INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

Washington DC
20436

April 1997

In This Issue:

Country and Regional Developments

International Trade Developments:

U.S. Trade with Mexico during the Third NAFTA Year

Regulatory Reform Work in the OECD

NAFTA Commission Meets Amidst Debate Over Accord's Expansion

GATS Negotiations on the Liberalization of Financial Services

Special Focus

India's Economic Liberalization Reforms

International Economic Comparisons

U.S. Trade Developments

Statistical Tables

USITC Publication 3040

OFFICE OF ECONOMICS

Robert A. Rogowsky, *Acting Director*

The *International Economic Review* is a regular staff publication of the Office of Economics, U.S. International Trade Commission. The opinions and conclusions it contains are those of the authors and do not necessarily reflect the views of the Commission or of any individual Commissioner. The *IER* is produced as part of the Commission's international trade monitoring program. Its purpose is to keep the Commission informed about significant developments in international economics and trade and to maintain the Commission's readiness to carry out its responsibility to provide technical information and advice on international trade matters to policy-makers in the Congress and the Executive branch. The *IER* is available to Government officials outside the Commission on a request basis. The *IER* also is available on the Commission's Internet web site (http://www.usitc.gov/) and through the U.S. Department of Commerce's National Trade Data Bank (NTDB). Inquiries or comment on items appearing in the *IER* may be made directly to the author, or to:

Editor, *International Economic Review*
Country and Regional Analysis Division/OE, Room 602
U.S. International Trade Commission
500 E Street SW., Washington, DC 20436
Telephone (202) 205-3255

TABLE OF CONTENTS

Page

COUNTRY AND REGIONAL DEVELOPMENTS 1

INTERNATIONAL TRADE DEVELOPMENTS

U.S. Trade with Mexico during the Third NAFTA Year 3
A deterioration of the U.S. trade balance with Mexico began even before the NAFTA's inception, but was accelerated by the peso crisis. In 1996, the deterioration slowed down as the U.S. deficit widened to $19. 5 billion. Meanwhile, U.S.-Mexican trade increased rapidly during each NAFTA year.
(Madga Kornis, 202-205-3261)

Regulatory Reform Work in the OECD 11
Since their 1995 ministerial meeting, OECD countries have been discussing how best to reform regulatory procedures within their economies so as to minimize differences that inhibit further economic integration and to improve market access. A report will be presented to ministers in May 1997.
(Ted Wilson, 202-205-3268)

NAFTA Commission Meets Amidst Debate Over Accord's Expansion 14
The NAFTA Free Trade Commission met March 20 to review NAFTA's implementation and discuss outstanding issues. They agreed to phase-out tariffs on several dozen products more quickly than called for in NAFTA itself, and to launch a more far-reaching round of tariff acceleration negotiations by May 1. The meeting came on the eve of an anticipated Presidential request for renewed "fast-track" negotiating authority to pursue trade liberalization priorities elsewhere.
(Kim Frankena, 202-205-3265)

GATS Negotiations on the Liberalization of Financial Services 15
GATS financial services negotiations resumed in April. The United States is currently participating in an interim agreement established in July 1995, after an extended Uruguay Round negotiation period failed to achieve desired results. The current positions for some trading partners preceding the April negotiations are considered.
(Ted Wilson 202-205-3268 and Amy Cozamanis, 202-205-3220)

Special Focus

India's Economic Reforms 19
In 1991-92 India launched a wave of economic reforms to correct budget and trade deficits, slow inflation, encourage foreign investment and join other fast growing Asian economies. Following these reforms, capital inflows for direct and portfolio investments have expanded, growth rates have reached higher levels, exports have grown and inflation has declined. Nevertheless, more liberalization and deregulation are needed for India to integrate into the global economy.
(Mike Youssef, 202-205-3269)

INTERNATIONAL ECONOMIC COMPARISONS

(Mike Youssef, 202-205-3269) 29

U.S. TRADE DEVELOPMENTS

(Mike Youssef, 202-205-3269) 34

STATISTICAL TABLES

(Dean Moore, 202-205-3259) 39

COUNTRY AND REGIONAL DEVELOPMENTS
At A Glance. . .

WTO

Negotiations to finalize the Information Technology Agreement (ITA), agreed to at the WTO Singapore Ministerial Conference in December 1996, concluded March 26, 1997 with 39 countries participating. These countries account for over 92 percent of world trade in information technology products. The ITA will bind tariff rates on technology products at zero by the year 2000, with a few exceptions of extended staging to 2005. Additional countries—such as Panama, the Philippines, and Poland—may yet submit ITA schedules, but the requirement to cover 90 percent of world trade in such products for the agreement to enter into force July 1, 1997 was reached with the following 39 participants: Australia, Canada, Chinese Taipei, Costa Rica, Estonia, the 15 European Union member states, Hong Kong, Iceland, India, Indonesia, Israel, Japan, Korea, Liechtenstein, Macau, Malaysia, New Zealand, Norway, Romania, Singapore, Slovak Republic, Switzerland, Thailand, Turkey, and the United States.

A WTO dispute-settlement panel issued a preliminary ruling that the EU's banana import regime violates WTO rules. Caribbean nations have expressed alarm at the ruling, claiming that the loss of preferential access to the EU market will cause extensive damage to their island economies.

Mexico

On March 6, 1997, Macro Asesoria Economica (MACRO,) a leading Mexican economic consulting group, projected continued strong performance of the Mexican economy over the next two years, GDP growing by 3.7 percent in 1997 and by 5.5 percent in 1998. This compares with a 5.1 percent actual growth in 1996, and a 7-percent decline in 1995. According to this forecaster, growth will be led by exports and investment, and will be accompanied by a gradual recovery of domestic consumption. Wages and retail sales, which continued to decline in 1996, will begin to recover in 1997. However, the forecaster predicts a shrinkage of the Mexican trade surplus for 1997 and a trade deficit for 1998.

Canada

In his first state visit to the United States, Prime Minister Jean Chretien acknowledged the importance of the trading relationship between the two countries. When service transactions are added to merchandise sales, trade between the two countries amounts to more than $1 billion a day. Spats over wheat, lumber, and salmon receive considerable publicity, particularly in Canada, but the degree of integration occasioned by two successive free trade agreements has made the bilateral trade relationship a model of peaceful commerce. An environmental pact eliminating toxic emissions in the Great Lakes was also signed during the April state visit.

Europe

A conference held by the IMF on the implications of EMU for Europe and the world economy concluded that EMU is likely to start as scheduled on January 1, 1999, although some risk of postponement remains if key countries are unable to satisfy the Maastricht Treaty criteria. Participants agreed that the euro will be a strong currency backed by conservativce fiscal and monetary policies. Concerns were expressed as to the world monetary system's stability in the wake of a sharp shift of portfolios from U.S. denominated dollars into euro- denominated assets, and on the difficulties of managing a single currency in the context of inadequate labor market flexibility and uncoordinated national fiscal policies.

Germany

The Bundesbank in its February overview of the German economy noted that the upturn in German economic activity came to a halt toward the end of 1996 and predicts that real GDP growth would be under 2 percent for the year. The Bundesbank also noted that since the summer of 1996 the seasonally adjusted number of unemployed has risen precipitously, reaching a new peak of 4.3 million.

International Competitiveness

One of the annual surveys that rank countries by competitiveness, prepared by IMD, demoted Japan from the 4th to llth place; Germany continued to slide to 14th place, Italy to 35. France remained stuck at 20, and Russia remains at the bottom below South Africa. The following table show the IMD's rankings of competitiveness:

Country	1995	1996	1997
U.S.	1	1	1
Singapore	2	2	2
Hong Kong	3	3	3
Finland	18	15	4
Netherlands	8	7	5
Norway	10	6	6
Denmark	7	5	7
Switzerland	5	9	8
Canada	13	12	9
New Zealand	9	11	10
Japan	4	4	11
United Kingdom	15	19	12

Source: IMD and the Economist, March 29, 1997

United States

The U.S. trade deficit on goods including petroleum rose by 12.4 in January 1997 from December 1996. The U.S. current account deficit declined in the fourth quarter of 1996 but widened for the whole year. Because of the strong economic expansion in the first quarter of 1997, the Federal Reserve Board preemptively increased key interest rates by a quarter of a percentage point to keep inflation in check. Rising consumer demand for durables, increased job creation, tight labor markets and rising wages, although more than offset by productivity gains, prompted the Fed's move.❑

INTERNATIONAL TRADE DEVELOPMENTS

U.S. Trade with Mexico Gains during the Third NAFTA Year

In 1996, the third year of the North American Free Trade Agreement (NAFTA,) Mexico's foreign trade continued to be affected by the cheap peso (*IER*, Apr./May 1996.) The competitive edge Mexico acquired by the devaluation of its currency since the "peso crisis" in late 1994 boosted the country's exports. By the same token, the dramatic loss of the peso's purchasing power kept Mexican imports in check. Nevertheless, U.S. exports continued to fare better than exports of other countries in Mexico's market.

The Role of the United States in Mexico's Foreign Trade

Table 1 shows Mexico's foreign trade data, the U.S. share in the country's exports and imports during the first two NAFTA years, and Mexican projections for 1997. According to official statistics, Mexico posted a $7.1 billion trade surplus in 1995 (the second NAFTA year,) radically reversing a 4-year string of deficits, which in 1994 reached a level of $18.5 billion. The 1995 trade surplus resulted from a 30.5-percent growth of exports and a 8.8-percent decline of imports. Exports continued to increase in 1996 by 20.9 percent. However, unlike in 1995, imports too were up by 23.6 percent, causing the 1996 trade surplus to contract to $6.5 billion.

Mexico's Overall Foreign Trade and the U.S. Share

In 1996, the third NAFTA year, the United States accounted for well over four-fifths of Mexico's exports and some three-fourths of its imports. Because of the commanding U.S. role in Mexico's foreign trade, among all trading partners it fell mostly to the United States to enable Mexico to reverse its trade imbalance. The Mexican Government recognizes the positive role the United States played in improving the soundness of Mexico's overall foreign trade. At his 1996 year-end press conference, Commerce Secretary Herminio Blanco defended the NAFTA by pointing out that Mexico attained a $12-billion trade surplus in 1996 with the United States. This surplus, he explained, helped offset the $3.2 billion trade deficit Mexico posted with the European Union and the $5-billion deficit Mexico had with Asian countries in 1996.

The United States accounted for Mexico's 1995 trade surplus too, as Mexico posted deficits *vis-a-vis* Europe and Asia. Moreover, the large overall trade deficit Mexico still registered in 1994, the first NAFTA year, was not caused by its trade with the United States or Canada, but by its trade with Asian countries and the EU (*IER*, Apr. 1995). Thus, during the first three

Table 1
Mexico's overall foreign trade and the U.S. share

	Actual		Projected	
	1994	1995	1996	1997
Exports (billion dollars)	60.9	79.5	96.0	95.9
U.S. share (percent)	84.8	83.6	83.0	82.8
Imports (billion dollars)	79.4	72.4	83.5	89.6
U.S. share (percent)	69.0	74.3	74.5	74.7
Trade balance (billion dollars)	-18.5	7.1	6.5	4.0

Source: Data are official Mexican trade statistics and projections which include in–bond trade.

NAFTA years, both before and after the peso crisis, both in years of Mexican trade deficits and surpluses, trade with NAFTA partners had the effect of strengthening Mexico's overall trade balance and growth.

On the other hand, Mexican data also show that the country's post-crisis emphasis on exports, and its curtailment of imports, was somewhat restrained by NAFTA commitments. According to Table 1, the U.S. share in Mexico's total 1994 exports was 84.8 percent, but this share declined both in 1995 and 1996 as Mexico diversified its exports to third-country markets. At the same time, the U.S. share in Mexico's imports increased considerably, from 69.0 percent in 1994 to 74.3 percent in 1995 and 74.5 percent in 1996, as Mexico shifted its sourcing to NAFTA partners.

The tabulation at the bottom of the page shows year-over-year percentage changes of total Mexican foreign trade since the peso crisis and trade by selected trading partners based on data from INEGI and the Bank of Mexico.

The North American market thus received comparatively less than third-country markets from surging Mexican exports in the second NAFTA year. In the third NAFTA year, the growth of Mexican exports was fastest to Asia, but negligible to Europe. By the same token, North American exporters were less affected by shrinking Mexican imports in 1995 and profited more from resurging imports in 1996 than have European and Asian exporters. For example, NAFTA's tariff provisions protected U.S. exporters from Mexico's decision in 1995 to raise tariffs from 20 to 35 percent on textiles, apparel, and footwear articles imported from countries with which Mexico did not have free trade agreements. In fact, it has been argued that one of the most important achievements of the NAFTA is that Mexico could not fall back on a protectionist trade regime, but is committed to existing levels of market access and, indeed, to continuing liberalization of trade policies.

Thus, Mexico did not turn around its trade balance at the expense of NAFTA partners; on the contrary, the reversal of Mexico's trade balance from a large deficit to a considerable surplus affected Mexico's regional partners less adversely than it has third countries.

U.S. Trade with Mexico

It can be argued that the NAFTA—first, the expectation of such an accord, then the lowered tariffs and removal of other trade barriers through its implementation—boosted U.S.-Mexico trade in both directions. According to official U.S. statistics, two-way trade reached a record $97.7 billion in the first NAFTA year; it continued to rise to $105.7 billion in the second NAFTA year (due this time solely to the continued surge of U.S. imports from Mexico,) and reached $128.9 billion in the third NAFTA year (figure 1). Mexico continued to rank as the third-largest U.S. trading partner, after Canada and Japan, on both the U.S. export and import side, accounting for 9.4 percent of both overall U.S. exports and imports.

An ongoing deterioration of the U.S. trade balance with Mexico began even before the NAFTA and the peso crisis, reversing the balance in this trade from a peak U.S. surplus of $5.7 billion in 1992 to a $17.7 billion U.S. deficit by 1995. In 1996, this deterioration slowed down, but the U.S. trade deficit widened further to $19.5 billion.

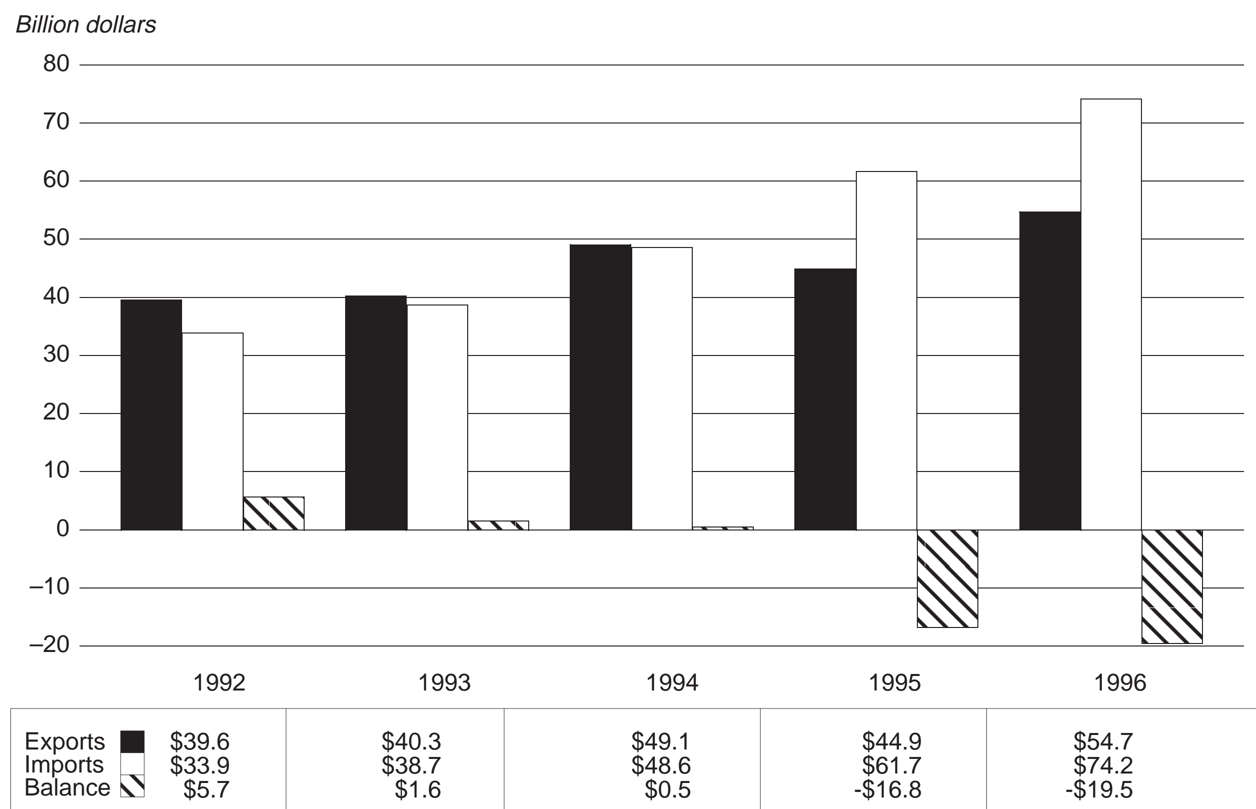
U.S. exports

U.S. merchandise exports to Mexico increased to a record $54.7 billion in 1996. The 21.6-percent increase of this trade flow in the third NAFTA year contrasts sharply with its 8.6-percent decline in 1995 (figure 1.) Exports to Mexico in 1996 rebounded in all major Standard Industrial Trade Classification (SITC) product categories from their unusually low 1995 levels (table 2.)

