INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

Washington DC
20436

October 1993

In This Issue:

UNITED STATES
INTERNATIONAL
TRADE COMMISSION

OFFICE OF ECONOMICS

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TABLE OF CONTENTS

INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

The Bureau of Labor Statistics (BLS) revised upward its productivity data (measured by output per hour of all persons) for the second quarter of 1993. The new data on productivity reflect the 3-year Gross Domestic Product (GDP) revisions by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce (See, September *IER*). The BEA revisions did not affect manufacturing output measures, since quarterly output measures for manufacturing reflect independent indexes of industrial production prepared by the Board of Governors of the Federal Reserve System.

The decline in productivity in the business sector was revised upward to -1.0 percent annual rate from -2.1 percent in the second quarter of 1993. Output rose by 2.8 percent, and hours of all persons engaged in the sector increased by 3.8 percent (seasonally adjusted annual rates). During the first quarter of 1993, productivity fell by 1.6 percent, and output and hours rose by 0.5 and 2.1 percent, respectively. Real hourly compensation declined at an annual rate of 0.9 percent in the second quarter after falling by 0.6 percent in the first quarter of 1993.

In the nonfarm business sector, the decline in productivity was revised upward to -1.3 percent from -2.5 percent in the second quarter of 1993. Output rose by 3.1 percent, and hours worked of all persons increased 4.5 percent. During the first quarter of 1993, productivity fell by 1.8 percent in the nonfarm business sector, reflecting gains of 0.7 percent in output and 2.6 percent in hours. Hourly compensation increased at a 1.4-percent annual rate in the second quarter, compared with a 2.8-percent increase one quarter earlier.

In manufacturing, productivity increased at a 5.2-percent seasonally adjusted annual rate in the second quarter of 1993, as output rose by 2.8 percent and hours of all persons worked decreased by 2.3 percent. Productivity in the first quarter grew by 5.0 percent. Productivity grew strongly in durable goods industries at 7.7 percent (seasonally adjusted annual rate). Output gains in durable goods manufacturing were much greater than in nondurable goods industries, a pattern that has been evident for the last 6 quarters, according to the Department of Labor. Productivity in nondurable manufactures grew by 1.9 percent in the second quarter.

Hourly compensation of all manufacturing workers increased by 3.3 percent during the second quarter, compared with a 2.4-percent decline in the first quarter. Unit labor costs fell at an annual rate of 1.8 percent in the second quarter of 1993, the sixth decline in the past 8 quarters. These costs had decreased by 7.0 percent during the first quarter of 1993.

Productivity gains combined with declining unit labor costs seem to have encouraged new investment spending. A survey of U.S. business spending on new plant and equipment conducted by the Bureau of the Census shows that U.S. business intends to increase investment spending for 1993 to $585 billion, 7.1 percent higher than the spending level estimated in June 1993. A 3.3-percent increase in investment spending is intended for the third quarter of 1993, and a 0.2-percent decrease is planned for the fourth quarter. Actual spending increased by 2.8 percent in the second quarter of 1993, to an annual rate of $580 billion. Actual spending was $547 billion in 1992, 3.4 percent more than in 1991.

A 3.4-percent increase in current dollar spending for 1993, in manufacturing industries is anticipated following a decrease of 4.8 percent in 1992. Durable goods industries plan a 10.4-percent increase in 1993. Large spending increases are planned in aircraft, motor vehicles, electrical machinery and other. Nondurable goods industries plan a 1.7 percent spending decrease for 1993.

An 8.8-percent increase in spending in nonmanufacturing industries is expected for 1993, following an actual spending increase of 7.8 percent in 1992. Spending in nonmanufacturing industries increased by 3.5 percent in the second quarter of 1993, following a 1.8-percent increase in the first quarter. Nonmanufacturing industries plan increases of 2.4 percent in the third quarter of 1993 and 1.2 percent in the fourth.

Investment spending in real terms is expected to increase by 8.3 percent in 1993 following a revised increase of 4.6 percent in 1992. Real spending increased by 2.6 percent in the second quarter of 1993, following a revised increase of 1.7 percent in the first quarter. Spending is expected to increase by 3.6 percent in the third quarter and by 0.1 percent in the fourth quarter.

