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In This Issue:

International Economic Comparisons

U.S. Trade Developments

International Trade Developments:

Update on bilateral trade agreements between the EC and Eastern Europe and the former Soviet republics

China agrees to ease market-access barriers to U.S. exports

Last-minute GATT agriculture talks fail, then succeed

Is the United States isolated on isolating Cuba?

ASEAN moves closer to free-trade area

Expanding commercial relations with former Yugoslav republics offer selective opportunities for business

Statistical Tables

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TABLE OF CONTENTS

TABLE OF CONTENTS—Continued

INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Latest economic data show a higher than projected pickup in overall economic activity.

Revised estimates released by the U.S. Department of Commerce for the third quarter of 1992 show that U.S. real gross domestic product (GDP) grew at an annual rate of 3.9 percent or by $47.0 billion. Real GDP in the third quarter reached $4,939.4 billion. In the second quarter real GDP grew at an annualized rate of 1.5 percent, or by $18.7 billion. Real GDP in the second quarter was $4,892 billion. Major forecasts projected an average real growth rate of 1.4 percent for the third quarter.

The pickup in third quarter GDP was caused by a surge in domestic demand for consumer goods, a rise in business and Government spending, and a buildup of business inventories. Real personal consumption expenditures, a major GDP component, increased in the third quarter by $29.9 billion to $3,318 billion in contrast to a decrease of $0.8 billion in the second quarter. Because consumer expenditures represent two-thirds of the GDP, a strong economic recovery is dependent on the strengthening of these expenditures. Business inventory rose, adding $12.4 billion to the change in real GDP. (Nonfarm business inventory rose by $14.8 billion, and farm inventories rose by $5.3 billion.)

Business spending, another major component of the GDP and an indicator of future growth, increased, although more slowly in the third quarter than in the second. Real nonresidential fixed investment increased by only $2.4 billion, compared with an increase of $18.9 billion in the second quarter. Producers' durable equipment purchases increased by $8.1 billion, compared with the earlier increase of $19.2 billion. Nonresidential structures decreased by $7.5 billion, compared with a decrease of $0.3 billion in the previous quarter. If a low level of business spending continues, it could throttle future business expansion and employment. However, the Federal Reserve's financial reports point to a rising trend in money supply resulting from increased bank lending. Increased lending accompanied by low interest rates could encourage a new round of spending and could boost employment in the manufacturing and housing sectors, particularly if supported by an improvement in consumer confidence coupled with increased consumer spending.

Real Federal Government spending increased by $5.7 billion in the third quarter following a decrease of $2.6 billion in the second.

Real exports of goods and services increased in the third quarter to $576.2 billion from $563.4 in the second. Exports of merchandise increased to $422.2 billion from $408.0 billion, and exports of agricultural products increased to $42.2 billion from $37.6 billion. Exports of services amounted to $154.0 billion in the third quarter, down from $155.4 billion in the second. Real imports rose to $626.0 billion in the third quarter from $607.3 billion in the second. Imports of merchandise amounted to $526.0 billion up from $507.8 billion in the second quarter. Imports of petroleum rose to $52.0 billion from $50.9 billion, and imports of services rose to $100.0 billion from $99.5 billion. The trade deficit in goods and services (in 1987 dollars) increased to $49.7 billion in the third quarter from $43.9 billion in the second.

Meanwhile, current-dollar personal income rose by $31.3 billion, compared with a much larger increase of $48.4 billion in the second. Because the increase in consumer expenditures was not supported by a larger rise in personal income, personal savings declined by $31.3 billion in the third quarter, compared with an increase of $17.7 billion in the second.

Particularly noteworthy was the rise in U.S. productivity in the third quarter. The U.S. Department of Labor reported that preliminary productivity data—as measured by output per staff-hour seasonally adjusted at an annual rate—rose by 3.0 percent in the business sector (including farming) and by 2.6 percent in the nonfarm business sector. In manufacturing, overall productivity rose by 4.4 percent. Productivity grew by 5.1 percent in durable goods manufacturing and by 3.5 percent in nondurable goods manufacturing. The rapid growth in manufacturing productivity, although the largest in nearly 4 years, mainly reflected a decline in hours worked coupled with a small increase in total output. Manufacturing currently accounts for about 20 percent of business employment, according to the U.S. Department of Labor data. Goods-producing industries (mining, construction, manufacturing of durable and nondurable goods) account for 21.5 percent of total nonfarm employment, whereas services account for 78.5 percent. Productivity in the second quarter of 1992 rose by 1.0 percent.

Moreover, monthly statistics show encouraging signs in some key sectors. Particularly encouraging were the improvement in consumer optimism and the increase in retail sales in October. Consumer optimism rose sharply, by 10.3 points according to Michigan University's index of consumer sentiments. Consumer spending rose and retail sales edged up by 0.9 percent, according to U.S. Department of Commerce data.

Also encouraging was the strengthening of factory orders in September by 1.1 percent after declining in August and July. The decline in defense orders was a major cause for the slow rise in overall factory orders. Excluding defense orders, factory orders were up by 1.8 percent. Another encouraging sign was the rise in the nation's industrial output by 0.3 percent in October, the second increase in 5 months, after falling by 0.2 percent in September and 0.3 percent in August. Economists are cautiously optimistic that the manufacturing sector might be at last lifting from its doldrums.

In the foreign sector a record increase in exports of chemicals and high-tech products coupled with a smaller increase in imports accounted for the decline in September's merchandise trade deficit to $8.3 billion, from $9.0 billion in August. Exports increased by $2.44 billion and imports increased by $1.8 billion. The September trade deficit was the highest since the $9.5 billion deficit in November 1990. On an annual basis, the January-September 1992 deficit rose to $80.2 billion, from $65.6 billion in January-August 1991.

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

Economic Growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew in the third quarter by 3.9 percent at an annual rate following an increase of 1.5 percent in the second quarter of 1992. Real GDP declined by 1.2 percent in 1991, representing the first annual decline since 1982.

The annualized rate of real economic growth in the second quarter of 1992 was -0.7 percent in the United Kingdom, 0.4 percent in France, -1.1 percent in Germany, 0.7 percent in Canada, 0.7 percent in Japan, and 0.9 percent in Italy.

Industrial Production

Seasonally adjusted U.S. nominal industrial production edged up by 0.3 percent in October after declining by 0.2 percent in September. The October increase was due to significant hikes in light truck assemblies. Capacity utilization in manufacturing, mining, and utilities edged up by 0.1 percentage point to 78.5 percent in October 1992. Total industrial output in October 1992 was 0.6 percent above its level in October 1991. For the third quarter as a whole, industrial production rose at an annual rate of 1.9 percent after growing at a 5.2-percent annual rate in the second quarter and after falling by 2.9 percent in the first.

Other G-7 member countries reported the following annual growth rates of industrial production: for the year ending September 1992, Japan reported a decrease of 4.6 percent and Germany reported a decrease of 3.3 percent; for the year ending August 1992, the United Kingdom reported a decrease of 0.2 percent, Italy reported a decrease of 0.3 percent, France reported a decrease of 1.2 percent, and Canada reported an increase of 0.9 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.4 percent in October following an increase of 0.2 percent in September. The Consumer Price Index rose by 3.2 percent during the 12 months ending October 1992.

During the 1-year period ending October 1992, prices increased by 3.8 percent in Germany and by 4.9 percent in Italy; and during the 1-year period ending September 1992, prices increased by 3.6 percent in the United Kingdom, 1.3 percent in Canada, 2.6 percent in France, and 2.0 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States went down to 7.4 percent in October from 7.5 percent in September, from 7.6 percent in August and 7.7 percent in July 1992. Labor force decline rather than job growth accounted chiefly for the downward trend according to the Labor Department.

In October 1992, unemployment was 11.3 percent in Canada and 7.0 percent in Germany. In September, unemployment was 10.3 percent in France, 10.1 percent in the United Kingdom, 2.2 percent in Japan, and 10.6 percent in Italy. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasters expect real growth in the United States to average about 2.0 percent (at an annual rate) in the fourth quarter of 1992. In the first half of 1993 the real growth rate is expected to range from 2.4 percent to 3.0 percent. Factors that are likely to throttle the recovery include the general slowdown in global economic growth, particularly in industrialized countries, and the uncompleted structural adjustments in the financial and nonfinancial sectors that have been impeding a vigorous economic recovery in the United States and abroad. Chief among these factors are the large fiscal deficits, the slowdown in the manufacturing sector, and the high consumer and business debts. Table 1 shows macroeconomic projections for the U.S. economy for October 1992-September 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.

Several forces could be working in favor of stronger growth in the first half of 1993. First, general economic conditions will probably improve as the process of adjustment in the business sector continues and as consumer confidence and spending strengthen. Also, it is expected that there will be gains in employment and that incomes will subsequently rise. Investment spending is also expected to rise, due to the moderation of wage increases, cost cutting and corporate restructuring, and low interest and inflation rates. Finally export growth is expected to increase as a result of the relative moderation of the foreign value of the dollar and the anticipated improvement in the industrial countries' economic conditions. Such improvement should increase foreign demand for U.S. exports. The average of the forecasts points to an average unemployment rate of 7.6 percent throughout the last quarter of 1992 and a slight improvement thereafter. Inflation (as measured by the GDP deflator) is expected to rise in the first quarter of 1993 and then decline in the remainder of 1993.

Direct Investment Positions

U.S. Direct Investment Position Abroad

The total U.S. direct investment abroad (USDIA) position on an historical-cost basis (table 2) increased by 21 percent in 1991, to $450.2 billion from $372.4 billion in 1989, according to data recently released by the U.S. Department of Commerce.

The U.S. direct investment position in the European Community (EC) increased by 26.2 percent, to $188.7 billion. By country within the EC, the USDIA position increased by 41.2 percent in Germany, to $33 billion; by 43 percent in the Netherlands, to $24.7 billion; by 11.6 percent in the United Kingdom, to $68.3 billion; and by 35.8 percent in France, to $20.5 billion. The U.S. investment position in Japan rose by 22.3 percent in 1991, to $23.0 billion; in Australia by 14 percent, to $15.6 billion; and in other Asian and Pacific countries by 26 percent, to $25.2 billion. The USDIA position in Latin America and the rest of the Western Hemisphere grew by 23.7 percent, to $77.3 billion.

