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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

The U.S. economy seems to be recovering gradually while the economies of Japan and Germany seem to be slowing down. In the United States, the factors that led to the economic downturn during the past 16 months seem to have reversed their course during the first and second quarters of 1991. Most recent statistics on GNP, unemployment and industrial production show slight improvement over past performances (see following sections). Although the timing of the trough is uncertain, forecasts suggest that the recovery will start in the second half of 1991. The recovery is expected to be led by an increase in consumer and business spending and to be sustained by the monetary stimulus initiated by the Federal Reserve during the first and second quarters of the year. The recovery, however, is expected to be moderate because of the reluctance of banks to expand their lending and of consumers to increase their spending to the degree needed to sustain rapid economic growth. The Organization for Economic Cooperation and Development (OECD) forecasts that real GNP in the United States will decline by 0.2 percent in 1991 and then increase by 3.1 percent in 1992. The OECD forecast also expects private consumption to rise by 2.6 percent in 1992 after a small rise of 0.1 percent in 1991. Government consumption is projected to increase by 1.1 percent in 1991 and to decline by 0.6 percent in 1992 further reducing the budget deficit. Private fixed investment, according to the OECD forecast, will rebound increasing by 7.0 percent in 1992 after a decline of the same magnitude in 1991. Exports of goods and services are projected to increase by 6.9 percent in 1992 after an increase of 4.5 percent in 1991. In contrast, imports are projected to increase by 7.8 percent in 1992 after a decline of 0.4 percent in 1991. As a result, the trade deficit will grow slightly.

In Japan, the OECD projects real GNP growth to slow down, increasing by 3.5 percent in 1991 and 1992, down from the 5.6 percent growth rate attained in 1990. A slower expansion of domestic demand has made the Japanese economy more dependent on exports. Private consumption, the largest component of domestic final demand, is expected, according to the OECD, to increase by only 2.8 percent in 1991 and by 3.7 percent in 1992 compared with an increase of 4.0 percent in 1990. Government expenditures are projected to increase by 2.4 percent in 1991 and by 1.5 percent in 1992. Gross fixed investment is projected to increase by merely 5.0 percent in 1991 and 3.9 percent in 1992 after an increase of 10.8 percent in 1990. To ensure that the slowdown of the economy does not turn into a severe recession, the Bank of Japan slashed by almost 40.0 percent the amount of reserves banks are required to maintain with the central bank. The Bank of Japan also reduced its discount rate and other key interest rates. The aim is to increase the liquidity and enable banks to lend more. Nevertheless, tight labor markets, the slowdown in business investment and the decline in domestic demand might constrain future economic growth.

In Germany, the pattern of strong growth seems to have been moderated by the country's reunification in 1990. The OECD projects that the German growth rate is expected to slow down, rising by just 2.8 percent in 1991 and by 2.2 percent in 1992, down from the 4.5 percent growth rate attained in 1990. Gross fixed investment is expected to grow by only 5.3 percent in 1991 and by 4.0 percent in 1992 compared to a growth of 8.8 percent in 1990. Higher direct and indirect taxes imposed from mid-1990, according to the OECD, will dampen the growth of domestic demand. Final domestic demand is expected to increase by 3.0 percent in 1991 and 2.5 percent in 1992. While output is projected to decline, inflation is projected to rise, reflecting the acceleration of unit labor costs and continuing tight capacity limits, and as a result of the increase in import prices due to the depreciation of the Deutsche mark.

Economic Growth

Real economic growth in the United States was a negative 0.5 percent in the second quarter at an annualized rate. In the first quarter of 1991, the annualized rate of real economic growth was a negative 2.8 percent. In the fourth quarter of 1990, the rate of real growth was a negative 1.6 percent. The real growth rate for all of 1990 was 1.0 percent.

The annualized rate of real economic growth in the second quarter of 1991 was -2.4 percent in the United Kingdom, -2.4 percent in Germany, 3.2 percent in France, 4.9 percent in Canada, 2.0 percent in Japan, and 3.1 percent in Italy.

Industrial Production

Seasonally adjusted U.S. industrial production edged up 0.1 percent in September 1991. In August 1991 the index showed no change after revised gains of 0.6 percent in July and 0.8 percent in June 1991. The September 1991 increase resulted from a significant rise in the output of motor vehicles and parts. However, utilities output showed a sharp decline compared to previous months. U.S. industrial production increased at an annual rate of 1.7 percent in the second quarter of 1991 after falling sharply in the two preceding quarters. Total output advanced at an annual rate of 6.0 percent in the third quarter. The September 1991 index was 2.2 percent lower than it was in September 1990. Capacity utilization in manufacturing, mining, and utilities slipped by one-tenth of a percentage point in September 1991 to 79.9.

Other major industrial countries reported the following annual growth rates of industrial production. For the year ending August 1991, Germany reported an increase of 2.0 percent, and Japan reported an increase of 0.5 percent. For the year ending July 1991, the United Kingdom reported a decline of 1.8 percent, Canada reported a decline of 4.4 percent, and Italy reported a decline of 2.0 percent. For the year ending June 1991, France reported an increase of 0.2 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.4 percent in September 1991. The consumer price index rose by 3.4 percent during the 12 months ending September 1991.

During the 1-year period ending September 1991, consumer prices increased 3.9 percent in Germany and 6.2 percent in Italy. During the year ending August 1991, consumer prices increased 5.9 percent in Canada, 3.0 percent in France, 4.7 percent in the United Kingdom, and 3.3 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States declined to 6.7 percent in September from 6.8 percent in August 1991. For selected indicators of the U.S. labor market, see table 1.

In September 1991, Germany reported 6.4 percent unemployment. In August 1991, Canada reported 10.6 percent and the United Kingdom reported 8.5 percent, France reported 9.5 percent, Japan reported 2.2 percent, and Italy reported 10.0 percent unemployment. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Table 2 shows macroeconomic projections for the U.S. economy for July 1991 to June 1992, by four major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average forecasts point to a moderate rebound in GNP nominal and real growth rates for the remainder of 1991 and continuing throughout the first half of 1992. There are many possible reasons for the moderation of the recovery in 1991 and 1992: the general slowdown in the world economy, particularly in the industrialized countries; the sluggish rise in consumer spending, particularly consum-

Table 1
Selected indicators of the U.S. labor market, January-September 1991.

Category	*Quarterly averages*			*Monthly data*		
	Jan.-Mar. 1991	*April-June 1991*	*July-Sept. 1991*	*July 1991*	*Aug. 1991*	*Sept. 1991*
	(Millions of persons)					
Civilian labor force:	125.0	125.5	125.2	125.2	124.9	125.6
Employed	116.9	117.0	116.8	116.7	116.4	117.2
Unemployed	8.2	8.6	8.5	8.5	8.5	8.4
Employment by establishment:						
Nonfarm:	109.2	108.8	108.9	108.9	108.9	109.0
Goods producing	24.0	23.8	23.8	23.8	23.8	23.8
Construction	4.8	4.7	4.7	4.7	4.7	4.7
Manufacturing	18.6	18.4	18.4	18.4	18.4	18.4
Services producing:	85.1	85.0	85.1	85.1	85.1	85.2
Retail trade	19.5	19.3	19.4	19.3	19.3	19.4
Services	28.6	28.6	28.8	28.7	28.8	28.9
Government	18.4	18.4	18.4	18.4	18.4	18.4
Other	18.6	18.7	18.5	18.7	18.6	18.5
Unemployment rate:						
	(Percent of total labor force)					
All workers	6.5	6.8	6.8	6.8	6.8	6.7
Adult men	6.1	6.4	6.5	6.5	6.5	6.5
Adult women	5.5	5.7	5.5	5.4	5.7	5.5
Teenagers	18.0	18.8	19.2	20.6	19.0	18.0
White	5.8	6.0	6.1	6.2	6.1	6.0
Black	12.1	12.9	12.1	11.8	12.3	12.1
Hispanic	9.7	9.5	10.2	9.5	9.9	11.1

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Table 2
Projected quarterly percentage changes of selected U.S. economic indicators, July 1991-June 92

Quarter	*UCLA Business Forecasting Project*	*Merrill Lynch Capital Markets*	*Data Resources Inc.*	*Wharton E.F.A. Inc.*	*Mean of 4 forecasts*
			GNP current dollars		
1991					
July-September	3.3	6.9	4.6	3.1	4.5
October-December	5.6	6.8	5.4	6.7	6.1
1992					
January-March	7.3	7.0	7.6	6.9	7.2
April-June	7.2	6.5	7.3	6.7	6.9
			GNP Constant (1982) Dollars		
1991					
July-September	1.9	3.7	2.9	3.0	2.9
October-December	3.6	3.4	2.4	4.4	3.5
1992					
January-March	4.4	2.9	4.2	3.8	3.8
April-June	4.0	2.6	4.1	4.2	3.7
			GNP deflator index		
1991					
July-September	1.3	3.0	1.6	0.1	1.5
October-December	2.0	3.2	2.9	2.2	2.6
1992					
January-March	2.7	4.0	3.3	2.9	3.2
April-June	3.1	3.8	3.1	2.4	3.1
			Unemployment, average rate		
1991					
July-September	6.9	6.8	6.9	6.8	6.9
October-December	6.8	6.9	6.9	6.9	6.9
1992					
January-March	6.7	6.8	6.7	6.8	6.8
April-June	6.5	6.7	6.5	6.7	6.6

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: October 1991.

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

er spending on durable goods, because of high consumer debt; and the expected low level of investment because of reduced business expectations, and the reduction in available credit caused in part by the savings and loan crisis. However, several dynamics appear to be working in favor of stronger growth in the second half of 1992. The decline in interest and inflation rates in most of 1991 may encourage a stronger rise in consumer and business spending in 1992. An expected surge in export growth as a result of the anticipated improvement in industrial countries' economic conditions should also increase foreign demand for U.S. exports in 1992. Moreover, the low level of inventories now held by businesses could prompt a strong buildup of business inventories once a recovery starts. The average of the forecasts predicts a decline in the unemployment rate in 1992. Inflation (measured by the GNP deflator) is expected to slow in the remainder of 1991 and rise in the first half of 1992.

U.S. and Foreign Direct Investment Positions

Table 3 shows U.S. direct investment position abroad from 1988 to 1990. The total U.S. direct investment position abroad expanded by 25.5 percent to $421.5 billion from 1988 to 1990, with noticeable expansion in petroleum, banking, finance except banking, services, machinery except electrical, electrical and electronic equipment, transportation equipment, and primary and fabricated metals. Foreign direct investment in the United States expanded by 28.2 percent to $403.7 billion, with noticeable expansion in chemicals and allied products, primary and fabricated metals, machinery except electrical, services, wholesale, insurance, food and kindred products.

U.S. direct investment abroad concentrated more on petroleum and manufacturing, whereas foreign direct investment in the United States concentrated less on petroleum and manufacturing and more on

Table 3
U.S. direct investment position abroad and foreign direct investment position in the United States on a historical cost basis, in billion dollars, 1988-90.

