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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Despite a decline in factory orders, other recent major indicators show advances—personal incomes and spending increased, and the index of leading indicators rose. Unemployment, however, changed little.

New orders for manufactured durable goods declined $5.0 billion (3.7 percent) in March to $130 billion, following a 2.2-percent increase in February and a 2.3-percent decrease in January, according to the Department of Commerce. Transportation equipment declined $3.7 billion (10.3 percent), the largest decline of all major groups, to $32.7 billion, primarily due to the decline in orders of aircraft and parts. Orders for transportation equipment increased 9.5 percent in February, following an 8.3-percent decline in January. Shipments of durable goods increased $1.0 billion (0.7 percent) to $135 billion in March, the fourth monthly increase in the past five months, following a 2.7-percent increase in February. Shipments of industrial machinery recorded a $0.6 billion (2.4 percent) increase in March, following a 0.7-percent increase in February. Shipment of transportation equipment recorded a $0.3 billion (0.8-percent) increase to $36.5 billion due to the rise in shipments of aircraft and parts and motor vehicles and parts.

New orders for defense rose $0.4 billion (6.5 percent) to $6.8 billion, following a 27.9-percent decrease in February. Shipments decreased 0.6 percent to $7.8 billion, following a 2.6-percent increase in February. Unfilled orders decreased $1.1 billion (0.8 percent) to $126.1 billion. New orders for nondefense capital goods decreased $4.3 billion (12.4 percent) to $30.2 billion, following a 13.7-percent increase in February. Unfilled orders declined $3.5 billion (1.6 percent) to $215.0 billion, the 11th decline in the past 12 months, and were at the lowest level since November 1989.

In spite of the monthly ups and downs in durable goods orders, quarterly data show gains. In the first quarter of 1993, new orders for durable goods rose (3.5 percent) to $397.2 billion from the 1992 fourth quarter, and shipments of durable goods rose (3.2 percent) to $399.5 billion.

Personal income and outlays continued rising, but personal saving fell. Personal income rose $9.9 billion in February to a seasonally adjusted annual rate of $5.3 trillion, and personal outlays increased $25.4 billion to $4.4 trillion. In January personal income increased $25.2 billion, and personal outlays increased $14.0 billion. Disposable personal income increased $9.5 billion in February, compared with an increase of 17.0 billion in January. Personal saving declined to $187.0 billion in February from $202.9 billion in January, according to the Commerce Department.

Demand for retail goods fell in March by 1.0 percent after falling by 0.3 percent in February. However, most retail analysts attribute the decline to the stormy weather that hit most of the nation, particularly the east coast. Retail sales picked up by 0.3 percent in January and 0.8 percent in December, their 6th month of strong gains in the past 7 months. Department stores and auto sales showed marked strength. Sales for the fourth quarter as a whole increased 11.4 percent at an annual rate—the largest quarterly advance in 4 years. Sales from November to December were 7.2 percent higher than a year earlier, according to the Department of Commerce.

The composite index of leading indicators increased 0.5 percent in February 1993, according to the Commerce Department. The index was unchanged in January and increased 1.7 percent in December. Six of eleven indicators contributed to the February increase in the index. By order of their contributions to recovery, these six indicators were manufacturers' unfilled orders (in 1982 dollars), contracts and orders for plant and equipment (in 1982 dollars), average weekly initial claims for state unemployment insurance (including claims made under the July 1992 Emergency Unemployment Compensation amendments), sensitive materials prices, stock prices, and average workweek. Four of eleven indicators made negative contributions: money supply (in 1982 dollars), building permits, index of consumer expectations, and manufacturers' new orders for consumer goods and materials in 1982 dollars. One indicator, vendor performance (slower deliveries diffusion index), decreased slightly.

The composite index of coincident indicators, a monthly approximation of aggregate economic activity, increased 0.2 percent in February after increasing by 0.2 percent in January. The composite index of lagging indicators increased 0.2 percent in February after decreasing by 0.4 percent in January.

In the foreign sector, the United States recorded large increases in exports of goods and services, despite the rise in the current account deficit.

The U.S. Current Account

The U.S. Department of Commerce reported that the U.S. current-account deficit increased in 1992 in spite of the rise in exports of goods and services. The deficit on the current account increased to $62.4 billion in 1992 from $3.7 billion in 1991 for two reasons: the decline in cash contributions from coalition partners in Operation Desert Storm, which held down the current account deficit in 1991, and the rise in U.S. Government grants. In 1992, the merchandise trade deficit on a balance of payments basis increased to $96.3 billion from $73.4 billion in 1991. Merchandise exports increased to $439.3 billion from $416.0 billion, and merchandise imports increased to $535.5 billion from $489.4 billion. In contrast, the surplus on services trade increased to $55.1 billion in 1992 from $45.3 billion in 1991. Service receipts increased to $178.5 billion from $163.6 billion, and service payments increased to $123.4 billion from $118.3 billion.

Net receipts of income on investments decreased to $10.1 billion in 1992 from $16.4 billion in 1991, due to the economic slowdown in industrial countries. Receipts of income on U.S. assets abroad decreased to $109.2 billion from $125.3 billion, largely reflecting sharp declines in interest rates as well as sharp declines in U.S. bank claims on foreigners. Payments of income on foreign assets in the United States decreased to $99.1 billion from $108.9 billion, reflecting sharp declines in U.S. interest rates. Net unilateral transfers shifted to a negative $31.4 billion from a positive $8.0 billion.

Capital transactions recorded an increase in net capital inflows of $75.4 billion in 1992 from $4.8 billion in 1991. Foreign residents, both official and private, sharply stepped up their acquisitions of U.S. assets, while U.S. residents slowed their acquisitions of foreign assets.

Net U.S. purchases of foreign securities were a record $48.6 billion in 1992, compared with net purchases of $45.0 billion in 1991. Net U.S. purchases of foreign stocks increased slightly to $30.7 billion from $30.2 billion. Net U.S. purchases of foreign bonds increased to $17.9 billion from $14.9 billion. Net capital outflows for U.S. direct investment abroad were $35.3 billion in 1992, compared with $27.1 billion in 1991.

Net foreign purchases of U.S. Treasury securities were $35.1 billion in 1992, compared with $16.2 billion in 1991. Foreign demand was particularly strong from Western Europe and Asia. Net foreign purchases of U.S. securities other than U.S. Treasury securities declined to $29.9 billion in 1992, from $34.9 billion in 1991. Net capital inflows for foreign direct investment in the United States were $3.9 billion in 1992, compared with net inflows of $11.5 billion in 1991. Equity capital inflows dropped sharply and intercompany debt shifted to outflows from inflows, accounting for much of the change.

Foreign official assets in the United States increased by $21.9 billion to $40.3 billion in 1992. Assets of industrial countries accounted for much of the increase in 1992.

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 first quarter of 1993 by 1.8 percent at an annual rate, following an increase of 4.7 percent in the fourth quarter of 1992.

The annualized rate of real economic growth in the fourth quarter of 1992 was 0.4 percent in the United Kingdom, -2.0 percent in France, -5.5 percent in Germany, 3.5 percent in Canada, -0.3 percent in Japan, and -2.4 percent in Italy.

Industrial Production

Seasonally adjusted U.S. nominal industrial production remained unchanged in March 1993 after strong gains in the past 4 months. Output increased by 0.4 percent in February 1993, and by 0.5 percent in January. The slowdown in March reflects the loss of output due to the severe storms in mid-March along the east coast. Outputs of textiles, steel, furniture, tobacco, and coal mining were most affected by the inclement weather. Capacity utilization in manufacturing, mining, and utilities declined 0.2 percent to 79.9 percent. In March 1993, industrial production had increased 4.1 percent above its level a year ago.

Annual industrial production growth rates for the other G-7 member countries were varied. For the year ending February 1993, Japan reported a decrease of 5.4 percent and Germany reported a decrease of 11.2 percent; for the year ending January 1993, the United Kingdom reported an increase of 1.2 percent, Canada reported an increase of 4.3 percent, France reported a decrease of 4.3 percent, and Italy reported a decrease of 3.2 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.3 percent in March 1993, following an 0.5-percent rise in January. The consumer price index rose by 3.1 percent during the 12 months ending March 1993.

During the 1-year period ending March 1993, prices increased 4.3 percent in Germany and 4.3

percent in Italy; during the year ending February 1993, prices increased 2.3 percent in Canada, 2.1 percent in France, 1.8 percent in the United Kingdom, and 1.4 percent in Japan.

Employment

The U.S. unemployment rate was little changed in March at 7.0 percent, according to the Bureau of Labor Statistics. The seasonally adjusted number of unemployed persons, 8.9 million, was unchanged in March. At 7.0 percent, the unemployment rate remained 0.7 of a percentage point below its mid-1992 high of 7.7 percent, but well above its prerecession level of slightly more than 5 percent. Among worker groups, there was some improvement in unemployment for adult women, whose jobless rate fell for the 2d consecutive month, to 5.7 percent in March. The unemployment rate for adult men edged up slightly, to 6.7 percent. Seasonally adjusted jobless rates for teenagers (19.5 percent), whites (6.1 percent), African Americans (13.5 percent), and Hispanics (11.4 percent) were about unchanged over the month. Rates for all of these worker groups have receded since peaking in mid-1992. The seasonally adjusted total number of persons employed was almost unchanged in March at 118.6 million. Table 1 shows U.S. employment indicators.

