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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

The latest quarterly and monthly economic statistics confirm the tenuous nature of the economic recovery. Real GDP grew at a slower rate in the second quarter of 1992 as a result of declines in consumer spending and exports. According to U.S. Department of Commerce revised data, real GDP grew at an annual rate of 1.4 percent ($16.8 billion) in the second quarter, less than half the 2.9-percent ($35.2 billion) growth rate of the first quarter. Total personal consumption expenditures declined by 0.3 percent ($2.7 billion) in the second quarter in contrast to an increase of 5.1 percent ($40.3 billion) in the first. The decline was particularly large in consumer spending on durable goods, which declined by 2.7 percent ($3.0 billion). Spending on nondurables declined by 1.6 percent ($4.2 billion). Consumer spending on services, however, increased by 1.0 percent ($4.7 billion). Exports of goods declined in the second quarter by 3.8 percent ($5.4 billion) and imports rose by 6.3 percent ($9.1 billion). The trade deficit increased by $14.4 billion in the second quarter over the first.

An increase in investment spending kept GDP growth from deteriorating further. Annualized nonresidential fixed investment increased by 13.5 percent ($15.9 billion), and investment in producers' durable equipment increased by 20.7 percent ($16.7 billion) during the second quarter. Because of the slowdown in consumer spending, business inventory increased by $13.6 billion. Inventory accumulation could cause a slowdown in future production.

Monthly economic data released by Commerce also confirm that the recovery might remain weak because of the decline in personal income and the subsequent softening of consumer spending. Seasonally adjusted nominal personal income decreased in June by $1.9 billion after rising by $13.9 billion in May. A drop in wages and salaries of $4.9 billion and in proprietors' income offset gains in other components of personal income. If not reversed, the decline in personal income is expected to cause a further softening in personal consumption spending and a drop in personal savings. Real disposable personal income decreased $8.4 billion in June in contrast to an increase of $3.6 billion in May, according to Commerce data.

Because of the softness in consumer spending, retail sales, which is a measure of consumer demand, rose in both June and July by only 0.5 percent, according to Commerce data. With the exception of car sales, which rose by a large 1.7 percent, retail sales edged up by only 0.1 percent. Sales were weak in other sectors like building materials, general merchandise, and food.

In contrast, new orders for manufactured goods edged up by 2.3 percent in June 1992, after sinking by 0.9 percent in May 1992. Orders for durable goods increased by 2.7 percent in June following a 2.1-percent decline in May and a 1.8-percent increase in April. Orders for nondurable goods rose by 1.9 percent in June, the fifth consecutive monthly increase. Manufactured goods' shipments rose in June by 2.4 percent, the largest increase since April 1991. Shipments of durable goods increased by 3.0 percent and were felt in all major industry groups. Because of shipment increases, inventories declined by 0.1 percent in June following an increase of 0.3 percent in May.

Also, the July industrial production data reflect the lingering weakness in the manufacturing sector. Total industrial production rose by 0.4 percent in July, just offsetting a similar percentage decline in June 1992. The rise in July industrial production was mainly due to the increased output of mines and utilities whereas key manufacturing sectors showed marked weakness. The output of the motor vehicles, textiles, furniture, electrical machinery, aerospace and other transportation equipment sectors dropped.

Meanwhile, the slow growth of the general economic activity was reflected in the decline of the index of leading indicators. The index declined 0.2 percent in June after five consecutive monthly gains. Four indicators of the index improved in June: contracts and orders for plant and equipment, manufacturers' new orders for consumer goods and materials, vendor performance, and sensitive materials prices. The remaining seven indicators worsened. On the other hand, the coincident index, a monthly proxy for economic activity, fell 0.6 percent in June to a new cyclical low. Three coincident indicators fell: nonfarm payroll employment, industrial production, and deflated personal income less transfer payments. In general, the performance of the leading index so far this year seems to be consistent with a forecast growth rate of about 3-percent annual rate in GDP, according to Commerce.

A bright spot in the economy was the surge in U.S. exports in June. Exports increased by $2.6 billion in June to a record level of $38.3 billion. The strengthening of foreign demand led to an improvement in the June merchandise trade deficit of 7.0 percent ($550 million) over that of the previous month. The January-June trade deficit amounted to $70.9 billion at an annual rate compared with a $65.4 billion deficit in the corresponding period of 1991.

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

Economic Growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew in the second quarter of 1992 by 1.4

percent after growing in the first quarter of 1992 by 2.9 percent at an annual rate. Real GDP declined by 1.2 percent in 1991, the first annual decline since 1982. The annualized rate of real economic growth in the first quarter of 1992 was -1.8 percent in the United Kingdom, 4.5 percent in France, 7.3 percent in Germany, 1.7 percent in Canada, 3.4 percent in Japan, and 2.4 percent in Italy.

Industrial Production

Seasonally adjusted U.S. industrial production rose in nominal terms by 0.4 percent in July after declining by the same percentage in June. The July increase was due to an increase in the production of mines and utilities. Manufacturing output remained unchanged. Capacity utilization in manufacturing, mining, and utilities increased by 0.2 percentage points to 78.9 percent in July from 78.7 percent in June 1992. Total industrial output in July 1992 was 0.8 percent higher than in July 1991. For the second quarter, the index increased at an annual rate of 5.2 percent after falling by 2.9 percent in the first quarter.

Other major industrial countries reported the following annual growth rates of industrial production. For the year ending June 1992, Japan reported a decrease of 4.2 percent, and Germany reported a decrease of 5.2 percent. For the year ending May 1992, France reported a decrease of 0.4 percent, the United Kingdom reported an increase of 0.5 percent, Italy reported an increase of 0.9 percent and Canada reported a decrease of 1.2 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.1 percent in July, down from 0.3 percent in June 1992. The consumer price index rose by 3.2 percent during the 12 months ending July 1992.

During the 1-year period ending July 1992, prices increased 3.3 percent in Germany and 5.4 percent in Italy. During the year ending June 1992, prices increased 1.1 percent in Canada, 3.0 percent in France, 3.9 percent in the United Kingdom and 2.3 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States declined to 7.7 percent in July from 7.8 percent in June 1992.

In July 1992, unemployment was 6.7 percent in Germany. In June 1992, unemployment was 11.6 percent in Canada, 9.6 percent in the United Kingdom, 2.1 percent in Japan, 10.3 percent in France, and 11.0 percent in Italy. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasts point to a moderate rebound of real economic growth in the United States for the remainder of 1992, followed by slightly stronger growth in the first half of 1993. Moderating the economic recovery in the first half of 1992 will be the general slowdown in global economic growth, particularly in industrialized countries, and sluggishness in consumer and business spending. Although business sentiments and consumer confidence improved and their indebtedness eased a little, consumers and businesses still are exercising caution in their spending. Table 1 shows macroeconomic projections for the U.S. economy for July 1992-June 1993, 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.

Analysts predict stronger growth of about 2.6 percent in the second half of 1992 and of about 3.3 percent in the first half of 1993. Several factors appear to be working in favor of stronger growth: an expected improvement in consumer confidence and spending due to gains in employment and subsequent rise in incomes; an expected rise in business spending due to the moderation of wage increases resulting from cost cutting and corporate restructuring and expected low interest and inflation rates; an expected increase in export growth as a result of the relative moderation of the foreign value of the dollar; and the anticipated improvement in the industrial countries' economic conditions, which should increase foreign demand for U.S. exports. Also, the buildup of the currently low levels of business inventories is expected to generate new rounds of production that could propel the recovery in the industrial sector. The average of the forecasts points to a decline in the unemployment rate in the second half of 1992 and a slightly larger decline in the first half of 1993. Inflation (as measured by the GDP deflator) is expected to decline in the second half of 1992, rise a little in the first quarter of 1993 and then slow down in the second quarter.

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, April 1992-June 1993

Quarter	*UCLA Business Fore-casting Project*	*Merrill Lynch Capital Markets*	*Data Resources Inc.*	*Wharton E.F.A. Inc.*	*Mean of 4 fore-casts*
			GDP current dollars		
1992					
July-September	6.3	4.4	6.2	5.1	5.5
October-December	6.3	5.4	5.4	5.7	5.7
1993					
January-March	7.7	6.2	6.3	6.7	6.7
April-June	7.5	5.9	5.6	6.0	6.3
			GDP constant (1987) dollars		
1992					
July-September	2.3	1.5	3.5	2.5	2.5
October-December	2.6	2.8	2.6	2.9	2.7
1993					
January-March	3.8	2.9	2.9	3.2	3.2
April-June	4.3	3.0	2.7	3.0	3.3
			GDP deflator index		
1992					
July-September	4.0	2.9	2.4	2.6	3.0
October-December	3.6	2.5	2.7	2.8	2.9
1993					
January-March	3.8	3.2	3.3	3.4	3.4
April-June	3.1	2.8	2.8	2.9	2.9
			Unemployment, average rate		
1992					
July-September	7.2	7.5	7.2	7.8	7.4
October-December	7.1	7.4	7.1	7.9	7.3
1993					
January-March	6.9	7.2	7.0	7.5	7.2
April-June	6.6	6.9	6.8	7.1	6.9

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: July 1992.

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

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit decreased from $7.1 billion in May to $6.6 billion in June 1992. A $2.6 billion surge in June's exports and a $2.0 billion increase in imports accounted for the $550 million improvement in the monthly balance. Exports increased to a record of $38.3 billion in June, and imports increased to $44.9 billion. The trade deficit increased to $35.6 billion in January-June 1992 from $30.5 billion in the corresponding period of 1991. At an annual rate, the deficit increased from $65.4 billion in January-June 1991 to $70.9 billion in the corresponding period in 1992. Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2.

The June 1992 deficit was 15.8 percent higher than the $5.7 billion average monthly deficit registered during the previous 12-month period and 40 percent higher than the $4.7 billion deficit registered in June 1991. When oil is excluded, the June 1992 merchandise trade deficit decreased by $1.2 billion from the previous month.

Nominal export changes and trade balances in June 1992 for specified major commodity sectors are shown in table 3. Airplanes, automatic data processing & office machinery, vehicle parts, telecommunications, specialized industrial machinery, power-generating machinery, general industrial machinery, and "other manufactured goods category" were the sectors that showed marked export increases from May to June. Airplanes recorded the largest trade surplus in the January-June 1992 period.

The U.S. agricultural trade surplus remained virtually unchanged in June from May at $1.1 billion. The agricultural surplus reached $8.8 billion in January-June 1992 and is running 17.4 percent above the level recorded in the January-June 1991 period ($7.5 billion). The U.S. oil import bill increased from $3.2 billion to $3.5 billion.

