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INTERNATIONAL TRADE DEVELOPMENTS

WTO Trade Negotiation Proposals Tabled

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Since November 1998, World Trade Organization (WTO) Member States have been considering areas for proposals to take up in multilateral trade negotiations following the Third WTO Ministerial Conference in Seattle, Washington, which opens November 30, 1999. The "built-in agenda" from the 1986-93 Uruguay Round calls for proposal negotiations in 2000 on the areas of agriculture, services, and government procurement, but members are considering adding more areas. Although agriculture is the primary area, other areas for proposals include industrial tariffs, services, developing country issues, intellectual property, antidumping, competition policy, and trade facilitation. To date, somewhat fewer submitted proposals involve such areas as electronic commerce, regional trade arrangements, trade and the environment, trade and investment, or transparency in government procurement.

Since November 1998, members of the WTO have been submitting proposals that outline areas for multilateral trade negotiations to begin following the Third WTO Ministerial Conference in Seattle, Washington. The Seattle Ministerial (scheduled for November 30 to December 3, 1999) will launch negotiations mandated under the 1986-93 Uruguay Round "built-in agenda." This agenda requires WTO Members to resume negotiation of the multilateral trade agreements on agriculture and services, as well as the plurilateral trade agreement on government procurement. WTO Members have been debating what other topic areas to include in the new Round of trade negotiations.

Agricultural and Industrial Market Access Issues Dominate

WTO Members submitted nearly 150 proposals during preparatory meetings held between November 1998 and September 1999. These proposals outlined 18 areas, 12 of which received substantial or moderate attention (i.e. more than just a few submissions). Table 1 shows the number of proposals submitted during this period by areas.

Agriculture area proposals are foremost among the proposals submitted by WTO Members through September 1999, followed in second place by proposals on the liberalization of industrial tariffs. Proposals on agriculture accounted for one-quarter of all submissions, with industrial tariff proposals accounting for about one-half as many in agriculture.

Services, competition policy, intellectual property, developing country issues, trade facilitation, and antidumping—all combined—accounted for one-fourth to one-third of the interest shown to the agriculture area. Proposals on the areas of competition policy, intellectual property, developing country issues, trade facilitation, and antidumping are about equal in number to the proposals on trade in services.

Less interest goes to proposals on the areas of electronic commerce (e-commerce), regional trade arrangements, trade and the environment, trade and investment, and government procurement. A few mostly singular proposals have been submitted concerning standards, safeguards, state trading enterprises, subsidies, and trade-related investment

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

measures (TRIMS)—all typically involving a particular Uruguay Round agreement.

Minimal Negotiations Sought by Some Developing Countries

A number of developing country Members believe that the WTO should not add more areas until implementation of the current Uruguay Round Agreements package is carried out more fully. Such countries include India and Pakistan, member countries of the Association of Southeast Asian Nations (ASEAN) such as Indonesia and Malaysia. In some instances, this belief reflects uneasiness among developing country Members that fulfilling their current commitments under the Uruguay Round Agreements is difficult enough without undertaking new obligations. In other instances, this belief reflects uneasiness among some developing country Members that developed country Members are either not fulfilling their commitments to increase market access for textiles, or are delaying other benefits entitled to developing country Members such as special and differential treatment.[2]

Key Players

The vast majority of the proposals come from the major traders in the multilateral trade system—the United States, the European Union (EU), Japan, Australia, Canada, and New Zealand. A number come from other trading partners such as Hong Kong (China), Korea, and Singapore in Asia; Argentina, Brazil, and Venezuela in Latin America; Norway, Sweden, and Switzerland among the Nordic countries; as well as Eastern European countries such as Hungary and Turkey. WTO Members also have been able to advance their views through regional and other groupings, such as the Cairns Group of agricultural exporters, the Central European Free-Trade Agreement members, or the International Council of Chemical Associations. The following sketches some of the initial views on the Seattle Ministerial and the subsequent trade negotiations from two of the key players in the world trading system, the EU and the United States.

On July 1, 1999, Sir Leon Brittan—then-European Commission Vice-President for External Relations and Common Commercial Policy Relations—set out in a public policy speech a seven-point plan for the forthcoming multilateral trade negotiations, which he dubbed the "Millennium Round." The integration into the multilateral trading system of developing countries, in particular the integration of least developed countries (LDCs), was to be a major element of the Round. The EU plan thus calls for—

- Substantial improvement in market access for developing country Members, placing all industrial tariffs on the table for negotiation to ensure that sectors of interest to these countries are included;
- Commitment by the industrialized countries at the Seattle Conference to duty-free access for all products from the least developed countries, to be implemented no later than 2003;
- Technical assistance and finance to be directed toward the least developed country Members that are encountering difficulty implementing their WTO commitments;
- Consideration of economic development aspects during any negotiations on investment and competition policy issues in the new Round, to be embedded in a strong international framework;
- Streamlining the trading system's institutional structure, especially regarding notifications, so as to reduce the resource burden on developing countries in their efforts at integrating themselves into the world trading system;
- Devising a new approach to removing supply-side constraints in the least developed countries that lack the necessary resources to play a full role in the international economy; and

[2] This view arose most saliently during the first major review of the implementation of the Agreement on Textiles and Clothing (ATC) in 1997, when developing countries accused the importing countries of concentrating on a narrow, legalistic definition of ATC obligations. Developing countries expressed extreme dissatisfaction by insisting that the ATC review could not be considered closed. The importing countries insisted that they met their ATC obligations and that the first–stage review was complete regardless of whether or not participants could agree on a summary of deliberations, conclusions, or recommendations.

- Improving policy coherence among international organizations for least developed countries' trade and development.

The United States also has begun to sketch out what it considers to be key agenda items for upcoming multilateral trade negotiations. At the WTO General Council on July 29, 1999, Ambassador Susan Esserman, Deputy United States Trade Representative, reported that the implementation of existing commitments was the first priority leading up to the Seattle Ministerial Conference. Requests from LDCs for help in implementing their Uruguay Round commitments are being addressed, for example, through the existing Integrated Framework for technical assistance for LDCs, as well as through work program items such as trade facilitation.

Regarding the new Round, the United States considers the core of the agenda to be market access for agriculture and industrial goods plus negotiations on trade in services. With such a manageable agenda, negotiations could be completed within 3 years. Beyond this core agenda, the WTO work program presents additional subjects of interest to a number of Members for which, it is hoped, continued discussion will bring about a consensus on subjects not yet agreed as ready for negotiation. In addition, the new Round also presents the opportunity for systemic gains where lessons drawn from the past 5 years of experience following the WTO's establishment could result in various reforms to its institutional framework.

Market Access Issues. The United States set out some of its objectives regarding agricultural and industrial goods, as well as regarding services. In agriculture, these goals include eliminating and prohibiting agricultural export subsidies; reducing domestic supports substantially and disciplining other production related support; and preserving "green box" agricultural policies that support agriculture but minimize trade distortions. The United States also seeks to lower and to bind agricultural tariffs; to improve the administration of tariff-rate quotas; to strengthen disciplines on the operation of state trading enterprises; to improve market access for LDCs among all WTO Members; and to develop disciplines for agricultural biotechnology products based on transparent, predictable, and timely processes.

In services, the United States is seeking to broaden the market-opening commitments—originally made on a sectoral basis which maintained pre-existing protection—so as to stimulate national economies. Communications, power, transportation and distribution, and financial services are sectors the United States intends to emphasize for liberalization because these sectors play a key role in improving economic efficiencies in other sectors. The United States is looking to ensure that the General Agreement on Trade in Services, or GATS, stays current with new technologies as they develop; to prevent discrimination against any particular means of delivering services (e.g., the right of establishment, electronic commerce); and to ensure the transparency and good governance of domestic regulations that affect services.

Removing market-access barriers for industrial products—such as tariffs and non-tariff measures—is believed to raise living standards and promote economic development worldwide. The United States expects to build on the Accelerated Tariff Liberalization initiative being forwarded from the Asia-Pacific Economic Cooperation (APEC) to the WTO negotiating forum. Specific objectives in this area include reducing existing tariff barriers; crediting autonomous liberalization measures made by Members that have bound tariff reductions unilaterally; negotiating on the basis of applied (typically lower) tariff rates rather than the official bound rates; liberalizing non-tariff barriers; and improving market access for LDCs through a variety of means.

Work Program Subjects. Although implementing previous commitments and completing new negotiations on market access for agriculture, industrial goods, and services are the most likely core agenda for the Round, some WTO Members are nonetheless looking beyond to additional subjects that have been incorporated over the years into the ongoing WTO work program.