As before, machinery and transportation equipment was the largest export category, since Mexican producers continued to depend on the capital goods this U.S. industry provides. These exports, with motor vehicle parts, electrical products and electronic equipment being the predominant items in the group (table 3,) surged by 25.0 percent and accounted for 45.8 percent of total U.S. exports to Mexico (figure 2.) Exports rose the fastest (66.0 percent) in the food and live animals category (table 2). As drought destroyed crops in Northern Mexico, U.S. exports of corn almost tripled, and exports of soybeans almost doubled compared with 1995 (table 3.)

	Percent change, 1995 to 1994		Percent change, 1996 to 1995	
Mexico's Trading Partners	Exports	Imports	Exports	Imports
Total	30.5	-8.8	20.7	23.5
North America	29.0	-2.1	21.2	25.4
Europe	34.5	-25.5	.4	15.2
Asia	31.2	-22.5	31.2	16.5

Figure 1
U.S. trade with Mexico: Exports, imports, and trade balance, 1992-96



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

U.S. imports

In 1996, U.S. merchandise imports from Mexico continued their surge to $74.2 billion or by 20.2 percent (figure 1.) Mexico's share of the U.S. import market rose from 6.7 percent in the pre-NAFTA year of 1993 to 9.3 percent in 1996. As on the U.S. export side, machinery and transportation items were the dominant SITC category, accounting for 54.8 percent of the total (figure 2). U.S. imports from Mexico entering under NAFTA provisions constituted an increasing share of the total in each NAFTA year: 63.7 percent in the first, 71.2 percent in the second, and 74.2 percent in the third (table 4.)

Most leading U.S. import items from Mexico, many of them motor vehicles or parts in the dominant machinery category, were up in 1996 (table 5.) Notable is also the 23.7 percent surge in the import value of crude oil, the traditionally leading import item from Mexico, reflecting predominantly higher prices, but also a larger volume. Mexico supplied 12.5 percent by value of total U.S. mineral fuels' imports in 1996, compared with 11.8 percent in 1995. The Government of Mexico reportedly considers more output and exports and the higher prices of crude oil a major instrument of the country's economic recovery.

The sharp increase in 1996 in U.S. imports of Mexican tomatoes (42.9 percent by value; table 5) is noteworthy. Even though accounting for a small portion of imports from Mexico, tomatoes constituted one of the most contentious issues between the two countries during the year. Notable is also the continued surge of U.S. apparel imports from Mexico. Imports of men's and boys' trousers, one of the leading U.S. import items from that country, were up by 25.7 percent. Women's and girls' trousers also became a leading item in 1996 (table 5.) During the year, Mexico became the world's largest clothing exporter by volume, displacing Asian countries. Shared production, i.e. apparel cut and sewn in Mexico from U.S. fabric and returning to the United States, predominate in U.S. apparel imports from Mexico.

Table 2
U.S. merchandise trade with Mexico, by SITC nos. (revision 3), 1994-96

(1,000 dollars)

SITC section No.	Description	1994	1995	1996
		U.S. exports		
0	Food and live animals	3,173,114	2,138,786	3,547,511
1	Beverages and tobacco	170,436	73,805	67,654
2	Crude materials, inedible, except fuels	2,088,369	2,100,857	2,455,237
3	Mineral fuels, lubricants and related materials	1,009,634	1,275,450	1,504,694
4	Animal and vegetable oils, fats and waxes	244,283	362,045	322,546
5	Chemicals and related products, nesi	4,359,814	4,211,068	5,062,163
6	Manufactured goods classified chiefly by material	6,679,912	6,426,529	8,049,697
7	Machinery and transport equipment	22,840,998	20,068,705	25,080,540
8	Miscellaneous manufactured articles	6,344,476	5,437,018	6,316,266
9	Commodities and transactions not classified elsewhere in SITC	2,225,009	1,936,892	2,279,557
	Total all commodities	49,136,046	44,031,155	54,685,865
		U.S. imports		
0	Food and live animals	2,862,953	3,828,492	3,650,835
1	Beverages and tobacco	332,884	400,955	528,479
2	Crude materials, inedible, except fuels	774,197	1,093,025	961,686
3	Mineral fuels, lubricants and related materials	4,975,874	6,012,906	8,024,077
4	Animal and vegetable oils, fats and waxes	10,434	18,845	22,813
5	Chemicals and related products, nesi	1,022,243	1,299,219	1,578,881
6	Manufactured goods classified chiefly by material	3,582,623	4,919,612	5,628,895
7	Machinery and transport equipment	26,480,892	33,208,578	40,596,350
8	Miscellaneous manufactured articles	6,543,989	8,329,981	10,237,485
9	Commodities and transactions not classified elsewhere in SITC	2,019,170	2,609,387	2,949,618
	Total all commodities	48,605,259	61,721,000	74,179,119

Note.—Because of rounding, figures may not add to totals shown. The abbreviation, nesi, stands for “not elsewhere specified or included.”

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

Table 3
Leading exports to Mexico, by *Schedule B* number, 1994-96

(1,000 dollars)

Schedule B No.	Description	1994	1995	1996
9880.00[1]	Estimated “low value” shipments	1,756,361	1,624,591	1,951,768
8708.99	Parts and accessories of motor vehicles, nesi	1,775,818	1,605,286	1,868,127
1005.90	Corn (maize), other than seed corn	345,189	364,450	1,011,698
8708.29	Parts and accessories of bodies (including cabs) of motor vehicles, nesi	1,498,549	1,350,015	1,007,352
2710.00	Petroleum and oils obtained from bituminous minerals, other than crude	689,668	764,615	988,223
8540.11	Cathode-ray television picture tubes, color, including monitors	471,568	567,622	917,180
3926.90	Articles of plastics, nesi	664,476	656,829	880,137
1201.00	Soybeans, whether or not broken	536,717	485,346	858,812
8473.30	Parts and accessories for automated data processing machines and units	[2]631,536	[2]599,517	834,572
8538.90	Parts for electrical apparatus for electrical circuits; for electrical control nesi	368,575	447,577	697,303
8544.30	Insulated ignition wiring sets for vehicles, ships or aircraft	719,065	557,949	685,678
8703.24	Passenger motor vehicles with spark-ignition internal-comb reciprocating piston engine, cylinder capacity over 3,000 cc	354,163	179,264	590,874
8542.30	Other monolithic integrated circuits	([3])	([3])	566,752
7326.90	Articles of iron or steel nesi	303,940	385,506	536,455
8534.00	Printed circuits	192,632	426,788	528,647
8536.90	Electrical apparatus for switching or protecting electrical circuits, nesi	368,833	493,976	522,885
8542.40	Hybrid integrated circuits	([4])	([4])	494,690
4819.10	Cartons, boxes and cases corrugated paper and paperboard	364,681	442,815	471,489
8504.90	Parts for electric transformers, static converters, and inductors	[5]514,832	[5]543,527	442,410
9401.90	Parts of seats (except medical, barber, dental, etc.)	402,683	427,819	442,382
7318.15	Threaded screws and bolts nesi of iron or steel	196,799	245,759	422,776
8409.91	Parts for spark-ignition internal-combustion piston engines, nesi	284,232	387,374	392,166
8503.00	Parts of electric motors, generators and sets	311,522	302,755	390,693
8529.90	Parts, nesi, for radar, radio, televison, etc. transmission, except antennas	487,175	571,486	340,256
8471.50	Digital processing units, nesi	([6])	([6])	337,634
	Total of items shown	13,239,015	13,430,867	18,180,959
	Total other	35,897,031	31,449,910	36,504,906
	Total all commodities	49,136,046	44,880,776	54,685,865

[1] Special “Census Use Only” reporting number estimating low-valued exports.
[2] Prior to 1996, exports under this item included products now reported under *Schedule B* 8473.50 part.
[3] Prior to 1996, exports reported under *Schedule B* 8542.11part, .19 part, .20 part, and .80 part.
[4] Prior to 1996, exports reported under *Schedule B* 8542.20 part.
[5] Prior to 1996, products now reported under this item, also were reported under *Schedule B* 8473.30 part.
[6] Prior to 1996, exports reported under *Schedule B* 8471.91 part.

Note.—Because of rounding, figures may not add to totals shown. The abbreviation, nesi, stands for “not elsewhere specified or included.”

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

Table 4
Analysis of U.S.-Mexico production sharing trade, 1991-96

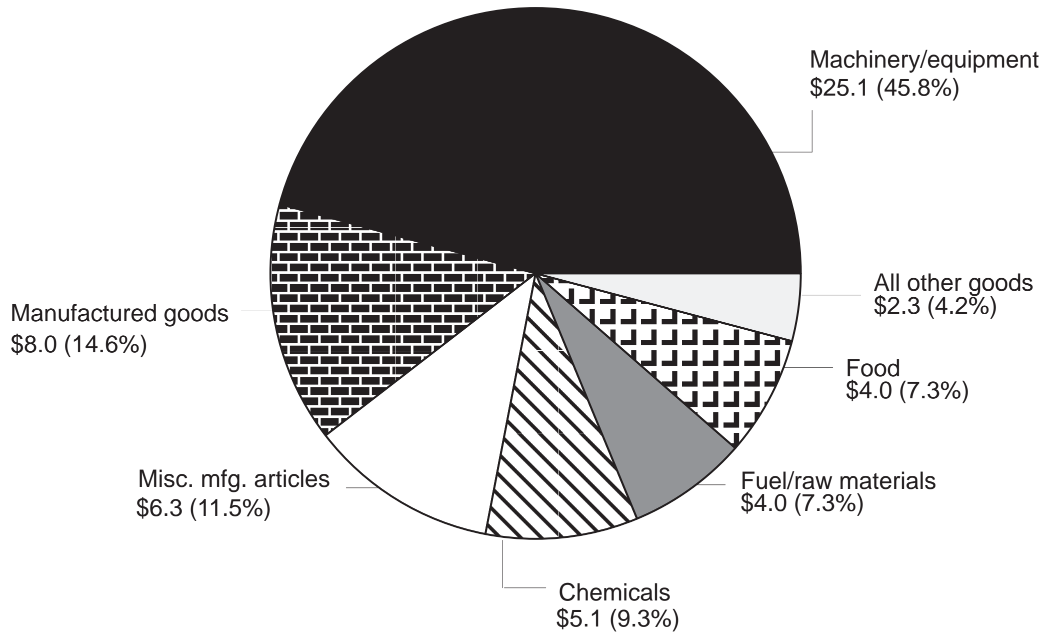
Item	1991	1992	1993	1994	1995	1996
Total imports from Mexico	30,445.1	33,934.6	38,667.7	48,605.3	61,721.0	74,179.1
U.S. imports under production sharing provisions of HTS 9802:[1]						
Total value	14.334.3	16,502.0	18,992.3	23,068.2	24,962.3	27,924.3
Percent of total imports	47.1	48.6	49.1	47.5	40.4	37.6
U.S. components in HTS 9802 imports:						
Total value	7,254.8	8,691.9	9,887.0	11,608.4	12,832.8	15,355.5
Percent of HTS 9802 imports	50.6	52.7	52.1	50.3	51.4	55.0
Percent of total imports	23.8	25.6	25.6	23.9	20.8	20.7
U.S. imports under NAFTA:[2]						
Total value	NA[3]	NA[3]	NA[3]	30,953.6	43,926.6	55,075.9
Percent of total imports	NA[3]	NA[3]	NA[3]	63.7	71.2	74.2
U.S. imports entering under both NAFTA and 9802:						
Total value	NA[3]	NA[3]	NA[3]	14,504.5	16,721.1	20,388.3
U. S. content	NA[3]	NA[3]	NA[3]	7,215.1	8,674.4	10,848.9
Total exports to Mexico	33.275.8	39,604.9	40,265.5	49,136.0	44,880.8	54,685.9
U.S. exports of components 9802 operations as a percent of total U.S. exports	7,354.1	21.9	24.6	23.6	28.6	28.1
U.S. merchandise trade balance with Mexico[4]	21.8	5,670.3	1,597.8	530.8	-16,840.2	-19,493.3

[1] The production sharing provisions of HTS heading 9802 are 9802.00.5010, 9802.00.60, 9802.00.80 and 9802.00.90.
[2] Some import entries from Mexico declare eligibility for preferential tariff treatment under both NAFTA and heading 9802; such entries are reported in the totals for both imports under HTS heading 9802 (and U.S.-made components in HTS 9802 imports) as well as imports under NAFTA.
[3] Not applicable. NAFTA entered into force on January 1, 1994.
[4] The hyphen (-) symbol indicates loss or trade deficit, or not applicable.

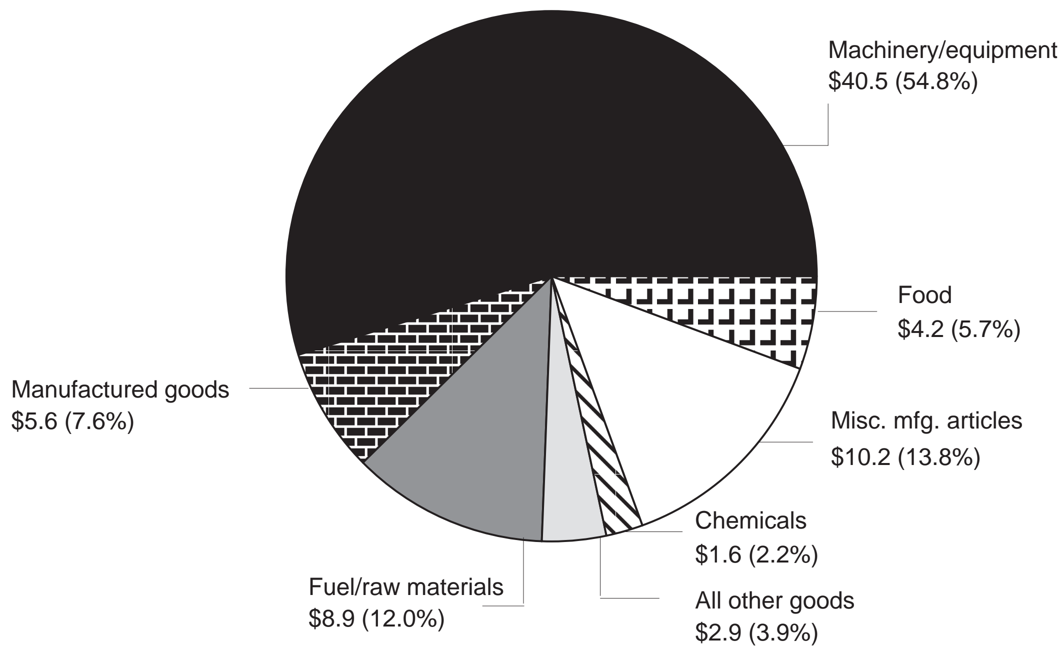
Source: Compiled by U.S. International Trade Commission staff from official statistics of the U.S. Department of Commerce.