Table 1
Major indicators of labor market activity, seasonally adjusted

Category	1992 IV	1993 I	1993 Jan.	Feb.	Change Mar.	Feb/March
			Labor force status (thousands)			
Civilian labor force	127,341	127,280	127,083	127,327	127,429	102
Employment	118,021	118,362	118,071	118,451	118,565	114
Unemployment	9,320	8,917	9,013	8,876	8,864	-12
Not in labor force	64,978	65,516	65,561	65,459	65,530	71
Discouraged workers	1,084	1,134	N.A.	N.A.	N.A.	N.A.
			Unemployment rates (percent)			
All workers	7.3	7.0	7.1	7.0	7.0	.0
Adult men	7.0	6.5	6.4	6.5	6.7	0.2
Adult women	6.3	6.0	6.4	6.0	5.7	-.3
Teenagers	19.4	19.6	19.7	19.6	19.5	-.1
White	6.4	6.1	6.2	6.1	6.1	.0
African American	14.1	13.6	14.2	13.1	13.5	.4
Hispanic origin	11.8	11.4	11.6	11.4	11.4	.0
Establishment Data:						
			Employment (thousands)			
Nonfarm employment	108,656	p109,102	108,865	p109,232	p109,210	p-22
Goods-producing[1]	23,271	p23,313	23,267	p23,368	p23,303	p-65
Construction	4,591	p4,601	4,559	p4,652	p4,593	p-59
Manufacturing	18,059	p18,102	18,092	p18,112	p18,103	p-9
Service-producing[1]	85,385	p85,790	85,598	p85,864	p85,907	p43
Retail trade	9,141	p19,315	19,227	p19,363	p19,356	p-7
Services	29,198	p29,353	29,267	p29,366	p29,426	p60
Government	18,664	p18,675	18,664	p18,686	p18,674	p-12
			Hours of work[2]			
Average weekly hours:						
Total private	34.5	p34.4	34.5	p34.4	p34.3	p-0.1
Manufacturing	41.2	p41.4	41.4	p41.5	p41.2	p-.3
Overtime	3.9	p4.1	4.0	p4.3	p3.9	p-.4
			Earnings (dollars per hour)[2]			
Avg. hourly earnings, total private	$10.68	p$10.76	$10.73	p$10.75	p$10.80	p$0.05
Avg. weekly earnings, total private	368.22	p370.14	370.19	p369.80	p370.44	p.64

[1] Includes other industries, not shown separately. N.A.= not available.

[2] Data relate to private production. p=preliminary.

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

In Germany, unemployment in March 1993 was 7.8 percent. In February 1993, unemployment was 10.8 percent in Canada, 9.8 percent in Italy, 10.6 percent in France, 2.3 percent in Japan, and 10.5 percent in the United Kingdom. (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 3.0 to 3.3 percent (at an annual rate) in 1993. The real growth rate is expected to be only a little slower during the second and third quarters, and to improve slightly in the fourth. The average growth rate for 1993 is expected to be 3.1 percent. Factors that are likely to restrain the recovery include the general slowdown in foreign economic growth, particularly in Japan, Germany, and France, and the uncompleted structural adjustments in the financial and nonfinancial sectors. Although consumer confidence and spending have improved in recent months, forecasters expect consumer spending to moderate unless personal incomes keep rising strongly enough to encourage more spending.

Table 2 shows macroeconomic projections for the U.S. economy for January-December 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 2
Projected quarterly percentage changes of selected U.S. economic indicators, January-December 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				
1993:					
January-March	6.4	6.1	6.3	6.2	6.3
April-June	5.8	5.5	4.6	5.8	5.4
July-September	7.0	5.9	4.6	6.5	6.0
October-December	5.7	6.1	5.7	6.2	5.9
	GDP (constant (1987) dollars)				
1993:					
January-March	3.6	3.1	3.0	2.9	3.2
April-June	3.1	3.2	2.4	2.9	3.0
July-September	3.7	3.6	2.2	3.3	3.2
October-December	3.0	3.5	3.4	3.2	3.3
	GDP deflator index				
1993:					
January-March	2.7	2.9	3.1	3.2	3.0
April-June	2.7	2.2	2.1	2.8	2.5
July-September	3.1	2.2	2.3	3.1	2.7
October-December	2.8	2.6	2.2	2.9	2.6
	Unemployment, average rate *(percent)*				
1993:					
January-March	7.0	7.0	7.1	7.0	7.0
April-June	6.8	7.0	7.0	6.9	7.0
July-September	6.6	7.0	6.9	6.7	6.8
October-December	6.4	6.9	6.7	6.6	6.7

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: Apr. 1993.

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

Nevertheless, several factors could be working in favor of growth rates stronger than those projected for 1993. These include—

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

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

- An expected rise in investment spending due to recent gains in productivity, moderation of wage increases, cost cutting and corporate restructuring, declining long-term interest rates, and moderation of 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.

The average of the forecasts points to a small decline in unemployment throughout 1993. Inflation (as measured by the GDP deflator) is expected to slow slightly below the 3-percent rate during the remainder of the year. The slow rise in wages and compensations and the slow rise in incomes are expected to hold down inflation below the 3-percent rate.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of $37.2 billion and imports of $44.4 billion in February 1993 resulted in a merchandise trade deficit of $7.2 billion, virtually the same as the January deficit. The February deficit was 112 percent higher than the deficit registered in February 1992 ($3.4 billion), and 2.4 percent higher than the average monthly deficit registered during the previous 12 months ($7.03 billion).

Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 3.

Nominal export changes and trade balances in February 1993 for specified major commodity sectors are shown in table 4. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 5.

Table 3
U.S. merchandise trade, seasonally adjusted, in billions of dollars

Item	Exports		Imports		Trade balance	
	February 93	January 93	February 93	January 93	February 93	January 93
Current dollars—						
Including oil	37.2	37.1	44.4	44.3	-7.2	-7.2
Excluding oil	36.7	36.5	40.3	40.1	-3.6	-3.6
1987 dollars	35.4	35.7	42.9	42.9	-7.6	-7.3
3-month moving average	38.0	38.3	45.1	45.5	-7.1	-7.1
Advanced-technology products (not seasonally adjusted)	8.4	8.2	5.7	5.6	+2.7	+2.7

Source: *U.S. Department of Commerce News (FT 900)*, Apr. 1993.

Table 4
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors and agriculture, January 1992-February 1993

Sector	Exports		Change		Share of total January-February 1993	Trade balances January-February 1993
	January-February 1993	February 1993	January-February 1993 over January-February 1992	February 1993 over January 1993		
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	4.2	2.1	2.20	6.0	-1.75	
Airplanes	3.3	1.7	-32.2	9.7	4.5	2.70
Airplane parts	1.6	0.7	0	-13.3	2.2	1.11
Electrical machinery	5.5	2.8	7.8	4.5	7.6	-0.98
General industrial machinery	3.0	1.5	0	0	4.1	0.52
Iron and steel mill products	0.6	0.3	-11.3	0	0.8	-0.65
Inorganic chemicals	0.7	0.4	4.2	-5.3	1.0	0.26
Organic chemicals	1.8	0.9	4.1	-5.4	2.5	0.30
Power-generating machinery	3.0	1.5	6.9	-3.3	4.1	0.40
Scientific instruments	2.3	1.2	0.4	5.3	3.2	1.14
Specialized industrial machinery	2.7	1.4	1.5	3.9	3.7	0.75
Telecommunications	1.9	1.0	15.8	7.6	2.7	-1.57
Textile yarns, fabrics, and articles	0.9	0.5	1.1	2.2	1.3	-0.30
Vehicle parts	3.0	1.6	16.4	16.9	4.1	0.22
Other manufactured goods[1]	4.2	2.0	-5.7	-4.7	5.8	-0.93
Manufactured exports not included above	17.1	8.5	6.4	-1.7	23.8	-13.89
Total manufactures	55.6	27.9	1.2	0.8	77.1	-12.67
Agriculture	7.4	3.8	-0.1	3.9	10.2	3.49
Other exports	9.2	4.6	1.6	-1.3	12.7	-2.6
Total	72.1	36.2	1.1	0.8	100.0	-11.78

[1] This is an official U.S. Department of Commerce commodity grouping.

Note: Because of rounding, figures may not add to totals shown.

Source: *U.S. Department of Commerce News (FT 900)*, Apr. 1993.

Table 5
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1992-February 1993

(Billion dollars)

Area or country	February 1993	January 1993	February 1992	January-February 1993	January February 1992
Japan	-4.13	-3.90	-3.06	-8.03	-6.98
Canada	-0.96	-1.04	-0.66	-2.00	-0.92
Western Europe	1.42	1.73	+2.63	+3.15	+4.32
EC	1.42	1.75	+2.47	+3.17	+4.35
Germany	-0.59	-0.25	-0.07	-0.84	-0.30
European Free Trade Association (EFTA)[1]	-0.16	-0.16	-0.03	-0.32	-0.23
NICs[2]	-0.41	-0.79	-0.63	-1.20	-1.94
Russia	+0.06	+0.11	+0.04	+0.17	+0.05
China	-1.17	-1.58	-1.23	-2.75	-2.64
Mexico	+0.32	+0.38	+0.58	+ 0.69	+1.16
OPEC	-0.96	-1.12	-0.39	-2.07	-1.16
Trade balance	-5.67	-6.11	-2.36	-11.78	-7.91

[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 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)*, Apr. 1993.

INTERNATIONAL TRADE DEVELOPMENTS

EC Plans for Enlargement

Since 1989, European Community (EC) President Jacques Delors has worked to further economic integration among the 12 EC member states before taking up the issue of accepting new members. Now that the EC has largely met its goal of completing the EC internal market by December 31, 1992, Community officials are turning their attention to enlargement. Eight European countries have formally applied to join the EC, including Austria, Sweden, Finland, Norway, Switzerland, Cyprus, Malta, and Turkey. Countries of Central and East Europe have also mentioned a desire to join.

Article 237 of the Treaty of Rome indicates that "any European state may join the Community" and describes the membership application process. Any interested nation must address its application to the Council of Ministers, which then asks the EC Commission for an opinion. Based on the Commission's opinion, the Council prepares a negotiating mandate by unanimous consent. Thereafter, the terms of the accession agreement, such as transitional measures and temporary derogations, are agreed upon, but Community law cannot be changed. When the agreement is signed, the European Parliament is consulted for an opinion. Assuming a positive opinion from the Parliament, the agreement requires ratification by all contracting states in accordance with their constitutions.

Austria, Sweden, Finland, and Norway—members of the European Free Trade Association (EFTA)—are on the fast track to full EC membership. EC and EFTA countries, except Switzerland, have already signed an agreement to establish a European Economic Area (EEA), which extends the four EC freedoms—free movement of goods, capital, services, and people—to the countries of EFTA. The EEA represents a new stage in EC-EFTA relations and, according to EFTA, should facilitate and accelerate the accession process. It is scheduled to enter into effect by July 1, 1993.