Carried over from the work program under the General Agreement on Tariffs and Trade (GATT) is the issue of trade and environment. However, this subject has evolved from its initial focus on the relationship between trade and environmental issues—such as linkages between multilateral trade and multilateral environmental agreements or the issue of eco-labeling as a trade barrier. Instead, the United States considers a more advanced way to address these issues is through a more systemic focus under the rubric of "sustainable development." In addition to treating more traditional trade and environment issues, such as tariff elimination for environmental goods under the Accelerated Tariff Liberalization initiative, the United States is now proposing that the WTO Committee on Trade and Environment review all the subjects under negotiation in the Round for their environmental implications.

Another subject that the United States and a few other countries have sought with little success to include in the WTO work program is the issue of trade

and its relation to labor standards. Although the issue is a major U.S. objective, the subject has met with fierce resistance from a number of WTO Members, particularly developing countries, since it was mentioned at the Marrakesh Ministerial Conference in April 1994 and later at the first WTO Ministerial Conference in December 1996.

The subject of e-commerce was added to the WTO work program at the second Ministerial Conference in May 1998. Key players have been seeking to have a permanent agreement ready for the Seattle Conference to keep e-commerce duty-free as a means to stimulate electronic commerce worldwide.

Institutional Reform. Trade facilitation is another institutional issue, raised at the second Ministerial Conference in Geneva in May 1998, that is likely to emerge from the Seattle Conference. Trade facilitation aims at improving customs procedures, increasing transparency of regulations, and triggering the more rapid release of goods into foreign marketplaces. In addition to improvements specific to individual agreements, some of the overall major goals for improved institutional functioning relate to improving transparency, such as putting interested parties in closer contact with governments' WTO delegations; improving cooperation among international organizations regarding technical assistance; and "capacity building" that ensures that the developing and least developed country Members in particular are capable of carrying out their commitments, using the dispute-settlement mechanism effectively, and taking maximum advantage of available market-access opportunities.

Additional information on the Third WTO Ministerial Conference—including background on the conference, press releases, press information, and official documents—is available online from the official WTO Website for the Seattle Ministerial at: http://www.wto.org/wto/minist/seatmin.htm.

Table 1
Proposals for multilateral trade negotiations in 2000, submitted to the WTO General Council, November 1998 through August 1999

Subject	Papers	Percent
Agriculture	36	25
Industrial Market Access	16	11
Scope of the Negotiations	13	9
Competition Policy	10	7
Services	10	7
Intellectual Property	9	6
Trade and Development	9	6
Electronic Commerce	8	5
Trade and Environment	8	5
Trade Facilitation	7	5
Antidumping	5	3
Investment	5	3
Regional Trade Agreements	4	3
Government Procurement	3	2
Standards	3	2
Total	146	100

Note.—The subject categories are largely notional. Although they typically drawn typically from proposal titles, some subjects could be cataloged under different or under more than one category, or might be broken out into several further subjects. For example, antidumping proposals might equally be considered equally under competition policy.

Japan's Financial Assistance to Asia

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Following the financial crisis in East Asia, Japan has contributed over $80 billion—the largest amount of any other single country—in financial assistance to other countries of Asia. This article describes Japan's recent assistance to Asia.

Japan's long-standing historical and economic ties to Asia are well-known. The Asian financial crisis began in July 1997 with the devaluation of the Thai baht and the subsequent economic downturn in Indonesia, Malaysia, Philippines, and South Korea. Japan reacted by increasing its financial assistance to the region. The crisis has been attributed to several economic factors including an overextension of credit as well as fundamental weaknesses in the individual banking systems which in turn left the region's capital markets vulnerable to large fluctuations. Over a 2-year period, Japan committed more than $80 billion to those Asian countries facing economic difficulties and continues to provide assistance to date.

One of the major steps that Japan took was to implement "emergency measures for the stabilization of Southeast Asia" in February 1998. The plan consisted of support for private-sector activities, trade credit insurance, promotion of imports from Asia, technical cooperation, measures to assist Indonesia, and credit assistance measures. The centerpiece of Japan's assistance to Asia, known as the Miyazawa plan, was announced in October 1998 at a meeting of finance ministers and central bankers from the G-7. In initiating the Miyazawa Fund, Japan's leaders recognized the economic interdependence of the region, Japan's high levels of investment and trade with Asian countries, and the need to strengthen the competitiveness of the Asian economies. The Miyazawa plan called for the creation of a $30 billion fund—$15 billion for mid- to long-term financial aid and another $15 billion for short-term aid. No specific conditions were attached to the disbursement of the aid funds. Each of the five countries experiencing economic difficulties concluded aid agreements with Japan by early 1999. In addition, Vietnam was declared eligible for Miyazawa funds and was given aid under a special loan facility in May 1999.

In November 1998, Japan, provided another $3 billion of a total of $10 billion, along with the United States and multilateral lending institutions under the Asian Growth and Recovery Initiative that was intended to encourage private-sector financing. Japan's contribution was funds designated by the ADB under the Asian Currency Crisis Support Facility to guarantee bonds floated by governments or companies in the region. Thailand was the first recipient of funding under this program. In December 1998, at a meeting of ASEAN, Prime Minister Keizo Obuchi added a special loan facility totaling $5 billion to the Miyazawa plan for the purpose of financing infrastructure projects in Asia. He also promised $20 million to establish a Japan-ASEAN "solidarity fund" and $4.2 million for a United Nations "human security fund."

During early 1999, Japan continued to conclude loan agreements with hard-hit Asian economies, including Malaysia, Thailand, South Korea, the Philippines and Indonesia. In addition the Asian Development Bank, with the backing of Japanese yen, announced that it would disburse low-interest loans for humanitarian purposes. In May 1999, after the Miyazawa Plan funds had been exhausted, Japan announced a $16.7 billion bond guarantee program over a 2-year period to assist countries whose credit ratings had been adversely affected by their economic situation. The bond guarantee program was to be administered by the Japan Bank for International Cooperation, to be established in 1999 following the merger of the Overseas Economic Cooperation Fund and the Export-Import Bank of Japan.

More recently, in June 1999, Japan designated a group of academics and business leaders to visit the

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recipients of Japan's economic assistance and to evaluate the impact of the $80 billion already provided to the region. The group is expected to submit recommendations for future Japanese contributions to the region by fall 1999. Japan's Ministry of Foreign Affairs recommended in its policy guidelines for FY 1999-FY2003, announced in August, that Japan's future aid should continue to focus on Asia because of strong trading links and interdependence with the region. The guidelines also suggested that Japan's aid shift from infrastructure funding to social needs.

There are some benefits associated with the Japanese aid to Asia. For example, the amount of aid is the largest of any other country and there appear to be few conditions associated with it. Nonetheless, some recipients have complained that the aid disbursement process is complicated, the details of the process are not clear and that it is difficult to obtain the money. Another criticism of the program is that some of the of the loans and trade insurance benefits are given to Japanese companies operating overseas. This is not a new complaint, as a large portion of Japanese overseas assistance in the past has been tied aid. This criticism is particularly applicable to the special loan facility intended to finance infrastructure projects which requires that materials and equipment be procured from Japanese sources.

Regardless of the criticisms about its aid policies and practices, Japan continues to view the Asian region as one of its most important priorities from the standpoint of trade and economic relations. Its aid patterns are likely to continue to reflect the significance that both the government and Japanese businesses place on the region.

Sources consulted for this article include: Hisamitsu Arai, "A Scenario for Dynamic Recovery from the Asian Economic Crisis," Aug. 21, 1998; Marc Castellano, "APEC Finance Ministers Discuss Economic Reform; Japan Offers Credit Guarantees," Japan Economic Institute Report, May 21, 1999; Marc Castellano, "Japanese Aid to Focus on National Interests, East Asia," Japan Economic Institute Report, Aug. 20, 1999; Marc Castellano, "Japanese Aid to Focus on National Interests, East Asia, Japan," Economic Institute Report, Aug. 20, 1999; and Marc Castellano, "Two Years On: Evaluating Tokyo's Response to the East Asian Financial Crisis," Japan Economic Institute Report, No. 30A, Aug. 6, 1999.

U.S. Trade with the Gulf Cooperation Council States

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Six nations of the Arabian Peninsula (Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates) formed a regional customs union in 1981, called the Gulf Cooperation Council (GCC). The GCC was formed to foster regional cooperation and economic development for its members, which already shared a common language, religion, and cultural background. The agreement allows for free trade between members in all products originating in the Member States and calls for members to equilibrate external tariffs (Unified Economic Agreement). This article describes recent trade developments affecting the GCC customs union, with an analysis of the 1998 composition of U.S. exports, U.S. imports, and trends in United States-GCC trade over the last decade.

