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In This Issue:

International Trade Developments

Six More Countries to Start Enlargement Negotiations with the European Union

United States Eases Sanctions on North Korea

Delayed Implementation of NAFTA Provision to Open U.S. Roads to Mexican Trucks

China Reaches a WTO Agreement with the United States

U.S. Trade And Investment Developments

International Economic Comparisons

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

U.S. International Transactions

Statistical Tables

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TABLE OF CONTENTS

Page

INTERNATIONAL TRADE DEVELOPMENTS

Six More Countries to Start Enlargement Negotiations with the European Union
The European Union plans to begin membership negotiations for Bulgaria, Latvia, Lithuania, Malta, Romania, and Slovakia.
(Joanne Guth, 202-205-3264) 1

United States Eases Sanctions on North Korea
President Clinton recently lifted some of the commercial restrictions on U.S. trade with North Korea
(Diane Manifold, 202-205-3271) 3

Delayed Implementation of NAFTA Provision to Open U.S. Roads to Mexican Trucks
A new law provides that foreign trucks that fail to meet U.S. safety standards should pay severe penalties for safety violations on U.S. roads, delaying implementation of open trucking under the North American Free-Trade Agreement.
(Magda Kornis, 202-205-3261) 5

China Reaches a WTO Agreement with the United States
In preparation for its accession to the World Trade Organization, China has made market-opening commitments under a November 1999 bilateral agreement with the United States.
(Michael Barry, 202-205-3246) 7

U.S. TRADE AND INVESTMENT DEVELOPMENTS

(Michael Youssef, 202-205-3269) 11

INTERNATIONAL ECONOMIC COMPARISONS

U.S. Economic Performance Relative to Other Group of Seven Members
(Michael Youssef, 202-205-3269) 17

U.S. International Transactions
(Michael Youssef, 202-205-3269) 20

STATISTICAL TABLES 23

INTERNATIONAL TRADE DEVELOPMENTS

Six More Countries to Start Enlargement Negotiations with the European Union

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European Union (EU) leaders have decided that EU enlargement negotiations should begin with Bulgaria, Latvia, Lithuania, Malta, Romania, and Slovakia in early 2000. However, no timetable on actual accession has been set.

On October 13, 1999, the European Commission (EC) recommended opening accession negotiations in the year 2000 with six more countries—Bulgaria, Latvia, Lithuania, Malta, Romania, and Slovakia. The EC is already negotiating formally with Cyprus, the Czech Republic, Estonia, Hungary, Poland, and Slovenia, to join the European Union (EU). Although no target date is set for actual enlargement, the EC anticipates setting a timetable in 2002, with accessions to begin as early as 2003. The EC proposal was recently endorsed at the semiannual summit meeting of EU leaders (the European Council) in Helsinki, December 10-11, 1999.

The year 1999 marks the 10th anniversary of the fall of the Berlin Wall and of the beginning of a new, closer relationship between the EU and Central and Eastern European countries. According to the EC, the Balkan crisis that followed the 1990 collapse of the communist system in former Yugoslavia generated a new momentum to enlarge the zone of stability and prosperity.

The Clinton administration strongly supports the enlargement process. According to Under Secretary of State Stuart Eizenstat, "We support this historic opportunity to further the peaceful integration of the continent." On the economic side, "We look to achieve in the East what we now have with the West: a buoyant market open to U.S. goods and services." In general, U.S. exports to the Central and Eastern European candidate countries are expected to face lower tariffs after accession, since the EU's Common External Tariff (CET) is generally lower than the candidate countries' tariffs on most products. According to Under Secretary Eizenstat, the Clinton administration's greatest concern is the period before accession when tariffs imposed by the candidate countries on EU products fall to zero while higher tariffs remain on U.S. products.

The next enlargement will represent the single largest EU enlargement. Six countries created the EU in 1957 and, since then, separate enlargements have added 9 new members, bringing total EU membership to 15. Currently 13 countries have applied for EU membership, and all but Turkey either are currently negotiating accession or are covered by the new EU plan to begin accession negotiations in early 2000.

The challenges posed by EU enlargement are enormous. The EU must make its own budgetary and institutional preparations. For example, the EU must ensure adequate financing of EU programs after enlargement, including the Common Agricultural Policy and the so-called Structural Funds for economic development, the two largest components of the EU budget. The EU must also reform its institutions and decision-making process, all of which were designed for six member countries. The Treaty of Amsterdam, which became effective on May 1, 1999, increased

[1] The views and conclusions expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

powers for the European Parliament, but further reforms are necessary to ensure that an enlarged EU operates effectively and democratically. According to the EC, necessary decisions before the next enlargement include (1) the size and member-state composition of the EC, (2) the weighting of member-state votes in the EU decision-making Council of Ministers, and (3) the extension of qualified majority voting in the Council to more policy areas. The Helsinki European Council decided that an Intergovernmental Conference (IGC) to address these issues should meet in February 2000 and complete its work by December 2000. Ratification of the IGC results is expected to take an additional 2 years.

Candidate countries also face large challenges. To join the EU, candidate countries must fulfill certain political and economic criteria, commonly referred to as the "Copenhagen criteria" because they were set forth by EU leaders at the European Council in Copenhagen in 1993. Candidate countries must (1) achieve stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities; (2) have a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the EU; and (3) be able to take on the obligations of EU membership, including adherence to the aims of political, economic, and monetary union. Candidate countries must apply the entire EU *acquis communautaire*—the body of primary and secondary legislation comprising the EU legislative and policy framework. For example, to operate under the requirements of the EU internal market, candidate countries must bring their legislation in line with EU legislation and set up institutions that can implement and enforce the internal market rules.

The European Council endorsed the EC proposal to begin enlargement negotiations in early 2000 with candidate countries that fulfil the Copenhagen political criteria (see (1) above) and that have shown they are ready to take steps to fulfil the economic criteria. (Bulgaria and Romania must also meet some specific conditions before they can begin negotiations.) Because candidate countries will meet the Copenhagen criteria at different paces, the EC intends to follow a flexible "differentiated approach, allowing each candidate to progress through the negotiations as quickly as is warranted by its own efforts to prepare for accession." According to Romano Prodi, President of the EC, "each applicant country will proceed at its own pace, be assessed on its own merits and join when it is finally able to meet all the obligations of membership."

The EC also intends to strictly limit transition periods for new members, particularly with respect to regulatory measures that define the single internal market. However, according to the Commission, transition arrangements can be longer in areas that require "considerable adaptations [and] substantial effort, including important financial outlays," such as the environment, energy, and infrastructure, although candidate countries must adequately demonstrate their commitment to alignment with the EU policies.