U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 4. In June 1992, the United States registered a decline in bilateral merchandise trade deficits with Japan, Canada, and the European Free-Trade Association (EFTA), and deficit increases with the Organization of Petroleum Exporting Countries (OPEC), Germany and China. The U.S. deficit with Japan decreased by $110 million. From January-June 1991 to the corresponding period in 1992, the United States registered a significant decline in its bilateral trade deficit with OPEC, and deficit increases with Japan, Canada, Germany, EFTA, NICs, and China. The U.S. trade surpluses with the EC, and Western Europe declined, and the trade surpluses with Mexico and the former U.S.S.R. increased.

Table 2
U.S. merchandise trade, seasonally adjusted

	Exports		*Imports*		*Trade balance*	
Item	*June 92*	*May 92*	*June 92*	*May 92*	*June 92*	*May 92*
Current dollars—						
Including oil	38.3	35.7	44.9	42.9	-6.6	-7.1
Excluding oil	37.7	35.2	40.1	38.7	-2.4	-3.6
1987 dollars	36.1	33.7	42.3	40.8	-6.2	-7.1
Three-month moving average	36.8	36.4	43.7	43.0	-6.9	-6.6
Advanced-technology products (not seasonally adjusted)	9.6	8.0	6.2	5.3	+3.4	+2.7

Source: *U.S. Department of Commerce News, FT (900)*, Aug. 1992

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors and agriculture, January 1991-June 1992

Sector	Exports: January-June 1992	Exports: June 1992	Change: January-June 1992 over January-June 1991	Change: June 1992 over May 1992	Share of total January-June 1992	Trade balances January-June 1992
	Billion dollars		*Percent*			*Billion dollars*
ADP equipment & office machinery	13.3	2.4	1.5	14.3	5.9	-3.20
Airplanes	14.5	2.8	26.1	64.7	6.5	12.56
Airplane parts	4.8	0.8	-4.0	0	2.1	2.98
Electrical machinery	15.8	2.7	4.6	0	7.1	-3.10
General industrial machinery	9.5	1.7	11.8	6.3	4.2	1.70
Iron & steel mill products	1.9	0.3	-13.6	0	0.9	-2.30
Inorganic chemicals	2.1	0.4	0	0	0.9	0.30
Organic chemicals	5.6	1.0	-5.1	0	2.5	1.10
Power-generating machinery	8.8	1.6	7.3	6.7	3.9	1.10
Scientific instruments	7.3	1.2	9.0	0	3.3	3.70
Specialized industrial machinery	8.3	1.5	-1.2	7.1	3.7	2.60
Telecommunications	5.3	1.0	12.8	11.1	2.4	-6.40
Textile yarns, fabrics and articles	2.9	0.5	7.4	0	1.3	-1.00
Vehicle parts	8.5	1.6	21.4	11.1	3.8	0.60
Other manufactured goods[1]	13.9	2.4	15.8	4.4	6.2	-2.00
Manufactured exports not included above	52.3	9.2	8.3	2.7	23.3	-40.00
Total manufactures	174.8	31.1	6.3	8.0	78.0	-31.50
Agriculture	20.9	3.2	7.7	3.2	9.3	8.80
Other exports	28.5	4.9	-2.1	2.1	12.7	-5.90
Total	224.2	39.2	6.6	6.8	100.0	-28.60

[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, (FT 900)*, Aug. 1992.

Table 4
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1991-June 1992

Area or country	June 1992	May 1992	June 1991	January-June 1992	January-June 1991
			(Billion dollars)		
Japan	-3.39	-3.50	-3.02	-21.86	-19.12
Canada	-0.44	-0.84	-0.43	-3.27	-2.46
Western Europe	-0.09	+0.97	+1.76	+8.08	+11.05
EC	+0.09	+1.22	+1.88	+9.03	+11.04
Germany	-0.72	-0.46	-0.12	-2.54	-1.92
European Free Trade Association(EFTA)[1]	-0.41	-0.44	-0.24	-1.69	-0.77
NICs[2]	-0.86	-0.85	-0.97	-5.33	-4.29
USSR (former)	+0.23	+0.18	+0.09	+1.38	+1.28
China	-1.47	-1.22	-1.00	-7.22	-4.60
Mexico	+0.33	+0.43	+0.29	+3.10	+0.60
OPEC	-1.10	-0.84	-1.10	-3.76	-7.41
Total trade balance	-6.48	-5.39	-3.86	-28.68	-23.92

[1] EFTA includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.

2 NICs includes Hong Kong, the Republic of Korea, Singapore, and Taiwan.

Note.—Country/area figures might not add to totals because of rounding. Also, exports of certain grains, oilseeds and satellites were excluded from country/area exports but were included in total export table.

Source: *U.S. Department of Commerce News, (FT 900)*, Aug. 1992.

INTERNATIONAL TRADE DEVELOPMENTS

Airbus Agreement Signed

Over 3 months after reaching a tentative accord, the United States and European Community (EC) signed an agreement limiting government subsidies to the civil-aircraft-manufacturing industry. The agreement addresses a long-standing U.S. complaint about direct government subsidies provided to Airbus Industrie, a consortium of European aircraft manufacturers. The consortium includes Deutsche Airbus of Germany, Aerospatiale S.A. of France, British Aerospace PLC of the United Kingdom, and Construcciones Aeronauticas S.A. (CASA) of Spain. Over the 6 years of negotiations, the EC, negotiating on behalf of the partner governments, consistently countered the U.S. position by saying that U.S. manufacturers receive indirect subsidies through defense contracts.

The agreement, signed on July 17, prohibits future production subsidies, including supports for sales and marketing, limits government support for the development of new aircraft, and establishes strict repayment conditions for subsidies received. The level of allowable development subsidies had been the source of much recent disagreement. Development subsidies to Airbus have been estimated to average between 75 and 100 percent of development and production costs. The new agreement requires that development supports cannot exceed 33 percent of total development costs and requires that repayments of subsidies received be made on a royalty, or per plane, basis and that interest rates be set closer to market levels and higher than those charged in the past by Airbus governments.

Another source of conflict had been disagreement over how to address indirect subsidies in the negotiations. Since the March 31 tentative agreement was drafted, discussions have largely focused on this issue. The new agreement requires that identifiable benefits from indirect supports be limited to 3 percent of the value of annual industry-wide revenue in each signatory, and 4 percent of the value of each firm's annual sales. These benefits are defined as the cost reductions in the development of a civil aircraft program that result from technology acquired through government research and development.

Another important provision in the agreement is the requirement for Airbus governments to make available certain data and information on finances to ensure that the agreement is implemented effectively. The agreement also strengthens prohibitions on other unfair trade activities such as the use of inducements and offsets, which include political and economic incentives to potential customers of Airbus. Finally, the agreement sets up a dispute settlement mechanism, permits the filing by U.S. producers of countervailing duty cases, and allows temporary derogation from the agreement (except the provisions on development supports) under exceptional circumstances.

The agreement took effect immediately. It covers civil aircraft of greater than 100 seats, that is manufactured in Europe by Airbus and in the United States by Boeing and McDonnell Douglas.

The U.S. Government cites the Airbus agreement as a first step towards complete elimination of subsidies to the aircraft industry. The Airbus agreement will also serve as a model for the renegotiation of the General Agreement on Tariffs and Trade (GATT) Civil Aircraft Code, the multilateral agreement covering the civil aircraft industry. Both the United States and the EC strongly support renegotiation of the Code to clarify its provisions and improve the rules for all countries that are major producers of aircraft and aircraft parts.

The major U.S. aircraft manufacturers have expressed satisfaction with the agreement, although Boeing reportedly would have preferred an end to all subsidies. The amount of indirect government support received by the U.S. civil aircraft industry is unclear; the U.S. Government has consistently claimed that the EC exaggerates the amount of U.S. indirect support and that Airbus benefits from such indirect subsidies as well. Aerospace products constitute the largest category of U.S. manufactured exports and produce the largest U.S. surplus of any manufacturing industry.

"The Wolf has Arrived": Enforcing IPR Protection in Mexico

"The wolf has arrived," reported Luisa Gonzales of Mexico's official paper "El Nacional," in referring to the Mexican Government's recent efforts to bring copyright violators to justice. On June 29, the attorney general's office raided two Mexican companies (COMISA S.A., and CARBASE S.A.,) and seized hundreds of computer diskettes and hard disks containing allegedly pirated software. The companies are accused of selling illegally copied software developed and owned by two U.S. firms: MICROSOFT Corp., based in Redmond, WA, and AUTODESK, Inc., a Sausalito, CA company. The Mexican Government's move was preceded by copyright infringement charges filed by Business Software Alliance (BSA) on behalf of four major U.S. computer software companies (MICROSOFT, LOTUS, ALDUS, and WORDPERFECT). BSA's antipiracy campaign also led to the raid and seizure operation on the U.S. side at the premises of COMPUMART of McAllen, TX. After obtaining a restraining order from a Federal court in Texas, U.S. marshalls reportedly confiscated personal computers that were for sale in Mexico, which COMPUMART illegally loaded with software.

For many years, weak Mexican protection of intellectual property rights (IPR) provoked sharp protests from adversely affected U.S. interests, principally pharmaceutical manufacturers for inadequate patent and trademark protection, and software producers and the recording and movie industries for weak copyright protection. In December 1986, Mexico addressed some of these U.S. concerns for the first time by amending its patent and trademark law of 1976. However, the United States deemed the strengthened legal protections still inadequate.

In May 1989, the U.S. Government placed Mexico, along with seven other countries, on a "Priority Watch List" under the "special 301 provision" of the Omnibus Trade and Competitiveness Act of 1988 for its failure to protect IPR. In January 1990, Mexico was removed from this watch list in response to the Mexican Government's commitment that effective IPR legislation would be passed shortly by the Mexican Congress.

Last year, Mexico indeed significantly tightened its IPR legislation. Notably, amendments to Mexico's Federal Copyright Law of 1963, effective in August 1991, included specific protection for computer software and sound recording for the first time. Mexico now protects computer software for 50 years. The new measures also significantly enhanced the existing sanctions and penalties for infringement. Financial penalties are now indexed to inflation, replacing the fixed fines that inflation had rendered ineffective deterrents.

In addition to new copyright protection measures, on June 26, 1991, President Salinas signed the "Law for the Promotion and Protection of Industrial Property," a new patent and trademark law that replaces the 1976 Law of Inventions and Marks and the 1982 Law on Transfer of Technology. The new legal provisions follow the mainstream of international IPR legislation, and they are in line with the Government's overall strategy of opening up the Mexican economy to foreign investment and trade. It is believed by some that Mexican protections of intellectual property are now stronger than elsewhere in the third world, in some respects stronger even than in certain advanced industrial countries.