The GCC market consists of approximately 28.5 million people with a combined GDP (purchasing power parity) of $344 billion in 1998 (table 2). Saudi Arabia has the highest population of the GCC States, accounting for 72 percent of the total. Major GCC trading partners include Australia, Asia (principally China, Japan, Singapore, South Korea, and Thailand), Europe (mainly France, Germany, Italy, Netherlands, Switzerland, and the United Kingdom), India, Iran, and the United States. The GCC States diverge widely in their external tariff levels, which the Unified Economic Agreement has not effectively harmonized. There has been little interest in widening the GCC customs union to include other regional countries. However, several of the GCC States have joined the multilateral trade negotiations of the World Trade Organization (WTO). Bahrain and Kuwait joined the WTO on January 1, 1995. Qatar and the United Arab Emirates joined January 13 and April 10, 1996, respectively. Both Oman and Saudi Arabia applied for membership and have observer status. Membership in the WTO should improve relations with trading partners by providing avenues for trade dispute settlement. Market opportunities for U.S. exports to the region should also improve as the GCC States adjust their trade policies to comply with the requirements of the WTO.

U.S. exports to the GCC totaled more than $15 billion in 1998 (table 3). The largest share of U.S. exports, 70 percent, was the category of machinery and transport equipment ($11 billion). Other U.S. exports included miscellaneous manufactured articles ($1 billion), manufactured goods classified chiefly by material ($783 million), commodities and transactions ($697 million), food and live animals ($623 million), chemicals and related products ($537 million), beverages and tobacco ($322 million), animal and vegetable oils, fats and waxes ($134 million), crude materials, inedible, except fuels ($113 million), and mineral fuels, lubricants and related materials ($66 million). The majority of U.S. exports to the GCC were purchased by Saudi Arabia, which accounted for $10.5 billion of the $15 billion total in 1998. The United Arab Emirates and Kuwait were the second and third largest regional purchasers of U.S. exports, respectively. Bahrain, Qatar, and Oman absorbed only 6 percent of U.S. exports to the GCC States in 1998.

U.S. imports from the GCC States totaled approximately $9 billion in 1998—the lowest level since 1989 due to falling energy prices, as 80 percent of U.S. imports from the region were mineral fuels, lubricants and related materials. Saudi Arabia, Kuwait, and the United Arab Emirates were the major suppliers. Saudi Arabia alone supplied 72 percent of U.S. imports from the GCC in 1998, while Bahrain, Qatar, and Oman combined contributed approximately 6 percent.

U.S. imports from the GCC States varied between $9 and $14 billion between 1989 and 1998 (figure 1). The dollar value of U.S. exports declined between 1992 and 1994, however, U.S. exports to the region have steadily gained ground in the mid 1990s. U.S. exports exceeded imports in 1998, giving the United States a $5.4 billion trade surplus with the GCC. Part of this surplus was due to falling oil prices, which reduced the unit cost of U.S. imports from the region. Another factor was a continuation of growth in GCC

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demand for infrastructure to meet development and economic diversification goals. Long term development goals, typically outlined in national 5-year plans, will continue to drive demand for imports of machinery, transport, and manufactured articles which are the primary U.S. exports to the region.

The GCC States remain dependent on petroleum as the primary source of export revenues, and thus, national incomes. The region has substantial reserves of petroleum and natural gas, energy production infrastructure, and fuel export capacity. Bahrain, Qatar, and the United Arab Emirates have a majority of their primary energy supply in the form of natural gas, opening the possibility for expansion into exports of liquified natural gas. Revenues from energy exports have been instrumental in financing GCC economic development in the 20th century and will remain instrumental in maintaining economic growth into the 21st century. This has implications for growth in import demand. GCC revenue, and thus demand for imports, are critically linked to the world energy market. World petroleum prices have plummeted in recent years, with the 1998 crude oil export price in the GCC States only 72 percent of the 1995 average export price. World oil prices in 1998 reached their lowest level in 22 years, declining to almost $10 per barrel. Although prices rose to more than $22 per barrel in mid 1999, the average price during the first half of 1999 was approximately $15 per barrel.

Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates are members of the Organization of the Petroleum Exporting Countries (OPEC),[5] which is an international petroleum cartel. OPEC has attempted to stabilize world petroleum prices (recently approximately $18-20 per barrel) by controlling output (in theory, a cartel raises market price above marginal cost by reducing market supply below the perfectly competitive level, thus obtaining economic profits that are shared among cartel members). Cartels are difficult to enforce as there are individual incentives for each cartel member to produce more than its quota, increasing market supply and putting downward pressure on market price. The market price is also affected by the supply activities of non-member petroleum producing nations (non-OPEC members produce approximately 60 percent of world petroleum supply). In addition, world demand influences petroleum prices, for example, the Asian economic crisis and warm weather in Europe and North America contributed to low petroleum prices in 1998. Although long term development programs in the GCC have been maintained by incurring budget deficits, the recent episode of low crude oil prices have decreased buying power in the region. Thus, future growth in GCC demand for U.S. exports remains closely linked to the world energy market and GCC revenues from those energy exports.

Sources consulted for this article include: The Middle East Economic Survey, Vol. XLII (24), June 14, 1999 and Vol. XLII (32), Aug. 9, 1999; International Energy Agency, Key World Energy Statistics, 1998; and Petroleum Industry Research Foundation Inc., 1999.

[5] Other OPEC members are Algeria, Libya, Nigeria, Indonesia, Iran, Iraq, and Venezuela.

Table 2
GCC States: economic indicators, 1998

Country	Population	Real GDP	GDP per capita
		(Billion dollars)	*(Dollars)*
Bahrain	616,000	8.2	13,700
Kuwait	1,913,000	46.3	22,300
Qatar	697,000	11.2	16,700
Oman	2,363,591	17.2	8,000
Saudi Arabia	20,785,955	206.5	10,300
United Arab Emirates	2,303,088	54.2	24,000
Total	28,678,634	343.6	

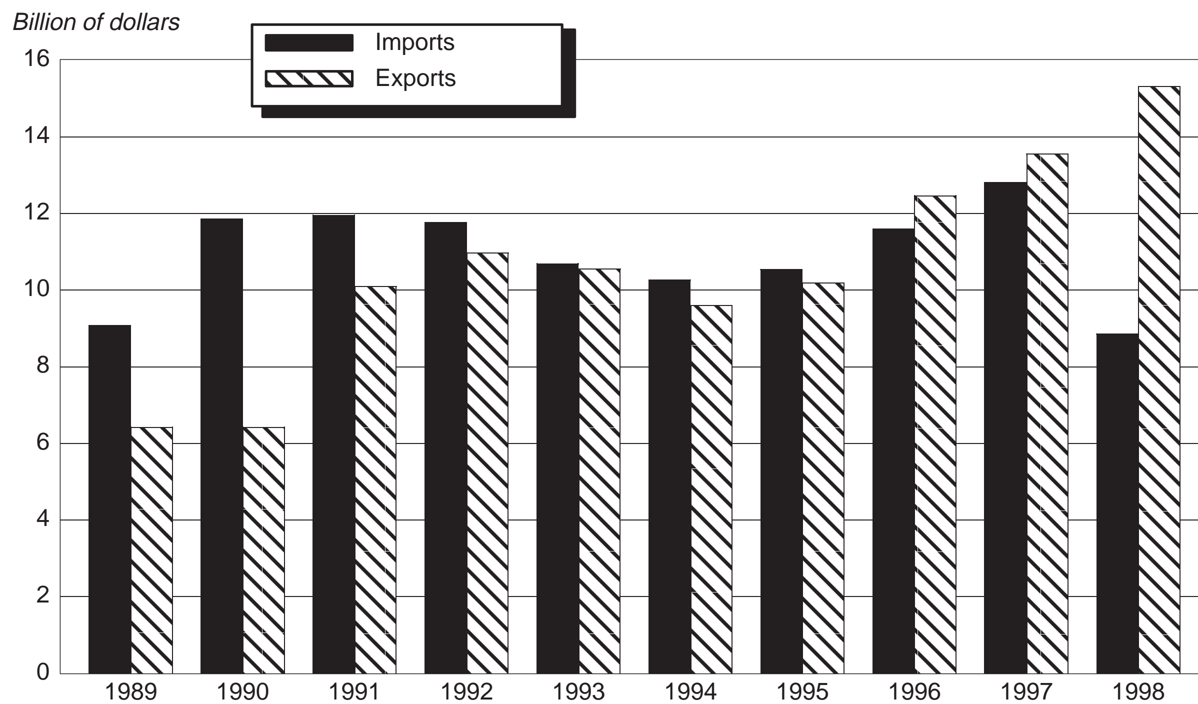
Source: CIA, *World Factbook 1999.*

Table 3
U.S. trade by GCC States, 1998

Country	U.S. exports		U.S. imports	
	(Million dollars)	Share of total *(Percentage)*	*(Million dollars)*	Share of total *(Percentage)*
Bahrain	294.86	1.9	115.50	1.3
Kuwait	1,479.41	9.7	1,272.20	14.4
Qatar	354.11	2.3	220.36	2.5
Oman	302.68	2.0	216.74	2.5
Saudi Arabia	10,524.90	68.7	6,338.94	71.8
United Arab Emirates	2,369.61	15.5	660.82	7.5
Total	15,325.57	100.0	8,824.56	100.0

Note.—Percentage column may not add to 100 due to rounding.
Source: U.S. Department of Commerce.