Accession negotiations with the first wave of six candidate countries formally began on March 31, 1998. Negotiations are proceeding on the basis of the 31 chapters of the *acquis communautaire*. In a recent annual progress report, the EC cited notable progress by candidate countries in meeting the Copenhagen criteria. However, progress varies significantly between the candidate countries. As a result, adoption of the new multi-speed, differentiated approach to enlargement could mean that countries among the second wave of six candidates join the EU sooner than countries that have already begun negotiations. The European Council concluded that "the Union will be in a position to welcome new member states from the end of 2002," as long as the results of the IGC have been fully ratified, the negotiating process is complete, and the candidate countries have demonstrated their ability to assume the obligations of membership.

United States Eases Sanctions on North Korea

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President Clinton recently lifted some of the commercial restrictions on U.S. trade with North Korea that have been in place since 1950. However, the easing of sanctions is expected to have little immediate impact on U.S.-North Korean bilateral trade.

On September 17, 1999, President Clinton announced that the United States would lift certain economic sanctions against North Korea (U.S. Department of State fact sheet, "Further Easing of Sanctions Against North Korea," Sept. 17, 1999). The sanctions, including a total embargo on U.S. trade and economic transactions with North Korea, have been operative since 1950; they are administered under the Trading with the Enemy Act, the Export Administration Act, and the Defense Production Act. U.S. administration officials further stated that the United States was easing the sanctions to improve overall relations with North Korea and to support bilateral discussions held in September 1999, during which North Korea pledged to refrain from testing long-range missiles. U.S. administration officials also indicated that they envision eventual normal diplomatic and trade relations with North Korea such as those that the United States has currently with Vietnam.

Sanctions Eased

The U.S. sanctions against North Korea to be lifted are in the areas of certain categories of nonmilitary trade, financial transactions, and transportation, including—

- Imports of most North-Korean-origin goods and raw materials;
- Exports and re-exports to North Korea of most consumer nonsensitive goods and services of U.S. companies and their foreign subsidiaries, such as consumer goods, financial services, and inputs for investment in nonsensitive industrial sectors;
- Investment in North Korea in such sectors as agriculture, mining, petroleum, timber, cement, transportation, infrastructure, and travel/tourism;
- Remittances from U.S. nationals to North Koreans;
- Transport of certain nonsensitive cargo to and from North Korea by commercial U.S. ships and aircraft, subject to normal regulatory requirements; and
- Commercial flights between the United States and North Korea.

Some restrictions associated with North Korea's designation by the United States as a terrorist-supporting state were not lifted. Such remaining trade- and investment-related prohibitions apply to—

- Exports of U.S. military goods, services or technology;
- U.S. bilateral foreign economic assistance, except humanitarian assistance;
- U.S. support for loans to North Korea by international financial institutions;
- Transfer of spoils of war;
- Duty-free treatment for imports from North Korea; and
- Financial transactions between U.S. persons and the North Korean Government unless authorized by regulation by the Secretary of the Treasury.

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In addition, North Korean assets subject to U.S. jurisdiction that were frozen under the Trading with the Enemy Act remain frozen, and claims settlements issues regarding these assets are not addressed by the new U.S. initiative.

Movement Toward Normalized Relations

A path for normalized relations between the United States and North Korea was set forth in 1994. U.S. concerns about North Korean nuclear weapons research programs, in particular a nuclear research facility at Yongbyon, were addressed by the Agreed Framework of 1994. That agreement called for North Korea to freeze nuclear activities at Yongbyon and, over time, to dismantle the facility. After the signing of the 1994 Agreed Framework, the United States eased economic sanctions against North Korea in a limited number of areas—telecommunications, financial transactions, imports of North Korean magnesite, and participation by U.S. firms in activities related to the North Korean Light Water Reactor project.

Although the 1994 agreement is credited with freezing North Korean plutonium production, North Korea continued to develop long-range missile capabilities. A November 1998 U.S. policy review by former Secretary of Defense William Perry found that continued development of nuclear and long-range missile activities—including testing, deployment, and export by North Korea of ballistic missiles of increasing range, including those potentially capable of reaching the territory of the United States—remained a significant threat to U.S. interests. That study concluded that normalizing relations might promote the cooperative ending of North Korean nuclear weapons- and long-range missile-related activities.

Economic Crisis

Despite its extensive military programs, North Korea's civil economy is weak. Limited economic data are available on the North Korean economy. However, it is known that North Korea has never recovered from the loss of economic assistance from the former Soviet Union since the Soviet collapse in 1991. North Korea has been plagued by widespread famine since 1995. Floods, followed by severe droughts in 1997 and 1998, caused major crop failures. Following those natural disasters, the United States eased certain sanctions to allow exports of critical humanitarian goods to North Korea. The United States also provided 500,000 metric tons of wheat in 1998 in response to United Nations World Food Program appeals for humanitarian food assistance for North Korea. In addition to food, North Korea also faces shortages of fertilizer, fuel, and industrial and agricultural machinery.

As a result of these economic problems, North Korea has grown heavily dependent on foreign assistance. In 1999, North Korea received food, fertilizer, and fuel from foreign aid donors valued at $600 million. South Korea is the main source of foreign currency for North Korea. For example, North Korea has received $174 million from Hyundai of South Korea in return for allowing tourism and the development of tourist sites. In addition, the Federation of Korean Residents in Japan is also a major source of currency, although funds from this source have declined in recent years.

Trade Outlook

In 1997, the latest date for which statistics are available, North Korea's exports were valued at $743 million. Minerals, metallurgical products, agricultural and fishery products, and manufactures (including armaments) were the major exports. The major export destinations for North Korean products were Japan (28 percent), South Korea (21 percent), and China (5 percent). North Korea imported $1.8 billion in commodities in 1997, including petroleum, grain, coal, machinery and equipment, and consumer goods. The major suppliers of imports to North Korea were China (33 percent), Japan (17 percent), and Russia (5 percent).

How is lifting of commercial restrictions on North Korea expected to affect U.S. trade? According to U.S. officials, including former Secretary of Defense William Perry in recent testimony before the East Asian and Pacific Affairs Subcommittee of the Senate Foreign Relations, U.S. firms currently are not particularly enthusiastic about business opportunities in North Korea. However, there may be increased opportunities for U.S. firms to buy consumer goods from North Korea. The economic benefit to both the United States and North Korea is expected to be small. Nonetheless, in the long-term, economic interaction between North Korea and other countries such as Japan and South Korea is expected to have a moderating effect on the country, in both political and economic terms.

Delayed Implementation of NAFTA Provision to Open U.S. Roads to Mexican Trucks

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A new law provides that foreign trucks should pay severe penalties for safety violations on U.S. roads. With more than four-fifths of U.S.-Mexican trade transported by highway, the issues of open trucking and Mexican compliance with U.S. safety standards are important to the future of North American trade.

