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Joseph F. Francois, *Acting Director*

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

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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Several economic indicators show that the economy is reviving. Whether or not the upturn signals a continuing and strong recovery, however, depends on several dynamics that usually propel an economy towards higher and sustainable rates of growth. Expectations and confidence play major roles in propelling growth and a mix of stimulative fiscal and monetary policies plays a major role in sustaining it. Several structural impediments that have weakened growth in the past still have to be resolved.

Low interest rates, increased productivity, rising profits, improved expectations and improved consumer confidence and spending propelled the recovery in the third quarter. Real GDP in the third quarter increased by 3.9 percent (annual rate), bringing the 1992 annual growth to an average of 2.8 percent compared with an average annual growth rate of 1.2 percent in the previous three quarters. It is noteworthy that financial reports show rising consumer indebtedness; to finance their recent spending spree, consumers went deeper in debt.

The monthly economic performance indicators are also positive. The composite indexes of leading, coincident and lagging indicators rose in October 1992 after 2 months of decline. The index of leading indicators increased 0.4 percent in October 1992, according to preliminary estimates released by the Commerce Department. This index had decreased 0.1 percent in September and 0.3 percent in August. According to Commerce data, 6 of 11 indicators contributed to the October increase. The indicators were average weekly initial claims for State unemployment insurance, average workweek, change in manufacturers' unfilled orders in 1982 dollars, contracts and orders for plant and equipment in 1982 dollars, manufacturers' new orders for consumer goods and materials in 1982 dollars, and building permits. Two indicators, index of consumer expectations and money supply in 1982 dollars, increased slightly. Three of eleven indicators made negative contributions: change in sensitive materials prices, vendor performance (slower deliveries diffusion index), and stock prices.

The composite index of coincident indicators, a monthly approximation of aggregate economic activity, increased 0.4 percent in October. The index had decreased 0.2 percent in September and 0.5 percent in August. Excluding the effects of hurricanes Andrew and Iniki on personal income (less transfer payments) and on industrial production, the coincident index would have increased 0.3 percent in October after decreasing 0.4 percent in September and 0.2 percent in August. The composite index of lagging indicators increased 0.8 percent in October to 105.1 (1982=100). The index decreased 0.6 percent in September and increased 0.1 percent in August. The lagging index is expected to move, after a time lag, in the same direction as the coincident index and thus to confirm the movements in the coincident index.

The rebound in consumer confidence and spending seems to have increased retail sales. Consumer confidence reached its highest level in 3 years, jumping by 6.1 percent in December, according to Michigan University's index of consumer sentiment. Retail sales rose 0.4 percent in November, double the gain expected by market analysts, following a revised sharp increase of 1.9 percent in October, according to Commerce data. This, combined with a rise in personal income and employment, the low rate of inflation (0.2 percent in November), the rise in housing starts, and the gains in factory output, should create favorable conditions for a strong recovery. Personal income rose $51.1 billion in October to a seasonally adjusted annual rate of $5.13 trillion according to data recently released by Commerce.

According to the Department of Labor, total employment increased by 105,000 jobs in November, reducing the unemployment rate to 7.2 percent. The manufacturing sector increased employment by 35,000 jobs. Housing starts jumped in November to their highest level in 7 months. The Commerce Department also reported that business inventories dropped by 0.3 percent in October, the second monthly decline. Inventory depletion could translate into future increases in production and employment. Also encouraging were gains in factory production, mines and utilities of 0.4 percent in November.

The strengthening of the housing sector and the gains in industrial production signal a traditional pattern of recovery where the housing sector plays the leading role. Economists are cautiously optimistic that

the manufacturing sector might be at last lifting from its doldrums.

Nevertheless, structural impediments that have weakened growth in the past still have to be resolved. Several adjustments need to be addressed, including excessive consumer and business debt, high interest rates on consumer debt, credit contraction (in spite of the recently reported relative expansion in bank lending), corporate restructuring through job reduction instead of job creation, overvalued real estate, and weaknesses in the banking sector in spite of recent improvements in bank balance sheets.