Figure 1
U.S. merchandise trade with GCC States, 1989-98



Source: U.S. Department of Commerce.

Macao: Another Handover Coming

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At midnight on December 20, 1999, the Portugese dependency of Macao will follow in Hong Kong's path and return to China as a "special administrative region." Macao exports more than one billion dollars in goods and services to the United States, though the United States exports about one tenth of that in return. As Macao strives to establish itself as a gateway to China, the United States remains focused on trade relations, with emphasis on textile trade, transhipments, and intellectual property rights.

Macao is currently a Portugese dependency on the coast of southern China, about 40 miles west of Hong Kong. The last remaining piece of Portugal's former colonial empire, Macao has a total size of about 6 square miles and a population of about 500,000, more than 90 percent of which is Chinese. China formally ceded Macao to Portugal in 1887. Portugal granted Macao administrative, financial, and economic autonomy in 1976, and agreed to return Macao to China on December 20, 1999. After the handing over, China, like Hong Kong, will become a special administrative region of China, with economic, legal, and judicial autonomy.

The Macao economy is based largely on tourism, casino gambling, and textile and apparel exports. Efforts to diversify have spawned other small export-oriented industries—toys, artificial flowers, and electronics. The tourism sector accounts for roughly 25 percent of gross domestic product (GDP), while casino gambling represents an estimated 40 percent of GDP. Macao's 1998 GDP was down 3 percent from its 1997 level, though early reports show a reversal of this trend in early 1999. The Macao Government expects 1999 to return to 1997 levels with positive growth in 2000. Macao's manufacturing sector weathered the Asian financial crisis with little change in output, but the tourism and gambling industries were hit very hard. Unemployment, which in previous years has been around 3-4 percent jumped to its current 6 percent. Low inflation has turned into deflation. Prices rose only 0.2 percent in 1998 and have fallen 3.0 percent for the first quarter of 1999.

Exports by Macao are dominated by clothing and textile exports to the United States and the European Union (EU). Much of the textile industry was established after 1965, when hundreds of new textile factories were built in Macao by Hong Kong firms. This was because as a minor textile producer, Macao had been overlooked in many countries' import quota restrictions, though the United States maintains quotas on textile and apparel imports from Macao. In 1998, Macao's exports totaled $2.1 billion. Apparel represented 76.4 percent of this total, while textiles made up 20.6 percent (figure 2). Macao's largest export markets in 1998 were the United States ($1.0 billion) and the EU ($0.7 billion). Hong Kong purchased $160 million in exports from Macao, while Chinese purchases from Macao totaled $145 million (figure 3).

Macao depends heavily on China for most of its imports of food, fresh water, energy, and inexpensive manufactures. Japan and Hong Kong are the main suppliers of raw materials and capital goods. Macao imported a total of $1.9 billion. The largest shares of imports included raw materials and intermediate inputs (58.1 percent), food and tobacco (9.8 percent), other consumer goods (16 percent), and capital goods (9.7 percent). Macao's imports from China in 1998 totaled $638.1, and imports from Hong Kong totaled $463.3 million. The next three largest suppliers to Macao were the EU ($207.5 million), Japan ($151.4 million), and the United States ($91.9 million). Macao registered a trade surplus in 1998 of $149 million, up from $65.9 million the year before.

The United States' interests in Macao are relatively small, but nevertheless important because of Macao's ties—and upcoming handover—to China. Though

[6] The views expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission or any individual Commissioner.

U.S. exports to Macao are less than $100 million, the United States is Macao's largest foreign market, buying about one-half of all Macao exports. Textiles and apparel represent most of this trade.

Based on the findings of an on-site verification of textile and textile product production in Macao, the U.S. Customs Service has informed the Committee for the Implementation of Textile Agreements (CITA) that certain companies in Macao were engaged in illegal transshipments from other countries to the United States, not in operation, or unable to produce records to verify production. In order to secure compliance with U.S. law, and to avoid circumvention of textile agreements, CITA directed U.S. Customs, effective for goods exported on and after September 1, 1999, to deny entry to textiles and textile products allegedly manufactured by 77 Macao companies.

In another textile matter, the United States notified Macao in April 1999 that U.S. Customs data showed that overall textile shipments from Macao to the United States in excess of 1998 limits had been charged against 1999 limits. Quotas for 1999 are also being rapidly filled.

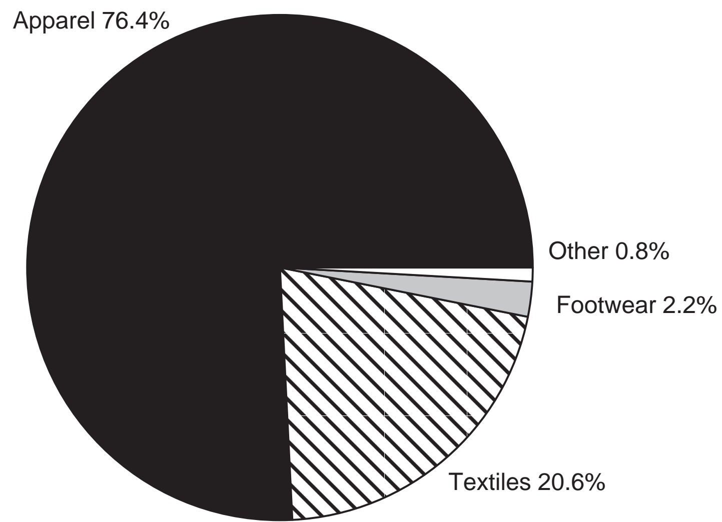
Another major U.S. concern in Macao is inadequate protection of intellectual property rights (IPR) and piracy of copyrighted goods. Macao is on the United States' special 301 watch list as a country with serious IPR problems. Copyright industry representatives are pleased with some recent IPR efforts in Macao, but still complain that business with Macao remains difficult because of piracy, violence, corruption, and a non-transparent judicial regime.

In response, Macao Economic Services Director, Florinda Chan, recently reported that Macao has already taken to improve its trade environment. She said much of the piracy problem centers in Hong Kong, not Macao. Chan emphasized several current initiatives in Macao, including a new industrial licencing law that went into effect May 1, 1999. The new law allows for new administrative penalties against copyright violators, even without a criminal trial, and it gives economic service inspectors the right to force factory owners to open factory doors to inspectors, even if the factory claims to be "idle." Macao is also drafting legislation to require producers to stamp source identifier codes on compact discs, and make retail outlet stores obtain licences before selling optical discs. As proof of Macao's commitment to tougher IPR laws, Chan also reported evidence that two compact disc factory owners are planning on leaving Macao, and that out of 24 registered factories, 10 have had their licences suspended or canceled. Macao does not currently have any laws that require government agencies to use only copyrighted software. The U.S. consulate in Macao reports that Macao recently agreed to study this issue and consider the implementation of such measures. Currently individual agencies and offices in Macao handle procurement independently, with the exception of very large contracts. Several agencies have moved on their own to adopt procurement rules, but banning the use of illegal software in all of government would require a broad government decree.

As the handover is completed, the United States will continue to support trade with Macao, but urges the island to increase enforcement of its laws (especially among producers), to increase transparency of its legal process, and share more information with U.S. industry and government. The lack of information makes evaluating the current trade environment in Macao difficult.