The U.S. investment position abroad in manufacturing increased to $175.4 billion in 1991 from $144.7 billion in 1989 and accounted for 39 percent of U.S. total world investment. In other industry sectors, the USDIA position in the category of "finance except banking" ranked second to manufacturing; it increased to $117.1 billion from $96.8 billion in 1989, accounting for 26 percent of total U.S. foreign direct investment in 1991. The USDIA position in petroleum amounted to 13.1 percent of total USDIA; wholesale trade amounted to 9.6 percent; banking, 4.2 percent; services, 3.0 percent; and other, 5.2 percent.

Almost half of the total U.S. position in manufacturing was in the EC. It increased to $85.7 billion in 1991 from $68.4 billion in 1989. The U.S. investment position in manufacturing increased to $20.1 billion in Germany from $13.8 billion in 1989. Canada ranked second to the EC, accounting for 18.5 percent of total USDIA in manufacturing, followed by Latin America and the rest of the Western Hemisphere (15.0 percent), and Japan (6.0 percent). In Japan the U.S. investment position in manufacturing increased slightly, to $10.4 billion in 1991 from $9.1 billion in 1989.

Foreign Direct Investment Position in the United States

The foreign direct investment position in the United States (FDIUS) on a historical-cost basis surged during the 1980s for several reasons:(1) higher rates of return relative to home; (2) the desire to integrate vertically by investing upstream in raw material and production facilities and downstream in distribution centers; (3) differences in tax treatments across countries; (4) avoidance of tariff and nontariff barriers; (5) the accumulation of cash reserves and trade surpluses; (6) other specific factors, such as political stability, the large size of the U.S. market, and the undervaluation of U.S. assets; and (7) the strategic location of the U.S. market as a distribution outlet to other nearby markets in Canada and Latin America.

In the 1980s, foreign investment intensified in the United States particularly to take advantage of the depreciated value of U.S. assets. U.S. firms' assets looked undervalued to foreign investors, particularly during the latter half of the 1980s as the value of the dollar hit a level generally believed to be below its long-run equilibrium and purchasing power parity established in 1973. Foreign investors then realized that future returns to dollar-denominated direct investments would be well above their current values.

Statistics published by the U.S. Department of Commerce show that in the 1980s, three-fourths of all foreign direct investment in the United States was for acquiring existing companies and about one-fourth was for establishing new ones. The rate of return on foreign investment in the United States based on the market

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, October 1992-September 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		
October-December 1992	5.2	4.3	4.0	4.4	4.5
1993:					
January-March	4.9	4.9	5.7	6.2	5.4
April-June	5.2	5.4	5.6	6.0	5.6
July-September	5.3	5.7	4.9	6.7	5.7
			GDP constant (1987) dollars		
October-December 1992	1.8	1.6	1.8	2.7	2.0
1993:					
January-March	1.9	1.8	2.9	2.8	2.4
April-June	2.7	2.6	3.2	3.2	3.0
July-September	3.5	2.8	2.5	3.7	3.1
			GDP deflator index		
October-December 1992	3.3	2.7	2.2	2.2	2.6
1993:					
January-March	2.9	3.0	2.7	3.2	3.0
April-June	2.4	2.7	2.3	2.8	2.6
July-September	2.8	2.8	2.4	2.9	2.7
			Unemployment, average rate		
October-December 1992	7.5	7.6	7.6	7.5	7.6
1993:					
January-March	7.5	7.5	7.5	7.5	7.5
April-June	7.4	7.4	7.4	7.4	7.4
July-September	7.3	7.3	7.3	7.2	7.3

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: November 1992.

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

value of assets averaged 2.6 percent between 1982 and 1991, whereas the rate of return for all U.S. businesses in the same period averaged 8.4 percent. Other factors, like the depreciated values of U.S. assets, the accumulation of trade surpluses and cash reserves, and the avoidance of direct and indirect trade barriers appear to have dominated foreign business' investment rationale during this period more than strict rate-of-return considerations. Large current account surpluses have led to the large outflows of Japanese capital seeking investment in the United States. Japanese investment also sought to avoid direct and indirect trade barriers by producing directly in the United States.

A primary example of investment to achieve vertical integration was the British investment in petroleum, which includes both upstream and downstream activities. Investment in this industry has boosted the overall British rate of return, whereas Japanese investment in wholesale trade, a downstream activity, held down the Japanese rate of return.

Total foreign investment in the United States (table 3) increased in 1991 by 10.5 percent, to $407.6 billion from $369 billion in 1989. The major foreign investors in the United States in 1991 were the EC followed by investors from Asia and the Pacific, Canada, and Latin America and the rest of the Western Hemisphere. The EC's investment in the United States amounted to $232.0 billion, or 57.0 percent of total FDIUS. Among the EC countries, the United Kingdom ranked first. British investment amounted to $106.1 billion in 1991, or 45.7 percent of the EC total. The Netherlands ranked second to the United Kingdom ($64 billion) followed by Germany ($28.2 billion) and France ($22.7 billion). Japan's investment in the United States increased to $86.7 billion in 1991 from $67.3 billion in 1989.

Industry distribution of FDIUS in 1991 was skewed towards manufactures except in the case of Japanese investment, which concentrated on wholesale trade and real estate. The EC's investment concentrated on manufactures, petroleum, wholesale trade, insurance, services, and real estate. Both the United Kingdom and the Netherlands invested more heavily in petroleum, integrating their business activities both upstream and downstream in this industry.

Table 2
U.S. direct investment position abroad on an historical-cost basis, in billions of dollars, by industry and country, 1991

Countries	*All industries*	*Petro-leum*	*Manufact-uring*	*Wholesale-trade*	*Banking*	*Finance except banking*	*Services*	*Other indust-ries*
All countries	450.2	59.2	175.4	43.2	18.8	117.1	13.4	23.2
Canada	68.5	10.8	32.4	4.4	1.1	12.2	2.2	5.5
EC	188.7	17.8	85.7	16.2	5.2	51.5	7.3	5.1
of which:								
Germany	32.9	3.6	20.1	2.0	1.5	4.3	0.4	1.0
Netherlands	24.7	1.8	7.7	1.6	0.1	11.0	1.8	0.7
United Kingdom	68.3	9.5	20.9	2.9	1.8	28.4	2.7	2.1
France	20.5	([1])	12.0	3.8	([1])	2.2	0.8	0.5
Other Europe	35.9	5.0	3.4	8.6	1.8	15.9	0.9	0.2
Japan	22.9	4.2	10.4	4.9	([1])	2.6	0.4	0.5
Australia	15.6	2.8	6.1	1.2	([1])	1.5	([1])	2.7
New Zealand	2.8	([1])	0.6	0.1	([1])	([1])	([1])	1.7
Other Asia & Pacific	25.2	6.0	9.1	4.1	2.9	2.1	0.3	0.8
South Africa	1.0	([1])	0.5	([1])	0.1	([1])	([1])	0.2
Other Africa	4.4	3.3	0.4	0.2	([1])	0.2	0.1	0.2
Latin America & other Western Hemisphere	77.3	4.3	25.7	3.4	6.8	29.9	1.7	5.5
Middle East	4.7	1.9	1.2	0.2	0.1	0.9	([1])	0.4
OPEC	11.0	5.4	2.4	0.4	0.2	1.1	([1])	1.7

[1] Suppressed to avoid disclosure of data of individual companies.

Source: U.S. Department of Commerce, *Survey of Current Business*, Aug. 1992

Table 3
Foreign direct investment position in the United States on an historical-cost basis, in billions of dollars, by industry and country, 1991

Countries	*All industries*	*Petroleum*	*Manufacturing*	*Wholesale trade*	*Retail trade*	*Banking*	*Finance except banking*	*Insurance*	*Real estate*	*Services*	*Other*
All countries	407.6	40.0	162.9	53.0	6.7	20.7	9.2	33.3	33.8	31.5	16.7
Canada	30.0	0.9	9.7	2.0	([1])	2.0	2.5	5.3	4.1	0.9	4.4
EC	232.0	31.7	110.2	19.1	4.2	8.4	([1])	19.7	10.2	19.4	10.6
of which:											
United Kingdom	106.1	14.2	50.1	5.3	2.0	2.3	2.4	7.8	3.5	11.0	7.4
Netherlands	63.9	12.3	24.1	5.3	0.3	1.9	3.2	5.2	5.1	5.5	1.0
Germany	28.2	0.6	16.6	6.6	1.0	0.8	-4.2	4.8	1.2	0.2	0.7
France	22.7	3.0	14.8	0.8	0.2	1.3	-2.0	1.4	0.1	2.2	1.0
Other Europe	26.1	0.3	16.6	2.4	0.1	0.2	([1])	5.5	0.5	0.6	([1])
Asia & Pacific	96.7	2.8	22.4	27.5	1.4	7.5	7.7	0.9	15.9	9.1	1.5
Australia	6.6	2.7	2.1	0.6	([1])	([1])	([1])	([1])	0.4	1.3	0.6
Japan	86.7	0.1	18.7	26.9	1.1	6.8	9.1	0.6	15.0	7.6	0.8
Latin America & other Western Hemisphere	17.7	2.4	3.7	2.0	2.2	1.8	0.1	2.0	2.0	1.4	0.1
Middle East	4.8	([1])	([1])	([1])	([1])	0.8	0.3	([1])	1.2	([1])	([1])
OPEC	4.3	2.2	([1])	([1])	([1])	([1])	([1])	([1])	1.3	([1])	([1])

[1] Suppressed to avoid disclosure of data of individual companies, unavailable or less than $200,000.
Source: U.S. Department of Commerce, Survey of Current Business, August 1992.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit decreased from $8.9 billion in August to $8.3 billion in September 1992. A $2.4 billion rise in September's exports and a $1.8 billion increase in imports accounted for the $600 million improvement in the monthly balance. Exports increased to $38.2 billion in September and imports increased to $46.6 billion. The trade deficit increased to $60.1 billion in January-September 1992 from $49.2 billion in the corresponding period of 1991. At an annual rate the deficit increased from $65.6 billion in January-September 1991 to $80.2 billion in the corresponding period of 1992. Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 4.