Foreign trade remains a major force for U.S. growth. Although recent foreign trade figures show a surge in U.S. exports, the U.S. trade deficit is expected to widen in 1992, due to the faltering growth in world trade. Economic slowdowns in major industrial countries, particularly in Germany and Japan, have resulted in the slackening of world trade growth. According to preliminary estimates by the General Agreement on Tariffs and Trade (GATT), world trade growth slackened in the second half of 1992 after rising by 5.0 percent (annual rate) in the first half. International trade, according to the GATT, has been sluggish since the boom year of 1986. International trade grew in volume terms by 3.0 percent in 1992, the smallest increase since 1983. The U.S. trade deficit on goods and services is expected to reach $78 billion in 1992. The U.S. deficit narrowed in October to $7.0 billion, due to an increase of $1.3 billion in exports, coupled with a small decrease in imports. On an annual basis, the January-October 1992 deficit rose to $81.3 billion, up moderately from $66.1 billion in January-October 1991. In contrast, the U.S. current account deficit narrowed in the third quarter.

U.S. Current Account

The U.S. current-account deficit decreased from $17.8 billion in the second quarter, to $14.2 billion in the third quarter of 1992, according to the Commerce Department. The decline in the current account deficit was due to increases in the surpluses of both services and investment income and a decrease in net unilateral transfers. These increases more than offset the increase in the merchandise trade deficit. The merchandise trade deficit increased to $26.5 billion in the third quarter from $24.6 billion in the second. Imports increased to $137.4 billion from $132.0 billion and exports increased to $110.8 billion from $107.5 billion. The surplus on trade in services increased from $12.6 billion in the second quarter to $15.6 billion in the third quarter. Net service receipts increased from $44.1 billion in the second quarter to $44.5 billion in the third. Net service payments decreased from $31.5 billion to $28.9 billion, largely as a result of losses recovered from foreign reinsurers for damage caused by hurricanes Andrew and Iniki in late August and mid-September.

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 had declined by 1.2 percent in 1991, the first annual decline since 1982.

The annualized rate of real economic growth in the third quarter of 1992 was nil in the United Kingdom, 1.6 percent in France, -1.9 percent in Germany, 1.4 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 0.4 percent in November. Capacity utilization in manufacturing, mining, and utilities increased to 78.9 percent in November from 78.5 percent in October 1992. Total industrial output in November 1992 was 1.5 percent above its level in November 1991. Industrial production rose in the third quarter at an annual rate of 1.9 percent, after growing at a 5.2-percent annual rate in the second quarter, and falling by 2.9 percent in the first quarter.

Other G-7 member countries reported the following annual growth rates of industrial production: for the year ending October 1992, Japan reported a decrease of 6.0 percent and Germany reported a decrease of 3.6 percent; for the year ending September 1992, the United Kingdom reported a decrease of 0.2 percent, Italy reported a decrease of 3.5 percent, France reported a decrease of 0.1 percent and Canada reported an increase of 0.3 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.2 percent in November following a rise of 0.4 percent in October and an increase of 0.2 percent in September. The consumer price index rose by 3.0 percent during the 12 months ending November 1992.

During the 1-year period ending November 1992, prices increased 3.7 percent in Germany and 4.8 percent in Italy; and during the year ending October 1992, prices increased 1.6 percent in Canada, 3.6 percent in the United Kingdom, 2.4 percent in France, and 1.1 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States went down to 7.2 percent in

November from 7.4 percent in October and 7.5 percent in September 1992. In November 1992, unemployment was 11.8 percent in Canada and 7.1 percent in Germany. In October 1992, unemployment was 10.4 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 three quarters of 1993, the real growth rate is expected to be only a little faster, ranging from 2.7 percent to 3.0 percent. Factors that are likely to restrain the recovery include the general slowdown in foreign economic growth, particularly in industrialized countries, and uncompleted structural adjustments in the financial and nonfinancial sectors. Although consumer confidence has improved in recent months, forecasters expect consumer spending to moderate unless personal incomes increase strongly enough to encourage more spending. 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.

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

arter	UCLA Business Fore-casting Project	Merrill Lynch Capital Markets	Data Resources Inc	Wharton E.F.A. Inc.	Mean of 4 fore-Qu casts
			GDP current dollars		
1992					
October-December	4.7	6.4	4.7	5.2	5.3
1993					
January-March	5.6	5.1	5.2	5.9	5.5
April-June	5.7	5.2	4.8	6.0	5.4
July-September	5.7	5.7	4.7	6.6	5.7
			GDP constant (1987) dollars		
1992					
October-December	1.6	2.0	2.1	2.2	2.0
1993					
January-March1	3.2	2.4	2.4	2.8	2.7
April-June	3.0	2.6	2.5	3.2	2.8
July-September	3.0	2.8	2.2	3.8	3.0
			GDP deflator index		
1992					
October-December	3.1	3.3	2.5	2.9	3.0
1993					
January-March	2.2	2.7	2.7	3.0	2.7
April-June	2.6	2.5	2.2	2.7	2.5
July-September	2.6	2.8	2.4	2.8	2.7
			Unemployment, average rate		
1992					
October-December	7.6	7.5	7.4	7.5	7.5
1993					
January-March	7.6	7.5	7.4	7.4	7.5
April-June	7.6	7.4	7.3	7.3	7.4
July-September	7.6	7.3	7.2	7.1	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: Dec. 1992.

