime. Moreover, efforts to finalize a new EU-wide banana import regime sparked an internal EU feud that nearly jeopardized the historic April 15, 1994 signing of the Uruguay Round agreement. Although all EU members eventually signed the Uruguay Round agreement, the EU remains divided on banana import rules.

Latin American banana producers have long contested the import practices of some EU countries. France, Greece, Italy, Portugal, Spain, and the United Kingdom historically have applied discriminatory tariffs and quotas on so called "dollar bananas" produced in Central and South America. These import restrictions ensured an EU market for bananas produced in the former European colonies in Africa, the Caribbean and the Pacific (ACP countries) and protected ACP banana producers from competition with the tastier and less expensive dollar bananas. Although these non-ACP imports were subject to tariffs and quotas, ACP bananas entered duty- and quota-free. Germany, the largest EU consumer of bananas, however, and some other EU member states had not discriminated against banana imports according to origin. These countries either restricted or allowed duty-free access to all bananas.

Different national banana import policies clashed in mid-1992 when the European Commission (EU Commission), the executive arm of the EU, proposed an EU-wide banana regime as part of its efforts to establish a unified EU common market. Germany and a minority of EU member countries opposed the proposed EU-wide duties and quotas on non-ACP bananas. Germany had imported bananas duty-free since the Treaty of Rome in 1957 and feared that EU-wide restrictions would significantly raise banana prices. (Germany delayed signing the Treaty of Rome in order to maintain the right to import bananas duty free.) Belgium, the Netherlands, and Denmark sided with Germany, fearing that higher banana prices would reduce EU demand and adversely affect employment in EU seaport and shipping industries.

Meanwhile, the EU-Latin America rift widened as Latin American countries argued that the proposed single-market regime would adversely affect their economies by unfairly limiting access of dollar bananas into the EU market. Seeking compromise, the EU Commission proposed a second banana regime in July 1992, which continued to protect ACP bananas but eased somewhat the proposed tariffs and quotas on non-ACP bananas. The Latin American countries, unified by the desire to increase their EU market access, requested the help of the GATT Director General in September 1992, to help resolve the issue. This approach failed.

The EU Commission again modified its banana regime proposal in late 1992 to further liberalize the quota treatment for non-ACP bananas. This third variant of the trade regime entered into force on July 1, 1993. Under these EU-wide trade rules, ACP bananas receive duty-free entry up to a ceiling of their highest level of EU imports during the best of a 3-year period through 1990; imports in excess of this amount are subject to a duty of European Currency Units (ECU) 750 per metric ton. Non-ACP bananas are subject to a two-tier tariff-rate quota—ECU 100 per metric ton on imports of up to 2 million metric tons, and ECU 850 on imports above that ceiling. Also, of the 2 million tons, only 66.5 percent may be imported from Latin American producers. The EU uses an import-licensing system to divide this quota among the non-ACP producers, who have the right to sell their licenses to other exporters.

In January 1994, a GATT panel ruled that this new EU-wide banana trade regime is inconsistent with GATT trade rules. However, the ruling was not adopted by the full GATT Council because of EU opposition, and the regime remains in effect despite Latin American objections. Dollar banana producers estimate their export losses to be up to 600,000 to 700,000 metric tons a year because of the new EU trade rules.

Continued negotiations on banana trade rules resulted in a modified version of the EU banana regime that was formally announced on March 29, 1994, although it has not yet been implemented. This new proposal would further ease the quota and duty restrictions placed on non-ACP bananas. The low-tariff ceiling would rise to 2.1 million metric tons in 1994 and to 2.2 million metric tons over the next 7 years, with imports subject to a tariff of ECU 75 per metric ton. Imports in excess of the ceiling would face a 170-percent duty. The increased market share for each country would be divided according to their respective historic export levels to the EU.

To date only four Latin American countries—Colombia, Costa Rica, Nicaragua and Venezuela—have accepted this new proposal. In exchange for increased EU market share, these countries have agreed not to support the adoption of the GATT report that declared the EU banana regime GATT-inconsistent. The four countries also promised not to initiate GATT dispute settlement procedures against the banana regime until December 31, 2002, when the agreement expires.