The September 1992 deficit was 34 percent higher than the $6.2 billion average monthly deficit registered during the previous 12-month period and 27.7 percent higher than the $6.5 billion deficit registered in September 1991. When oil is excluded, the September 1992 merchandise trade deficit decreased by $960 million from the previous month.

Nominal export changes and trade balances in September 1992 for specified major commodity sectors are shown in table 5. Automatic data processing and office machinery, telecommunications, power-generating machinery, scientific instruments, airplane parts, electrical machinery, and iron and steel mill products are among the sectors that recorded the highest export increases from August to September. Airplanes recorded the largest trade surplus in the January-September 1992 period.

The U.S. agricultural trade surplus increased in September to $1.54 billion. The agricultural surplus reached $13.0 billion in January-September 1992 and is running at 18.2 percent above the level recorded in the January-September 1991 period ($11.0 billion). U.S. payments for oil imports remained virtually unchanged at $3.5 billion.

U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 6. In September 1992 the United States registered an increase in bilateral merchandise trade deficits with Japan, Canada, the European Free Trade Association (EFTA) and China, and deficit reductions with Germany, the newly industrializing countries (NICs), and the Organization of Petroleum Exporting Countries (OPEC). The U.S. deficit with Japan increased by $710 million. From January-September 1991 to the corresponding period in 1992, the United States registered a significant decline in its bilateral trade deficits with OPEC and registered deficit increases with Japan, Canada, Germany, EFTA, the 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 4
U.S. merchandise trade, seasonally adjusted in billions of dollars, August-September 1992

Item	Exports		Imports		Trade balance	
	September 92	*August 92*	*September 92*	*August 92*	*September 92*	*August 92*
Current dollars—						
Including oil	38.2	35.8	46.6	44.8	-8.3	-8.9
Excluding oil	37.7	35.2	41.7	40.2	-4.0	-4.9
1987 dollars	36.3	33.9	43.7	42.2	-7.4	-8.3
Three-month-moving average	37.3	37.3	45.5	44.9	-8.2	-7.7
Advanced-technology products (not seasonally adjusted)	8.8	7.7	6.8	6.1	+2.0	+1.6

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

Table 5
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors and agriculture, January 1991-September 1992

Sector	*Exports* January-September 1992	*Exports* September 1992	*Change* January-September 1992 over January-September 1991	*Change* September 1992 over August 1992	*Share of total January-September 1992*	*Trade balances January-September 1992*
	Billion dollars		*Percent*			*Billion dollars*
ADP equipment & office machinery	19.7	2.4	2.9	22.0	5.9	-6.43
Airplanes	19.8	1.7	15.4	-5.0	6.0	16.93
Airplane parts	7.0	0.8	-7.1	14.1	2.1	4.40
Electrical machinery	23.7	2.8	5.6	11.8	7.1	-5.46
General industrial machinery	13.9	1.5	9.0	7.8	4.2	2.19
Iron & steel mill products	2.7	0.3	-16.3	6.9	0.8	-3.47
Inorganic chemicals	3.2	0.3	5.7	-8.6	1.0	0.58
Organic chemicals	8.4	1.0	-0.4	13.6	2.5	1.73
Power-generating machinery	13.2	1.6	7.5	19.9	4.0	1.60
Scientific instruments	10.7	1.3	6.4	14.7	3.2	5.17
Specialized industrial machinery	12.5	1.4	0.1	4.4	3.8	3.90
Telecommunications	8.1	1.0	11.3	20.0	2.4	-10.58
Textile yarns, fabrics and articles	4.3	0.5	6.4	2.1	1.3	-1.58
Vehicle parts	12.3	1.4	16.6	3.0	3.7	0.61
Other manufactured goods[1]	20.6	2.1	13.7	-17.7	6.2	-3.37
Manufactured exports not included above	77.7	8.7	6.7	11.3	23.4	-65.80
Total manufactures	257.8	28.9	6.8	7.9	77.6	-59.58
Agriculture	30.5	3.3	10.9	9.6	9.2	12.90
Other exports	43.9	5.0	1.8	-1.8	13.2	-10.91
Total	332.1	37.2	6.5	6.6	100.0	-57.59

[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), Nov. 1992.

Table 6
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1991-September 1992

Area or country	*Sept. 1992*	*Aug. 1992*	*Sept. 1991*	*Jan.-Sept. 1992*	*Jan.-Sept. 1991*
Japan	-4.44	-3.73	-4.17	-33.96	-30.84
Canada	-0.80	-0.72	-0.38	-5.11	-3.96
Western Europe	+0.26	-0.08	+1.21	+7.11	+12.93
EC	+0.56	+0.07	+1.34	+8.87	+13.24
Germany	-0.70	-0.72	-0.35	-4.74	-2.96
European Free Trade Association (EFTA)[1]	-0.44	-0.29	-0.21	-2.95	-1.40
NICs[2]	-1.74	-2.08	-1.66	-10.86	-9.12
U.S.S.R. (former)	+0.15	+0.26	+0.23	+2.03	+1.81
China	-2.28	-1.88	-1.43	-13.43	-8.63
Mexico	+0.53	+0.18	+0.04	+4.43	+1.30
OPEC	-1.10	-1.27	-1.14	-7.59	-11.00
Total trade balance	-9.34	-9.84	-7.09	-57.59	-46.26

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

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

Note.— Country/area figures may 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), Nov. 1992.

INTERNATIONAL TRADE DEVELOPMENTS

Update on Bilateral Trade Agreements Between the European Community and Eastern Europe and the Former Soviet Republics

The European Community (EC) has negotiated a number of bilateral trade agreements with Eastern and Central European countries in support of their political and economic reform process. A first generation of these agreements, known as trade and cooperation agreements, was negotiated with Poland, Hungary, Czechoslovakia, Bulgaria, Romania, and the Soviet Union over the period 1988 to 1990. However, these agreements were limited in scope. Therefore, the EC decided to negotiate more far-reaching "association agreements" that would move beyond the aspects of commercial and economic cooperation covered in the first generation of accords to include political dialog and cultural cooperation. These agreements cover four basic elements: (1) free trade with the Community; (2) industrial, technical, and scientific cooperation; (3) a long-term agenda of financial support; and (4) a mechanism for political dialog. The EC signed association agreements with Poland, Hungary, and the Czech and Slovak Federal Republic (CSFR), formerly Czechoslovakia, in 1991 and is currently negotiating such agreements with Bulgaria and Romania. In 1992 the EC also signed trade and cooperation agreements with Albania and the Baltic countries of Estonia, Latvia, and Lithuania.

Poland, Hungary, and the CSFR

On December 22, 1991, the EC signed bilateral association agreements with Poland, Hungary, and the CSFR. The association agreements call for the introduction of a free-trade zone covering a wide range of products, over a 10-year transition period. The three association agreements are broadly similar. Each is divided into several sections covering many issues, i.e. political dialog; commercial, economic, financial, and cultural cooperation; the free movement of goods, services, people, and capital; the gradual application of EC law, notably in competition policy; and the right of establishment according to the principle of national treatment. Special protocols cover sensitive products, including textiles, steel, agriculture, and fisheries. All three agreements call for the harmonization of the laws of the associated countries with those of the EC, especially in such areas of law as customs policy, banking, and financial services; intellectual property; worker and consumer protection; environmental law; and standards.

On March 1, 1992, the bilateral association agreements between the EC and Poland, Hungary, and the CSFR went into effect on an interim basis. The purpose for the implementation of interim agreements was to provide time for ratification by the associated countries, the EC member states, and the European Parliament. The European Parliament and the EC member states have already ratified both Poland and Hungary's association agreements. Poland ratified its association agreement with the EC in April 1992. However, Hungary has delayed ratification of its agreement until after January 1993. The CSFR was to ratify the agreement in July 1992; however, political division of Czechoslovakia into the Czech and Slovak Federal Republic has delayed ratification. Therefore, to date, Hungary and the CSFR are still on interim status. Because of the delay in the ratification process, the interim deadline was recently changed from December 31, 1992, to the date when the remaining countries ratify their agreements with the EC and when the EC member states and the European Parliament ratify the CSFR's association agreement. On October 5th foreign ministers from the EC, Poland, Hungary and the CSFR issued a joint statement promising that ratification of all of the association agreements will occur at the earliest possible date.

The preamble of each association agreement recognizes the ultimate goal of Poland, Hungary, and the CSFR to become members of the EC. At the October 22 meeting between the Visegrad countries (Poland, Hungary, and the CSFR) and the EC, the three countries stated that they wish to enter into membership talks by 1996 and they hope to achieve EC membership by the end of the century. The EC Commission stated that in economic terms, Poland, Hungary, and the CSFR will require a "long period of adaptation" before being eligible for membership. The EC Commission feels that Poland is liable to be slightly behind Hungary and the CSFR because of Poland's somewhat low industrial capacity and underdeveloped economy. Hungary and the CSFR are expected to be able to participate in the Economic and Monetary Union before Poland, although these two countries will require structural reforms to be able to compete effectively with the EC and the world. The EC's response to their request for membership was noncommittal. However, Prime Minister John Major, the current President of the EC's Council of Ministers, stated that clear criteria for membership would be drawn up in time for the December EC summit in Edinburgh.

Romania and Bulgaria

On May 11, 1992, EC Foreign Ministers approved mandates for negotiating bilateral association agreements between the EC on the one hand and Bulgaria and Romania on the other. Following months of exploratory talks, problems were resolved, particularly in the areas of human rights and steel, clearing the way for the agreements to be negotiated and signed by the end of 1992. These agreements are modeled after those negotiated with Poland, Hungary, and the CSFR. However, they are not as far-reaching as those agreements with the Visegrad countries in relation to the issue of eventual EC membership. Bulgaria and Romania are far behind Poland, Hungary, and the CSFR in terms of economic development. Therefore, the Community feels that since neither the prerequisites for democratization nor economic prerequisites are assured, a long period of transition is necessary before membership could even be considered. The major issues remaining to be resolved between the EC and Romania and Bulgaria cover trade in certain sensitive products including textiles, agriculture, and steel. However, Romania has stated that it will sign its association agreement with the EC in December 1992. The goal set for Bulgaria to sign its association agreement with the EC is December 1992; however, a Bulgarian official recently commented that the date will probably be extended to the end of March 1993.