The EC Commission began formal membership negotiations with Austria, Sweden, and Finland on February 1, 1993, and gave a favorable opinion on the application of Norway in March 1993. Norway joined negotiations with the EC on April 5, 1993. Negotiations with all four countries should be completed by the end of the year or early in 1994, so that referenda on accession to the EC can be held in each country during 1994. Accession for all four countries could occur as early as January 1, 1995.

The EC has taken the position that membership implies acceptance of the actual and potential rights and obligations attached to the Community system and its institutional framework, known as the Acquis Communautaire. In other words, a country acceding to the EC is required to accept all facets of Community law and politics that were established prior to its accession. Membership of Austria, Sweden, Finland, and Norway would thus require acceptance of the Treaty on European Union, popularly known as the Maastricht Treaty. Specific objectives of the Maastricht Treaty include: (1) balanced and sustainable economic and social progress; (2) the establishment of economic and monetary union; (3) a common foreign and security policy; (4) the introduction of citizenship of the union; and (5) cooperation on justice and home affairs.

In addition, the EFTA countries will have to terminate all other agreements that are incompatible with the objectives of membership, accepting EC policies and agreements instead. The EFTA countries must adopt EC common commercial policy as well as agreements with EC Mediterranean neighbors, the Central and East European countries (CEECs), the former Soviet republics, Japan, Canada, the United States, Latin America, Asia, Africa, the Pacific, and the Caribbean. One of the greatest EC membership concessions being asked of the EFTA countries will be their contributions to the European Regional Development Fund. The EFTA countries have agreed to an initial contribution of 2 billion ECU for the development of the poorer EC countries of Spain, Portugal, Ireland, and Greece.

Negotiations regarding full accession are expected to center on issues ranging from regional authority to the environment. Austria, for example, will present the specific requirements of its agricultural system and emphasize high social and environmental standards. Austria has also called for an interim agreement to harmonize rules of origin and thus ensure smoother European trade flows. Sweden will seek to retain regional policies directed to assist the economic and agricultural development of its low-population areas, poor climatic conditions, and isolated geographical locations. Sweden also wants to keep its stringent requirements for motor vehicles, nuclear waste, environmental protection, and fisheries. In addition, Sweden will discuss the EC position on commercial

policy, the alcohol monopoly structure, border controls, Euratom (the European Atomic Energy Community), and the Community budget. Finland is concerned about issues not covered by the EEA, such as its high standards for the environment, working conditions, and consumer protection. Without seeking derogations from EC rules and obligations, Finland anticipates that its current income, social, and regional development policies will be taken into account during membership negotiations. Norway has expressed concern about retaining its policies on agriculture, fisheries, competition, regions, energy, and commercial whaling.

Switzerland, a member of EFTA, has also applied for membership. However, the country's rejection of the EEA in a December referendum temporarily placed in doubt Switzerland's future membership in the EC. In February 1993, the EC and EFTA revised the EEA agreement to accommodate Switzerland's nonparticipation. The revised agreement will still permit Switzerland to join the EEA if it chooses to do so in the future, and so far as the EC is concerned, Switzerland's membership application is still on track. On the other hand, according to an EC official, the feeling is that if Switzerland cannot agree to ratify the EEA, then it will not be able to ratify membership.

Other candidate countries for full EC membership are Cyprus, Malta, and Turkey. The opinions of the EC Commission on the applications of Cyprus and Malta are expected this year. Turkey, which signed an association agreement with the EC in 1964, received a negative opinion from the EC Commission on membership in 1989 due to the poor performance of its economy. Turkey is, however, planning to improve its economy, and hopes to negotiate a customs union with the EC by 1996, as provided for in the EC-Turkey association agreement. At the beginning of January 1993, Turkey announced the introduction of a new customs regime for imports from the EC. A new tariff structure will give preference, for the first time, to imports from the Community and EFTA. The new Turkish import system is expected to stimulate imports from the EC, allowing Community businesses to boost exports to Turkey.

The EC has been negotiating a series of agreements with the Central and East European countries. In December 1991, Poland, Hungary, and the former Czechoslovakia signed association agreements with the EC. (Renegotiation of the agreement with the former Czechoslovakia began in February 1993, after Czechoslovakia split into the two separate countries of Slovakia and the Czech Republic.) Romania officially signed an association agreement with the EC on February 1, 1993, and Bulgaria signed a similar agreement on March 8, 1993. The aim of these agreements is to provide for a free-trade zone within 10 years. The agreements call for the progressive liberalization of the movement of goods, services, people, and capital. Most East European nations, Bulgaria included, have made little secret of the fact that they see association agreements with the EC as a steppingstone to later membership in the European Community.

A recently released report, *Is Bigger Better? The Economics of EC Enlargement*,[1] discusses the effects of enlarging the European Community to include current EFTA members and the CEECs. According to the authors, the EFTA countries, regarded as the first distinct group of applicants to petition the EC formally, are small, developed, and prosperous economies with democratic institutions and close links to the EC. The CEECs, unlike the EFTA countries, are at an earlier stage of economic development, are just developing market-based economies, and have little or no democratic tradition. Their trade with EC countries is relatively small and institutional ties are nonexistent.

The report concludes that implementation of the new EEA will strengthen EC-EFTA ties, which will place EFTA countries on the threshold of full membership. On the other hand, full participation of the CEECs in EC institutions cannot be envisaged for some time. Because the EEA agreement will enhance the free movement of goods among all the EC and EFTA countries by removing many nontariff barriers and instituting free movement of capital, labor, and services throughout the region, the report estimates that "the EEA will raise the EFTA GDP by up to 5 percent." In contrast, the report states the EC will gain an important source of income, estimating that "EFTA entry to the EC would bring a net annual contribution of 5 billion ECU to the structural and regional funds." Regarding the CEECs, however, the study suggests that EC entry would be "prohibitively expensive." For the EC, development of the CEECs' regions through "current EC cohesion policies would entail annual transfers from current members of 8 billion ECU to Czechoslovakia, Hungary, Poland combined and a further 5 billion to Bulgaria and Romania."

Mexico's Historic Agrarian Reform Now in Progress

One year after his comprehensive agrarian reform program was launched, President Salinas met with Mexico's rural leaders early this year. The President reported on the progress of the program since its inception, announced his administration's next steps and promised subsidies to farmers to help them compete internationally. Responding to concerns about a possible re-emergence of pre-revolutionary agrarian practices, Mr. Salinas assured the farmers that his reform would never permit the return of the "latifundio," the type of large estates expropriated during the Mexican revolution.

The Salinas agrarian reform was initiated in January 1992 with a revision of article 27 of Mexico's 1917 Constitution. Article 27 was originally

[1] The report, coathored by Vittorio Grilli, Richard Portes, and Andre Icard, is summarized in the Centre for Economic Policy Research (CEPR) briefing paper, "EC Enlargement: Deepening Through Widening," Feb. 1993.

responsible for creating a network of cooperative farms in Mexico known as "ejidos," based on the communal tenure of the land. The Government allocated the land to the ejidos from the pre-revolutionary owners' estates it expropriated. Since the Mexican revolution, an ongoing distribution of land to the ejidos had increasingly displaced private farming, giving village life a socialistic character.

Conceding the inefficiency of the ejido system, and alarmed about the deterioration of Mexican agricultural performance, President Salinas first proposed his new, comprehensive agrarian reform in the fall of 1991. The proposal would lead to the foundation of a modern, market-oriented agricultural system in Mexico, and amount to the reversal of seven decades of village socialism. The new system was to be based on private ownership and capable of attracting foreign investment. (For a discussion of the Salinas program, and reasons why the revolutionary ejido system had to be dismantled, see also *IER*, June 1992.)

During his meeting with rural leaders this year, Mr. Salinas announced that the legal framework needed to implement his program was now in place. The first major legal step was the adoption of the constitutional amendment mentioned earlier, which revoked a Mexican citizen's automatic right to land and the Government's obligation to provide it to landless individuals. The amendment also withdrew the Government's authority to expropriate land deemed "unused or underused," thereby making private investment in agricultural land safer. In February 1992, the Mexican Congress followed up with an agrarian law that was designed to implement the Salinas program, and later in the year with laws concerning forestry and water resources management.

The new agrarian law provided that individual ejido farmers be given title to the land they cultivated, and codified the farmers' right to lease or sell land, or use it as collateral for loans. Mr. Salinas promised to rural leaders at their recent meeting that a process of "certifying ejido rights" would be instituted immediately throughout the country. Yet, because providing an estimated 10 million titles requires extensive land survey work and legal preparation, some analysts estimated that only about 50 percent of the titles would be issued by the end of the Salinas administration's tenure in December 1994. The new Salinas farm law also eased earlier limits on acreage, so corporations and associations could reap economies of scale from operating large parcels of land. Corporations are now permitted to own up to 25 times the size of land allowable to individual farmers. According to analysts, the transition period for the implementation of all agrarian reform measures will be protracted—possibly 10 years or more.

The agrarian reform has had little visible impact thus far. Fears that farmers would rush to sell or lease their land in large numbers and leave the countryside have as yet proven unfounded. Observers explain this phenomenon in part with the slowness of clearing the ejido farmers' titles. More important, interviews conducted with the farmers themselves indicated that they were less interested in selling their newly acquired land than in renting it or locating partners or funds that would help them cultivate it.

To keep farmers in the countryside, the Salinas administration promotes a type of project referred to as the "vaqueria." This type of project had already been tried out successfully on a limited basis before the Salinas agricultural reform was set in motion. In the vaqueria, the ejido farmer supplies the land and labor, and the investor—domestic or foreign—provides the funds and administrative/technical input. The legal control of the land remains with the original farmer.

As to the slowness of investors' response, analysts explain it with a "wait-and-see" attitude taken by the interested parties, due in part to the still-unclear tax implications of the new rules and, even more, to the high domestic interest rates prevailing in Mexico. Some limited, high-profile Mexican corporate investments have nonetheless gone into farming since the reforms were instituted. For example, AGRAMEX (a Mexican food company) invested in former ejido land in Tamaulipas and also arranged with farmers to produce wheat for the company.