	U.S. direct investment position abroad			*Foreign direct investment position in the United States*		
Industry	*1988*	*1989*	*1990*	*1988*	*1989*	*1990*
All countries	335.9	370.1	421.5	314.8	373.8	403.7
Petroleum	57.8	54.0	59.7	36.0	37.2	38.0
Manufacturing	138.7	149.2	168.2	122.6	151.8	160.0
Food & kindred products	13.3	13.5	16.0	16.5	24.1	22.9
Chemicals & allied products	31.4	35.0	38.7	30.9	37.0	41.7
Primary & fabricated metals	7.9	8.1	9.8	10.9	13.6	17.6
Machinery except electrical	26.7	26.0	28.8	22.5	30.7	29.7
Electrical & electronic equipment	10.7	11.7	13.6	[1]	[1]	[1]
Transportation equipment	19.2	23.0	24.0	[1]	[1]	[1]
Other manufacturing	29.7	31.9	37.3	41.9	46.5	48.2
Wholesale trade	34.1	37.2	41.4	43.7	46.3	52.6
Retail trade	[1]	[1]		9.9	9.0	9.4
Banking	19.1	20.4	21.4	16.9	18.6	19.1
Finance except banking	63.4	84.3	98.9	8.1	16.8	13.1
Insurance	[1]	[1]	[1]	19.0	22.7	26.3
Real Estate	[1]	[1]	[1]	25.9	30.1	34.6
Services	7.9	8.7	10.8	19.0	22.5	30.5
Other industries	14.9	16.1	21.0	13.7	18.6	20.1

[1] Not available, or suppressed to avoid disclosure of data of individual companies or less than $500,000.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, August 1991

wholesale trade, banking and finance, insurance, real estate and services. In 1990, for instance, approximately 14.2 percent of total U.S. investment abroad was in petroleum, 40.0 percent was in manufacturing, 9.8 percent in wholesale trade, 5.1 percent in banking and 23.5 percent in finance except banking. In contrast, approximately 9.4 percent of total foreign direct investment in the United States was in petroleum, 39.6 percent was in manufacturing, 13.0 percent in wholesale and 2.3 percent in retail trade, 4.7 percent in banking and 3.2 percent in finance except banking, 6.5 percent in insurance, 8.6 percent in real estate and 7.6 percent in services.

Table 4 shows U.S. direct investment abroad by host areas and major investment in 1990. The majority of U.S. investment abroad (74.0 percent) went to developed countries. In 1990, around 48.5 percent of total U.S. investment abroad was made in Europe with the EC getting 85.0 percent of Europe's total. Canada's share in U.S. investment abroad reached 16.2 percent while Japan's share reached only 5.0 percent. The share of the developing areas in total U.S. investment abroad was 25.1 percent, with the bulk of this share (68.6 percent) going to Latin America and other Western Hemisphere countries. U.S. direct investment in Canada concentrated more on manufacturing and less on petroleum, with noticeable concentration on chemicals and allied products, transportation equipment and finance except banking. U.S. investment in the EC concentrated more on manufacturing with noticeable concentration in chemicals and allied products, machinery except electrical. Investment in finance except banking and wholesale trade also expanded noticeably.

Table 5 shows foreign direct investment in the United States by major investing area and major investment category in 1990. Foreign direct investment in the United States tended to concentrate less on petroleum, manufactures and more on wholesale and retail trade, finance, insurance, real estate and services more than U.S. investment abroad. By investing area, the EC owned the majority (57.0 percent) of total foreign direct investment in the United States. The United Kingdom was the largest individual investor in 1990 followed by Japan, the Netherlands, Germany, and Canada. Japan's investment in the United States concentrated on wholesale trade, finance except banking and real estate.

U.S. TRADE DEVELOPMENTS

The U.S. merchandise trade deficit increased in August 1991 (by $800 million), due to the considerable increase in imports of oil. Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 6.

When oil is included, the seasonally adjusted U.S. merchandise trade deficit in current dollars increased by 13.3 percent in August 1991, to $6.8 billion from $6.0 billion in July 1991. The August 1991 deficit was slightly higher than the $6.7 billion average monthly deficit registered during the previous 12-month period and 26.9 percent lower than the $9.3 billion deficit registered in August 1990.

Table 4
U.S. direct foreign investment abroad by major investment and major recipients on a historical-cost basis, in billions of dollars, 1990.

Area Investment	All countries	Canada	European Community	Other Eruope	Germany	United Kingdom	Switzerland	Japan	Developing countries	Latin America & other Western -Hemisphere	Middle East	Other Africa	Other Asia & Pacific	OPEC
All industries	421.5	68.4	172.9	31.3	27.7	65.0	23.7	21.0	105.7	72.5	4.8	3.8	24.7	9.8
Petroleum	59.7	10.7	18.8	5.6	3.1	11.3	[1]	3.4	15.7	5.3	2.0	2.7	5.6	5.5
Manufacturing	168.2	33.2	81.3	2.7	17.5	20.6	1.2	10.6	33.6	23.8	0.9	[1]	8.4	1.9
Food & kindred products	16.0	2.3	8.0	0.5	1.2	2.1	[1]	[1]	3.7	3.1	[1]	[1]	0.5	[1]
Chemicals & allied products	38.7	6.4	19.1	[1]	3.3	3.5	[1]	2.5	7.9	5.4	0.6	[1]	1.8	0.9
Primary & fabricated metals	9.8	3.0	3.9	[1]	1.3	1.0	[1]	[1]	2.1	1.8	[1]	[1]	[1]	[1]
Machinery except electrical	28.8	2.7	17.9	0.9	4.1	3.1	[1]	2.9	3.8	2.8	[1]	[1]	1.0	[1]
Electrical & electronic equipment	13.6	2.2	4.5	[1]	0.8	1.3	[1]	1.2	5.2	1.5	[1]	[1]	3.3	[1]
Transportation equipment	24.0	8.0	8.7	[1]	3.4	2.9	[1]	2.5	4.2	3.3	[1]	[1]	0.9	[1]
Other manufacturing	37.3	8.7	19.2	0.5	3.5	6.7	[1]	0.9	6.7	5.9	[1]	[1]	0.8	0.5
Wholesale trade	41.4	4.1	15.4	9.1	1.5	2.8	7.4	3.8	7.5	2.9	0.5	[1]	4.0	[1]
Banking	21.4	1.1	7.5	1.2	1.7	3.6	1.0	[1]	10.4	7.6	[1]		2.6	[1]
Finance except banking	98.9	12.0	40.7	11.5	2.9	23.1	11.1	2.2	31.0	27.3	0.9	[1]	2.6	[1]
Services	10.8	1.6	5.5	1.0	[1]	2.3	[1]	[1]	2.2	1.7	[1]	[1]	[1]	[1]
Other industries	21.0	5.8	3.8	[1]	1.1	1.4	[1]	[1]	5.5	3.9	[1]	[1]	1.2	0.7

[1] Suppressed to avoid disclosure of data of individual companies, or investments of less than $500,000.
Note.—Figures may not add to totals because of rounding and data suppression to avoid disclosure of individual companies.
Source U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, August 1991.

Table 5
Foreign direct investment position in the United States on a historical-cost basis, by major foreign investors and major investment category in billions of dollars, 1990.

Investment category	*All countries*	*United Kingdom*	*Japan*	*Netherlands*	*Germany*	*Canada*	*European Community*
Total	403.7	108.1	83.5	64.3	27.8	27.7	230.0
Petroleum	38.0	15.3	[1]	10.5	0.5	1.4	30.8
Manufactures	160.0	52.9	15.2	24.5	15.2	9.3	109.7
Food and kindred products	22.9	8.8	0.7	7.3	[1]	0.4	17.9
Chemicals and allied products	41.7	8.9	3.9	8.1	8.6	0.5	31.1
Primary & fabricated metals	17.6	4.9	2.1	1.5	1.1	1.8	11.4
Machinery	29.7	7.9	4.2	4.5	3.0	1.9	17.0
Other	48.2	22.4	4.3	3.1	2.5	4.7	32.3
Wholesale trade	52.6	4.2	27.6	4.4	6.1	2.4	16.6
Retail trade	9.4	3.0	0.6	2.0	1.4	[1]	7.1
Banking	19.1	1.9	6.0	2.2	1.0	1.8	8.2
Finance except banking	13.1	3.8	10.4	1.3	[1]	1.8	1.6
Insurance	26.3	7.4	0.5	4.8	2.8	3.7	15.6
Real estate	34.6	4.1	15.9	5.2	1.0	3.1	10.8
Services	30.5	9.2	6.5	7.8	0.1	0.6	20.4
Other	20.1	6.2	0.8	1.5	0.6	4.3	9.1

[1] Suppressed to avoid disclosure of data of individual countries, not available or less than $500,000.

Note: Figures may not add to totals due to rounding or suppression of data.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business,* August 1991.

Table 6
U.S. merchandise trade, seasonally adjusted

Item	*Exports*		*Imports*		*Trade balance*	
	July 1991	*August 1991*	*July 1991*	*August 1991*	*July 1991*	*August 1991*
Current dollars—						
Including oil	35.2	34.2	41.2	40.9	-6.0	-6.8
Excluding oil	35.2	34.2	38.2	37.4	-3.0	-3.2
1987 dollars	33.2	32.4	39.0	38.8	-5.8	-6.5
Three-month-moving average	35.2	34.8	40.0	40.3	-4.8	-5.5
Advanced-technology products (not seasonally adjusted)	7.8	7.6	5.6	5.3	+2.2	+2.3

Source: *U.S. Department of Commerce News,* FT 900, October 1991.

When oil is excluded, the August 1991 merchandise trade deficit increased by $200 million over the previous month.

In August 1991, both exports and imports declined but exports declined considerably faster. Including oil, seasonally adjusted exports in current dollars declined by $1.1 billion in August, to $34.2 billion, and imports declined by $200 million, to $40.9 billion. Excluding oil, U.S. imports decreased from July to August 1991 by $800 million, to $37.4 billion. The U.S. oil import bill rose to $3.5 billion in August from $2.9 billion in July 1991.

In seasonally adjusted constant dollars, the trade deficit increased by $700 million from July to August 1991. The trade surplus in advanced-technology products increased to $2.3 billion in August 1991 from $2.2 billion in July 1991. (Advanced-technology products as defined by the U.S. Department of Commerce include about 500 products from recognized high-technology fields for example, biotechnology—out of a universe of some 22,000 commodity classification codes.)

Nominal export changes and trade balances in August 1991 for specified major exporting sectors are shown in table 7. Vehicle parts, inorganic chemicals, textile yarns, fabrics, and articles, organic chemicals, and electrical machinery recorded export increases in August 1991 over July, most other sectors recorded exports declines. Sectors that recorded the largest trade surpluses over the period January-August 1991 included airplanes, scientific instruments, airplane parts, specialized industrial machinery, organic chem-

Table 7
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors, January 1990-August 1991

Sector	Exports: January-August 1991	Exports: August 1991	Change: January-August 1991 over January-August 1990	Change: August 1991 over July 1991	Share of total January-August 1991	Trade balances January-August 1991
	— Billion dollars —		——— Percent ———			Billion dollars
ADP equipment & office machinery	17.0	1.9	5.7	- 1.5	5.7	-2.17
Airplanes	15.0	1.7	11.4	-12.9	11.4	12.73
Airplane parts	6.6	0.8	2.8	0	2.8	3.77
Electrical machinery	20.0	2.5	5.9	4.7	5.9	-2.85
General industrial machinery	11.3	1.4	6.6	1.7	6.6	1.62
Iron & steel mill products	2.9	0.3	41.2	-14.7	41.6	-2.85
Inorganic chemicals	2.7	0.4	11.0	15.7	11.0	0.66
Organic chemicals	7.6	0.9	12.6	4.6	12.6	2.06
Power-generating machinery	10.9	1.3	4.2	-3.0	4.2	1.48
Scientific instruments	9.0	1.1	12.0	0	11.9	4.57
Specialized industrial machinery	11.0	1.3	6.6	-10.4	6.6	3.42
Telecommunications	6.4	0.8	8.1	0	8.1	-7.92
Textile yarns, fabrics and articles	3.6	0.5	8.6	11.1	8.8	-0.94
Vehicle parts	9.2	1.2	-6.3	19.3	-6.3	0.01
Other manufactured goods[1]	16.5	2.1	13.1	-0.3	13.2	-3.01
Manufactured exports not included above	64.7	7.7	10.4	-1.5	23.0	-50.21
Total manufactures	214.2	25.9	8.4	-0.7	77.4	-39.54
Agriculture	24.5	2.8	-7.1	-2.8	8.4	9.65
Other exports	38.6	4.7	6.6	-2.8	14.2	-10.04
Total	277.3	33.5	6.4	0.4	100.0	-39.93

[1] This is an official U.S. Department of Commerce commodity grouping.
Note: Because of rounding, figures may not add to total shown.
Source: *U.S. Department of Commerce News (FT900)*, October 1991.

icals, general industrial machinery, and power-generating machinery. The U.S. agricultural trade surplus declined slightly to $1.1 billion in August from $1.2 billion in July 1991.