Figure 2
U.S. trade with Mexico: Exports and imports, by product sectors, 1996

(Billion dollars)



U.S. Exports = 100%



U.S. Imports = 100%

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

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

Table 5
Leading imports from Mexico, by HTS items, 1994-96

(1,000 dollars)

HTS No.	Description	1994	1995	1996
2709.00	Petroleum oils and oils obtained from bituminous minerals, crude	4,594,008	5,681,586	7,032,759
8703.23	Passenger motor vehicles with spark-ignition internal-combustion reciprocating piston engine, over 1,500 but not over 3,000 cc	4,054,241	5,478,466	5,972,387
8544.30	Insulated ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	2,504,442	2,717,792	3,013,814
8528.12	Incomplete or unfinished color reception apparatus for televisions	([1])	([1])	2,725,954
8703.24	Passenger motor vehicles with spark-ignition internal-combustion reciprocating piston engine, cylinder capacity over 3,000 cc	934,475	871,675	2,267,745
8704.31	Motor vehicles for transporting goods, with spark-ignition internal-combustion piston engine, gross vehicle weight not exceeding 5 mt	523,216	1,297,014	2,176,852
9801.00	U.S. articles exported and returned, not advanced or improved in condition; animals exported or returned	1,471,917	1,923,081	2,043,373
8407.34	Reciprocating spark-ignition piston engines, of a cylinder capacity over 1,000 cc	561,675	1,275,846	1,372,663
8525.10	Transmission apparatus for radio or television	528,632	806,657	1,081,821
8471.30	Portable digital automated data processing machines not exceeding 10 kg, with at least a CPU, keyboard and display	([2])	([2])	1,034,153
8527.21	Radiobroadcast receivers for motor vehicles	474,496	918,188	1,005,551
9401.90	Parts of seats (except medical, barber, dental, etc.)	721,486	765,097	938,360
8473.30	Parts and accessories for automated data processing machines and units	587,567	810,082	924,133
8704.21	Trucks, nesi, diesel engine, gross vehicle weight not exceeding 5 mt	119,864	466,836	818,695
8529.90	Parts, except antenna, for transmission, radar, radio, television, etc., nesi	807,396	874,170	782,156
8708.99	Parts and accessories of motor-vehicles, nesi	488,672	680,803	774,685
6203.42	Men's or boys' trousers, bib and brace overalls, breeches and shorts, not knitted or crocheted, of cotton	371,952	593,094	745,376
8708.21	Safety seat belts for motor vehicles	881,559	646,788	702,186
8471.60	Input or output units for automated data processing machines	([4])	([4])	601,535
0702.00	Tomatoes, fresh or chilled	315,448	406,081	580,349
9999.95[5]	Estimated "low value" shipments	343,085	425,357	498,012
8504.40	Static converters	322,380[6]	388,721[6]	480,035
8415.90	Parts, nesi, of air conditioning machines	240,347	315,754	478,880
0901.11	Coffee, not roasted, not decaffeinated	267,474	508,372	472,674
6204.62	Women's or girls' trousers, bib and brace overalls, breeches and shorts, not knitted or crocheted, of cotton	220,493	330,493	451,217
	Total of items shown	21,334,826	28,181,955	38,975,364
	Total other	27,270,433	33,539,045	35,203,755
	Total all commodities	48,605,259	61,721,000	74,179,119

[1] Prior to 1996, imports reported under HTS 8528.10 part.
[2] Prior to 1996, imports reported under HTS 8471.20 part.
[3] Prior to 1996, imports under this item included products now reported under HTS 8473.50 part.
[4] Prior to 1996, imports reported under HTS 8471.92 part.
[5] Special "Census Use Only" reporting number estimating low-valued imports.
[6] Prior to 1996, products now reported under this item, were reported under HTS 8471.99.32 and .34. Trade data were adjusted to reflect this coverage.

Note.—Because of rounding, figures may not add to totals shown. The abbreviation, nesi, stands for "not elsewhere specified or included."

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

Production sharing

Close geographic proximity permits intra-country specialization within industrial sectors, and production sharing between the United States and Mexico has been important in U.S.-Mexican trade for years. Much of U.S.-Mexican trade takes place within the machinery and equipment sector and in the textiles and apparel sector. Having U.S. materials processed or U.S. components assembled in Mexico assists many U.S. producers of labor-intensive articles to compete with imports from Asia on the U.S. market; at the same time benefiting Mexico by creating jobs, and transferring U.S. managerial and technological know-how to Mexican establishments.

The facilities involved in production sharing on the Mexican side have generally been the "maquilas," i.e. in-bond production units, established since 1965 under Mexico's Border Industrialization Program. The maquiladora program permits imports of raw material, containers, packing material, fuel, lubricants, spare parts, equipment, and machinery without paying import duties or the value-added tax, provided those imports were used to produce goods for exports. The bulk of these imports originate in the United States as the maquilas use only an estimated 2 percent of their supplies from domestic sources.

U.S. exports to production-sharing operations in Mexico continued to grow in the NAFTA period unaffected by the peso crisis, because these operations, as before, depended on U.S. goods. Exports of U.S. components and materials gained relative significance after the peso crisis, accounting for 23.6 percent of overall U.S. exports to Mexico in the first NAFTA year, 27.7 percent in the second, and 28.1 percent in the third (table 4.)

Products resulting from production sharing reenter the United States under Chapter 98 of the Harmonized Tariff System (HTS). Since the United States levies duties only on the value added in Mexico and the U.S. input returns duty-free, the overall rate of U.S. duty in this import category is reduced. Many such imports actually qualify for and enter at NAFTA rates, further lowering the tariff burden. Fifty-five percent of these imports consisted in 1996 of U.S. components returned after further processing or assembly in Mexico. Therefore, U.S. content returned accounted for 20.7 percent of all U.S. imports from Mexico.

The NAFTA permits duty-free entry of apparel from Mexico that is sewn from U.S.-cut fabric, and many U.S. apparel companies have since established sewing operations in that country, bringing the number of textile and apparel maquilas to 636 by 1996. The majority of these firms have shifted production from Asia, where Asian fabric was typically employed, and to a lesser extent from the Caribbean Basin, boosting thereby U.S. textile mill exports to Mexico.

U.S. imports of jointly produced products increased sharply during the NAFTA years from $19.0 billion in the pre-NAFTA year of 1993 to $25.0 billion in 1995 and $27.9 billion in 1996. This trend reflected the growing price-competitiveness of production shared with Mexico, caused by the cheaper peso and by the NAFTA provisions that allowed duty-free entry of Mexican apparel sewn from U.S. fabric. Yet, the portion of shared-product imports in the total declined steeply from 49.1 percent to 40.4 percent and 37.6 percent, respectively, owing to the surge in the rest of U.S. imports from Mexico in the NAFTA period.

In October 1996, the Government of Mexico put several modifications of the maquiladora program in effect, simplifying administrative procedures, providing incentives for the use of more Mexican and other North American content in the sector's production, and promoting greater integration of the maquiladora into the Mexican economy. By the year 2,001, maquilas will operate as any other Mexican firm (*IER*, Feb./Mar 1996.) The complementarity of the U.S. and Mexican economies should nonetheless sustain incentives for production sharing.

Regulatory Reform in the OECD

New Dimensions in Market Access

The "globalization" of industrial production—prompted in large part by recent technological advances—led in the early 1990s to an increasing recognition among economic policy makers of how deepening economic integration has given rise to new aspects of market access. As recognized by Ministers from member countries comprising the Organization for Economic Cooperation and Development (OECD), this broader approach to market access now ranges from trade policies to investment to the competition rules that govern local production. The qualitative deepening of the nature and degree of openness in international markets is sometimes referred to under the OECD rubric of "market contestability." It goes well beyond the traditional tariff and nontariff barriers at the border that were the past focus of multilateral liberalization efforts. Under this new approach, Ministers have begun to focus on unequal conditions in national markets in areas such as investment, regulatory affairs (itself ranging from product standards to licensing of services to merger review procedures), structural differences in the functioning of

markets, and the like. The aim of this broader approach is to rein in government measures and private practices that impair the efficient functioning of markets and to restrict the openness of national markets to global competitors.

Ministerial Mandate and Work Plan

In their May 1995 communique, Ministers requested the OECD Secretariat to "examine the significance, direction and means of reform in regulatory regimes, and undertake exploratory work on corporate governance." Ministers pledged in this regard to "promote initiatives for domestic regulatory reform aimed at positive structural adjustment, especially when they lead to the liberalisation of trade and investment flows." Ministers endorsed a preliminary work plan on regulatory reform in their May 1996 communique, developed out of initial discussions, saying that "well-founded reform will improve economic efficiency and growth, promote technological innovation, serve consumer interests, support international trade and investment, and enhance government effectiveness."

The preliminary plan calls for an OECD-wide study to be presented to Ministers at the May 26-27, 1997 Ministerial meeting. The focus of the study is the broader category of "regulatory reform" rather than its subset of "deregulation," stressing more efficient regulations and benefits of reform such as creating jobs, reducing waste, and encouraging competition. This OECD-wide study was designed to draw support for reform from among the broader private and public sectors, to offset the asymmetry between over-represented special interest groups in regulatory matters and the broader majority that is much more thinly represented but more likely to benefit from such overall reform.

Regulatory Reform Context

The context for the regulatory reform initiative was set out in a preliminary report presented at the 1996 Ministerial. Although regulations can produce social benefits by remedying market failures—for example, environmental and consumer protection, health and safety, and labor protection, regulations can also have incidental but costly effects. Direct costs of compliance with regulations can be high, especially for small businesses, and indirect costs can also be significant. Permits and licenses that protect the public can increase business uncertainty that, in turn, delays or reduces investment. Even slight variations in product standards can act as a disguised indirect trade barrier. Of greater concern, perhaps, is the effect of regulatory reform on job creation, where the increased economic activity associated with regulatory reform and its subsequent industry rationalization has at times been insufficient to offset the job losses resulting from such regulatory changes.

The report considered that the core objective of regulatory reform is to improve economic performance through increased productivity, job creation, and overall competitiveness while still retaining the public benefits of regulatory programs. Additional objectives can include better responsiveness to consumer choice and consumer demands for convenience and faster technological innovation in such sectors as communications, transport, and energy; greater government effectiveness in maximizing national economic wealth, or other national objectives; and improved capacity of national regulatory systems to attain regulatory goals within a globalizing world economy.

Regulatory reform of different types and degrees has been underway in OECD countries since the mid-1980s. Some sectoral examples of increased consumer gains after deregulation are air transport in the United States (1978), New Zealand (1983), and Australia (1991); road transport in the United Kingdom (1980) and France (1986); the electricity market in Norway (1990); and telecommunications in Japan (1985) and the United Kingdom (1991). More recently, Japan and Mexico have also embarked on deregulation initiatives.

Primary strategies used in these reform efforts have centered around: (1) increasing market incentives for efficiency and innovation, and (2) improving the quality of needed regulations. National experiences with these strategies have suggested that where industries are structurally competitive, market incentives—through reforms such as targeted dismantling of barriers to entry and exit, of price controls, and of other restrictions on competition—produce greater benefits. Common instances of this situation include privatization of state-owned enterprises and permitting incipient competition against traditional monopoly suppliers. Where industries are not structurally competitive, regulation of such market failure is likely to be warranted and public monopolies are often established. However, privatization of a monopoly provider to make use of economic incentives within a regulatory framework may produce greater gains in productivity and innovation. Such a framework can be used to prevent private price fixing, anticompetitive mergers, and dominant firms from obstructing the emergence of competitors. Simple privatization of government-owned monopoly without a regulatory framework may

well result in worse performance, however, than that exhibited by a public monopoly.

Regulatory Reform Workshop and Symposium

In July 1996, the OECD Trade Committee held a workshop entitled "Regulatory Reform and International Market Openness." The workshop addressed six areas—

- Political economy of regulatory reform;
- Assessing experiences with regulatory barriers;
- Search for international mechanisms to promote reforms;
- How to make mutual recognition of regulatory regimes workable and effective;
- Use of competition policy to facilitate market access in relation to regulatory reform; and
- Overall assessment of the impact of regulations on market access.

In December 1996, a symposium was also held in Tokyo, Japan, jointly organized by the OECD and Japan's Ministry of International Trade and Industry, Ministry of Foreign Affairs, and industrial federation, Keidanren. One consistent message that emerged from both the workshop and the symposium was the need for multilateral support for regulatory reform so that reformers might continue to advance initiatives to improve both efficiency and market access. The symposium concluded from work focused on five sectors—electricity, airlines, trucking, telecommunications, and retail distribution—that productivity was higher in sectors exposed to stronger competition, whether domestic or foreign.

1997 Report to Ministers

The core objectives of regulatory reform are to promote better economic performance by making economies more dynamic and flexible, to improve government effectiveness in protecting social values and, finally, to contribute to global economic integration. To reach these objectives, the 1997 report to OECD ministers is expected to draw policy lessons for OECD countries concerning regulatory reform. The report will seek to demonstrate both the benefits and how to manage the potential costs of regulatory reform, identify various reform strategies including active and decisive reform plans (as opposed to piecemeal efforts) and perhaps most important, identify recommendations to reform regulatory policies. The report's initial policy recommendations are likely to fall under three categories that suggest that governments should (1) implement principles of good regulation, (2) establish procedures for good regulation, and (3) implement supporting policies. A draft of the forthcoming report sets out eight recommendations in these fields—

Regulatory Principles

- Adopt and maintain only regulations whose costs are justified by benefits and that attain their objectives at lowest cost, taking acount of non-regulatory approaches;
- Promote competition and efficiency throughout the economy;
- Eliminate regulatory barriers to trade and investment and strengthen international principles;

Regulatory Processes

- Systematically review, update, and streamline existing regulations;
- Estimate potential impacts and consult with affected parties before adopting new regulation;
- Create engines of reform to oversee and promote regulatory reform;

Supporting Policies

- Expand the scope and effectiveness of competition policy;
- Identify important impacts on other public policy objectives, and develop coordinated reforms to reduce negative impacts while retaining the benefits of more efficient markets.

The full final report will further include six sectoral studies covering (1) telecommunications, (2) professional services, (3) electricity, (4) financial services, (5) the agro-food sector, and (6) product standards. Each will elaborate the current status of regulatory reform in OECD countries; the most important regulatory issues that affect economic performance including policy linkages that make reform more difficult; any transitional or sequencing issues during sector reform; and finally, will seek to draw policy lessons. The final report will also address (1) the economy-wide effects of regulatory reform; (2) competition, consumers, and regulatory reform; (3) industrial competitiveness, innovation, and regulatory reform; (4) market openness and regulatory reform; and (5) regulatory quality and public sector reform, aimed first at the changes needed in the public sector and then followed by ways to sustain regulatory reform.

The draft report considers that regulatory reforms are likely to increase productivity, lower prices, and could eliminate shortages. Additional benefits would include increased innovation as well as more consumer choice. Such benefits are expected to ultimately boost economic growth which, the draft suggests, could amount to as much as a 5 or 6 percent increase in GDP in some countries such as Japan, Germany, France, and Spain, following full adjustment to changes in regulatory policies over the "long run." However, this long-term adjustment would vary by sector and by country, and, admittedly, could take anywhere from several years to perhaps several decades. Whereas some countries consider this growth estimate exaggerated, they nonetheless foresee in coordinated regulatory reform efforts the chance to increase the benefits from trade and investment flows. Governments also see advantages to regulatory reform that can harness the innovation of the private sector through the use of incentives to achieve better results for broader social policies.