Highlights of the new patent law include extension of protection from a 14-year period to 20 years. The law extends product patent protection to chemical, pharmaceutical, and metal alloy products, as well as to some biotechnological inventions. In addition, inventions patented in other countries that are signatories of the Patent Cooperation Treaty also qualify for protection in Mexico for the remaining term of their patent. The law also significantly strengthens the processes whereby foreign patent holders might seek prosecution of violators.

Trademarks may now be registered for a period of 10 years, with renewable 10-year terms. The law also provides for the establishment of a Mexican Institute of Industrial Property, designated to perform patent licensing and trademark registration within the Ministry of Commerce and Industrial Development. Additional provisions cover protection of industrial designs and trade secrets.

The U.S. private sector generally responded favorably to the new IPR laws, which reportedly made IPR protection in Mexico one of the less difficult issues to tackle in the trilateral negotiations of the North American Free- Trade Agreement (NAFTA). Nonetheless, skepticism still exists in some quarters about ambiguous language in certain parts of the new measures; movie and record producers in particular question specific points in the copyright amendment. The insufficiency of the penalties provided for is also seen as a problem. Most of all, there is considerable doubt that the new legislation will be adequately enforced. The Mexican Attorney General's recent raid on pirated software is, therefore, widely considered as a welcome indication of improved prospects for enforcement.

A NAFTA Source Guide

On August 12, 1992, the United States, Canada, and Mexico announced that they had reached agreement on the details of a NAFTA. The pact would tie the U.S. economy even closer to those of its two leading trading partners. Among other things, the NAFTA calls for creation of a free-trade area among the three countries over a 15-year period starting January 1, 1994, substantial liberalization of investment and services flows, and strengthened protection of IPR.

Documents outlining the pact's major provisions were made immediately available by the Office of the United States Trade Representative (USTR). (These documents may be obtained by writing to the USTR Public Affairs Office, 600 17th Street, NW, Washington, DC 20506 or by calling (202) 395-3230.) The negotiated pact was then turned over for review by attorneys from the three sides, who were charged with translating the compromises contained therein into a legal agreement by September. The agreement was also given to 40 private sector advisory groups, which were to assess the impact of the agreement on U.S. industry and offer recommendations based on their findings. President Bush is expected to notify Congress of his intent to sign the NAFTA after the legal language has been finalized. Congress has 90 calendar days to consider the agreement and may use this period to suggest revisions which could result in renegotiation of certain sections of the agreement. Congress then works with the Administration to draft implementing legislation. Once the legislation is formally submitted by the President and introduced in the House and Senate, Congress has 90 session days to approve or reject the legislation. The Canadian Parliament is expected to vote on NAFTA before the end of 1993, by which time Prime Minister Brian Mulroney must also call a national election. Although Mulroney enjoys a large parliamentary majority, his all-time low standing in public opinion polls and an October referendum in Quebec on whether to secede from the federation may complicate the equation. No significant opposition to the treaty is anticipated from the Mexican Senate, which will vote on the agreement after President Salinas has signed and submitted it—a development that is expected sometime in the next few months.

Analysts are now turning to evaluating the NAFTA's likely effects. Such efforts will intensify as further details of the provisions of the pact become public. In the past few years, the U.S. International Trade Commission has released a number of studies on issues relating to the NAFTA. All of these studies are available, free of charge, to the general public.

Most recently, in August 1992, the Commission released its annual report entitled *Operation of the Trade Agreements Program* (USITC publication 2554). This report details issues and developments in the negotiation of the NAFTA during 1991. In July 1992, the Commission released *Potential Effects of a North American Free Trade Agreement on Apparel Investment in CBERA Countries* (USITC publication 2541). This report provides a detailed examination of the possible impact of NAFTA's liberalizing provisions on apparel producers in countries covered by the Caribbean Basin Economic Recovery Act (CBERA). It concludes that some apparel investment could shift from the CBERA countries to Mexico if a NAFTA were implemented.

In May of this year, the Commission published *Economy-wide Modeling of the Economic Implications of a FTA with Mexico and a NAFTA with Canada and Mexico* (USITC publications 2508 and 2516). The report, which comes in two volumes, highlights the results of an economic symposium held in February 1992 at the Commission. The first volume contains a critical review and summary; the second includes papers submitted for the symposium and discussants' written comments. The papers, which were almost exclusively based on computable general equilibrium models, were virtually unanimous in concluding that either an FTA between the United States and Mexico or the NAFTA would be beneficial to all countries involved.

The Likely Impact on the United States of a Free Trade Agreement with Mexico (USITC publication 2353) was released in February 1991. The study analyzes the impact of a possible NAFTA on the overall U.S. economy, on U.S. labor markets, on U.S. trade with third countries, and on key regions of the United States. Also included is a sector-by-sector analysis of the NAFTA's potential effect on major U.S. industries, including services, textiles and apparel, agriculture, energy, electronic equipment, and automotive products. The North American automotive sector is examined in greater detail in a November 1991 report, *Rules of Origin Issues Related to NAFTA and the North American Automotive Industry* (USITC publication 2460). Providing an overview of the North American automotive industry, this report also reviews traditional North American customs treatment, rules under the U.S.-Canada Free-Trade Agreement (CFTA), and the considerations informing a decision on a NAFTA rule of origin.

The Commission's *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations* was published in two phases. *Phase 1: Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States* (USITC publication 2275) was released in April 1990. It offers detailed descriptions of Mexican deregulation and privatization efforts, changes in trade and foreign investment law, an overview of the Mexican economy, and information on Mexican efforts to integrate into the world trading system. *Phase II: Summary of Views on Prospects for Future United States-Mexico Relations* (USITC publication 2326) presents a variety of perspectives provided by U.S. and foreign trade negotiators, as well as other government officials; U.S. and foreign private sector representatives active in business or trade between the United States and Mexico; executives of labor unions, industry associations, and other nongovernmental groups; and academic experts. It was released in October 1990.

The studies mentioned above may be obtained by calling (202) 205-1806, or by writing to Office of the Secretary, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436. FAX requests can be sent to (202) 205-2186. The TDD number is (202) 205-1810.

Steps Are Underway to Improve the International Competitiveness of U.S. High-Tech Industries

In the United States, concern has grown about the ability of high-tech producers to compete successfully in world markets. Among the many factors that affect the international competitiveness of high-tech products—i.e., industrial chemicals, pharmaceuticals, engines, turbines, office and computing machinery, communications equipment, aircraft, and scientific instruments—research and development (R&D) has received particular attention.[1] The reason for this may be that many influential analysts see a strong linkage between current levels of R&D spending and long-term trade performance in high-tech products.[2]

Whereas U.S. spending on civilian R&D in constant dollars increased by 25.4 percent from 1971 to 1979, spending in Japan increased by 58.6 percent. The gap in spending between the United States and all major industrialized countries widened particularly during the second half of the 1980s. During

[1] For a description of factors affecting the international competitiveness of particular high-tech products, see the following USITC publications under the Global Competitiveness of U.S. Advanced-Technology Manufacturing Industries series: *Semiconductor Manufacturing and Testing Equipment*, Sept. 1991, publication 2434; *Pharmaceuticals*, Sept. 1991, publication 2437; and *Communications Technology and Equipment*, Oct. 1991, publication 2439.

[2] Interviews with the National Bureau of Economic Research and the Institute of International Economics, Aug. 4-5, 1992.

1985-89, civilian R&D expenditures in constant dollars increased by 9.4 percent in the United States, compared with an increase of 26.7 percent in Japan, 16.8 percent in Germany, 14.3 percent in the United Kingdom, and 12.4 percent in France. West German R&D capabilities have been reinforced with German reunification in 1990. Although East Germany's R&D facilities proved to be weak by Western standards, the scientists that came with them are considered a significant addition to West Germany's R&D capabilities. Although civilian R&D expenditures in constant dollars increased in the other four countries during 1989-91, they declined in the United States. U.S. Federal Government spending for civilian R&D in constant dollars declined during 1989-91 and the level of private expenditures remained unchanged. At the unchanged level of industrial spending, the share of product development increased while the share for research declined.

According to the U.S. Department of Commerce, the United States is losing leadership to both Japan and Europe in a number of technologies in which R&D has progressed far enough to indicate the development of substantial markets during the next decade.[3] Commerce has identified the following 12 such emerging technologies: advanced materials, advanced semiconductor devices, superconductors, digital imaging, high-density data storage, optoelectronics, artificial intelligence, biotechnology, flexible computer-integrated manufacturing, high-performance computing, medical devices and diagnostics, and sensor technology. As of 1989, the United States was ahead of or even with Japan in 7 of 12 of these technologies, and it was ahead of or even with the major European countries in 11. The United States was considered the undisputed world leader in artificial intelligence, biotechnology, high-performance computing, medical devices and diagnostics, and sensor technology. According to Commerce, however, if current trends continue, by the year 2000, the United States would be ahead of Japan in none of these technologies and ahead of Europe only in artificial intelligence, biotechnology, and high-performance computing.

Commerce estimates that the 12 technologies combined promise $1 trillion in annual product sales in the global market by the year 2000. The governments of other industrialized countries, aware of the potentially high commercial stakes involved in the emerging technologies, keep a close watch on the international competitiveness of their domestic industries. For example, in Japan the Ministry of International Trade and Industry, in France the Ministry of Research and Space, in Germany the Ministry of Research and Technology, and in the United Kingdom the Office of Trade and Industry monitor the competitiveness of domestic industries in world markets.

Governments in the former Eastern bloc (Bulgaria, the Czech and Slovak Federated Republic, Hungary, Poland, Romania, and the former Soviet Union) are also aware of new trends in scientific-technological development and the economic opportunities offered by them. Although the region currently lags behind the developed countries in industrial technology, it is rich in scientific talent and has a relatively well-trained, inexpensive work force. Some analysts maintain that these factors could provide the region with a comparative advantage in some industries that require large inputs of scientists and skilled labor relative to both unskilled labor and capital. Despite economic reforms and privatization, the region's governments will remain the dominant owners of industrial assets, R&D facilities, and educational institutions, retaining the capability to channel both foreign and domestic investment in predetermined directions.