U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 8. The United States experienced increases in bilateral merchandise trade deficits in August 1991 with Canada, Germany, China and OPEC and decreases with the newly industrializing countries (NICs),[1] and Japan. U.S. trade surpluses with the EC, Western Europe and the U.S.S.R. increased. On a cumulative year-to-date basis, the United States experienced declines in its bilateral trade deficits from a year earlier with Germany, the NICs, and Organization of Petroleum Exporting Countries (OPEC). The deficit with Japan increased by $250 million and the deficit with Canada increased by $420 million. The deficit with China increased by $840 million. U.S. trade surpluses with the EC and Western Europe increased markedly.

INTERNATIONAL TRADE DEVELOPMENTS

United States Takes Steps to Grant Seven More Countries MFN Treatment

Most-favored-nation (MFN) treatment refers to a policy of nondiscrimination in trade. A country granted MFN status is not extended trade preferences or special privileges, as the expression may imply, but is extended treatment that is no less favorable than that accorded any other "most-favored" trading partner. This policy is the norm in international trade since it is one of the guiding principles of the

Table 8
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1990-August 91
(In billion dollars)

Area or country	*August 1991*	*July 1991*	*August 1990*	*January August 1991*	*January-August 1990*
Japan	-3.74	-3.80	-3.74	-26.74	-26.49
Canada	-0.72	-0.44	-0.39	-3.61	-3.19
Germany	-0.46	-0.21	-1.16	-2.66	-6.55
EC	+0.65	+0.21	-0.34	+11.68	+3.60
Western Europe	+0.71	-0.01	-0.47	+11.50	+1.93
NICs[1]	-1.50	-1.70	-2.28	-7.52	-13.23
U.S.S.R	+0.15	+0.12	-0.02	+1.54	+2.03
China	-1.31	-1.28	-1.16	-7.21	-6.37
OPEC	-1.41	-1.08	-2.42	-10.18	-15.06
European Free trade association	-0.04	-0.36	-0.18	-1.15	-2.20
Total trade balance	-7.66	-7.78	-10.51	-39.93	-63.74

[1] NICs include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

Note.—The difference between trade balances shown in total exports table and those shown in the above (country/area) table represents exports of certain grains, oilseeds, and satellites that are not included in the country/area exports.

Source: *U.S. Department of Commerce News (FT-900)*, Oct. 1991.

General Agreement on Tariffs and Trade (GATT), to which most countries belong. Thus, the United States extends MFN treatment to most of its trading partners because of their GATT membership, and also has granted it to a few countries under bilateral trade agreements that provide for the reciprocal extension of MFN status. Only 14 countries now remain subject to discriminatory trade treatment under U.S. law, and recent developments will soon reduce that number to 7.

In practice, the principal benefit a country gains from being accorded MFN status is that the products it exports can enter another country at concessionary rates of duty rather than at the full statutory rates. For products from countries granted MFN treatment by the United States, most of the concessionary rates (the lowest available nonpreferential rates in column 1 of the U.S. tariff schedule) are significantly lower than the U.S. statutory (column 2) rates that the United States applies to products from countries not granted MFN treatment. The statutory rates remains the same as they were when set under the Smoot-Howley Tariff Act of 1930.

In addition to its obligations as a GATT signatory, the United States maintains a policy of unconditional and unlimited MFN treatment to its trading partners on the basis of its own legislation, first enacted in 1934. However, it made an exception to this long-standing policy under the Trade Expansion Act of 1951, which suspended the MFN status of any country under the control of the "world Communist movement;" i.e., the Soviet Union, China, and countries under their control. The Trade Act of 1974 continued to deny these countries nondiscriminatory tariff treatment (with the exception of Poland and Yugoslavia, whose MFN status was restored prior to its passage), but also established new conditions for granting MFN treatment to nonmarket (a term then synonymous with communist) countries. The act authorizes the President to restore MFN status to a nonmarket economy country (NME) if that country is in complete compliance with its freedom-of-emigration requirement (the Jackson-Vanik amendment under title IV of the act) and has concluded a bilateral trade agreement with the United States that contains a reciprocal grant of MFN status. Alternatively, the President may waive full compliance with the freedom-of-emigration requirement if he determines that the waiver will "substantially promote" the objectives of this requirement.

During the first few years after the 1974 Trade Act became law, the President waived full compliance with the Jackson-Vanik amendment and concluded trade agreements with three NMEs. Romania was granted MFN status in 1975, Hungary in 1978, and China in 1980. During the remainder of the 1980s, however, the list of countries subject to the U.S. statutory tariff rates remained unchanged with the one exception that Romania's MFN status was suspended in 1988.

As the countries of Eastern Europe shed their communist governments and began the transition from nonmarket to market economies, President Bush issued a Jackson-Vanik waiver for Czechoslovakia in February 1990, and a bilateral trade agreement providing for MFN reciprocity was signed in April 1990. The United States granted MFN status to Czechoslovakia on November 17, 1990. This action followed approval of the trade agreement by both the U.S. Congress and the Czechoslovak Parliament and an exchange of letters between the two countries. In addition, effective October 3, 1990, the former East Germany was also removed from the list of those countries whose products are subject to the U.S. statutory rates of duty because of the reunification of Germany.

In January 1991, President Bush issued two waivers of the freedom-of-emigration requirement, or Jackson-Vanik amendment to the 1974 Trade Act, one with respect to Mongolia and the other one for Bulgaria. The United States and Mongolia signed a trade agreement containing a provision for MFN reciprocity on January 23, 1991, and a similar United States-Bulgaria trade agreement was signed by the two countries on April 22, 1991. The President transmitted both agreements to the Congress on June 25, 1991, and their approval is expected soon.

The United States and the Soviet Union signed a trade agreement in June 1990. However, President Bush had pledged before signing that he would not submit the agreement to Congress for approval until the Supreme Soviet had codified its emigration laws "in accord with international standards" and implemented the new laws faithfully. This new emigration legislation was passed on May 20, 1991, and although it will not become effective until January 1, 1993, the President determined that sufficient emigration was already taking place. The agreement was transmitted to the Congress for approval on August 2. As submitted at that time, approval of the U.S.-Soviet trade agreement by both the U.S. Congress and the Supreme Soviet would have also extended MFN treatment to the Baltic states of Estonia, Latvia, and Lithuania.

On August 19, a series of extraordinary political events began in the Soviet Union that culminated in the recognition of the Baltics' independence by Moscow and the diplomatic recognition of their independence by Washington. Accordingly, on October 9, a new resolution to approve the U.S.-Soviet trade agreement was introduced in the U.S. Congress that omits all references to Estonia, Latvia, and Lithuania.

The Baltic states will be extended MFN status separately. To expedite this process, a bill was introduced in the Congress (H.R. 3313) that would terminate the application of title IV of the Trade Act of 1974 to the Baltics. When this legislation is enacted, they can be granted MFN status without each of them first negotiating a bilateral trade agreement with the United States providing for reciprocal MFN treatment.

Steps are also underway to restore the MFN status of Romania. President Bush issued a Jackson-Vanik waiver for Romania on August 17, 1991, but whether a new trade agreement must be negotiated has been questioned, in this case because Romania would remain under title IV of the 1974 Trade Act and the portion of the earlier agreement with Romania dealing with MFN reciprocity was invalidated when its MFN status was suspended in 1988.

In view of recent developments, the only countries whose products will soon remain subject to the U.S. statutory rates of duty are Afghanistan (which became subject to column 2 rates as a result of the Soviet invasion in 1979), Albania, Cambodia, Cuba, Laos, North Korea, and Vietnam. Among these countries, four—Cambodia, Cuba, North Korea, and Vietnam—are subject to import embargoes, making any tariff rates that may apply to them irrelevant.

Recent Status of the Uruguay Round

Uruguay Round Collapse

The Uruguay Round of multilateral trade negotiations, begun September 20, 1986 under the auspices of the General Agreement on Tariffs and Trade (GATT), was scheduled to conclude 4 years of talks at the ministerial meeting held in Brussels, Belgium during December 3-7, 1990. Instead, negotiators reached an impasse over the form and extent of agriculture subsidy reduction that the EC was willing to undertake as part of the Round which, in turn, hindered agreement in other areas under negotiation that had been left to be resolved at the ministerial meeting. GATT Director-General (D-G) Arthur Dunkel was charged at the close of the Brussels meeting with pursuing intensive consultations with participants to narrow the outstanding differences stemming from the meeting and to reconvene the negotiations when successful. (*IER*, February 1991.)

Participants are now working to complete a single draft text by early November 1991 that will include all subjects under negotiation. This will allow senior negotiators to gauge what final political-level compromises must be made in order to close a comprehensive package of concessions, rather than settle for a more narrow set of agreements, as proposed by some participants, that excludes "difficult" areas still remaining.

Groups Restructured

On February 26, 1991, Director-General Dunkel reconvened the Trade Negotiating Committee (TNC) following reluctant EC agreement to pursue "specific binding commitments" in the agriculture negotiations. As TNC chairman, Dunkel outlined a work program to resume technical-level talks, regrouping the 15 negotiating groups from the Brussels meeting into 7 issue- specific areas. These are agriculture, textiles, services, GATT rulemaking, intellectual property rights and investment measures, dispute settlement and the final act, and market access. (*IER*, May 1991.) These groups began discussions in March 1991 with Director-General Dunkel retaining chairmanship of both the agriculture and textiles group.

Final Texts Prepared

On July 30, Director-General Dunkel called a brief TNC review meeting to survey the technical-level progress made, announcing that all elements were at hand to enter the decisive phase to conclude the Round immediately after summer recess. Groups resumed meeting in late September and early October.

On September 20, Director-General Dunkel called for the negotiating groups to prepare final texts for political-level consideration by late October or early November. He will produce from these submissions a draft final text for all Uruguay Round negotiating groups, inserting a GATT Secretariat text for any missing texts. Director-General Dunkel will then present this document to governments as the basis from which final political-level decisions can be brokered. He hopes this revision of the Brussels draft document will result from consensus at the technical level, but in any case Director-General Dunkel believes the negotiations need to be concluded soon so as not to further damage the credibility of the GATT trade system.

Market Access

The market access group comprises negotiating groups on tariffs, nontariff measures, tropical products, and natural resource-based products. The aim of this group is to achieve market access liberalization equivalent to the 33 percent tariff reduction reached during the Tokyo Round.

Progress has been slow due to the group's two-track approach that allows either "formula" or "request/offer" reduction of market access barriers. Most countries favor the former as straightforward (e.g. a percentage reduction in tariffs or expansion of quotas). However, the United States has pressed request/offer, as well as its "zero-for-zero" initiatives that offer reciprocal tariff elimination for particular industries (beer, construction equipment, electronics, fish, nonferrous metals, paper, pharmaceuticals, steel, and wood).