Although further study of the issue of regulatory reform may hinge on the extent of funding available, both the OECD Secretariat as well as individual members such as the United States and Japan, are hopeful that the May 1997 report can provide the three practical results of (1) a gauge of the benefits to be gained from a broad regulatory reform effort, (2) a compendium of sectoral "best practices" resulting from regulatory reform, and perhaps most important, (3) policy recommendations for future use that do not just tinker with individual regulations but instead set up a more efficient and transparent procedure for developing future regulations.

NAFTA Commission Meets Amidst Debate Over Accord's Expansion

The NAFTA Free-Trade Commission, which is comprised of Trade Ministers from the United States, Canada, and Mexico and is charged with overseeing NAFTA's operation, held its third meeting on March 20, 1997. The Commission reviewed NAFTA's implementation and discussed outstanding issues. The key outcome of the meeting was agreement on an initial list of several dozen products for which the phase-out of tariffs will occur on an accelerated schedule, effective July 1, 1997.

Ministers received and adopted reports from over 20 committees and working groups charged with overseeing day-to-day NAFTA administration. Among them was a report by the working group on trade remedies, whose work is now completed. Ministers also formally agreed to technical changes in NAFTA rules of origin intended to ensure that prior negotiated concessions were not undermined by subsequent changes in tariff classification. Outstanding concerns, notably regarding telecommunications standards, cross-border transportation, government procurement, and sanitary and phytosanitary restrictions on agricultural produce, were also discussed, but no resolution announced. The Ministers directed their negotiators to begin another round of tariff acceleration negotiations by May 1 and to conclude such talks by December 15. They said discussions would occur towards the creation of a new trilateral institution known as the NAFTA Coordinating Secretariat that would provide support to the NAFTA Commission.

NAFTA's implementation has proceeded fairly well, despite the peso crisis. Tariffs have continued to fall in line with agreed schedules, most investment restrictions and non-tariff barriers are being phased out, and cooperation on various aspects of trade administration and regulatory policy continues. Efforts to identify and reduce standards-related obstacles to automotive trade and trans-border rail transport have achieved some success.

Some elements of implementation have proven problematic, however. Unpredictable administration of tariff-rate quotas on agricultural products; onerous labeling and certification requirements for consumer goods, processed foods and apparel; outstanding weaknesses in intellectual property rights protection; unequal operating conditions for U.S. small package delivery services; and technical standards and testing procedures for telecommunications terminal equipment are all areas where the United States has experienced problems with Mexico's NAFTA implementation, according to United States Trade Representative's (USTR's) recently released annual report and trade policy agenda. A lack of transparency and predictability in Mexico's administration of trade rules is a consistent theme in these complaints. In Canada's case, high post-Uruguay Round agricultural tariffs, subsidies for lumber and wheat, and protection of cultural industries have remained irritants, largely due to gaps in NAFTA's coverage and differences in opinion over the rules that do exist.

For their part, Mexico and Canada share concerns over U.S. unilateralism, especially with respect to Helms-Burton. Mexico has retaliated for U.S. safeguard measures on broomcorn brooms, objects strenuously to U.S. delays in implementing scheduled cross-border trucking provisions, and has expressed frustration with U.S. slowness in resolving animal and plant health-related restrictions. Canada has also called into question U.S. implementation of sugar quotas and the U.S. sugar re-export program.

The NAFTA Free Trade Commission meeting came before what promises to be a lively Congressional debate on whether to provide the President with authority to pursue trade liberalization with additional partners, notably Chile and other Latin nations. Opponents appear to be gearing up to turn the fast-track debate into a referendum on NAFTA, arguing that its first 3 years confirm fears about the impact of the accord on U.S. jobs and investment. They point to a widening bilateral U.S. trade deficit with Mexico, failure of anticipated exports to materialize after the peso's devaluation in 1994, the certification of some 120,000 workers as those whose jobs have been lost due to increases in imports from or shifts of production to NAFTA partners, and downward pressures on U.S. wages and working conditions for workers whose jobs could readily be moved abroad.

Supporters counter that NAFTA remains an important tool in the U.S. effort to open foreign markets and create a level playing field for U.S. exporters. They cite gains in two-way trade and in U.S. exports, even in the face of the peso collapse, as evidence of the NAFTA's benefits. Perhaps more important is the evidence that NAFTA has accomplished the aims of lowering previously-high Mexican barriers to U.S. exports, creating a more secure environment for the conduct of trade and investment, underpinning continued Mexican economic reform, and stabilizing the Mexican economy in the wake of the peso's sharp fall in value. Mexico has, for example, continued to privatize key segments of its economy, permitting foreign participation in such sectors as railroads, seaports, airports and greater competition in telecommunications, natural gas distribution, and financial services markets. These changes are all in the long-term U.S. interest, despite any near-term cyclical deterioration in the U.S. trade deficit, supporters say. Moreover, the U.S. economy has entered into its sixth year of economic expansion, is creating jobs at a prodigious pace, and indeed, is at sufficiently full employment that most economists, notably Federal Reserve policy makers, believe that wage-induced inflation poses the most serious risk to U.S. economic prospects.

In March testimony on U.S. trade policy, newly-confirmed USTR Charlene Barshefsky made a strong appeal for so-called "fast-track" negotiating authority. Fast track provides for up or down Congressional votes to approve trade agreements reached by the President in return for certain procedural guarantees for consulting with Congress and the private sector when negotiations are underway. Ambassador Barshefsky said the issue boiled down to whether, given the evidence of strong U.S. economic growth, record U.S. exports, strong overall gains in jobs and incomes, and tremendous market opportunities for U.S. firms in key developing regions, the United States believes it is on the right path to future prosperity. She expressed confidence that it was, and stated that the President's fast-track proposal will be ready for Congressional consideration shortly. Key questions are how broad the authority will be in terms of regional coverage and duration, as well as whether the President will be granted authority to have associated environmental and labor accords approved under its expedited procedures.

Initial hopes that such authority would be in hand prior to a slated Presidential visit to Latin America have faded, however. Meanwhile, the President has had to postpone planned trips to Mexico and South America. Latest plans are for him to travel to Mexico during the first week of May, followed by participation in a May 6-10 meeting among leaders of Caribbean and Central American nations. President Clinton postponed a planned May trip to South America until October 12-17.

GATS Negotiations on the Liberalization of Financial Services

Financial services talks resumed April 10, 1997. The United States and other World Trade Organization (WTO) members are now attempting to reach an agreement on financial services with expanded market access commitments. Although services negotiations under the General Agreement on Trade in Services (GATS) concluded in December 1993, as part of the Uruguay Round, negotiations were extended for a handful of particular service sectors that required additional and more specific treatment. First among these were extended negotiations involving financial services, which were scheduled to conclude by June 30, 1995. Throughout these negotiations, the United States made clear that other countries would need to provide substantially full market access and national treatment for financial services before the United States would agree to participate in a financial services agreement on the basis of most-favored-nation (MFN) treatment that provided others with unreserved market access to U.S. financial markets. However, as these negotiations drew to a close in June 1995, the United States concluded that the offers of other countries were still as yet insufficient for the U.S. Government to accept a comprehensive agreement on financial services based on MFN treatment.

As a consequence, the United States announced at the end of June 1995, that it would exercise its right to list an MFN exemption in its final WTO financial services commitments. Although the United States did

not place in question existing investment by foreign firms in the U.S. financial services market, it did reserve the right to discriminate against new incoming investment in this sector if it chooses. The U.S. exemption preserved the right to differentiate among foreign financial service providers, on a reciprocal basis, in terms of permitting them to establish a presence in the U.S. market, expand current operations, or conduct new activities.

In large part, the U.S. exemption resulted in an interim rather than a permanent financial services agreement, as the other participants moved to consolidate the best offers tabled by June 1995. These offers were fashioned into the Interim Agreement on Financial Services that was agreed on July 28, 1995, and entered into force on September 1, 1996. During the 60-day period beginning November 1, 1997, before the Interim Agreement ends, participants will have the opportunity to improve, modify, or withdraw all or part of their specific commitments and to list any article II (MFN) exemptions they wish to take under the GATS in financial services. The new negotiations on financial services in April are aimed at cementing together current commitments with new ones under a permanent agreement applied on a broad MFN basis.

The United States has been criticized for being a "free rider" under the interim agreement, that is, one that benefits from the market-access provisions of the agreement in markets overseas but does not need to accord similar benefits to foreign operators in its own domestic economy. There are several major reasons why the United States did not agree to grant MFN treatment to all WTO members under the interim agreement. Foremost in the U.S. view was that too many important trading partners did not provide new market access, nor even fully protect the existing market access of foreign firms. In addition, the best offers of some countries did not guarantee existing levels of foreign ownership for financial firms, thus leaving assets of U.S. and other firms vulnerable to the possibility of forced divestiture.

Participation in the Interim Agreement

In June 1995, the U.S. Treasury Secretary and the United States Trade Representative (USTR) summarized the headway made between the December 1993, conclusion of the Uruguay Round negotiations and the June 1995, conclusion of extended negotiations on financial services. (In these talks, the Treasury negotiated issues involving banking, securities firms, and nonbank financial services institutions, while the USTR negotiated insurance services issues). In overall regional terms, the United States had the most in common regarding financial services with other industrialized countries, whose commitments were roughly comparable to those of the United States. U.S. negotiators had essentially reached mutually acceptable commitments with the European Union (EU) by the conclusion of the Uruguay Round. Argentina, New Zealand, and Switzerland had also offered substantially full market access and national treatment in banking and securities by December 1993.

Financial services commitments by Japan, however, were an exception among industrialized countries, although bilateral agreements negotiated by early 1995 between the United States and Japan removed a number of the hurdles constraining progress in the multilateral financial services negotiations under the GATS. The commitments offered by several Latin American countries were considered good or at least significantly improved by the conclusion of negotiations in June 1995. Offers made by several East European countries—the Czech and Slovak Republics, Hungary, and Poland—as well as by Morocco, Norway, and South Africa, largely reflected the recent progress made in these countries through their enactment or consideration of liberalized regulation of their financial service sectors, many of which are just beginning.

Offers from India and other Asian countries, however, were deemed insufficient as the negotiations drew to a close in June 1995, and in large measure prompted the United States to list its MFN exemption until better offers of more substantial market access became available. Commitments tabled by Egypt, India, and Pakistan—where largely state-owned banks and insurance companies dominate the sector with only limited private-sector participation—were generally considered disappointing. And countries belonging to the Association of Southeast Asian Nations (ASEAN) were seen to pose many of the thorniest problems encountered during the financial services talks. Commitments by Korea were viewed as having weaknesses similar to Japan's financial services commitments.

Renewed Negotiations

The "best offers" on the table in June 1995 are likely to be the starting point from which the 43 countries that signed the Interim Agreement will begin new discussions in April 1997. These talks aim at reaching agreement on a permanent financial services agreement during the 60-day period starting in November 1997. A permanent agreement could then enter into effect beginning in 1998. Although the United States is perhaps the foremost advocate pushing for high-quality commitments from WTO members, the benefits from liberalization are considerable for all

participants. Reaching a permanent financial services agreement is likely to result in increased access to international capital, especially for emerging markets seeking to finance infrastructural, industrial, and other productive projects. In addition, liberalization of financial services provides a stronger infrastructure for these countries, drawing continued investment and generating economic growth as well as technology transfer, improvements in competition that benefits consumers, as well as other market-oriented advantages.

Trade in services centers around four essential ways that foreign firms can provide their services to consumers in other countries—the so-called modes of supply under the GATS framework. Three involve the cross-border trade of services whereas one involves sales through affiliates established abroad. Cross-border trade is comprised of (1) cross-border supply, where services are exported across a national border to another country; (2) consumption abroad, where a foreign consumer takes in services in a country other than his own such as a tourist abroad; and (3) the presence of natural persons, where a person—such as an accountant—provides a service by temporarily going abroad to carry out business. The fourth involves (4) commercial presence, where a firm establishes a branch or subsidiary abroad to provide its services. Thus, this fourth service channel, or "mode of supply," can also be subject to a foreign country's rules and regulations governing foreign direct investment, as well as raise questions regarding the temporary movement of personnel necessary to staff an office and provide a firm's services abroad (similar to the issues raised concerning the presence of natural persons involved in cross-border services trade).

Given this structure of the GATS framework agreement, the United States continues to seek offers of substantially full market access and national treatment from its trading partners, especially from developing countries, as a condition for lifting the U.S. MFN exemption for new entrants, new activities, and expansion of existing operations in the United States. The issues to be negotiated regarding financial services commitments will include the scope of coverage, what commitments are made regarding cross-border trade and commercial presence, what limitations are placed on any of these commitments and what additional commitments might be offered, and finally whether a country lists an MFN exemption.

As an example of a largely satisfactory offer, the EU generally agreed to guarantee the right of foreign firms to provide cross-border services in and to all 15 member states. The EU also provides the right of establishment for foreign banks, securities firms, and nonbanks in the financial sectors of all its member states. It generally also guarantees national treatment to these foreign firms, meaning the same treatment as that received by domestic firms. For insurance and reinsurance, the EU binds without limit market access and national treatment for cross-border trade in marine, aviation, and ground transportation for international businesses. There are certain limits in some member states, such as screening requirements, national or economic needs tests, or certain branching or commercial presence requirements, but largely U.S. financial services firms are to receive substantially full market access and national treatment as EU firms are to receive in the United States.

Japan guarantees cross-border trade in financial services, with some exceptions, and guarantees the right of establishment in its financial markets for foreign banks, securities firms, and nonbanks. It provides national treatment in all areas, with the exception of deposit insurance. Thus, insurance issues are likely to be a focus of renewed financial services negotiations with Japan. The U.S.-Japan bilateral framework agreement of October 1994 lays out transparency and liberalized regulatory rules that may have considerable consequences for foreign insurance firms operating in Japan.

Commitments by several Latin American countries improved up through the July 1995 Interim Agreement, with Argentina for example guaranteeing the ability to provide cross-border services along the same lines as U.S. commitments and guaranteeing foreign firms the right of establishment, as well as national treatment across the full range of financial services. Brazil however, has a financial services sector that is closed to new entrants, although it provides limited access for already established banks to branch out. Brazil is expected to introduce rules that allow for establishment and expansion of foreign financial firms in the future when the National Congress reopens the sector to foreign participation.

Examples of some of the more problematic offers tabled in previous negotiations, however, reflect restrictive financial services rules in a number of developing countries, particularly in South and Southeast Asia. These include: tight quotas for branching licenses for banks and very limited or no equity participation allowed for foreign firms (India), no guarantees to maintain existing regulations (Indonesia), exclusion from certain sectors such as foreign investment in blue chip corporate bonds (Korea), denial of national treatment for foreign banks (Malaysia), forced divestiture of foreign bank branches to the 50-percent limit on foreign equity (Pakistan), broad screening tests based on national and economic needs criteria (Philippines), minimal access to a heretofore virtually closed market and a broad MFN exemption allowing differential treatment of foreign financial services providers (Thailand), and the right to

reject establishment applications based on reciprocity or nonprudential needs tests (Venezuela). It will be restrictions similar to these that negotiators will be aiming to eliminate or minimize in upcoming negotiations so that participants can reach agreement by the end of 1997 on market access for foreign firms based on MFN and national treatment principles and, in turn, avoid the need for participants to list MFN exemptions to protect their financial services sectors through reciprocity or other requirements.

SPECIAL FOCUS

India's Economic Liberalization

India's prereform economic policies

This year, India celebrates 50 years of independence from British rule. For most of the past four decades after independence, India has planned its development policy. The economy was heavily controlled by the central and state governments through extensive public ownership of commercial assets, a complex industrial licensing system, substantial protectionism against imports, including some of the world's highest tariffs on imports of capital goods and a ban on imports of consumers goods, restrictions on exports, virtual prohibition of foreign investment, and extensive regulation of the financial system. These policies enabled the Indian Government to control the most basic business decisions down to the firm level. Thus, although India's private sector has always been important and produced at least two-thirds of GDP, its activities were restricted and used for the goals of a planned development strategy.

