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Notice to readers.—In lieu of a regular issue, next month the *International Economic Review* will publish an index of articles for the period July 1991-January 1995. Regular publication of the *IER* will resume with the March 1995 issue.

INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Third quarter GDP figures recently released by the Commerce Department show that the economy had more strength than originally thought. Growth, however, is widely expected to slow down in 1995 because of the Federal Reserve's tight monetary policy. The extent of the slowdown depends on consumers' and producers' ability to maintain spending in the face of rising interest rates.

Consumer and investment expenditures were a major force behind the unexpected GDP expansion. GDP grew at a revised annual rate of 4.0 percent ($52.9 billion) in the third quarter. Advance estimates released earlier by Commerce had stated that real GDP grew by 3.4 percent at an annual rate.

Among GDP components, the largest increase was in consumption expenditures. Real consumption expenditures increased $26.9 billion in the third quarter compared with an increase of $11.5 billion in the second. Consumer purchases of durable goods increased $8.0 billion following a $0.5 billion increase in the second quarter and of nondurable goods increased $8.9 billion compared with an earlier increase of $6.0 billion. Investment spending rose. Real nonresidential fixed investment increased $22.1 billion in the third quarter compared with an increase of $14.3 billion in the second. Producers' durable equipment purchases increased $21.4 billion compared with an increase of $7.5 billion.

Real net exports of goods and services increased by $5.2 billion to $117.0 billion in the third quarter from $111.7 billion in the second. Exports increased $22.6 billion to $666.5 billion. Imports increased $27.9 billion to $783.5 billion.

Although slower growth is predicted for 1995 largely because of interest rate hikes by the Federal Reserve to control inflation, a rise in new orders for manufactures and a mounting backlog of unfilled orders will encourage factories to increase hiring in 1995. New orders for mannufactured goods in Novemeber increased by 2.6 percent to $293.4 billion, the eighth increase this year. Orders of transportation equipment had the largest increase rising, by 12.7 percent, with increases in aircraft and aircraft parts and motor vehicles and parts. Unfilled orders of manufactured goods increased in November 0.7 percent to $453.9 billion following a 0.4-percent increase in October. This was the eighth increase this year.

The growing backlog of unfilled manufactures' orders could cause factories to increase hiring in 1995, thus keeping employment, consumer confidence and spending strong, a strength which might prompt another round of interest rate hikes by the Federal Reserve.

U.S. International Transactions

U.S. current account

The U.S. current-account deficit increased to $41.7 billion in the third quarter from $37.9 billion in the second, according to the Department of Commerce. The deficits on goods and services and on investment income both increased, and net unilateral transfers decreased.

The deficit on goods and services increased to $29.5 billion in the third quarter from $26.6 billion in the second. The deficit on merchandise trade increased to $44.6 billion in the third quarter from $41.6 billion in the second. Exports increased to $127.8 billion from $122.7 billion; nonagricultural exports accounted for most of the increase; agricultural exports were also higher. Imports increased to $172.5 billion from $164.3 billion; both nonpetroleum and petroleum imports continued to increase strongly.

The surplus on services edged up to $15.1 billion in the third quarter from $15.0 billion in the second. Service receipts increased to $48.8 billion from $47.9 billion; increases occurred in most major categories. Service payments increased to $33.7 billion from $32.9 billion, the largest increases being in travel and other transportation.

The deficit on investment income increased to $3.9 billion in the third quarter from $2.8 billion in the

second. Income receipts on U.S. assets abroad increased to $35.4 billion from $31.9 billion: direct investment receipts were sharply higher, reflecting strong increases in earnings; other private receipts also increased, largely reflecting higher interest rates. Income payments on foreign assets in the United States increased to $39.3 billion from $34.7 billion: direct investment payments were sharply higher, reflecting strong increases in earnings; other private payments and U.S. Government payments also increased, largely reflecting higher interest rates. Net unilateral transfers were $8.3 billion in the third quarter, compared with $8.5 billion in the second.

Capital transactions

Net recorded capital inflows were $47.0 billion in the third quarter, compared with $42.2 billion in the second. Both acquisitions of foreign assets by U.S. residents and of U.S. assets by foreign residents accelerated.

U.S. assets abroad

U.S. assets abroad increased $20.4 billion in the third quarter, compared with an increase of $7.0 billion in the second.

U.S. claims on foreigners reported by U.S. banks increased $3.5 billion in the third quarter, in contrast to a decrease of $15.2 billion in the second.

Net U.S. purchases of foreign securities were $7.1 billion in the third quarter, down from $14.0 billion in the second. Net U.S. purchases of foreign stocks were $5.9 billion, down from $11.7 billion, and net U.S. purchases of foreign bonds were $1.2 billion, down from $2.3 billion.

Net capital outflows for U.S. direct investment abroad were $9.5 billion in the third quarter, up from $8.0 billion in the second. Most of the increase was accounted for by larger equity capital outflows and reinvested earnings.

Foreign assets in the United States

Foreign assets in the United States increased $67.4 billion in the third quarter, compared with an increase of $49.3 billion in the second.

U.S. liabilities to foreigners reported by U.S. banks, excluding U.S. Treasury securities, increased $16.8 billion in the third quarter, compared with an increase of $25.5 billion in the second.

Following record net sales of $7.4 billion in the second quarter, transactions by private foreigners in U.S. Treasury securities shifted to net purchases, totaling $5.7 billion in the third quarter largely as a result of a shift by United Kingdom investors to strong net purchases from net sales.

Net foreign purchases of U.S. securities, other than U.S. Treasury securities, were $14.2 billion in the third quarter, up from $13.2 billion in the second. Transactions in U.S. stocks shifted to net purchases of $1.0 billion, following net foreign sales of $1.6 billion. Net foreign purchases of U.S. bonds were $13.2 billion, down from $14.7 billion.

Net capital inflows for foreign direct investment in the United States were $13.3 billion in the third quarter, up sharply from $5.4 billion in the second. Most of the increase was accounted for by higher intercompany debt inflows and reinvested earnings.

Although accumulation of dollar assets by industrial countries slowed in the third quarter (table 1), foreign official assets in the United States increased $17.5 billion in the third quarter, following an increase of $8.9 billion in the second.

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

Economic growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew by a 4.0-percent in the third quarter following a 4.1-percent seasonally adjusted annual growth rate in the second quarter of 1994 and a revised annual rate of 3.3 percent in the first quarter.

The annualized rate of real economic growth in the third quarter was 3.5 percent in the United Kingdom, 4.7 percent in Canada, 3.0 percent in France. 5.3 percent in Germany, and 3.7 percent in Japan. In the second quarter of 1994, the real economic growth in Italy was 5.7 percent.

Industrial production

Industrial production rose by 1.0 percent in December following a 0.5 percent in November 1994. Industrial production increased in December by 5.8 percent over a year earlier. Significant output gains

Table 1
U.S. International transactions, 1993-Third Quarter 1994

(Million of dollars, seasonally adjusted)

	1993			1994	
	Full year	**Second quarter**	**Third quarter**	**Second quarter[1]**	**Third quarter[2]**
Exports of goods, services, and income	755,533	188,906	186,565	202,447	212,023
Merchandise, adjusted, excluding military[3]	456,866	113,787	111,736	122,683	127,817
Services[4]	184,811	46,318	46,316	47,886	48,807
Income receipts on U.S. assets abroad	113,856	28,801	28,513	31,878	35,399
Direct investment receipts	57,515	14,663	14,526	15,443	18,060
Other private receipts	51,272	12,880	12,664	15,513	16,395
U.S. Government receipts	5,070	1,258	1,323	922	944
Imports of goods, services, and income	827,312	-207,308	-206,808	-231,902	-245,482
Merchandise, adjusted, excl. military[3]	-589,441	-147,514	-148,224	-164,315	-172,450
Services[4]	-127,961	-31,661	-32,086	-32,900	-33,685
Income payments on foreign. assets in the United States	-109,910	-28,113	-26,498	-34,687	-39,347
Direct investment payments	-5,110	- 1,970	-561	-4,574	-7,792
Other private payments	-63,239	-15,956	-15,385	-18,892	-19,721
U.S. Government payments	-41,561	-10,207	-10,552	-11,221	-11,834
Unilateral transfers, net	-32,117	-7,200	-7,613	-8,451	-8,263
U.S. assets abroad, net (increase/capital outflow (-))	-147,898	-35,966	-35,651	-7,031	-20,394
U.S. private assets, net	-146,213	-36,507	-34,915	-11,030	-20,111
Direct investment	-57,870	-17,675	-6,311	-8,007	-9,507
Foreign securities	-119,983	-24,430	-40,777	-14,007	-7,146
U.S. claims reported by U.S. banks, not included elsewhere	32,238	5,595	7,335	5,248	-3,458
Foreign assets in the United States, net (increase/capital inflow(+))	230,698	51,829	71,934	49,257	67,439
Foreign official assets in the United States, net	71,681	17,492	19,259	8,925	17,496
U.S. Government securities	52,764	6,750	20,443	8,388	17,210
U.S. Treasury securities	48,702	5,668	19,098	6,033	15,207
Other	4,062	1,082	1,345	2,355	2,003
Other U.S. Government liabilities	1,666	158	1,121	252	526
U.S. liabilities reported by U.S banks, not included elsewhere	14,666	9,485	-2,489	1,241	539
Other foreign official assets	2,585	1,099	184	-956	-779
Other foreign assets in the U.S., net	159,017	34,337	52,676	40,332	49.943
Direct investment	21,366	8,869	2,969	5,413	13,294
U.S. Treasury securities	24,849	-622	3,474	-7,434	5,661
U.S. securities other than U.S Treasury securities	80,068	15,025	17,445	13,152	14,162
U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	14,282	7,606	1,169	3,662	n.a
U.S. liabilities reported by U.S. banks, not included elsewhere	8,452	3,459	27,618	25,539	16,826
Statistical discrepancy (sum of above items with sign reversed)	21,096	9,739	-8,427	-4,320	-5,323
Of which seasonal adjustment discrepancy	435	-6,643	639	-6,919	
Balance on merchandise trade	-132,575	-33,727	-36,448	-41,632	-44,633
Balance on services	56,850	14,657	14,230	14,986	15,122
Balance on goods and services	75,725	-19,070	-22,258	-26,646	-29,511
Balance on investment income	-3,946	668	2,015	-2,809	-3,948
Balance on goods, services, and income	-71,779	-18,402	-20,243	-29,455	-33,459
Unilateral transfers, net	-32,117	-7,200	-7,613	-8,451	-8,263
Balance on current account	-103,896	-25,602	-27,856	37,906	-41,722
Net capital outflow (-), inflow (+)	+92,800	+15,863	+36,283	+42,226	+47,045

[1] Revised
[2] Preliminary, n.a. Not available
[3] Adjusted for timing, valuation, and coverage to balance of payments basis; excludes exports under U. S. military agency sales contracts and imports of U.S. military agencies
[4] Includes some goods that cannot be separately identified from services

Note.—Details may not add to totals because of rounding.