Textiles

The Multifiber Arrangement (MFA) was extended August 1, 1991, for the 17 months through December 1992. The MFA was left largely unchanged, with the expectation that the results from the Round will take effect immediately thereafter. Uruguay Round textile discussions, put off while negotiators focused on MFA renewal, resumed in September. Director-General Dunkel, chairman of the textiles as well as the agriculture group, said the group will focus on product coverage and the textile safeguard mechanism to operate during the transition to GATT rules. The group also discussed in September the duration and timing of the transition, language on fraud and circumvention, and stronger GATT rules and disciplines for textiles.

Agriculture

Director-General Dunkel circulated his "options paper" in June 1991 that aims to narrow technical differences in the three areas under discussion in the group: internal support, market access barriers, and export competition. The ability of the EC to make political commitments in the Round to help resolve these issues will await progress on the EC internal debate over agricultural reform, not expected until late October at the earliest.

Internal support. A major issue under internal support is which subsidies should be permitted absolutely, a list that the EC and Japan wish to be more extensive than does the United States. Alternately, the United States seeks a more extensive list of subsidies that are prohibited absolutely as well as a list of subsidies that, while permitted, are still countervailable.

Market access. Under the market access talks in agriculture, the need for a safeguards "safety net" is generally agreed, but its form (whether price-or quantity-triggered or some combination) is not.

Export competition. How to curb export subsidies under the final category is also a major stumbling block, centered on whether to reduce budget outlays for export subsidies or to reduce export subsidies per unit on quantities exported.

GATT Institutions

The group on GATT institutions encompasses the previous dispute settlement group, the group on functioning of the GATT system (FOGS), and is charged with drafting the final instruments to incorporate the Uruguay Round results. The heart of the dispute settlement issue is whether to permit "automatic" formation of panels, report adoption, and retaliation, that is, not allowing the disputants in a case the ability to block these stages in the dispute settlement process. The draft text on the dispute process from Brussels is drawn around this principle of "automaticity," but participants are likely to wait until agreement is reached on the final instruments to put the Round into effect before finalizing stronger dispute settlement rules. The FOGS negotiating group has completed its work, by and large, with the adoption of the Trade Policy Review Mechanism (TPRM) as a surveillance system over world trade policies at the Mid-Term Review. The topic of a world trade organization has been raised in the group but is considered better left until after completion of the Round.

Intellectual Property Rights

Director-General Dunkel announced at the July 30 TNC meeting that all preparatory work has been done for TRIPs and that final political-level tradeoffs could begin. Group discussions in the fall will cover three main topics: (1) the extent to which the draft agreement would cover existing intellectual property, (2) the three draft texts on dispute settlement under discussion, and (3) issues left over from Brussels such as transitional protection for patents and copyright protection of works for hire as well as for individual authorship.

Services

Services negotiations have centered around scheduling of specific commitments, application of the most-favored-nation (MFN) principle, and the sectoral annexes. Negotiations to resolve differences in the framework services agreement will continue as a central element of the Round, with meetings scheduled for September 23, October 21, November 18 and December 9.

Scheduled commitments. Request/offer proposals to end service barriers, due September 20, have led to redrafting of the articles on market access and national treatment to clarify and sharpen scheduling commitments. The U.S. request/offer list was revised recently to exclude Canadian and Mexican barriers due to the North American free-trade agreement (NAFTA) talks.

MFN derogations. On MFN derogations, the group has discussed the motivation, legal basis, timespan, review mechanism, and possible disciplines for particular sector or subsector exemptions.

Sector annexes. The group is reworking the Labor Mobility annex to cover temporary personnel who both provide services or are employed by service providers.

GATT Rulemaking

The rulemaking group covers negotiations on GATT articles, on Tokyo Round codes and on safeguards, as well as on trade-related investment measures (TRIMs). Negotiations on the codes encompass antidumping and subsidies, standards, import licensing, customs valuation, and extend to the negotiations being held in tandem but separately from the Uruguay Round on expansion of the government procurement code. The rules group also covers preshipment inspection (PSI) and rules of origin, although draft agreements on these subjects as well as on standards, import licensing, and customs valuation, were initialled before the Brussels meeting.

Safeguards. Conclusion of a safeguards agreement based on the text forged at Brussels has few major issues remaining to resolve. Questions concerning phaseout of "grey area" measures, EC proposals on selective safeguard action, and waiver of automatic safeguards retaliation during a specified period will require political-level negotiation, but they are considered resolvable.

TRIMs. Developing countries have strongly resisted industrial country attempts to prohibit many investment measures, such as prohibition of local content and trade-balancing requirements. The TRIMs issues under discussion in the fall will include coverage under the agreement, TRIMs disciplines, LDC treatment, transition periods, and restrictive business practices.

BOP Reform. Reform of the balance-of-payments (BOP) provisions under art. XVIII in the GATT Articles negotiations has been adamantly resisted by developing countries during the Round such that there was no negotiating text when meetings resumed in September. Nonetheless, some developing countries may be amenable to reconsidering their opposition contingent on the final Uruguay Round package.

Antidumping and subsidies. No single negotiating text for antidumping talks exists, although this is not considered insurmountable. An outline of an agreement among major industrial countries may be forthcoming once talks resume September 30, but developing country efforts to limit use of antidumping practices may prevent reaching any antidumping agreement.

Subsidies negotiations remain entangled over which subsidies would be permitted absolutely as well as which subsidies would be automatically presumed countervailable. Subsidies under discussion for the former category include those for research and development, regional development, structural adjustment, and environmental compliance. Subsidies in the latter category include those that exceed a specified amount, cover operating losses, or forgive debt and are presumed to cause serious prejudice to others' economies unless shown otherwise.

Government procurement. Although separate from the Uruguay Round, negotiators expect to conclude a substantial agreement in conjunction with the Round. A major obstacle, however, is EC insistence that the procurement code apply to private U.S. firms in the telecommunications sector in exchange for coverage of government-controlled EC telecommunications entities. The United States has responded that the government procurement code should apply only to government procurement. Agreement in principle has been reached on expanding central government procurement to cover services contracts, including construction, in addition to the goods and supplies procurement covered currently. Extension of the code to subcentral government procurement (in the U.S. case, State and local governments) is another major goal that presents obstacles, in that the EC is willing to obligate member states to the code but the United States has constitutional difficulties in obligating U.S. State and local governments.

Update on the European Community

By the end of the year, the EC Commission had hoped to have all of the legislative measures constituting the internal market program adopted, leaving 1 year for the EC's member states to transpose the Community legislation into national laws. However, completion of the 1992 program by December 31, 1992, appears less and less likely as the EC struggles to balance other important issues on its agenda. Economic and monetary union (EMU), reform of the Common Agricultural Policy (CAP), and relations with Eastern Europe and EFTA are all issues that are currently demanding EC attention. Moreover, the EC is involved in a number of trade disputes with the United States.

EMU and Political Union

The EC is hoping to complete by yearend the intergovernmental conferences on EMU and political union, which opened in December 1990. The conferences were convened to negotiate amendments to the Treaty of Rome (the EC's founding charter) to make the institutional changes necessary to achieve EMU and political union. The goal of EMU is greater convergence among member states in monetary and exchange rate policy. The basic rationale has been that the full benefits of the integrated market cannot be achieved as long as currency fluctuations among member countries inhibit trade across national borders. EMU envisions irrevocably fixed exchange rates (which does not necessitate a single currency but would create essentially the same thing), a common EC monetary policy including the establishment of a European central bank, and coordination of national economic policies. Achieving political union will require defining the respective roles of the EC and its member states on such questions as common citizenship, foreign policy, security and defense issues, and further development of EC-wide political institutions such as the European Parliament. The EC expects to concentrate most of its attention in December on EMU and political union.

CAP reform

In July, the EC Commission proposed a fundamental reform of the CAP, the EC's agricultural support program. The CAP has generated growing surpluses and depressed world market prices of certain agricultural commodities. The need for reform stems from the heavy financial burden of the CAP on the EC budget as well as from pressure from the EC trading partners, including the United States, particularly in the context of the GATT Uruguay Round. The proposed reform measures include reductions in support prices (subsidies), supply-control measures, measures to better direct support towards small and medium-sized farmers, and environmental measures. The package remains very controversial among the member states, but the EC Commission hopes to finalize it sometime this fall. Once these internal reforms are approved, the EC says it will be in a better position to participate effectively in the GATT Uruguay Round agriculture talks. (See *IER*, Sept. 1991)

European Economic Area (EEA)

The EC and the European Free Trade Association[1] (EFTA) are currently negotiating an EEA that aims to permit the free movement of goods, persons, services, and capital among the member countries. Under the EEA, most of the single market rules would apply (except to agriculture) in the EFTA nations although the EC would do no more than consult with EFTA on new legislation. Both sides hope to have an EEA enter into force on January 1, 1993, concurrently with the single market initiative, but delays this summer may push that date back. Disagreements continue over alpine transport through Switzerland and Austria and Icelandic fisheries. (See *IER*, Sept. 1991)

The EC and EFTA are each other's largest trading partner; they already have a free trade agreement in industrial goods. In general, EFTA countries strongly support the EEA concept, since they fear that without it, "EC92" would damage their competitiveness. However, some EFTA countries are also considering EC membership. Austria and Sweden have already applied to join the EC.

Eastern Europe

The EC is currently negotiating a second set of bilateral association agreements with the countries of central and eastern Europe. The first generation of agreements on trade, commercial, and economic cooperation was concluded in 1990. Hungary, Poland, Czechoslovakia, Romania, Bulgaria, and the Soviet Union negotiated such agreements with the EC. These accords provide for reciprocal MFN status and improve economic cooperation in a wide range of areas. The EC agreed to suspend or eliminate some of the quantitative restrictions (quotas) imposed on their imports from eastern and central Europe in exchange for improved market access for EC products and investment guarantees for Community firms.

The current set of agreements under negotiation will expand the cooperation and benefits outlined in the first set by phasing out tariffs, quantitative restrictions, and other import rules on both sides. Hungary, Poland, and Czechoslovakia are currently negotiating "association" agreements with the EC, although talks stalled throughout the summer and hampered progress. Only recently has the EC begun to address demands for increased access for their textiles, steel, and agriculture to the EC market. The EC plans to negotiate similar agreements with Romania and Bulgaria. (See *IER*, May 1991)

The EC also anticipates beginning exploratory talks with the Baltic countries on economic and commercial cooperation. Such cooperation agreements would be similar to the first set of bilateral agreements the EC negotiated with Eastern European countries and would aim to reinforce the process of economic reform and establish closer bilateral ties.

EC Membership

The events in eastern and central Europe as well as the Soviet Union have forced the Community to

[1] The seven EFTA members are Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.

reconsider its position to first "deepen" the EC (i.e., change the institutional structure of the EC) and later "widen" or enlarge the Community. This policy has been followed in the hope that greater political and economic cohesion among the member states would prevent an enfeebled and fractured Community when its membership grows. Frans Andriessen, the Commissioner for External Affairs, recently said that political pressures and instability in Eastern Europe have forced him to reconsider, and now he advocates increasing attention on enlargement. Almost all of the Eastern European nations, including the Baltics, have shown an interest in joining the EC as an ultimate goal.

Austria, Sweden, Turkey, Malta, and Cyprus have applied to join the EC. Other EFTA and eastern and central European countries have made known their interest in joining the EC in the future.