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

Several factors could be working in favor of stronger than expected growth in the first half of 1993. These include:

- Probable improvement in general economic conditions as the adjustments in the business sector continue and as consumer confidence, income and spending strengthen;

- Expected gains in employment and subsequent rise in incomes due to possible fiscal stimuli;

- An expected rise in investment spending due to the moderation of wage increases, cost cutting and corporate restructuring and low interest and inflation rates;

- An expected increase in export growth as a result of the relative moderation of the foreign value of the dollar, and

- The anticipated improvement in the industrial countries' economic conditions that should increase foreign demand for U.S. exports.

The average of the forecasts points to an unemployment rate of 7.5 percent in the last quarter of 1992, with 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.

U.S. TRADE DEVELOPMENTS

Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2.

The October 1992 deficit was 9.4 percent higher than the $6.4 billion average monthly deficit registered during the previous 12-month period and 18.6 percent higher than the $5.9 billion deficit registered in October 1991. When oil is excluded, the October 1992 merchandise trade deficit decreased by $1.6 billion from the previous month.

Nominal export changes and trade balances in October 1992 for specified major commodity sectors are shown in table 3. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 4.

Table 2
U.S. merchandise trade, seasonally adjusted

Item	Exports		Imports		Trade balance	
	October 92	September 92	October 92	September 92	October 92	September 92
Current dollars—						
Including oil	39.2	37.9	46.2	46.5	-7.0	-8.6
Excluding oil	38.7	37.4	41.4	41.7	-2.7	-4.3
1987 dollars	37.3	36.0	43.4	43.6	-6.1	-7.7
Three-month-moving average	37.6	37.2	45.8	45.5	-8.2	-8.3
Advanced-technology products (not seasonally adjusted)	9.4	8.8	6.7	6.8	+2.7	+2.0

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

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

Sector	Exports: January-October 1992	Exports: October 1992	Change: January-October 1992 over January-October 1991	Change: October 1992 over September 1992	Share of total January-October 1992	Trade balances January-October 1992
	Billion dollars		*Percent*			*Billion dollars*
ADP equipment & office machinery	22.0	2.3	3.1	-5.7	5.9	-7.37
Airplanes	22.0	2.3	15.0	33.0	5.9	18.81
Airplane parts	7.8	0.8	-7.9	-1.2	2.1	4.92
Electrical machinery	26.7	3.0	5.7	4.2	7.2	-6.27
General industrial machinery	15.5	1.6	8.3	5.9	4.2	2.49
Iron & steel mill products	3.0	0.3	-16.1	-9.7	0.8	-3.89
Inorganic chemicals	3.6	0.4	3.8	21.9	1.0	0.72
Organic chemicals	9.4	1.0	1.1	-4.0	2.5	1.83
Power-generating machinery	14.8	1.6	6.5	-0.6	4.0	1.74
Scientific instruments	12.0	1.3	6.3	0.8	3.2	5.72
Specialized industrial machinery	14.0	1.4	-0.1	1.4	3.7	4.24
Telecommunications	9.2	1.1	12.7	10.8	2.5	-12.19
Textile yarns, fabrics and articles	4.8	0.5	5.7	6.1	1.3	-1.74
Vehicle parts	13.7	1.4	14.2	0.0	3.7	0.47
Other manufactured goods[1]	23.1	2.4	13.4	10.7	6.2	-3.95
Manufactured exports not included above	87.4	9.7	6.9	11.5	23.5	-74.75
Total manufactures	288.8	31.0	6.7	7.0	77.6	-69.22
Agriculture	34.6	4.1	11.5	23.9	9.3	15.03
Other exports	48.6	5.2	1.2	13.2	13.1	-13.42
Total	372.0	40.3	6.4	9.3	100.0	-67.61

[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)*, Dec. 1992.