The new agrarian laws seek to facilitate foreign investment in farming and related production. Yet foreign agricultural investment is hampered by foreign land ownership restrictions still on the books. Foreigners are still not allowed to own land within 100 kilometers of Mexico's frontiers or within 50 kilometers of either coast. These out-of-limits areas constitute a large portion of Mexico's arable land, and include some of the country's prime vegetable-producing land in Baja California and Sinaloa, as well as good crop and cattle land in Tamaulipas and Veracruz. Besides, even in nonrestricted areas foreigners may own up to only 49 percent of land holdings. At the same time, foreign ownership of up to 100 percent is allowed in farm-related production, such as food processing and distribution.

As to U.S. and Canadian investors, they are also believed to be holding back until the ratification of the North American Free-Trade Agreement (NAFTA). The Salinas agrarian reform is expected to help U.S. and Canadian companies already in Mexico—which are mostly producing frozen vegetables, processing grains and oilseed, citrus, poultry, and distilled spirits—to expand their operations, regardless of the outcome of NAFTA. According to the U.S. International Trade Commission's January 1993 report, NAFTA's bilateral U.S.-Mexican accord on agriculture[2] "will maintain, or possibly further encourage, a minor increase in U.S. investment levels in these sectors as well as in Mexico's fish sector and alcoholic beverages sectors." (See *Potential Impact on the U.S. Economy and Selected Industries of the North*

[2] Under NAFTA, Mexico has separate agricultural accords with the United States and Canada.

American Free-Trade Agreement (investigation No. 332-337), USITC publication 2597, p. 22-8.)

U.S. Congress To Weigh NAFTA Parity for Caribbean Basin

In response to concerns that the proposed North American Free-Trade Agreement (NAFTA) may adversely affect Caribbean Basin exports to the United States, the U.S. Congress is considering legislation that would extend the preferential tariff and quota treatment accorded to Mexico under NAFTA to U.S. imports from the Caribbean Basin for a 3-year period.

Caribbean Basin Economic Recovery Act

The United States launched the Caribbean Basin Initiative (CBI) in 1982 as a broad program of trade preferences, investment incentives, and other U.S. measures to promote economic growth and political stability in the Caribbean Basin countries. The key statutory provisions containing the trade-related aspects of the CBI became operative in January 1984 under the Caribbean Basin Economic Recovery Act (CBERA). The CBERA affords nonreciprocal duty-free entry into the United States for most products of most Caribbean Basin countries.[3] Excluded from preferential tariff treatment are petroleum and petroleum products, canned tuna, certain footwear, most textile and apparel products not subject to textile agreements, and certain watches and watch parts.

The CBERA was significantly modified in 1990. These changes extended duty-free entry to certain articles of U.S. origin assembled or processed in CBERA countries; reduced duties below most-favored-nation rates for certain products (handbags, luggage, flat goods, work gloves, and leather apparel); and eliminated duties on goods (excluding textiles and apparel and petroleum products) assembled or processed in CBERA countries wholly from U.S. components or materials. Most significantly, the 1990 modifications lifted the statutory 10-year limit for CBERA preferential treatment.

The United States also affords preferential treatment to certain products of U.S. origin assembled abroad and subsequently returned. Duties are assessed only on the foreign value added to the U.S. product. The provisions for such production-sharing operations are established in chapter 98 of the U.S. Harmonized Tariff Schedule (HTS). In 1986, the United States offered to negotiate bilateral agreements with the CBERA countries for improved access to the U.S. market for apparel qualifying for HTS chapter 98 treatment. Agreements negotiated under the so-called Special Access Program establish more liberal quotas—quotas that may be increased upon request by the CBERA country—than are otherwise available through U.S. textile policy.

U.S. imports from CBERA countries have increased since 1984, the first full year of the CBERA. While dutiable imports from the CBERA countries declined from more than $4 billion to less than $3 billion between 1984 and 1992, total duty-free imports increased from $4 billion to more than $5 billion. CBERA duty-free imports expanded even more rapidly, from $576 million in 1984 to $1.5 billion in 1992.

NAFTA Parity

The leaders of the United States, Canada, and Mexico signed the NAFTA agreement on December 17, 1992. Implementing legislation for this proposed free-trade area must be prepared and approved in each country before NAFTA goes into effect. One key component of the agreement is the elimination of tariffs and quotas on trade between the United States and Mexico.[4]

Private and public sector officials throughout the Caribbean Basin continue to express the concern that their access to U.S. markets and U.S. investment will erode after NAFTA is fully implemented. They are particularly concerned that production and investment will shift to Mexico, "marginalizing" the Caribbean Basin region.

On March 18, 1993, Representative Sam Gibbons introduced the Caribbean Basin Free-Trade Agreements Act (H.R. 1403) in the U.S. House of Representatives "to ensure that the Caribbean Initiative is not adversely affected by the implementation of the North American Free-Trade Agreement." The legislation would provide preferential tariff and quota treatment on imports from CBERA countries identical to the treatment accorded to like articles imported from Mexico under NAFTA, and to articles that meet rules-of-origin criteria established by NAFTA. In addition, other provisions of H.R. 1403 would—

- Apply the lower of either the NAFTA duty rate or the CBERA reduced duty rates for imports of handbags, luggage, flat goods, work gloves, and leather wearing apparel;

[3] The 24 countries designated for CBERA benefits are: Antigua, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

[4] For a more detailed analysis of key NAFTA provisions, see USITC, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement* (investigation No. 332-337), USITC publication 2596, Jan. 1993.

- Establish (1) quota-free treatment for textiles and apparel articles that originate in a CBERA country; (2) duty-free treatment for imports of textile and apparel products from CBERA countries qualifying for the Special Access Program; and (3) duty- and quota-free entry for certain certified handloomed, handmade, and folklore articles;

- Permit articles assembled in CBERA countries wholly of U.S.-origin components or materials subject to section 222 of the CBERA to continue to enter the United States duty free, whereas comparable articles from Mexico would be subject to staged tariff elimination;

- Establish tariff-rate quotas for Caribbean products that do not meet NAFTA rules of origin, with duties identical to those applied to like imports from Mexico; and

- Subject all imports receiving NAFTA treatment to NAFTA emergency safeguards.

NAFTA parity provisions would become effective on the date that NAFTA enters into force (scheduled to occur on January 1, 1994). The provisions are to remain in effect for 3 years (the so-called "transitional period"), during which time the CBERA countries would be invited either to accede to NAFTA or to negotiate a bilateral free-trade agreement with the United States. Countries that do not accede to NAFTA or conclude bilateral agreements with the United States by the end of the transitional period would return to CBERA treatment. H.R. 1403 currently is awaiting comments and further action in the Trade Subcommittee of the House Ways and Means Committee.

NAFTA Impact Studies

A recent USITC report found that NAFTA "will improve the relative cost competitiveness of Mexican producers compared with their counterparts in the Caribbean and Central America" and will "introduce incentives that will tend to favor apparel investment shifts from the CBERA countries into Mexico." However, the report concluded that "CBERA producers . . . are expected to retain a cost advantage (though reduced after implementation of a NAFTA)" in certain products because of their relatively lower labor costs.[5]

The USITC will report the findings of ongoing research on the impact of NAFTA on U.S. imports from Caribbean Basin countries in its next annual report on the CBERA, scheduled for completion by September 30, 1993. Previous annual USITC reports on the CBERA[6] are available from the Office of the Secretary, (202) 205-2000 or TDD (202) 205-1809.

U.S.-Canada Trade Commission Meets

The U.S.-Canada Trade Commission, established under article 1802 of the United States-Canada Free Trade Agreement (CFTA), met on April 2 in Ottawa. The commission, which is composed of the trade ministers of each country—in this case, Canadian Minister of Trade Michael Wilson and United States Trade Representative Mickey Kantor—examined the state of the bilateral trading relationship. The two officials focused on a number of specific sectoral issues, among them beer, durum wheat, steel, and the perennial problem item, lumber.

Beer—The ongoing dispute on beer headed the list of topics to be explored. Both sides have imposed duties as a result of the disagreement. Ontario began levying a charge of 10 cents a can on beer sold in the Province in July 1992. This tax is ostensibly an environmental levy, but the United States maintains it is a protectionist device, since most Canadian beers are sold in bottles. The United States retaliated by imposing a special duty of $3 a case on Ontario beer sold in the United States. Canadian breweries absorbed the price increase and, as a result, there has been no noticeable effect on the sale of Canadian beer in this country. The Canadian Federal Government reacted to the U.S. retaliatory move by countering with a similar tax on some beer imports from the United States. Beer would appear to be a political problem on both sides of the border. The U.S. industry is now clamoring for a doubling of the duty on Canadian beer; the Canadian Federal Government, meanwhile, can employ little more than moral suasion in the face of Provincial authority over control of the distribution and sale of alcoholic beverages.

Durum wheat—Canadian exports have increased markedly in the recent past, and U.S. growers maintain that the power of the Canadian Wheat Board (CWB) to set prices is a contributing factor. (Allegations of

[5] This report analyzed five CBERA countries (Costa Rica, the Dominican Republic, Guatemala, Honduras, and Jamaica) and six representative textile and apparel products (men's blue jeans, men's knit "golf" shirts, men's t-shirts, women's suit-type coats, women's woven blouses, and brassieres). For more detailed information, see

5—*Continued*

USITC, *Potential Effects of a North American Free-Trade Agreement on Apparel Investment in CBERA Countries,* USITC publication 2541, July 1992, p. 69.

[6] Previous reports on the CBERA include USITC, *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers Sixth Report 1990* (investigation No. 332-227), USITC publication 2432, Sept. 1991, and *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers Seventh Report 1991* (investigation No. 332-227), USITC publication 2553, Sept. 1992.

transportation subsidies have also been raised against the Canadians.) The U.S. side would like the CWB to employ a more transparent price-setting process.

Steel—Both countries currently have active cases involving steel against the exports of the other, a fact that places this issue squarely on the agenda. (See *IER*, March 1993, pp. 9-10.) Canada would like to see a special panel named to explore the possibility of a bilateral accord on steel, with eventual exemptions from unfair trade investigations in this sector.

Lumber—Restrictions on the export of Canadian softwood lumber to the United States are a matter of ongoing concern following U.S. imposition of a 6.5-percent countervailing duty. The Canadians pointed out that the duty is costing buyers of new homes in the United States an additional $4500.