In October, 1999, the House of Representatives voted to levy severe financial penalties on Mexican shipping companies whose trucks venture more than a permissible short distance inside the United States. Currently, Mexican trucks are allowed to drive only along a narrow strip—the so-called "commercial zones"—that extend anywhere from 3 to 20 miles north of the U.S. border. Goods destined to more remote U.S. locations must be reloaded onto domestic trucks.

The House voted for fines up to $10,000 for one incident of violation, fines up to $25,000 for a pattern of violations, and for temporary or permanent disqualification of violators from operating a commercial vehicle. This "Foreign Motor Vehicle Penalties and Disqualifications" measure passed the House almost unanimously as part of a bill called "Motor Carrier Safety Improvement Act of 1999," which was designed to strengthen the enforcement of Federal and State truck safety laws. The bill (H.R. 3419) passed both houses in November, and became law on December 9, 1999 (PL 106-159).

Trucking is an important dimension of the North American Free-Trade Agreement (NAFTA), because more than four-fifths of U.S.-Mexican trade is transported along highways. NAFTA provides that all national limits to land transportation in North America end by the year 2000. The relatively long transition period between the implementation of NAFTA on January 1, 1994, and the implementation of the accord's trucking provision scheduled for January 1, 2000, was justified on grounds of the disparity in safety standards between U.S. and Mexican commercial vehicles. Drafters of the accord argued that Mexico needed ample time to raise its standards to those of the United States. NAFTA provides that, by 2000, Mexican vehicles and their drivers must comply with all U.S. safety standards when they enter U.S. territory.

With open trucking becoming one of the most contentious provisions of NAFTA, the transition period turned out to be anything but too long. The first time the U.S. side faced up openly to the fact that the free cross-border trucking provisions of NAFTA were fraught with danger was at yearend 1995. At that time, the United States postponed implementing an interim agreement that would have permitted U.S. and Mexican truckers to travel freely in one another's border states even before the full liberalization of land transportation in 2000. A press release issued by the U.S. Department of Transportation (DOT) on December 18, 1995, attributed the delay to ongoing concerns about traffic safety with those Mexican trucks on U.S. roadways that have passed border inspection. DOT indicated that further consultations were necessary between U.S. and Mexican officials to assure the safety standards of Mexican commercial vehicles. At the same time, the safety violations of Mexican trucks observed on U.S. roads raised new concerns about the adequacy of inspection at the southern U.S. border.

U.S. officials began to focus on Mexican truck safety as a result of intense lobbying by the International Brotherhood of Teamsters (Teamsters). The Teamsters have argued for years that Mexican trucks are much older and heavier than U.S. trucks, that they are not required to comply with the same emission standards, and that they and are not properly insured to operate in the United States. The Teamsters further claim that Mexican trucks are unsafe, because

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their drivers are not required to keep logbooks and undergo regular roadside inspections. In addition, Mexico does not limit the number of hours per day its truckers are behind the wheel, as it is the case in the United States and Canada.

A 1997 study of the General Accounting Office (GAO), entitled *Safety Concerns About Mexican Trucks Remain Even as Inspection Activity Increases*, underscored concerns about Mexican trucks currently having access to U.S. roads. According to this report, U.S. inspections at the border remain grossly inadequate, especially in Texas and Arizona—States through which more than four-fifths of Mexican trucks enter the United States.

Not surprisingly, the Government of Mexico was concerned that the United States postponed implementation of the interim accord in 1995. Mexican officials became alarmed by the new, heightened U.S. concern about the safety standards of Mexican trucks. On January 19, 1996, the Mexican Embassy in Washington, DC, charged that, by not complying with the interim measure, the United States had violated NAFTA. Since that time, Mexican officials argued in frequent bilateral negotiations that their country's safety inspection system was consistent with that of the United States. In September 1998, Mexico's Commerce Department (SECOFI) formally requested the establishment of a NAFTA panel to resolve the then nearly 3-year old dispute. This panel is reportedly actively considering the case at the time of this writing.

Opposition in the United States to opening the border to Mexican trucks continued to mount as the year 2000 was approaching. In June 1999, 253 House members addressed a letter to President Clinton urging him that "Until the United States and Mexico agree on comprehensive safety standards, establish and test effective enforcement programs, and staff border facilities with full-time inspectors, current safeguards must remain firmly in place." The White House ordered the United States Trade Representative to further delay implementation of NAFTA's free trucking provision, which would have to come into effect on January 1, 2000.

Strong congressional opposition also led to the previously mentioned enactment of the "Motor Carrier Safety Improvement Act of 1999." On its part, DOT embarked on a serious program of improving safety inspection at the border. In the words of U.S. Department of Transportation Secretary Rodney E. Slater on October 14, "To date we have . . . tripled the number of Federal investigators at the U.S.-Mexico border and reduced the backlog of enforcement cases by two-thirds."

An interesting twist in the trucking debate is the position of the Mexican truckers, which presumably would be identical to that of the Mexican Government. Surprisingly, according to Mexican sources (*El Financiero International*, May 31, 1999), Mexico's National Trucking Chamber announced last April that it supported the U.S. ban, because the Mexican industry needs time to modernize its fleet before competing in earnest with U.S. rivals on the U.S. market. The Chamber points out, for example, that the average truck in the Mexican fleet is 15.5 years old compared to a 5.5-year average on the U.S. side. They attribute the difference principally to the availability of cheap credit to U.S. truckers for updating their fleets, whereas credit is virtually inaccessible to Mexican truckers. According to an earlier statement of the same source (*El Financiero International*, August 24, 1998), "All the Mexican truckers care about, in fact, is preventing Federal Express and other foreign courier operators from mounting cabotage (local pickup and delivery) operations inside their market." If so, the question arises for whom exactly is SECOFI fighting?

China Reaches a WTO Agreement with the United States

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In November 1999, United States and China signed a bilateral agreement that marks the completion of an important step in China's efforts to join the World Trade Organization (WTO). Key elements of that accord include agreements on an import surge mechanism, anti-dumping procedures, and trading rights and distribution in China, as well as sector-specific market access provisions concerning trade in services, industrial products, and agricultural products.

On November 15, 1999, United States Trade Representative Charlene Barshefsky and Chinese Trade Minister Shi Guangsheng signed a bilateral agreement that paves the way for China to join the World Trade Organization (WTO). Under the WTO accession process China, like other applicant countries, engaged in bilateral and plurilateral negotiations with WTO members on concessions and commitments for trade in goods and services. The results of these bilateral negotiations become part of China's basic terms of accession to the WTO, and will open China's economy to all WTO members.[5]

The U.S.-China Bilateral WTO Agreement addresses general trade-related economy-wide issues such as an import surge mechanism, anti-dumping procedures, and trading rights and distribution. The agreement also addresses includes sector-specific provisions concerning trade in services, industrial products, and agricultural products.[6]

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[5] For further information on the WTO accession process and the current state-of-play of China's accession, see the WTO Web site, http://www.wto.org/wto/about/accessions.htm.