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

(Billion dollars)

Area or country	October 1992	September 1992	January-October 1991	October 1992	January-October 1991
Japan	-4.96	-4.44	-4.62	-38.92	-35.45
Canada	-1.06	-0.74	-0.41	-6.12	-4.37
Western Europe	+0.03	-0.26	+0.69	+7.13	+13.62
EC	+0.41	+0.56	+0.87	+9.28	+14.11
Germany	-0.81	-0.70	-0.82	-5.55	-3.77
European Free Trade Association (EFTA)[1]	-0.51	-0.44	-0.24	-3.55	-1.64
NICs[2]	-1.33	-1.74	-2.15	-12.18	-11.27
U.S.S.R.(former)	+0.27	+0.15	+0.32	+2.30	+2.13
China	-2.00	-2.28	-1.68	-15.48	-10.31
Mexico	+0.05	+0.53	+0.07	+4.48	+1.37
OPEC	-1.09	-1.10	-1.03	-8.89	-12.03
Total trade balance	-9.42	-9.61	-8.57	-67.61	-54.83

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

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

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

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

INTERNATIONAL ECONOMIC DEVELOPMENTS

Mexican Economic Policy Continues on Beaten Path

Last October, Mexican President Salinas de Gortari extended the economic program, "The Pact for Stability and Economic Growth" (PECE), for the fifth time, effective until the end of 1993. The extension confirmed that the Salinas administration intended to adhere to its highly successful "Pact" with Mexican business and labor. The pact was originally launched in 1989, and brought deep structural reforms to the Mexican economy. Although for the purposes of this latest extension the administration retained the pact's original Spanish acronym (PECE), it changed the program's full name to "The Pact for Stability, Competitiveness and Employment." Notably, the term "growth" in the program's earlier name was substituted with the terms "competitiveness and employment" in its new name.

What are Mexico's economic realities at this juncture, and what is behind this name change? In the second half of 1992, there were indications that the Mexican "economic miracle" was beginning to lose steam. Growth, which in 1989-91 averaged 3.8 percent yearly, declined to 2.8 percent in the first half of 1992. For 1992 as a whole, the projected 4-percent growth rate had to be revised to 2.7 percent. For 1993, growth is forecast at 2.5 to 3.0 percent. Another indicator of how Mexico's economic strength is generally perceived is the Mexican stock index. This index featured a spectacular 128-percent surge in 1991, but nosedived after the first half of 1992. By August, the index showed some loss on a year-to-date basis, but in the fall it began to recover.

Analysts attributed Mexico's slackening growth rate to several factors, including ongoing recessions in the United States and other industrial countries; the need for restrictions on foreign borrowing to control the newly climbing foreign debt; and, especially, the persistence of the Government's tight fiscal and monetary policies aimed at reducing inflation. As a result of inflation-containing measures, Mexico's average short-term interest rate, which declined steadily from almost 26 percent in December 1990 to 11 percent in mid-March 1992, rose again to some 18 percent by October 1992.

In his state-of-the-nation address ("Informe") delivered on November 1, 1992, President Salinas defined the administration's task for 1993 and 1994 as consolidating the macroeconomic measures already in the process of implementation. Reducing inflation remains the overriding macroeconomic priority in the extended pact and in the Salinas administration's 1993 budget proposal submitted to the Mexican Congress last November.

From the beginning of its tenure, the Salinas administration has pursued a consistent and successful policy of inflation control. From triple-digit levels in 1987 inflation was reduced to an annual average of about 12 percent in 1992. The administration considers this too high as Mexico teams with two advanced industrial countries with stable currencies in the North American Free-Trade Agreement (NAFTA,) and if Mexico is to be competitive on a global scale. For this reason, 7-percent inflation was set as the target rate for 1993.

Having cut inflation considerably while achieving rapid growth in 1989-91, eliminating the public-sector deficit, and reducing public debt, the Salinas administration is generally considered to have made impressive progress. Presently however, Mexican analysts seem to agree with their Government that the desired single-digit inflation rate is attainable only at the cost of sacrificing some growth. This is true especially in view of the recessionary global economic environment on which Mexico depends. As Mexican analyst Daniel Chiquiar sees it, Mexico needs to be economically stable for participating in the NAFTA, and a stable currency tolerates an inflation rate no higher than 4 to 5 percent. It should be noted that "stability" is a term retained in Mexico's current economic program, indicating its continued priority.