Progress by Kantor and Wilson on the main agenda items was scant. On beer, the parties concluded that they were unable even to begin negotiations, and the impasse remains. On steel, the Canadian desire for special talks to forge a common market between the CFTA partners in steel was met with a U.S. response that the problems in the steel sector are international in scope, and thus the solution should be handled in a worldwide forum. Wheat and lumber were mentioned, but no further action was discussed.

Even though reports of the discussions did not indicate any dramatic progress toward resolution of any of the issues, the meeting did afford both sides an opportunity for face-to-face discussions on the implementation of the CFTA, the management of the trade relationship, and a chance to assess the prospects for implementation of the NAFTA agreement, which awaits passage in each country. Both ministers reaffirmed their determination to have NAFTA in place by January 1, 1994.

One positive note from the meeting was the announcement of the third round of accelerated tariff reductions under the terms of the CFTA. The accord provides for the mutual lowering of duties ahead of the schedule agreed to in the 1988 agreement. On two previous occasions, the trading partners have announced reductions on duties on items valued at more than $6 billion in bilateral trade. On this occasion, duty reductions on an additional $800 million in traded goods were announced. The accelerated reductions will come into effect on July 1 and will cover 120 U.S. tariff items and 95 Canadian items. Among the sectors covered by the new reductions are: distilled spirits, yarn, stainless steel, telephone head sets and parts, and flat glass.

Although progress seemed to elude the trade ministers, they managed to point out that theirs, the largest two-way trading relationship in the world (amounting to nearly $190 billion in 1992), is in good shape. More than 97 percent of the trade between the two countries, they noted, is free of any disagreement. The ministers agreed that given the size and complexity of the trading relationship, some problems were inevitable.

The Chinese Economic Merger: A Family Reunion?

Over the past several years, the three separate economies of "Greater China"—the People's Republic of China (China), Taiwan, and Hong Kong[7]—have begun to intertwine. Led by the quiet working of market and cultural forces, combined with economic liberalization in the former two, these economies are moving closer together despite their differing philosophies.

The most extensively developed link to date is between Hong Kong and China. Hong Kong is scheduled to return to Chinese rule in 1997, under the doctrine of one country, two systems: a single government, but two economic systems (for the first 50 years). Yet, with the shift in Chinese policy toward freer enterprise (see *IER*, March 1993, p. 12), the distinction between these two economic systems is beginning to blur, and interactions have increased rapidly for more than a decade. Hong Kong is China's largest trading partner. In 1992, China exported $37.5 billion to Hong Kong, up 18 percent from 1991, while importing $20.5 billion, a 17.6-percent increase over the previous year. (Because the engine behind Chinese-Hong Kong links is primarily economic, Hong Kong's trade was not seriously deterred in 1992 by political difficulties with China.)

The driving force in China-Hong Kong trade is re-exports: Hong Kong serves as a clearinghouse for goods into and out of China, and so as a center of entrepot trade. Trade between the two is tied to outward processing operations, involving the importation by Chinese subsidiaries of parts or materials from abroad for processing and subsequent export. This is especially the case in China's Guangdong Province. According to the U.S. State Department, 77 percent of Hong Kong's exports, 48 percent of its re-exports, and 68 percent of its imports are related to outward processing, which is particularly prevalent in the clock and watch, apparel, plastics, and toy industries. Hong Kong manufacturing firms have progressively relocated across the border in Guangdong Province, with its abundance of cheap land and labor. Hong Kong increasingly carries out shipping, insuring, and marketing for these products abroad. As Guangdong has developed, however, its infrastructure has lagged, leading it to import 3.06 billion kilowatts of electricity from Hong Kong, in 1991. Eleven percent of Hong Kong's electricity production is sent to China.

A major spur to bilateral trade between Hong Kong and China is the large flow of investment between the two. In 1991, $7.5 billion flowed from Hong Kong

[7] See USITC, *East Asia Economic Integration: Implications for the United States* (investigation No. 332-326), USITC publication 2621, May 1993. Call (202) 205-1807 for copies.

into China, accounting for 63 percent of total foreign direct investment in China that year. There are between 16,000 and 25,000 Hong Kong-based enterprises in China, employing between 2 to 3 million workers. These investments have primarily flowed into Guangdong and Fujian, but are now spreading throughout China. Property and infrastructure development in China by Hong Kong investors is also increasing, and Hong Kong is emerging as the regional center for penetrating the growing Chinese market. Meanwhile, Chinese firms have invested large sums in Hong Kong, with estimates of total nonproperty assets valued at U.S. $15 billion (third behind Japan and the United States), and total direct equity investments of $7.5 billion (second behind Japan). Taken as a whole, these investments, and trade, have led to large currency flows. Somewhere between 20 and 30 percent of Hong Kong's cash currently circulates in Guangdong. Combined with black market exchanges and gold conversion shops in Hong Kong, investors (and Guangdong consumers) can circumvent the inconvertibility of the Chinese renminbi.

The second link in the "Greater China" area is between China and Taiwan. This connection is not as developed as that between Hong Kong and China, and it faces far greater political obstacles. Yet over the past few years, it too has expanded significantly. Relations between China and Taiwan were highly antagonistic until a few years ago. However, as Taiwan's commercial power has grown, and its society has become more democratic, it has slowly loosened restrictions on relations with China. It has ended the "period of communist rebellion," and loosened travel restrictions with China in 1987. Yet it has continued to maintain tight restrictions on direct trade, its rationale being that too much trade with China would make Taiwan dependent upon the mainland, and thus vulnerable to political pressure. Taiwan authorities have set a limit of 10 percent of total trade with China, but trade has not yet reached this level.

With commercial activity booming, though, Taiwan authorities have had to accept the reality of increasing trade and investment. Estimates by Chinese customs put Taiwan's imports from China in 1992 at $700 million, up 17.3 percent over 1991, while its exports were $5.9 billion, up 61.6 percent. Predictions for 1993 total trade are as high as $10 billion. Taiwan runs a large surplus with China, selling light industrial goods such as manmade filament yarn, machinery, electronic parts, and plastics to China, while importing natural resources. The great majority of this trade occurs indirectly, through either Hong Kong or Singapore. In fact, according to Hong Kong statistics, Taiwan was the largest supplier of Hong Kong's re-exports to China in 1991, with roughly 24 percent of the total (although Japan slipped slightly ahead in 1992). Furthermore, trade is likely greater than statistics show, since much of it is reportedly done unofficially.

Taiwan firms are becoming major investors in China. As with trade, investment figures are not always reliable, but the trend appears clear: rapidly increasing involvement in China by Taiwan companies. About 2700 firms have registered investments with Taiwan authorities, but China claims that the actual number of Taiwan firms with direct investments is over 5000. In fact, many Taiwan investors use Hong Kong subsidiaries as a quiet route for investment in China. In mid-1992, some put the cumulative total at $2-3 billion, growing at an annual rate of $1 billion. Taiwan authorities initially ignored the phenomenon of investment in China, but in 1990 announced they would sanction such investment by labor-intensive and sunset industries. With fast-rising wages in Taiwan, many of these industries were becoming uncompetitive and needed a source of cheap labor. Most of the Taiwan business community sees China as complementing Taiwan's own economy. Taiwan provides capital, management, executive skills, and marketing; China offers natural resources and an abundant supply of workers. It also provides additional space for crowded Taiwan: Taiwan citizens are buying up homes in the Fujian city of Xiamen.

The great majority of this investment goes into either Guangdong or Fujian Province. Fujian is the area directly across the Formosa Straits from Taiwan, and its residents speak the same language and have customs similar to those of residents of Taiwan. Initially, companies leased Chinese workshops for processing goods; eventually they bought the workshops. Companies now simply lease the land and build the factories. Most of these investments are in light industrial or consumer products, such as footwear and sports equipment. However, with Taiwan authorities now permitting investments in some service sectors, industries ranging from restaurants to entertainment could invest in China. Taiwan's increasingly liberalized banks, insurance firms, and securities firms also hope to take advantage of their newfound freedoms through approval of investment in the growing Chinese financial and stock markets.

China has welcomed this investment as a means of developing its economy, but restrictions by Taiwan prevent it from reciprocating with investment in Taiwan. To accommodate Taiwan trade and investment, China is constructing a port on Meizhou Island in Fujian, built by a Hong Kong firm with funds from China, Hong Kong, Taiwan, and Singapore. The Straits Exchange Foundation was also created. It is a private intermediary that represents Taiwan authorities under contract, and focuses on trade and investment disputes with China. Finally, Taipei is becoming a window for foreign firms into China, similar to Hong Kong.

The last major link in "Greater China" is between Hong Kong and Taiwan. Previously, trade and investment between the two had been limited, mainly due to the prospect of Hong Kong's eventual reversion to China. Now, Taiwan is Hong Kong's fourth-largest trading partner, and Hong Kong is Taiwan's

second-largest trading partner. Taiwan's trade promotion organization, the China External Trade Development Council, has set up an office in Hong Kong, and the Hong Kong-Taipei Business Cooperation Committee promotes cooperation and ties between the respective business communities. The newly established Taiwan Industry and Commerce Association will protect Taiwan business interests upon Hong Kong's reversion to China. Taiwan's three largest banks have established branches in Hong Kong.

Hong Kong's chief role in its trading relationship with Taiwan is as a link to China through its strong Chinese ties and its highly efficient infrastructure. It is also the link for Taiwan residents' travel and tourism in China. Despite the easing of the travel ban in 1987, direct travel from Taiwan to China is still prohibited. Tourists or business travelers from Taiwan wishing to go to China must get a visa in a third country, usually Hong Kong. Hong Kong hopes to use its infrastructure to build on this role, even if direct travel restrictions by Taiwan are lifted. Further, Hong Kong's domestic investors are increasing their investment in Taiwan. The Chung-Hua Institute for Economic Research claims that in the first 5 months of 1992, Hong Kong firms invested $64 million in Taiwan, up 40 percent from the same period in 1991. Hong Kong was the only major investor to increase its rate of investment in Taiwan during this period. In fact, the gap between Hong Kong investment in China and Hong Kong investment in Taiwan is narrowing.