Source: U. S. Department of Commerce, Bureau of Economic Analysis

were recorded in December in the production of mining and in durable and nondurable manufactures. In December, gains in production boosted total capacity utilization to 85.4 percent from 84.7 percent in November. Industrial capacity utilization rose by 2.8 percent over a year earlier.

Other Group of Seven (G-7) member countries reported the following annual growth rates of industrial production: for the year ending October 1994, Japan reported an increase of 5.0 percent; the United Kingdomz, an increase of 5.6 percent; and Germany, an increase of 5.2 percent. For the year ending September 1994, France reported an increase of 4.9 percent; Italy, an increase of 7.3 percent; and Canada, an increase of 6.7 percent.

Prices

The seasonally adjusted Consumer Price Index (CPI) increased 0.1 percent in December, following an increase of 0.1 percent in November. The CPI advanced 2.7 percent during the 12 months ending November 1994.

During the 1-year period ending November 1994, prices increased 2.7 percent in Germany, 1.6 percent in France, 3.7 percent in Italy, and 2.6 percent in the United Kingdom. In October, prices declined by 0.2 percent in Canada and increased by 0.7 percent in Japan.

Employment

The U.S. Department of Labor reported that the nation's unemployment rate declined to 5.4 percent in December from 5.6 percent in November. The unemployment rate has declined by 1.3 percentage points since January 1994. The employer survey showed an increase of 256,000 nonfarm payroll jobs in December, following a gain of 488,000 in November.

The unemployment rates for adult women and men each fell slightly in December to 4.7 percent, whereas the rate for teenagers edged up to 17.2 percent. The jobless rate for blacks (9.8 percent) inched down from the previous month, for whites (4.8 percent) remained the same as in November, and for Hispanics (9.2 percent) changed a little over the month.

Large employment increases occurred in the private sector, particularly in services, retail trade, and manufacturing. Nonfarm employment increased by 3.5 million during all of 1994. The services industry added 110,000 jobs in December. Half the gain was in business services, mostly in the personnel supply and computer services components. Smaller, but noteworthy, increases also occurred in health and social services. These two industries and business services have added large numbers of jobs through most of the year, as employment in the services industry as a whole rose by 1.6 million.

Retail trade employment rose by 91,000. Most of the December gain was in eating and drinking establishments, while smaller increases occurred in food stores, automotive dealers and service stations, and furniture stores.

Manufacturing employment rose by 54,000 in December. This is the third large monthly increase in a row and represents an acceleration in the upward trend that began in September 1993. Since then, factory employment has risen by 301,000. Over the month, factory job growth was widespread, with the largest gains occurring in fabricated metals, electronic equipment, printing and publishing, and rubber and miscellaneous plastics products. Although construction employment failed to grow in December, 300,000 jobs were added in 1994, for the strongest showing in a decade.

For comparison with other G-7 countries, the unemployment rate in November 1994 was 9.6 percent in Canada, 8.2 percent in Germany, 8.8 percent in the United Kingdom, 12.6 percent in France, 11.9 percent in Italy, and 3.0 percent in Japan.

Forecasts

Forecasters expect real growth in the United States to slow to an average of 3.1 percent (annual rate) in the first quarter of 1995, following an increase of 3.9 percent in the fourth quarter of 1994. Real growth is forecasted to slow to 2.3 percent (annual rate) in the second quarter of 1995. Factors that may restrain the recovery in 1995 include the impact of rising interest rates on new investment, output, and incomes and the contractionary impact of the decline in government spending. Table 2 shows macroeconomic projections for the U.S. economy for October 1994 to June 1995, by six 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 5.7 percent in the remainder of 1994 and then to a decline of 5.6 percent in the second quarter of 1995. A mounting backlog of unfilled orders for manufactures will induce factories to increase their hiring in 1995. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 3.1 percent in the fouth quarter of 1994, then decline in the first half of 1995 by an average of 2.9 percent to 3.0 percent. Gains in labor productivity and a slow rise in labor costs, wages, and compensation are expected to hold down inflation rates.

Table 2
Projected changes of selected U.S. economic indicators, by quarters, Oct. 94-June 95

(Percent)

Period	Conference Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc. (D.R.I.)	Wharton WEFA Group	Mean of 6 forecasts
				GDP current dollars			
1994:							
Oct.-Dec	8.1	6.5	8.3	7.0	5.8	7.2	7.1
1995:							
Jan.-Mar.	6.0	5.8	7.3	6.4	5.9	5.2	6.1
Apr.-June.	6.8	5.5	5.3	5.5	3.3	6.5	5.5
				GDP constant (1987) dollars			
1994:							
Oct.-Dec.	4.5	3.5	4.0	4.0	3.4	3.8	3.9
1995:							
Jan.-Mar.	3.4	2.7	3.9	2.9	3.2	2.8	3.1
April-June.	3.4	2.0	2.2	2.5	1.2	2.4	2.3
				GDP deflator index			
1994:							
Oct.-Dec.	3.5	2.9	4.1	2.8	2.1	3.4	3.1
1995:							
Jan.-Mar.	2.5	3.2	3.3	3.4	2.7	2.4	2.9
April-June.	3.3	3.5	3.0	3.0	2.0	3.0	3.0
				Unemployment, average rate			
1994:							
Oct.-Dec	5.7	5.9	5.9	5.6	5.7	5.7	5.7
1995:							
Jan.-Mar.	5.7	5.9	5.7	5.6	5.5	5.6	5.6
April-June.	5.6	5.9	5.6	5.6	5.4	5.6	5.6

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: December 1994.

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 goods and services of $59.7 billion and imports of $69.8 billion in October 1994 resulted in a goods and services trade deficit of $10.1 billion, $0.8 billion more than the September deficit of $9.4 billion. The October 1994 deficit was $2.2 billion more than the deficit registered in October 1993 ($7.9 billion) and $1.8 billion higher than the average monthly deficit registered during the previous 12 months ($8.3 billion).

The October trade deficit in goods was $15.0 billion, approximately $0.6 billion more than the September deficit of $14.4 billion. The October services surplus was $4.9 billion, approximately $0.2 billion less than the September surplus of $5.1 billion.

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

Table 3
U.S. trade in goods and services, seasonally adjusted, Sept.-Oct. 1994

(Billion dollars)

	Exports		Imports		Trade balance	
Item	Oct. 94	Sept. 94	Oct. 94	Sept. 94	Oct. 94	Sept. 94
Trade in goods (BOP basis):						
Current dollars—						
Including oil	43.3	43.6	58.3	58.0	-15.0	-14.4
Excluding oil	43.7	43.8	53.9	52.9	-10.2	- 9.1
Trade in services:						
Current dollars	16.4	16.5	11.5	11.4	4.9	5.1
Trade in goods and services:						
Current dollars	59.7	60.1	69.8	69.4	-10.1	-9.3
Trade in goods (Census basis):						
1987 dollars	43.2	43.1	56.3	56.5	-13.1	-13.4
Advanced-technology products (not seasonally adjusted)	10.0	10.6	9.4	9.3	0.6	1.3

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

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

Table 4
Nominal U.S. exports and trade balances of agriculture and specified manufacturing sectors, Jan. 1993-Oct. 1994

Sector	1994 Exports Jan.-Oct. 1994	Oct. 1994	Change, Jan.-Oct. 1994 over Jan.-Oct. 1993	Oct. 1994 over Sep. 1994	Share of total, Jan.-Oct. 1994	Trade balances, Jan.-Oct. 1994
	Billion dollars		Percent		Billion dollars	
ADP equipment & office machinery	24.8	2.7	12.7	0	5.9	-17.2
Airplane	15.9	1.2	-7.6	-25.0	3.8	12.9
Airplane parts	8.1	.9	3.8	12.5	1.9	5.8
Electrical machinery	36.5	3.9	19.3	2.6	8.7	-10.5
General industrial machinery	17.9	1.9	9.8	0	4.3	.2
Iron & steel mill products	2.9	.3	3.6	0	.7	-7.7
Inorganic chemicals	3.3	.3	0	-25.0	.8	0
Organic chemicals	10.4	1.1	13.0	0	2.5	1.5
Power-generating machinery	16.6	1.5	4.4	-11.8	4.0	0.5
Scientific instruments	13.5	1.4	6.3	0	3.2	5.4
Specialized industrial machinery	16.2	1.7	11.7	6.2	3.9	2.4
Telecommunications	12.8	1.4	19.6	0	3.0	-13.7
Textile yarns, fabrics and articles	5.3	.6	8.2	0	1.3	-2.4
Vehicle parts	17.3	2.1	7.5	10.5	4.1	0.9
Other manufactured goods[1]	23.6	2.6	9.3	4.0	5.6	-10.1
Manufactured exports not included above	105.9	11.2	11.0	3.7	25.2	-94.2
Total manufactures	331.0	34.8	10.0	0.9	78.9	-126.2
Agriculture	35.4	4.3	4.1	22.9	8.4	14.1
Other exports not incl.above	53.3	6.1	10.1	5.2	12.7	-13.0
Total exports of goods	419.7	45.2	9.5	3.2	100.0	-125.1