[6] The discussion of the provisions of the U.S.-China WTO agreement in this article is not an official U.S. Government interpretation of that agreement. However, this article is based on the Clinton administration's *Fact Sheet of the U.S.-China Bilateral WTO Agreement,* Dec. 6, 1999.

General Provisions

Import Surge Mechanism and Safeguards

The U.S.-China WTO agreement provides for a special safeguard mechanism that will remain in place for 12 years following China's accession to the WTO. This mechanism can be used to address rapid increases in imports from China that cause or threaten market disruption in the United States.

Antidumping Methodology

The agreement provides that the United States can continue to apply a non-market economy methodology in antidumping cases involving imports from China. This provision, which is to remain in force for 15 years after China's accession to the WTO, will enable the United States to take into account the special non-market characteristics of China's economy when identifying and measuring possible subsidy benefits. China can request that the United States review specific sectors, or the Chinese economy as a whole, to determine if it is market oriented and no longer subject to the special non-market methodology.

Trading and Distribution Rights

Foreign firms operating in China currently do not have the right to distribute products other than those

products they make in China. Foreign firms also are prohibited from owning or managing distribution networks, wholesale outlets, and warehouses. Moreover, the Chinese Government often issues business licenses which limit the ability of foreign firms to conduct marketing, after-sales service, maintenance and repair, and customer support. The U.S.-China bilateral agreement addresses all of these issues. As a result of China's comprehensive commitments, U.S. firms will be able to distribute imported products, as well as the products they make in China, thereby affording a significant opportunity to expand U.S. exports to China.

Sector-Specific Provisions

Services

Telecommunications. China currently allows no foreign investment in telecommunications. The U.S.-China agreement marks China's first commitment to provide foreign access to its telecommunications sector by establishing a broad scope of services open to foreign investors and by liberalizing the terms of foreign direct investment. Under the agreement, China is to allow 49 percent foreign investment in value-added and paging services in the first year of accession, and will allow 50 percent foreign ownership for value-added services 2 years after accession. China also has agreed to liberalize Internet services on pace with liberalization in other key telecommunications services, as well as to permit the provision of telecommunications services via satellite.

Insurance. Under the agreement, China is to allow up to 50 percent foreign ownership and is to phase out geographic restrictions.

Audio-Visual Services. China currently permits a maximum of 10 foreign films to be released annually on a revenue-sharing basis. Under the agreement, China is to double its imports to 20 films per year on a revenue-sharing basis.

Industrial Products

China's industrial tariffs are scheduled to decline from an overall average of 24.6 percent *ad valorem* in 1997 to an overall average of 9.4 percent by 2005. Tariffs are to fall to an average of 7.1 percent *ad valorem* on industrial products of particular interest to the United States, with the majority of these tariff cuts fully implemented by 2003. Tariffs on automobiles are to decline on an accelerated basis from the current levels of 80-100 percent *ad valorem* to 25 percent by 2006, with the largest cuts in the first years after accession. China agreed to accelerated tariff reductions on automobiles in exchange for a slightly longer phase-in period. China agreed to accede to the Information Technology Agreement and, consequently, to eliminate all tariffs on products such as computers, telecommunications equipment, semiconductors, computer equipment and other high technology products. Tariffs on information technology products are to fall from an average of 13.3 percent to 0 by 2005.

Agricultural Products

China agreed for the first time ever to permit private trade (trade between private parties) in agricultural products. China's tariffs on U.S. priority agriculture products are to be reduced from an overall average of 31.5 percent *ad valorem* to 14.5 percent by no later than January 2004. China's overall average tariff for agricultural products is to decline to 17 percent. Sector-specific average tariff rates are shown below.

Selected U.S. priority products	Pre-Agreement tariff	Post-Agreement tariff
	(Percent)	
Grapes	40	13
Beef	45	12
Cheese	50	12
Pork	20	12
Wine	65	12
Poultry	20	10

China also agreed to eliminate export subsidies, which was a key concern for U.S. cotton and rice producers. Additional agriculture-related commitments include pledges to eliminate sanitary-phytosanitary barriers that are not based on scientific evidence, and to provide the right to import and distribute products in China without going through state-trading intermediaries.

Next Steps

The U.S.-China Bilateral WTO Agreement represents the completion of a crucial phase in China's application to join the WTO. However, several important steps remain ahead. China must conclude bilateral negotiations with a number of other WTO members, including the European Union. Multilateral negotiations on China's accession protocol also must be finished, and China must then complete its own domestic procedures for accession to the WTO. Finally, the U.S. administration must consult with Congress before a WTO vote on China is taken. For United States to benefit from China's WTO market access commitments, Congress needs to address the issue of normal trade relations for China.

U.S. TRADE DEVELOPMENTS

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Trade Developments

The U.S. Department of Commerce (*Commerce News* FT 900 99-09) reported that seasonally adjusted exports of goods and services of $81.9 billion and imports of $107.9 billion in October 1999 resulted in a goods and services trade deficit of $25.9 billion, $1.8 billion more than the $24.2 billion deficit of the month of September. October exports were $0.1 billion less than September exports of $82.0 billion, but October imports were $1.7 billion more than September imports of $106.2 billion.

Exports of goods decreased in October 1999 to $58.7 billion from $58.9 billion in September, but imports of goods increased to $90.7 billion from $89.1 billion, and the deficit on goods increased by $1.8 billion to $32.0 billion. For services, exports increased to $23.2 billion from $23.1 billion and imports of services increased to $17.2 billion from $17.0 billion, resulting in a surplus on trade in services of $6.1 billion.

The overall change in exports of goods in September-October 1999 reflected decreases in exports of capital goods (primarily telecommunication equipment), consumer goods, foods, feeds and beverages. Increases occurred in industrial supplies and materials and in automotive vehicles, parts, and engines. The overall changes in imports of goods reflected increases in imports of industrial supplies and capital goods (primarily computers computer accessories, and semiconductors). Exports of advanced technology products totaled $17.5 billion in October and imports totaled $16.7 billion, resulting in a trade surplus of $0.7 billion. The October 1999 trade data showed U.S. trade surpluses with Australia, Argentina, Egypt, Hong Kong, and Brazil. Trade deficits were recorded with Canada, Mexico, Western Europe, China, Japan, Korea, Mexico, Taiwan, and the OPEC countries. Additional information on U.S. trade developments in agriculture and specified manufacturing sectors for the period January-October 1999, are highlighted in tables 1 and 2 and figures 1 and 2. Services trade developments are highlighted in table 3.