The term "competitiveness" in the pact's new name is by no means a new goal; it had been the conceptual foundation of the large-scale economic liberalization and privatization launched by the de la Madrid administration and continued under President Salinas. According to Sergio Martin, a Mexican analyst, the administration is now "trying to avoid the erosion of competitiveness" by slowing the real-term appreciation of the peso. Having been for years the Salinas Government's foreign exchange policy tool of fighting inflation, the real-term appreciation of the peso lowered the cost of imports, while eroding the price-competitiveness of exports. Last October, as part of its latest economic program, the administration increased the rate of the peso nominal daily devaluation from 20 centavos to 40 centavos. This act,

in effect, slowed the peso's real-term appreciation for the sake of making exports more competitive and narrowing Mexico's trade deficit.

This move was, of course, in conflict with the other high-priority goal of lowering inflation to single digits, because it tended to make imports more costly in pesos. It shows that the highly competent Salinas economic team had to fine-tune its approach to the conflicting objectives of currency stability and export competitiveness. (In fact, according to many who expected a major devaluation of the peso, the acceleration in the currency's nominal devaluation didn't go far enough.)

The Salinas government also plans to pursue competitiveness and generation of employment—the other top priority named in its program—through means other than macroeconomic policies. As President Salinas announced in his "Informe," authorities will now also focus on boosting employment and productivity on the microeconomic level, especially favoring small and medium-sized companies in industries such as textiles, clothing, leather tanning, and footwear. As of September 1992, NAFINSA, Mexico's largest development bank, channelled over $5 billion to assisting 70 small and medium-sized companies with new financing.

Achievements and Prospects in U.S. Economic Relations With Central and Eastern Europe

Three years have passed since the Central and Eastern European (CEE) countries repudiated communist rule and began to convert from central planning to a market economy. U.S. economic relations with the 100 million people of the region, comprising Albania, Bulgaria, the former Czech and Slovak Federal Republic (CSFR), Hungary, Poland, and Romania, have since expanded rapidly. Although on January 1, 1993, the CSFR was replaced by two separate legal entities—the Czech Republic and the Slovak Republic—the U.S. Government considers all agreements signed with the CSFR binding for itself as well as for the two new successor states.

With the exception of Romania, all CEE countries currently enjoy most-favored-nation (MFN) tariff status with the United States. The Czech Republic, Hungary, Poland, and the Slovak Republic have permanent MFN status. The MFN status of Albania and Bulgaria are still subject to the annual review process as specified by title IV of the 1974 Trade Act. The 102d Congress failed to approve the joint resolution that would have extended annually renewable MFN status to Romania and the issue is likely to resurface under the Clinton administration. The services of the Overseas Private Investment Bank (OPIC), mainly investment financing and political risk insurance, are available to all CEE countries. All programs of the Export-Import Bank (Eximbank) are extended to the Czech Republic, Hungary, Poland, and the Slovak Republic, and some programs are extended to Bulgaria and Romania. With the exception of Albania and Romania, tariff concessions under the U.S. Generalized System of Preferences (GSP) are available to all CEE countries.

The United States concluded new bilateral textile agreements with the former CSFR, Hungary, and Poland, allowing each country to triple its annual sales of textiles and textile products to U.S. markets. At present, the quotas allocated to the former CSFR under the agreement could be used by either of the two states. The former CSFR, Bulgaria, and Romania have signed bilateral investment treaties with the United States. These treaties guarantee that U.S. investors in the respective countries will enjoy the same treatment as domestic or third-country investors. They provide for the unconditional repatriation of capital, the protection of intellectual property rights, and recourse to arbitration by international forums in commercial disputes. The United States and Poland have already signed and ratified a bilateral business and economic treaty that, in addition to ensuring the benefits provided under the above cited bilateral investment treaties, also provides for the expansion of bilateral commerce. The United States and Hungary are currently negotiating a similar agreement.

The United States reduced controls on its high-technology exports to the CEE region and is considering further reductions. U.S. aid and assistance to the CEE countries in the form of loans, grants, humanitarian and technical assistance amounted to over $0.9 billion during 1989-92. Poland, Hungary and the former CSFR have been the major beneficiaries.