EC 1992 Status

Out of the 282 measures that make up the internal market program as outlined in the EC Commission's 1985 White Paper, as of mid-September all of the measures had been tabled and 69 remained to be adopted. The EC Commission had hoped to have all of the measures adopted by yearend to allow time for the member states to transpose the directives into national legislation, but the EC is unlikely to meet the deadline. Although progress has been made in difficult areas like taxation, a logjam remains in such areas as financial services, company law, veterinary and plant health standards, and the free movement of people.

Moreover, implementation of the EC directives by the member states is not keeping pace. Most of the legal measures that make up the 1992 program are directives. Directives are binding on each member state as to the results to be achieved but leave the method of compliance up to the member state. The EC Commission, charged with monitoring the progress of implementation, has repeatedly warned that many member states are slow to implement directives. Italy has implemented the fewest EC 1992 directives to date.

U.S.-EC Bilateral Disputes

In addition to the issues mentioned above, several trade disputes with the United States remain on the EC's plate. One issue involving U.S. corn gluten feed shipments to the EC recently ended, but others remain unresolved.

Corn gluten feed

U.S. shipments of corn gluten feed, which have been granted duty-free treatment by the EC since 1967, were held up at EC ports this summer and assessed a duty due to a disagreement over the definition of the product. The EC argued that U.S. shipments of corn gluten feed contained up to 40 percent corn germ meal and that this mixture was dutiable (at a tariff of over $200 per ton). In September, the United States requested consultations with the EC under the GATT to resolve the issue. Soon after, the United States and EC agreed on a new definition of corn gluten feed. The EC will also pay back any duties collected since January 1, 1991, on corn gluten feed shipments that meet the new definition. (See *IER*, Oct. 1991)

Third Country Meat Directive

The EC's third country meat directive requires foreign meat producers to comply with certain technical standards in order to export to the EC. EC inspectors periodically visit U.S. meat plants to determine whether or not they comply with these EC standards. Late last year, the EC claimed that poor hygiene in U.S. meat plants posed a health hazard to EC consumers and therefore banned U.S. imports of pork and beef. Recently, however, the EC recertified several U.S. plants as eligible to export meat to the Community, raising the hopes of U.S. meat exporters that more plants could be recertified soon. Nonetheless, the United States and EC must still negotiate standards of equivalency for inspection. (See *IER*, May 1991)

Oilseeds

The United States charges that the EC unfairly subsidizes its domestic production and processing of oilseeds. In January 1990, the conclusion of a GATT panel report supported the U.S. position. The EC indicated its willingness to comply with the panel's conclusions in the context of the Uruguay Round. When the Uruguay Round was delayed, the United States put pressure on the EC to address the panel's findings. In July, the EC Commission proposed cuts to its oilseeds subsidies. However, the United States claims the EC proposal does not go far enough and reportedly, is considering going back to the GATT for a ruling on the EC's proposal. Moreover, the EC member states continue to reject the EC Commission's proposal. (See *IER*, June 1991)

Airbus

In a long-running dispute, the United States charges that subsidization of Airbus Industrie and unfair trade activities, including political and economic incentives to potential customers of Airbus, are inconsistent with the GATT. Airbus Industrie is a public/private corporation that involves one company from each of the four participating countries: the United Kingdom, France, Germany, and Spain. Two disputes related to Airbus are now before the GATT. In response to a U.S. request, a dispute settlement panel under the GATT Subsidies Code was set up during the spring to examine a German exchange rate guarantee mechanism which allows for the partial compensation of losses due to exchange rate changes. (The German Government uses this mechanism to offset adverse exchange rate fluctuations between the German mark, in which production costs are incurred, and the U.S. dollar, the currency of the civil aviation market.) The GATT panel is expected to issue a decision sometime this fall. (See *IER*, April 1991)

In a second dispute, the United States requested conciliation with the EC in August under the Subsidies Code to examine EC member state subsidies to Airbus. The United States has met with the EC for over 5 years to resolve this issue but without success. The United States is likely to request a dispute settlement panel under the code if conciliation fails, as is expected. However, the EC is insisting that the dispute be considered simultaneously under the GATT Civil Aircraft Code. The Aircraft Code is likely to be more favorable to the EC position, since it is generally more favorable to subsidies to the aeronautics industry.

Trade Accords and Environmental Considerations: The Case of Mexican Tuna

In August, the international trade community witnessed the first big test of whether international trade laws take precedent over a trading partner's environmental concerns. A dispute panel of the General Agreement on Tariffs and Trade (GATT) issued a preliminary ruling on August 16 that the United States may not ban imports of tuna on grounds that this tuna is caught in ways that incidentally kill excessive numbers of dolphins. This position taken by the GATT represented a major setback for U.S. environmentalists, who convinced a U.S. Court last January that certain imports of tuna should be banned. The environmentalists argued their case on grounds of an 1984 amendment to the Marine Mammal Protection Act (MMPA) that prohibits imports of certain tuna on ecological grounds—i.e. in cases when the tuna is caught with techniques, like driftnet fishing, that incidentally kill 25 percent more dolphins than do U.S. tuna fleets. (Dolphins, which are air-breathing, generally swim above tuna; therefore some fishing fleets deliberately drop their nets on the dolphins to catch the tuna.)

Court action seeking the enforcement by the U.S. Department of Commerce of the 1984 amendment was started by the San-Francisco-based Earth Island Institute, and was supported by several other ecological groups. The U.S. District Court for the Northern District of California upheld the environmentalists' position in the matter. The U.S. Administration complied, and a ban on imports of yellowfin tuna (and products thereof) involving Mexico, Venezuela and the Pacific island-nation of Vanuatu became effective in October 1990 (other "intermediary nations" through which tuna may be transshipped are also affected).

In response to the U.S. ban, the Mexican Government brought a complaint before the GATT. Last August, a GATT dispute panel sided with Mexico on grounds that the provisions of the MMPA under which the embargo was imposed are inconsistent with U.S. obligations under the GATT.

A notable aspect of this case is that the tuna conflict has not arisen between the U.S. and Mexican administrations, both of which are anxious to avoid disputes at a time when they are trying to forge a comprehensive free-trade agreement. In fact, in last year's action, various U.S. officials sided in Court with Mexico in its defense of Mexican fishing techniques, by recognizing the significant progress Mexico has already made in curtailing dolphin deaths. (Mexico claims that in the last 5 years it reduced dolphin casualties by 70 percent.) Despite this executive branch position, the Court ruled that the administration was obliged to implement the law as Congress had written it.

Following the GATT ruling, both Governments continued their efforts to defuse the dispute and resolve the conflict on a bilateral basis. On September 9, U.S. and Mexican officials reached a compromise on which very little detail is known, but which led both Governments to request the GATT to hold off on any further consideration of its preliminary ruling in Mexico's favor. On September 24, Mexico announced a program designed to improve its fishing methods for the protection of dolphins and other marine mammals, and promised that it would also draft legislation authorizing penalties for the violations of mammal protection measures.

On its part, the United States agreed to work on the MMPA to make it more flexible. If legislators find a modification of the MMPA that will meet U.S. objectives and will also be acceptable enough for Mexico, the latter would withdraw its complaint before the GATT. Alternatively, the United States will have to respond to the GATT Council's ruling. Meanwhile, the U.S. International Trade Commission is in the process of conducting an investigation under section 332(g) of the Tariff Act of 1930 on issues relating to tuna fisheries, including the "dolphin-safe" problem, and will report on its findings by July 31, 1992.

Some analysts believe that the tuna conflict has important implications in the context of North-American Free Trade Agreement (NAFTA) negotiations, as well as of the global trading system, on the question of precedence of trade laws over environmental considerations. Environmental groups have already been quite vocal in their reaction to the GATT panel report, citing it as an example of how the supranational body limits the United States' ability to pursue its environmental priorities. It also seems unlikely that they will be satisfied by a bilateral compromise based on a more "forgiving" U.S. law.

Others emphasize that the tuna case raises the question of national treatment versus the trading partner's laws and practices. At a September 27 hearing before the congressional Subcommittee on Health and the Environment, Mr. Joshua B. Bolten, General Counsel of the United States Trade Representative, cited parts of GATT's reasoning in support of its ruling. The GATT panel argued, among other things, that the United States acted extrajurisdictionally, i.e. imposed its own environmental standards on Mexico through trade action. By doing so, as Mr. Bolten pointed out, the United States was seen by the panel as going beyond its right to set its own environmental standards, to the extent that it was infringing on another country's right to establish its own environmental policies.

While this reasoning may have its merits, the wider implications of this case on the global environment and for the multilateral trading system are obvious, and they call for further consideration. As Mr. Bolten stated in his testimony, one option to open doors to environmental concerns might be to amend the GATT trade rules themselves. Similarly, in a *Journal of Commerce* article on October 1, Mr. David Palmeter, an international trade lawyer, argues in favor of an international convention regulating the world tuna fishery. Following the tuna ruling, the GATT has, indeed, come under increased pressure from international environmental groups to amend its provisions and is presently trying to revive a working group on trade and the environment that has never met since it was established 20 years ago.

U.S. Bans Foreign Fish Caught in Drift Nets

In late September, the Bush Administration banned imports of fish caught with drift nets in the South Pacific. The ban is effective immediately for fish caught on the high seas in that region, and will be extended on July 1, 1992, to fish caught anywhere on the high seas. The impetus for the new rules grew out of the Dolphin Protection Consumer Information Act of 1990. The act defines rules for importation of seafood caught by driftnets.

Drift nets, floating gillnets used on the high seas, extend from 1.5 miles to 30 or more miles in length, killing all marine life in their path. Concern over the use of drift nets centers on the incidental catch of whales, dolphins, birds, salmon en route to spawning grounds, and other marine animals. For example, in 1990, according to the National Marine Fisheries Service, 10 percent of Japan's drift-net fleet killed 1,758 whales and dolphins, 253,288 tuna, 81,956 blue sharks, 30,464 sea birds and over 3 million other "nontarget" fish, including salmon tagged from Columbia River basin hatcheries.

The United States has identified France, Japan, North and South Korea, and Taiwan as drift-netting nations. Under the new regulations, nations using drift nets that export seafood to the United States must certify that the products were not caught in drift nets. In 1990 the value of U.S. imports of fish, crustaceans, and aquatic invertebrates from Tawian was $136 million, Japan $110 million, Korea $79 million, and France $7 million.

United Nations resolution 44/225, which goes into effect June 30, 1992, calls for a temporary end to all drift net fishing on the high seas at that time. The Bush administration supports the U.N. ban. This fall, the United States will press for making the ban permanent, according to the Department of State. The resolution, however, has been criticized by enfironmentalists for having too many loopholes that will permit continued drift-netting.

Regarding the planned July ban of fish caught in driftnets, a spokesman for the Japan Fisheries Association blamed the ban on "environmental extremists." He added that Japan would not stop drift net fishing next July, but would try to develop "conservation measures." Japan sent Fisheries Agency Director-General Toshihiko Tsuruoka to Washington in mid-October to discuss the ban. Mr. Tsuruoka was quoted as saying "we see absolutely no reason for this fishing method to be prohibited, and consider calls to this end to be based solely on emotion." Japan's drift net fishing is carried out by a fleet of about 360 boats, largely for catching squid and albacore.

In an effort to limit and monitor the drift net fishing activities of U.S. trading partners, the United States has negotiated scientific monitoring and enforcement agreements with a number of drift-netting nations, including Taiwan and Korea. In August, pursuant to the Fisherman's Protective Act of 1967 (also known as the Pelly Amendment), Secretary of Commerce Robert A. Mosbacher certified that Taiwan and Korea were conducting drift net fishing inconsistent with those agreements. This ruling authorized import restrictions on fish and fish products from the offending nations. Taiwan has indicated its intention to stop using drift nets by next July. According to Taiwan authorities, fish caught in drift nets by Taiwan's fishing fleet are already sold only domestically "due to international pressure." In late October, Taiwan and Korea were given an additional 90 days to comply with the agreement. Under the Pelly Amendment, noncompliance could result in restrictions on seafood imports from Taiwan and Korea.