At a meeting in early April 1994, banana exporters Ecuador, Mexico, Guatemala, Honduras, Panama, and the Dominican Republic rejected the new EU proposal. They contend that the new EU regime is discriminatory, imposes new nontariff barriers, and ignores the recommendations of GATT panels. Ministers from these countries argue the EU disregarded their views during the negotiating process. Although Latin American unity on the issue has been broken, these six countries have vowed to continue pressing for adoption of the GATT report condemning the EU regime.

The EU has yet to resolve its own internal split over banana trade rules. Germany, dissatisfied with the EU compromises and an estimated 52-percent increase in domestic banana prices since the new regime entered into force, has taken the dispute to the European Court of Justice (ECJ) in an attempt to overturn the EU banana import regime. Member states may appeal to the ECJ when they believe that EU policy decisions will cause unfair damage. Germany, Ireland, Denmark, Belgium, Italy, and the Netherlands maintain their argument that importers will face a severe reduction in banana imports, while prices will continue to rise significantly for banana consumers. Germany and the five other EU nations threatened not to sign the market-access arrangement covering bananas under the GATT Uruguay Round, based on the concern that signing the agreement would prejudice the ECJ challenge. France countered by threatening to withhold its approval of the GATT government procurement package unless the other EU members accepted the market-access arrangement, bringing conclusion of the Uruguay Round to an eleventh-hour stalemate. EU Trade Commissioner Leon Brittan was able to shelve the dispute until after the historic Uruguay Round signing in Marrakesh by guaranteeing that those opposed to the banana regime would not prejudice their positions and their case in the ECJ by signing the Uruguay Round agreements.

The effects of the current regime and potential future developments may have important long-term effects for U.S. companies. Chiquita Brands International, Inc., Dole Food Co., Inc. and Del Monte Foods all export to the EU bananas that they produce in Latin America. Although they may benefit from higher prices in the short term, U.S. companies exporting to Europe report that they may experience losses up to 20 percent in banana business. A Dole Food executive stated that the company has not been significantly affected by the EU single market banana regime to date because Dole exports a variety of fruits, but admits that growth in banana exports must be found elsewhere. Dole plans to increase its marketing of other fruits in the EU as well as turn towards Eastern Europe and other non-EU markets for growth. Other banana exporters also have set their sights on Eastern Europe, but with some of these countries applying for EU membership, the banana will likely remain a central issue, even after settling of the prevailing disputes.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, Jan. 1991-Mar. 1994

(Total Industrial production, 1985=100)

Country	1991	1992	1993	1993 I	II	III	IV	Nov.	Dec.	1994 I	Jan.	Feb.	Mar.	Apr.
United States[1]	104.2	104.3	109.2	109.7	110.3	111.1	112.9	108.3	109.0	115.1	114.6	115.1	115.7	116.0
Japan	127.7	120.4	115.3	116.3	114.6	115.8	114.7	115.2	114.6	(2)	112.7	(2)	(2)	(2)
Canada[3]	113.8	114.9	118.0	112.9	118.3	121.2	119.6	120.3	115.5	(2)	(2)	(2)	(2)	(2)
Germany[4]	100.0	98.1	91.5	91.8	90.6	88.8	95.1	96.4	89.7	(2)	(2)	(2)	(2)	(2)
United Kingdom	109.0	108.6	111.3	114.3	108.5	105.4	117.0	123.2	110.3	(2)	(2)	(2)	(2)	(2)
France	114.2	112.9	(2)	113.8	110.3	96.8	(2)	117.7	110.2	(2)	(2)	(2)	(2)	(2)
Italy	115.4	113.6	110.7	117.3	116.9	93.7	114.8	121.7	104.3	(2)	(2)	(2)	(2)	(2)

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

Source: *Main Economic Indicators;* Organization for Economic Cooperation and Development, Mar. 1994, *Federal Reserve Statistical Release*; May 16 1994; and *International Financial Statistics*, International Monetary Fund, Jan. 1994.