U.S. exports of goods and services in January-October 1999 totaled $791.4 billion, up from $776.6 billion in the same period of 1998. Imports of goods and services totaled $1.0 trillion, up from $912.0 billion. The U.S. trade deficit on goods and services increased by approximately 61.3 percent to $218.4 billion from $135.4 billion in the same period of 1998.

For the period January-October 1999, U.S. exports of goods increased slightly to $562.8 billion from $557.3 billion during the same period in 1998; imports of goods rose to $845.2 billion, up from $761.7 billion in 1998; and the U.S. trade deficit on goods rose by about 38.2 percent to $282.4 billion in January-October 1999, up from $204.3 billion in the same period of 1998. Exports of advanced technology products totaled $163.4 billion in January-October 1998, up from $151.0.billion in the same period of 1998; imports increased to $146.8 billion from $129.3 billion; and the U.S. trade surplus for advanced technology products totaled $0.7 billion in January-October 1999, down from $0.9 billion in the same period in 1998. U.S. exports of services in January-October 1999 increased to $228.5 billion, up from $219.3 billion in the same period of 1998; imports were $164.6 billion up from $150.4 billion; the U.S. trade surplus on services totaled $63.9 billion in January-October 1999, down from $69.0 billion in the same period in 1998.

The January-October 1999 trade data showed trade deficits with Canada, Mexico, the European Union, Eastern Europe, China, Japan, South Korea, Singapore, Taiwan, and the OPEC countries. Trade surpluses were recorded with Australia, Argentina, Hong Kong, Brazil, and Egypt. U.S. trade developments with major trading partners are highlighted in table 4.

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Table 1
U.S. trade in goods and services, seasonally adjusted, Sept.-Oct. 1999

(Billion dollars)

	Exports		Imports		Trade Balances	
Item	**Sept. 1999**	**Oct. 1999**	**Sept. 1999**	**Oct. 1999**	**Sept. 1999**	**Oct. 1999**
Trade in goods (see note)						
Current dollars–						
Including oil	58.9	58.7	89.2	90.7	-30.2	-32.0
Excluding oil	59.3	58.7	81.2	82.9	-22.0	-24.2
Trade in services						
Current dollars	23.1	23.2	17.0	17.2	6.1	6.1
Trade in goods and services:						
Current dollars	82.0	81.9	106.2	107.9	-24.2	-25.9
Trade in goods (Census basis)						
1992 dollars	81.1	79.1	112.3	115.8	-31.2	-36.7
Advanced-technology products (not seasonally adjusted)	17.0	17.5	16.1	16.7	0.9	0.7

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.

Because of rounding details may not add to totals shown.

Source: U.S. Department of Commerce News (FT 900), Dec.16 1999.

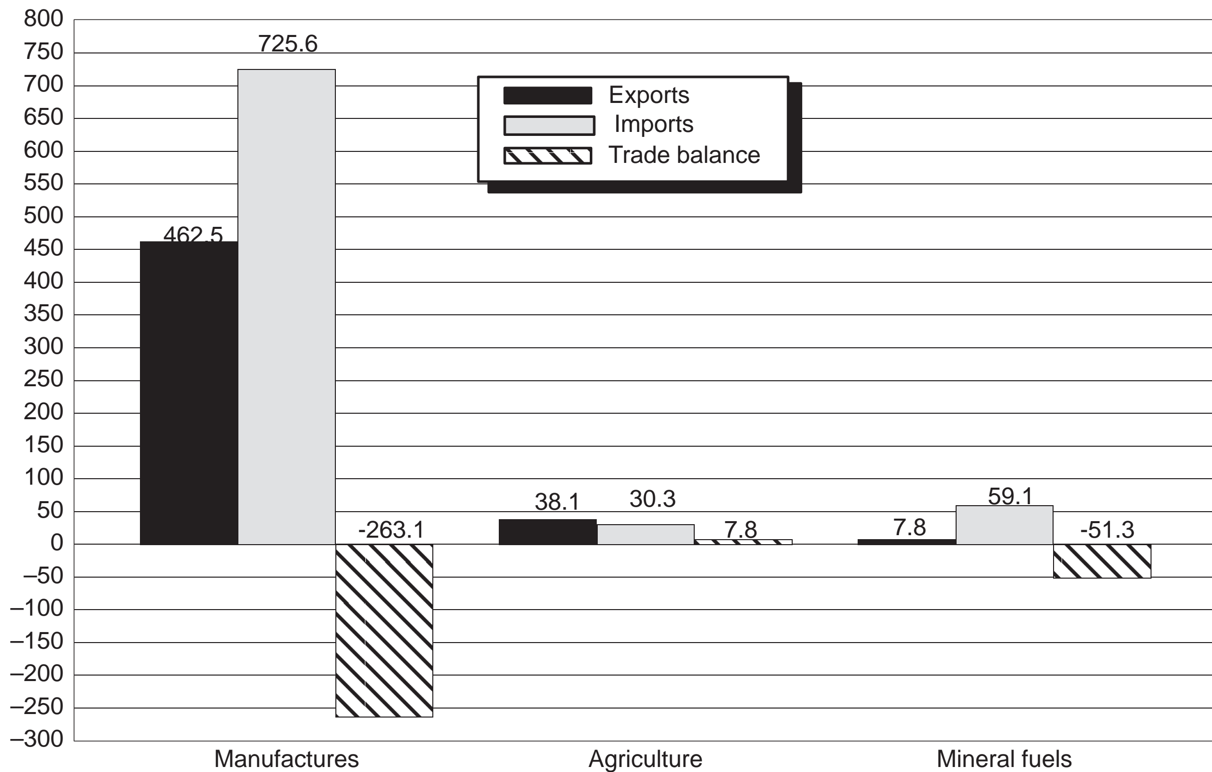
Table 2
Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan.1998–Oct..1999

	Exports		Chan Jan.-Oct. 1999 over Jan.-Oct. 1998	Share of total Jan.-Oct. 1999	Trade balance	
	Oct. 1999	Jan.-Oct. 1999			Jan.-Oct. 1998	Jan.-Oct. 1999
	Billion dollars		*Percentage*		*Billion dollars*	
ADP equipment & office machinery	3.5	33.3	-0.3	5.8	-29.4	-35.6
Airplanes	2.6	26.5	-1.5	4.6	21.0	19.4
Airplane parts	1.3	12.7	2.4	2.2	7.5	7.7
Electrical machinery	6.8	61.4	12.7	10.8	-11.7	- 10.7
General industrial machinery	2.6	24.6	-2.8	4.3	-1.3	1.6
Iron & steel mill products	0.5	4.1	-12.8	0.7	-9.8	- 6.9
Inorganic chemicals	0.5	3.8	- 2.6	0.7	-0.4	-0.4
Organic chemicals	1.5	12.6	0.0	2.2	-3.0	-5.4
Power-generating machinery	2.7	25.3	6.3	4.4	-0.6	0.8
Scientific instruments	2.3	21.0	4.5	3.7	7.3	6.6
Specialized industrial machinery	2.3	20.4	-12.8	3.6	4.1	2.2
Televisions, VCRs, etc	2.1	19.6	1.0	3.4	-15.8	-21.2
Textile yarns, fabrics and articles	0.9	7.7	1.3	1.4	-3.3	-3.6
Vehicle parts	4.8	44.2	-1.1	7.8	- 51.1	- 75.1
Exports not specified above	15.5	145.3	1.4	25.5	-113.4	-137.8
Total manufactures	49.9	462.5	0.9	81.1	- 197.2	- 263.1
Agriculture	4.4	38.1	- 7.7	6.7	11.5	7.8
Other exports not included above	7.8	69.6	6.6	12.2	-7.2	-14.3
Total exports of goods	62.1	570.2	0.9	100.0	- 192.9	-269.6