SPECIAL FOCUS

Past and Present Trade with the Baltics: The Issue of Granting MFN Status and its Possible Implications

The separation of Estonia, Latvia, and Lithuania (the Baltics) from the Soviet Union raises interesting questions over the future of their external trade relationships. As noted in an earlier article in this issue, these countries were initially included in the June 1990 U.S.-Soviet Trade Agreement, but once both President Bush and President Gorbachev extended diplomatic recognition to the Baltics (on September 2 and 3 1991 respectively[2]), members of Congress decided a separate trade status for these countries was necessary. In September 1991, a bill (HR 3313) was introduced in the U.S. Congress that called for the extension of most-favored-nation (MFN) treatment to Estonia, Latvia, and Lithuania, separate from the Soviet Union. Their independence was further recognized in October, when the reference to the Baltics in the 1990 U.S.-Soviet Trade Agreement was completely removed.

With the appropriate MFN legislation for the Baltics now underway in Congress, the question of the potential effect of this trade status remains. The extension of MFN will almost certainly allow for increased trade in the long-term, but the short-term effects are less clear. It is difficult to anticipate what kind of trade relationship can be expected with these small countries whose exports and imports have been enmeshed for so long with the command economy of the Soviet Union. A look at the historical and current trade statistics of the Baltics will provide an indication of trends in U.S.-Baltic trade, and some insight into the potential implications of MFN.

MFN for the Baltics

Prior to the recognition of Estonia, Latvia, and Lithuania as independent countries, Moscow controlled their external trade. As a result, U.S. trade relations have been negotiated with the central government, not with individual republics. As mentioned previously, the Baltics were originally included in the Agreement on Trade Relations Between the United States of America and the Union of Soviet Socialist Republics (referred to as the "Trade Agreement") which provided for improved market access for both countries, strengthened intellectual property rights, and reciprocal most-favored-nation (MFN) treatment. It was signed by Presidents Bush and Gorbachev on June 1, 1990, and, at that time, was meant to extend MFN to the Baltics as well.[3] However, between the time the Trade Agreement was signed, and the time it was sent to Congress (August 2, 1991) a great deal had happened to alter these plans.

The delay between Executive signing and Congressional action on the Trade Agreement was a legal necessity. The Soviet Union had to meet two conditions before the accord could move forward: first, the Jackson-Vanik amendment to the 1974 Trade Act (section 402) states that MFN can not be granted to a non-market-economy (NME) until it demonstrates adequate emigration rights for its citizens. President Bush therefore had to wait for the Soviet legislature to pass and enact an emigration law before he could waive the Jackson-Vanik requirement and send the Agreement to Congress.[4] Secondly, the Trade Agreement specified that the Soviet Union had to pass improved intellectual property protection laws before the end of the year. Although a law was in fact passed, U.S. industries complained it was inadequate. The agreement was therefore delayed until these complaints were addressed by the Soviets. The result was a 14-month interlude between the signing of the Trade Agreement and its arrival in Congress.[5]

By the time hearings began in September,[6] a coup d'etat against Soviet President Mikhail Gorbachev had come and gone and Moscow joined the many countries that officially recognized the independence of the Baltics. These developments prompted some members of Congress to ask whether the Trade Agreement of June 1990 was still appropriate, and furthermore whether the Baltics should remain a part of it. During a hearing before the Senate Finance Committee on September 11, some witnesses representing the administration stated that the Trade Agreement was still appropriate and should be passed. However, Mr. Curtis Kamman (Deputy Assistant Secretary of State for European and Canadian Affairs) admitted that the agreement no longer applied to Estonia, Latvia, and Lithuania.

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[2] U.S. Department of State, Bureau of Public Affairs, *Dispatch*, vol. 2, No. 36 (Sept. 9, 1991), p. 667.

[3] Although the United States never recognized the annexation of Estonia, Latvia, and Lithuania by the Union of Soviet Socialist Republics, it was assumed that they would be included in this agreement simply because Moscow still controlled most of their trade. Before sending the Trade Agreement to Congress, however, President Bush singled out the Baltics for a separate but equal trade status, designed to both distinguish them as separate from the Soviet Union, and to extend special benefits such as technical assistance in trade development and export promotion to them. However, they were still linked to the U.S.-Soviet Trade Agreement, which is what many found problematic.

[4] The Soviet legislature passed this law on May 20, 1991. Although it does not officially go into effect until January 1, 1993, statistics show that Soviet emigration has increased from 2,000 in 1986 to 370,000 in 1990. (Statement released by the Office of the White House Press Secretary, June 3, 1991).

[5] Although President Bush sent the Agreement to Congress on August 2, 1991, it was not acted upon until September when the body returned from its recess. Under fast-track authority, Congress has 90 days to respond to the Agreement once it has been submitted by the Executive.

[6] The Senate Committee on Finance held hearings on Sep. 11 and 12, 1991. The House of Representatives Subcommittee on Trade of the Committee on Ways and Means conducted a hearing on September 23, 1991.

The following day, September 12, Baltic representatives[7] testified before the Senate Finance Committee that inclusion of their countries within the Trade Agreement would be an inappropriate recognition of their annexation. The representative from Lithuania said separate trade agreements should be negotiated with the Baltics as soon as possible. These statements were similar to the position expressed earlier by President Arnold Ruutel of Estonia who said, "[The U.S.-Soviet trade agreement] must not be permitted to infringe on our legal rights as sovereign independent states. It is therefore important to ensure that the agreement does not contradict long-standing U.S. nonrecognition policy by clarifying that the agreement does not apply to the Baltic states. It is equally important to grant the Baltics MFN status separate from and independent of the USSR."[8]

Congress considered several different options for granting MFN to the Baltics: (1) new and separate agreements could be negotiated with each of the countries; (2) the Baltics could join the GATT; (3) the MFN status extended to the Baltics in 1925 and 1926 could be reactivated;[9] or (4) the three nations could be removed from the list of communist countries covered by the Jackson-Vanik amendment. The first two options were dismissed as too time-consuming, and the problem with simply reactivating the trade relationship of the late 1920s raised legal obstacles, as the Jackson-Vanik amendment still officially included the Baltics.[10] Ultimately Congress determined that legislation would have to be enacted to legally remove the Baltics from section 402 (the Jackson-Vanik amendment) of the 1974 Trade Act before MFN could be extended. Three different bills (H.R. 3297, H.R. 3314, and H.R. 3313)[11] were introduced, each with the final goal of granting MFN to the Baltics as quickly as possible. It was Congressman Gibbon's bill (H.R. 3313) that was finally marked up on September 24, 1991.[12] H.R. 3313 will grant MFN treatment to Estonian, Latvian, and Lithuanian merchandise entering the United States, and provides that these nations will be removed from title IV of the Trade Act of 1974, effective 15 days after the enactment of the bill. It also makes the Baltics eligible to receive the benefits of the GSP program under title V of the Trade Act of 1974. H.R. 3313 was passed out of Subcommittee on September 24th. It now has to be considered by the House Ways and Means Committee before moving on to the House floor.

Historical Trade with the Baltic Nations

There is a great deal of Congressional and private sector support for the extension of MFN to Estonia, Latvia, and Lithuania, however, the question of how MFN will affect the U.S. trade relationship with these nations remains unanswered. A better understanding can be reached through an examination of both historical and present-day trade statistics with the Baltics.

During the period between the World Wars, the three Baltic nations enjoyed independent rule and varying degrees of free market systems. Estonia witnessed substantial economic growth during the interwar years. Although it was a predominantly agricultural economy, the country's industrial sector was expanding; it almost doubled its production between 1929 and 1939. Estonia's trade consisted primarily of agricultural exports (especially butter and meat) and manufactured imports (cotton, textiles, and iron). The country's main trading partners at this time were Great Britain and Germany. After 1924, Estonia had a convertible and stable currency (the "kroon"), and during the decade that followed the country maintained a largely balanced trade account. This period of growth slowed considerably during the global economic depression of 1932-33.

Latvia was also an agrarian society, with agriculture employing 66 percent of the population. The country's industrial sector was severely damaged by the First World War. Although there was employment in manufacturing, woodworking, food-processing, textiles and even a few high-tech industries (i.e. cameras, radios), this sector occupied only 13.5 percent of the workforce by 1930. Like Estonia, Latvia's top exports were agricultural products, followed by timber and wood. Sixty percent[13] of Latvian trade was carried out with Great Britain and Germany, while only three percent of Latvian exports went to and 3.5 percent of its imports came from the Soviet Union at this time.[14]

Lithuania also made progress during the interwar years, moving from an agrarian economy based on large, rural estates, to one dominated by private farms. By 1939 agriculture still employed 77 per-

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[7] The scheduled witness for Lithuania was Charge d'affaires Stasys Lozoraitis, but she had to represent the Baltics at a United Nations conference addressing full membership status for Estonia, Latvia, and Lithuania. Instead, Diamna Vidutis, Chief of Staff at the Legation of Lithuania delivered her statement. Latvia was represented by the Public Affairs Liaison for the Legation of Latvia, Ojars Kalnins.

[8] Bureau of National Affairs, *International Trade Reporter*, vol. 8, No. 31 (July 31, 1991), p. 1140.

[9] The Baltic states' MFN status was suspended in 1951 to prevent the Soviet Union from taking advantage of trade concessions.

[10] In order to grant MFN to countries included in the Jackson-Vanik amendment, a trade agreement must be negotiated. (For countries not included under Jackson-Vanik, the President can simply extend MFN by proclamation.)

[11] These bills were introduced by Congressman Campbell (H.R. 3297), Congressman Hoyer (H.R. 3314) and Congressman Gibbons, Chairman of the Subcommittee on Trade (H.R. 3313).

[12] On October 9, 1991 a new resolution of approval (H.J. Res. 346) of the U.S.-Soviet Bilateral Trade Agreement replaced the earlier H.J. Res. 319 of Aug. The new resolution leaves out the reference to Estonia, Latvia, and Lithuania completely. These countries are now covered only in HR 3313. This will cause the "fast-track" clock to be reset for another 90 days.

[13] Department of Foreign Economic Relations, Council of Ministers *Latvia: An Economic Profile for the Foreign Investor* (Sept. 1991), p. 2.

[14] These are 1938 figures, taken from: Swedish Ministry of Foreign Affairs, *Economic Survey of the Baltic Republics* (June 1991, draft copy), p. 75.

cent of the population, and produced primarily butter and bacon. Lithuania's industrial sector (dominated by food-processing) remained less developed than that of Estonia and Latvia and employed only 40,000 workers in 1939.[15] Trade was directed toward Germany during the earlier years of Lithuania's independence, but in 1933 trade with Great Britain increased.

The structure of these countries' economies changed drastically once they were annexed by the Soviet Union in 1940. There was forced collectivization of agriculture, nationalizations of factories, and a push for greatly increased industrial output. Trade shifted from a westward focus to an almost entirely eastward outlook, and would now be controlled by the central government in Moscow. These forced changes in structure continue to affect these countries' trade patterns today.

Present-day Trade Statistics of the Baltics

It is difficult, today, to separte accurately the trade statistics of Estonia, Latvia, and Lithuania from those of the Soviet Union, because data are usually combined. It is useful, however, to examine those trade and production figures that are available in order to determine how future trade may evolve.

Once annexed by the Soviet Union, the economic structure of the small Baltic nations changed dramatically. Production shifted from primarily agricultural output, to heavy industry. (see below).