The United States is also seeking to ensure that the Nation remains in the forefront of global scientific-technological development and reaps a fair share of economic opportunities offered by it. A new Federally funded agency, the Critical Technologies Institute (CTI), has been established to monitor developments in critical technologies in the United States and worldwide. The list of critical technologies includes, in addition to the emerging technologies listed above, aeronautics, surface transportation, energy technologies, and technologies used in environmental protection.[4] The Institute also will initiate studies on ways to mobilize Federal and State agencies, private firms, and academic institutions to enhance the international competitiveness of U.S. firms in those critical technologies where the United States is found lagging behind major trading partners. The Institute will closely coordinate its work with the Office of Science and Technology Policy (OSTP); the Departments of Commerce, Defense, and Health and Human Services; the National Aeronautics and Space Administration (NASA); and the National Science Foundation (Public Law 102-190.)

Another U.S. initiative involves the Federal Coordinating Council for Science, Engineering, and Technology (FCCSET, pronounced "FIX-IT"). FCCSET coordinates science, engineering, technology, and related activities for the Federal government involving more than one Federal agency. Established in 1976, FCCSET has been reorganized and revitalized in recent years. The Council coordinates the research programs of 21 different Federal agencies, including NASA, Defense, Commerce, Agriculture, the Environmental Protection Agency (EPA), and the Smithsonian, and has been working to establish new government-industry research linkages. It has recently produced reports on computing and communications, advanced materials and processing, biotechnology research, global change research, and mathematics and science education. FCCSET also works to identify economic, political, and other international factors that affect science and technology research.

[3] For details, see U.S. Department of Commerce, Technology Administration, *Emerging Technologies, a Survey of Technical and Economic Opportunities*, Spring 1990.

[4] For details, see National Science Board, *Science and Engineering Indicators*, 1991, p. 161.

The American Technology Preeminence Act of 1991 (Public Law 102-245) mandates the identification by the Government of the types of R&D needed to close any significant gaps in the technology base of the United States, as compared with the technology bases of major trading partners. The National Defense Authorization Act for fiscal years 1992 and 1993 (Public Law 102-190) and the Department of Defense Appropriations Act of 1992 (Public Law 102-172) provide financing for the more effective dissemination of scientific-technological information developed in connection with defense-related research. The High Performance Computing Act of 1991 (Public Law 102-194) calls for the establishment of a national research and education network for the development of high performance computers.

In addition to the above laws, 34 bills dealing with critical technologies were introduced in the House of Representatives and 37 were introduced in the Senate from January 1991 until August 1992. Among these legislative proposals is the bill (S. 2909) introduced by Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, calling for the establishment of an Office of Trade and Technology Competitiveness in the U.S. International Trade Commission. The new office would analyze the status of critical technologies in the United States and abroad. Other legislative proposals stipulate increased Federal Government support for the development of critical technologies; a closer partnership among private industry, academic institutions, and government for the purpose of technological development; the more effective dissemination of scientific-technological information; the expansion of engineering education programs; and the conversion of significant amounts of R&D resources from defense-related to civilian uses. The political process will determine the relative significance of these objectives in the emerging legislative package.

While U.S. high-tech industries may be encouraged by a new government emphasis on civilian R&D, U.S. firms must take an active role in the process. Their ultimate success will likely depend on their own commitment to and involvement in basic R&D activities. Also important is a demonstrated flexibility regarding innovation in product and process design and a commitment to quality.[5]

[5] These points were emphasized by Jack Williams, Director of Commerce's Office of Technology Policy in "Coping with the World Forces of Change," presented to the American Chemical Society, May 19, 1992.

SPECIAL FOCUS
RUSSIA'S PRIVATIZATION PROGRAM

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RUSSIA'S PRIVATIZATION PROGRAM

Russia's latest 3-year economic reform program, designed by Deputy Prime Minister Yegor Gaydar, was adopted at a session of the Russian Government on June 30. The new plan notes slumping production and spiraling inflation but calls for an intensification of the reforms initiated at the beginning of the year. The Yeltsin administration recognizes that real progress will be gradual, but it expects to stabilize the monetary system by 1993 and to contain inflation at 3 percent per month, down from 20 percent per month at midyear.[6]

This latest all-inclusive package includes six phases and represents an elaboration of the 3-stage plan announced earlier in the year. The first and second phases of the 3-year program involve macroeconomic reforms: liberalization of the economy and stabilization of finances and the monetary system (including strengthening the ruble). The third stage of reform focuses on privatization, the centerpiece of the program. The fourth phase is directed toward restructuring the economy with an eye toward integration into the world economy. The fifth and sixth phases of the program envision the creation of a competitive market economy and an active social policy designed to help the population adjust to new conditions and to protect those who are temporarily displaced during the transitions.[7] The government team and many international economists acknowledge that the ultimate success of the transition from a command economy to a market economy largely depends on the progress and success of privatization.

After extensive and heated debate, a compromise privatization program, "State Program for Privatization of State and Municipal Enterprises of the Russian Federation for 1992," was approved by the Supreme Soviet in June and published in *Delovoy Mir* on July 2.[8] The stated goals of the program reflect the significance of privatization in relation to the overall economic reform package. These goals include the creation of a property-owning class that will contribute to the creation of a market economy; increased economic efficiency of the privatized enterprises; the development of a protective social infrastructure with funds obtained through privatization; increased financial stability; dissolution of state monopolies and the establishment of competitive enterprises; increased foreign investment; and the establishment of the foundation necessary for increased large-scale privatization during 1993-1994.

Background

Popular Resistance

During 75 years of Communist rule, generations of Russians were schooled in the Marxist/Leninist tradition that considered the concept of private property an anathema to the "classless state." Even prior to the Bolshevik seizure of power in 1917, the typical Russian had little experience with the concept of privately held land and property. After the abolition of serfdom in 1861, prohibitive legal and financial circumstances prevented the vast majority of Russians from possessing land or substantial private property. Since the 1917 revolution, generation after generation has been immersed in an educational, political, and social environment that believed that the introduction of private property into an economic system would ultimately result in the exploitation of the working classes. Thus, popular resistance was enormous in the past when dire economic circumstances, such as critical food shortages, compelled the Czarist or Communist government to encourage a measured degree of private initiative that flirted with the concept of private property.

This ideological legacy, which is deeply ingrained in the Russian psyche and has roots predating Communist rule, influences the attitudes of many Russians toward attempts at privatization, particularly the older generations. Popular conservative newspapers reflect these sentiments and provide a forum for their perpetuation. While criticizing the results of the government's overall economic reform package, particularly inflation and currency devaluation, one newspaper commentator sought support in a pre-Gorbachev political economy textbook: "In the capitalist world, the excessive issuance of paper money and its devaluation serve as one means to increase profits for the bourgeoisie, reduce real incomes of the workers and transfer the burden of the budget deficit to the workers."[9] The older generations continue to cling to the Marxist dogma repudiated by Yeltsin's reform-minded economists.

However, the generation that came of age during perestroika and glasnost is much more enthusiastic about the transition to a market economy. This younger generation has, to a certain degree, taken the lead in the struggle to implement economic reforms. An American attorney meeting in Moscow with the heads of stock exchanges, brokerage offices, banks, and corporations noted the relative youthfulness of Russia's new entrepreneurs. "I met with young men and women who occupied posts demanding enormous responsibility and a high level of competence,

[6] *Moscow Teleradiokompaniya Ostankino Television First Program Network,* June 30, 1992, "Novosti" newscast interview with Yegor Gaydar.

[7] "Second Stage of Reform," unattributed report presenting the basic provisions of the 3-year program. *Argumenty I Facty,* No. 24, July 1992, p. 3.

[8] *Delovoy Mir,* July 2, 1992, p. 8. *Delovoy Mir* (Business World) is a well established business journal which publishes economic statistics, government reports, and other articles of interest to the business reader. Frequently, the official text of legislative enactments, presidential decrees, and regulations are published in *Delovoy Mir, Rossiskaya Gazeta, Izvestia, Ekonomika I Zhizn,* and other prominent newspapers and journals prior to codification.

[9] P. Orlov, "Wages in 'Borks': The Nizhegorod Authorities Have Decided To Issue a Ruble of Oblast Significance." *Sovetskaya Rossiya,* July 14, 1992, p. 2.

and those people had mastered the business at the kind of level that I could not have expected in any other society."[10] This generational divergence is manifested in the relationship between the legislative and executive branches of the government: the leaders of the Russian Parliament constantly refer to Gaydar and his economic reformers as "them boys."

The Perceived Inequities of Privatization

The reality of the current economic and political situation exacerbates traditional popular aversion to the notion of private property. Two groups stand to gain the most from a rapid, loosely regulated program of privatization: former black marketeers who have a disproportionate control over economic resources, and former soviet nomenklatura, frequently industrial managers, who have managed to amass economic resources and who continue to occupy positions of tremendous political power. Popular awareness and dissatisfaction with these circumstances is reflected by the results of a Moscow newspaper reader's poll. The questionnaire asked "How do you personally view the market reform? What are your hopes and fears in connection with it?" Out of 11 possible choices, the most favored response (28 percent) was "I am afraid that as a result of the reform everything will be in the hands of a few rich people and dealers in the shadow economy."[11] The two answers closest in popularity concerned increasing prices (24.5 percent) and the prospect of increased disturbances and rising crime (22 percent).

Owing to the endemic shortages in the Soviet command economy, an enormous black market (perhaps as much as 60 percent of the entire economy) flourished prior to Yeltsin's economic reform movement. Trade in everything from blue jeans to plumbing services enriched black marketeers, considered by many to be antisocial, opportunistic profiteers who exploited the shortcomings of the communist economic system for personal gain. Persons who formed legal "cooperatives" during the era of perestroika were frequently considered an extension of the black market. Many Russians associate price liberalization, which occurred in January of this year, with the exorbitant prices characteristic of the black market, and frequently of cooperative stores and restaurants, prior to the breakup of the Soviet Union. Thus, popular opinion already identifies certain aspects of the economic reform program with the black market, and these suspicions are corroborated when individuals enriched by black market or even legal cooperative trade are uniquely positioned to purchase State properties. Not surprisingly, a privatization program that appears to enrich these segments of society has provoked enormous criticism. The voucher program adopted in June and the legislation designed to prevent nomenklatura privatization are attempts to resolve these problems by making privatization a more egalitarian process.

Parliamentary Obstacles to Rapid Privatization

The popularly elected Russian Parliament provides a platform for the manifestation of popular resistance, and Yeltsin's reformers must frequently slow the pace of their reforms in response to pressures from Parliament. The most powerful opposition coalition, "Renewal," is backed by Arkady Volsky, the leader of the Union of Industrialist and Entrepreneurs (a lobby protecting the interests of enterprise directors), Yeltsin's Vice President Aleksander Ruskoi, and the leadership of the Supreme Soviet. The group advocates slower, more moderate change in the interest of preventing social cataclysms. Concerning privatization, the Renewal platform seeks to "halt the impoverishment of people and the decline in production...[by carrying] out economic reforms and privatization in such a way that they will revitalize the economy, and so that property will be in the hands of those who are capable of enriching society with their labor and talent."[12] The recent restructuring of Yeltsin's Cabinet is seen as a direct concession to the Renewal coalition.