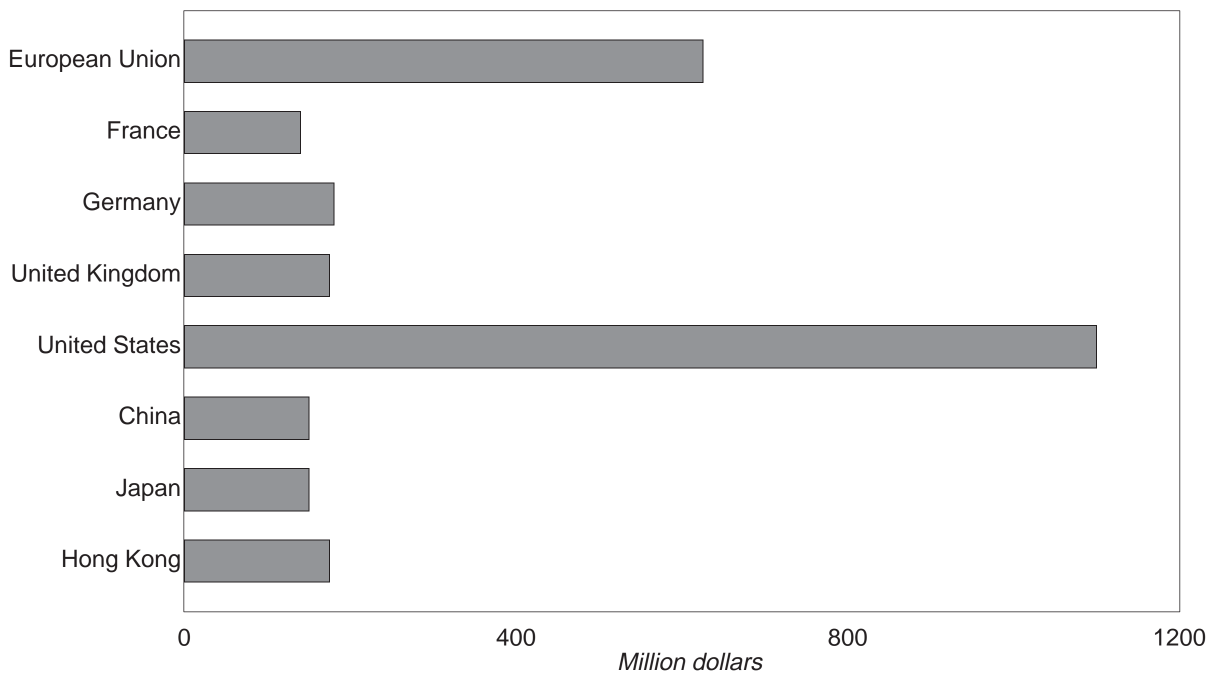
After the reversion, the recently-elected chief executive of Macao, Edmund Ho, is to lead the government while the elected members of the current legislative assembly will keep their seats until the next elections in 2002. Ho stresses an immediate challenge for Macao is to work to improve economic performance and to reverse the 3-percent decline in GDP registered in 1998.

Figure 2
Macao: Exports by major trading partner



Source: Macao Government

Figure 3
Macao: Exports by major trading partner



Source: Macao Government

NAFTA: Accelerated Tariff Reductions

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The North American Free Trade Agreement (NAFTA) contains a negotiated schedule for tariff reductions on NAFTA origin goods (Annex 302.2), which is to be fully implemented by the year 2008 (2004 for most manufactured goods and 2008 for agricultural products). Since the inception of NAFTA, six annual stages of scheduled tariff reductions have been implemented by Canada, Mexico, and the United States. The United States and Canada now accord bilateral duty-free treatment to qualifying goods as a result of the NAFTA predecessor, the United States–Canada Free Trade Agreement (CFTA). In addition to annual scheduled tariff reductions, NAFTA provides for tariff reductions ahead of the NAFTA schedule. This article describes the process and history of accelerated tariff reductions under NAFTA.

The NAFTA tariff reduction timetable through 2008 is designed to allow the domestic industries of the NAFTA members enough time to adjust to losing current tariff protection, with the knowledge that eventually industries will face tariff-free trade within NAFTA on all qualifying goods. In contrast, the accelerated tariffs are the result of industries petitioning their governments to allow tariff-free trade with NAFTA partners ahead of the NAFTA schedule for specified originating products. Canada, Mexico and the United States participated in five rounds of accelerated tariff reductions between 1989 and 1999. The United States and Canada completed three rounds under the CFTA. The three NAFTA members have completed two rounds of accelerated tariff reductions.

A third round of accelerated tariff reductions under the NAFTA was initiated with an invitation to U.S. producers to submit petitions for tariff reductions to the Office of the United States Trade Representative (USTR) by July 1, 1999. In response to the request by the USTR, U.S. producers submitted petitions on 80 tariff subheadings. For trade between the United States and Canada, all duties on qualifying goods under NAFTA were eliminated by January 1, 1998; therefore, this and future rounds of NAFTA accelerated tariff reductions will be bilateral negotiations between the United States and Mexico and between Canada and Mexico. For the ongoing third round, the NAFTA partners will negotiate on petition requests to determine which proposed tariff subheadings meet the criteria for accelerated reductions. Following the negotiations between NAFTA partners, a list of the goods concerned will be submitted by the USTR to the U.S. Congress for a 60-day "negative clearance" layover and consultation period. If agreed to by Congress, the duty changes will be implemented in the United States by Presidential proclamation under section 103 of the NAFTA Implementation Act.

U.S. petitions are based on the Harmonized Tariff Schedule of the United States (HTS) eight-digit subheadings, or by four- and six-digit headings if all subheadings are included in the proposed tariff reductions or currently have zero tariff levels. Petitions submitted to the USTR are required to represent a consensus of all domestic producers, either individually or through a producers' organization. Petitions must contain proof that domestic industries in the tariff reducing countries will not be injured by the accelerated tariff reductions to be eligible for consideration during the negotiations. Furthermore, producers from at least two NAFTA countries must submit petitions to their respective governments for a particular tariff subheading to be considered for accelerated reductions. Calls for petitions come from the individual governments of the NAFTA members, and the petitions are submitted to the requesting agencies. The proposed tariff reductions generally must be undertaken on a reciprocal basis by all the relevant NAFTA members, except when the countries have differing initial tariff levels for the proposed tariff subheading. If the tariff heading or subheading meets all the requirements, and the NAFTA governments agree to the proposal, the governments begin domestic action to implement the early tariff reductions. Section

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201(b) of the NAFTA authorizes the U.S. President, upon meeting certain conditions, to accelerate NAFTA tariff reductions on behalf of the United States.

The first round of accelerated tariff reductions was initiated in December 1993 and became effective July 1, 1997. Table 4 lists the results of the first round by HTS chapters and four-digit headings. The second round of accelerated tariff elimination was initiated in May 1997 and petitions from producers were received on a total of 1,500 8-digit tariff subheadings, and resulted in tariff reductions on 600 tariff subheadings that took effect on August 1, 1998. Table 5 lists the HTS chapters and four-digit headings affected by the second round of accelerated tariff reductions.

Table 4
HTS items affected by the first round of accelerated tariff elimination

Chapter	Heading
Preparations of vegetables, fruit, nuts or other parts plants	2005, 2008
Inorganic chemicals; organic or inorganic compounds of precious metals, of rare–earth metals, of radioactive elements or of isotopes	2837
Organic chemicals	2905, 2932, 2933, 2935, 2936, 2937, 2941
Photographic or cinematographic goods	3702
Plastics and articles thereof	3921
Wood and articles of wood; wood charcoal	4421
Paper and paperboard; articles of paper pulp, of paper or of paperboard	4808
Man–made filaments	5404
Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	5604, 5605
Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	5903
Other made up textile articles; needlecraft sets; worn clothing and worn textile articles; rags	6302
Articles of stone, plaster, cement, asbestos, mica or similar material	6815
Ceramic products	6912, 6914
Articles of iron or steel	7318
Nickel and articles thereof	7508
Zinc and articles thereof	7901
Other base metals; cements; articles thereof	8108
Tools, implements, cutlery, spoons and forks, of base metal, parts thereof of base metal	8213
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	8419, 8422, 8424, 8429, 8431, 8451, 8454, 8471, 8479
Electrical machinery and equipment and parts thereof	8536
Vehicles other than railway or tramway rolling–stock, and parts and accessories thereof	8714
Clocks and watches and parts thereof	9107, 9114
Miscellaneous manufactured articles	9603

Note.—There may be one or more than one 8–digit subheading receiving accelerated tariff reductions within the 4–digit headings listed.

Table 5
HTS items affected by the second round of accelerated tariff elimination

Chapter	Heading
Organic chemicals	2909, 2915, 2916, 2917, 2921, 2922, 2924, 2933, 2934
Miscellaneous chemical products	3808, 3811, 3822, 3824
Wool, fine or coarse animal hair; horsehair yarn and woven fabric	5112
Cotton	5208, 5209, 5210, 5211, 5212, 5219
Man–made filaments	5402, 5403, 5405, 5406, 5407, 5408
Man–made staple fibers	5501, 5502, 5503, 5506, 5512, 5513, 5514, 5515, 5516
Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	5602, 5603, 5604, 5607, 5608, 5609
Special woven fabrics; tufted textile fabrics; lace, tapestries; trimmings; embroidery	5801, 5802, 5803, 5811
Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	5901, 5903, 5905, 5906, 5907, 5908, 5909, 5910, 5911
Articles of apparel and clothing accessories, not knitted or crocheted	6210
Other made up textile articles; needlecraft sets; worn clothing and worn textile articles; rags	6302, 6304, 6307
Headgear and parts thereof	6505
Iron and steel	7216, 7219, 7220, 7223, 7229
Electrical machinery and equipment and parts thereof	8544
Clocks and watches and parts thereof	9101, 9102, 9108

Note.—There may be one or more than one 8–digit subheading receiving accelerated tariff reductions within the 4-digit headings listed.