One final, and often overlooked, part of "Greater China" is Macau, a tiny Portuguese colony on the Chinese mainland (population 450,000), which is scheduled to revert to China in 1999. Macau has experienced strong growth recently, due mainly to a prospering legalized gambling industry. It is constructing an international airport, hoping to fit into "Greater China" as a recreation center and air cargo hub. Indeed, it hopes to share in the growing prosperity of South China, as Guangdong's growing middle class increasingly travels to Macau to gamble and relax.

The "Greater China" now emerging is neither a political entity nor an organized trading bloc: it is an economically interdependent area born of market and cultural forces, sharing language, customs, and history. Even though major political and economic obstacles continue to prevent complete market integration, current trends point to stronger economic links among China, Hong Kong, and Taiwan. The region's complementary strengths—Taiwan's financial and technological power, Hong Kong's international shipping and marketing expertise, and China's enormous endowment of land, labor, and ambition—are increasing the economic interplay in the region. In the end, the economies of "Greater China" may well blend into something far greater than the sum of their parts.

Central and East Europe's Oil and Gas Imports From Former Soviet Republics: Concerns and Hopes

The worst economic downturn since World War II may be over in the Czech Republic, Hungary, Poland, and Slovakia. Output levels, which dropped sharply from 1990 through most of 1992, stabilized in all four Central European countries by the end of 1992. According to PlanEcon, construction, retail sales, and exports are on the rise in all four countries. Inflation appears to be under control, and positive economic growth is predicted for 1993. Economic recovery in the two East European countries of Bulgaria and Romania is expected to begin during 1994. However, analysts from the Central and East European countries (CEECs) point out that the stabilization and expansion of trade with the former Soviet Union—in particular, the stabilization of oil and natural gas shipments from the area—are vital preconditions for sustaining the recovery in Central Europe and getting it under way in the rest of the region.

Most of the CEECs depend heavily on energy deliveries from the former Soviet Union. During the 1980s, total energy imports (crude oil, natural gas, refined oil products, coal, and electricity) from the Soviet Union accounted for the following percentages of CEEC energy needs: Bulgaria, 70 percent; Hungary, 45 percent; the former Czech and Slovak Federal Republic (CSFR), 38 percent; Poland, 17 percent; and Romania, 3 percent.

At present, trade with Russia, the world's largest exporter of oil and the world's leader in gas reserves, is particularly important for the CEEC region. There are no immediate, alternative, economical sources of crude oil and natural gas for the Czech Republic, Hungary, and Slovakia. The same is true for gas in the entire CEEC region. Even though trade between the CEECs and the net-energy-exporting former Soviet republics is increasing, it is far from certain that oil and gas supplies from the former Soviet Union will satisfy CEEC demands during the next few years. In the extreme case of a major decline in Russia's oil and/or gas output, and the consequent decline of Russian exports in these commodities, economic recovery could be aborted in the CEEC region. News reports and commentaries emerging from the CEECs express short-term concerns and long-term hopes regarding trade in energy products and in other commodities with the former Soviet Union.

A Capsule of History

From the very beginning of the post-war era, the Soviet Union promoted complete economic integration

with its CEEC satellites, while striving for autarky with respect to the outside world. The pattern of specialization between the two regions, which together formed a relatively isolated and self-sufficient bloc, developed as classical trade theory would predict. Richly endowed in natural resources, the Soviet Union (primarily Russia) exported increasing amounts of hydrocarbons and other mineral products to the CEECs. The CEECs—primarily the former CSFR, Hungary, and Poland, which are relatively well-endowed in industrial assets and skilled labor—exported increasing amounts of machinery, equipment, and processed agricultural goods to the Soviet Union. From the second half of the 1960s until the Soviet Union's collapse in December 1991, crude oil and natural gas together represented the largest commodity group among the Soviet Union's exports to the CSFR, Hungary, Poland, and Romania. Among CEEC exports to the Soviet Union, industrial goods were the largest commodity group from all five countries.

Crude oil deliveries began to assume significant proportions during the late 1950s and received major boosts, first with the completion of the "Friendship" pipeline during the mid-1960s, and then with its expansion during the mid-1970s. The pipeline, which connects Russian oil fields between the Ural and the Volga with the Central European countries (CECs), was constructed with help from these countries and enlarged during the mid-1970s. The Soviets compensated the CECs with oil for their work on the pipeline.

During the 1980s, the CEECs tried to reduce their reliance on crude oil from the Soviet Union. With the completion of the Adria pipeline, which leads from the Adriatic seashore through the former Yugoslavia into Hungary and the former CSFR, the latter two countries began to increase their reliance on oil from the Middle East and North Africa. Romania, which has never been dependent on oil from the former Soviet Union, imported most of its oil from these regions. Bulgaria imported increasing amounts of oil from the Middle East, and Poland expanded its imports of North Sea oil. During 1985-91, the CEECs reduced the portion of oil they imported from the Soviet Union compared to the 1970s. Nonetheless, the share of oil from the Soviet area among all CEEC oil imports remained roughly 70 percent.

Anticipating the exhaustion of easily accessible crude oil reserves, the Soviet leadership embarked on the rapid development of its natural gas fields during the late 1970s. It encouraged its CEEC partners to begin substituting gas for oil and invited them to participate in the construction of a gas pipeline system. From the late 1970s through the mid-1980s, Poland, Hungary, Bulgaria, and the CSFR helped in the construction of the lines leading to Central and Western Europe. Starting from the mid-1980s, Bulgaria and Romania helped in the construction of pipelines leading to the Balkans. (The construction of this system is still under way.) The CEECs were allotted gas in compensation for their work on the pipeline systems. Under their respective agreements, they are assured relatively significant supplies of gas well into the next century. Gas shipments from the Soviet Union to the CEECs increased rapidly during the late 1970s and early 1980s.

The Council for Mutual Economic Assistance (CMEA) provided the organizational framework and the guiding mechanism for trade within the Soviet bloc until it was dissolved in June 1991. (In addition to the Soviet Union, the five CEECs—counting the Czech Republic and Slovakia as one—and East Germany, CEMA included three nonregional members: Cuba, Mongolia, and Vietnam.)

Each member concluded bilateral trade protocols with every other member. All export and import commitments were incorporated into national plans. The entire CEMA system may be described as a gigantic scheme of commodity barter without meaningful prices and currency. All shipments were counted in transferrable rubles (TR), an accounting unit rather than currency since actual balances denominated in it could not be spent or exchanged for a national currency. The members tried to eliminate imbalances by incorporating them into subsequent annual trade protocols. After January 1, 1991, however, the members of CMEA agreed to base their trade on world market prices and to make payments in convertible currencies. Under the new arrangement, enterprises were given the right to engage in export and import deals without state supervision. In a related action, the Soviet Union forbade barter and countertrade with all trading partners, including its CEEC partners.

The 1991 reforms temporarily exacerbated the self-reinforcing process of declining output and trade among the CMEA partners. The large enterprises that used to export commodities to other member states had no experience in marketing. Even if they found buyers in the CMEA area, the potential importers often did not have the convertible currency necessary for the purchase. Many deals fell through because the exporter and importer could not agree on the price. Importers generally found the asking price, which was based on world market levels, too high for the potential exporter's industrial wares, which had been traded previously under CMEA-type arrangements. Total trade turnover in industrial goods (exports plus imports) between the CEECs and the Soviet Union declined by an estimated 50 percent during 1990-91.

During 1992, the former CMEA partner states began to engage in barter and countertrade again, and allowed enterprises to do the same. They began to use clearing arrangements to economize with the sparse convertible currency reserves available to finance trade among themselves. The partner states reasserted the need for bilateral framework agreements as vehicles to ensure the flow of certain commodities needed by each country. These agreements comprised government-backed obligations and expectations of what independent firms might buy and sell in bilateral trade.

Crude oil and natural gas exports from the former Soviet Union remained the backbone of the newly negotiated bilateral framework agreements between the CEECs and the former Soviet republics.

Data on Oil and Gas Supplies

In 1990, the Soviet Union announced to its CEEC partners that, due to tighter supplies, it would sell them less crude oil during the 1990s than it did during the 1980s. The announcement coincided with a decline in overall demand for energy in the CEEC region, brought about by the regionwide recession. Although the total demand for oil and natural gas imports continued to decline in the CEECs during 1992, demand for these products from the former Soviet Union increased in Hungary and the CSFR. (The Adria pipeline, which allowed these landlocked countries to supplement their meager domestic production and bolster imports from the former Soviet Union with imports from other sources, has been shut down since September 1991, due to conflicts in the former Yugoslavia. Oil transported by barge and rail could not fill a significant portion of their total import needs.) During 1992, these countries purchased all their oil imports from the former Soviet republics, a situation that is not expected to change in the immediate future. Other CEECs have had success in diversifying their energy imports. Poland, which has recently enlarged its oil terminal near Gdansk, obtained only 63 percent of its total 1992 imports from the former Soviet Union. The remaining 37 percent came mainly from suppliers of North Sea oil. During 1992, Bulgaria covered about 58 percent of its oil imports from the former Soviet Union, and Romania reported no oil imports from the former Soviet Union. The following tabulation shows oil deliveries from the former Soviet Union to the five CEECs during 1989-92 (in millions of metric tons):

	1989	1990	1991	1992
CSFR	16.7	13.2	9.2	10.5
Hungary	6.3	5.0	3.5	5.0
Poland	13.0	10.7	6.5	4.2
Bulgaria	11.5	7.8	3.2	1.5
Romania	3.9	2.5	0.3	0.0

Deliveries of natural gas from the Soviet republics to all the CEECs increased during the 1980s, including 1989. However, deliveries to all of them declined from 1991 to 1992. The following tabulation shows deliveries from the former Soviet area to the CEECs during 1989-92 (in billions of cubic meters):

	1989	1990	1991	1992
CSFR	1.8	12.6	12.8	10.5
Hungary	5.9	6.5	6.0	4.5
Poland	7.9	8.4	7.1	6.4
Bulgaria	6.8	6.8	5.7	5.4
Romania	7.4	7.3	5.0	2.6

During 1992, crude oil and natural gas shipments from the former Soviet Union to Hungary and the CSFR roughly corresponded to Russia's commitments covered in the respective framework agreements. Although Poland obtained only roughly half of the oil it expected based on its agreement, the country satisfied its import needs from other sources. It is not known if Bulgaria and Romania received less oil and natural gas than specified by their respective framework agreements for 1992. It appears from the available information that the amounts of oil and gas the two countries received from the former Soviet Union during 1992 roughly corresponded to their ability to pay for such imports. During 1990-92, the CEECs accounted for roughly one-third of both the total oil and gas exports of the former Soviet republics to destinations outside the former Soviet Union. About 85 percent of the oil and 95 percent of the gas shipments originated in Russia. The rest of the oil originated in Azerbaijan, Kazakhstan, Kyrgyzstan, and Tajikistan, and the rest of the gas originated in Turkmenistan and Uzbekistan.