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

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

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

Table 5
U.S. exports and imports of goods with major trading partners, Jan. 1993-Oct. 1994
(Billion dollars)

Country/area	Exports			Imports		
	Oct. 94	Jan.-Oct. 94	Jan.-Oct. 93	Oct. 94	Jan.-Oct. 94	Jan.-Oct. 93
North America	15.0	135.9	117.8	16.7	145.4	125.3
Canada	10.5	93.9	83.6	12.1	105.0	92.5
Mexico	4.5	42.0	34.2	4.6	40.3	32.8
Western Europe	10.2	96.4	93.8	11.7	106.9	94.6
European Union (EU)	8.9	83.8	79.8	9.8	90.7	80.1
Germany	1.7	15.5	15.8	2.8	25.7	23.3
European Free-Trade Association (EFTA)[1]	1.0	9.8	10.6	1.7	14.4	13.1
Former Soviet Union/Eastern Europe	0.4	4.4	4.9	0.6	4.5	2.8
Former Soviet Union	0.2	3.1	3.0	0.4	2.9	1.6
Russia	0.2	2.2	2.2	0.3	2.5	1.4
Pacific Rim Countries	12.6	121.7	108.1	25.2	215.4	189.8
Australia	0.9	8.1	6.9	0.3	2.7	2.8
China	0.6	7.8	6.9	4.1	32.4	26.3
Japan	4.6	44.3	39.9	11.3	98.3	88.2
NICs[2]	5.1	48.5	43.2	6.7	58.7	53.6
South/Central America	3.8	33.4	30.3	3.4	31.9	28.8
Argentina	0.4	3.7	4.8	0.1	1.4	1.0
Brazil	0.8	6.1	2.6	0.8	7.3	6.2
OPEC	1.6	14.5	15.8	2.8	26.1	27.1
Total	45.2	419.7	383.4	62.0	544.8	480.5

[1] EFTA includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland
[2] The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan.

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

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

Table 6
Nominal U.S. exports and trade balances of services, by sectors, Jan. 1993-Oct. 1994 seasonally adjusted

Sector	Exports		Change		Trade balances	
	Jan.-Dec. 1993	Jan.-Oct. 1994	Jan. Dec. 1993 over Jan.-Dec. 1992	Jan. Oct. 1994 over Jan.-Oct. 1993	Jan.-Dec. 1993	Jan.-Oct. 1994
	Billion dollars		Percent		Billion dollars	
Travel	57.6	48.6	6.2	1.3	17.1	13.1
Passenger fares	16.5	14.1	-2.5	1.4	5.1	3.8
Other transportation	23.1	20.2	2.0	5.2	-1.4	-1.2
Royalties and license fees	20.4	18.6	2.4	9.4	15.6	13.6
Other private services[1]	54.9	48.5	7.6	6.8	22.8	19.4
Transfers under U.S military sales contracts	11.4	9.2	5.4	-6.1	-0.8	0.3
U.S. Govt. miscellaneous services	0.8	0.6	-5.8	-14.3	-1.5	-1.6
Total	184.8	159.8	4.7	4.7	56.9	47.5

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

Note.—Services trade data are on a Balance-of-Payments (BOP) basis. Numbers may not add to totals because of seasonal adjustment and rounding.

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

INTERNATIONAL TRADE DEVELOPMENTS

Group of Three Agreement Closer To Reality

On June 13, 1994, Venezuela, Colombia, and Mexico signed the Group of Three (G-3) economic integration treaty, which is scheduled to enter into force on January 1, 1995. The G-3 market includes some 160 million consumers, with a combined GDP of nearly $400 billion. The three trade partners account for about 40 percent of total trade in Latin America. All are members of ALADI, the Latin American Integration Association, which includes two subregional trade blocs, the Andean Pact and the Southern Common Market. The G-3 pact was preceded by a September 1990 agreement among the three countries to expand economic ties and to create common energy projects on the continental rim of the Caribbean Basin and a bilateral FTA between Colombia and Venezuela, signed originally in July 1993.

The G-3 agreement appears to be the most liberal of the many trade agreements that have come about among various Latin American countries in the recent past. Given December's Miami Summit boost to regional integration efforts, the G-3 accord could be a model for future group assimilation into the Free-Trade Accord of the Americas.

The treaty is asymmetrical in that Mexico, whose economy is different in size and level of development from either Colombia's or Venezuela's economy, agreed to eliminate a number of tariffs immediately but that the other signatories have 5 years to meet the same objective. In addition, certain provisions of the accord pertain only to relations between Mexico, Colombia, and Venezuela, but do not apply to trade between Colombia and Venezuela. These include measures governing market access, automotive trade, agriculture, rules of origin, safeguards, unfair trade practices, and policies regarding state enterprises. Thus, the presumably more preferential provisions of the existing bilateral agreement will not be superseded by the G-3 provisions. The accord also introduced such new themes as intellectual property, telecommunications, and foreign investment into trade discussions among the three signatories.

The Colombian Parliament approved a bill ratifying the G-3 agreement on November 16, 1994. The Venezuelan Parliament approved a similar bill on December 8, 1994.

Summary of tariff provisions

With the exception of agriculture, the G-3 agreement calls for complete elimination of tariffs over a 10-year period. For specified agricultural goods, duty elimination will be phased in over 15 years (see below). A free-trade zone is anticipated by 2005 as import duties are gradually eliminated. U.S. Embassy in Bogota reports that tariff elimination is generally to be accomplished in 10 equal steps over the 10-year period. The agreement allows for accelerating the pace of duty reductions.

As members of the Andean Pact, Colombia and Venezuela have previously agreed to a four-tiered common external tariff. The four major tariff categories and rates at signing were 20 percent for consumer goods, 15 percent for intermediate and capital goods produced domestically, 10 percent for intermediate/capital goods not produced domestically, and 5 percent for raw materials. On November 28, 1994, it was announced that members of the Andean Pact (Colombia, Venezuela, Bolivia, Ecuador, and Peru) agreed to the establishment of a common external tariff, effective in February 1995.

According to the terms of the G-3 agreement, 50 percent of Colombian products will enter Mexico duty free as of January 1, 1995, the date on which the agreement becomes effective. In contrast, only 9 percent of Mexican goods will come into Colombia free of duty. The accord provides for "temporary flexibility" in the granting of preferential treatment to certain textile products traded between Mexico and Colombia. The flexibility lasts until December 21, 1999.

After the initial tariff reductions, Mexico's maximum allowable tariff will be 35 percent, whereas Colombia's and Venezuela's will be 25 percent. Under the agreement, 62 percent of exports from Colombia

and Venezuela will enter Mexico free of duty. The comparable share of Mexican exports entering Colombia and Venezuela is 16 percent. Petroleum oil industries in all three countries are exempted from the terms of the agreement.

Summary and Description of Major NonTariff Provisions

The following list highlights key nontariff features of the G-3 agreement:

- Is called an economic complementarity agreement
- Provides for reciprocal tariff elimination
- Includes one-way tariff preferences
- Eliminates non-tariff barriers
- Contains commitment not to introduce new barriers
- Adopts ALADI Res. 78 rules of origin (50%)
- Contains special provisions on automotive trade
- Permits safeguards in accordance with ALADI Res. 70
- Permits antidumping and CVDs conforming with GATT
- Mentions intellectual property protection
- Establishes committee to administer
- Creates binding, time-limited dispute settlement mechanism
- Calls for liberalization of government procurement
- Calls for work to prevent technical barriers
- Affirms parties' commitment under ALADI to apply domestic taxes in a nondiscriminatory manner
- Affirms parties commitment under ALADI to accord partner investors national and MFN treatment
- Permits negotiated accession
- Requires parties to automatically adjust bilateral tariffs after negotiations with third countries

Nontariff measures are explicitly mentioned in the G-3 agreement, with a promise to neither adopt nor maintain "any prohibition or restriction" on imports or exports destined for another party to the agreement. Exceptions to the elimination of nontariff barriers are included as annexes to the agreement. The exclusions cover "used goods" and "energy goods" as specified in the accord and are applicable to measures of all three signatories. The agreement does not address the liberalization of sea and air transportation.

Export taxes are generally prohibited by the agreement, although country-specific lists of articles on which such taxes may be imposed are specified. These cover "essential goods," the majority of which are foods.

The major nontariff provisions of the agreement are described below.

Intellectual property rights

A number of common policies in the domain of intellectual property have already been adopted by Colombia and Venezuela through the Andean Pact. Intellectual property rights (IPR) are covered in chapter XVIII of the G-3 Agreement. G-3 signatories agreed to accord protection to copyrights and industrial property (trademarks). The G-3 agreement on IPR does not contain any provisions regarding patent protection. This lack of explicit G-3 protection is a major shortcoming. (Andean Pact Decision 313 commits parties to providing 15 years of patent protection.) Enforcement of IPR provisions is considered generally weak, and the G-3 agreement does not require parties to establish any special institutions or to allocate funds for enforcement. However, some procedures to prevent customs clearance of infringing goods are included.