Other, more marginal groups which enjoy popular support and slow the pace of reforms include the Russian National Assembly, which considers "privatization of the land today to be ultimately out of the question."[13] The leader of the group, ex-KGB General Aleksander Sterligov, wrote in Pravda that his party would "stop the robbery of the people through the so-called privatization. In the situation that has been created and under the anti-Russian power, any privatization is impossible and harmful."[14]

The opposition groups frequently muster enough support through various coalitions to effectively decelerate attempted reforms concerning privatization. When compromises with leaders in Parliament fail to materialize, Yeltsin often resorts to rule by Presidential decree. The legitimacy of several economic reform decrees has been challenged by opposition groups and are due to come up for judicial review before the newly formed Constitutional Court. Any decision by the court is likely to be controversial and could cause a crisis in the government, creating an impasse between the executive and legislative branches.

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[10] Louis Levin, "Progress is Impossible in a State of Constant Pessimism. The View of a Conservative Businessman." *Nezavisimaya Gazeta*, June 4, 1992, p. 8. Mr. Levin is interested in establishing a Russian-American Bank and a Russian University of Finance.

[11] "Dialogue With Readers," prepared by Professor V. Komarovsky, director of a "sociological service," *Moskovskaya Pravda*, June 12, 1992, p. 2.

[12] "Program of the All-Russian Renewal Union: 'Enough Tearing Down-Now It Is Time To Build!'" *Rabochaya Tribuna*, June 16, 1992, pp. 1, 2. For a criticism of the Renewal Platform see N. Vishnevsky, "Renewing Ourselves?" *Rossiskiye Vesti*, No. 17, June 9, 1992, p. 1.

[13] Interfax, July 3, 1992, Interview with Aleksander Sterligov by correspondant M. Chernukha, from "Nation and Society."

[14] A. Sterlingov, "The Russian National Assembly Selects the 'Third Path,'" *Pravda*, June 16, 1992, p. 2.

The Model for Privatization: Nizhni Novgorod

Seeking a rapid and efficient transfer of ownership, the State Committee on Property Management appointed some 60,000 agents on the local level to oversee the transference of state property. This transfer of power was intended to increase the efficiency of privatization by delegating authority to those who were most familiar with both regional socio-economic conditions and the particular enterprises slated for privatization. Leaders in Moscow desired a degree of decentralization that would expedite the implementation of the economic reform package. But local administrators responsible for executing Yeltsin's economic reforms have greeted the State Privatization Program with varying degrees of enthusiasm. Leaders in the oblast of Nezhnegorod, and especially the city of Nizhni Novgorod, have embraced Gaydar's overarching economic reform package and eagerly commenced the process of privatization.

Nizhni Novgorod, formerly Gorki, the third-largest Russian city and a major industrial center on the Volga River, has been the site of regular privatization auctions since March of this year. The Russian Government and the international economic community cite these auctions as a prime example of the successes of the first phase of the privatization program wherein small state concerns are being transferred to the private sector. Other cities and oblasts have expressed their intentions to pursue a program of privatization according to the "Nizhni Novgorod Model."

Several factors have contributed to the "success" of the privatization effort here. First, the economic situation in this particular city is viewed as generally more stable than in the rest of the country.[15] According to G. Yavlinsky, prominent economist and head of the Center for Economic and Political Studies, an organization which has advised the Nizhni Novgorod privatization authorities, prices in Nizhni Novgorod were lower than in the neighboring oblasts during the period of price liberalization earlier in the year. Energy prices were freed earlier and to a greater extent than in other parts of the country. Many potential entrepreneurs, culled from the defense industry, the automobile industry, and other industrial giants that operate in the city, have supported and participated in the auctions. Furthermore, a social safety net was established to provide security during this transitional period. To assuage fears that outsiders would buy up the local enterprises, foreign investors and even potential purchasers from other CIS states are not allowed to participate in the auctions.

Secondly, the Nizhnegorod oblast governor and the mayor of Nizhni Novgorod enjoy widespread popularity (both were elected by wide margins) with both the local population and the government in Moscow. Boris Nemstov, the 32-year old oblast governor, received Moscow's permission to streamline the privatization process by proceeding through direct auction rather than going through the process of setting up joint-stock companies. In January of this year Nemstov invited the International Finance Corp. (IFC) (formerly the International Bank for Reconstruction and Development) to develop a plan for privatizing 2,000 retail shops and restaurants within 6 months. The IFC continues to participate in the privatization process in Nizhni Novgorod and advises other cities and oblasts in matters concerning privatization.

A Moscow trade journal reports that in 6 auctions in 2 months 61 establishments, including 49 enterprises and public catering facilities, have been privatized.[16] The journal also indicates some of the problems associated with the privatization drive. While total income from the auctions is listed at R 82,326,000, only R 27,505,000 has actually been collected. As spiraling inflation exhausts savings and enterprises find themselves unable to compensate their workers and suppliers, many of the winning bidders simply do not possess the means to pay.

The bidding processes at the auctions highlight a persistent problem with the privatization program: the undervaluation of state enterprises. The minimum opening bids, i.e. the "residual value" of the enterprises, have proved to be grossly below their actual commercial value, as seen by the participants in the auctions. Most properties have sold for 20 or more times the asking price. For instance, Fialka [Violet], a retail store in the center of the city, had an opening bid of R 56,000 but ultimately sold for R 5,000,000. The highest price paid so far for an enterprise is R 10,000,000, or about $100,000 at the current unofficial exchange rate, and many small shops shift to the private sector at a price that seems well below the actual commercial value (R 600,000 for a hair salon).[17]

At these auctions, worker collectives, who receive a 30-percent discount from the final buying prices, but who lack the resources necessary to purchase even small shops, frequently strike deals with "sponsors," wealthy entrepreneurs who are eager to purchase establishments at a 30-percent discount but lack the requisite legal status for eligibility. Furthermore, the final purchase contracts may include numerous unanticipated and possibly prohibitive conditions. The new owner may be required to buy out the existing working capital, to undertake numerous repairs, to continue to employ many of the workers, to buy out an existing lease, or to agree to a new lease. In the Fialka transaction, additional unforeseen expenditures of R 6,000,000 conditioned the purchase, and the new owners (the employee collective and their sponsor) could not negotiate a

[15] "G. Yavlinsky Begins in Nizhni," interview with G. Yavlinsky by Anatoly Yershov. *Izvestia*, June 9, 1992, p. 3.

[16] "Privatization: Successes and Doubts; The Violets Are Withering." Unattributed. *Torgovaya Gazeta*, June 6, 1992, p. 2.

[17] Youry Petchenkine, "Additional Methods of Privatization Approved; Controversy Continues," *East/West Executive Guide*, June 1992, p. 17.

mutually acceptable final purchase contract. The store continues to be owned by the state. Similar restrictive conditions were criticized during privatization auctions in Khabarovsk. There, as a condition of purchase, the buyer had to agree to "replace all measuring instruments in the trading hall with electronic equipment, ... in the months immediately ahead to install a compact advertising board in lights on the facade of the store," and to "build a fence around the perimeter of the territory."[18]

Technical Aspects of the Privatization Program

The Timetable

The original privatization scheme, enacted by Presidential decree on December 29, 1991, detailed the goals of the plan and the timetable for the accomplishment of those goals for 1992. The goals of the new plan, although slightly more elaborate and ambitious, parallel the December plan to a certain extent. In December the government hoped that privatization would promote general economic stability by easing the transition to free prices, and by freeing the state from the burden of funding inefficient enterprises. The original plan for 1992 intended to create the foundation for further large-scale privatization in 1993-1994, and to ensure more efficient economic activity.

The schedule for privatization announced in the June plan is not a significant departure from the timetables anticipated in December. Still, the new schedule for privatization reflects the realities of the first half of the year wherein privatization did not occur nearly as rapidly as anticipated.

Like the December program, the new program divides all state and municipally owned property into five categories. Enterprises in the first category are slated for mandatory privatization during this year, and enterprises in the fifth category will probably never be privatized. Yeltsin has long maintained that Russia's transformed economy would be a hybrid of socialism and capitalism, similar to Sweden or some other European countries, and the deputy chairman of the committee disposing of state property estimates that two-thirds of the economy is the maximum amount that will be privatized.[19]

Accordingly, some enterprises, for example, wholesale and retail trade, public catering and consumer services, construction, food, and light industry, are subject to mandatory privatization during this year. Other enterprises are prohibited altogether from privatizing, such as those which produce fissionable and radioactive materials or narcotics and toxic substances, broadcasting centers, and general purpose highways. The privatization of another sensitive group, which includes arms manufacturers, fuel and energy enterprises, commercial banks, and communications industries, is dependent upon a positive decision by the Government of Russia, or, if the enterprise is owned by an autonomous republic, the government of that republic. Similarly, another group of enterprises may be privatized only if so allowed by the State Committee for State Assets of Russia. Included in these industries are those that control a dominant portion of the market in goods, work or services, enterprises with more than 10,000 employees, transportation enterprises, enterprises that produce alcohol, wine and tobacco products, and medical enterprises.

In the long term, the government expects that trade, consumer services, small-scale production, a large percentage of residential housing, and up to 30 percent of large-scale and medium-sized enterprises will be privatized by 1994. According to government estimates, by 1995, 40-50 percent of large and medium-sized enterprises will have been privatized, creating the conditions for price stabilization and strengthened financial discipline.[20]

Early in the year the government imagined that privatization in 1992 would increase budget revenue by approximately 92 billion rubles, a figure since reduced to 72 billion rubles. Sources for this 72 billion rubles are broken down as follows: private individual savings, R 15 billion; economic incentive funds of enterprises, R 32 billion; enterprise-purchasers, R 15 billion; and foreign investments, R 10 billion. The June privatization program predicts that revenue from 1993 sales will total R 350 billion, and 1994 revenues will amount to R 470 billion.