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

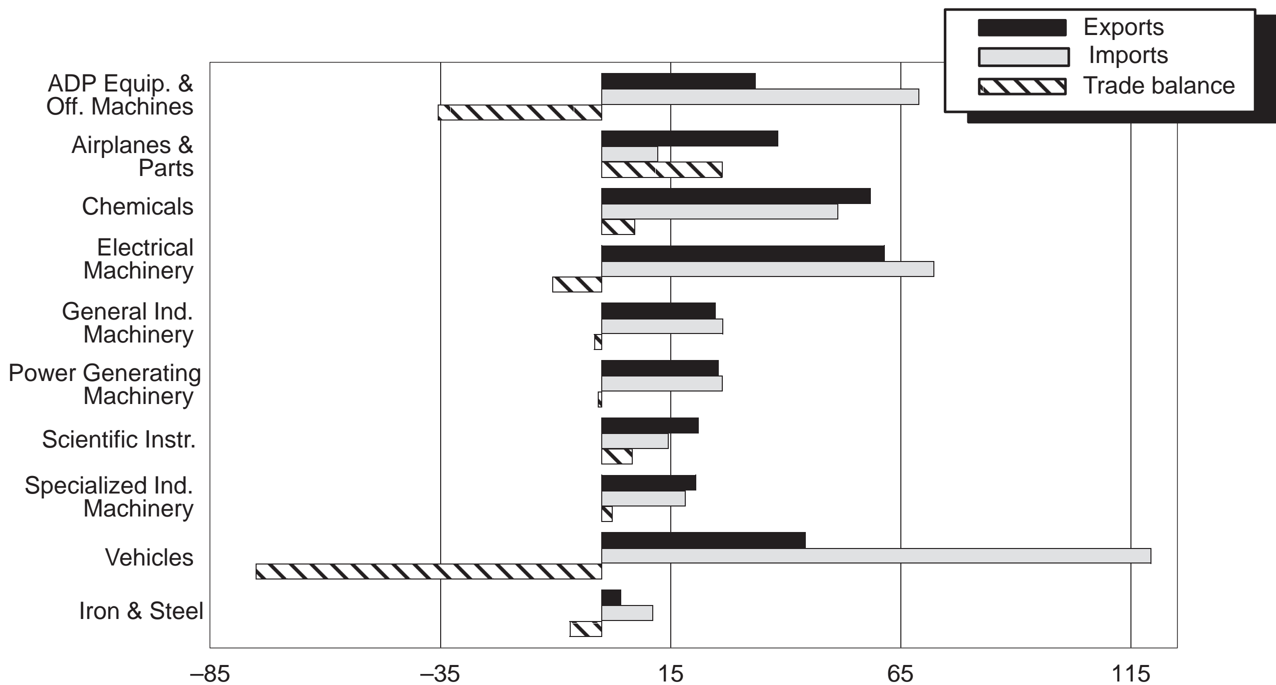
Source: U.S. Department of Commerce News (FT 900), Dec. 16,1999.

Figure 1
U.S. trade by major commodity, billion dollars, Jan.-Sept. 1999



Source: U.S. Department of Commerce.

Figure 2
U.S. trade in principal goods, billion dollars, Jan.-Sept. 1999



Source: U.S. Department of Commerce.

Table 3
Nominal U.S. exports and trade balances of services, by sectors, Jan.1998- Oct. 1999, seasonally adjusted

	Exports		Change Jan.-Oct. 1999 over Jan.-Oct. 1998	Trade balances	
	Jan.-Oct. 1998	Jan.-Oct. 1999		Jan.-Oct. 1998	Jan.-Oct. 1999
	Billion dollars		*Percentage*	*Billion dollars*	
Travel	59.3	61.1	3.0	12.5	10.9
Passenger fares	16.8	17.4	3.6	0.4	-0.3
Other transportation	21.2	22.5	6.1	-4.2	-5.7
Royalties and license fees	30.2	31.1	3.0	20.9	20.8
Other private sales	76.7	81.7	6.5	37.2	38.2
Transfers under U.S. military sales contracts	14.5	14.0	-3.4	3.9	1.7
U.S. Govt. miscellaneous service	0.7	0.7	0.0	-1.7	-1.7
Total	219.4	228.5	4.7	69.0	63.9

Source: U.S. Department of Commerce News (FT 900), Dec. 16, 1999.

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

Table 4
U.S. exports and imports of goods with major trading partners, Jan. 1998-Oct. 1999

(Billion dollars)