Government procurement

Government procurement is covered in chapter XV of the Agreement. The agreement specifies coverage in terms of three categories of criteria basic to any agreement covering government procurement: covered agencies; covered goods, services, and construction projects; and threshold contract amounts. National and MFN treatment is to be accorded bidders from other countries for covered procurements. Compensatory requirements on prospective suppliers, such as local content requirements, are prohibited. Rules on nondiscrimination and transparency in the tendering process are set out. Procedures for appeal are also included in the agreement.

Investment

Underlying the negotiations concerning investment was general agreement by the parties that foreign investment encourages competitiveness and that greater investment security would encourage foreign investment.

Chapter XVII addresses investment. Certain basic guarantees—notably, national treatment and freedom from performance requirements—are accorded by the pact. Signatories must specify sectoral exceptions to this commitment within 8 months of the signing of the agreement. The conditions that would prohibit free, open transfers (profits, dividends, repatriations, and so forth) are specified. They include bankruptcy, criminal

or administrative offenses, dealing in securities or ensuring the satisfaction of judgments in adjudicatory proceedings. Limited terms for expropriation and nationalization of investments are spelled out, as are the criteria and procedural rules for claims and arbitration. Dispute settlement in investment cases is assured under either the ICSID Convention or the UNCITRAL Arbitration Rules.

Dispute settlement and administering institutions

The Administrating Commission (established in article 20-01) of the agreement) is the principal institution of the G-3 trade pact. A number of other committees and working groups are also set up under the agreement, including the Automotive Sector Committee (article 4-03), Agricultural Trade Committee (article 5-10), Working Group on Technical and Agricultural Marketing Rules (article 5-09), Sugar Analysis Committee (annex 3 to article 5-04), Committee on Plant and Animal Health Measures (article 5-29), Working Group on Rules of Origin (article 6-17), Committee on Regional Integration of Inputs (article 6-20), Customs Procedures Working Group (article 7-11), Committee on Competition (article 16-02), and a Committee on State Enterprises (article 16-02), which is charged with detecting discriminatory practices. As a general rule, each of the institutions is required to report annually to the Administrating Commission.

Chapter XIX of the Agreement covers dispute settlement. Its dispute settlement procedures afford parties three options: the GATT dispute settlement system, the Andean Pact system (for disputes affecting Colombia and Venezuela), or the G-3 system. The latter comprises three tiers—bilateral consultations, the G-3 Commission ("Administrating Commission"), and a court of arbiters, an ad hoc court of five individuals formed from a roster of 30 experts. Definite time frames are set out for each level of review, and the final decision of the arbitral court is binding on the disputing parties.

Rules of origin

The G-3 rules of origin are based on either a change in tariff classification, minimum regional value-content, or a combination of both.

Chapter VI outlines the rules of origin for the G-3 agreement. A regional value-content standard is established as follows:

For chapters 28 - 40 of the Harmonized System—

40 percent for years 1 through 3
45 percent for years 4 and 5
50 percent thereafter.

For chapters 72 - 85 of the Harmonized System—

50 percent.

For all other chapters of the Harmonized System—

50 percent for years 1 through 5
55 percent thereafter.

Specific requirements outlining the type of tariff classification change needed are included in a lengthy annex to the chapter.

Negotiations on this section of the agreement were particularly contentious, and delays resulted when consensus was not reached. The difficult areas included textiles and apparel and copper.

The agreement establishes a working group on rules of origin; the group is to meet at least twice a year and to ensure the effective implementation and administration of the rules of origin. It will also consider proposed modifications to the chapter and present its recommendations to the Administrating Commission.

Safeguards

The safeguard measure of the G-3 agreement resembles that of other arrangements. That is, parties have the right to seek protection from injurious surges in imports under specified circumstances. Such protection, however, is narrowly defined (that is, tariff based, as opposed to quantitative or other restrictions) and time limited (that is, one year, extendable for a second year). Compensation to affected parties is to be provided upon request.

Automotive trade

The Andean Pact Common Automotive Policy, which entered into force on January 1, 1994, calls for members to levy a 35-percent duty rate on passenger vehicles originating outside the free-trade area.

Under the G-3 agreement, the automotive sector is allowed 12 years, as opposed to the general 10-year limit, to accomplish barrier elimination. Thus, elimination of duties, import permits, performance requirements, and so forth is to be accomplished by January 1, 2007. However, existing tariffs on automotive trade among the parties may reportedly

remain until mid-1997, before the elimination or reduction process begins. Used motor vehicles are explicitly excluded from the tariff elimination program. The Automotive Sector Committee, established by the agreement, is to propose rules of origin for automotive goods at the end of the first year of the agreement. The Committee is also responsible for recommendations on acceleration and other modifications to the tariff elimination program.

Agriculture

While the agreement bans future quantitative restrictions, price bands or price stabilization mechanisms, and variable tariffs for agricultural products, it recognizes the need to gradually eliminate existing controls. Four categories of goods in the agricultural sector are established: products subject to price bands; products subject to nontariff restrictions, such as licenses or quotas; basic products (corn and other dietary staples); and products included in the tariff elimination schedule. The aim over a 10-year period is to move products from the first three categories into the fourth. As goods are incorporated into the tariff elimination program, rules of origin will be established.

The agreement allows for a slower and less comprehensive liberalization of specified agricultural goods. The duty elimination for such goods would take place over a 15-year period, a departure from the general 10-year rule. Liberalization of trade in sugar is deferred to a special committee, which is to work out a tariff-quota system.

Other important topics covered by the agreement include trade in services, telecommunications, financial services, technical standards, and administration of the treaty.

U.S. Opens New Investigation of Korea's Beef and Pork Market

The U.S. Trade Representative in late November initiated a section 301 investigation of Korea's practices regarding the importation of U.S. beef and pork. At the same time, the United States requested consultations with Korea on the subject. The investigation is the latest in a series of bilateral disputes about foreign access to Korea's market for imported meat. Since 1988, the United States has held numerous bilateral negotiations — and reached three separate market-access agreements — designed to expand foreign access for beef and pork products in Korea. The latest dispute centers on U.S. industry concerns that actions by the Korean Government are impeding the ability of U.S. suppliers to sell their products in Korea and violate Korea's previous market-opening commitments.

The petition was filed by the National Pork Producers Council, the American Meat Institute, and the National Cattlemen's Association. The petitioners allege that the Government of Korea has established barriers that impede the importation of U.S. beef and pork products in violation of three trade agreements. They further allege that the barriers are unreasonable and burden or restrict U.S. commerce. The barriers alleged by the petitioners include—

- Outdated, scientifically unsupported and discriminatory shelf-life standards;
- Excessively long inspection procedures;
- Contract tender procedures that prevent U.S. producers from meaningfully participating in the bidding process;
- Local processing and repackaging requirements;
- Discriminatory fixed-weight requirements;
- Dual standards for residue testing; and
- Short pork temperature reduction requirements.

Meat industry officials pointed out that, compared with other countries, Korea has set relatively short shelf life requirements for processed, frozen, and fresh-chilled meat. For example, Korea established shelf life requirements of 10 days for fresh chilled pork and 14 days for fresh chilled beef. However, industry officials pointed out that the shelf life requirements are shorter than the time necessary to ship the product to Korea. They add that shelf life requirements for such countries as Mexico and Japan are 40 days for pork and 100 days for beef.

Other areas of concern to the meat industry include tendering requirements, residue testing, and customs delays. Although the Korean Government agreed to provide 1 week notice when offering tenders for the purchase of pork products, in practice, the notices are reportedly published 1 or 2 days in advance. Regarding residue testing, the meat industry maintains that Korea imposes onerous testing requirements on imported and not on domestic meat. Finally, the meat industry reports that imports of meat from the United States are routinely held up at customs for 2 to 3 weeks whereas imports from countries that supply much less beef to the Korean market are cleared within 48 hours.

The three agreements that the petitioners allege Korea has violated are a 1989 exchange of letters on agricultural products, a 1990 record of understanding on beef, and a 1993 record of understanding on market access for beef. Meat industry officials estimate that, because of the barriers, U.S. producers of beef and pork may lose $215 million in 1994 and $1 billion a year by the end of the decade.

In June 1993, the United States and Korea reached an agreement designed to widen access for foreign beef in the Korean market. Under the terms of the agreement, minimum beef import quotas would rise from the 1992 level of 66,000 metric tons to 113,000 metric tons in 1995. The 1993 agreement grew out of a 1988 dispute initiated by the American Meat Institute when it filed a section 301 petition with USTR alleging that Korea's licensing system on imported beef violated 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.

In the first phase of the investigation, USTR is soliciting public comments about the Korean practices and their effect on U.S. commerce. A final decision must be made by November 22, 1995. After that date, if the dispute is unresolved, the United States can begin the process of imposing sanctions against Korea.

APEC Sets Goal of Free Trade and Investment

During November 11-12, Asia-Pacific Economic Cooperation (APEC) held its Sixth Annual Ministerial meeting in Jakarta, Indonesia followed by the second Leader's meeting in Bogor, Indonesia. The fourth APEC Senior Officials Meeting (SOM) was held during November 8 to 10 to prepare for the Ministerial. This article discusses some of the major accomplishments of APEC during 1994 and the results of the November meetings.

Background

APEC was established in 1989 as an informal consultative forum to promote regional economic cooperation. APEC's members, include Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, Chinese Taipei (Taiwan), Thailand and the United States. (Chile participated in Working Group meetings in 1994 and became a full member of APEC at the Sixth Ministerial meeting in November 1994). Representatives from APEC's Secretariat participated in the November meetings. Representatives of ASEAN, the Pacific Economic Cooperation Council (PECC), and the South Pacific Forum (SPF) also attended the meetings as observers. The APEC Secretariat is located in Singapore.