U.S. International Transactions

The U.S. current-account deficit increased to $26.9 billion in the second quarter of 1993 from $22.3 billion in the first quarter, according BEA. The deficit on goods and services increased to $19.6 billion in the second quarter from $14.7 billion in the first quarter. The deficit on merchandise trade increased to $34.4 billion in the second quarter from $29.3 billion in the first quarter. Merchandise exports increased to $113.1 billion from $111.5 billion; an increase in nonagricultural exports more than accounted for the rise. Agricultural exports decreased slightly. Imports increased to $147.5 billion from $140.8 billion.

The surplus on services trade increased to $14.8 billion in the second quarter from $14.6 billion in the first quarter. Services receipts totaled $47.2 billion in the second quarter, compared with first quarter receipts of $46.5 billion. Service payments totaled $32.4 billion, compared with $31.8 billion.

The deficit on investment income increased to $0.3 billion in the second quarter. The deficit was less than $0.1 billion in the first quarter and was $0.8 billion in the fourth quarter of 1992. Income receipts on U.S. assets abroad increased to $27.5 billion from $26.1 billion. Income payments on foreign assets in the United States increased to $27.7 billion from $26.1 billion due to a sharp increase in payments on foreign direct investment in the United States.

Net unilateral transfers declined to $7.1 billion in the second quarter from $7.6 billion in the first because of the decline in U.S. Government grants. Net recorded capital inflows totaled $12.9 billion in the second quarter, compared with $13.4 billion in the first.

U.S. assets abroad increased by $25.4 billion in the second quarter, compared with an increase of $12.4 billion in the first quarter. Net U.S. purchases of foreign securities remained strong, increasing by $20.2 billion in the second quarter compared with $26.9 billion net purchases of the first quarter. Net U.S. purchases of foreign bonds declined by $7.6 billion in the second quarter, compared with $18.9 billion in the first. However, net U.S. purchases of foreign stocks reached a record $12.6 billion, compared with $8.0 billion, because of increased purchases of stocks in Western Europe.

Net capital outflows for U.S. direct investment abroad increased to $10.8 billion in the second quarter from $8.3 billion in the first quarter because of a sharp increase in equity capital outflows. Foreign assets in the United States increased to $38.3 billion in the second quarter, compared with $25.7 billion in the first. The largest increase in the second quarter was in net foreign purchases of U.S. securities other than Treasury securities.

Net foreign sales of U.S. Treasury securities increased, reaching $0.4 billion in the second quarter, compared to net foreign purchases of $13.6 billion in the first. Net sales from Japan were particularly large.

Net foreign purchases of U.S. securities other than U.S. Treasury securities rose to $15.0 billion in the second quarter from $9.4 billion in the first. Net foreign purchases of U.S. bonds rose to $14.8 billion, from $5.8 billion in the first.

Net capital inflows for foreign direct investment in the United States declined to $8.3 billion in the second quarter from $8.6 billion in the first quarter. Foreign official assets in the United States increased to $17.8 billion in the second quarter from $10.9 billion in the first quarter, largely because of an increase in assets of industrial countries.

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 at a revised annual rate of 1.8 percent in the second quarter of 1993 following a growth rate of 0.8 percent in the first quarter.

The annual rate of real economic growth in the second quarter of 1993 was 2.3 percent in Germany, 1.8 percent in the United Kingdom, -1.6 percent in Japan, and 3.4 percent in Canada; the annual rate of real economic growth in the first quarter of 1993 was -3.6 percent in France, and -0.2 percent in Italy.

Industrial Production

Seasonally adjusted U.S. nominal industrial production increased by 0.2 percent in August after increasing by 0.4 percent in July and following declines of 0.1 percent in June and 0.2 percent in May.