U.S. TRADE AND INVESTMENT DEVELOPMENTS

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Trade Developments

The U.S. Department of Commerce (*Commerce News* FT 900 99-07) reported that seasonally adjusted exports of goods and services of $79.0 billion and imports of $104.2 billion in July 1999, resulting in a goods and services trade deficit of $25.2 billion, $0.6 billion more than the $24.6 billion June deficit (table 6).

Exports of goods increased in July to $55.8 billion from $55.5 billion in June, while imports increased to $87.5 billion from $86.7 billion, resulting in a deficit on goods of $31.7 billion—slightly higher than the June deficit. For services, exports remained virtually unchanged at $23.2 billion and imports of services increased slightly to $16.7 billion, resulting in a surplus on services of $6.5 billion—slightly lower than the June surplus.

The overall change in exports of goods in June-July 1999 reflected increases in capital goods (primarily semiconductors, medicinal equipment, and drilling and oilfield equipment), and consumer goods. The overall increase in imports of goods reflected increases in industrial supplies and materials (primarily crude petroleum, organic chemicals and lumber); capital goods; consumer goods; and automotive vehicles, parts and engines. Exports of advanced technology products were $15.6 billion in July, down from $16.5 billion in June; imports were $16.0 billion, up from $15.8 billion in June; for advanced technology products, the trade balance declined from a surplus of $0.8 billion in June 1999 to a deficit of $0.4 billion in July 1999. The July 1999 trade data showed U.S. surpluses with Australia, Argentina, Brazil, Egypt. and Hong Kong and the Netherlands. Deficits were recorded with Canada, Mexico, the European Union, China, Japan, Korea, Singapore, Taiwan, and the OPEC countries. Additional information on U.S. trade developments in specified manufacturing sectors is highlighted in table 7. Services trade developments are highlighted in table 8.

U.S. exports of goods and services in January-July 1999 totaled $545.7 billion, up from $543.5 billion in the same period in 1998, while imports of goods and services totaled $689.6 billion, up from $633.5 billion The U.S. trade deficit on goods and services in January-July 1999 increased to $143.9 billion from $90 billion in the same period of 1998.

For the period January-July 1999, U.S. exports of goods declined to $386.0 billion from $390.0 billion during the same period in 1998; imports were $576.3 billion, up from $529.5 billion in 1998; and the U.S. trade deficit on goods totaled $190.3 billion in January-July 1999, up from $139.4 billion in the same period of 1998. Exports of advanced technology products totaled $112.4 billion in January-July 1999, up from $103.9.billion during the same period in 1998; imports increased to $98.6 billion from $87.9 billion; the U.S. trade surplus for advanced technology products totaled $13.8 billion in January-July 1999, down from $16.0 billion in the same period in 1998. U.S. exports of services in January-July 1999 increased to $159.7 billion, up from $153.5 billion in the same period of 1998; imports were $113.3 billion, up from $104.1 billion; the U.S. trade surplus on services totaled $46.4 billion for the during January-July 1999, down from $49.5 billion in the same period in 1998.

The January-July1999 trade data showed trade deficits with Canada, Mexico, the European Union, Eastern Europe, China, Japan Korea, Singapore, Taiwan and the OPEC countries. Trade surpluses were recorded with Australia, Argentina, Hong Kong, Brazil, and Egypt. U.S. trade developments with major trading partners are highlighted in table 9.

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Table 6
U.S. trade in goods and services, seasonally adjusted, June-July 1999

(Billion dollars)

	Exports		Imports		Trade Balances	
Item	**June 1990**	**July 1999**	**June 1999**	**July 1999**	**June 1999**	**July 1999**
Trade in goods (see note)						
Current dollars–						
Including oil	55.8	55.5	87.5	86.7	-31.7	-31.2
Excluding oil	56.2	56.0	81.5	80.8	-25.3	-24.8
Trade in services						
Current dollars	23.2	23.2	16.7	16.6	6.5	6.6
Trade in goods and services:						
Current dollars	79.0	78.6	104.2	103.2	-25.2	-24.6
Trade in goods (Census basis)						
1992 dollars	79.1	77.2	115.5	114.6	-36.4	-37.4
Advanced-technology products (not seasonally adjusted)	15.6	16.5	16.0	15.8	-0.4	0.7

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

Because of rounding details may not add to totals shown.

Source: U.S. Department of Commerce News (FT 900), Sept. 21, 1999.

Table 7
Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan.1998–July 1999

	Exports		Chan Jan.-July 1999 over Jan.-July 1998	Share of total Jan.-July 1999	Trade balance	
	July 1999	Jan.-July 1999			Jan.-July 1999	Jan.-July 1998
	Billion dollars		*Percentage*		*Billion dollars*	
ADP equipment & office machinery	3.2	22.9	-0.9	5.9	-24.1	-19.8
Airplanes	1.9	18.9	5.0	4.8	14.1	14.0
Airplane parts	1.3	9.1	5.8	2.3	5.5	5.2
Electrical machinery	6.1	41.6	10.9	10.6	-6.7	-8.2
General industrial machinery	2.3	17.2	-3.9	4.4	-1.2	0.8
Iron & steel mill products	0.4	2.8	-15.2	0.7	-4.8	-6.5
Inorganic chemicals	0.3	2.5	-10.7	0.6	0.4	-0.1
Organic chemicals	1.2	8.4	-9.2	2.1	-4.0	-2.1
Power-generating machinery	2.2	17.4	7.4	4.4	-0.3	0.4
Scientific instruments	2.1	14.4	0.7	3.7	4.6	5.6
Specialized industrial machinery	2.1	14.1	-16.6	3.6	0.8	2.9
Televisions, VCRs, etc	2.1	13.5	19.1	3.5	-12.2	-9.2
Textile yarns, fabrics and articles	0.7	5.3	4.7	1.4	-2.5	-2.2
Vehicle parts	2.9	30.7	-4.1	7.8	-51.7	-34.6
Manufactured exports not included above	14.0	99.2	-2.0	25.4	-90.2	-74.0
Total manufactures	42.8	318.0	-0.5	81.3	-173.1	-127.6
Agriculture	3.6	26.2	-11.5	6.7	4.6	8.3
Other exports not included above	6.6	47.1	4.0	12.0	-5.9	-5.8
Total exports of goods	53.0	391.3	-0.8	100.0	-174.4	-125.1

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), Sept. 21, 1999.

Table 8
Nominal U.S. exports and trade balances of services, by sectors, Jan.1998- July 1999, seasonally adjusted

Sector	Exports		Change Jan.-Apr. 1999 over Jan.-Sept. 1998	Trade balances	
	Jan. July 1999	Jan.- July 1998		Jan. Apr. 1999	Jan. Apr. 1998
	Billion dollars		*Percent*	*Billion dollars*	
Travel	42.8	41.8	2.4	7.9	9.2
Passenger fares	12.1	11.8	2.4	-0.2	0.5
Other transportation	15.5	14.7	5.4	-3.4	-2.8
Royalties and license fees	21.9	20.9	4.8	14.4	14.3
Other private sales	57.0	53.4	6.7	27.2	26.1
Transfers under U.S. military sales contracts	10.0	10.5	-4.8	1.6	3.3
U.S. Govt. miscellaneous service	0.5	0.5	0.0	-1.2	-1.1
Total	159.8	153.6	4.0	46.3	49.5

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), Sept. 21, 1999.