APEC operates by consensus on the basis of open dialogue with equal respect for the views of all participants. The organization's decisions are nonbinding. The APEC Chair rotates annually among the members and is responsible for hosting the annual Ministerial, a meeting of foreign and economic ministers. Indonesia hosted this year's Ministerial, to be followed by Japan in 1995, the Philippines in 1996, Canada in 1997, and Malaysia in 1998. APEC Senior Officials meet regularly between the Ministerials to implement the decisions of and to make recommendations to the Ministers. The Senior Officials also oversee and coordinate, with the approval of the Ministers, the budgets and work programs of the committees and of the 10 Working Groups. The Working Groups' activities focus on trade promotion, trade and investment data, investment and industrial science and technology, human resources development, regional energy cooperation, marine resource conservation, telecommunications, transportation, tourism, and fisheries.

In 1991, APEC agreed on the specific objectives of more open trade, greater economic cooperation, investment expansion, and strengthening the multilateral trading system. APEC Ministers established a nongovernmental Eminent Persons Group (EPG) in 1992, formed by representatives from member economies and chaired by C. Fred Bergsten, to develop a vision of trade in the region to the year 2000. At the 1993 Ministerial meeting in Seattle, the EPG recommended that APEC adopt a vision of creating a community of Asia-Pacific economies to achieve free and open trade and investment in the region. The Ministers directed the group to continue its work in 1994 and report back to the Ministers at the 1994 Ministerial.

In 1993, the United States hosted the first informal meeting of APEC leaders at Blake Island near Seattle. The leaders agreed that APEC should pursue eight initiatives in 1994. Accordingly, APEC should (1) convene a Finance Ministers meeting; (2) establish a Pacific Business Forum (PBF) comprised of business officials to identify ways to facilitate trade and investment in the region; (3) establish an APEC Education Program to develop regional cooperation in higher education; (4) establish a Business Volunteer Exchange Program to promote human resources

development; (5) convene a small and medium enterprise ministers meeting; (6) develop a nonbinding code of principles covering investment issues; (7) develop a plan for energy security, economic growth and environmental protection; and (8) establish a center to facilitate exchange of technology. Progress was made on each of these initiatives during 1994 and was reported to the Ministers at their November meeting.

1994 APEC accomplishments

During 1994, there was a broadening and deepening of APEC activities as evidenced by an increase in the number of meetings, proposals, and programs. For example, a series of separate Ministerial meetings involving ministers in charge of finance, environment, trade, and small and medium enterprises was held during 1994. In general, APEC's work is centered on the Leaders' initiatives and on APEC working group activities. Indonesia, in its role as chair, identified four priority areas for APEC in addition to trade liberalization: human resources development, small and medium enterprises, infrastructure development, and business/private sector cooperation. Progress on all of these issues was discussed during the November APEC meetings. In particular, the Ministers adopted a declaration identifying principles and elements of human resources development in APEC and a plan for its implemention.

On November 15, APEC leaders, under Indonesian President Suharto's strong leadership, agreed to the Bogor Declaration, which lays out APEC's plan for future economic cooperation. The Bogor Declaration commits APEC to a long-term goal of achieving free and open trade and investment in the Asian Pacific by 2020 for the developing economies and by 2010 for the developed economies. The phased-in timetable reflects the strong preferences of developing Asian economies for a recognition of the diverse levels of economic development within APEC. However, even the phase-in provision did not satisfy Prime Minister Mahathir of Malyasia, the most vocal critic of APEC and its trade liberalization goals, who reportedly issued a dissenting statement that was not attached to the Bogor Declaration.

Some concerns about the timetable have been raised with regard to whether the United States would be disadvantaged because it would be required to open its market before barriers were lowered in the developing Asian economies. However, supporters of the declaration note that U.S. tariff rates are already 3 percent on average compared with approximately 40 percent in some of the APEC economies, indicating that U.S. exporters are likely to benefit from the agreement. Notably, the Bogor Declaration does not indicate which countries would be considered developed or developing. Questions have already arisen over whether the newly industrialized economies, such as Korea, could be required to liberalize early.

The actual blueprint for liberalization will be developed during 1995, taking into account the recommendations of the EPG and the PBF for achieving free trade and investment. Developing the blueprint could prove to be difficult given the concerns that some APEC members have expressed over liberalizing such sensitive sectors as agriculture. A core group of economies, under Japan's leadership as the Chair, will steer APEC's efforts to "begin preparing detailed proposals for implementing" the free-trade goals outlined in the Bogor Declaration. A "building block" approach to address less controversial subjects, such as customs procedures, standards and other issues already being addressed within the Working Groups, has been suggested as one method for beginning the process of liberalization.

The Bogor Declaration also expands on many themes of last year's Leaders Initiatives and decisions taken by APEC ministers. APEC leaders reaffirmed their commitment to strengthening the multilateral trading system, emphasizing their willingness to accelerate implementation of their Uruguay Round commitments. In the Bogor Declaration, APEC leaders addressed directlythe question of China's joining the World Trade Organization (WTO) as a founding member by including a sentence that calls on all non-APEC members to work together toward further multilateral liberalization. APEC members reiterated their opposition to creating an inward-looking trading bloc by seeking to reduce barriers among APEC members and between APEC economies and non-APEC economies. To further the process of trade facilitation, the Leaders requested that APEC Ministers and Senior Officials submit proposals on customs, standards, investment principles, and administrative barriers to market access. These issues are currently being addressed by the Committee on Trade and Investment (CTI).

One of the most contentious issues addressed by the CTI, the Senior Officials, and the Ministers was reaching agreement on a set of non-binding investment principles, as laid out in the 1993 Leaders Initiatives. The PBF, in its report, had recommended the adoption of an investment code, including 17 principles, by the APEC Leaders at their meeting in November. A consensus was reached among APEC Senior Officials on a set of 12 principles. However, the U.S. business community was not in full support of three of the principles regarding national treatment, repatriation of profits, and performance requirements since the

disciplines proposed were weaker than those accepted by the United States in more formal agreements. Following pressures from the other APEC members, the United States eventually compromised and agreed to the set of 12 nonbinding principles along with the other Ministers.

In order to strengthen APEC's work on economic policy issues, the Ministers agreed to transform the current Ad Hoc Economic Trends and Issues Committee into a permanent Economic Committee to be chaired by Canada; the Committee is to discuss growth strategies, capital flows, and other macroeconomic issues. In addition, the Ministers agreed to hold a second Finance Ministers meeting in Indonesia in April 1995.

With regard to other issues of importance to the United States, the Ministers endorsed a recommendation that the PBF become a permanent body to serve as a channel between APEC and the private sector. The United States also received support from the Leaders for the development of APEC study centers, which would link APEC universities (12 in the United States so far) together through electronic communications networks.

Future issues and directions

On a positive note, APEC has taken concrete actions toward dispelling the perception that the organization is merely a regional "talk shop." In 1994, APEC members negotiated their first policy document, the set of nonbinding investment principles.

Substantial progress has also been made in the areas of customs conformance and mutual recognition and of customs facilitation and harmonization. The blueprint for achieving free trade in the region, which will be developed in 1995, is expected to lay the foundation for further advancing APEC's goals with regard to trade and investment. APEC has already influenced the actions of other trading partners. For example, the APEC Leaders' meeting in November 1993 was credited with providing momentum for the conclusion of the Uruguay Round the following month. In addition, the APEC members' decision in 1994 to establish a timetable for free trade reportedly encouraged the economies of Latin America to set a specific date for free trade at the Summit of the Americas.

Despite these accomplishments, APEC will be forced in the near future to confront several issues relating to membership and organization. There are 2 years remaining on the moratorium on membership adopted in 1993, during which time APEC must develop criteria for new members. Already, there is a long list of prospective applicants for either full membership or participation in APEC Working Groups as nonmembers. In addition, such groups as the European Union have requested observer status. APEC members, under increasing pressures from nonmembers, will continue to grapple with how far and how wide, geographically, to expand membership without diluting the organization's regional focus.

Another major issue with implications for the future direction of APEC is the size and scope of the Secretariat's activities. So far, a majority of APEC Ministers have emphasized their strong preference for a small and simple Secretariat, with most of the substantive work being carried out by the Working Groups or APEC members. However, as APEC's work and projects multiply, the differences in perspectives between the developed economies who would like to see increased institutionalization and the developing economies who would prefer APEC to remain as "unbureaucratized" as possible could become more acute.

Finally, the diverse levels of economic development and differences in political systems within APEC are bound to become more visible regarding decisions over substantive matters, especially as the difficult work on liberalization of specific sectors progresses. Such issues as technology transfer, environment, development assistance, infrastructure development (especially information infrastructure), energy, and others are likely to highlight the North-South differences within APEC. In short, the relatively easy work of APEC is behind it, and the difficult task of overcoming the tremendous diversities within APEC in order to achieve free trade and investment liberalization has begun.

SPECIAL FOCUS

Greater Opportunities for U.S. Business in Ex-Communist Southeastern Europe

Opportunities for U.S. business in Romania, Bulgaria, and Albania are increasing as a result of economic recovery, market reforms in these countries, and the expansion of their commercial relations with the United States. The three countries participate in the efforts to dismantle barriers to trade between the European Union (EU) and the former Eastern Bloc countries, as well as in the efforts to liberalize trade in the former Eastern Bloc.[1] Trade liberalization is not entirely favorable for U.S. exporters since their European competitors have to pay fewer, smaller, or no tariffs on their shipments to the region. In fact, U.S. exports to these countries declined during 1994. Nevertheless, they are expected to grow again. Development projects, like those launched under the aegis of the recently formed Black Sea Economic Cooperation Organization, and generally rising personal incomes will create enough import demand to allow nonregional exporters to establish significant market shares over the long run.[2] Tariff reduction between the Southeast European countries and the rest of Europe creates new incentives for U.S. firms to establish manufacturing plants and distribution centers in the region.