After declining during 1990-92, apparent consumption of energy (domestic production plus imports minus exports) is expected to show a modest rise in the four CECs during 1993 as their economies grow. The increase in demand may be slower than usual, because the economic structure of these countries is shifting away from the energy-intensive heavy industries and because of the expected introduction of energy conservation measures. Nevertheless, there have been indications that all of the CEECs would like to increase their oil and gas imports from the former Soviet republics during 1993. According to data published by the Russian Government in late 1992, Russia plans to increase gas deliveries to all of the CEECs except Poland from 1992 to 1993. Actual commitments for oil shipments have not been announced by Russia or the other republics.

How much crude oil and natural gas the CEECs will receive from the former Soviet Union during 1993 cannot be predicted, given the difficult economic situation and unprecedented legal-administrative confusion in the former Soviet Union. Despite signs of stabilization in the commercial relations of the CEECs and the former Soviet republics, bilateral trade deals are difficult to negotiate and implement. In general, the dependence on oil and gas supplies from the former Soviet states, particularly in the landlocked CECs, weakens the position of CEEC officials in trade negotiations. Moreover, there are concerns about the disarray in Russia's energy sector.

Difficulties in Negotiating Trade Deals

Debts to the CEECs inherited by Russia from the former Soviet Union appear to be a major stumbling block in negotiating bilateral trade deals. Russia owes an estimated $4.6 billion to the former CSFR, $2.5 billion to Hungary, $2.3 billion to Poland, and $0.7

billion to Bulgaria. There is no firm schedule for repaying these debts, but there is a general understanding that they could be paid back through deliveries of commodities, in particular crude oil and natural gas. During annual negotiations, and subsequent renegotiations and rescheduling, officials from the CEECs want to maximize, while the Russian officials want to minimize, the portion of oil and gas shipments representing payments for the debts.

Debts to the CECs that were incurred in connection with the construction of the natural gas pipeline system from the late 1970s through the middle of the 1980s are a further source of difficulty in negotiations. The CECs were credited in rubles for their construction services and capital goods deliveries. The quantity of gas used as compensation was implicitly determined by the price prevailing at the time the system was built—which was a small fraction of the world price. Now, as some reports from the CECs indicate, Russia wants a retroactive increase in the price of gas used in compensation, thereby reducing the quantity of gas it owes the CECs. (Romania and Bulgaria are still involved in the expansion of the system leading to the Balkans. Their deal with modern-day Russia, made in world prices and in convertible currencies, seems to work smoothly.)

Yet another problem in negotiations is posed by the former Soviet republics that export crude oil and natural gas. They too would like to contract for the delivery of some of their industrial products. Although there is a potential demand in the CEECs for appropriately priced industrial goods from the former Soviet republics, CEC importers have difficulty finding products that they currently need, and they worry that the partner enterprise might not be able to deliver the contracted goods. One of the products found acceptable by the CECs is the Russian-made subcompact personal car, LADA.

Difficulties in Implementation

The implementation of the framework agreements is far from smooth. Some of the CEECs have reported interruptions in crude oil supplies from the former Soviet republics, as well as unexpected changes in the quality of oil received. (There have been no similar reports regarding the delivery of natural gas.) There are also problems with counterpurchases under the framework agreements. According to newspaper reports from the CECs, counterpurchases that would draw down the deposits made in connection with oil and gas deliveries are slow and often insufficient to make use of the funds. These articles blame internal, bureaucratic obstacles, particularly in Russia, to the authorization of funds and customs regulations. Slow and insufficient counterpurchases at least partially explain the significant surplus that Russia has recorded in its trade with the CSFR during 1992.

Concerns About Russia's Energy Sector

A great source of concern for the CEECs is the state of Russia's energy sector. Crude oil production in Russia declined from 453 million metric tons during 1991 to 385-411 million metric tons during 1992. (The lower figure represents the estimate of the Russian Government; the range above it reflects a variety of nonofficial estimates of shipments that eluded official statistics.) Despite the decline in production from 1991 to 1992, Russian oil exports outside the former Soviet Union increased from 54 million metric tons to 66 million metric tons. But in light of already severe fuel shortages throughout Russia during 1992, and a further projected reduction in output to an estimated range of 332-370 million metric tons during 1993, it is unlikely that 1993 exports will match 1992 levels. A number of pessimistic assessments raised the specter of a total breakdown of Russian oil production. According to the latest estimates, some 32,000 wells are now idle.

Natural gas production in Russia remained at the same annual level of 640 billion cubic meters during 1991-92, and it is not expected to diminish during 1993. Nevertheless, the growing shortage of overall domestic energy supplies in Russia could result in a reduction of natural gas exports. Official Russian Government estimates called for a reduction of natural gas exports from 98 billion cubic meters during 1992 to 87-90 billion cubic meters during 1993.

Both crude oil and natural gas pipelines traverse the Ukraine, which charges an exporter transit fee. The CEECs fear that increases in the transit fee will raise the prices of energy imports from Russia and other suppliers from the region.

Hopes About the More Distant Future

At present, all of the CEECs are trying to reduce their dependence on energy imports from the former Soviet Union through the diversification of import sources and energy-saving measures. But given the former Soviet Union's significant reserves in both crude oil and natural gas, and the existing infrastructure for exporting these products to the CEECs, efforts to curtail imports from the former Soviet Union are costly. As the economic situation improves and the commercial atmosphere normalizes in the former Soviet Union, CEEC efforts to reduce reliance on oil and gas imports from the former republics may also subside.

Once economic recovery begins in the former Soviet Union, perhaps during 1995, its trade with the CEECs is expected to grow, reinforcing the recovery in both regions and likely leading to a diversification of the commodities exchanged. At present, about 65-70 percent of the CEEC imports from the former Soviet republics comprise oil, gas, other energy products, and

raw materials. This ratio is expected to decrease with the increase of overall trade between the CEECs and the former Soviet Union in the long run. Some analysts from the CECs claim that the expanding domestic markets throughout the entire 100 million strong CEEC region will generate greater demand for industrial products from the former Soviet republics. Much of the emerging demand, this time dictated by competitive markets rather than by planning boards, could be for previously supplied machinery and equipment, provided that these products meet some minimum quality standards and are appropriately priced.

The interest of CEEC exporters in the former Soviet republics is expected to grow with the emergence of economic stability and commercial order in the region. Despite the surge of CEEC exports to the developed countries, particularly to the European Community (EC), during 1990-92, a large number of CEEC industrial products could not be sold in developed country markets. Even if the varied industrial commodities of the CEEC region could be brought up to Western standards, most of them would be in a competitive, rather than in a complimentary, relationship with commodities produced in their most promising developed-country market, the EC. This competitive relationship between the CEECs and the EC is also widespread in agricultural products. The same limits that constrain CEEC exports to the EC and other developed markets will also constrain exports from the former Soviet republics.

Thus, beyond territorial proximity and the complementarities in factor endowments, the CEECs and the former Soviet republics may well be brought together by a shared difficulty in expanding sales in lucrative developed-country markets. With the strengthening of overall economic interdependence between the CEECs and the former Soviet republics, both the ability and the will of the former republics to export oil and gas to the CEECs are expected to strengthen, barring declines in the former Soviet Union's output.

To a large degree, economic recovery in the former Soviet Union, which is so vital for sustaining the forces of recovery in the CEECs, depends on the recovery of the oil and gas sector of Russia. The future of Russia's oil and gas sector, in turn, depends on the inflow of Western investment in this sector. Foreign interest is considerable. According to the Deutsche Bank, the capital that the U.S. and other oil companies are willing to invest in Russia's oil and gas sector ranges up to $70 billion. Further billions might be available to invest in the oil and gas sectors of other former Soviet republics. However, the current stock of capital invested in the oil and gas sectors of the entire former Soviet Union is less than $200 million, a casualty of political and economic uncertainties.

The U.S. International Trade Commission is currently studying the trade and investment patterns of the energy-producing states of the former Soviet Union. In its final report, which will be published in June 1993, the Commission will assess the impediments currently constraining the inflow of U.S. and other Western capital in this sector.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1990-February 1993

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

				1992								1993	
Country	1990	1991	1992	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	1.0	-1.9	2.1	-2.9	5.2	2.3	3.9	-2.4	8.4	7.2	4.8	6.0	4.8
Japan	4.5	2.2	(1)	-4.5	-2.6	3.0	(1)	4.8	(1)	(1)	(1)	(1)	(1)
Canada	0.3	-1.0	(1)	2.1	2.6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Germany	5.9	3.2	(1)	4.6	-2.2	-2.2	(1)	-2.5	(1)	(1)	(1)	(1)	(1)
United Kingdom	-0.6	-3.0	(1)	-3.3	-0.8	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
France	1.3	0.6	(1)	0.6	-0.7	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Italy	-0.6	-1.8	(1)	3.4	-1.8	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 20, 1992, The Federal Reserve Statistical release, February 18, 1993 and *International Financial Statistics*, International Monetary Fund, March 1993.

Consumer prices, by selected countries and by specified periods, January 1990-March 1993

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

				1992								1993			
Country	1990	1991	1992	I	II	III	IV	Sep.	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.
United States	5.4	4.2	2.7	2.8	3.4	3.2	1.7	3.4	4.3	1.7	-0.8	4.0	6.0	3.6	1.2
Japan	3.1	3.3	(1)	0.7	2.6	5.8	(1)	17.7	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Canada	4.8	5.6	(1)	1.6	1.9	1.0	(1)	-0.9	1.8	2.7	(1)	(1)	(1)	(1)	(1)
Germany	2.7	3.5	(1)	3.0	4.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
United Kingdom	9.5	5.9	(1)	4.3	4.0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
France	3.4	3.1	(1)	3.2	2.7	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Italy	6.1	6.5	(1)	5.1	5.6	4.4	(1)	5.0	(1)	(1)	(1)	(1)	(1)	(1)	(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 Price Index data*, U.S. Department of Labor, April 9, 1993.