The Baltic States and Albania

On May 11, 1992, the EC also signed 10-year bilateral trade and cooperation agreements with the Baltic nations of Latvia, Lithuania, and Estonia and with Albania. Each of these trade and cooperation agreements features the mutual granting of most-favored-nation status; the granting by the Baltic nations and Albania of nondiscriminatory treatment to EC products with respect to licensing and foreign exchange controls; removal of EC quantitative restrictions on imports from the Baltic states and Albania; a clause requiring respect for human rights, democratic principles, and the principles of a market economy; and various programs to promote commercial and economic cooperation. A special clause in all of the agreements requires that trade in goods be conducted at market prices. Individually, the trade and cooperation agreements take into account the specific interest of each country. For example, the EC-Latvia agreement contains a specific reference to the production of construction equipment, and the EC-Lithuania agreement refers to nuclear energy safety and security. The EC agreements with Albania and with Estonia each contain references to textiles and clothing. The purpose of these special references is for the EC to aid the four countries in the areas where improvement is needed. These trade and cooperation agreements are the first step towards closer ties with the EC. An Estonian official expressed determination for the Baltic nations to negotiate association agreements with the EC soon, with EC membership to follow. On the other hand, a Latvian official cautioned that the Baltic nations will have to rebuild their economies and introduce their own currencies before association agreements can be concluded.

The Former Soviet Republics

In December 1989 a new relationship between the EC and the U.S.S.R. began with the signing of their first bilateral trade and economic cooperation agreement. This agreement covered trade in almost all products for a period of 10 years. It is presently in effect until the EC decides the best direction in which to take negotiations with the newly independent nations. EC officials have commented that they will not rush into negotiations with the newly independent states, nor attempt to negotiate agreements with the states like those reached with Poland, Hungary, and the CSFR. According to the EC, association agreements like those concluded with the Visegrad countries would be too premature for the new states mainly because the process for political and economic reform is not sufficiently developed in the new states for the EC to begin negotiating such intimate ties. However, the European Community decided at a meeting in Luxembourg on October 5, 1992, that it should begin negotiating broad trade agreements with the former Soviet republics. The EC hopes to conclude agreements with Russia, Belarus, the Ukraine, and Kazakhstan by the end of 1992 and to move on to set up negotiations with other former Soviet states. However, an EC official has commented that this timeframe is unlikely.

China Agrees to Ease Market-Access Barriers to U.S. Exports

On October 10, 1992, the United States and China signed an agreement, or memorandum of understanding, that provides for China to open its markets to U.S. and other foreign goods by committing to major reforms of its trade regime. The accord was reached following a year of negotiations carried out in a section 301 investigation that had brought the two countries to the brink of a trade war as the October 10 deadline for its completion approached (*IER*, Oct. 1992). The investigation has been terminated, bringing to an end the threat of punitive trade action by the United States and retaliation by China. However, the United States will continue to monitor the Chinese Government's compliance with the agreement, as provided for under U.S. law.

One of the most important provisions of the agreement for U.S. export interests is China's commitment to phase out most of the nontariff import barriers that in recent years have constituted its principal means of controlling imports. These barriers are mainly licensing requirements, quotas, and bans on a large number of specific import commodities, but they also include regulations that severely limit imports in certain sectors of the Chinese economy. The scheduled phaseout of the product-specific restrictions will begin on December 31, 1992, and will continue on a once-a-year basis until December 31, 1997.

Barriers to the importation of only four products—telephonic or telegraphic switching equipment, instant cameras, instant print film, and cathode-ray oscilloscopes and oscillographs—will be lifted at the end of this year, but approximately 75 percent of China's nontariff import restraints will be removed within 2 years. For example, licensing requirements restricting imports of airplanes and helicopters and import controls on some industrial machinery will be eliminated on December 31, 1993, and this step will be followed by the lifting of restrictions on imports of electrical appliances, medical equipment, most computers, and various auto parts on December 31, 1994. On the other hand, nearly all of the quotas that apply to pharmaceuticals and to other chemical products will remain in effect until yearend 1995.

In addition to agreeing to gradually remove numerous product-specific nontariff barriers, the Chinese Government promised to immediately lift quantitative restrictions on imports of automobiles and auto parts needed by U.S. joint ventures in China to meet their production requirements. In response to another problem of key concern to U.S. investors in China, the Chinese Government will also take appropriate steps by March 31, 1993, to ensure that the procurement of digital switching systems equipment is conducted on the basis of internationally accepted procedures of open tender and bidding without discrimination as to the source of the equipment or the entity seeking to acquire the equipment. In turn, the U.S. Government has agreed to significantly liberalize export controls on telecommunications and to apply these changes to China.

China has also agreed to liberalize import controls on some major U.S. agricultural products, including wheat and other grains, edible oils, and fruits. In addition to removing most of the licensing requirements and quotas now applying to these commodities in 1993 or 1994, the Chinese Government has committed to eliminate standards and testing requirements that serve mainly as trade barriers, inasmuch as they do not apply to Chinese agricultural products. The Chinese Government has agreed to resolve within 12 months all U.S. concerns about scientifically unjustified phytosanitary restrictions on imports of fruits, wheat, and tobacco and also to negotiate within a year a veterinary protocol to the agreement that will establish sound scientific standards as the basis for allowing imports of animal breeding stock.

In addition to providing for the elimination of most nontariff barriers, the agreement commits China to significantly reduce tariffs that were raised since 1988, some by as much as 180 percent ad valorem. The products scheduled for tariff cuts by no later than December 31, 1993, include edible fruits and nuts, vegetable oils, photographic goods, miscellaneous chemical products, articles of iron and steel, machinery, electrical equipment and parts, cosmetics, and games. The agreement also confirms that China has eliminated all import-substitution regulations and policies, a step its negotiators had pledged to take during bilateral talks in July, and commits the Chinese Government to neither subject any products to import-substitution measures in the future nor require the transfer of technology or investment in China as a condition for granting import licenses. In the past China has used import-substitution measures mainly as a means to force U.S. and other foreign companies to transfer technology if they wished to gain entry into the Chinese market.

Another key provision in the agreement commits the Chinese Government to publish on a regular and prompt basis all laws, regulations, policies, and decrees dealing with the operation of its import and export system. China has further promised to issue regulations, to go into effect within 12 months, stipulating that only those documents that have been published and made readily available to other governments and to foreign traders can be enforced. When put into effect, these regulations will stop China's longtime practice of using mainly restricted internal directives to govern trade and will bring its trade regime into line with the transparency requirements of the General Agreement on Tariffs and Trade (GATT).

In response to the Chinese Government's commitments to reform its trading system, the United States included in the agreement a commitment to support and work with China in achieving contracting party status in the GATT. (China was a charter member of the GATT, withdrew in 1950 after the Communists came to power, and formally applied for readmission in 1986.) However, during a meeting of the GATT working party on China held in late October, several member delegations raised questions about the U.S.-Chinese market-access agreement, asking for assurance that China's trade reform commitments to the United States will be applied multilaterally. In addition, both the U.S. delegates and those representing the European Community wanted to know more about how China's new program to achieve a "socialist market economy," which was officially adopted at the Chinese Communist Party congress that ended October 18, would work in practice. Another GATT meeting on China's accession will be held on December 8.

Last-Minute GATT Agriculture Talks Fail, Then Succeed

Progress has been retarded in the Uruguay Round multilateral trade talks in large measure due to the failure of the United States and the EC to reach agreement over the issue of agricultural policies (*IER*, Aug. 1992). Other delegations appear to have withheld improvements in their negotiating offers in other areas, such as market access for goods and services, pending an agreement between the United States and the EC over these agricultural issues.

In part, the insistence to resolve agriculture before other issues stems from the greater importance of agriculture to other countries, such as those in Latin America, Eastern Europe, or the Pacific Basin, where other issues such as services or intellectual property rights are less compelling. While these countries may be even more keen than the United States to reach a multilateral agreement with the EC over liberalizing agriculture, U.S. efforts to champion this aim often appear to put the United States in the position of bilateral confrontation with the EC.

Weakened EC Cohesion

On May 21, 1992, after a long and difficult debate, the EC member states agreed to an internal reform of their Common Agricultural Policy (CAP), first proposed in July 1991 (*IER*, Sept. 1991). The EC reform dealt primarily with internal support to producers without addressing external policies such as agricultural export subsidies or import access. The EC emphasized that this reform was an internal affair and not in reaction to bilateral pressure from the United States or to multilateral pressure stemming from the Uruguay Round *Draft Final Act* ("the Dunkel text") issued in December 1991. The Dunkel text outlined steps in the agriculture sector to not only reduce internal subsidies, but also to reduce agricultural export subsidies and liberalize agricultural import access.

Negotiating efforts to move the EC internal reforms closer to those set out in the Dunkel text proved difficult but came to an abrupt standstill following the June 2, 1992, vote by Denmark to reject the Treaty on European Union, known as the "Maastricht Treaty." Even with a subsequent June 18 vote by Ireland in favor of the treaty, further agricultural concessions necessary to advance negotiations were deemed unlikely to be forthcoming from the EC in general and France in particular until after a referendum on the treaty in France scheduled for September 20, 1992. As a result, multilateral negotiations over agriculture were frozen until late September.

However, the razor-thin approval of the French vote further weakened EC cohesion (*IER*, Nov. 1992). This weakened situation was exacerbated by other events, including a financial crisis involving the European Monetary System (EMS) that led to the withdrawal of the British pound and the Italian lira from the EMS in October. These consecutive blows to European unity appear to have removed whatever room for maneuvering that had been available to EC officials within the limits of their negotiating mandate.

U.S.-EC October Negotiations

In October U.S. and EC officials met a number of times, seemingly making progress at first. Starting with meetings October 5 and later on October 11-12, United States Trade Representative Carla Hills and Secretary of Agriculture Edward Madigan met in Brussels with EC External Affairs Commissioner Frans Andriessen and Agriculture Commissioner Ray MacSharry and appeared to close the gap over several contentious agricultural issues.