Recovery at last

The first and most painful phase of dealing with the economic consequences of four decades of communist rule may finally be over in Romania ($22.8 millión), Bulgaria (8.4 million), and Albania (3.5 million.)

The economic downturn that followed the 1989 collapse of communism in Europe was deeper and longer in these three countries than in the Central European states of the Czech Republic, Hungary, Poland, and Slovakia. In the three Southeast European states, the decline in output and employment assumed critical proportions, plunging the population into hardship not seen in Europe since World War II. Although the economic situation is still precarious in the three Southeast European states, reforms to liberate private economic initiatives, macroeconomic stabilization measures, and financial and moral support by the international community have begun to show results. The deterioration of the economic situation stopped during 1994, and a new period of sustained growth with moderating rates of inflation is in sight.

Business Eastern Europe forecasts 3.0 percent economic growth for Romania during 1995, 1.5 percent growth for Bulgaria, and a robust 6.0 percent growth for Albania. In Romania, the rate of inflation is projected to decline from 150 percent during 1994 to 50 percent during 1995. Over the same period, inflation is projected to decline from 100 percent to 75 percent in Bulgaria and from 24 percent to 18 percent in Albania. Foreign investors showed a growing interest in the three countries during 1994. At the end of the year, cumulative direct investment on an actual disbursement basis reached $404 million in Romania, $170 million in Bulgaria, and $50 million in Albania. Cumulative investment on a commitment basis was an estimated $1 billion, $600 million, and $350-400 million, respectively. Further capital inflows should bolster the economic recovery.

More reforms and improvements in the business environment

The three Southeast European countries unquestionably trail the Czech Republic, Hungary, Poland, and Slovakia in the transition to a market economy. Whereas the share of the private sector in 1994 represented 55 to 65 percent in the four Central European countries, it represented 50 percent in Albania, 40 percent in Bulgaria, and 35 percent in Romania.[3]

The three Southeast European countries also lag behind the Central European contingent in providing business opportunities and in creating an attractive business environment for foreign investors. At the end

[1] Albania, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, the Baltic states, and the former Soviet republics. The three Southeast European countries plus the Czech Republic, Hungary, Poland, and Slovakia are called Central and Eastern Europe.

[2] During 1994, the estimated U.S. trade (exports plus imports) with Germany was $569 per capita of the German population. In comparison, U.S. trade with the three Southeast European countries was only $19 per capita of the region's population. The difference proves that belonging to a free trade area, or to an even more advanced scheme of economic integration such as the EU, does not exclude high levels of commodity exchange with countries outside the free trade area. Economic development and increasing personal incomes within a free-trade area generate new trade with countries outside the area.

[3] Based on estimates of the European Bank for Reconstruction and Development, as quoted by the British journal *The Economist*, Dec. 3, 1994, p. 27. For details on evaluating progress in creating a market economy, see U.S. international Trade Commission (USITC), *Central and Eastern Europe: Export Competitiveness of Major Manufacturing and Services Sectors* (investigation No. 332-308), USITC publication 2452, Nov. 1992, pp. 1-6.

of 1994, the average per capita foreign investment in the three Southeast European countries was approximately $18 per capita, compared with a per capita foreign investment of $185 in the four Central European states.

Nevertheless, there are indications that privatization is gathering momentum in Albania, Bulgaria, and Romania and that the three governments are taking steps to accelerate the inflow of foreign private capital. For example, the Romanian cabinet recently approved a new incentive package for foreign firms that invest more than $50 million, source at least 60 percent of their supplies locally, and export at least 50 percent of their output. These firms may enjoy a 5-year general tax holiday and a 7-year holiday from customs duties for capital equipment and raw materials.

Commercial relations with the United States

Since the fall of communism, the United States and the three Southeast European countries have normalized and expanded their commercial relations. At present, all three countries have most-favored-nation (MFN) tariff status with the United States. The MFN treatment of Bulgaria became effective on November 22, 1991; that of Albania, on November 2, 1992; and that of Romania on November 8, 1993.

The MFN treatment of the three countries was extended under the Jackson-Vanik ("Freedom of Emigration") Amendment of the Trade Act of 1974. The Jackson-Vanik Amendment provides for the temporary extension of MFN tariff status on the condition that the U.S. administration and Congress find the emigration policies of any country that is subject to the Amendment at least relatively satisfactory. Since the turnabout in 1989, in granting or extending MFN status, the U.S. Congress has considered other human rights issues besides the freedom to emigrate. MFN tariff treatment under the Jackson-Vanik Amendment was extended to Bulgaria and Albania for the first time on the dates indicated. For Romania, the 1993 extension meant a reinstatement of its MFN status. In 1988, the Ceaucescu regime, anticipating the discontinuation of its MFN status by the United States, voluntarily renounced the status.[4] The Czech Republic, Hungary, Poland, and Slovakia have been removed from the authority of the Jackson-Vanik Amendment and have enjoyed permanent MFN status since January 1993.

Following the granting of MFN status, the United States has also extended government trade and investment programs to Albania, Bulgaria, and Romania. All three countries can ship commodities listed under the U.S. Generalized System of Preferences (GSP) duty free to U.S. markets. The three countries are also eligible for the services of the Overseas Private Investment Corporation (OPIC). The OPIC is a self-supporting public enterprise that extends political insurance and other guarantees for commercial activities in the eligible countries. Currently, Bulgaria and Romania are eligible for the support of the U.S. Export Import bank (Eximbank). The Eximbank is a public enterprise that extends and guarantees credit for U.S. exporters in the eligible countries.

The United States has signed bilateral investment treaties (BITs) with Bulgaria and Romania. These agreements guarantee that U.S. investors in the respective countries are accorded conditions no less favorable than those enjoyed by domestic or third-country investors. They provide for the unconditional repatriation of capital, the protection of intellectual property rights, and access to international forums of arbitration. U.S. and Albanian officials began negotiations to conclude a similar agreement.

The United States finances investment funds in the three countries. They are called the Albanian-American Enterprise Fund, Bulgarian-American Enterprise Fund, and Romanian-American Enterprise Fund. These public corporations support private entrepreneurship in the three countries primarily by investing in and making loans to promising, new, privately owned enterprises.

The United States extends technical assistance and aid to the three countries. During 1994, total U.S. aid and assistance was an estimated $57.1 million to Romania, $30.0 million to Albania, and $27.4 million to Bulgaria. The 1994 funding level was similar to the 1993 level.[5]

Analysts expect commercial relations to expand further between the United States and the three Southeast European states. For the three Southeast European states, closer relations with Washington not only facilitate more trade with the United States and the inflow of private U.S. capital, but also increase U.S. support for them in international organizations and tend to enhance their credibility in international financial markets. For the United States,

[4] For details, see USITC, *57th Quarterly Report to the Congress and Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During 1988*, USITC publication 2176, May 1989, pp. 11 and 12.

[5] Estimates by the U.S. Agency for International Development.

expanded relations mean new trade and investment opportunities in a relatively untapped, emerging economic zone.[6]

Integration into the EU

Romania and Bulgaria have signed association agreements with the EU. These agreements establish a free-trade zone between each country and the Community in 10 years, and they pave the way for the membership of the two countries in the Community over the long run. The implementation of the free-trade agreement with Romania began on May 1, 1993, and that with Bulgaria began on December 31, 1993.

Under the terms of the agreements, the EU is obligated to remove tariffs and quantitative restrictions on imports from Romania and Bulgaria before the two Southeast European countries are obligated to remove them on imports from the EU. The barriers on steel and textile products will be phased out over a longer period of time than barriers on other industrial products. The reduction of barriers in agricultural trade will be negotiated separately. According to EU estimates, by the end of 1995, about 65 percent of the industrial imports from Bulgaria and 56 percent of those from Romania will enter the EU market without any restriction. The EU estimates that there would be free trade with the two countries in steel in 1996 and free trade in textiles in 1997.

The EU signed a Trade Cooperation Agreement with Albania that went into effect on December 1, 1992. In addition to conferring MFN status on Albania, the agreement removed some specific quantitative restrictions against industrial imports (in areas other than steel and textiles) originating in the country. The agreement may also serve as the basis for an association agreement, similar to those that the EU has concluded with the rest of the former communist states of Europe.

The EU's share in the trade of the three countries has increased sharply in recent years. During 1994, the EU accounted for 75 percent of the trade of Albania, 40 percent of the trade of Romania, and 33 percent of the trade of Bulgaria.

The integration of the Southeast European countries into the EU has just begun, but it is already affecting U.S. trade with and investment in the region. The dismantling of Southeast European tariff walls against the EU, as opposed to nonregional suppliers for whom the walls still exist, puts U.S. exporters at a competitive disadvantage vis-a-vis EU suppliers. At the same time, the prospect of selling in the EU market goods manufactured at low cost in the Southeast European countries is creating new incentives for U.S. firms to set up manufacturing and distribution facilities in these countries.[7]

Proliferation of free-trade agreements across Eurasia

A market-opening movement is sweeping the whole of Europe and the former Soviet republics of Asia. The EU is liberalizing trade with the former Eastern Bloc countries and these countries are liberalizing trade among themselves. The EU has entered into trade and association agreements with the Czech Republic, Hungary, Poland, and Slovakia. It has entered into free-trade agreements with the Ukraine and Estonia, and it has signed or is negotiating such agreements with others in the former Eastern Bloc.