After stagnating during 1989-91, U.S.-CEE trade (exports plus imports) expanded by an estimated 21.5 percent from $2.153 billion during 1991 to a record annual $2.615 billion during 1992. (For details on U.S. trade with the CEE countries during the first 9 months of 1992, see USITC publication *72d Quarterly Report to the Congress and the Trade Policy Committee on Trade between the United States and China, the Former Soviet Union, Central and Eastern Europe, the Baltic Nations, and Other Selected Countries During July-September 1992*, forthcoming in February.) The record merchandise turnover was achieved despite the continued sluggish trade with Romania, the largest U.S. trading partner of the region during the mid-1980s, and the regionwide recession.

At the end of 1992, U.S. firms accounted for 25-30 percent of the estimated $7 billion cumulative foreign direct investment in the region. The share of U.S. firms is second only to that of German firms, the predominant business partners of the region. U.S. investors have the largest share in Hungary, where they account for 40-45 percent of the cumulative foreign direct investment.

Nevertheless, the relative share of the CEE countries in total U.S. trade and foreign investment is minuscule (each is below 0.5 percent) and is not expected to increase significantly during the current decade. During this period, per capita income levels in the CEE countries are projected to remain relatively low, limiting the region's ability to trade and to absorb foreign investment. According to Wharton Econometric Forecasting Associates, even if the CEE countries grew at an unlikely high annual rate of 7.0 percent during 1991-2001 and the West European countries grew at the unlikely low rate of 2.5 percent, the CEE countries would still remain relatively poor. The tabulation below shows real per capita GDP for 1991 and 2001 projections under these assumptions for the CEE countries (Albania is not included and the CSFR figure for 2001 combines the two new national economies) and for three selected West European countries.

	1991	2001
CEE country:		
Bulgaria	$4,100	$8,065
CSFR	$6,900	$13,573
Hungary	$5,700	$11,213
Poland	$4,300	$8,459
Romania	$3,100	$6,098
Western Europe:		
Austria	$17,490	$22,389
France	$18,240	$23,349
Portugal	$8,880	$11,367

Moreover, much of the growth in CEE trade is likely to be absorbed by the European continent. Bilateral agreements to remove barriers to trade and reduce tariffs have been completed or are in various stages of negotiation between the individual CEE countries and the EC and with members of the European Free Trade Agreement (EFTA). (See *IER*, December 1992.)

There are also indications that trade among the CEE countries and between each of these and the successor states to the Soviet Union could grow faster in the coming years than between the CEE countries and the United States. For four decades the CEE countries and the former Soviet Union were close trading partners under the now dissolved Council for Mutual Economic Assistance (CMEA). Analysis shows that the CEE countries could only partially compensate for the huge decline in trade with their former CMEA partners by increasing trade with the industrialized countries. (See, for example, Daniel Rodrik, Working Paper Series No. 4112, National Bureau of Economic Research, Inc., June 1992.) The huge increases in exports to the EC that some CEE countries registered during the past 2 years were more the result of increased shipments in products already exported to the EC, than the redirection of sales there of commodities that could no longer be sold to CMEA markets. Consequently, the reduction in trade among the former CMEA members is partially responsible for the regionwide downturn in output and employment in the CEE countries. Analysts agree that a vigorous recovery of trade among former CMEA members, still tied together by long-term supply contracts and most importantly by bilateral deals with Russia for the delivery of energy products and raw materials, is a vital precondition for economic recovery in the CEE region.

Although the CEE countries will continue to play a relatively small role in the overall foreign economic activities of the United States during the rest of the decade, the momentum of expansion in bilateral economic ties with the CEE countries is not expected to diminish. With the anticipated economic recovery of the region and its further progress towards creating a Western-style business environment, U.S. traders and investors should find an increasing number of profitable business opportunities in all CEE countries.

A potential problem that looms on the horizon of U.S.-CEE relations is the GSP status of these countries. As the EC-CEE and EFTA-CEE trade gradually becomes duty-free, West European producers are likely to outcompete third- country suppliers in the region. The increasingly free-trade environment among the partner states also will give rise to new long-term industrial cooperation projects which would tend to exclude third countries. If the injury suffered by U.S. companies in the process is deemed significant, the CEE countries could lose their GSP status with the United States. Section 502 (b) (3) of the Trade Act of 1974 says that the President shall not designate any country a beneficiary developing country "if such country affords preferential treatment to the products of a developed country, other than the United States, which has, or likely to have a significant adverse effect on the United States commerce..." A number of U.S. firms have already complained to the Office of the United States Trade Representative that they have lost business to EC suppliers in Poland as a result of the EC-Poland association agreement. Some analysts have suggested that in order to allow U.S. firms to remain competitive in the CEE countries, the United States should consider negotiations toward free-trade accords with them.