The Mechanism

The new program also identifies the appropriate method of privatization, whether voluntary or mandatory. Small enterprises, those valued at less than R 1,000,000 and with less than 200 employees, may be sold at auctions and competitions. Those enterprises with more than 1,000 employees or a book value of over R 50,000,000, as of January 1, 1992, must be transformed into joint-stock companies. To this end, Yeltsin signed a Presidential decree "On Organizational Measures to Transform State Enterprises and Voluntary Associations of State Enterprises into Joint-Stock Companies" on July 1, requiring such state enterprises (1,000 employees or book value of R 50,000,000), excepting sovkhozes,[21] to be transformed into open joint-stock companies by November 1, 1992.[22] Smaller enterprises (more than 200

[18] S. Ponomarev, "Does a Cow Need a Bath?" *Rossiskaya Gazeta*, May 29, 1992, p. 3.

[19] Interview with Dmitry Vasiliyev. *Rossiskiye Vesti*, July 7, 1992, pp. 1, 3.

[20] Unattributed report presenting the basic provisions of the 3-year economic program. *Argumenty I Fakty*, No. 24, July 1992, p. 3.

[21] Russian agrarian production units are essentially divided into kolkhozes, collective farms, and sovkhoves, state-owned farms that pay wages to the workers.

[22] "Ukase of the President of the Russian Federation 'On Organizational Measures To Transform State Enterprises and Voluntary Associations of State Enterprises into Joint-Stock Companies.'" Ukase No. 721, issued July 1, 1992.

employees or with a book value of between R 10 million and R 50 million) may be formed into open joint-stock companies, if their employees so decide. These smaller enterprises may also be privatized by means of any of the other methods elaborated in the program. These other methods include the sale by auction, liquidation sales, and the purchase of leased property. The decree also covers closed joint-stock companies in which the government holds at least a 50-percent interest. The quasi-administrative, quasi-commercial (extralegal) associations and partnerships that specialized in "spontaneous privatization" are to be transformed into open joint-stock companies by October 1, 1992.

The Procedure

According to the deputy chairman of the State Committee for State Assets of Russia, Dmitry Vasilyev, the process of privatization of a single enterprise begins with a request for privatization from any party.[23] Once a request to privatize is approved, if required, a privatization commission is established. The commission includes representatives of the labor collective, financial organs, the Committee for the Management of Assets, the Anti-Monopoly Committee, and the management of the enterprise. If the commission decides to proceed by means of conversion to a joint-stock company, the labor collective has the option to either buy control of the enterprise or to portion control of the enterprise among the collective, professional investors (investment funds), and the general public. The collective may choose the first option only after securing two-thirds vote of the membership. In this scenario, the price of the enterprise is set by the privatization committee and the workers are allowed to purchase 51 percent of the firm, utilizing privatization vouchers for as much as one-half of the purchase price. Vouchers may also be used by outsiders to purchase 10 percent of the shares at auction, and the remaining 39 percent of the shares will be sold for cash.

In the second scenario, workers are given, free of charge, nonvoting shares worth 25 percent of the capital of the enterprise. They may purchase, with cash or vouchers, an additional 10 percent of the shares at a 30-percent discount. Management is allowed to purchase a percent of the allocated shares. The remaining 60 percent is sold to the public. Officials expect that workers will overwhelmingly prefer this second method of redistribution of state enterprises.

The Voucher System

The reformers have noted that the adoption of a voucher system combines a method of privatization that gives enterprises free of charge to all citizens with the previous system wherein enterprises were sold to individuals and associations. Adoption of vouchers will also delay privatization by a certain degree. The June 11 program calls for the issue of these privatization vouchers during the fourth quarter of this year. The vouchers can be used to purchase shares of privatized enterprises, or investment funds, and are transferable. In a news conference on July 30, Anatoly Chubais, Deputy Prime Minister and Chairman of the Committee for Managing State Property, announced that the technological preparations for the issue of the vouchers had been completed, and that a sample voucher had been prepared. Recipients will have to pay a nominal amount, between 25 and 50 rubles, to cover the expenses incurred during the preparation and printing of the vouchers. Chubais stated that printing would begin as soon as Yeltsin issues a Presidential decree that fixes the value of the vouchers.[24] Earlier in the summer, Chubais estimated that the vouchers could be valued anywhere between 700 and 8,000 rubles, depending on the existing economic circumstances, the concessions ultimately exercised by labor collectives, and the exact plan agreed upon by Yeltsin's government and the Supreme Soviet.[25] The plan detailing the apportionment of the vouchers among Russia's population and the procedure for distribution is expected to be published in the near future. The government plans to convert most state enterprises to joint-stock companies before the issue of the vouchers.

The Expansion of Labor Collective Rights

A June interview with Anatoly Chubais, Chairman of the State Committee of Russia for State Assets, highlights the differences between the December and the June plans.[26] Chubais considers the new plan to be more equitable inasmuch as more citizens are drawn into the process and the advantages initially given to labor collectives have been expanded. (Collectives originally received only 25 percent in nonvoting preferred stock, and could purchase only 10-percent additional stock at face value.) Although the introduction of the voucher mechanism will certainly slow privatization efforts in the short run, Chubais considers the new plan to be less complicated overall, with increased cooperation between the various governmental organs involved in the privatization process. A previous ban on the transfer of gratuitous preferred stock has been lifted and a market for the vouchers themselves is envisioned. Also, the amount of the dividends to be paid to the state on the shares of stock it retains is no longer tied to the bank rate of interest, which has dramatically increased to as much as 100 percent. The new plan provides that private joint-stock companies (in which the government has at least a 50-percent share) are to be transformed into public joint-stock companies. Thus, although the ideology of the privatization

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[23] "'Grab-It-Ization' Is Over: How Will Privatization Proceed?" Unattributed interview with Dmitry Vasilyev. *Rossiskiye Vesti*, July 7, 1992, pp. 1, 3.

[24] Newsconference of Anatoly Chubais on June 30, 1992, reported by ITAR-TASS.

[25] Ivan Ivanov correspondent. ITAR-TASS, June 11, 1992. Owing to inflation, the vouchers will probably be valued at closer to 10,000 rubles.

[26] M. Panova and N. Prikhodko. "The Second Wind of Privatization," *Ekonomika I Zhizn*, No. 24, June 1992, p. 1.

program remains basically unchanged, practical difficulties and political considerations have mandated slight adjustments in the mechanism for redistribution of state properties.

The new plan also reflects an awareness of some of the problems that have accompanied privatization efforts this year. In an effort to obstruct "spontaneous privatization" by the nomenklatura and to prevent the disappearance of enterprise assets, the new privatization plan covers the sale of the assets of operating enterprises. The plan also strictly regulates the participation of state organs in the privatization process, and levies fines of up to 100 times the guaranteed minimal monthly wage on government officials who violate the privatization regulations.

Another official elaborated on the extension of labor rights and the changes in laws concerning foreign participation in privatization in an interview with a publication devoted to labor issues.[27] According to V.A. Prokhorov, Deputy Chief of the Main Administration of the State Program for Privatization of the State Committee for Property of the Russian Federation, the June plan significantly expands the rights and advantages previously given labor collectives. While the earlier plan limited personal privatization accounts to 10 times the minimum monthly wage per worker, the June plan eliminates this limitation. The new plan also allows 100 percent of the balances of economic incentive funds[28] to be set aside for personal privatization funds in enterprises previously restricted to 50 percent. Also, if the enterprise actual net profit eligible for transference to personal privatization accounts was previously limited to 10 percent, the new plan increases it to 50 percent of the profit. Workers also receive a greater percentage of the funds received in bankruptcy and auction sales, up to 30 percent, with a cap of 15 times the minimum monthly wage in the case of bankruptcy sales and 20 times the minimum monthly wage in auction sales.

Prokhorov asserts that the limitations on the participation of foreign capital have practically been withdrawn except in regard to small enterprises. Foreign investment remains restricted in regard to small enterprises, partially owing to the exchange rate of the ruble. Further limitations on foreign participation are contained in a subsection of The Law on Foreign Investments. These limitations will be considered later in the context of the legal foundation for privatization.

[27] A. Andryushina, "How to Buy a Plant," *Trud*, June 30, 1992, p. 2.

[28] Essentially, enterprise economic incentive funds are privatization initiative bonuses given by the state in accordance with "On Enterprises and Entrepreneurial Activity" and "On Privatization of State and Municipal Enterprises" in order to encourage rapid privatization.

Agrarian Reform

The new plan largely neglects the agrarian sector of the economy. In response to the sluggish pace of economic reform and privatization in the agrarian sector, Yeltsin signed a decree on June 29 creating a federal center for land and agrarian reform. The center, headed by vice president Alexsander Rutskoi, is to inventory land, plan and implement special programs, and provide expert assistance to various agrarian projects. The decree also creates an International Financial Fund to provide financial credits for agrarian reform programs.

At a recent press conference Rutskoi announced that the requisite first stage of agrarian reform had been completed: the formulation of a register of land prices and the creation of land banks. He also rejected the idea of reviving individual private farming, stating that of the 150,000 registered private farmers, only 3,000 are actually producing surplus agricultural goods.[29] (Earlier reports stated that as of May private peasant farms numbered 80,000 but accounted for less than 1 percent of gross agricultural output.[30]) Although these initial steps form the foundation for increased privatization activity, contradictions and confusions in the agrarian sector are likely to delay meaningful privatization until at least next year.

Not least among the contradictions is the recent introduction of requisition quotas by the Ministry of Agriculture wherein farmers must sell 35 percent of their harvest to the state at fixed prices well below the going rate of the grain market. The ongoing debate concerning the quotas reflects the overall confusion in the agrarian sector. "[A] normal harvest has ripened and will be harvested in the abnormal situation where the market is silent about prices, Ministry of Agriculture specialists think that the production cost of a kilogram of grain is R 5. Elevators pay R 6 per kilogram, the president thinks that the figure should be R 10, and farmers in Voronezh, for example, think that it should be R 30."[31] Furthermore the absence of market mechanisms in the agrarian sector and political considerations, dictate that agrarian privatization proceed at a slower pace. (The state, after all, owns the distribution system, and some agricultural products were exempted from the price liberalization introduced earlier in the year at the same time that input prices for farming products were liberalized, etc.)

[29] Press conference of Russian Vice President Aleksander Rutskoi on Friday, July 24, 1992. *ITAR-TASS*, July 24, 1992. Summary and criticism reported in *Rossiskaya Gazeta*, July 28, 1992, p. 2, "All Plowed. Aleksander Rutskoi Talks About the Motherland, Grain, and the Use of Liberal Reforms and Strong Authority." Yelena Tokareva and Yevgeniya Pishchikova.

[30] V. Grishchenko, "Spring 92: Too Early to Count Chickens; The Outlook for This Years' Crop Is Better Than Last Year, But There Are No Promises of Paradise," *Moscow News*, No. 20, May 17-24, 1992, p. 10.