Consumer prices, by selected countries and by specified periods, Jan. 1991-Mar. 1994

(Percentage change from same period of previous year)

Country	1991	1992	1993	1993 I	II	III	IV	Sept.	Oct.	Nov.	Dec.	1994 I	Jan.	Feb.	Mar.
United States	4.2	3.0	3.0	3.2	3.1	2.7	2.7	2.7	2.8	2.7	2.7	2.5	2.5	2.5	2.5
Japan	3.3	1.6	1.3	1.3	0.9	1.8	1.1	1.5	1.3	0.9	1.0	1.2	1.2	(1)	1.3
Canada	5.6	1.5	1.8	2.1	1.7	1.7	1.8	1.9	1.9	1.9	1.7	0.6	1.3	0.2	0.2
Germany	3.5	4.0	4.2	4.3	4.2	4.2	3.7	4.0	3.9	3.6	3.7	3.3	3.5	3.3	3.2
United Kingdom	5.9	3.7	1.6	1.8	1.3	1.6	1.6	1.8	1.4	1.4	1.9	2.4	2.5	2.4	2.3
France	3.2	2.4	2.0	2.1	2.0	2.2	2.1	2.3	2.2	2.2	2.1	1.7	(1)	(1)	1.5
Italy	6.4	5.1	4.4	4.5	4.5	4.5	4.4	4.2	4.5	4.4	4.3	(1)	4.4	4.4	(1)

1 Not available.

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

Country	1991	1992	1993	1993 I	II	III	IV	Nov.	Dec.	1994 I	Jan.	Feb.	Mar.
United States	6.7	7.4	6.8	7.0	7.0	6.7	6.5	6.5	6.4	6.6	6.7	6.5	6.5
Japan	2.1	2.2	2.5	2.3	2.4	2.6	2.8	2.8	2.9	(2)	2.8	2.8	(2)
Canada	10.3	11.3	11.2	11.0	11.4	11.4	11.1	11.0	11.2	11.0	11.4	11.1	10.6
Germany[3]	4.4	4.7	5.9	5.4	5.8	6.1	6.4	6.5	6.5	(2)	6.6	(2)	(2)
United Kingdom	8.9	10.0	10.4	10.6	10.4	10.5	10.1	10.1	10.0	9.9	10.0	(2)	9.8
France	9.8	10.2	11.3	10.6	11.0	11.3	11.7	11.7	11.7	(2)	(2)	(2)	(2)
Italy[4]	6.9	7.3	9.4	9.4	10.8	10.6	(2)	(5)	(5)	(5)	(5)	(5)	(5)

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

S[illegible] *Unemployment Rates in Nine Countries*, U.S. Department of Labor, M[illegible]4.

Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1991-Apr. 1994
(Percentage, annual rates)

				1993							1994				
Country	**1991**	**1992**	**1993**	**I**	**II**	**III**	**IV**	**Oct.**	**Nov.**	**Dec.**	**I**	**Jan.**	**Feb.**	**Mar.**	**Apr.**
Italy	12.0	13.9	10.0	11.7	10.7	9.2	8.7	8.7	8.9	8.5	8.3	8.3	8.4	8.3	(2)
United States	5.9	3.7	3.2	3.2	3.1	3.1	3.3	3.2	3.4	3.4	3.4	3.1	3.6	3.7	4.0
Japan	7.3	4.4	2.9	3.4	3.2	2.9	2.2	2.4	2.3	2.0	2.2	2.1	2.2	2.2	(2)
Canada	9.0	6.7	5.1	6.3	5.1	4.6	4.3	4.7	4.3	4.0	4.0	3.8	3.8	4.4	(2)
Germany	9.1	9.4	7.1	8.2	7.5	6.6	6.2	6.5	6.2	5.9	5.7	5.7	5.7	5.7	(2)
United Kingdom	11.5	9.5	5.8	6.3	5.8	5.8	5.4	5.7	5.5	5.2	5.2	5.3	5.1	5.1	(2)
France	9.5	10.1	8.3	11.4	7.7	7.4	6.5	6.8	6.5	6.3	6.1	6.1	6.1	6.1	(2)
Italy	12.0	13.9	10.0	11.7	10.7	9.2	8.7	8.7	8.9	8.5	8.3	8.3	8.4	8.3	(2)

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

Source: *Federal Reserve Statistical Release*, May 2, 1994 *Federal Reserve Bulletin*, May 1994.