More important is that central planning strategy resulted in severe financial imbalances, and it isolated the Indian economy from the rest of the world. For example, India's share of world trade was reduced from 2 percent in the 1950s to less than one-half of one percent in the late 1980s. In addition, Indian consumers paid higher prices for goods of lower quality, production for exports was discouraged, recurrent shortages of foreign exchange were created, and the country's balance of payments position became extremely vulnerable to external shocks.

Throughout most of this period, macroeconomic policies were however, conservative. Except for a few episodes associated with unfavorable harvests or external shocks, inflation was contained to single digits. Current account deficits were modest and were financed primarily by concessional aid flows. Nevertheless, central planning held back India's economic growth below its potential. For example, between 1960 and 1990, real GDP grew by an average annual rate of 3.9 percent, industrial output grew by an average of 1.8 percent and agricultural output grew by 2.2 percent. This contrasts with annual growth rates by Pakistan of 5 percent, Indonesia 6 percent, Thailand 9 percent, Taiwan 8 percent and South Korea 9 percent.

In 1990-91, the Indian Government eased its monetary policy, resulting in imbalances in several sectors. The expansion of the nation's supply of money and credit resulted in growing fiscal deficits and surging inflation to double digit rates. The rupee became overvalued. Exports stagnated, but imports grew and the trade deficit soared to $8.4 billion. Excessive borrowing was needed to finance the budget and trade deficits. This situation worsened with the breakout of the Persian Gulf War in 1990, and with the resultant higher energy import bills and a decline in workers' hard currency remittances from the Middle East. In 1991-92 the budget deficit surged to around 10 percent of GDP, GDP grew by a mere 1.4 percent, inflation rose over 10 percent a year, the current account deficit reached $10.1 billion, and foreign reserves fell to $2.2 billion, hardly sufficient to cover 1 month's imports. Table 6 shows India's selected economic indicators.

India's economic reforms

In May 1991, the Indian Government initiated several reforms to correct sectoral imbalances both domestic and foreign. Important liberalization decisions were enacted. The rupee was devalued, controls over private investment were relaxed, and foreign investment rules were modified to enable foreign firms to hold controlling interests (51 percent) in joint ventures.

More reforms were launched in 1994. New rules abandoned the maze of licenses controlling the import of intermediate goods. Coffee, audiotapes, personal computers, and sporting goods have been allowed entry without requiring official approval. Personal and corporate tax rates have been simplified and lowered. Mining, most manufacturing sectors, electricity, airlines, telecommunications, and banking have been substantially opened to private domestic investors. The average tariff rate has been slashed from 87 percent of import values in 1991 to 33 percent.

The 1991-94 reforms were monumental. They mark a new era for the country's economic policy. They repudiated the visions of socialist self-reliance.

Capital market and trade reform

India's current account deficit peaked at around $10.1 billion in 1990-1991. To encourage foreign capital inflows badly needed to meet its international payments obligations, India introduced several reforms in the capital market. In 1992, the Indian Government repealed the Capital Issues Act of 1947,

Table 6
Selected key economic indicators for India, 1990-96

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
	(Percentage)					
Real GDP growth rate	5.2	1.4	5.1	5.0	6.3	6.2
Industrial production	8.3	-0.1	2.3	6.0	8.5	12.0
Consumer price index	13.6	13.9	6.1	9.9	9.7	9.7
Gross domestic savings % of GDP	23.8	22.8	21.2	21.4	24.4	n/a
Gross capital formation % of GDP	25.2	22.7	4.0	21.3	23.2	n/a
	Billion dollars					
Exports of goods	18.5	18.3	18.9	22.4	26.9	32.4[1]
Imports of goods	-27.9	-21.1	-23.3	-24.0	-31.7	-39.4[1]
Balance on goods trade	-9.4	-2.8	-4.4	-1.3	-4.8	-7.0
Imports of goods & services	-31.5	-24.9	-26.8	-29.4	-39.5	-47.9
Exports of goods & services	23.0	23.3	23.6	28.9	34.1	40.9
Balance on goods & services	-8.5	-1.6	-3.2	-0.5	-5.4	-7.0
Current account balance	-10.1	-1.6	-3.9	-0.7	-3.0	-5.4
Foreign investment	0.2	0.2	0.6	4.1	4.9	4.1
Direct investment	0.2	0.2	0.3	0.6	1.3	2.0
Portfolio investment	0.0	0.0	0.2	3.5	3.6	2.1
Net long term borrowing	2.7	4.3	1.6	1.7	0.3	0.2
Other capital flows	2.5	-1.0	-1.0	2.1	3.5	-2.5
Foreign currency reserves	2.3	5.7	6.7	15.5	21.1	17.4
In months of imports	1.0	3.3	3.5	7.7	8.0	5.3
External debt as % of GDP	27.5	33.4	36.9	36.1	32.8	30.2
Debt service % of current receipts	30.1	27.0	27.0	25.6	25.3	23.8

Source: *Economic Survey, 1992-93 and 1995-96*, Government of India, and the *World Bank Country Study, India* .

abolished the office of the Controller of Capital Issues, and decontrolled share pricing. As a result, companies can now go directly to the market for new securities issues after clearance from the Security and Exchange Board of India (SEBI). In addition, a more transparent set of rules and regulations in the capital market has been enacted. The so-called Liberalized Exchange Rate Management System (LERMS) introduced in the Federal Budget for 1992-93 has eliminated import licensing in most capital goods, raw materials, intermediates and components. Besides reducing the reliance upon licensing of certain imports, these liberalized trade and investment policies have created a more favorable foreign exchange rate for exports, and a more favorable climate for investors. The exchange rate regime has been liberalized and full convertibility of the current account transactions has been established.

Foreign investment in India

Foreign investment in India has multiplied following the liberalization of the investment regime. Currently, there are few sectors where private domestic or foreign investors cannot invest in. Also, capital market reforms have improved India's credit ratings and boosted capital inflows for portfolio and direct investment projects. Infusion of foreign capital by private donors and IMF loan facilities designed specifically to correct short-term balance of payments problems helped rebuild India's foreign balances. Published data by the Indian Government and the World Bank show total direct and portfolio investments increased to $4.1 billion in 1995-96 from less than $200 million a year in 1990-92. The United States ranked first with the largest share of total foreign investment approved in 1996. Switzerland ranked second, and Japan third.

More recent IMF data (published in *International Capital Markets Developments and Prospects, and Key Policy Issues*, September 1996) show that international emerging markets equity funds for India have multiplied from 7 funds in 1992 to 52 funds in 1995, with net assets totaling around $3 billion. Mobilization of exceptional financing, including India Development Bonds added another $1.6 billion to India's foreign reserves. The buildup of foreign reserves has stabilized the rupee and strengthened confidence in India's financial reforms. The rupee has become a convertible currency.

Moreover, India has embarked on a program to lure more foreign investment. The Government has approved some $3.1 billion in proposed foreign investment while streamlining and proposing a modicum of transparency in the approval process. Private investment in sectors formerly reserved for state-owned companies were encouraged. Several industries such as sugar and plywood, that are still subject to the central Government licensing controls on production and sales, were deregulated. Moreover, the Government has moved to clear a backlog of investment approvals, promising to review 123 pending cases soon. Recent investments approved by the Indian Government have been proposed by BMW cars, Coca-Cola beverages, Philip Morris food products and Quaker Oats cereals.

In May 1996, the U.S. Secretary of Commerce Ronald H. Brown led a delegation of 20 chief executives of major American companies to India. Seven billion dollars in investment deals were announced—covering power plants, gas and oil exploration, and satellite communications. In early 1996, a Canadian delegation initialed 78 commercial and investment contracts dealing with transportation, highways, telecommunications, and petroleum industries. In addition, the Indian Government foreign investment committee cleared 58 proposals from Motorola, Microsoft, Siemens, General Electric, BASF, and Nokia. International business recognizes India at the present time as hospitable to foreign investment.

India's trade developments

Although the trade and foreign exchange regimes have been substantially liberalized, tariff and nontariff protection levels are still relatively high. According to a World Bank study on India's reforms, the country needs to liberalize its trade regime even further if it is to reach the degree of openness of other competitors in Asia and elsewhere, where import-weighted tariffs are in the 10- to 15-percent range.

Nevertheless, India's gradual economic transformation towards a free-market system has been a major factor in increasing its total world trade. It also has improved India's eligibility to join other fast-growing Asian economies. India has applied for membership in the Asia-Pacific Economic Cooperation (APEC) forum. APEC countries have accounted for about 45 percent of India's exports and 30 percent of its imports. (India's candidacy to APEC has been put on hold since there is a 3-year hold moratorium on new memberships.)

India's trade shifts

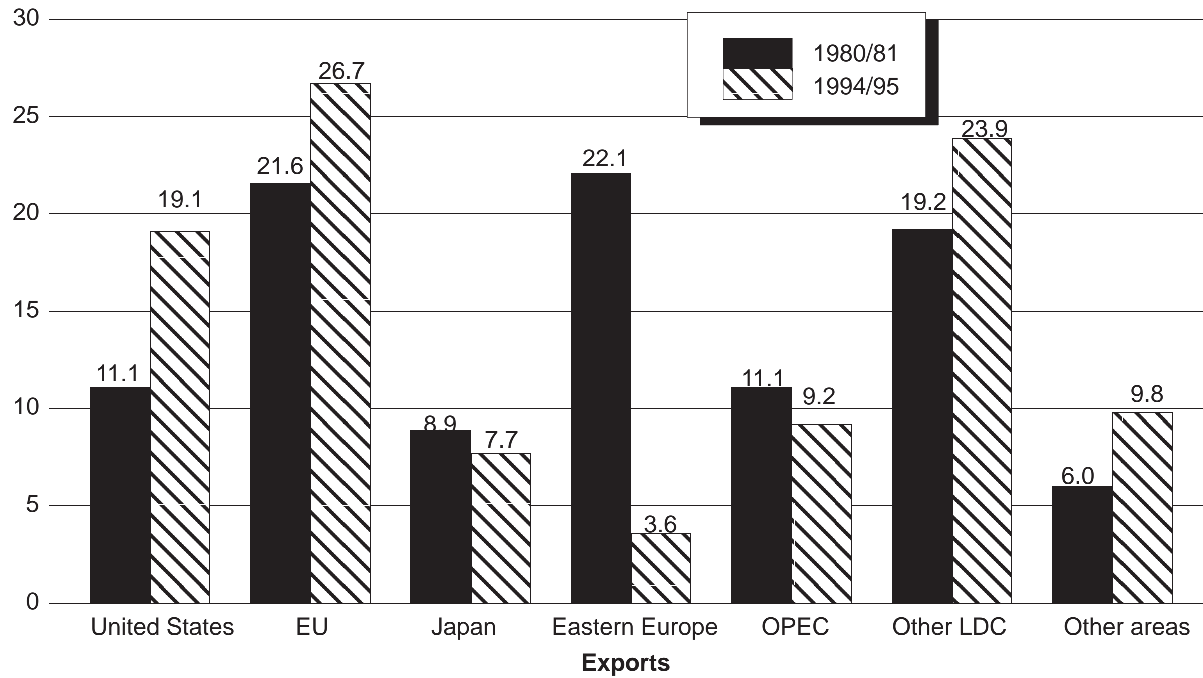
The break up of the Soviet Union had a profound impact on India's trade; it was one of the reasons for the 1991 reforms. India's trade has shifted from Eastern Europe bloc towards the West (figure 3). In 1980-81, about 22.1 percent of India's exports went to the Eastern European nations, 21.6 percent to the EU, 11.1 percent to the United States, 8.9 percent to Japan, 11.1 percent to OPEC countries, and 25.2 percent went to developing countries in Africa, Asia, Latin America, the Caribbean and other areas. In contrast, in 1994-95, around 3.6 percent of India's exports went to Eastern Europe, 26.7 percent to the EU, 19.1 percent to the United States, 7.7 percent to Japan, and 33.7 percent went to developing countries and other areas.

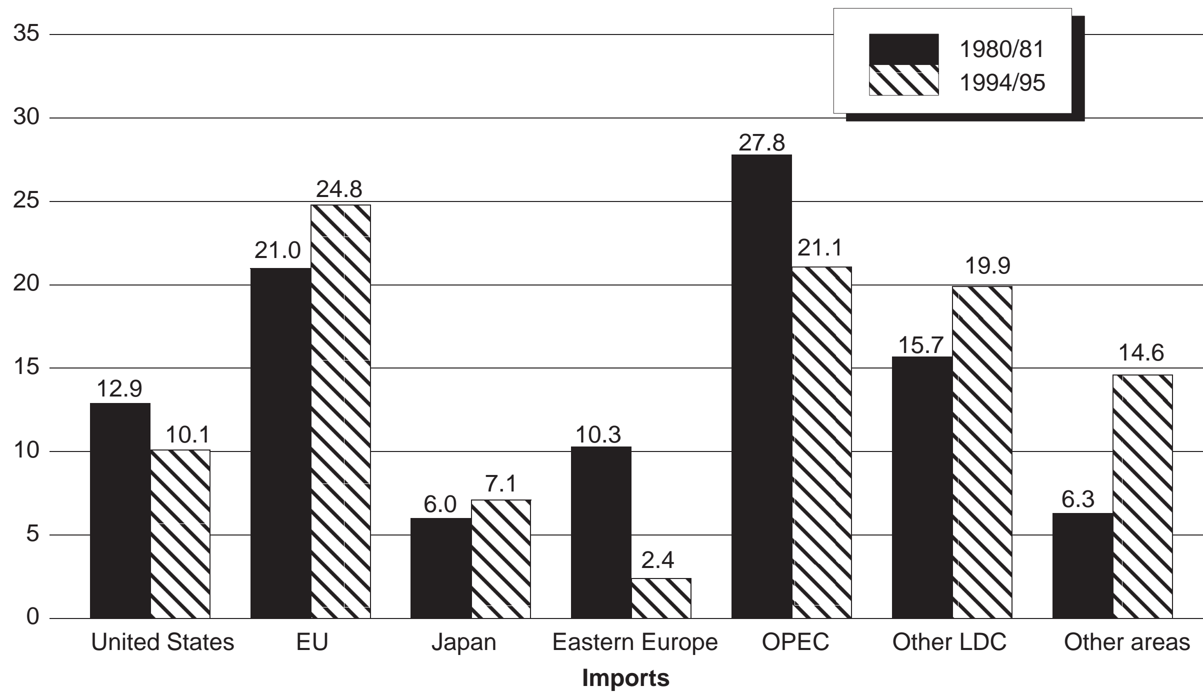
Similar shifts occurred with India's imports albeit with different degrees. In 1980-81, about 10.3 percent of India's imports came from the Eastern bloc, 21.0 percent from the EU, 12.9 percent from the United States, 27.8 percent from OPEC and 22.0 percent from developing countries and other areas. In 1994-95, India's imports from the Eastern bloc were a mere 2.4 percent of its total imports. Imports from the EU were 24.8 percent, from the United States 10.1 percent, from OPEC 21.1 percent, and from developing countries and other areas 34.5 percent.

India's world trade

India's world trade has almost doubled after the reforms compared with its trade in the 1980s—India's so-called Golden Decade of economic growth. For example, India's total trade increased to $55.5 billion in 1993 from $24.2 billion in 1984, (see table 7), and to $65.0 billion in 1995. Exports totaled $22.2 billion in 1993 and $30,5 billion in 1995, a sizable increase over 1984 exports of $9.8 billion. Exports of manufactured goods grew substantially to about $14.9 billion in 1993 from $4.8 billion in 1984. Manufactures' exports represented 67 percent of India's total exports in 1993, compared with 48 percent in 1984. India's imports from the world increased to $33.3 billion in 1993 from $14.4 billion in 1984. Manufactured goods represented about 29 percent and crude materials and fuels about 49 percent of total imports in 1993. India's import penetration ratio (imports/private consumption) rose to 14.5 percent from 11.9 percent over the period 1980 to 1993. Imports as a percent of GDP rose to 9.1 percent from 8.5 percent, and exports as a percent of GDP rose to 8.6 percent from 5.0 percent. The ratio of exports to imports rose to 75 percent in 1993 from 68.2 percent in 1984. These ratios show substantial improvements in India's trade performance in the postreform era.