Within the former Eastern Bloc itself, two multilateral free-trade pacts are in force. On March 1, 1993, the four former communist states of Central Europe began to implement the Central European Free-Trade Agreement (CEFTA).[8] On April 1, 1994, Estonia, Latvia, and Lithuania began to implement the Baltic Free Trade Agreement. In addition, several bilateral agreements are in force. Some of these are between former Soviet republics, for example, between Russia and Belarus. The Baltic states have also concluded free-trade agreements with former Soviet republics. On January 1, 1995, a free-trade agreement between Romania and the Czech Republic went into effect. As a result, many industrial products from Romania can now enter the CEFTA market duty free via the Czech Republic. The three Southeast European countries are also negotiating free-trade agreements among themselves and with other former Eastern Bloc countries.

From the U.S. point of view, the participation of the three Southeast European countries in the emerging free-trade zone across the former Eastern Bloc further sharpens competition for import shares in the region, but increases incentives to invest there. At present, this double-edged factor is relatively weak. U.S. exporters generally do not face as much competition from exporters in the former Eastern Bloc countries as they do from exporters in the EU. The incentive to invest in

[6] See U.S. Department of State, *U.S. Department of State Dispatch*, vol. 5, No. 17 (Apr. 25, 1994) pp. 234 and 235.

[7] A similar tendency, already in full force, has been observed in U.S. business relations with the countries of post-communist Central Europe. For a description of foreign investment in post-communist Central Europe, see *IER*, Feb. 1994.

[8] For a description of CEFTA, see *IER*, Aug., 1993.

Southeastern Europe in order to serve the market represented by the rest of the former Eastern Bloc may also be weak.

Nevertheless, over the long term, renewed economic development in conjunction with diminished trade barriers in the rest of the former Eastern Bloc might have a growing influence on U.S. business in the Southeast European countries. During 1994, the rest of the former Eastern Bloc accounted for only 3 percent of the trade of Albania, 5 percent of the trade of Bulgaria, and 22 percent of the trade of Romania. However, analysts expect these percentages to increase during the next few years.

U.S. firms doing or intending to do business with the Southeast European countries need to monitor the reduction of export restrictions in the former Eastern Bloc closely. The elimination of tariffs is proceeding unevenly and is constantly changing the conditions for minimizing duties on U.S. shipments to particular destinations. Moreover, reports indicate that the market opening measures among former Eastern Bloc countries are sometimes partially neutralized by temporary import surcharges or value added taxes.

Cooperation with Black Sea countries

All three countries signed the Black Sea Pact (Declaration on Black Sea Economic Cooperation) in 1992, which also includes six former Soviet republics (Russia, Ukraine, Moldova, Armenia, Azerbaijan, and Georgia), Greece and Turkey. (Geographically, Albania is not a Black Sea country.)

The 11-nation organization is called the Black Sea Economic Cooperation Organization (BSECO). BSECO has begun to lay the foundations for cooperation in this diverse region, establishing itself as an economic and communications link. The member countries have drafted projects in the following areas: transportation and communications; information exchange, economic, commercial, and statistical standardization, certification of products, energy, mining, raw-material processing, tourism; and agriculture and food processing industries, veterinary and sanitary protection, health care and phramaceuticals, science and technology. Some joint projects are already underway. Since only Greece and Turkey have convertible currencies in the group, they play pivotal roles in financing joint projects.

Black Sea Pact projects should stimulate the economic recovery of the three Southeast European countries. They should also generate new demands for goods, especially capital goods, that would have to be purchased from firms in the industrialized countries or to be produced with their help. For example, the member countries are negotiating the establishment of a joint energy network, linking national systems. Such a project needs transformers, circuit breakers, metering and storage devices, goods that several U.S. companies (including General Electric Co. and Westinghouse Electric Corp.) produce and export. News reports indicate that the EU sends observers to Black Sea Pact meetings. It is likely that the EU has already surveyed the economic potential of the Pact for EU producers.[9]

U.S. companies based in the three Southeast European countries that choose to trade with Black Sea Pact partners must be ready to engage in barter and countertrade deals. Convertible currency shortages forced these unconventional methods upon traders in the region. Arranging and completing deals that entail compensation in kind require more resources and are accompanied by more risk than currency-based deals. Nevertheless, some U.S. businesses engaged in such deals find them profitable.

Compensation for the negative effects of the Yugoslav crisis

The potential extension of markets for goods produced in the three Southeast European countries to the EU, to the former communist states of Central Europe, and to Black Sea Pact partners may also compensate for at least some of the negative effects of the Yugoslav crisis on U.S. investment in the region.

Thus far, many U.S. companies did not establish themselves in the three Southeast European countries because they would have considered their investments profitable only if they could also sell in the former Yugoslav republics of Macedonia (Skopje), Bosnia-Hercegovina, Serbia, and Montenegro. (At present, most U.S. firms planning to expand or to establish themselves in Romania, Bulgaria, and Albania do not count on exporting to Slovenia and Croatia. These two former Yugoslav republics belong more to Central Europe than to the Balkans.) International economic sanctions against Serbia and Montenegro remain in place. Although U.S. commercial relations are on an even keel with Bosnia-Hercegovina and Macedonia (Skopje), the political uncertainty and the actual and potential armed conflicts in the region still cloud their economic future.

[9] The EU studies the export-stimulating effects of transformation in Central and Eastern Europe on the member countries. See, for example, *Europe Report*, Sept. 18, 1993, p. V-1.

U.S. trade with the three countries in 1994

U.S. exports to the three countries dropped from $457.5 million during 1993 to $297.8 million during 1994. However, imports from the group have increased from $239.6 million to $369.9 million over the period. The following tabulation shows U.S. exports to and imports from the three countries during 1993 and their 1994 projected value based on year-to-date data (in million dollars):

	Exports		Imports	
Country	1993	1994	1993	1994
Albania	34.2	9.9	8.3	7.4
Bulgaria	113.2	99.5	166.0	180.8
Romania	310.2	188.4	65.3	181.7
Total	457.6	297.8	239.6	369.9

Lower U.S. shipments of wheat and corn to the three countries and increased U.S. imports of iron and steel products from them characterized changes in U.S. commodity trade with the group. Good grain harvests in Bulgaria and Romania during 1994 reduced overall demand for imported grains in the two countries. Nevertheless, analysts note that EU grain exporters have increased their share in the Southeast European market. The rise in U.S. iron and steel imports from the Southeast European countries shows that, despite their increasingly close ties with the EU, the Southeast European countries might still find the U.S. steel market more accessible than the EU steel market.

In trade with Romania, coal, meat, meat preparations, and aircraft were the leading U.S. exports during 1994. The drop in U.S. exports to Romania from 1993 to 1994 ended a 3-year trend of growing U.S. exports to the Southeast European country. Lower shipments of wheat explain most of the decline in U.S. exports from 1993 to 1994. In imports from Romania, iron and steel products, articles of apparel and clothing, and footwear were the leading products. Increased shipments of iron and steel products, articles of apparel and clothing accessories, footwear, and general industrial machinery, textile yarn, and gasoline explain most of the increase in U.S. imports from 1993 to 1994. U.S. imports from Romania amounted to $678 million during 1988, the year when the country lost its MFN status. The surge in 1994 shipments is a sign that U.S. imports from Romania are recovering from the decline that followed the country's loss of MFN status in 1988.

In trade with Bulgaria, coal, machinery and equipment topped U.S. exports during 1994. Lower shipments of corn, cigarettes and other tobacco products explain the decline in U.S. exports from 1993 to 1994. Fertilizers, iron and steel products, articles of apparel and clothing accessories, and petroleum oils were the leading U.S. imports from Bulgaria during 1994. Increased shipments in a broad range of products, including iron and steel products, offset a major decline in U.S. tobacco imports from the country. U.S. imports from Bulgaria have been increasing steadily since 1991.

In trade with Albania, the disappearance of coal shipments, a steady part of U.S. exports until 1992, explains the decline in U.S. exports to the country from 1993 to 1994. Agricultural goods (such as wheat, rice, butter, oleaginous products, cotton, and fertilizers) began to rise during 1992-93, but disappeared almost completely during 1994. Meat and meat preparations were the largest U.S. exports during 1994. Among U.S. imports from Albania, iron and steel products were both the largest items during 1994 and showed the largest increase from 1993.

U.S. investment in the three countries

Most U.S. companies have only just begun to invest in the three countries, but they rank, along with companies from Germany, Italy, and France, among the top investors.

At the end of 1994, U.S. private direct investment in Romania amounted to $82 million out of the total $404 million total foreign investment. Amoco Corp., Colgate Palmolive, Inc., and Coca Cola Export Corp. were the largest U.S. investors. General Electric Co., Chemical Bank, Pepsico, Inc., McDonald's Corp., International Business Machines Corp., Digital Equipment Corp., Sheraton, Inc., and American Express Co. have also established themselves in the country.

U.S. investment in Bulgaria amounted to an estimated $50 million of the $170 million total at yearend 1994. Archer Daniels Midland Co., Pepsico, Inc., Kentucky Fried Chicken Corp., Kraft General Food International, Inc., and McDonald's Corp. were the leading U.S. investors. International Business Machines Corp., US West, and Sprint 93 are among the major U.S. firms that have established a presence in the country during 1994.

Of the total $50 million foreign investment in Albania, the investments of U.S. firms accounted for roughly $30 million at the end of 1994. Chevron Corp., Occidental Petroleum Corp., and Coca Cola Export Corp. were the largest U.S. investors.