[31] Valery Konovalov, "President Gives Price of Grain, Agrarian Bosses State Date of Protest Actions, While Peasants Decide Whether We Will Have Grain," *Izvestiya*, July 25, 1992, p. 1.

The Legal Framework for Privatization

Although portions of the Soviet legal infrastructure require only slight modifications to accommodate the new political reality of the Russian Federation, the legal framework for a market economy differs greatly from the legal structure of a command economy. The laws and regulations concerning the actual mechanism for privatization are, of course, essential to this economic reform. In addition to these procedural guidelines, an entirely new and vast legal foundation must be developed that supports and defines the relations between the participants in the privatization movement. A Study of the Soviet Economy prepared by the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD) (Paris), and The European Bank for Reconstruction and Development (EBRD) (London) concluded that the largest obstacle to successful privatization, and therefore to successful economic reform, was the absence of clear property laws "providing owners with the right to buy and sell productive assets and guaranteeing them against arbitrary and uncompensated expropriation of their property rights and assets, while setting out in companion laws on contracts and bankruptcy the responsibilities and material risks that ownership in a market system also confers."[32]

Privatization affects the legal system in a profound way: property law, contract law, labor law, banking law, laws concerning foreign investment, intellectual property law, antitrust law, and taxation laws are a few of the areas particularly affected. While some legal relationships will require only slight modification and uniform interpretation (contract law), other legal constructs were completely absent in Soviet law and must be erected from the ground up (antitrust law). A completely harmonized legal infrastructure will not blossom overnight but will take years of constant adjustment, likely to parallel the pace of development of other economic and political reforms. Still, this current year has witnessed significant progress towards the development of a legal framework consistent with a market economy and full-scale privatization.

One category of legal reform may be viewed as an attempt to disengage individual enterprises from the command economy and to establish them as separate legal entities in the western sense. This category includes laws concerning the actual ownership of the enterprise (federal, state, local), the financial status of the enterprise, and interenterprise relationships.

The Problem of Ownership

The question of property interests is fundamental to the implementation of a privatization scheme. Before the process of privatization could even begin, property in the former Soviet Union had to be divided not only among the 15 republics, but also among the various levels of federal, state, and municipal officialdom. In 1991 and during the beginning of 1992 the government undertook to divide all property into federal property, state property of the republics that compose the Russian Federation, krays, oblasts, autonomous okrugs, and the cities of Moscow and St. Petersburg, and municipal property. Despite federal entreaties, disputes among the different levels of government concerning ownership rights have complicated the privatization process. In February the deputy general director of the Union of Russian Cities claimed that oblast governmental organs, in defiance of federal authority, had been seizing and selling state properties that were scheduled to be turned over to the municipalities.[33] Officials in St. Petersburg have expressed similar sentiments in regard to their housing privatization program.[34] But most state property has been effectively portioned among the various levels of government and a newly established Arbitration Court stands ready to resolve any conflicting claims. Still, some confusion concerning property rights persists, and many potential entrepreneurs refuse to purchase an enterprise attempting privatization for fear that the property may be lost in a subsequent property dispute.

Land Transferability

On June 14, Yeltsin removed a persistent obstacle to privatization when he issued a decree that extends the legal right and outlines the procedure for the purchase of land occupied by state enterprises undergoing privatization.[35] The ukase[36] was designed to implement the March 25 Presidential Order "On the Sale of Tracts of Land to Citizens and Legal Entities During Privatization of State and Municipal Enterprises." The ukase decrees that interested parties, including foreigners, may purchase the land occupied by an enterprise while purchasing the enterprise itself, may purchase land adjoining a previously privatized enterprise in order to expand production, or may purchase vacant land for startup enterprises. Previous to the March ukase, the purchase of land in Russia by foreigners was forbidden, and it is now

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[32] *A Study of the Soviet Economy*, prepared by the staffs of the IMF, IBRD, OECD, and EBRD, Paris, 1991, p. 21.

[33] Interview with Aleksey Podushkin entitled "The High Wave of Privatization," *Rossiskaya Gazeta*, Feb. 5, 1992, p. 1.

[34] For a discussion of the St. Petersburg problems concerning "nomenklatura privatization" see Mary McAuley, "Politics, Economics, and Elite Realignment in Russia: A Regional Perspective," *Soviet Economy*, vol. 8, No. 1 (Jan.-Mar. 1992).

[35] "Ukase of the President of the Russian Federation 'On Confirming Procedure for the Sale of Tracts of Land During Privatization of State and Municipal Enterprises and the Expansion of and Additional Construction to These Enterprises, and Also Offered to Citizens and Associations of Citizens for Entrepreneurial Activity.'" Ukase No. 631, issued June 14, 1992. Decree and Regulations Published in *Rossiskaya Gazeta*, June 18, 1992, pp. 4-5.

[36] An ukase is a decree having the full force and effect of law, not unsimilar to a presidential order. The constitutional legitimacy of Yeltsin's more controversial ukases, such as that concerning bankruptcy, have been called into question by deputies in the Supreme Soviet and await resolution before the Constitutional Court.

anticipated that entrepreneurs, especially foreign investors, will purchase enterprises not for their inefficient facilities, but instead to acquire a property interest in the land on which the enterprise is located. The decree continues to forbid the sale of common land in populated areas, national parks and forests, wildlife reserves, etc. Revenues from the sale of land is to be distributed to the local Soviet of People's Deputies wherein the land is located (80 percent); the Russian Federation constituent republics, krays, oblasts, autonomous oblasts, autonomous okrugs, Moscow and St, Petersburg, (10 percent); and the Russian Federation (10 percent).

Dealing with Insolvent Enterprises

One of the most controversial new legal reforms involves the financial status of each enterprise, the bankruptcy laws. On June 14, after the government and the parliament were unable to agree on a compromise bankruptcy law, Yeltsin signed a Presidential order designed, among other things, to promote financial stability by curbing inflation, to decrease and eventually retire interenterprise debt, and to accelerate the pace of privatization by clarifying the financial status of state enterprises.[37]

According to the terms of the decree, an enterprise owned by the state, wholly or at least percent, may be deemed bankrupt if it meets one of three criteria. If an enterprise is unable within 3 months to meet its debts to the treasury, or if a failure to provide for the fulfillment of the demands of corporations and individuals with property claims within 3 months occurs, or if an enterprise's liabilities are more than double its assets, the enterprise may be declared bankrupt. After being deemed bankrupt, a property management committee decides whether the enterprise could be restructured so as to become financially viable, or if it is to be liquidated. If the bankrupt firm is to be restructured, the program provides that the enterprise be turned over to entrepreneurs on a competitive basis for independent administration and management for a term of 6 to 18 months.

Interenterprise Debt

Before the bankruptcy decree could be effectively implemented, the government had to treat the problem of interenterprise debt.[38] In May the Supreme Soviet and the Russian Government attempted to resolve the debt problem by issuing a joint declaration which released large volumes of credit into enterprises' working capital and required enterprises to sell 20 percent of their monetary assets per month until their debt was retired. Enterprises disregarded the requirements of the joint declaration and interenterprise debt swelled to 2.6 trillion rubles as of June 20, according to Central Bank estimates. On July 1, in an effort to deal with the nonpayment crisis by enforcing the previous joint declaration, Yeltsin signed a Presidential order "On the Normalization of the Payment-Computational Relations in the Russian National Economy," which included a Government-Central Bank joint resolution: "On the Procedure for Regulating Nonpayments of State Enterprises."

The decree requires banks to compute and supply figures demonstrating the financial status of their account-holding enterprises. Only about 25 percent of the interenterprise debt is expected to self-cancel as a result of the bank netting out accounts. The decree freezes enterprise debts as of July 1, transforms them into long-term bonds, securities, and promissory notes, and creates a state agency within the State Committee for the Management of Property for their management. The newly created agency sells the debts, which presumably carry some sort of equity right, in the emerging (envisioned) secondary debt market. The decree aims to extinguish all debts by December 31, 1993 and to dissolve the management agency by December 31, 1994.

As part of the joint resolution of the Government and the Central Bank, the bank is to set aside funds for preferential credit to augment the working capital of debtor enterprises. The preferential terms (10 percent per annum on a 2-year basis) are conditioned on price and wage freezes. To prevent the recurrence of the nonpayment problem, the government instituted a new interenterprise payment system theoretically requiring prepayment. Enterprise debt accumulation after July 1 is subject to the new bankruptcy law.

The Need for Foreign Investment

When Yeltsin's advisors formulated the current privatization plan, they envisioned the active participation of foreign investors. A June article written by the Chairman of the Committee for Foreign Investment expresses some of the primary reasons why foreign investment is essential if privatization is to succeed. "It is important to see that they [foreign investors] enter this process quickly, which would insure an increased effectiveness of production, market-oriented behavior of Russian enterprises, and their association with the world market."[39] Yeltsin himself acknowledged the need for improvement in foreign investment laws in a June interview: "Foreign investors, as indeed Russian ones, have good reason to speak of the need for greater protection of their legal interests, above all because current legislation is unstable. The legal basis now available

[37] "Ukase of the President of the Russian Federation 'On Measures Pertaining to the Support and Recovery of Insolvent State-Owned Enterprises (Bankrupts) and the Application of Special Procedures in Regard To Them.'" Ukase No. 623, issued June 14, 1992. Decree published in *Rossiskaya Gazeta,* June 18, 1992, p. 5.

[38] For an overview of the interenterprise debt problem, see U.S. Department of State telegram, message reference No. 21520, July 21, 1992, from Moscow to Washington, D.C. (unclassified). For a Russian interpretation of the new Interenterprise debt law see Ye. Savvateyeya, "And We Call Debts Promissory Notes!," *Komsomolskaya Pravda,* July 2, 1992, p. 2.

[39] L. Grigoryev, "How to Attract Foreign Capital," *Rossiskiye Vesti,* June 25, 1992. p. 3.

does not yet offer firm judicial guarantees to investors. There is a large number of mutually exclusive instructions and rules."[40] The absence of clear foreign investment laws is the primary reason why foreign corporations have yet to participate in privatization on a scale necessary for its success. Still, the foundation for foreign investment law is beginning to materialize, and recent months have seen an increase in foreign investment.

Last year, the Russian Federation adopted a law on foreign investments (recently modified) and the government has actively pursued bilateral investment treaties with the West. U.S. investors became eligible to receive insurance against political risks through the Overseas Private Investment Corporation on June 4 when the Russian Parliament ratified an April 3 bilateral agreement with the United States. Presidents Bush and Yeltsin also negotiated a bilateral investment treaty, signed during Yeltsin's visit to the United States in June that is awaiting Russian legislative ratification. The June program for privatization contains a special section concerning foreign investment.