EC Export Subsidies

A preeminent issue for the U.S. side is agricultural export subsidies, an issue that is included in the Dunkel text but is not directly addressed by the EC CAP reform. The Uruguay Round Dunkel text calls for a 24-percent reduction over 6 years in export subsidies on a "per unit" volume basis, a reduction that the EC has steadfastly resisted, instead offering only an 18-percent reduction. Protests by French wheat farmers have bolstered this resistance, largely because they would bear the brunt of the roughly 18 million metric tons (mmt) in EC wheat exports being reduced to 14.75 mmt under an 18-percent reduction and to near 13.70 mmt under a 24-percent reduction included in the Dunkel text.

EC Oilseeds Subsidies

A second critical issue for the United States is the issue of oilseeds, an issue that was initially a bilateral one with the EC and separate from the multilateral Uruguay Round negotiations on agriculture (*IER*, Oct. 1992, May 1992, Nov. 1991, June 1991). The United States had taken its bilateral dispute over EC oilseeds subsidies to the dispute-settlement procedure of the GATT, where the U.S. position had been upheld not once but twice by GATT dispute panels. The first panel concluded in 1989 that EC subsidies to its oilseeds producers impaired U.S. benefits stemming from the duty-free tariff binding on oilseeds granted by the EC to the United States during trade negotiations in 1962. The GATT oilseeds panel reconvened in March 1992 to review the changes made in the EC oilseeds regime following the initial panel report. This second panel concluded that the modified regime continued to impair U.S. benefits. The panel recommended that the EC act to remove this trade damage by either modifying its new oilseeds support system or by renegotiating its tariff concessions for oilseeds.

In June 1992 the EC requested and received GATT authorization to renegotiate its tariff concessions on oilseeds under GATT article XXVIII:4, but subsequent meetings between the United States and the EC failed to agree on acceptable compensation for the right to raise tariffs beyond the zero-duty binding currently in effect for oilseeds. Whereas the United States estimated the global damage of the EC oilseeds policy to be worth approximately $2 billion annually, of which the loss to U.S. industry is about $1 billion, the EC estimated global damage at less than $400 million. As a result of this impasse, the United States requested at the September 29, 1992, GATT Council meeting that the EC submit to binding arbitration of the dispute through the GATT. The EC rejected this proposal.

Negotiation Backtracking

During October and into November 1992, U.S. and EC negotiators attempted to find a solution to this bilateral oilseeds dispute as part of a more comprehensive Uruguay Round package on agricultural policies, prior to the U.S. Presidential election on November 3. The United States sought certainty in EC assurances to limit their oilseeds production. The U.S. side aimed for increased "set-aside" (land taken out of production) for land planted to oilseeds but, as set-aside does not always result in significant production cuts, U.S. negotiators also sought a production limit in the 8 mmt range (but not to exceed 9.0 mmt). The EC side repeated that its agricultural reform would reduce oilseeds production to 9.5 mmt but would not guarantee it.

At technical-level meetings on October 21 and 22, the EC presented an array of offers that appeared to retreat from positions advanced the previous week at the October 11-12 meetings. The EC no longer offered a position agreeable to export subsidy cuts of 22 percent over 6 years and an agreement to consult should EC imports of U.S. nonfeed grain ingredients —such as corn gluten feed—increase more than 10 percent (*IER*, Nov. 1991, Oct. 1991). Instead, the U.S. side found itself presented with a set of EC positions that featured an 18-percent cut over 6 years without conditions, or two other choices of a 21-or a 24-percent cut with escalating conditions attached to each option concerning shifting cuts among commodity groups. The EC side also sought additional concessions regarding subsidized agricultural exports, relating them to EC imports of U.S. feed grain substitutes. The U.S. side quit the negotiations at this point, considering these offers with their added conditions to be a retreat from previous understandings.

MacSharry Resigns

A final attempt was made on November 1-2 at political-level talks to resolve the agricultural talks. Talks were held in Chicago, IL, between U.S. Agriculture Secretary Madigan and EC Agriculture Commissioner MacSharry. No progress was made during the Chicago talks, allegedly due to the telephone intervention by the President of the EC Commission, Jacques Delors, that effectively impaired head EC delegate MacSharry from offering any further concessions.

Commissioner MacSharry resigned in protest November 5 as head EC negotiator for agriculture in the Uruguay Round (retaining his position as EC Agriculture Commissioner, which expires at the end of 1992) following his return to Brussels, fueling the widespread belief that his negotiating efforts were being undermined by EC Commission President Delors. Many observers see efforts by Delors to limit further concessions to the United States in agricultural negotiations as attempts to improve his political prospects for any future campaign for the Presidency of France, particularly considering the weakened political and physical condition of the current French President, the French parliamentary elections upcoming in March 1993, and the expiration of Commissioner Delors' term in the near future.

U.S. Retaliation Against the EC

Following the breakdown of talks in Chicago, the United States saw no prospect for resolution of the oilseeds question through further talks. Although the U.S. legal position had already been twice upheld. This approach appeared fruitless. Nor did U.S. negotiators fare any better. They attempted to include the oilseeds issue in the Uruguay Round agriculture talks, but no assured limits on oilseeds production could be agreed, and negotiations did not appear to be continuing in good faith.

As a consequence, at the November 4, 1992, GATT Council meeting, the United States repeated its request for binding arbitration on the amount of trade damage and was again rebuffed by the EC. The United States then asked the GATT Council for its authorization to withdraw $1 billion in trade concessions from the EC in compensation, an authorization that the EC refused as well by blocking the necessary unanimous decision.

The following day, on November 5, 1992, the United States published its intent to withdraw concessions from the EC for its failure to bring its oilseeds subsidies regime into line with the GATT. The United States announced it would raise tariffs by 200 percent, beginning December 5, 1992, on imports of white wine, rapeseed oil, and wheat gluten from the

EC. These items were valued at $300 million, with a list of possible additional products valued at $1.7 billion ready for further sanction should the EC not move to reform its policies or otherwise rectify the situation.

With the U.S. action, a flurry of meetings began in an attempt to respond to the situation. Commissioner Delors met with British Prime Minister John Major, who holds the current 6-month rotation of the EC Council Presidency, both calling for the negotiations to be "re-engaged immediately." EC Foreign Affairs Ministers met November 9-10. The GATT Director-General, Arthur Dunkel, called an emergency session of the Uruguay Round Trade Negotiating Committee on November 10, 1992, to discuss the issues and options for limiting the possibility of trade retaliation and concluding the Round as quickly as possible. Director-General Dunkel then went on to meet with the EC Commission in Brussels to confer on the situation and held consultations with U.S. officials in Washington on November 16.

Following the EC foreign affairs meeting November 9-10, Commissioner MacSharry was reinstated as chief agriculture negotiator for the Community, an event that some observers took to mean that he and Commission President Delors had come to some understanding over their differences. Nonetheless, the EC Commission also directed that a counter-retaliation list against U.S. products be drawn up in the event that the United States proceeded with its retaliatory tariffs, which the EC sees as without legal justification under GATT rules.

U.S.-EC Agricultural Agreement

On November 18 and 19, EC Commissioners Andriessen and MacSharry met with United States Trade Representative Hills and Agriculture Secretary Madigan once again to finally resolve the agriculture issues threatening to raise trade sanctions and impeding overall trade negotiations in the Uruguay Round. On November 20 both sides announced that they had reached an agreement on the oilseeds dispute. The negotiators also announced resolution of several other bilateral farm disputes, such as on corn gluten, malted barley sprouts, and the market-access agreement for U.S. corn and sorghum exports to Spain and Portugal, which arose out of their accession to the EC in 1986, and also resolution of the agricultural issues contested by the two sides in the Uruguay Round multilateral trade talks. The U.S.-EC understandings reached on all these issues clear the way for a resumption of the Uruguay Round talks later in November.

The oilseeds agreement centers around a limit to the area planted to oilseeds in the EC of 5.128 million hectares (12.67 million acres), with a land set-aside provision of 15 percent in the first year and a minimum of 10 percent set-aside in every year thereafter in perpetuity. The accord includes a provision for binding arbitration in the event of any dispute over these limits, in addition to the standard dispute-settlement procedures available under the GATT. The area limit agreed is expected to keep EC oilseeds production below 9.5 mmt, considerably below 1991 production of over 13 mmt. A small amount of oilseeds for industrial use (such as paints) will be permitted to be grown on the oilseed land set-aside provided that it does not undermine the market for oilseeds exports.

On the broader issue of agriculture in the Uruguay Round, the two sides agreed to support the 20-percent reduction in internal farm supports already outlined in the Dunkel text. Concerning agricultural export subsidies, the United States and the EC will seek to amend the Dunkel text slightly to reflect the agreement reached by the U.S. and EC negotiators to reduce export subsidies on agriculture by 21 percent on a volume basis over 6 years using a 1986-90 base period. Concerning agricultural market access, negotiators from both sides will be instructed to complete as quickly as possible their lists of proposed tariff cuts on farm goods and other subsidies not included under the first two categories of internal support or export subsidies.

The two sides also reached an understanding on two items of particular interest to the EC, the so-called "peace clause" and the issue of nongrain feed ingredients (NGFI). The former issue involves GATT rules whereby the United States and the EC agree that those measures that fully reflect the commitments and criteria agreed to reduce internal support measures and export subsidies will not be challenged under GATT rules on subsidies. Nonetheless, countervailing duties will still apply should subsidized imports either cause or threaten injury. On the latter issue of nongrain feed ingredients, both sides agreed to consult should EC imports of NGFI threaten to undermine the EC reform program of the Common Agricultural Policy.

Negotiations in the Uruguay Round of multilateral trade talks are to resume in Geneva on all outstanding subjects beginning November 26, with the hope of reaching an agreement in principle on all items by the end of the year. Such agreement would then allow for the necessary review of the final package, both as required under the Punta del Este declaration to consider the agreement's balance of concessions concerning developing countries and in preparation for the U.S. administration's notice to Congress of the intent to enter into a trade agreement under the "fast track" rules of procedure. These rules provide for a simple vote for or against the agreement presented, without the possibility of amendment. Under these rules, the administration must notify the Congress no later than March 2, 1993, that the President will sign a trade agreement before midnight May 31, 1993, when his trade-negotiating authority from Congress expires.