Figure 3
Direction of India's world trade, 1980-95





Source: Economic Survey, 1995-96, Government of India.

U.S. trade with India

U.S. trade with India has gradually increased (see table 8). From 1993 to 1996, U.S. trade with India grew to $9.3 billion, from $7.2 billion. U.S. exports to India rose by about 18.5 percent to $3.2 billion. U.S. imports from India rose by 37.8 percent to $6.2 billion. The U.S. trade balance with India showed a merchandise trade deficit of $2.9 billion. Not only have India's exports increased, but the composition of those exports has also changed. Particularly important are the increases in exports of chemicals and manufactures. Chemicals exports more than doubled, growing to $331 million in 1995 from $159.2 million in 1993, representing about 5.4 percent of India's total exports to the United States. India's exports of manufactures, machinery, and other manufactured goods composed about 82 percent of India's total exports to the United States. India's increased exports of manufactures are particularly important in lowering India's reliance on exports of primary commodities like cotton, jute, tea, etc.. whose prices fluctuate precipitously according to the business cycles in importing countries.

India's exports to the United States under the Generalized System of Preferences (GSP) program reached $1,447 million in 1996 from $752.6 million in 1993 (table 9). GSP duty free exports reached $964 million. GSP provisions entitle India and other GSP beneficiary countries duty-free entry in U.S. customs of GSP designated goods.

Economic reforms-tangible results

Economic surveys by the Indian Government for 1995-96 show that the economic reforms undertaken over the past 4 years have led to a revival of strong economic growth, rapid expansion of productive employment, a reduction of poverty, a boom in exports and a substantial decline in inflation.

In 1992-93, a year following the inception of reforms, the Indian economy had began to stabilize. GDP grew by 5.1 percent, agriculture output expanded by 4.0 percent a year, and industrial output grew by 6.0 percent. By late 1994-95 the economy had shown more vigor. GDP grew by 6.3 percent a year and exports increased. In 1995-96 growth accelerated, real GDP reached 6.2 percent a year compared to 1.4 percent annual growth rate in 1991-92. Such high growth rates seem to be sustainable, since growth has been accompanied by much lower current account deficits, a drop in inflation rates below the double digit level of previous years, a rise in domestic saving rates to a record high of 24.4 percent of GDP and a reduction in the fiscal deficits. The external accounts, both current and capital, have improved significantly.

More reforms are still needed

Although India has fundamentally altered its development strategy with the results of unexpectedly rapid and robust recovery and the significant improvements on the current and capital accounts, greater fiscal adjustment has yet to take place. The size of the budget deficit amounted to 5.9 percent of GDP in 1995-96. Several structural reforms have had relatively high fiscal costs. The reduction of import tariffs and the rationalization of excise taxes reduced government revenues, while the liberalization of the financial markets meant higher interest payments on the Central Government debt. Moreover, progress in reforming public enterprises which still represent a large part of the Indian economy has been slow.

Nevertheless, more urgent reforms are being called for by Indian Government economists, the World Bank, the IMF, the WTO and India's industrial trading partners. These reforms include further reduction in tariffs; harmonizing product standards; encouraging more foreign investment, articulation of comprehensive, clear and transparent rules and procedures for foreign investors in specific infrastructure sectors; and developing of long-term financing sources through bond markets.

India's main trading partners regard the remaining import restrictions and tariff rates on consumer goods as among the highest in Asia. The IMF and the WTO have backed the views of India's trading partners that India's import controls are no longer needed since India's foreign reserves are expected to rise to $18.5 billion at the end of 1997, which is equivalent to 5 months' worth of imports.

India has given the IMF and the WTO evidence that it is willing to phase out import controls gradually in order to give its domestic industry time to adjust to competition and maintain public support for the reforms initiated in 1990/91. Removal of the remaining import restrictions is a highly sensitive issue in India since many small and medium-sized businesses depend on exclusive rights to manufacture more than 800 listed consumer items.

In addition, the World Bank has noted that although the liberalization of the investment regime is nearly complete and the trade and foreign exchange regimes have been substantially liberalized, protection levels are still high. The Bank has also noted that although a skillful and significant liberalization of the financial sector has been achieved, the financial sector remains dominated by public banks, that limit bank discretion in allocating and deployment of capital and lending.

Table 7
India's merchandise trade with the world 1984-93 by SITC nos. (revision 1), 1984-93

(1,000 dollars)

SITC section No.	Description	1984	1987	1990	1993
		India's exports			
0	Food and live animals	2,047,758	2,245,429	2,500,207	3,384,189
1	Beverages and tobacco	150,512	105,498	151,716	159,428
2	Crude materials excluding fuels	831,553	942,370	1,744,775	1,299,219
3	Mineral fuels etc	0	505,930	522,425	495,307
4	Animal, vegetable oils and fats	49,013	13,960	46,782	101,131
5	Chemicals	409,029	564,594	1,330,361	1,545,268
6	Basic manufactures	3,025,951	4,684,114	6,363,494	8,871,544
7	Machines, transport equipment	551,809	780,275	1,323,477	1,510,975
8	Miscellaneous manufactured goods	1,220,248	1,986,962	3,590,065	4,495,611
9	Goods not classified by kind	10,928	209,800	285,507	343,811
	Total all commodities	9,827,338	12,039,930	17,858,810	22,206,483
		India's imports			
0	Food and live animals	617,043	663,746	569,128	607,517
1	Beverages and tobacco	1,299	4,387	6,331	5,177
2	Crude materials, excluding fuels	947,550	1,387,179	2,274,443	1,528,302
3	Mineral fuels, etc.	4,586,289	3,281,235	6,495,257	16,325,174
4	Animal, vegetable oils, and fats	847,653	770,991	192,804	104,515
5	Chemicals	2,055,070	1,800,157	3,076,433	3,001,608
6	Manufactured goods	2,492,707	3,714,563	4,711,795	4,758,043
7	Machines and transport equipment	2,549,861	3,595,415	4,189,266	4,336,028
8	Miscellaneous manufactured articles	306,839	560,755	808,184	702,525
9	Commodities and transactions not classified elsewhere	7,266	1,375,337	1,475,525	1,935,201
	Total all commodities	14,411,577	17,153,765	23,799,165	33,304,090

Source: United Nations Trade Series D.

Table 8
U.S. Merchandise trade with India, 1993-Aug. 1996

(1,000 dollars)

SITC section No.	Description	1993	1994	1995	1996
		U.S. exports			
0	Food and live animals	160,359	84,042	90,006	87,262
1	Beverages and tobacco	324	329	198	634
2	Crude materials, inedible, except fuels	124,762	192,524	369,039	215,768
3	Mineral fuels, lubricants and related materials	81,532	43,282	80,503	66,114
4	Animal and vegetable oils, fats and waxes	39,088	25,908	26,798	15,559
5	Chemicals and related products, n.e.s.	407,942	418,361	658,449	464,546
6	Manufactured goods classified chiefly by material	117,448	127,999	195,579	221,456
7	Machinery and transport equipment	1,545,946	1,086,835	1,397,336	1,758,490
8	Miscellaneous manufactured articles	161,384	175,180	252,632	303,211
9	Commodities and transactions not classified elsewhere in sitc	63,646	57,654	78,062	71,941
	Total all commodities	2,702,433	2,212,113	3,148,602	3,204,982
		U.S. imports			
0	Food and live animals	341,100	476,038	408,227	480,229
1	Beverages and tobacco	4,451	3,241	3,239	4,899
2	Crude materials, inedible, except fuels	120,157	120,215	176,842	207,176
3	Mineral fuels, lubricants and related material	41,396	64,167	40,776	49,233
4	Animal and vegetable oils, fats and waxes	22,430	33,483	33,483	33,678
5	Chemicals and related products, n.e.s.	159,223	195,196	245,121	330,939
6	Manufactured goods classified chiefly by material	2,132,854	2,304,997	2,579,569	2,608,079
7	Machinery and transport equipment	165,600	223,953	320,704	376,144
8	Miscellaneous manufactured articles	1,526,099	1,839,309	1,844,728	2,007,370
9	Commodities and transactions not classified elsewhere in sitc	22,252	25,608	49,179	47,520
	Total all commodities	4,535,562	5,286,210	5,701,869	6,145,266

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

Table 9
Leading U.S. imports for consumption from India, customs value, 1993-Aug. 1996

(1,000 dollars)

Description	1993	1994	1995	Jan.-Aug. 1995	Jan.-Aug. 1996
Jewelry, goldsmiths' & silver wares etc.	129,665	99,616	92,055	64,831	52,353
Household equipment of base metal, n.e.s.	64,563	71,925	75,127	46,552	48,138
Rubber tires, inter treads, etc.	53,002	66,131	67,416	52,023	27,441
Manufactures of base metal, n.e.s.	44,776	53,811	66,646	45,005	34,914
Parts and accessories of motor vehicles, etc.	19,769	24,771	41,958	28,961	28,302
Lime, cement & fabricated construction materials	24,208	30,869	38,732	28,123	22,819
Women/girls coats, capes etc, textile fabric, not knit	44,489	45,369	36,806	23,071	19,153
Pig iron, spiegeleisen etc. iron & steel powder etc.	5,701	15,519	30,255	13,770	26,504
Plates, sheets, film, foil & strip of plastics	7,997	15,372	29,275	15,750	31,861
Woven fabrics of text mat not cotton or manmade	21,113	25,817	26,712	18,295	18,179
Iron & steel tubes, pipes & hol profiles, fittings	23,243	24,518	26,236	18,460	21,595
Tools for use in the hand or in machines	17,085	22,172	24,140	16,597	15,577
Apparel & cl acc exc textile; headgear, all material	18,160	18,279	19,796	12,396	12,883
Lighting fixtures and fittings n.e.s.	10,834	10,949	19,641	12,469	12,711
Nails, screws, nuts etc, iron, steel, copp, alumin	11,833	14,800	18,694	13,025	12,099
Electric apparat for switchg or protectg elec circ	6,457	12,923	17,095	11,583	14,757
Taps, cocks, valves & sim appliances	10,048	11,135	15,002	9,782	11,853
Electrical machinery and apparatus, n.e.s.	7,847	11,680	14,196	9,718	8,017
Internal combust piston engs, and pts, n.e.s.	12,650	13,221	14,021	10,710	4,273
Pearls, precious & semiprecious stones	7,001	10,770	12,764	8,544	10,384
Trasmission shafts and cranks; bearng housings, etc.	4,804	8,557	11,599	7,880	5,527
Pumps, air or other gas compressors and fans	10,068	9,223	11,284	7,863	7,472
Wood manufactures, n.e.s.	7,461	10,587	10,762	6,795	8,068
Telecommunications equipment, n.e.s. & pts, n.e.s.	12,024	11,362	10,005	8,004	3,318
Spices	7,698	5,874	9,994	6,143	11,729
Furniture & pts; bedding, mattresses, etc.	2,519	6,519	9,484	5,946	8,589
Musical instruments and parts, records, tapes etc.	4,372	5,323	9,308	3,852	4,186
Footwear	21,826	12,475	9,234	6,314	4,367
Crude vegetable materials, n.e.s.	4,312	4,846	9,136	6,758	7,711
Leather	4,513	9,440	8,061	5,650	5,567
Articles, nes of plastics	9,173	8,551	7,442	5,822	4,407
Mfr of leather (inc composition) nes; saddlery etc.	5,206	5,802	7,426	5,113	3,379
Pumps for liquids; liquid elevators & pts	4,493	5,345	6,983	5,151	3,751
Nonelectrical machry, tools, app & pts, n.e.s.	2,709	4,536	6,887	4,942	4,779
Miscellaneous manufactured articles, n.e.s.	7,777	5,385	6,484	4,659	3,080
Total of items shown	649,395	713,473	820,654	550,553	519,747
Total other	103,178	138,681	131,818	93,063	86,824
Total all commodities	752,573	852,154	952,472	643,617	606,571

Source: Compiled from official statistics of the U.S. Department of Commerce. Top 35 commodities sorted by Imports for consumption, Customs value in 1995.

Conclusion

Prior to the 1991 reforms, the Indian economy passed through a very difficult stage. There were continuous pressures on the balance of payments, large budget deficits and double digit inflation. These problems had persisted over the past years but reached proportions of a full blown crisis in 1991. India had virtually drawn its reserves down below $1.8 billion lent by the IMF in January 1991. Its total foreign debt reached $71 billion. Worried about the possibility of India defaulting on its debt, bankers cut off lines of short-term credit. As a result the Indian Government had to go for double devaluation of the rupee and airlifting sizable gold reserves to the Bank of England to restore its financial credibility. Indian economists diagnosed India's economic crisis as a result of persistent macro-economic imbalances, low productivity, fiscal mismanagement and exports crisis. India was confronted with a number of challenges posed by poverty, unemployment, inequality in income and wealth, current account difficulties and record budgetary deficits. Excessive borrowing propelled the Indian economy towards a debt trap. A series of measures were required to break with past inward looking policies and to restore confidence of the international community in the Indian economy and to join the global economy.

India reforms in 1991 and thereafter represented a strong dose of the required medicine. Already they have had great economic benefits. India's foreign exchange and trade and investment regimes were liberalized. Yet, more liberalization and reforms have been called for by the World Bank, WTO and India's trading partners.

References

India, Five Years of Stabilization and Reform and the Challenges Ahead. A World Bank Study, 1996.

Adams, John. "Reforming India's Economy in an Era of Global Change," *Current History, A Journal of Contemporary World Affairs*, vol. 95 , No. 600, Apr. 1996.

Agarwal, A.R. "Growth Dimensions and Challenges of the Indian Economy," *India's Economic Crisis, Diagnosis and Treatment*. Edited by P.C. Jain. New Dehli: Concept Publishing 110059, 1992.

Bhagwati, Jagdish N., and Srinivasan, *Foreign Trade Regimes and Economic Development, India,* New York: National Bureau of Economic Research, 1975.

Das Gupta K. K., "The Crisis of Economic Deprivation in India and the Remedy," *India's Economic Crisis, Diagnosis, and Treatment.* Edited by P.C. Jain. New Dehli: Concept Publishing Co., 1992.

Economic Survey, 1995-96, Government of India, Ministry of Finance, Economic Division, 1996.

Economic Survey, 1992-93, Government of India, Ministry of Finance, Economic Division, 1996.

International Capital Markets, Developments, Prospects, and Key Policy Issues, International Monetary Fund, Sept. 1996.

Directions of Trade Statistics Yearbook, 1996. International Monetary Fund, 1997.

Mukherji, R. "Indian Economic Crisis: Dimension and Acuteness," *India's Economic Crisis, Diagnosis, and Treatment*, Edited by Jain. New Dehli: Concept Publishing Co., 1992.

Rarunkaran, Pillai G., "Current Economic Crisis in India: Dimensions and Salvage Strategy," 1992.

INTERNATIONAL ECONOMIC COMPARISONS

U.S. Economic Conditions

The U.S. economy started the first quarter of 1997 on a high note, prompting the Federal Reserve Board to preemptively raise key interest rates to keep inflation in check. Despite mounting concerns that higher interest rates could slow down the ongoing economic expansion, the Fed's justification was that action was taken because of the persistent growth in demand, which is progressively increasing the risk of inflationary imbalances that might develop and undermine stable economic growth. The Fed raised interest rates by one-quarter percentage point to 5 and a half percent.

Growth in the first quarter of this year has been boosted by rising personal incomes, job creation, and strong consumer spending, particularly on durable goods. Employment in the nonfarm sector increased by 339,000 in February alone. Inventories, historically a major factor in business cycles, have been kept at a lean level relative to sales. Revised GDP data for the fourth quarter show that inventory growth was only one-half of what has been earlier estimated by the Commerce Department. During the past year, stocks levels have risen by only 1.2 percent while final demand for goods is up by 4 percent. Given the high level of final demand and the lean level of stocks, pressures are mounting on manufacturing capacity to meet rising consumer demand. Orders for durable goods increased by 3.6 percent in January following 2 months of decline. Unfilled orders also jumped by 0.8 percent and now stand at the highest level in years. Moreover, demand for new homes has rocketed. Sales of new homes in January rose by 8.6 percent, to the highest level in nearly 11 years. All this could translate into upward pressures on capacity, wages, costs and prices. GDP growth has been projected to reach 3.0 percent to 4.0 percent (at an annual rate) in the first quarter of 1997.