Table 9
U.S. exports and imports of goods with major trading partners, Jan. 1998-July 1999

(Billion dollars)

Country/areas	Exports			Imports			Trade balances	
	July 1999	Jan.-July 1999	Jan.-July 1998	July 1999	Jan.-July 1999	Jan.-July 1998	Jan.-July 1999	Jan.-July 1998
Total	53.0	391.3	394.6	86.8	565.7	519.1	-174.4	-125.1
North America	18.4	140.5	135.9	23.8	171.9	152.4	-31.4	-16.4
Canada	11.3	94.2	91.0	14.6	111.1	99.0	-16.9	-8.0
Mexico	7.0	46.3	45.0	9.2	60.8	53.4	-14.5	-8.4
Western Europe	12.2	95.2	94.2	19.0	120.2	109.9	-25.0	-15.8
Euro Area	11.3	88.0	86.9	17.4	110.4	100.8	-22.4	-13.8
European Union (EU-15)	7.7	61.1	60.0	13.0	81.6	74.8	-20.5	-14.9
France	1.6	11.2	10.4	2.2	14.6	13.8	-3.4	-3.4
Germany	2.0	15.5	15.1	4.9	31.1	28.2	-15.5	-13.0
Italy	0.9	5.8	5.3	2.1	12.9	12.2	-7.1	-7.0
Netherlands	1.4	10.9	11.1	0.7	4.6	4.3	6.3	6.8
United Kingdom	3.1	22.6	23.0	3.5	22.1	20.0	0.5	3.0
Other EU	0.9	6.4	6.2	1.7	8.8	7.2	-2.4	-1.0
FSR[1]/Eastern Europe	0.4	3.1	5.0	1.0	6.5	6.2	-3.4	-1.2
Russia	0.1	0.8	2.5	0.4	3.3	3.4	-2.5	-0.8
Pacific Rim Countries	14.2	97.0	96.7	31.7	197.2	184.6	-100.2	-87.9
Australia	0.9	6.3	7.0	0.4	2.9	1.7	1.9	2.4
China	1.1	7.5	7.6	7.4	43.1	20.1	-18.4	-15.8
Japan	4.5	32.8	34.4	11.3	73.2	40.7	-22.1	-20.8
NICs[2]	5.9	3191	35.7	8.4	52.3	27.1	-6.3	-6.5
South/Central America	4.6	31.8	37.3	5.1	31.4	16.4	1.1	4.6
Argentina	0.4	2.7	1.9	0.2	1.4	1.3	1.3	2.2
Brazil	1.1	7.4	4.7	1.0	6.2	5.8	1.2	2.7
OPEC	1.7	11.5	8.7	3.6	20.8	20.4	-9.3	- 5.9
Other Countries	2.3	16.3	16.5	4.5	28.3	27.7	-12.0	-11.3
Egypt	0.3	1.8	1.6	0.1	0.4	0.4	1.5	1.2
South Africa	0.2	1.4	2.0	0.2	1.7	1.8	-0.3	0.2
Other	1.8	13.0	12.9	4.2	26.2	25.6	- 13.2	- 12.6

[1] FSR indicates Former Soviet Republics.
[2] The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan.

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

Source: U.S. Department of Commerce News (FT 900), Sept. 21, 1999.

U.S. International Investment Position at Year-end 1998

The U.S. Department of Commerce reported that the U.S. investment position abroad—U.S. assets abroad less foreign assets in the United States—at year-end 1998 grew by 28 percent to a negative $1.2 trillion (table 10). Direct investment valued at the current cost of tangible assets grew by 44.2 percent to a negative $1.5 trillion. Capital outflows for direct investment abroad grew by 22.2 percent in 1998 to $121.6 billion.

The net investment position in all cases became more negative, primarily as a result of large net capital inflows and price appreciation in foreign owned assets in the United States. That price appreciation reflected the steep rise in U.S. stock market prices from year-end 1997 to year-end 1998, which substantially increased the value of foreign holdings of U.S. stocks and of owners' equity of foreign direct investment in the United States. U.S. owned assets abroad also increased as a result of financial outflows and price appreciation, but that increase (mostly to U.S.-owned European stocks) was significantly smaller than the increase in foreign-owned assets in the United States. In 1998, U.S. owned assets grew by 9.4 percent to $4.9 trillion with direct investment valued at current cost, and grew by 12.5 percent to $5.9 trillion with direct investment at market value. U.S. private assets grew by 9.6 percent to $4.7 trillion with direct investment valued at current cost, and grew by 12.5 percent to $5,719,595 million with direct investment at market value. U.S. direct investment abroad grew to $1.1 trillion at current cost and grew to $2.1 trillion at market value. U.S. investment in foreign securities grew to $2.0 trillion.

In comparison, foreign owned assets in the United States grew by 12.7 percent to $6.2 trillion with direct investment valued at current cost, and grew 17.8 percent to $7.5 trillion with direct investment at market value. Foreign direct investment position in the United States grew by 15 percent to $878 billion valued at current cost, and grew by 33.6 percent to $2.2 trillion at market value.

U.S. Direct Investment Abroad on a Historical Cost Basis

U.S. direct investment abroad increased to $980 billion in 1998 (table 11). In 1998, the largest share of U.S. direct investment was in Europe (50 percent of total), followed by Latin America and Western Hemisphere (20 percent), Asia and Pacific (16.5 percent), Africa (1.4 percent), and the Middle East (1.1 percent). By country, the largest share of U.S. direct investment was in the United Kingdom (18.2 percent of total) followed by Canada (10.6 percent), the Netherlands (8.1 percent), Germany (4.4 percent) and France (4.0 percent). In the Asia and Pacific, the largest share of U.S. direct investment was in Japan (3.9 percent) followed by Australia (3.4 percent).

Income received on U.S. investment abroad declined to $90 billion in 1998 after growing to $103 billion in 1997. The decline was more pronounced in Latin America and Western Hemisphere and in Asia and Pacific probably due to the decline in economic activity in some of these countries.

Table 10
International investment position of the United States at yearend 1997 and 1998

(Million dollars)

	1997	1998
Net international investment position of the United States		
With direct investment position at current cost	-968,208	-1,239,168
With direct investment position at market value	-1,066,262	-1,537,466
U.S. owned assets abroad		
With direct investment position at current cost	4,508,626	4,930,896
With direct investment position at market value	5,288,892	5,947,983
U.S. private assets		
With direct investment at current cost	4,291,830	4,702,508
With direct investment at market value	5,072,096	5,719,595
Direct investment abroad		
At current cost	1,004,228	1,123,441
At market value	1,784,994	2,149,528
Foreign securities	1,739,400	1,968,956
Foreign-owned assets in the United States		
With direct investment at current cost	5,476,834	6,170,064
With direct investment at market value	6,355,154	7,485,449
Foreign official assets in the United States	835,709	836,053
Other foreign assets		
With direct investment at current cost	4,641,125	5,334,011
With direct investment at market value	5,519,445	6,649,396
Direct investment in the United States		
At current cost	764,045	878,717
At market value	1,642,365	2,194,102

Note.—Figures may not add to totals shown because of rounding and omission of certain items.

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

Table 11
U.S. direct investment abroad, on a historical cost basis, by country of foreign affiliates 1996–98

(Million dollars)

Country	Direct investment position			Capital outflows, inflows (–)			Income		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
All industries	795,195	865,531	980,565	84,425	99,517	121,644	93,594	103,892	90,242
By country									
Canada	89,592	96,031	103,908	7,181	7,493	10,259	9,258	10,548	8,104
Europe	389,378	420,108	489,539	40,148	51,698	74,538	44,286	48,757	49,305
France	35,200	35,800	39,188	4,463	2,543	2,895	3,224	2,575	2,450
Germany	41,281	38,490	42,853	1,956	1,627	2,025	3,797	3,339	4,787
Netherlands	54,118	64,361	79,386	6,308	14,327	14,996	9,632	12,370	12,594
United Kingdom	134,559	153,108	178,648	16,421	22,411	34,428	12,220	13,126	11,582
Latin America . . .	155,925	178,505	196,655	18,138	21,966	18,020	17,762	21,408	16,908
Brazil	29,105	35,091	37,802	4,159	6,514	3,790	4,172	4,675	3,037
Mexico	19,351	24,181	25,877	2,405	5,646	2,533	2,721	3,905	3,177
Africa	8,162	11,157	13,491	1,678	3,371	2,712	1,801	1,954	1,719
Middle East	8,294	8,803	10,599	467	601	2,062	1,412	1,328	757
Asia & Pacific	139,548	146,610	161,797	15,363	13,693	13,471	18,795	19,513	12,623
of which Australia	30,006	29,910	33,676	3,787	2,393	3,659	2,851	3,596	1,896
Japan	34,578	33,725	38,153	–280	–371	3,844	3,475	3,516	2,179

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

Notes.—Latin America includes other Western hemisphere.

INTERNATIONAL ECONOMIC COMPARISONS

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

A comparison follows of U.S. economic growth, industrial growth, prices, and employment with other Group of Seven (G-7) members. The Statistical Appendix provides more detailed economic data.

Economic Growth

U.S. real gross domestic product (GDP)—the output of goods and services produced in the United States measured in 1992 prices—grew at an annual rate of 1.8 percent in the second quarter of 1999. Real GDP growth in the second quarter of 1999 was 2.2 percent in the United Kingdom, 3.3 percent in Canada, 2.4 percent in France, 0.2 percent in Germany, 0.9 percent in Japan, 0.7 percent in Italy (first quarter 1999), and 1.3 percent in the 11 European Union countries participating in the euro currency zone (Euro-11).