In addition to the legal reforms discussed here, other legislation supporting the transition to a market economy is emerging. Antimonopoly laws designed to break up entire sectors of the economy continue to emerge. The law "On Securities" provides the framework for future transactions wherein private property is be used as collateral in financial arrangements. Laws on collective contracts and agreements regulate labor-management relationships and call for collective bargaining. Laws govern the various commodity exchanges that have sprung up during the last year. This emerging legal foundation is indispensable for the transition to a market economy and reflects the government's commitment to continued economic reform.

[40] Interview with Yeltsin, "I Believe in Russia's Renaissance," *Ria Novosti,* June 11, 1992.

Conclusion

Although such a sweeping privatization program has never before been attempted, Yeltsin's government is determined to continue the economic reforms initiated at the beginning of the year. The legal foundation for a successful privatization plan is partially in place. Despite popular resistance to some aspects of the reform package, the Nizhni Novgorod experiment demonstrates that process of turning state enterprises over to the private sector is under way. Still, many obstacles are likely to arise during the next 3 years as the scope and scale of privatization increases. It should not be surprising if the ambitious plans of Russia's young economists are not fulfilled according to schedule.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1989–May 1992

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

				1991					1992					
Country	1989	1990	1991	III	IV	Oct.	Nov.	Dec.	I	Jan	Feb.	Mar.	Apr.	May
United States	2.6	1.0	–1.9	6.8	–0.7	0	–3.3	–7.5	–3.1	–8.6	7.0	5.7	4.5	8.1
Japan	6.2	4.5	2.1	1.3	–5.1	–0.9	0	–14.9	–11.7	–13.4	–5.6	–27.0	8.3	–25.2
Canada	2.0	0.3	–1.1	–3.3	–2.1	0	–1.1	–1.1	2.3	1.1	–9.3	2.2	–2.2	5.7
Germany	5.3	5.9	3.2	–4.7	–2.9	–5.7	–1.0	–13.8	4.6	11.5	22.8	–11.9	(1)	(1)
United Kingdom	0.3	–0.6	–3.0	4.2	–0.5	8.2	–5.5	–4.4	–3.7	–10.8	–14.6	–9.7	8.3	(1)
France	3.7	1.3	0.6	2.0	–1.4	14.7	–8.1	–13.8	0.6	22.2	–9.1	–2.1	19.6	(1)
Italy	3.9	–0.6	–1.8	–9.1	–2.0	–3.1	25.6	–31.3	3.1	24.7	9.8	–2.0	–10.8	(1)

1 Not available.

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

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, July 17, 1992.

Consumer prices, by selected countries and by specified periods, January 1989–June 92

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

				1991				1992							
Country	1989	1990	1991	IV	Oct.	Nov.	Dec.	I	II	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	4.8	5.4	4.2	3.6	0.9	4.5	2.6	2.8	(1)	0.9	3.5	6.2	2.6	1.7	(1)
Japan	2.3	3.1	3.3	3.8	7.7	9.0	–0.9	1.5	2.6	–1.5	1.0	2.6	4.9	–1.0	4.9
Canada	5.0	4.8	5.6	0.2	–2.8	2.9	0	1.6	(1)	1.0	1.9	4.8	1.9	–0.9	(1)
Germany	2.8	2.7	3.5	3.4	3.3	5.5	1.1	3.0	(1)	0	6.6	6.5	1.1	5.4	(1)
United Kingdom	7.8	9.5	5.9	4.0	3.7	5.3	5.9	4.3	4.0	3.3	4.0	4.0	5.0	4.1	0.7
France	3.5	3.4	3.1	3.5	3.7	4.2	3.7	3.2	(1)	2.4	3.5	3.3	1.7	3.2	(1)
Italy	6.6	6.1	6.5	5.7	5.7	7.2	4.5	5.0	5.6	7.7	–0.5	6.6	5.6	8.6	4.6

1 Not available.

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

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, July 17, 1992.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, January 1989–June 1992

				1991		1992							
Country	1989	1990	1991	IV	Dec.	I	II	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	5.3	5.5	6.7	6.9	7.1	7.2	7.5	7.1	7.3	7.3	7.2	7.5	7.8
Japan	2.3	2.1	2.1	2.2	2.2	2.1	(5)	2.1	2.0	2.1	2.0	2.1	(5)
Canada	7.5	8.1	10.3	10.3	10.3	10.7	11.3	10.4	10.6	11.1	11.0	11.2	11.6
Germany[2]	5.7	5.2	4.4	4.4	4.4	4.4	4.6	4.4	4.4	4.4	4.6	4.6	4.7
United Kingdom	7.1	6.9	8.9	9.8	10.5	10.2	10.5	10.1	10.3	10.3	10.4	10.5	10.6
France	9.6	9.2	9.8	10.3	10.3	10.0	(5)	10.1	10.1	10.1	10.2	10.2	(5)
Italy[3]	7.8	7.0	6.9	6.9	(4)	7.0	(4)	7.0	(4)	(4)	(4)	(4)	(4)

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

2 Formerly West Germany.

3 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 1989–1990.

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

5 Not available.

Unemployment Rates in Nine Countries, U.S. Department of Labor, July 1992

Money–market interest rates,[1] by selected countries and by specified periods, January 1989–July 1992

(Percentage, annual rates)

				1991			1992								
Country	*1989*	*1990*	*1991*	*IV*	*Nov.*	*Dec.*	*I*	*II*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*Jun.*	*Jul.*
United States	9.3	8.3	5.9	5.0	4.9	4.4	4.2	3.9	4.5	4.1	4.4	4.0	3.8	3.9	3.4
Japan	5.3	6.9	7.5	7.2	7.3	7.0	6.6	6.4	6.8	6.6	6.5	6.3	6.3	6.3	([2])
Canada	12.2	13.0	9.0	7.8	7.7	7.5	7.3	6.5	7.3	7.3	7.5	6.9	6.5	5.9	([2])
Germany	7.1	8.5	9.2	9.5	9.4	9.6	9.6	9.8	9.5	9.6	9.6	9.9	9.7	9.6	([2])
United Kingdom	13.9	14.8	11.5	10.6	10.5	10.8	10.5	10.2	10.6	10.4	10.7	10.4	10.0	10.0	([2])
France	9.4	10.3	9.6	9.6	9.5	10.1	9.9	9.9	9.9	9.9	10.0	9.9	9.9	10.0	([2])
Italy	12.8	12.7	12.1	12.0	11.9	12.6	12.2	12.9	12.1	12.2	12.3	12.4	12.4	13.7	([2])

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

Source: *Federal Reserve Statistical Release*, August 17, 1992 *Economic and Energy Indicators*, Central Intelligence Agency, July 17, 1992.

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

Effective exchange rates of the U.S. dollar, by specified periods, January 1989–July 1992

(Percentage change from previous period)

				1991			1992							
Item	*1989*	*1990*	*1991*	*IV*	*Nov.*	*Dec.*	*I*	*II.*	*Feb.*	*Mar.*	*Apr.*	*May*	*Jun.*	*Jul.*
Unadjusted:														
Index[1]	91.3	86.5	85.5	84.0	82.8	84.8	85.2	83.0	84.8	86.8	86.4	85.5	83.7	81.7
Percentage change	6.4	–5.3	–1.2	–4.1	–1.2	.8	.4	.2	2.1	2.3	–.4	–1.0	–2.1	–2.4
Adjusted: Index[1]	91.8	88.1	87.0	85.6	84.4	86.7	86.9	84.6	86.4	88.6	88.2	87.3	85.4	83.3
Percentage change	6.8	–4.0	–1.2	–3.2	–1.2	1.3	.2	.2	3.1	2.5	–.4	–1.0	–2.2	–2.4

[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, August 1992.

Trade balances, by selected countries and by specified periods, January 1989–June 1992

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

				1991	1992						
Country	*1989*	*1990*	*1991*	*IV*	*I*	*II.*	*Feb.*	*Mar.*	*Apr.*	*May*	*Jun.*
United States[1]	–109.1	–101.7	–66.2	–66.8	–59.6	–83.2	–39.5	–67.0	–83.6	–85.6	–79.1
Japan	77.6	63.7	103.1	119.6	130.4	([3])	140.4	128.4	111.6	142.8	([3])
Canada	6.0	9.4	6.4	3.2	7.2	([3])	7.2	7.2	7.2	([3])	([3])
Germany[2]	71.9	65.6	13.5	29.2	([3])	([3])	16.8	([3])	([3])	([3])	([3])
United Kingdom	–40.4	–33.3	–17.9	–18.0	–21.6	([3])	–21.6	–18.0	–28.8	–18.0	([3])
France	–7.0	–9.2	–5.4	1.2	3.6	([3])	1.2	2.4	16.8	9.6	([3])
Italy	–12.9	–10.0	–12.8	–10.8	–10.0	([3])	–16.8	–4.8	–15.6	–15.6	([3])

[1] Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.
[2] 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 Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, July 17, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, August 19, 1992

U.S. trade balance, [1] by major commodity categories, and by specified periods, January 1989–June 1992

(In billions of dollars)

				1991	1992						
Country	*1989*	*1990*	*1991*	*IV*	*I*	*II*	*Feb.*	*Mar.*	*Apr.*	*May*	*Jun.*
Commodity categories:											
Agriculture	17.9	16.3	16.2	5.4	5.1	3.7	1.9	1.6	1.5	1.1	1.1
Petroleum and selected product—(unadjusted)	–44.7	–54.6	–42.3	10.0	–8.1	–10.8	–2.2	–2.9	–3.3	–3.5	–4.0
Manufactured goods	–103.2	–90.1	–67.2	–21.5	–14.5	–16.9	–3.9	–4.9	–5.8	–5.3	–5.8
Selected countries:											
Western Europe	–1.3	4.0	16.1	3.3	6.6	1.4	2.6	2.3	.6	.9	–.1
Canada[2]	–9.6	–7.7	–6.0	–2.1	–1.4	–1.8	–.7	–.5	–.6	–.8	–.4
Japan	–49.0	–41.0	–43.4	–12.4	–10.8	–11.1	–3.0	–4.0	–4.2	–3.5	–3.4
OPEC (unadjusted)	–17.3	–24.3	–13.8	–2.5	–1.5	–2.2	–.4	–.4	–.3	–.8	–1.1
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$16.80	$19.75	$17.49	$17.52	$14.57	$16.82	$14.42	$14.46	$15.49	$16.72	$18.25

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

[2] Beginning with 1989, figures include previously undocumented exports to Canada.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, August 19, 1992.