The Federal Reserve Board's main concern is that the unexpectedly strong growth, if continued, could drive the unemployment rate below its present level of 5.3 percent. Coupled with rising demand for labor, this could put pressures on wages and costs and ultimately prices. Nonetheless, latest consumer and producer prices reports do not show that inflation is rising despite 6 years of growth. Inflation has been kept from rising over past years because wage rises have been modest and more than offset by productivity gains. In 1996, productivity in the business sector grew by 1.0 percent, the highest gains in the past 3 years. Real hourly compensation increased by only 0.9 percent. In manufacturing, productivity grew by 3.8 percent and real hourly compensation rose by only 0.5 percent, whereas unit labor costs declined by 0.3 percent. (For more detail on U.S. labor productivity and costs, see *IER*, Jan. 1997.)

Moreover, the Federal Reserve's February survey conducted by the Fed's 12 regional banks gave reassuring results that the vital signs of the economy will stay steady with inflation kept subdued. The Survey stated that in nearly every district, nominal wage increases have kept pace with past trends and remained within the 3 to 4 percent range. The survey also noted that wages increases, if any, have not fed through higher prices because they were offset by rising competition and productivity gains.

U.S. International Transactions, 1996

In the foreign sector, the U.S. current-account deficit decreased to $41.4 billion in the fourth quarter of 1996 from $47.9 billion in the third, according to the Commerce Department. The decline in the overall deficit has been mainly attributed to the decrease in the deficit on goods and services and investment income to $26.3 billion after having increased to $34.3 billion in the third quarter (table 10).

In 1996, the deficit on the current account increased to $165.1 billion in 1996, from $148.2 billion in 1995 (table 1). Reasons for the overall deficit increase were the rise in the deficits on goods and services and on investment income and also the increase in net unilateral transfers.

Table 10
Summary of U.S. current account, billion dollars, 1995-96

Item	1995	1996	1995 IV-Q	1996 IV-Q
Exports of goods	575.9	611.7	149.4	158.4
Imports of goods	-748.4	-799.3	-187.4	-203.7
Balance on goods	-173.4	-187.4	-38.0	-45.3
Balance on services	68.4	73.5	18.6	19.0
Balance on goods and services	-105.1	-114.2	-19.4	-26.3
Income receipts on U.S. investment abroad	182.7	196.9	46.5	52.6
Income payments on foreign assets in the United States	-190.7	-205.3	-48.4	-55.0
Balance on investment income	-8.0	-8.4	-1.9	- 2.4
Balance on goods, services and investment income	-113.1	-122.6	-21.3	-28.8
Unilateral transfers, net	- 35.1	- 42.5	- 9.1	-12.6
Balance on current account	-148.1	-165.1	-30.4	-41.4
U.S. assets abroad, net (increase, capital outflow (-))	-307.9	-306.8	-98.2	-114.1
Foreign assets in the United States, net (increase/ capital inflow (+))	424.5	525.1	99.2	182.1
Net capital inflows	116.6	218.3	1.0	68.0

Source: U.S. Department of Commerce.

In 1996, the deficit on goods and services increased to $114.2 billion from $105.1 billion in 1995, due to the large increase in the deficit on merchandise trade. The merchandise trade deficit (on current account basis) increased to $187.7 billion in 1996 from $173.4 billion in 1995. Goods exports increased to $611.7 billion in 1996 from $575.9 billion; both nonagricultural and agricultural exports increased. Goods imports increased to $799.3 billion in 1996 from $748.4 billion; both nonpetroleum and petroleum imports increased.

The surplus on services increased to $73.5 billion in 1996 from $68.4 billion in 1995. Service receipts increased to $223.9 billion from $210.6 billion. "Other" private services, travel, and royalties and license fees increased the most. Services payments increased to $150.4 billion from $142.2 billion.

The deficit on investment income increased to $8.4 billion in 1996 from $8.0 billion in 1995. Income receipts increased to $196.9 billion from $182.7 billion as both direct investment income and "other" private income increased. Income payments increased to $205.3 billion from $190.7 billion, mostly as a result of an increase in U.S. Government payments.

Capital transactions

Net recorded capital inflows were $218.2 billion in 1996, compared with $116.6 billion in 1995. An acceleration in foreign assets in the United States accounted for the larger net capital inflows.

U.S. assets abroad increased by $306.8 billion in 1996, compared with an increase of $307.9 billion in 1995. Net U.S. purchases of foreign securities and the increase in U.S. claims on foreigners reported by U.S. banks were higher in 1996 than in 1995; U.S. direct investment outflows were lower. Net U.S. purchases of foreign securities were $104.5 billion in 1996, up from $99.0 billion in 1995, but were well below the previous record of $146.3 billion in 1993. Net U.S. purchases of foreign stocks increased, more than offsetting a small decrease in net U.S. purchases of foreign bonds.

Net capital outflows for U.S. direct investment abroad were $88.3 billion in 1996, down from $95.5 billion in 1995. A decrease in equity capital outflows more than accounted for the slowdown.

Foreign assets in the United States increased by $525.0 billion in 1996, compared with an increase of $424.5 billion in 1995. Net foreign purchases of U.S. Treasury securities, net foreign purchases of securities other than U.S. Treasury securities, and foreign direct investment inflows to the United States were sharply higher in 1996 than in 1995.

Net foreign purchases of U.S. Treasury securities by private foreigners were a record $153.8 billion in 1996, up from the previous record of $99.3 billion in 1995. The surge was attributable to rising bond prices, particularly in the last one-half of the year, large interest-rate differentials in favor of U.S. Treasury bonds, and dollar appreciation.

Net foreign purchases of U.S. securities other than U.S. Treasury securities were $131.7 billion in 1996, compared with the previous record of $95.3 billion in 1995. The step-up was more than accounted for by net foreign purchases of bonds; net foreign purchases of stocks were slightly lower.

Net capital inflows for foreign direct investment in the United States were a record $84.0 billion in 1996, compared with $60.2 billion in 1995 and the previous

record of $67.7 billion in 1989. Both equity and intercompany debt inflows increased strongly.

Foreign official assets in the United States increased by $122.8 billion in 1996, compared with an increase of $109.8 billion in 1995. Dollar assets of industrial and developing countries each accounted for about one-half of the increase in 1996.

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

Economic growth

U.S. real GDP—the output of goods and services produced in the United States measured in 1992 prices—grew at a revised annual rate of 3.8 percent in the fourth quarter of 1996, following an increase of 2.1 percent in the third quarter.

The annualized rates of real GDP growth in the fourth quarter of 1996 were 2.9 percent in Canada, 0.8 percent in France, 0.3 percent in Germany, 3.9 percent in Japan and 3.3 percent in the United Kingdom. Italy's GDP growth declined by 0.4 percent.

Industrial production

The Federal Reserve Board reported that U.S. industrial production (IP) increased by 0.5 percent in February after having edged down by 0.1 percent in January. The increase resulted from gains in the production of durable consumer goods, business equipment, construction supplies, and durable materials. The output of non-energy consumer goods, business equipment, and nonenergy materials advanced sharply. The output of utilities declined due to the unseasonably mild weather. Manufacturing output increased by 0.8 percentage points in February and was 4.4 percent higher than in February 1996. Total industrial production in February 1997 was 3.8 percent higher than it was in February 1996. In the fourth quarter of 1996, industrial production grew by 4.1 percent annual rate from a 4.5-percent increase in the third quarter. Total industrial capacity utilization edged up 0.1 percentage points, to 83.3 percent and was 3.7 percent higher than in February 1996.

Other Group of Seven (G-7) member countries reported the following growth rates of industrial production. For the year ending January 1997, Germany reported a 1.7-percent increase, Japan reported an 8.5-percent increase, the United Kingdom reported a 2.4-percent increase and Italy reported a 2.1-percent decrease. For the year ending December 1996, Canada reported a 3.5-percent increase, France reported a 1.9-percent increase, and Italy reported a 3.1-percent decrease.

Prices

Seasonally adjusted U.S. Consumer Price Index (CPI) rose by 0.3 percent in February 1997 following an 0.1-percent increase in January. For the 12-month period that ended in February 1997, the CPI increased by 3.0 percent.

During the 1-year period ending February 1997, prices increased by 2.2 percent in Canada, 1.6 percent in France, 1.8 percent in Germany, 2.4 percent in Italy, 0.6 percent in Japan, and 2.7 percent in the United Kingdom.

Employment

The Bureau of Labor Statistics reported that the unemployment rate was unchanged at about 5.3 percent in February 1997. The jobless rates for the major demographic groups—adult men (4.4 percent), adult women (4.7 percent), teenagers (17.5 percent), white (4.5 percent), blacks (11.3 percent), and Hispanics (8.1 percent)—showed little movement over the month.

Employment in the services industry rose by 80,000 in February, following a much larger increase (136,000) in January. Job gains continued in computer services and in engineering and management services. Transportation and public utilities added 21,000 jobs, reflecting strength in the trucking, air travel, transportation services, and communications industries. Wholesale trade also added 21,000 jobs, with most of the gain in the distribution of durable goods. Employment in finance (especially security brokerages, mortgage brokerages, and holding companies) and real estate continued to grow.

Employment in retail trade rose by 49,000 in February, led by a large seasonally adjusted increase in department stores. After seasonal adjustment, employment in department stores increased by 57,000. Food stores and auto dealers gained jobs in February. Employment was unchanged in building materials and garden supply stores and declined slightly in furniture stores; both of these industries experienced strong job growth in 1996.

Manufacturing employment was unchanged in February, following 4 months of gains that totaled 45,000. Aircraft and parts added jobs for the eighth month in a row. There was a decline of 6,000 jobs in autos, reversing a similar increase in January.

Employment in the apparel industry continued its long-term slide, losing 5,000 jobs in February.

In other G-7 countries, their latest unemployment rates in 1997 were: 9.7 percent in Canada, 12.7 percent in France, 11.3 percent in Germany, 11.9 percent in Italy, 3.3 percent in Japan, and 6.5 percent in the United Kingdom.

Economic Performance in Emerging Market Economies

Table 11 shows major economic indicators for selected emerging market economies. China led the Asian group in GDP growth in 1996 followed by Malaysia, Thailand, Singapore, Taiwan and Hong Kong. Except for China and Taiwan, these countries experienced deficits on their trade accounts as their exports declined due to the appreciation of some of their currencies and the faltering of demand in foreign countries. Singapore's current account showed the highest surplus compared with deficits for the majority. Foreign reserves swelled, particularly in China, Taiwan and Hong Kong.

Chile led the Latin American group in GDP growth combined and had the lowest inflation rate in 1996. Mexico and Venezuela experienced trade surpluses. Foreign reserves increased in most of these countries with Brazil reserves showing substantial growth.

Forecasts

Six major forecasters expect real growth in the United States to average around 2.0 percent to 2.4 percent (at an annual rate) in the first half of 1997 (table 12). Table 12, shows macroeconomic projections for the U.S. economy from January to December 1997, 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 5.3 percent in the first half of the year. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.1 to 2.7 percent.

Table 11
Major economic indicators for selected emerging economies, 1996 and projections for 1997

	GDP rate		Inflation rates[2]		Trade balance		Current account balances		Foreign reserves
	1996	1997	1996	1997	1996	1997	1996	1997	
					Billion dollars		*Percentage of GDP*		*Billion dollars*
China and the Dynamic Asian Economies:									
China	9.5	9.8	6.5	6.5	16.8	n/a	-1.2	-1.5	104.3
India[1]	7.0	7.0	8.5	n/a	-4.1	n/a	-1.5	n/a	20.2
Taiwan	5.6	5.8	3.1	3.3	12.9	11.4	1.8	1.6	88.0
Hong Kong	4.5	4.7	6.8	7.0	-20.9	-23.7	-2.4	-2.2	69.6
Singapore	6.5	7.0	1.6	2.0	-2.0	-2.5	13.3	11.9	75.6
Thailand	7.3	7.3	5.7	4.9	-13.0	-14.0	-8.4	-8.5	38.2
Malaysia	8.2	7.6	3.7	3.5	1.8	2.0	-7.5	-6.7	26.8
South Korea	6.6	6.5	5.1	5.4	-12.0	-11.0	-4.4	-3.9	31.7
Latin American economies:									
Argentina	2.5	3.5	0.2	1.0	-0.1	n/a	-1.5	-2.0	17.6
Brazil	2.8	4.0	16.0	10.0	-7.6	n/a	-2.8	-3.2	58.2
Chile	7.5	6.0	7.2	6.0	-1.1	n/a	-3.0	-3.0	14.8
Colombia	3.0	3.0	20.5	20.0	-2.4	n/a	-5.0	-4.5	9.6
Mexico	4.0	5.0	35.0	17.0	7.4	5.6	0	-1.2	20.3
Peru	3.0	4.5	11.5	10.5	n/a	n/a	-7.5	-7.0	n/a
Venezuela	-1.0	2.0	100.0	60.0	4.6	n/a	4.0	2.0	12.0

[1] Represents 1995 figures.
[2] Percent change in retail prices from previous year.

Note.—1997 are forecasts by OECD. Latin American trade balances, except for Mexico, are latest 12 months.

Source: GDP, inflation, trade, and current balances are as reported in OECD Economic Outlook,60, Dec.1996, and the Economist, April 5, issue (with special permission).

Table 12
Projected changes of selected U.S. economic indicators, by quarters, Jan.-Dec. 1997
(Percentage)

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						
1997:							
Jan.-Mar	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Apr.June	6.5	6.5	6.5	6.5	6.5	6.5	6.5
July-Sep	3.8	3.6	3.8	3.8	3.8	3.8	3.8
Oct.-Dec	5.3	7.9	5.3	5.3	5.3	5.3	5.7
	GDP constant (chained 1992) dollars						
1997:							
Jan.-Mar.	2.0	2.0	2.0	2.0	3.1	2.0	2.2
Apr.-June	4.7	4.7	4.7	4.7	5.2	4.7	4.8
July-Sep	2.1	2.1	2.1	2.1	2.8	2.1	2.2
Oct.-Dec	3.8	4.7	3.9	3.0	4.3	3.9	3.9
	GDP deflator index						
1997:							
Jan.-Mar	1.9	1.8	2.2	2.2	1.1	1.9	1.8
Apr.-June	1.5	1.8	1.8	2.2	1.3	1.6	1.7
July-Sep	2.2	1.5	1.7	2.2	1.0	2.2	1.8
Oct.-Dec	1.5	3.1	1.4	2.3	1.0	1.8	1.8
	Unemployment, average rate						
1997:							
Jan-Mar	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Apr.-June	5.4	5.4	5.4	5.4	5.4	5.4	5.4
July-Sep	5.3	5.2	5.3	5.3	5.3	5.5	5.3
Oct.-Dec	5.3	5.3	5.3	5.3	5.3	5.3	5.3

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, March 1997.

Source: Compiled from data of 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 $70.8 billion and imports of $83.5 billion in January 1997 resulted in a goods and services trade deficit of $12.7 billion, $2.2 billion more than the $10.5 billion deficit in December 1996. The January 1997 deficit was approximately $3.0 billion more than the deficit registered in January 1996 ($9.7 billion) and $3.7 billion more than the average monthly deficit registered during the previous 12 months (approximately $9.5 billion).

The January 1997 trade deficit on goods was $19.0 billion, approximately $2.1 billion higher than the December 1996 deficit ($16.9 billion). The January 1997 services surplus was $6.3 billion, virtually equal to the December 1996 services surplus.