Industrial Production

The Federal Reserve Board reported that U.S. industrial production rose by 0.3 percent in August 1999 following gains of 0.7 percent in July, and gains of 0.1 percent in June and 0.2 percent in May. A surge in the production of motor vehicles and parts accounted for the bulk of August advance. Manufacturing output increased 0.6 percent in August. Total industrial production in August 1999 was 2.5 percent higher than in August 1998. Overall industrial capacity utilization was 3.9 percent higher in August 1999 than in August 1998.

[9] The views expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission or any individual Commissioner.

Other G-7 member countries reported the following growth rates of industrial production. For the year ending July 1999, Japan reported an increase of 0.2 percent but the United Kingdom reported a decline of 0.7 percent. For the year ending June 1999, Germany reported a decline of 1.0 percent, and Italy reported a decline of 1.6 percent, but Canada reported an increase of 3.5 percent, and France reported 0.2 percent increase. The Euro-11 reported an increase of 0.7 percent for the year ending June1999.

Prices

Seasonally adjusted U.S. Consumer Price Index (CPI) rose 0.3 percent in August, the same as in July 1999. For the 12-month period ended in August 1999, the CPI has increased by 2.3 percent. Prices increased by 0.3 percent in Japan, 2.1 percent in Canada, 0.7 percent in Germany, 1.1 percent in the United Kingdom, 0.5 percent in France, and 1.8 percent in Italy.

Employment

The Bureau of Labor Statistics reported that the unemployment rate was virtually unchanged at 4.2 percent in August 1999 from July. The rate has been 4.2 percent or 4.3 percent each month since March. In other G-7 countries, the unemployment rates were 4.7 percent in Japan, 7.8 percent in Canada, 7.1 percent in Germany, 6.0 percent in the united Kingdom, 11.3 percent in France, 12.1 percent in Italy, and 10.2 percent in the Euro-11.

Summary of U.S. Economic Conditions

U.S. economic growth slowed, labor productivity gains slipped and labor costs increased during the second quarter of 1999, but economic fundamentals

remain strong and major economic indicators and forecasts point to sustainable economic growth and low rates of inflation for the remainder of this year.

The U.S. economy grew at a much slower rate in the second quarter of 1999 than was previously estimated. The U.S. Department of Commerce revised real gross domestic product (GDP) growth rate down to 1.8 percent (at an annual rate) in the second quarter from its earlier estimate of 2.3 percent. The second quarter growth rate was much slower than the 4.3 percent growth rate of the first quarter.

The major contributors to GDP growth in the second quarter were consumer and investment spending, and exports. However, the contributions of these components were partially offset by an increase in imports, a decrease in inventory investment and a decrease in federal government spending. Although exports increased by 4.5 percent to $1.0 trillion in the second quarter, imports increased by 14.5 percent to $1.3 trillion pushing the deficit on goods and services to a record $337.4 billion. Another factor that led to the downward revision of second quarter GDP growth rate was slower inventory investment. U.S. businesses increased their inventories by $12.1 billion in the second quarter, a large decline from the $38.7 billion increase in the first quarter, subtracting 1.19 percentage points from the second quarter change in real GDP.

Because of the second quarter deceleration in the nation's output, U.S. labor productivity (output per manhour) declined to 0.8 percent in the business sector and unit labor costs rose by 4.5 percent according to revised data released by the U.S. Department of Labor. The second quarter productivity estimate was much lower than the 3.6 percent productivity gains in the first quarter. However, productivity gains remain solid in the manufacturing sector, rising by 4.8 percent in the second quarter while unit labor costs increased by only 1.3 percent. In durable manufactures, productivity grew by 8.2 percent and labor costs declined by 1.5 percent.

Despite the downward revision of second quarter GDP growth rate and productivity gains, economic fundamentals remain strong. Inflation is subdued at an annual rate of 2.3 percent and the unemployment rate is the lowest in many years. Consumer and investors confidence and expectations are still high, despite a two-months dip in the consumer confidence index released by the Conference Board. Real consumer spending rose in the second quarter by 4.6 percent. Real nonresidential fixed investment increased 11.2 percent and producers durable equipment spending increased 15.9 percent.

Inflation as measured by the price index for gross domestic purchases (which measures prices paid by U.S. residents) increased by 2.1 percent in the second quarter, compared with an increase of 1.2 percent in the first quarter. However, excluding food and energy prices, which are normally more volatile than many other prices, the price index increased by just 1.4 percent, slightly more than the 1.3 percent increase in the first quarter.

Forecasts

Six major forecasters expect real growth in the United States to average about 3.2 percent (at an annual rate) in the third quarter of 1999, and to slow to 2.9 percent in the fourth quarter of the year. Table 12 shows macroeconomic projections for the U.S. economy from January to December 1999, 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 4.3 percent in the second half of 1999. Inflation (as measured by the GDP deflator) is expected to remain subdued at about 1.7 percent in the second half of 1999.

Table 12
Projected changes in U.S. economic indicators, by quarters, January-December 1999
(Percentage)

Period	Conference Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Macro Economic Advisers	Wharton WEFA Group	Mean of 6 forecasts
	GDP current dollars						
1999:							
Jan.-Mar	6.0	5.7	5.6	6.0	6.0	6.0	5.9
Apr.-June	5.3	4.4	5.1	4.3	4.8	6.4	5.1
July-Sept.	5.5	4.6	5.4	4.3	4.4	5.6	5.0
Oct.-Dec	5.6	5.1	5.0	4.0	4.3	4.8	4.8
Annual average	5.6	5.0	5.3	4.7	4.9	5.7	5.2
	GDP constant (chained 1992) dollars						
1999:							
Jan.-Mar	435	4.3	4.1	4.3	4.3	4.5	4.3
Apr.-June	3.9	3.0	3.0	3.0	3.3	3.5	3.3
July-Sept.	3.7	2.7	3.1	3.2	2.8	3.4	3.2
Oct.-Dec.	4.1	3.2	2.0	3.3	2.5	2.5	2.9
Annual average	4.0	3.3	3.1	3.5	3.2	3.5	3.4
	GDP deflator index						
1999:							
Jan.-Mar.	1.5	1.4	1.4	1.4	1.4	1.5	1.4
Apr.-June	1.4	1.4	2.0	1.3	1.4	2.4	1.7
July- Sept.	1.8	1.5	2.2	1.1	1.6	2.2	1.7
Oct.-Dec.	1.4	1.6	2.9	0.7	1.4	2.2	1.6
Annual average	1.5	1.5	1.9	1.1	1.5	2.1	1.6
	Unemployment, average rate						
1999:							
Jan.-Mar.	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Apr.-June	4.1	4.3	4.2	4.2	4.3	4.2	4.2
July- Sept.	4.1	4.4	4.3	4.1	4.3	4.3	4.3
Oct.- Dec.	4.0	4.5	4.5	4.0	4.3	4.5	4.3
Annual average	4.1	4.4	4.3	4.2	4.3	4.3	4.3

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

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

STATISTICAL TABLES

Consumer prices of G-7 countries, 1995-99

(Percentage change from same period of previous year)

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

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

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

Country	1995	1996	1997	1998	1999 I	1999 II	1999 July	1999 Aug.
United States	5.6	5.4	4.9	4.5	4.3	4.3	4.3	4.2
Japan	3.2	3.4	3.4	4.1	4.7	4.8	4.9	4.7
Canada	9.5	9.7	9.2	8.3	7.8	8.0	7.7	7.8
Germany	6.5	7.2	7.8	7.5	7.2	7.2	7.1	7.1
United Kingdom	8.7	8.2	7.0	6.3	6.3	6.1	6.1	6.0
France	11.8	12.5	12.4	11.8	11.4	11.3	11.3	11.3
Italy	12.0	12.1	12.3	12.3	12.3	12.1	12.1	12.1

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

Source: U.S. Department of Labor, *Unemployment Rates in Nine Countries*, Oct. 8, 1999.

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

(In billions of dollars)

Commodity categories		1996	1997	1998	1999 Jan.	1999 Feb.	1999 Mar.	1999 Apr.	1999 May	1999 June	1999 July
Agriculture	25.6	26.7	20.5	14.9	0.8	1.6	0.6	0.5	0.4	0.7	0.8
Petroleum and selected products (unadjusted)	-48.8	-60.9	-65.5	-43.4	-2.8	-2.8	-3.0	-4.1	-5.2	-5.3	-5.2
Manufactured goods	-173.5	-175.9	-179.5	-241.1	-20.2	-19.6	-24.8	-22.4	-23.1	-28.7	-31.8
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$15.83	$18.98	$17.67	$10.81	$9.19	$9.46	$10.43	$12.71	$14.54	$14.52	$16.0

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

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Sep. 21, 1999.