Specific opportunities for trade and investment

Reports indicate an expanding domestic market for consumer goods, such as household electronics and personal care products in Romania, Bulgaria, and Albania. In addition, the U.S. Department of Commerce has identified the following product groups in which U.S. firms have the best opportunities to export to or invest in Romania: agricultural machinery and equipment; electrical power systems; aircraft and parts; telecommunications equipment; oil and gas field machinery; mining industry equipment; food processing and packaging equipment; agricultural chemicals; medical equipment; textile machinery and equipment.

The Department of Commerce has identified the following areas as the best prospects for Bulgaria: telecommunications equipment; electrical power systems; aircraft and parts; computers and peripherals; automotive parts and service equipment; pollution control equipment; computer software; medical equipment; building products; food processing; and tourism. In particular, the planned privatization of Black Sea hotels should provide some investment opportunities. The recent discovery of oil and natural gas in the country should also open some opportunities for U.S. business.

According to the Department of Commerce, the best prospects for doing business with Albania are in the following product groups: foodstuffs; food processing and packaging equipment; telecommunications; mining industry equipment; textile machinery and equipment; medical equipment; road/highway construction equipment/services; and tourism. Other reports indicate expanding possibilities in offshore oil exploration and the rehabilitation of onshore oil wells and in distribution facilities.

STATISTICAL TABLES

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

(Total Industrial production, 1985=100)

Country	1991	1992	1993	1993 IV	1993 Dec.	1994 I	1994 II	1994 III	1994 Jun.	1994 Jul.	1994 Aug.	1994 Sept.	1994 Oct.	1994 Nov.
United States[1]	104.2	104.3	109.2	112.9	109.0	115.7	117.4	118.8	118.0	118.2	119.1	119.0	119.6	120.2
Japan	127.7	120.4	115.3	114.7	111.6	90.3	90.6	(2)	95.1	97.0	88.9	(2)	(2)	(2)
Canada[3]	113.8	114.9	118.0	119.6	115.5	100.1	105.5	(2)	107.5	101.5	(2)	(2)	(2)	(2)
Germany[4]	100.0	98.1	91.5	95.1	89.7	92.6	94.6	(2)	97.0	91.6	86.8	(2)	(2)	(2)
United Kingdom	109.0	108.6	111.1	116.7	110.8	104.9	101.4	(2)	103.0	95.9	93.3	(2)	(2)	(2)
France	114.2	112.9	108.6	111.5	110.0	100.2	(2)	(2)	102.3	97.4	75.4	(2)	(2)	(2)
Italy	116.8	115.3	112.8	116.3	105.4	101.1	107.1	(2)	108.6	108.4	(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, November 1994, *Federal Reserve Statistical Release*; December 14, 1994.

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

(Percentage change from same period of previous year)

Country	1991	1992	1993	1993 IV	1993 Dec.	1994 I	1994 II	1994 III	1994 Apr.	1994 May	1994 Jun.	1994 Jul.	1994 Aug.	1994 Sept.	1994 Oct.
United States	4.2	3.0	3.0	2.7	2.7	2.5	2.4	2.9	2.4	2.3	2.5	2.8	2.9	3.0	2.6
Japan	3.3	1.6	1.3	1.1	1.0	1.2	0.7	0.0	0.8	0.8	0.6	-0.2	0.0	0.2	0.7
Canada	5.6	1.5	1.8	1.8	1.7	0.6	0.0	0.2	0.2	-0.2	0.0	0.2	0.2	0.2	-0.2
Germany	3.5	4.0	4.2	3.7	3.7	3.3	3.0	3.0	3.1	3.0	3.0	2.9	3.0	3.0	2.8
United Kingdom	5.9	3.7	1.6	1.6	1.9	2.4	2.6	2.3	2.6	2.6	2.6	2.3	2.4	2.2	2.4
France	3.2	2.4	2.0	2.1	2.1	1.7	1.7	3.8	1.7	1.7	1.8	1.7	1.7	1.6	1.6
Italy	6.4	5.1	4.4	4.4	4.3	4.3	3.9	3.8	4.1	4.0	3.7	3.8	3.8	3.8	3.8

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

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

Country	1991	1992	1993	1993 IV	1993 Dec.	1994 I	1994 II	1994 III	1994 Jun.	1994 Jul.	1994 Aug.	1994 Sept.	1994 Oct.
United States	6.7	7.4	6.8	6.5	6.4	6.6	6.2	6.0	6.0	6.1	6.1	5.9	5.8
Japan	2.1	2.2	2.5	2.8	2.9	2.8	2.8	3.0	2.9	3.0	3.1	3.0	3.0
Canada	10.3	11.3	11.2	11.1	11.2	11.0	10.7	10.2	10.3	10.2	10.3	10.1	10.0
Germany[3]	4.4	4.7	5.9	6.4	6.5	6.4	6.6	6.5	6.6	6.5	6.5	6.5	(2)
United Kingdom	8.9	10.0	10.4	10.1	10.0	9.9	9.7	9.6	9.6	9.5	9.4	9.4	9.3
France	9.8	10.2	11.3	11.7	11.7	12.3	12.4	12.4	12.4	12.3	12.4	12.4	(2)
Italy	6.9	7.3	9.4	(2)	(4)	11.2	11.9	11.4	(4)	(4)	(4)	(4)	(4)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.
[2] Not available.
[3] Formerly West Germany.
[4] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, December 1994.

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

Country	1991	1992	1993	1993 IV	1993 Dec.	1994 I	II	III	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.
United States	5.9	3.7	3.2	3.3	3.4	3.4	4.3	4.8	4.5	4.5	4.7	4.8	5.0	5.5	5.7
Japan	7.3	4.4	2.9	2.2	2.0	2.2	2.1	2.2	2.1	2.1	2.1	2.2	2.3	2.3	(2)
Canada	9.0	6.7	5.1	4.3	4.0	4.0	5.7	5.8	6.3	6.5	6.2	5.7	5.6	5.6	(2)
Germany	9.1	9.4	7.1	6.2	5.9	5.7	5.1	4.8	5.0	4.9	4.8	4.8	4.9	5.1	(2)
United Kingdom	11.5	9.5	5.8	5.4	5.2	5.2	5.1	5.3	5.1	5.1	5.1	5.4	5.6	5.8	(2)
France	9.5	10.1	8.3	6.5	6.3	6.1	5.5	5.5	5.5	5.4	5.5	5.4	5.5	5.5	(2)
Italy	12.0	13.9	10.0	8.7	8.5	8.3	7.9	8.5	7.7	8.0	8.3	8.8	8.6	8.8	(2)

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

Source: *Federal Reserve Statistical Release*, December 5, 1994 *Federal Reserve Bulletin*, December 1994.

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

Item	1991	1992	1993	1993 IV	1994 I	II	III	Jul.	Aug.	Sept.	Oct.	Nov.
Unadjusted:												
Index[1]	8.5	97.0	100.1	101.2	101.6	100.0	96.5	96.7	97.1	95.7	94.8	95.5
Percentage change	-1.5	-1.5	3.1	1.6	.4	-1.6	-3.5	-2.4	.4	-1.4	-.9	.7
Adjusted: Index[1]	101.1	100.9	104.2	104.1	104.7	103.5	99.9	100.0	100.7	99.1	98.2	97.8
Percentage change	1.0	-.1	3.3	.4	.6	-1.2	-3.6	-2.5	.7	-1.6	-.9	-.4

[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, December 1994.

Trade balances, by selected countries and by specified periods, Jan. 1991- October 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**	**IV.**	**I**	**II**	**III**	**Jul.**	**Aug.**	**Sept.**	**Oct.**
United States[1]	-65.4	-84.5	-115.7	-111.7	-129.1	-152.4	-164.5	178.1	-153.0	-160.6	-164.6
Japan	77.6	106.4	120.3	41.7	42.4	(2)	(2)	(2)	(2)	(2)	(2)
Canada[3]	9.0	12.1	13.3	3.8	4.2	(2)	(2)	(2)	(2)	(2)	(2)
Germany	13.2	21.0	35.8	17.9	13.1	(2)	(2)	(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	6.4	3.6	(2)	(2)	(2)	(2)	(2)	(2)
Italy	-13.2	-6.6	20.6	7.5	(2)	(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, December 20, 1994; *Main Economic Indicators;* Organization for Economic Cooperation and Development, July 1994.

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

				1993	1994						
Country	**1991**	**1992**	**1993**	**IV**	**I**	**II**	**III**	**Jul.**	**Aug.**	**Sept.**	**Oct.**
Commodity categories:											
Agriculture	16.2	18.6	17.8	5.6	4.4	3.6	3.8	1.2	1.3	1.3	2.0
Petroleum and selected product— (unadjusted)	-42.3	-43.9	-45.7	-10.7	-9.6	-11.9	-14.0	-4.8	-4.8	-4.4	-3.8
Manufactured goods	-67.2	-86.7	-115.3	-32.8	-29.1	-33.8	-44.3	-14.3	-15.3	-15.0	-18.1
Selected countries:											
Western Europe	16.1	6.2	-1.4	-1.2	-.1	-2.3	-5.4	-2.3	-1.6	-1.5	-1.5
Canda[2]	-6.0	-7.9	-10.2	-2.8	-2.7	-3.0	-3.7	-1.4	-.9	-1.3	-1.6
Japan	-43.4	-49.4	-59.9	-17.1	-15.0	-15.4	-16.8	-5.7	-5.8	-5.3	-6.6
OPEC (unadjusted)	-13.8	-11.2	-11.6	-1.6	-1.6	-3.7	-4.8	-1.7	-1.8	-1.3	-1.2
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$17.42	$16.80	$15.13	$13.52	$11.80	$13.98	$15.70	$16.06	$16.01	$15.03	$14.83

[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, December 20, 1994.