Dispute Settlement Under the NAFTA

The U.S.-Canada Free Trade-Agreement (CFTA) established a system for dispute resolution to replace the then existing domestic judicial review procedure for antidumping and countervailing duty cases. By putting into place a system whereby the determinations made by national bodies were reviewed by bilateral panels of experts, Canada and the United States set in motion an entirely new process for reviewing certain trade decisions. Since the CFTA inception in 1989, 30 cases have been referred to panels, and 18 decisions have resulted—15 resulting from a review of U.S. cases, and 3 from Canadian cases. The process has proven rather successful, and most determinations have been unanimous or nearly so. Few bilateral panel

decisions have broken down along national lines. Given the "success" of the process, it is not too surprising that the newly negotiated NAFTA follows a similar path in its attempt to establish a comparable mechanism for disputes between Canada, the United States, and Mexico.

The process of reviewing antidumping (AD) and countervailing duty (CVD) cases in the CFTA was perceived as a temporary solution. The CFTA called for the establishment of a "working group" to "develop a substitute system of rules for dealing with unfair pricing and government subsidization." Both signatories allowed up to 7 years to develop mutually advantageous rules governing U.S. and Canadian subsidies and the application of their respective AD and CVD laws. It was envisioned in some quarters that the interim measures would presage the total replacement of AD and CVD regimes in each country, or at least the establishment of a common regime. Given the Uruguay Round negotiations, these issues were not pursued in the bilateral context because it was believed that any resolution would be a multilateral one. It appears that this hope was unfounded. No harmonization or resolution of the question of subsidies is likely to result from the currently stalled GATT talks, and further discipline in the area of AD policy also appears unlikely. In fact, the embodiment of the review mechanism in the NAFTA signals the intractability of the issues involved and the difficulty of addressing in any truly cross-border fashion the appropriateness of multilateral standards with regard to subsidies. The permanence of the panel process in the NAFTA implies that further movement in this area is far off.

Dispute settlement under the NAFTA, however, is not confined only to AD and CVD cases. Other forms of dispute settlement appear throughout the NAFTA text, for example in the areas of investment (chapter 11), customs administration (chapter 4), agriculture and sanitary measures (chapter 7), and financial services (chapter 17). Certain institutional arrangements have also been approved by the agreement. Separate secretariats will be established in each country. The institutional basis for consultation and discussion as contained in chapter 18 of the CFTA is replicated in chapter 20 of the NAFTA. An annex to the agreement lists 14 different committees and working groups as having responsibilities in the general area of dispute resolution. The active presence of numerous agents of resolution throughout the NAFTA attest both to the success of previous efforts to enshrine mechanisms for avoidance and to the importance that the three NAFTA signatories attach to the containment of disputes.

With the official signing of the NAFTA on December 17, the stage is set for submission of the agreement to each country's legislature. Implementing legislation will further clarify the operation of the newly created dispute settlement applications. Given the agreement's accession clause and the possibility of additional signatories in the future, it will be enlightening to track the changes in the dispute settlement process made to accommodate an expanding free-trade agreement.

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	1992									
				IV	I	II	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, November 20, 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	1992								
				Dec.	I	II	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
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, November 20, 1992.

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

Country	1989	1990	1991	1992									
				I	II	III	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.
United States	5.3	5.5	6.7	7.2	7.5	7.6	7.2	7.5	7.8	7.7	7.6	7.5	7.4
Japan	2.3	2.1	2.1	2.1	2.1	2.2	2.0	2.1	2.2	2.2	2.2	2.3	(5)
Canada	7.5	8.1	10.3	10.7	11.3	11.5	11.0	11.2	11.6	11.6	11.6	11.4	11.3
Germany[2]	5.7	5.2	4.4	4.4	4.6	4.8	4.6	4.6	4.7	4.7	4.8	4.8	4.9
United Kingdom	7.1	6.9	8.9	9.6	9.7	10.1	10.4	10.5	9.8	9.9	10.1	10.2	10.3
France	9.6	9.2	9.8	10.0	10.2	10.2	10.2	10.2	10.3	10.2	10.1	10.2	10.3
Italy[3]	7.8	7.0	6.9	7.0	6.9	6.9	(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.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, December 1992.