Is the United States Isolated on Isolating Cuba?

The Cuban Democracy Act

On October 23, 1992, President Bush signed the Cuban Democracy Act (CDA), tightening U.S. economic sanctions directed against Fidel Castro's government in Cuba. The CDA is the most recent effort by the U.S. Government to further isolate the Fidel Castro regime through tougher economic sanctions (*IER*, June 1992).

The United States has maintained an embargo on trade with Cuba since February 3, 1962, but the provisions of that embargo were amended in 1975 and in subsequent years to allow foreign subsidiaries of U.S. companies to trade approved goods with Cuba when such trade is licensed by the U.S. Treasury Department's Office of Foreign Assets Control (31 CFR 515.559). The CDA prohibits this trade. The CDA also bars ships engaging in trade with Cuba from loading or unloading freight in U.S. ports for 6 months after departure from Cuba and prohibits vessels (excluding aircraft) carrying goods or passengers to or from Cuba from entering the United States unless officially authorized by the Treasury Department. Third countries determined by the United States to be providing Cuba with assistance prohibited under the act will not be eligible for certain U.S. economic assistance, debt reduction, or debt forgiveness. These provisions are to remain in effect as long as the Castro government "continues to refuse to move toward democratization and greater respect for human rights," but may be eased "in response to positive developments in Cuba" (sec. 1202 of the CDA).

During congressional debates on the CDA, critics of a tighter embargo argued that more stringent U.S. measures will not significantly speed up the demise of Fidel Castro's regime. Some contended that the provisions of the CDA could backfire if accelerated economic deterioration in Cuba further entrenches the Castro government's hardline position against democratic reforms. Other critics expressed the concern that Cuba's civilian population may be more harmed by the tighter U.S. embargo than the Castro leadership will be. Critics of the CDA in the U.S. private sector contend that restrictions on U.S. subsidiaries will cause a loss of U.S. trade and investment opportunities in the potentially lucrative rebuilding of Cuba's economic infrastructure.

The CDA has been widely criticized by major U.S. trading partners on three grounds: (1) the act is an attempt to force third countries to comply with the U.S. Cuban trade embargo; (2) the act violates a 1975 resolution of the Organization of American States (OAS) lifting collective sanctions against Cuba and permitting OAS members to establish bilateral trade agreements with that country; and (3) the CDA runs counter to the principles of unimpeded international commerce established by the General Agreement on Tariffs and Trade (GATT).

Canadian officials termed the CDA as legally and politically "unacceptable" and characterized the new measures as an intrusion into Canadian foreign policy and a threat to Canadian sovereignty. The Canadian Government has threatened to reactivate a blocking order prohibiting U.S. subsidiaries operating in Canada from complying with the CDA. Canada issued such a blocking order in 1991 when the U.S. Congress considered legislation similar to the CDA. On October 14, 1992, the British Trade Minister signed a blocking order enjoining British companies, including U.S. subsidiaries in the United Kingdom, from complying with the CDA. The British Minister stated that "the British government, not the U.S. Congress, will determine the U.K.'s policy on trade with Cuba." The Commission of the European Communities (EC Commission) expressed "great regret" concerning the signing of the CDA and stated that the EC Commission will examine the CDA to determine if retaliatory action is necessary under GATT rules. Protests against the CDA by a number of OAS members, including Argentina, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Mexico, and Venezuela, have been widely reported in the press. On November 24, 1992, the United Nations General Assembly approved a nonbinding resolution urging the United States to repeal the CDA.

Impact on Cuba

Cuba is now in its second year of emergency economic measures following the breakup of the Soviet Union and the loss of subsidized Soviet economic assistance. In late August 1992, the official Cuban news agency reported that overall imports had fallen by 50 percent from pre-Soviet aid levels and that the reduced level of petroleum imports met only about one-half the island's needs. Widespread shortages of fuel, fertilizer, food, capital equipment, spare parts, and consumer products have crippled Cuban agricultural and industrial production and have eroded living standards.

The Castro administration has staved off full-fledged economic chaos by rationing scarce resources, implementing an emergency food production program using conscripted labor, and signing new barter trade agreements more in line with market prices with Russia and other former Soviet republics. More important, Havana has liberalized Cuba's foreign investment rules to allow joint ventures with private investors and has launched an aggressive investment promotion program to develop sectors such as agriculture, biotechnology, pharmaceuticals, oil exploration, textiles, and tourism. A small but growing number of Canadian, European, and Latin American investors are negotiating trade and investment contracts with Cuba.

Exports to Cuba licensed by the U.S. Treasury Department from overseas U.S. subsidiaries totaled $718 million in 1991, more than three times the amount licensed in 1989. By 1992, U.S. subsidiaries accounted for an estimated 25 percent of Cuba's dwindling overall imports.

The CDA stands to further depress economic activity in Cuba in the short run—provided that the United States can enforce the provisions of the act and induce U.S. trade partners to do the same. However, without overseas support for the tougher U.S. embargo, the CDA may not make a dent in the Cuban economy if Canadian, European, and Latin American entrepreneurs are willing and able—as they currently appear to be—to fill any economic voids left by U.S. subsidiaries.

ASEAN Moves Closer to Free-Trade Area

Perhaps indicative of concern over the present status of the GATT Uruguay Round and the emerging North American Free-Trade Agreement (NAFTA), the member states of the Association of Southeast Asian Nations (ASEAN) recently advanced another step in their progress towards establishing a regional free-trade area. On October 22-23, 1992, Economic Ministers from ASEAN's six member states (Indonesia, Malaysia, Thailand, Singapore, Brunei, and the Philippines) met in Manila to discuss the framework and schedule for reducing tariffs as part of establishing an ASEAN Free-Trade Area (AFTA). The result of the meeting was agreement on a two-stage, 15-year tariff reduction plan to begin on January 1, 1993, and an accelerated tariff reduction schedule for 15 specific product categories.

The prospect of an ASEAN Free-Trade Area first emerged following the third annual ASEAN ministerial conference, when Foreign Ministers issued a communique in July 1991 endorsing a Thai proposal to establish an AFTA and set up a working group to submit recommendations at the fourth annual summit in January 1992. During the fourth summit, the six member states were successful in maintaining the momentum towards establishing a regional free-trade area when they signed the Singapore Declaration—an agreement to further economic cooperation and work towards establishing a Common Effective Preferential Tariff (CEPT) (*IER*, Apr. 1992.)

The foremost subject for discussion during a meeting of ASEAN Economics Ministers in October 1992 in Manila was the schedule for reducing intra-ASEAN tariffs. The schedule agreed on has two parts: (1) a tariff reduction plan, carried out in two stages, that will continue until the year 2008 and (2) an accelerated tariff reduction schedule for 15 product categories, that schedule being carried out over 10 years, until the year 2003. Both plans are scheduled to begin on January 1, 1993.

Under the first part of the two-stage tariff reduction plan, goods currently tariffed at more than 20 percent will have their tariffs cut to a maximum of 20 percent. This stage will last 5 to 8 years, with the pace of the reductions being left to the control of the individual ASEAN member states. During the second stage, which is to last an additional 7 to 10 years, tariffs must be cut to a range of 0 to 5 percent. Reportedly, the first-stage goal of a 20-percent tariff level is a compromise between those member states wishing to move more rapidly towards liberalization and those still concerned with protecting their industries from foreign competition. Excluding Singapore and Brunei, which have relatively low average tariff levels, the trade-weighted average tariff on manufactured products in ASEAN has been estimated at roughly 24 percent—not that much higher than the first-stage reduction goal of 20 percent.

The second tariff reduction scheme agreed to at the Manila meeting is an accelerated schedule for 15 selected product categories. The 15 categories to be encompassed in this scheme are cement, ceramic and glass products, chemicals, copper cathodes, electronics, fertilizer, gems and jewelry, leather goods, pharmaceuticals, plastics, pulp, rubber products, textiles, vegetable oils, and wood and rattan furniture. Goods in these categories currently comprise roughly one-third of all intra-ASEAN trade. Under the accelerated scheme, products in these categories with tariffs of 20 percent will have their duties cut to 0 to 5 percent within 7 years. For products with tariffs exceeding 20 percent, a longer period of 10 years will be allowed before duties must be reduced to 0 to 5 percent.

Some issues in the AFTA tariff reduction scheme are yet to be resolved. The Economic Ministers still have to agree on what products will be excluded from the accelerated scheme, as well as what goods will be left out of the AFTA arrangement entirely. The size and content of these exclusion lists will likely be key factors in determining the effectiveness of AFTA. Reportedly, Malaysia would like to exclude some electronics goods. The Philippines is looking to protect its textile and coconut industries, and Indonesia has apparently indicated that it would like to exclude certain types of chemicals from tariff reductions. The member states have also yet to determine a framework for the rules of origin to be applied under the AFTA. The present consensus appears to be that a commodity will be classified as an ASEAN product if at least 40 percent of its value is added within the region. These matters are scheduled for continued negotiation at the AFTA Council meeting in December 1992.

Currently the AFTA is apparently less of an exclusive trading arrangement than a means to further regional growth and promote foreign investment. Several factors would mitigate the possible gains from an exclusive ASEAN trade bloc. First, the level of complementarity between the member-state economies is relatively low. With the exception of Singapore, whose economy is based on entrepot trade (the import and then reexport of goods), countries in the region are far more competitive than complementary insofar as they produce many of the same goods. Second, the ASEAN economies are heavily reliant on trade with developed economies such as Japan and the United States for continued economic growth and development. The ASEAN member states are thus unlikely to pursue any regional arrangement that would act as a detriment to extra-ASEAN trade.