Seasonally adjusted U.S. trade in goods and services in billions of dollars as reported by the U.S. Department of Commerce is shown in table 13. Nominal export changes and trade balances for specific major commodity sectors are shown in table 14. U.S. exports and imports of goods with major trading partners on a monthly and year-to-date basis are shown in table 15, and U.S. trade in services by major category is shown in table 16.

Table 13
U.S. trade in goods and services, seasonally adjusted, Jan. 97-Dec.1996

(Billion dollars)

Item	Exports		Imports		Trade balance	
	Jan. 1997	Dec. 1996	Jan. 1997	Dec. 1996	Jan. 1997	Dec. 1996
Trade in goods (BOP basis)						
Current dollars—						
Including oil	51.5	51.9	70.5	68.8	-19.0	-16.9
Excluding oil	51.4	52.3	63.1	62.0	-11.8	-9.7
Trade in services						
Current dollars	19.3	19.3	13.0	12.9	6.3	6.4
Trade in goods and services						
Current dollars	70.8	71.2	83.5	81.7	-12.7	-10.5
Trade in goods (Census basis)						
1992 dollars	56.8	56.6	73.2	70.6	-16.4	-14.0
Advanced-technology products (not seasonally adjusted)	12.4	14.4	10.6	11.7	1.9	2.7

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.

Source: *U.S. Department of Commerce News*, (FT 900), Mar. 20, 1997.

Table 14
Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan. 1997- Dec. 1996

	Exports		Change		
	Jan. 1997	Dec. 1996	Jan. 1997 over Dec. 1996	Share of total, Jan. 1997	Trade balances, Jan. 1997
	Billion dollars		*Percent*		*Billion dollars*
ADP equipment & office machinery	3.2	3.7	-13.6	6.3	-2.1
Airplanes	1.0	2.3	-56.5	2.0	0.7
Airplane parts	1.0	1.1	-9.1	2.0	0.6
Electrical machinery	5.0	4.6	8.7	9.9	-0.9
General industrial machinery.	2.2	2.2	0	4.3	0.2
Iron & steel mill products	0.4	0.4	0	0.8	-0.9
Inorganic chemicals	0.3	0.4	-25.0	0.6	-0.1
Organic chemicals	1.2	1.2	0	2.4	-0.2
Power-generating machinery	2.1	2.0	5.0	4.1	0.2
Scientific instruments	1.7	1.8	-5.6	3.3	0.8
Specialized industrial machinery	2.0	2.1	-4.8	3.9	0.5
TVs, VCRs, etc	1.6	1.8	-11.2	3.2	-0.9
Textile yarns, fabrics and articles	0.7	0.6	16.7	1.4	-0.2
Vehicle parts	3.9	4.2	-7.2	7.7	-5.1
Manufactured exports not included above	13.0	13.2	-1.5	25.7	- 8.1
Total manufactures	39.3	41.6	-5.5	77.7	-15.5
Agriculture	4.9	5.2	-5.8	9.7	2.1
Other exports not included above	6.4	6.4	0	12.6	-3.2
Total exports of goods	50.6	53.2	-4.9	100.0	-16.6

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), March 20, 1997.

Table 15
U.S. exports and imports of goods with major trading partners, Jan. 1997-Dec. 1996
(Billion dollars)

	Exports			Imports		
Country/area	Jan. 1997	Dec. 1996	Jan. 1996	Jan. 1997	Dec. 1996	Jan. 1996
North America	16.5	15.5	14.6	19.7	18.4	17.8
Canada	11.6	10.2	10.3	13.5	12.5	12.2
Mexico	4.9	5.3	4.3	6.2	6.0	5.5
Western Europe	11.3	11.9	11.1	12.6	14.0	12.0
European Union (EU-15)	10.5	11.0	10.2	11.5	12.8	10.9
European Free-Trade Association (EFTA)[1]	0.5	0.6	0.5	0.9	0.9	0.9
Former Soviet Republic/Eastern Europe	0.5	0.6	0.5	0.6	0.8	0.4
Former Soviet Republic	0.4	0.4	0.3	0.4	0.5	0.2
Russia	0.2	0.3	0.2	0.3	0.4	0.2
Pacific Rim Countries	14.7	16.5	14.6	24.3	24.0	23.2
China	0.9	1.3	0.9	4.7	4.0	3.7
Japan	5.1	5.4	5.2	9.4	9.7	9.0
NICs[2]	6.0	6.9	5.7	6.8	6.9	7.3
South/Central America	4.3	4.7	3.8	4.3	4.6	3.8
Argentina	0.4	0.4	0.3	0.2	0.2	0.2
Brazil	1.0	1.1	0.8	0.9	0.8	0.8
OPEC	1.6	2.0	1.5	4.2	3.9	3.2
Indonesia	0.3	0.5	0.3	0.8	0.7	0.6
Saudi Arabia	0.5	0.6	0.4	0.9	0.9	0.7
Other:						
Egypt	0.3	0.4	0.2	0.1	0.1	0.1
South Africa	0.2	0.2	0.3	0.2	0.2	0.1
Total	50.6	53.2	47.7	67.3	66.6	61.7

[1] EFTA includes Iceland, Liechtenstein, Norway, 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 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), March 20, 1997.

Table 16
Nominal U.S. exports and trade balances of services, by sectors, Jan. 1997-Dec. 1996, seasonally adjusted

	Exports		Change	Trade balances	
	Jan. 1997	Dec. 1996	Jan.-1997 over Dec. 1996	Jan. 1997	Dec. 1996
	Billion dollars		*Percent*	*Billion dollars*	
Travel	5.6	5.6	0	1.4	1.4
Passenger fares	1.7	1.7	0	0.5	0.5
Other transportation	2.5	2.5	0	0	0
Royalties and license fees	2.4	2.4	0	1.8	1.8
Other private services[1]	5.8	5.7	1.7	2.6	2.5
Transfers under U.S. military sales contracts	1.4	1.4	0	0.4	0.5
U.S. Govt. miscellaneous service	0.1	0.1	0	-0.2	-0.3
Total	19.3	19.3	0	6.3	6.4

[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), Mar. 20, 1997.

STATISTICAL TABLES

Indexes of industrial production, by selected countries and by specified periods, Jan. 1993-Mar. 1997

(Total Industrial production, 1991=100)

				1996							1997			
Country	1994	1995	1996	I	II	III	IV	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.
United States[1]	108.6	112.1	115.2	123.3	125.1	126.7	117.0	116.2	117.2	117.7	118.5	117.7	118.1	119.6
Japan	93.1	96.0	98.7	96.9	96.0	99.3	102.7	102.4	102.8	102.5	([2])	95.9	([2])	([2])
Canada[3]	105.5	107.6	109.3	105.1	108.7	112.8	111.1	114.1	112.1	107.0	([2])	([2])	([2])	([2])
Germany	93.9	95.9	96.0	94.0	95.0	93.9	101.2	102.6	102.7	97.4	([2])	([2])	([2])	([2])
United Kingdom	103.3	105.9	107.6	111.5	104.4	101.3	113.1	115.6	113.7	110.1	([2])	([2])	([2])	([2])
France	97.5	99.0	99.7	103.9	100.2	91.4	104.2	109.0	103.2	100.5	([2])	([2])	([2])	([2])
Italy	102.2	107.8	104.8	110.1	111.6	90.9	106.7	109.6	113.2	97.3	([2])	([2])	([2])	([2])

[1] 1992=100.
[2] Not available.
[3] Real domestic product in industry at factor cost and 1986 prices.

Source: *Main Economic Indicators,* Organization for Economic Cooperation and Development, March 1997, *Federal Reserve Statistical Release,* April 6, 1997.

Consumer prices, by selected countries and by specified periods, Jan. 1994-Feb. 1997

(Percentage change from same period of previous year)

				1996												1997	
Country	1994	1995	1996	I	II	III	IV	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	2.6	2.8	3.0	2.7	2.9	2.9	3.2	2.9	2.8	3.0	2.9	3.0	3.0	3.3	3.3	3.0	3.0
Japan	0.7	-0.1	0.2	-0.2	0.4	0.2	0.5	0.3	0.0	0.4	0.2	0.0	0.5	0.6	0.6	0.6	0.5
Canada	0.2	1.7	1.6	1.4	1.4	1.5	2.0	1.5	1.4	1.2	1.4	1.5	1.8	2.0	2.2	2.2	2.2
Germany	3.0	1.7	1.4	1.4	1.3	1.4	1.4	1.5	1.2	1.3	1.4	1.4	1.5	1.4	1.4	1.9	1.7
United Kingdom	2.5	3.4	2.4	2.8	2.4	2.2	2.6	2.2	2.1	2.2	2.1	2.1	2.7	2.7	2.5	2.8	2.7
France	1.7	1.7	2.0	2.1	2.4	1.8	1.7	2.4	2.3	2.3	1.6	1.6	1.8	1.6	1.7	1.8	1.6
Italy	1.0	5.2	3.9	5.0	4.5	3.4	2.9	4.3	3.9	3.6	3.3	3.4	3.1	2.8	2.7	2.8	2.6

Source: *Consumer Price Indexes, Nine Countries*, U.S. Department of Labor, April 1997.

Unemployment rates (civilian labor force basis)[1], by selected countries and by specified periods, Jan. 1994-Feb. 1997

				1996											1997	
Country	1994	1995	1996	I	II	III	IV	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	6.1	5.6	5.4	5.6	5.4	5.2	5.3	5.3	5.4	5.1	5.2	5.2	5.4	5.3	5.4	5.3
Japan	2.9	3.2	3.4	3.3	3.5	3.4	3.3	3.6	3.4	3.4	3.3	3.4	3.3	3.3	3.3	3.4
Canada	10.4	9.5	9.7	9.5	9.6	9.7	9.9	10.0	9.8	9.4	9.9	10.0	10.0	9.7	9.7	9.7
Germany	6.5	6.5	7.2	7.0	7.1	7.2	7.5	7.1	7.1	7.2	7.3	7.4	7.5	7.6	([2])	([2])
United Kingdom	9.6	8.8	8.3	8.4	8.4	8.2	8.0	8.6	8.1	8.1	8.0	7.8	7.4	7.8	7.5	7.2
France	12.3	12.3	12.5	11.9	12.1	12.7	12.8	12.2	12.2	12.3	12.8	12.8	12.9	12.8	([2])	([2])
Italy	11.4	12.0	12.1	12.0	12.5	11.9	12.0	([3])	11.9	([3])	([3])	([3])	([3])	([3])	12.3	([3])

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.
[2] Not available.
[3] 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, April 1997.

Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1994-Mar. 1997

(Percentage, annual rates)

				1996									1997			
Country	**1994**	**1995**	**1996**	**I**	**II**	**III**	**IV**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**I**	**Jan.**	**Feb.**	**Mar.**
United States	4.6	5.8	5.4	5.2	5.3	5.5	5.4	5.5	5.5	5.4	5.3	5.4	5.4	5.4	5.3	5.5
Japan	2.2	1.2	.5	0.6	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.5	([2])	0.5	0.5	([2])
Canada	5.5	7.1	4.4	5.3	4.9	4.3	3.2	4.3	4.1	3.5	3.0	3.1	([2])	3·1	3.1	([2])
Germany	5.2	4.4	3.2	3.3	3.2	3.2	3.0	3.2	3.0	3.0	3.0	3.1	([2])	3.0	3.0	([2])
United Kingdom	5.4	6.6	5.9	6.2	5.9	5.7	6.1	5.7	5.7	5.9	6.2	6.3	([2])	6.2	6.1	([2])
France	5.7	6.4	3.8	4.3	3.8	3.7	3.3	3.8	3.6	3.3	3.3	3.3	([2])	3.2	3.2	([2])
Italy	8.4	10.4	8.7	9.9	9.0	8.6	7.5	8.7	8.4	7.9	7.4	7.2	([2])	7.2	7.3	([2])

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

Source: *Federal Reserve Statistical Release*, April 14, 1997; *Federal Reserve Bulletin*, April 1997.

Effective exchange rate of the U.S. dollar, by specified periods, Jan. 1994-Mar. 1997

(Percentage change from previous period)

				1996									1997			
Item	**1994**	**1995**	**1996**	**I**	**II**	**III**	**IV**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**I**	**Jan.**	**Feb.**	**Mar.**
Unadjusted:																
Index[1]	98.5	92.9	97.5	96.4	97.6	97.4	98.2	96.9	97.8	98.2	97.3	99.0	103.2	100.9	103.9	104.9
Percentage change	-1.6	-5.6	4.6	1.6	1.2	-.2	.8	-.6	.9	.4	-.9	1.7	5.0	1.9	3.0	1.0
Adjusted:																
Index[1]	101.5	93.9	100.3	97.9	100.3	100.7	101.7	100.1	101.3	101.5	100.6	102.7	106.6	104.9	107.2	108.2
Percentage change	-2.7	-7.4	6.4	2.7	2.4	.4	1.0	-.4	1.1	.2	-.8	2.1	4.9	2.2	2.3	1.0

[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, April 1997.

Merchandise trade balances, by selected countries and by specified periods, Jan. 1994-Feb. 1997

(In billions of U.S. dollars, exports less imports [f.o.b - c.i.f], at an annual rate)

				1996								1997	
Country	**1994**	**1995**	**1996**	**I**	**II**	**III**	**IV**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**
United States[1]	-150.6	-159.6	-166.6	-153.8	-161.1	-183.2	-161.7	-192.6	-152.4	-152.5	-183.8	-214.6	-202.5
Japan	121.2	106.0	68.2	67.4	54.4	58.0	68.2	55.8	55.0	95.7	54.0	([2])	([2])
Canada[3]	17.0	27.8	30.7	28.0	33.8	34.8	22.8	30.6	21.7	20.8	25.8	([2])	([2])
Germany	45.6	63.6	([2])	63.7	55.2	72.8	([2])	72.4	70.0	73.8	([2])	([2])	([2])
United Kingdom	-22.5	-22.4	([2])	-26.6	-28.5	-18.9	-26.5	-22.4	-22.3	-27.4	-29.6	([2])	([2])
France[3]	14.7	20.0	([2])	23.1	18.7	26.4	30.0	23.6	43.3	20.7	([2])	([2])	([2])
Italy	22.0	27.6	([2])	37.5	46.0	55.2	([2])	31.0	56.2	49.2	([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, April 17, 1997; *Main Economic Indicators;* Organization for Economic Cooperation and Development, March 1997.

U.S. trade balance,[1] by major commodity categories and by specified periods, Jan. 1994-Feb. 1997

(In billions of dollars)

				1996								1997	
Country	**1994**	**1995**	**1996**	**I**	**II**	**III**	**IV**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**
Commodity categories:													
Agriculture	19.0	25.6	26.7	7.9	5.6	5.1	7.7	1.7	2.3	3.1	2.3	2.1	2.0
Petroleum and selected product—(unadjusted)	-47.5	-48.8	-60.9	-12.4	-15.6	-16.1	-16.4	-5.5	-4.9	-5.6	-5.9	-6.5	-6.5
Manufactured goods	-155.7	-173.5	-175.9	-30.5	-36.9	-52.5	-46.0	-17.3	-18.1	-14.9	-13.0	-15.4	-12.1
Selected countries:													
Western Europe	-12.5	-10.6	-10.4	-1.6	-1.9	-6.7	-5.1	-1.0	-1.8	-1.3	-2.0	-1.3	.2
Canada	-25.1	-18.1	-22.8	-4.4	-6.5	-6.1	-5.4	-2.0	-1.4	-1.8	-2.3	-1.6	-1.4
Japan	-66.4	-59.1	-47.6	-11.7	-10.3	-11.7	-13.4	-3.7	-4.9	-4.3	-4.2	-4.2	-4.2
OPEC (unadjusted)	-13.8	-15.7	-19.8	-3.8	-4.9	-5.6	-5.2	-2.2	-2.0	-1.4	-1.8	-2.6	-2.5
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$14.22	$15.83	$18.98	$16.65	$18.76	$18.97	$21.49	$20.02	$21.38	$21.44	$21.65	$21.99	$20.21

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

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, April 17, 1997.