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

				1993				1994				
Item	**1991**	**1992**	**1993**	**II**	**III**	**IV**	**Dec.**	**I**	**Jan.**	**Feb.**	**Mar.**	**Apr.**
Unadjusted:												
Index[1]	98.5	97.0	100.1	98.1	99.6	101.2	102.1	101.6	102.5	101.5	100.9	100.9
Percentage change	-1.5	-1.5	3.1	-3.2	1.4	1.6	.8	.4	.3	-.9	-.5	0
Adjusted: Index[1]	101.1	100.9	104.2	103.0	103.7	104.1	104.2	104.7	105.8	104.6	103.9	104.2
Percentage change	1.0	-.1	3.3	-2.5	.7	.4	.3	.6	1.5	-1.1	-.6	.3

1 1990 average=100.

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

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

Trade balances, by selected countries and by specified periods, Jan. 1991-Mar. 1994
(In billions of U.S. dollars, Exports less Imports (f.o.b - c.i.f), at an annual rate)

				1993				1994			
Country	1991	1992	1993	II	III	IV.	Dec.	I	Jan.	Feb.	Mar.
United States[1]	-65.4	-84.5	-115.7	-122.5	-125.4	-111.7	-103.9	-129.1	-122.0	-143.8	-121.4
Japan	77.6	106.4	120.3	38.5	39.0	41.7	44.7	(2)	(2)	(2)	(2)
Canada[3]	9.0	12.1	13.3	4.5	4.1	3.8	3.4	(2)	(2)	(2)	(2)
Germany	13.2	21.0	35.8	12.2	9.4	17.9	51.9	(2)	(2)	(2)	(2)
United Kingdom	-24.8	-30.8	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
France[3]	-5.2	5.8	15.8	5.1	5.6	6.4	27.1	(2)	(2)	(2)	(2)
Italy	-13.2	-10.3	(2)	5.8	7.1	(2)	(2)	(2)	(2)	(2)	(2)

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

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, May 19, 1994; *Canadian Economic Observer*, Dec. 1993 and *Main Economic Indicators;* Organization for Economic Cooperation and Development, Mar. 1994.

U.S. trade balance,[1] by major commodity categories and by specified periods, Jan. 1991-Mar. 1994
(In billions of dollars)

				1993				1994			
Country	1991	1992	1993	II	III	IV	Dec.	I	Jan.	Feb.	Mar.
Commodity categories:											
Agriculture	16.2	18.6	17.8	3.9	3.4	5.6	2.0	4.4	1.6	1.4	1.4
Petroleum and selected product—(unadjusted)	-42.3	-43.9	-45.7	-12.7	-11.3	-10.7	-2.9	-9.6	-2.9	-3.2	-3.5
Manufactured goods	-67.2	-86.7	-115.3	-25.3	-36.2	-32.8	-8.6	-29.1	-9.3	-10.4	-9.5
Selected countries:											
Western Europe	16.1	6.2	-1.4	-.9	-2.8	-1.2	.1	-.1	.1	-.5	.3
Canada[2]	-6.0	-7.9	-10.2	-2.8	-2.1	-2.8	-.8	-2.7	-1.1	-1.0	-.6
Japan	-43.4	-49.4	-59.9	-14.4	-15.2	-17.1	-5.3	-15.0	-4.6	-4.6	-5.8
OPEC (unadjusted)	-13.8	-11.2	-11.6	-3.4	-3.6	-1.6	-.2	-1.6	-.2	-.7	-.7
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$17.42	$16.80	$15.13	$16.49	$14.63	$13.52	$12.26	$11.80	$11.61	$12.03	$11.78

[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, 1994.