Unemployment rates (civilian labor force basis),[1] by selected countries and by specified periods, January 1990-February 1993

				1992								1993	
Country	1990	1991	1992	I	II	III	IV	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	5.5	6.7	7.4	7.3	7.5	7.5	7.3	7.5	7.4	7.3	7.3	7.1	7.0
Japan	2.1	2.1	2.2	2.1	2.1	2.2	2.3	2.3	2.2	2.3	2.4	(5)	(5)
Canada	8.1	10.3	11.3	10.7	11.3	11.5	11.4	11.4	11.3	11.5	11.5	11.0	10.8
Germany[2]	5.2	4.4	4.7	4.4	4.6	4.8	5.0	4.8	5.0	5.0	5.1	5.3	5.4
United Kingdom	6.9	8.9	10.0	9.6	9.7	10.1	10.6	10.2	10.3	10.6	10.8	10.7	10.7
France	9.2	9.8	10.2	10.2	10.2	10.2	10.5	10.2	10.3	10.4	10.4	10.5	(5)
Italy[3]	7.0	6.9	7.3	6.9	6.9	7.0	8.3	(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.

Not available.

ce: *Unemployment Rates in Nine Countries*, U.S. Department of Labo 1993.

Money-market interest rates,[1] by selected countries and by specified periods, January 1990-March 1993

(Percentage, annual rates)

Country	1990	1991	1992	1992									1993		
				I	II	III	IV	Aug.	Sept.	Oct.	Nov	Dec.	Jan.	Feb.	Mar.
United States	8.3	5.9	3.6	4.2	3.9	3.2	3.3	3.3	3.1	3.2	3.5	3.4	3.3	3.2	3.2
Japan	7.7	7.3	4.4	6.6	6.3	4.0	(2)	3.9	3.9	3.8	3.8	3.7	3.7	(2)	(2)
Canada	13.0	9.0	6.7	7.3	6.5	5.3	(2)	5.2	5.3	7.5	7.6	7.9	7.0	(2)	(2)
Germany	8.4	9.1	9.4	9.6	9.8	9.6	(2)	9.8	9.4	8.8	8.8	8.9	8.5	(2)	(2)
United Kingdom	14.7	11.5	9.5	10.5	10.2	10.0	(2)	10.2	9.9	8.2	7.1	7.1	6.8	(2)	(2)
France	10.2	9.5	10.1	9.9	9.9	10.3	(2)	10.3	10.5	10.8	9.5	10.7	11.7	(2)	(2)
Italy	12.1	12.0	13.9	12.2	12.9	16.1	(2)	15.3	17.5	15.5	14.4	13.6	12.5	(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*, April 12, 1993 *Federal Reserve Bulletin*, March 1993.

Effective exchange rates of the U.S. dollar, by specified periods, January 1990-March 1993

(Percentage change from previous period)

Item	1990	1991	1992	1992							1993			
				I	II	III	IV	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.
Unadjusted:														
Index[1]	86.5	85.5	84.5	84.8	85.2	81.4	86.3	83.8	89.1	87.5	88.7	88.9	89.1	88.1
Percentage change	-5.3	-1.2	-1.1	.8	.4	-3.8	5.6	2.5	5.9	-1.8	2.7	1.5	.2	-1.1
Adjusted:														
Index[1]	88.1	87.0	86.4	86.7	86.9	83.1	88.3	85.5	87.1	89.7	91.2	91.1	91.1	90.7
Percentage[2] change	-4.0	-1.2	-.7	1.3	.2	-3.8	5.8	2.5	1.8	2.8	3.1	1.5	0	-.4

[1] 1980-82 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.[illegible]ce competitiveness.

Source: Morgan Guara[illegible] Co. of New York, March 1993.

Trade balances, by selected countries and by specified periods, January 1990-February 1993
(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1990	1991	1992	1992							
				I	II	III	IV	Nov.	Dec.	Jan.	Feb.
United States[1]	-101.7	-65.4	-84.3	-59.6	-91.2	-99.2	-86.3	-88.1	-82.6	-85.9	-86.3
Japan	63.7	103.1	(3)	131.6	129.2	(3)	(3)	(3)	(3)	(3)	(3)
Canada	9.4	6.4	(3)	6.8	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Germany[2]	65.6	13.5	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
United Kingdom	-33.3	-17.9	(3)	-21.6	-22.4	(3)	(3)	(3)	(3)	(3)	(3)
France	-9.2	-5.4	(3)	3.6	8.0	(3)	(3)	(3)	(3)	(3)	(3)
Italy	-10.0	-12.8	(3)	-10.4	-18.4	(3)	(3)	(3)	(3)	(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.

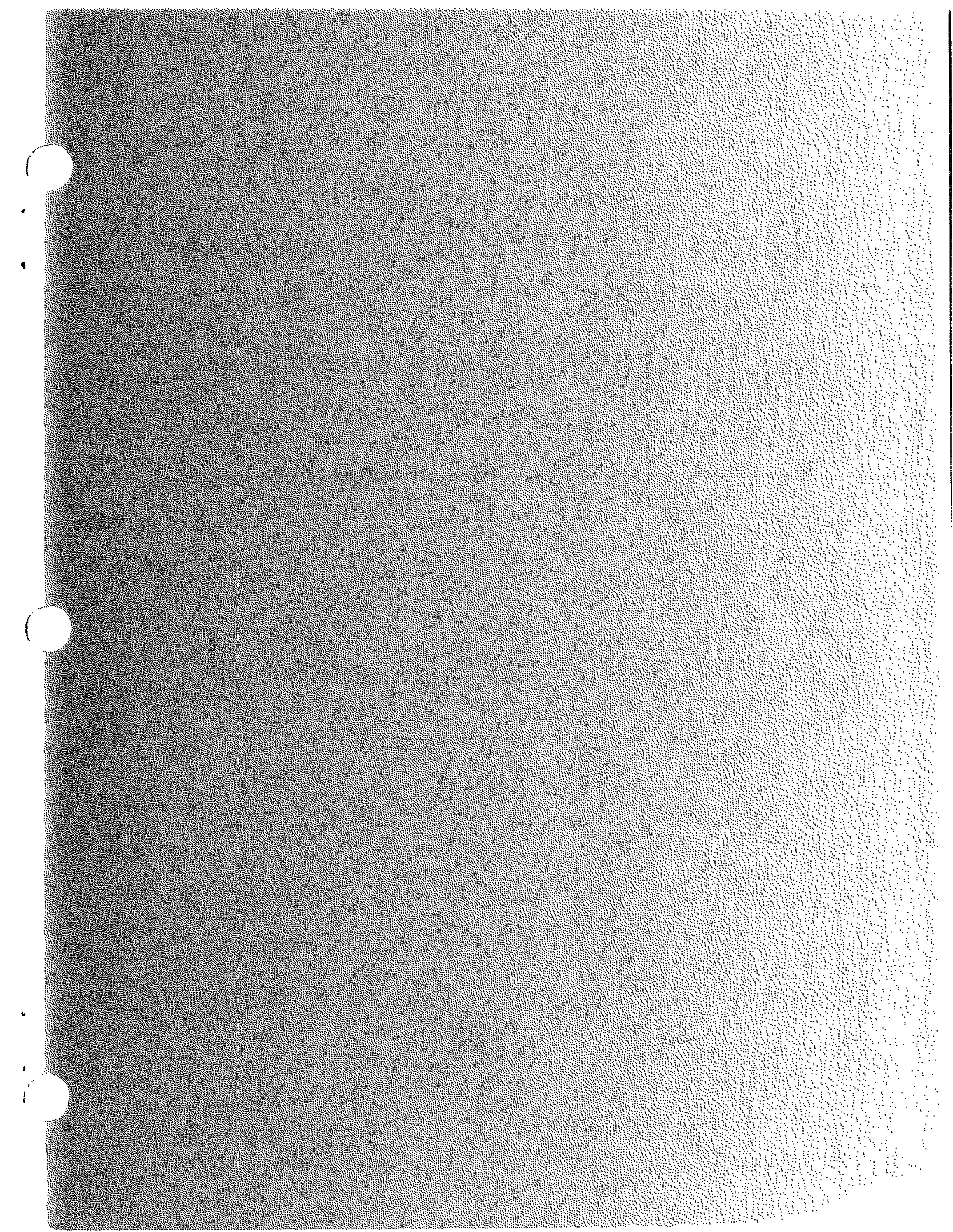
Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 20, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, April 16, 1993.

U.S. trade balance,[1] by major commodity categories and by specified periods, January 1990-February 1993
(In billions of dollars)

Country	1990	1991	1992	1992						1993	
				I	II	III	IV	Nov.	Dec.	Jan.	Feb.
Commodity categories:											
Agriculture	16.3	16.2	18.6	5.1	3.7	4.0	5.7	1.9	1.7	1.6	1.8
Petroleum and selected product—(unadjusted)	-54.6	-42.3	-43.9	-8.1	-10.8	-12.2	-11.7	-3.9	-3.5	-3.7	-3.2
Manufactured goods	-90.1	-67.2	-86.7	-14.5	-16.9	-27.9	-26.5	-9.0	-7.8	-6.1	-6.5
Selected countries:											
Western Europe	4.0	16.1	6.2	6.6	1.4	-1.4	-.8	-.6	-.3	1.7	1.4
Canada[2]	-7.7	-6.0	-7.9	-1.4	-1.8	-1.8	-2.8	-.7	-1.1	-1.0	-1.0
Japan	-41.0	-43.4	-49.4	-10.8	-11.1	-12.0	-14.7	-4.7	-5.1	-3.9	-4.1
OPEC (unadjusted)	-24.3	-13.8	-11.2	-1.5	-2.2	-3.9	-3.4	-1.3	-1.0	-1.1	-.9
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$19.75	$17.42	$16.80	$14.57	$16.82	$18.00	$17.37	$17.72	$16.24	$15.49	$15.70

[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, April 16, 1993.



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