	Exports			Imports			Trade balances	
Country/areas	Oct. 1999	Jan.-Oct. 1999	Jan.-Oct. 1998	Oct. 1999	Jan.-Oct. 1999	Jan.-Oct. 1998	Jan.-Oct. 1998	Jan.-Oct. 1999
Total	62.1	570.2	565.0	94.4	839.8	757.0	-192.9	- 269.7
North America	23.2	207.2	195.7	27.8	253.3	222.3	-26.6	-46.2
Canada	14.6	137.2	130.4	17.8	163.1	143.6	-13.2	-25.9
Mexico	8.6	70.0	65.3	10.0	80.3	78.7	-13.3	-20.3
Western Europe	14.4	136.2	135.1	19.4	174.2	158.2	- 23.1	- 38.0
Euro Area	9.4	87.3	85.1	13.1	118.3	107.8	-22.7	-31.0
European Union (EU-15)	13.2	125.3	124.2	17.7	159.8	145.3	-21.1	-34.5
France	1.6	15.5	14.6	2.2	21.2	19.9	-5.3	-5.7
Germany	2.5	22.2	22.0	4.8	44.7	40.6	-18.6	-22.6
Italy	1.0	8.3	7.4	1.9	18.5	17.3	-9.9	-10.2
Netherlands	1.6	15.8	15.6	0.8	6.7	6.3	9.3	9.1
United Kingdom	3.2	32.1	33.2	3.4	32.1	28.8	4.3	-0.1
Other EU	1.2	9.3	8.6	1.7	13.2	10.8	-2.2	-3.9
FSR[1]/Eastern Europe	0.6	4.8	6.5	1.1	9.5	9.1	-2.6	-4.7
Russia	0.2	1.6	3.2	0.6	4.7	4.8	-1.6	-3.1
Pacific Rim Countries	15.4	142.6	138.3	33.6	296.9	272.6	-134.4	-153.3
Australia	1.2	9.6	10.1	0.5	4.4	4.5	5.6	5.2
China	1.1	11.0	11.5	8.2	67.6	59.5	- 47.9	-56.6
Japan	5.0	47.2	48.7	12.2	107.7	101.0	- 52.4	-60.6
NICs[2]	6.3	58.2	51.1	8.5	77.6	71.5	-20.4	-19.4
Latin America	5.1	45.7	53.0	5.3	47.4	42.0	11.0	-1.7
Argentina	0.5	4.1	5.0	0.2	2.1	1.9	3.1	2.0
Brazil	1.4	11.0	12.5	1.0	9.3	8.5	4.0	1.7
OPEC	1.5	15.6	20.1	4.1	33.3	29.1	- 9.0	-17.7
Other Countries	2.6	23.4	23.5	5.1	42.9	40.3	- 6.8	-19.5
Egypt	0.3	2.5	2.4	0.1	0.5	0.6	1.8	2.0
South Africa	0.3	2.1	2.8	0.4	2.7	2.5	0.3	-0.5
Other	2.1	18.7	18.3	4.7	39.7	37.2	-18.9	-21.0

[1] FSR indicates Former Soviet Republics.

[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 because of 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.16, 1999.

INTERNATIONAL ECONOMIC COMPARISONS

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

A comparison follows of U.S. economic growth, industrial growth, prices, and employment with other Group of Seven (G-7) members based on the most recently available data as of this writing. The Statistical Appendix provides more detailed economic data.

Economic Growth

U.S. real gross domestic product (GDP)—the output of goods and services produced in the United States measured in 1992 prices—grew at an annual rate of 5.7 percent in the third quarter of 1999 after increasing by 1.9 percent in the second quarter. Annualized real GDP growth in the third quarter of 1999 was 3.7 percent in the United Kingdom. For other G-7 members, annualized real GDP growth in the second quarter of 1999 was 3.3 percent in Canada, 2.4 percent in France, 0.2 percent in Germany, 1.7 percent in Italy, and 0.4 percent in Japan.

Industrial Production

The Federal Reserve Board reported that U.S. industrial production increased by 0.3 percent in November 1999, following an increase of 0.8 percent in October 1999. Total industrial production in November 1999 was 4.3 percent higher than in November1998. Overall U.S. industrial capacity utilization was 4.2 percent higher in November 1999 than in November 1998.

Other Group of Seven (G-7) member countries reported the following growth rates of industrial production. For the year ending September1999, the United Kingdom reported an increase of 0.9 percent, Japan reported an increase of 2.6 percent and Germany reported a decrease of 1.1 percent. For the year ending August 1999, Canada reported an increase of 5.0 percent, Italy reported an increase of 10.7 percent and France reported an increase of 2.3 percent.

Prices

Seasonally adjusted U.S. Consumer Price Index (CPI) rose 0.1 percent in November 1999, following a 0.2-percent increase in October 1999, the same as in July 1999. The CPI increased by 2.6 percent for the 12-month period ended in November 1999.

During the 1-year period ending October 1999, prices increased by 0.8 percent in Germany, and by 0.8 percent in France, 2.0 percent in Italy. During the 1-year period ending September 1999, prices increased 2.6 percent in Canada and by 1.1 percent in the United Kingdom. During the year ending September 1999, prices decreased by 0.2 percent in Japan.

Employment

The Bureau of Labor Statistics reported that the U.S. unemployment rate was 4.1 percent in November 1999, following the same rate as in October. The rate has been 4.1 percent or 4.2 percent each month since March 1999. Employment held steady in manufacturing and rose in the services industry.

In other G-7 countries, their latest unemployment rates were: 7.2 percent in Canada, 11.1 percent in France, 10.5 percent in Germany, 11.4 percent in Italy, 4.6 percent in Japan, and 5.9 percent in the United Kingdom. The unemployment rate in the Euro-11 was 10.0 percent.

[8] The views and conclusions expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

Forecasts

Six major forecasters expect real growth in the United States to average about 4.2 percent (at an annual rate) in the final quarter of 1999, and to slow down to 2.6 percent in the first half of 2000. Table 5 shows macroeconomic projections for the U.S. economy from October 1999 to September 2000, 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 about 4.2 to 4.3 percent in the first half of the next year. Inflation (as measured by the GDP deflator) is expected to remain subdued at about 1.1 percent in the final quarter of 1999, then increases moderately.

Table 5
Projected changes in U.S. economic indicators, by quarters, January-December 1999

(Percentage)

Period	Conference Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Macro Economic Advisers	Wharton WEFA Group	Mean of 6 forecasts
	GDP current dollars						
1999:							
Oct.-Dec.	6.4	5.5	5.7	6.0	4.9	4.2	5.5
2000:							
Jan.-Mar..	7.3	2.9	5.5	4.3	5.0	3.9	4.8
Apr.-June	1.8	4.9	3.4	4.5	4.7	4.4	4.0
July-Sept.	7.1	4.5	4.6	4.7	4.7	4.6	5.0
	GDP constant (chained 1992) dollars						
1999:							
Oct.-Dec.	4.7	4.0	3.6	4.5	3.4	3.9	4.2
2000:							
Jan.-Mar..	4.7	1.0	2.6	3.2	2.9	1.0	2.6
Apr.-June	0.4	2.9	3.0	3.8	2.8	4.1	2.8
July-Sept.	4.9	3.0	3.1	3.5	2.8	3.1	3.4
	GDP deflator index						
1999:							
Oct-Dec	1.5	1.5	0.4	1.2	1.5	0.3	1.1
2000:							
Jan.-Mar.	2.5	1.9	2.3	1.1	1.9	2.8	2.3
Apr.-June	1.4	1.1	0.4	0.9	1.9	0.3	2.0
July-Sept.	2.1	1.3	1.4	1.1	1.9	1.5	1.6
	Unemployment, average rate						
1999:							
Oct.-Dec.	4.1	4.1	4.2	4.2	4.2	4.2	4.2
2000:							
Jan.-Mar	3.8	4.2	4.4	4.2	4.4	4.4	4.2
Apr.-June	3.8	4.2	4.5	4.2	4.5	4.5	4.3
July-Sept.	3.8	4.2	4.5	4.2	4.7	4.5	4.3

Note.—Except for the unemployment rate, percentage changes in the forecast represent annualized rates of change from preceding period. Quarterly data are seasonally adjusted. Forecast date, Oct.1999.