Today Baltic production is part of the highly specialized division of labor within the Soviet Union, the extreme economic integration of which is likely to maintain mutual dependence for some time. For example, Estonia's textile production employs approximately 12 percent of the industrial workforce, but is highly dependent on the import of raw materials from republics within the Soviet Union. The food products industry is another important employer, but again Estonia is dependent on the inputs of fertilizer, fodder, machinery, and fuel from Soviet republics. The structure of both Latvia and Lithuania is similar, with both being dependent on energy,[16] raw materials, and intermediate goods supplied by the Soviet Union.

This production structure has greatly influenced the trade flows of the Baltics. Their dependence on material inputs created a need for high levels of imports from the Soviet Union, and their monopolistic control of certain products makes it necessary to export in large quantities to the various republics. It is estimated that 85 to 95 percent of all Baltic trade is carried out with the Soviet Union. The remaining 5 to 15 percent of trade is split, half with former CMEA countries and half with western and developing nations. The overall levels of trade are high for the size of the Baltic nations, which is again a result of the highly centralized planning and specialized division of labor.

The following statistics show the exports, imports, and trade balances of the three countries, as well as a breakdown of trade by commodity (in percents). However, these figures must be viewed with some caution. Because Soviet domestic prices are set administratively (rather than by the market) there are distortions in the statistics. Furthermore, the turnover tax in the Soviet Union is highest on finished manufactures, so those republics producing raw materials, heavy industry, or agriculture show lower export totals than those specializing in manufactures, textiles, or food. The figures are also complicated by the fact that some trade never shows up in the statistics if merchandise is carried by travellers between republics. Finally, the Soviet Union distributes subsidies at the point of production, rather than consumption, which further distorts the value of exports. The data in each of the tables below, therefore, must be observed with these qualifications in mind.[17]

[15] Swedish Ministry of Foreign Affairs, *Economic Survey of the Baltic Republics* (June 1991, draft copy), pp. 32-33.

[16] Both Lithuania and Latvia are more dependent on energy imports than Estonia. Lithuania and Latvia import 90 percent of their energy supplies from the Soviet Union, while Estonia imports only 50 percent, supplying the rest from its own oil shale resources. (Swedish Ministry of Foreign Affairs, *Economic Survey of the Baltic Republics* (June 1991, draft copy), p. 382.

[17] In the Swedish Foreign Ministry's *Economic Survey of the Baltic States,* (June 1991, draft copy) further analysis on this subject has been done. There are tables that attempt to adjust for the subsidies, turnover taxes and other distortions. See pp. 191-214.

Table 1
Net material product, 1989 vs. interwar period[18]

	ESTONIA 1989	*(1934)*	*LATVIA 1989*	*(1930)*	*LITHUANIA 1989*	*(1939)*
Industry	44.2%	(18%)	45.0%	(13.0%)	56.3%	n/a
Agriculture	24.8%	(45%)	25.0%	(66.0%)	22.9%	(77.0%)
Construction	10.8%		8.0%		10.0%	
Transport & communication	5.8%		8.0%		3.6%	
Trade, other	14.5%		14.0%		7.2%	

[18] Swedish Ministry of Foreign Affairs, *Economic Survey of the Baltic Republics* (June 1991, draft copy), pp. 32, 52, 79, 80, 108, 110.

Table 2 shows some differences in trade between the Baltic states, but overall their imports and exports are similar. Their largest exports to Soviet republics are in the food industry and in chemicals and petrochemicals. Imports from the republics[19] are concentrated in machinery, light industry and (for Latvia and Lithuania) oil and gas. From abroad, the Baltics tend to import products of machinery, light industry, food industry, and agriculture. Exports abroad are also within the food and machinery sectors.

Table 3 shows overall trade totals in rubles and proves the eastward orientation of the Baltics; in 1988 Estonia carried out 86 percent of total trade with Soviet republics, Latvia 87 percent, and Lithuania 86 percent. These trade patterns will not be changed easily. Although each country shows a negative balance of trade in table 3, data received from the Latvian Legation show a positive (interrepublic) trade balance for 1989,[20] and Lithuanian authorities predict a positive balance for their country in 1991[21].

Implications of MFN for the Baltics

The short-term benefits of MFN for Estonia, Latvia, and Lithuania will be more political than economic. Over the long-term, however, there will be increased economic opportunities. As discussed above, the current trade pattern of the Baltics is ex-

[19] Most imports into the Baltics came from Russia (which accounted for 66% of intra-Soviet trade), the Ukraine (11% share) and Byelorussia (8.0%). These three republics are also the primary recipients of Baltic exports, in that same order. Swedish Foreign Ministry, *Economic Survey of the Baltic States*, (June 1991, Draft Copy), p. 194.

[20] Department of Foreign Economic Relations, Council of Ministers, *Latvia: An Economic Profile for the Foreign Investor* (Sept. 1991), p. 16.

[21] Lithuanian authorities, as quoted in Swedish Foreign Ministry, *Economic Survey of the Baltic Republics*, (June 1991, draft copy), p. 57.

Table 2
Baltic trade by commodity, interrepublic and foreign, 1988[1]
(percent of total exports)

	INTERREPUBLIC					
	Estonia		Latvia		Lithuania	
COMMODITY	Exports	Imports	Exports	Imports	Exports	Imports
Industry	98.59	97.65	93.76	97.29	97.91	98.65
Electric Power	4.78	0.95	1.66	2.33	3.02	1.46
Oil & Gas	0.23	8.31	0.14	10.57	5.65	16.79
Coal	0.00	0.11	0.00	0.06	0.00	0.31
Other fuels	0.54	0.31	0.01	0.00	0.01	0.07
Ferrous metals	0.22	4.57	2.30	8.66	0.56	5.93
Nonferrous metals	0.30	2.30	.30	2.94	0.15	2.39
Chemicals & petrochem	11.65	14.94	13.98	13.55	6.61	12.30
Machinery	19.70	32.71	28.05	33.30	32.49	34.75
Wood, paper, pulp	4.71	2.65	2.96	3.01	4.49	3.50
Construction materials	1.08	1.23	1.33	1.61	1.32	1.43
Light industry	29.40	16.60	17.69	10.25	25.75	12.55
Food industry	23.93	10.07	21.98	6.31	16.96	4.33
Industry n.e.c	2.04	2.23	3.35	2.54	0.89	1.36
Agriculture	1.09	1.35	2.27	2.52	2.02	1.29
Other sectors	0.32	0.47	3.97	0.19	0.07	0.06
	FOREIGN					
	Estonia		Latvia		Lithuania	
COMMODITY	Exports	Imports	Exports	Imports	Exports	Imports
Industry	99.72	79.48	91.31	86.63	99.37	83.30
Electric Power	0.00	1.57	0.00	0.00	0.00	0.00
Oil & Gas	0.77	0.00	0.00	0.00	33.90	0.06
Coal	0.00	1.09	0.00	2.54	0.00	2.37
Other fuels	0.24	0.00	0.21	0.00	0.19	0.00
Ferrous metals	0.28	2.10	3.20	1.04	0.49	1.93
Nonferrous metals	0.00	0.05	0.11	0.00	0.02	0.42
Chemicals & petrochem	4.23	10.36	9.66	9.33	2.09	5.56
Machinery	13.46	22.27	35.31	11.63	26.36	28.95
Wood, paper, pulp	10.37	1.39	9.06	2.18	4.35	1.49
Construction materials	0.94	1.30	1.21	0.40	1.37	0.77
Light industry	22.00	24.75	3.33	27.12	3.43	21.26
Food industry	46.12	13.50	27.93	29.32	26.25	0.99
Industry n.e.c.	1.30	.60	0.32	1.02	0.28	0.52
Agriculture	0.16	18.85	2.76	15.23	0.13	16.20
Other sectors	0.12	1.66	5.93	0.14	0.00	0.00

[1] From: Vestnik statistiki, No. 3, 1990, ("author's estimations") as quoted in the Swedish Foreign Ministry, *Economic Survey of the Baltic Republics* (June 1991, draft copy), pp. 195-202. Note that because these figures are from 1988, trade with the other Baltic states is included in the "interrepublic" statistics.

Table 3
Interrepublic and foreign trade, 1988
(millions of rubles)

Republic	TOTAL Exports	Imports	Balance	INTERREPUBLIC Exports	Imports	Balance
Estonia	2961.0	3703.6	-747.6	2715.1	3047.2	-332.1
Latvia	4896.1	5591.2	-695.1	4515.2	4632.8	-117.6
Lithuania	5957.8	7487.6	-1529.8	5430.7	6238.5	-807.3

Republic	FOREIGN Exports	Imports	Balance
Estonia	245.9	661.4	-415.5
Latvia	380.9	958.4	-577.7
Lithuania	527.1	1249.1	-722.0

[1] From: *Vestnik statistiki*, No. 3, 1990, as quoted in the Swedish Foreign Ministry, *Economic Survey of the Baltic Republics* (June 1991, Draft Copy), p. 212.

tremely eastward-oriented. Because of the specialized division of labor that has evolved over the years, this will take a considerable amount of time to change. However, because of both external and internal reforms that are underway, the Baltics may have to consider some more rapid shifts in trade patterns than expected. This could allow MFN to prove slightly more useful in the short-term.

While the dependent relationship between the Baltics and the Soviet Union continues, certain external changes are already beginning to force new trade outlooks. For example, the oil and natural gas that the Baltics must import will go up in price; the Soviet Union will no longer subsidize these purchases. Thus, new suppliers can now compete. Furthermore, trade with the former CMEA countries must now be carried out in convertible currencies at current world prices. As these special trading relationships disappear, the Baltics will be forced to reconsider the desirability of maintaining the Soviet Union and former CMEA countries as their primary trading partners.

There are also internal reforms going on which will lead to changes in trade patterns. Each of the Baltic states is moving toward increased privatization, improved investment climates, and complete control over imports and exports. The three countries together have announced plans to form a customs union, similar in structure to the European Community, designed to create uniform tariffs and customs regulations. Simultaneously, republics remaining in the Soviet Union are making an effort to form their own economic union. Most republics have expressed interest in this union, but the Baltics have clearly stated that they will not join. While these separate economic unions will probably not cause problems in trade between the Baltics and the Soviet republics, some short-term difficulties may arise before the Soviet union treaty is signed. The Ukraine, for example, announced in July that it would ban the sale of its grain to any of the other republics in order to protect itself from shortages during the winter.[22] The rise of interrepublican protectionism such as this could have a detrimental effect on the Baltics (as well as on other republics), given the interdependent structure of Soviet production. These difficulties could force the Baltics to look in other directions for trade options, and their own plans for standardization of trade regulations will make increased external trade more feasible.

[22] *East Europe & USSR Agriculture and Food Monthly*, No. 106 (July 1991), p. 6.

Other internal reforms will emerge from the meetings between Baltic leaders and consultants of the IMF, World Bank, European Bank for Reconstruction and Development, and Nordic Investment Bank. Plans are underway for improved telecommunications and highways, modernized agricultural production, and the development of oil and energy sources.[23] These internal efforts will improve their economies and, ultimately, the trade opportunities of these countries.