Money-market interest rates,[1] by selected countries and by specified periods, January 1989-November 1992
(Percentage, annual rates)

Country	1989	1990	1991	1992 I	II	III	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov
United States	9.3	8.3	5.9	4.2	3.9	3.2	4.4	4.0	3.8	3.9	3.4	3.3	3.1	3.2	3.5
Japan	5.3	6.9	7.5	6.6	6.3	(2)	6.5	6.3	6.3	6.3	(2)	(2)	(2)	(2)	(2)
Canada	12.2	13.0	9.0	7.3	6.5	(2)	7.5	6.9	6.5	5.9	5.6	5.1	4.9	(2)	(2)
Germany	7.1	8.5	9.2	9.6	9.8	(2)	9.6	9.9	9.7	9.6	9.7	9.8	9.4	(2)	(2)
United Kingdom	13.9	14.8	11.5	10.5	10.2	(2)	10.7	10.4	10.0	10.0	10.1	10.2	9.9	(2)	(2)
France	9.4	10.3	9.6	9.9	9.9	(2)	10.0	9.9	9.9	10.0	10.2	10.3	10.1	(2)	(2)
Italy	12.8	12.7	12.1	12.2	12.9	(2)	12.3	12.4	12.4	13.7	15.6	13.7	18.7	(2)	(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*, December 14, 1992 *Economic and Energy Indicators*, Central Intelligence Agency, November 20, 1992.

Effective exchange rates of the U.S. dollar, by specified periods, January 1989-November 1992
(Percentage change from previous period)

Item	1989	1990	1991	1992 I	II	III	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.
Unadjusted:														
Index[1]	91.3	86.5	85.5	84.8	85.2	81.4	86.4	85.5	83.7	81.7	80.9	81.7	83.8	89.1
Percentage change	6.4	-5.3	-1.2	.8	.4	-3.8	-.4	-1.0	-2.1	-2.4	-.9	.9	2.5	5.9
Adjusted: Index[1]	91.8	88.1	87.0	86.7	86.9	83.1	88.2	87.3	85.4	83.3	82.7	83.3	85.5	87.1
Percentage change	6.8	-4.0	-1.2	1.3	.2	-3.8	-.4	-1.0	-2.2	-2.4	-.7	.7	2.5	1.8

[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, December 1992.

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

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

Country	1989	1990	1991	1992 I	II	III	Jun.	Jul.	Aug.	Sept.	Oct.
United States[1]	-109.1	-101.7	-66.2	-59.6	-91.2	-99.2	-80.7	-87.3	-107.3	-102.9	-84.4
Japan	77.6	63.7	103.1	131.6	129.2	([3])	133.2	138.0	([3])	([3])	([3])
Canada	6.0	9.4	6.4	6.8	([3])	([3])	3.6	6.0	([3])	([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	([3])	-21.6	-26.4	-27.6	([3])	([3])
France	-7.0	-9.2	-5.4	3.6	8.0	([3])	-2.4	14.4	-7.2	([3])	([3])
Italy	-12.9	-10.0	-12.8	-10.4	-18.4	([3])	-24.0	-16.8	10.8	([3])	([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, November 20, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, December 17, 1992

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

(In billions of dollars)

Country	1989	1990	1991	1992 I	II	III	Jun.	Jul.	Aug.	Sept.	Oct.
Commodity categories:											
Agriculture	17.9	16.3	16.2	5.1	3.7	4.0	1.1	1.3	1.2	1.5	2.1
Petroleum and selected product—(unadjusted)	-44.7	-54.6	-42.3	-8.1	-10.8	-12.2	-4.0	-4.2	-3.9	-4.1	-4.3
Manufactured goods	-103.2	-90.1	-67.2	-14.5	-16.9	-27.9	-5.7	-9.6	-9.2	-9.1	-9.6
Selected countries:											
Western Europe	-1.3	4.0	16.1	6.6	1.4	-1.4	-.1	-1.1	-.1	.2	.1
Canada[2]	-9.6	-7.7	-6.0	-1.4	-1.8	-1.8	-.4	-.3	-.7	-.7	-1.0
Japan	-49.0	-41.0	-43.4	-10.8	-11.1	-12.0	-3.4	-3.9	-3.7	-4.4	-4.9
OPEC (unadjusted)	-17.3	-24.3	-13.8	-1.5	-2.2	-3.9	-1.1	-1.5	-1.3	-1.1	-1.1
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$16.80	$19.75	$17.49	$14.57	$16.82	$18.00	$18.25	$18.18	$17.96	$17.86	$18.15

[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, December 17, 1992.