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

U.S. International Transactions

Strong domestic demand increased the deficit on the U.S. current account during the third quarter of 1999. The U.S. current-account deficit—the combined balances on trade in goods and services, investment income, and net unilateral current transfers—increased to $89.9 billion in the third quarter of 1999 from $80.9 billion in the second quarter, according to estimates of the Commerce Department's Bureau of Economic Analysis. Most of this increase was accounted for by an increase in the deficit on goods and services. Additional information on the U.S. current account follows. Table 6 summarizes U.S. international transactions for the first three quarters of 1999.

Goods and services

The deficit on trade in goods and services increased by approximately 13.4 percent to $73.8 billion in the third quarter of 1999 from $65.1 billion in the second quarter. The deficit on trade in goods increased from $84.4 billion to $92.1 billion, while the surplus on trade in services decreased from $19.3 billion to $18.3 billion. Goods exports increased from $165.9 billion to $173.6 billion, due mostly to increased exports of capital goods, including civilian aircraft, engines, and parts, and in nonagricultural industrial supplies and materials. Goods imports increased from $250.3 billion to $265.7 billion; about three-fourths of this increase resulted from increased imports of nonpetroleum products.

Table 6
Summary of U.S. international transactions, by quarter (seasonally adjusted), 1999
(Millions of dollars)

	I	II	III	II-III change
Current account				
Exports of Goods[1]	164,292	165,862	173,578	7,716
Imports of Goods[1]	-238,495	-250,274	-265,723	-15,449
Balance on goods	-74,203	-84,412	-92,145	-7,733
Exports of Services[2]	67,612	68,650	69,048	398
Imports of Services[2]	-47,383	-49,323	-50,728	-1,405
Balance on services	20,229	19,327	18,320	-1,007
Balance on goods and services	-53,974	-65,085	-73,825	-8,740
Income receipts on U.S. assets abroad	64,028	66,857	69,563	2,706
Income payments on foreign-owned assets in the United States	-66,504	-69,611	-72,613	-3,002
Balance on income	-4,340	-4,612	-4,920	-308
Unilateral current transfers, net	-10,340	-11,212	-11,204	8
Balance on current account	-68,654	-80,909	-89,949	-9,040
Capital and financial account				
U.S.-owned assets abroad, net (increase/financial outflow (-))	-15,148	-154,713	-101,483	53,230
Foreign-owned assets in the United States, net (increase/financial inflow (+))	88,860	274,271	207,153	-67,118
Capital inflows (+) outflows (-)	73,712	119,558	105,670	-13,888

[1] 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.
[2] Includes some goods that cannot be separately identified from services.

Note.—Credits indicated by "+" and debits indicated by "-".
Note.—Figures may not add to totals because of rounding.
Source: Bureau of Economic Analysis, U. S. Department of Commerce.

Investment income

The deficit on investment income increased to $4.9 billion in the third quarter of 1999 from $4.6 billion in the second quarter. Income receipts on U.S.-owned assets abroad totaled $69.1 billion; income payments on foreign-owned assets in the United States totaled $72.6 billion.

Unilateral current transfers

Net unilateral current transfers were unchanged at $11.2 billion in the third quarter of 1999. Increases in private remittances and other transfers were offset by decreases in U.S. Government grants. Net recorded financial inflows—the difference between changes in U.S.-owned assets abroad and changes in foreign-owned assets in the United States—were $105.7 billion in the third quarter, down from $119.6 billion in the second quarter.

STATISTICAL TABLES

Consumer prices of G-7 countries, 1995-99

(Percentage change from same period of previous year)

Country	1995	1996	1997	1998	1999			
					I	II	Sept.	Oct.
United States	2.8	3.0	2.3	1.6	1.7	2.1	2.6	2.6
Japan	-0.1	0.2	1.7	0.6	-0.1	-0.3	-0.2	0.7
Canada	1.7	1.6	1.6	0.9	0.8	1.6	2.6	2.3
Germany	1.7	1.4	1.7	1.0	0.3	0.5	0.7	0.8
United Kingdom	3.4	2.4	3.1	3.4	2.2	1.4	1.3	1.1
France	1.7	2.0	1.2	0.7	0.3	0.4	0.7	0.8
Italy	5.2	3.9	2.0	1.9	1.4	1.6	1.8	2.1

Source: U.S. Department of Labor, *Consumer Price Indexes, Nine Countries*, Oct.8, 1999.

Unemployment rates (civilian labor force basis)[1] in G-7 countries, 1995-99

Country	1995	1996	1997	1998	1999			
					I	II	Sept.	Oct.
United States	5.6	5.4	4.9	4.5	4.3	4.3	4.2	4.1
Japan	3.2	3.4	3.4	4.1	4.7	4.8	4.7	4.7
Canada	9.5	9.7	9.2	8.3	7.8	8.0	7.5	7.2
Germany	6.5	7.2	7.8	7.5	7.2	7.2	9.1	9.0
United Kingdom	8.7	8.2	7.0	6.3	6.3	6.1	5.9	5.9
France	11.8	12.5	12.4	11.8	11.4	11.3	11.2	11.0
Italy	12.0	12.1	12.3	12.3	12.3	12.1	12.1	12.1

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.

Source: U.S. Department of Labor, *Unemployment Rates in Nine Countries*, Dec.3 1999.

U.S. trade balances by major commodity categories, 1995-99

(In billions of dollars)

Commodity categories	1995	1996	1997	1998	1999						
					Apr.	May	June	July	Aug.	Sept.	Oct.
Agriculture	25.6	26.7	20.5	14.9	0.9	0.8	0.7	0.8	0.4	1.0	1.4
Petroleum and selected products (unadjusted)	-48.8	-60.9	-65.5	-43.4	-4.1	-3.6	-5.3	-5.2	-5.9	-6.2	-6.4
Manufactured goods	-173.5	-175.9	-179.5	-241.1	-19.0	-20.3	-28.7	-31.8	-23.1	-29.3	-30.9
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$15.83	$18.98	$17.67	$10.81	$11.80	$11.80	$14.52	$16.01	$17.80	$19.52	$20.7

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Dec. 16, 1999.

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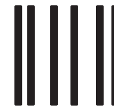

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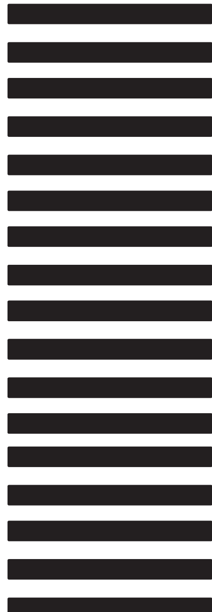

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