As Estonia, Latvia, and Lithuania look toward other countries for import and export opportunities, however, they could run into a number of obstacles. The first and most obvious is their lack of foreign exchange. Having carried out trade with the ruble for so many years, these nations have not built up reserves of hard currency. Another obstacle to expanded trade is the inconsistent quality of the manufactures produced by the Baltics. It will be difficult for the Baltics to generate much foreign exchange from merchandise exports as long as they must depend on antiquated equipment and methods. Most of the final products coming out of these countries and destined for sale in the Soviet Union would likely be unacceptable for western markets. A third obstacle is the European Community's Common Agricultural Policy (CAP). Although Baltic agricultural output has decreased, it remains a sector in which the potential for product sales in western countries could be higher than the potential for sale of low-quality manufactured goods. However, it will be difficult for them to compete with the subsidized output of the CAP. Finally, until these nations are able to disengage themselves somewhat from the centralized Soviet economic framework, they will suffer

[23] *Wall Street Journal*, Sept. 25, 1991.

from the economic turmoil of that country as well. Such obstacles will prevent rapid changes in trade patterns.

These developments indicate that although the established trade patterns of the Baltic states indicate change will be slow, current reforms are already causing these nations to look towards expanding their markets. Although trade between the United States and the Baltics is small (for example, data from Latvia suggests that the United States accounted for 1.13 percent of Latvia's exports, and 1.34 percent of its imports in 1990)[24], some of their goods which could become competitive in U.S. markets would be affected by the reduced tariffs of MFN. Cotton fabrics produced in Lithuania,[25] would see lower tariffs, and Baltic-produced paper and wood products, fish, and labor-intensive manufactured goods could also benefit.

[24] Department of Foreign Economic Relations, Council of Ministers, *Latvia: An Economic Profile for the Foreign Investor* (Sept. 1991), p. 17. Figures are based on customs declaration collected at customs points.

[25] Swedish Foreign Ministry *Economic Survey of the Baltic Republics* (June 1991, draft copy), p. 304.

An important benefit of MFN will be the interest it generates in these countries by western investors. Western businesses will be more inclined to enter joint-ventures or other investments when predictability enters the Baltic market. The Baltics are actively trying to encourage such investments, especially in underdeveloped but high-potential sectors such as tourism and services. As internal economic reforms proceed and the Baltics are able to disengage themselves from the rigid structure of specialized Soviet production, these nations will certainly increase trade with Western countries, including the United States. Reduced export controls by the West will permit the Baltics to import much needed high-tech goods that are unavailable from their current trading partners. Their own internal reforms will probably include a restructuring of production for exports as well. It is after these long-term reform efforts that the economic benefits of MFN will become more evident. A normalized trading relationship with the United States will help these countries regain the market economies they once knew, and will ultimately allow the U.S. market to gain an important share of the Baltic trade once dominated by the Soviet Union.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1988-July 1991

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1988	1989	1990	1990	1991								
				IV	I	II	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.
United States	5.4	2.6	1.0	-7.2	-9.6	2.2	-6.5	-9.7	-7.7	5.9	8.3	8.2	5.7
Japan	9.5	6.2	4.5	6.9	-0.5	-2.5	17.1	-6.3	-22.3	5.8	27.4	-27.9	40.0
Canada	4.4	2.3	0.3	4.8	-1.3	-6.2	1.1	-6.3	-7.3	-7.4	-3.3	-1.1	-3.3
Germany	3.2	5.3	5.9	6.7	0.6	(1)	(1)	-10.3	(1)	53.7	-24.5	(1)	(1)
United Kingdom	3.7	0.3	-0.8	-6.8	-1.1	-4.6	-7.7	21.2	1.1	-25.6	-4.5	42.3	(1)
France	4.1	3.6	1.1	-10.2	1.3	4.4	2.8	-11.0	-27.8	50.7	-2.1	0	(1)
Italy	6.9	3.9	-0.7	-8.1	3.9	-3.5	6.7	-13.4	2.1	-22.1	17.0	24.1	(1)

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, September 20, 1991.

Consumer prices, by selected countries and by specified periods, January 1988-July 1991

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1988	1989	1990	1990	1991								
				IV	I	II	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
United States	4.1	4.8	5.4	7.0	3.5	2.1	2.7	-0.9	2.7	3.6	2.7	2.7	(1)
Japan	0.7	2.3	3.1	6.0	4.7	0.4	-2.5	1.8	-1.2	1.6	2.2	6.0	6.6
Canada	4.0	5.0	4.8	6.9	11.4	2.6	-2.7	5.1	2.8	1.6	4.7	0.1	(1)
Germany	1.3	2.8	2.7	4.2	1.3	3.4	1.7	1.6	2.9	4.1	8.7	-1.2	3.5
United Kingdom	4.9	7.8	9.5	6.1	4.3	4.1	4.4	5.3	2.3	4.0	6.0	(1)	(1)
France	2.7	3.5	3.4	4.4	2.4	2.1	2.2	1.1	1.4	3.1	3.4	(1)	(1)
Italy	5.0	6.6	6.1	6.9	6.9	6.2	8.6	4.7	5.9	6.5	7.0	5.1	4.4

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, September 20, 1991.

Unemployment rates, (total labor force basis)[1] by selected countries and by specified periods, January 1988-August 1991

Country	1988	1989	1990	1990	1991								
				IV	I	II	III	Mar.	Apr.	May	Jun.	Jul.	Aug.
United States	5.4	5.2	5.4	5.8	6.4	6.7	(1)	6.8	6.5	6.8	6.9	6.7	6.7
Japan	2.5	2.3	2.1	2.1	2.1	2.1	(1)	2.1	2.1	2.0	2.1	2.2	(1)
Canada	7.7	7.5	8.1	9.1	10.1	10.3	(1)	10.4	10.1	10.2	10.5	10.4	10.5
Germany	6.2	5.6	5.2	4.8	4.5	4.5	(1)	4.4	4.4	4.5	4.5	4.6	4.6
United Kingdom	8.2	6.4	6.4	6.7	8.1	9.1	(1)	8.5	8.9	9.2	9.4	9.7	9.9
France	10.1	9.9	9.2	9.2	9.2	9.6	(1)	9.3	9.4	9.6	9.7	9.8	(1)
Italy[2]	7.8	7.7	6.9	6.8	6.8	6.9	6.6	(3)	6.9	(3)	(3)	(3)	(3)

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

[2] Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11-12 percent in 1986-1990.

[3] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

[4] Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Deapartment of Labor, October 1991.

Money-market interest rates,[1] by selected countries and by specified periods, January 1988-September 1991

(Percentage, annual rates)

Country	1988	1989	1990	1990 IV	1991 I	1991 II	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	7.8	9.3	8.3	8.1	6.8	6.1	6.5	6.5	6.1	6.0	6.1	5.9	5.6	5.5
Japan	4.4	5.3	6.9	7.5	7.7	7.6	7.7	7.7	7.6	7.6	7.6	(2)	(2)	(2)
Canada	9.6	12.2	13.0	12.3	10.5	9.2	10.4	9.9	9.6	9.1	8.8	8.8	8.7	(2)
Germany	4.3	7.0	8.5	8.9	9.1	9.0	9.0	9.1	9.1	8.9	9.0	9.1	9.2	(2)
United Kingdom	8.9	13.3	14.8	13.8	13.1	11.5	13.1	12.4	11.8	11.4	11.2	11.1	10.9	(2)
France	7.9	9.2	10.3	10.1	9.7	9.3	9.6	9.4	9.2	9.2	9.6	9.6	9.5	(2)
Italy	11.0	12.7	12.7	13.0	12.7	11.7	12.3	12.4	11.9	11.5	11.5	11.9	11.9	(2)

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

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Federal Reserve Statistical Release, October 15, 1991 Economic and Energy Indicators*, Central Intelligence Agency, September 20, 1991.

Effective exchange rates of the U.S. dollar, unadjusted for inflation differential, by specified periods, January 1988-August 1991

(Percentage change from previous period)

Item	1988	1989	1990	1990 IV	1991 I	1991 II	III	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
Unadjusted:														
Index[1]	88.0	91.3	86.5	81.7	82.8	87.7	87.6	87.4	86.8	87.3	89.0	88.9	87.8	86.1
Percentage change	-6.5	6.4	-5.3	-4.2	1.3	5.6	-.1	7.2	-.7	.6	1.9	-.1	-1.2	-1.9
Adjusted:														
Index[1]	87.4	91.8	88.1	84.1	85.2	89.6	88.4	85.1	89.1	89.3	90.5	90.2	88.8	86.8
Percentage change	-4.8	6.8	-4.0	-3.1	1.3	4.9	-1.3	1.3	4.5	.2	1.6	-.3	-1.6	-2.3

[1] 1980-82 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 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, October 1991.

Trade balances, by selected countries and by specified periods, January 1988-August 1991

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1988	1989	1990	1990 IV	1991 I	II	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
United States[1]	-118.5	-109.1	-100.5	-104.4	-68.8	-52.2	-88.5	-66.0	-48.8	-54.0	-57.4	-45.5	-71.4	-81.0
Japan	94.9	77.4	63.2	66.0	87.6	96.4	81.6	78.0	96.0	92.4	91.2	103.2	98.4	([3])
Canada	8.2	5.9	9.3	9.6	8.8	10.4	2.4	7.2	10.8	9.6	12.0	9.6	([3])	([3])
Germany[2]	72.9	72.0	60.4	32.8	13.6	-0.4	-3.6	25.2	10.8	13.2	-4.8	-9.6	-3.6	([3])
United Kingdom	-37.5	-39.3	-32.0	-23.2	-21.6	-14.4	-30.0	-16.8	-18.0	-18.0	-19.2	-7.2	-10.8	([3])
France	-5.5	-7.0	-9.4	-13.6	-10.4	-5.2	-13.2	-8.4	-9.6	-3.6	-4.8	-7.2	-8.4	([3])
Italy	-11.1	-13.0	-11.8	-17.2	-13.2	-19.6	-20.4	-6.0	13.2	13.2	-21.6	-10.8	-25.2	([3])

[1] 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1987, figures were 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] Imports, c.i.f. value, adjusted.

[3] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, September 20, 1991 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, October 17, 1991.

U.S. trade balance,[1] by major commodity categories, and by specified periods, January 1988-August 1991

(In billions of dollars)

Country	1988	1989	1990	1990 IV	1991 I	II	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
Commodity categories:														
Agriculture	13.9	17.9	16.3	4.2	4.4	2.8	1.2	1.6	1.6	1.0	1.0	.8	1.1	1.1
Petroleum and selected product—(unadjusted)	-38.1	-44.7	-54.6	-16.2	-10.4	-10.0	-4.5	-2.8	-3.1	-3.3	-3.3	-3.4	-3.3	-3.9
Manufactured goods	-146.1	-103.2	-90.1	-24.3	-14.7	-10.5	-5.8	-5.7	-3.2	-3.6	-3.3	-3.6	-7.6	-7.0
Selected countries:														
Western Europe	-12.5	-1.3	4.0	.6	5.7	5.1	1.1	1.4	3.2	2.1	1.3	1.7	-.01	.7
Canada[2]	-9.7	-9.6	-7.5	-2.8	-1.4	-1.0	-.4	-.5	-.5	-.2	-.3	-.4	-.4	-.7
Japan	-51.7	-49.0	-41.0	-11.7	-10.3	-8.9	-3.5	-3.2	-3.6	-3.3	-2.4	-3.2	-3.8	-3.7
OPEC (unadjusted)	-8.9	-17.3	-24.3	-7.1	-4.3	-3.3	-2.0	-1.3	-1.0	-1.0	-1.3	-1.0	-1.1	-1.4
Unit value of U.S. imports of petroleum and selected products (unadjusted)[3]	$18.12	$16.80	$20.34	$28.20	$19.57	$16.44	$22.98	$18.58	$17.15	$16.40	$16.55	$16.39	$16.08	$16.79

[1] Exports, f.a.s. value, unadjusted. 1986-88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.

[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

[3] Beginning with 1988, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f. value.

Source: Advance Report on U.S. Merchandise Trade, U.S. Department of Commerce, October 17, 1991.

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