Among the positive effects that AFTA is likely to produce is the rationalization of industries within ASEAN. An unfortunate side effect of member states' early experimentation with import-substitution strategies has been the persistence of inefficient industries protected from foreign competition by import duties. The relatively long tariff adjustment period of 15 years may allow ASEAN leaders to successfully embark on a process of exposing these protected industries to the rigors of local competition. Additionally, lowered tariffs for goods produced within the AFTA could serve as an impetus to greater foreign investment and joint venture projects. Although the economies of the region are relatively non-complementary, some business executives in the region reportedly hope to circumvent this problem by combining foreign capital and technology with local resources to produce goods that can be sold to countries within the AFTA.

Expanding Commercial Relations With Former Yugoslav Republics Offer Selective Opportunities for Business

The Socialist Federal Republic of Yugoslavia (the former Yugoslavia) ceased to exist in April 1992. It has been succeeded by five new independent countries: Bosnia-Hercegovina, Croatia, Macedonia (Skopje), Slovenia, and the entity that calls itself Federal Republic of Yugoslavia (FRY), comprising Serbia and Montenegro. U.S. commercial relations with these five countries are currently at different stages. In accordance with United Nations (U.N.) Security Council Resolution 757, which condemned the Serbian regime's aggression against Bosnia-Hercegovina, the United States imposed an embargo on trade with the FRY beginning May 30, 1992. On September 22, 1992, the U.N. General Assembly adopted a resolution (Resolution 47/1) that prevented the FRY from assuming the U.N. membership of the former Yugoslavia. Similarly, the FRY has been denied the right to take the place of the former Yugoslavia at the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT). The FRY must apply for membership as a new entity in these key international organizations.

In contrast, Bosnia-Hercegovina, Croatia, and Slovenia have gained a wide range of international recognition during 1992, including membership in the U.N., the IMF and the World Bank. Along with other industrialized democracies, the United States established diplomatic relations with these three countries. The recognition of Macedonia (Skopje), however, has been delayed by controversy over its name. The new nation wants to be called "Macedonia," a name identical to that of Greece's northern Province. The Greek Government, seeing the harbinger of expansionism in the choice, refused recognition of the new state and calls it, after its capital city, "Skopje." The European Community sided with its member state, as did most of the international community. The international community is now trying to broker a compromise between Greece and the new country.

In addition to securing most-favored-nation status with the United States, Bosnia-Hercegovina, Croatia, Macedonia (Skopje), and Slovenia became eligible as well for tariff concessions under the Generalized System of Preferences (GSP). Bosnia-Hercegovina, Croatia, and Slovenia are furthermore eligible for the programs offered by the U.S. Overseas Private Investment Corporation (OPIC). Created by Congress in 1969, OPIC is a self-sustaining U.S. Government agency charged with stimulating private U.S. investment abroad. OPIC insures U.S. investors against political risks, provides investment financing, and introduces U.S. companies to business opportunities in eligible countries. Slovenia is also likely to be the first among these new states to enjoy support by the U.S. Export and Import Bank (Eximbank). Eximbank is the U.S. Government agency that facilitates the export of U.S. goods and services through export loans and loan guarantees.

Starting with statistics for June 1992, the U.S. Department of Commerce began reporting U.S. trade with the five successor states to the former Yugoslavia. The following tabulation shows U.S. trade with these successor states for June-August 1992 in millions of dollars.

Country	*U.S. exports*	*U.S. imports*
Slovenia	15.2	34.6
Croatia	24.2	13.0
Macedonia (Skopje)	1.5	13.5
Bosnia–Hercegovina	3.2	3.9
Serbia and Montenegro (FRY)	5.0	49.6

The relatively large FRY import figure reflects shipments that arrived before the embargo was implemented and shipments in transit when the embargo was begun. U.S. exports to the FRY reflect shipments that departed before the embargo was put into effect.

The immediate outlook for a rapid expansion of trade with the former Yugoslav area is not good. The FRY is likely to remain under a trade embargo for some time, and the economies of the four other republics are in varying degrees of disrepair. All four states are paying the price for the disruption of the close economic ties that existed before the dissolution of the former Yugoslavia. On average, about one-third of Yugoslav products went to the other republics under the previous boundaries prior to 1990. However, trade among the former republics is now at a virtual standstill. The resultant loss in sales and supplies has caused a major decline in production in all four countries since 1990.

Military confrontations have further devastated the economies of Croatia and Bosnia-Hercegovina. At present, Croatia struggles to moderate its economic decline amidst extensive war damage and an overwhelming refugee problem. The economy of Bosnia-Hercegovina is reportedly in shambles, still undergoing war damage. Transportation and other services have certainly been disrupted, and personal physical safety and legal protection reflect the wartime conditions. The Greek embargo on the transshipment of oil to Macedonia (Skopje) during the summer of 1992 and the disruption of commodity exchange with Serbia, its former major trading partner, plunged Macedonia's (Skopje's) already poor economy into a deep crisis. Of the successor states, Slovenia is unquestionably in the best economic situation. By Yugoslav standards, it has high per capita income and it has achieved independence without the economic damage that the other three breakaway republics continue to endure. Nevertheless, its tiny economy suffered a severe shock after its separation from the former Yugoslav market.

According to the Wharton Econometric Forecasting Associates (WEFA), output and income levels for the entire former Yugoslav area are not likely to regain their high mark in 1989 before the end of the decade. In spite of this, U.S. businesses with interests in the area believe that trade and investment possibilities could develop much faster in the more developed areas of Slovenia and Croatia, as well as in certain selected economic sectors across the entire former Yugoslav territory.

U.S. investors may be considered well positioned in the event of an economic recovery in these states. With capital projects totaling approximately $400 million, U.S. companies rank fourth in investments in the former Yugoslavia, after firms from Germany, Italy, and Austria. Most of these investments are in Serbia, Slovenia, and Croatia. According to the U.S. Business Council for South-East Europe (the successor organization to the U.S.-Yugoslav Economic Council), U.S. investors with capital already committed are confident that eventually their investments will pay off. Council members also are convinced that there will be a wide array of additional investment opportunities for U.S. firms in the former Yugoslav territory once economic recovery begins. The area is endowed with natural resources, skilled labor, and scenic assets, as well as being ideally located for exporting both to Western Europe and to the expanding markets of the former Soviet bloc.

U.S. traders continue to have extensive contacts in the area. Until mid-1992, the former Yugoslavia was the most significant U.S. trading partner in the East European region (which also included Bulgaria, the Czech and Slovak Federal Republic, Hungary, Poland, and Romania). Even after declining by 22.4 percent to $1.0 billion during 1991, annual U.S. trade with the former Yugoslavia was 29.9 percent higher than U.S. trade with Poland, the largest U.S. trading partner among the area's emerging market economies. In 1990, the last year in which the former Yugoslavia formed a national economy, the United States was ranked as the country's sixth-largest trading partner, after Germany, the former Soviet Union, Italy, Austria, and France.

During 1983-91 (the period for which comparable annual data are available), the leading U.S. exports to the former Yugoslavia were coal, aircraft and parts, agricultural products (mainly soybeans, soybean oilcake, cotton, and corn), machine parts, petroleum coke, and transportation vehicles. During the same period, leading U.S. imports were furniture, passenger vehicles, footwear, basic metals (mainly ferrochromium and ferrosilicon manganese), tobacco, and canned meat.

Analysts expect economic recovery to start in Slovenia during 1993. In the meantime, U.N. procurements for the peacekeeping forces in Croatia present U.S. firms with sales opportunities in the region. Currently, the U.N. has a budget of $621 million to satisfy a wide variety of needs for construction material and services, food, transportation equipment, and computers. (The list of goods for procurement is available from the East European Business Information Center of the U.S. Department of Commerce. Telephone: 202-482-2645.)

U.S. business executives welcome the efforts and appreciate the difficulties of the new trading partners to reestablish economic cooperation among themselves. Some of the new countries, other than the FRY, have already negotiated bilateral agreements with one another and contemplate the conclusion of bilateral free-trade agreements among themselves as well. Although at present, tariff barriers between Croatia and Slovenia are quite high, the two countries have recently established a duty-free zone along their common border. Such agreements promise the benefits of a larger market and the duty-free acquisition of supplies. The following is a short country-by-country description of the new trading partners. Data on U.S. trade with them are based on June-August 1992 statistics.

Slovenia

Slovenia's 2.0 million inhabitants live in 20,251 square kilometers. The country's main natural resources are uranium, bauxite, mercury, and coal. With a per capita income of 110 percent above the former Yugoslav average, Slovenia is the richest among the former republics. After dropping by 12 percent during 1991, its gross domestic product (GDP) is projected to decline by another 3.5 percent during 1992. A rate of inflation of 75 percent is forecast for 1992. Exports for the year 1992 are projected to be above, but imports significantly below, their 1991 levels. Currently Slovenia is in the best position to attract foreign investment. As of mid-1992, leading U.S. exports to Slovenia were styrene, coal, raw hides, and telecommunications equipment. The leading U.S. imports were furniture, footwear, and household appliances.

Croatia

The country has 4.7 million inhabitants and covers an area of 56,538 square kilometers. Its main resources are oil, natural gas, and bauxite. Per capita income is 30 percent higher than the former Yugoslav average. The country may have lost a significant portion of its industrial capacity to war damage. Real GDP is expected to decline by 8 percent during 1992, after declining by 21 percent during 1991. Inflation may exceed 400 percent during 1992. The country apparently managed to keep overall exports from falling during 1992. The shipbuilding industry has performed remarkably well. The leading U.S. exports to the country are food, medical, and pharmaceutical donations; coal; and sodium carbonate. The leading U.S. imports were ferrochromium, footwear, and sulfonamides.

Macedonia (Skopje)

The country's 2.2 million inhabitants live on 25,713 square kilometers. Its main natural resources are uranium, iron ore, lead, zinc, nickel, and copper. Per capita income is 31 percent below the former Yugoslav average. Much of the country's industry, geared to producing goods for the former Soviet Union and the rest of former Yugoslavia, is lying idle. Monthly inflation runs at 200 percent. Unemployment is more than 20 percent. The emergence of a larger-than-expected trade deficit depleted Macedonia's (Skopje's) foreign exchange reserves, and the new country is hardly in a position to borrow in international financial markets. The only bright spot in an otherwise disastrous trade picture is that textile and agricultural exports to the EC have not been affected. The leading U.S. exports were parts for electrical machinery and transmission equipment. The leading U.S. imports were clothing, iron and steel products, and silicon.

Bosnia-Hercegovina

The war-torn country has a population of 4.6 million people and an area of 51,129 square kilometers. It has coal, iron ore, nickel, mercury, and manganese. Per capita income is 34 percent lower than the former Yugoslav average. War damage and population displacement have created catastrophic economic conditions. After considerable declines during 1990 and 1991, the country's GDP may decline by another third during 1992. Inflation runs between 40 and 60 percent per month. Exports are projected to be about 80 percent and imports about 30 percent below 1991 levels during the full year of 1992. The leading U.S. exports were relief donations, and the leading imports were footwear and furniture.

The Federal Republic of Yugoslavia (Serbia and Montenegro)

Serbia's 10.0 million people live in an area of 88,361 square kilometers. Montenegro's 0.7 million inhabitants live on 13,812 square kilometers. Serbia has considerable resources of coal, uranium, lead, zinc, nickel, chrome, copper, and mercury. Montenegro has bauxite. Serbia's per capita income is 15 percent lower than the former Yugoslav average, and Montenegro's per capita income is 27 percent lower. During January-April 1992 the GDP declined by an estimated 10 percent from already-depressed levels during the same period of 1991. The U.N. trade embargo further aggravated the country's already dire economic situation. To make things even worse, the summer drought reduced the 1992 corn production by 30 percent from its 1991 level. The drop in industrial and agricultural production has also been accompanied by galloping inflation. Retail prices increased roughly fiftyfold during January 1991-June 1992. Reports indicate spreading business bankruptcies, increasing shortages of consumer goods, smuggling, and black marketeering. Total exports declined by 35 percent, and imports declined by 13 percent from the first half of January-July 1991 to the same period in 1992. Since then, foreign trade has appeared to dry up. The leading U.S. exports were wheat, telecommunications equipment, food donations, and office machine parts. The leading U.S. imports were tobacco, furniture, and glassware.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1989-August 1992

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

Country	1989	1990	1991	1991 IV	I	II	1992 Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
United States	2.6	1.0	-1.9	-0.7	-3.1	5.2	-8.6	7.0	4.6	5.7	9.3	-4.3	8.0	-6.4
Japan	6.2	4.5	2.2	-5.1	-11.7	-8.7	-13.4	-5.6	-27.0	1.0	-20.6	35.0	4.0	-35.7
Canada	2.0	0.3	-1.0	-2.1	2.1	2.6	1.1	-9.3	1.1	-1.1	5.7	3.4	2.2	1.1
Germany	5.3	5.9	3.2	-2.9	4.6	-5.3	11.5	22.8	-4.7	-15.4	-2.9	-2.0	-8.6	(1)
United Kingdom	0.3	-0.6	-3.0	-0.5	-3.3	-0.8	-10.8	-14.6	-7.6	8.3	-11.8	0	12.1	(1)
France	3.7	1.3	0.6	-1.4	0.6	-0.7	22.2	-9.1	-2.1	17.1	-16.4	-4.2	(1)	(1)
Italy	3.9	-0.6	-1.8	-2.0	3.4	-1.8	24.7	9.8	-2.0	-9.8	22.9	-27.5	7.6	(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, October 16, 1992.

Consumer prices, by selected countries and by specified periods, January 1989-September 1992

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

Country	1989	1990	1991	1991 Dec.	1992 I	II	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	4.8	5.4	4.2	2.6	2.8	3.4	6.2	2.6	1.7	3.5	1.7	3.5	(1)
Japan	2.3	3.1	3.3	-0.9	0.7	2.6	2.6	5.0	-1.0	4.9	-4.0	3.8	17.7
Canada	5.0	4.8	5.6	0	1.6	1.9	4.8	1.9	-0.9	1.9	1.9	1.9	(1)
Germany	2.8	2.7	3.5	1.1	3.0	4.1	6.5	1.1	5.4	3.2	2.1	4.2	(1)
United Kingdom	7.8	9.5	5.9	5.9	4.3	4.0	4.0	5.0	3.9	0.5	2.3	1.0	(1)
France	3.5	3.4	3.1	3.7	3.2	2.7	3.3	1.7	3.1	2.1	1.5	1.1	(1)
Italy	6.6	6.1	6.5	4.5	5.1	5.6	6.6	5.8	7.7	4.8	5.0	3.4	5.0

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, October 16, 1992.

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

Country	1989	1990	1991	1992 I	II	III	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	5.3	5.5	6.7	7.2	7.5	7.6	7.3	7.2	7.5	7.8	7.7	7.6	7.5
Japan	2.3	2.1	2.1	2.1	2.1	(5)	2.1	2.0	2.1	2.2	2.2	2.2	(5)
Canada	7.5	8.1	10.3	10.7	11.3	11.5	11.1	11.0	11.2	11.6	11.6	11.6	11.4
Germany[2]	5.7	5.2	4.4	4.4	4.6	4.8	4.4	4.6	4.6	4.7	4.7	4.8	4.8
United Kingdom	7.1	6.9	8.9	9.6	9.7	10.1	10.3	10.4	10.5	9.8	9.9	10.1	10.2
France	9.6	9.2	9.8	10.0	10.2	10.2	10.1	10.2	10.2	10.3	10.2	(5)	10.2
Italy[3]	7.8	7.0	6.9	7.0	6.9	(5)	(4)	(4)	(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.

e: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, Novem 2.

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

(Percentage, annual rates)

Country	1989	1990	1991	1992 I	II	III	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.
United States	9.3	8.3	5.9	4.2	3.9	3.2	4.1	4.4	4.0	3.8	3.9	3.4	3.3	3.1	3.2
Japan	5.3	6.9	7.5	6.6	6.3	(2)	6.6	6.5	6.3	6.3	6.3	(2)	(2)	(2)	(2)
Canada	12.2	13.0	9.0	7.3	6.5	(2)	7.3	7.5	6.9	6.5	5.9	5.6	5.1	4.9	(2)
Germany	7.1	8.5	9.2	9.6	9.8	(2)	9.6	9.6	9.9	9.7	9.6	9.7	9.8	9.4	(2)
United Kingdom	13.9	14.8	11.5	10.5	10.2	(2)	10.4	10.7	10.4	10.0	10.0	10.1	10.2	9.9	(2)
France	9.4	10.3	9.6	9.9	9.9	(2)	9.9	10.0	9.9	9.9	10.0	10.2	10.3	10.1	(2)
Italy	12.8	12.7	12.1	12.2	12.9	(2)	12.2	12.3	12.4	12.4	13.7	15.6	13.7	18.7	(2)

1 90-day certificate of deposit.

2 Not available.

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

Source: *Federal Reserve Statistical Release*, November 2, 1992 *Economic and Energy Indicators*, Central Intelligence Agency, October 16, 1992.

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

(Percentage change from previous period)

Item	1989	1990	1991	1992 I	II	III	Mar.	Apr.	May	Jun	Jul.	Aug.	Sept.	Oct.
Unadjusted:														
Index[1]	91.3	86.5	85.5	84.8	85.2	81.4	86.8	86.4	85.5	83.7	81.7	80.9	81.7	83.8
Percentage change	6.4	-5.3	-1.2	.8	.4	-3.8	2.3	-.4	-1.0	-2.1	-2.4	-.9	.9	2.5
Adjusted: Index[1]	91.8	88.1	87.0	86.7	86.9	83.1	88.6	88.2	87.3	85.4	83.3	82.7	83.3	85.5
Percentage[2] change	6.8	-4.0	-1.2	1.3	.2	-3.8	2.5	-.4	-1.0	-2.2	-2.4	-.7	.7	2.5

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, November 1992.

Trade balances, by selected countries and by specified periods, January 1989-September 1992

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

Country	1989	1990	1991	1992 I	II	Apr.	May	Jun.	Jul.	Aug.	Sept
United States[1]	-109.1	-101.7	-66.2	-59.6	-91.2	-84.7	-85.6	-80.7	-87.3	-107.3	-99.7
Japan	77.6	63.7	103.1	131.6	129.2	111.6	142.8	133.2	138.0	(3)	(3)
Canada	6.0	9.4	6.4	6.8	(3)	6.0	8.4	3.6	6.0	(3)	(3)
Germany[2]	71.9	65.6	13.5	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
United Kingdom	-40.4	-33.3	-17.9	-21.6	-22.4	-28.8	-19.2	-21.6	-26.4	-27.6	(3)
France	-7.0	-9.2	-5.4	3.6	8.0	16.8	8.4	-2.4	14.4	-7.2	(3)
Italy	-12.9	-10.0	-12.8	-10.4	-18.4	-14.4	-15.6	-24.0	-16.8	10.8	(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, October 16, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, November 18, 1992

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

(In billions of dollars)

Country	1989	1990	1991	1992 I	II	Apr.	May	Jun.	Jul.	Aug.	Sept.
Commodity categories:											
Agriculture	17.9	16.3	16.2	5.1	3.7	1.5	1.1	1.1	1.3	1.2	1.5
Petroleum and selected product—(unadjusted)	-44.7	-54.6	-42.3	-8.1	-10.8	-3.3	-3.5	-4.0	-4.2	-3.9	-4.1
Manufactured goods	-103.2	-90.1	-67.2	-14.5	-16.9	-5.8	-5.3	-5.7	-9.6	-9.2	-9.1
Selected countries:											
Western Europe	-1.3	4.0	16.1	6.6	1.4	.6	.9	-.1	-1.1	-.1	.2
Canada[2]	-9.6	-7.7	-6.0	-1.4	-1.8	-.6	-.8	-.4	-.3	-.7	-.8
Japan	-49.0	-41.0	-43.4	-10.8	-11.1	-4.2	-3.5	-3.4	-3.9	-3.7	-4.4
OPEC (unadjusted)	-17.3	-24.3	-13.8	-1.5	-2.2	-.3	-.8	-1.1	-1.5	-1.3	-1.1
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$16.80	$19.75	$17.49	$14.57	$16.82	$15.49	$16.72	$18.25	$18.18	$17.96	$17.86

[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, November 18, 1992.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

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