Total industrial capacity utilization in manufacturing, mining, and utilities increased to 81.8 percent from 81.5 percent in July and from 81.3 percent in June. Capacity utilization in manufactures increased to 81.8 percent in August from 81.7 percent in July. For the year ended August 1993, industrial production increased by 4.2 percent in August compared with the August 1992 level, and total capacity utilization grew by 1.6 percent. During the same period, capacity utilization in manufactures grew by 1.8 percent.

The output of business equipment and durable goods material rose, but the production of defense and space equipment and durable consumer goods declined.

Other G-7 member countries reported the following annual growth rates of industrial production: For the year ended July 1993, Japan reported a decrease of 4.6 percent; the United Kingdom, an increase of 2.8 percent; and Germany, a decrease of 6.6 percent. For the year ended June 1993, Italy reported a decrease of 3.9 percent; Canada, an increase of 5.7 percent; and France, a decrease of 4.0 percent.

Prices

The seasonally adjusted Consumer Price Index rose by 0.3 percent in August 1993. The CPI advanced by 2.8 percent during the 12 months ended August 1993.

During the 1-year period ending August 1993, prices increased by 4.2 percent in Germany, 4.4 percent in Italy, 1.7 percent in Canada, 2.2 percent in France, 1.7 percent in the United Kingdom, and 1.9 percent in Japan.

Employment

In August, the unemployment rate was 6.7 percent, compared with 6.8 percent in July 1993.

In other G-7 countries, unemployment in August 1993 was 8.4 percent in Germany, 11.3 percent in Canada, 10.9 percent in Italy, 10.4 percent in the United Kingdom, 11.7 percent in France, and 2.5 percent in Japan. (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 increase in the third quarter to a 2.8-percent annual rate, compared with the second quarter growth rate of 1.8 percent. The real growth rate is expected to increase to 3.3 percent in the fourth quarter. The average growth rate for the remainder of 1993 is expected to be 3.0 percent. Factors that are likely to restrain the recovery to such a moderate average rate of growth include the general slowdown in foreign economic growth, and the ongoing structural adjustments in the financial and nonfinancial sectors, which is weakening domestic demand, incomes and employment. Although consumer spending has increased in recent months, forecasters expect consumer spending to moderate unless personal incomes keep rising strongly enough to encourage more spending. Also, the upcoming tax increase and the cuts in government spending, unless counterbalanced by monetary expansion, could reduce consumer spending and confidence and thus moderate the recovery in 1993 and 1994.

Table 1 shows macroeconomic projections for the U.S. economy for July 1993 to June 1994, by four major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 6.8 throughout 1993 and then 6.5 percent in the second quarter of 1994. Inflation (as measured by the GDP deflator) is expected to moderate, averaging about 3.0 percent. The slow rise in wages and compensation is expected to hold down inflation within the 3-percent rate throughout 1993 and 1994.

Table 1
Projected changes of selected U.S. economic indicators, by quarters July 1993-June 1994.
(In percent)

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:					
July-Sept.	6.4	5.3	4.8	6.5	5.7
Oct.-Dec.	6.6	5.8	5.8	6.5	6.2
1994:					
Jan.-Mar.	7.4	5.7	6.5	7.0	6.6
Apr.-June	6.0	5.3	5.6	6.3	5.8
			GDP constant (1987) dollars		
1993:					
July-Sept.	2.7	3.0	2.5	3.1	2.8
Oct.-Dec.	3.2	3.6	3.0	3.4	3.3
1994:					
Jan.-Mar.	3.4	2.7	3.5	3.0	3.2
Apr.-June	3.0	2.8	3.3	3.0	3.0
			GDP deflator index		
1993:					
July-Sept.	3.6	2.3	2.3	3.3	2.9
Oct.-Dec.	3.8	2.1	2.8	3.0	2.9
1994:					
Jan.-Mar.	3.9	2.9	2.9	3.8	3.4
Apr.-June	2.9	2.4	2.3	3.2	2.7
			Unemployment, average rate		
1993:					
July-Sept.	6.9	6.8	6.8	6.7	6.8
Oct.-Dec.	6.8	6.8	6.7	6.7	6.8
1994:					
Jan.-Mar.	6.6	6.8	6.6	6.6	6.7
Apr.-June	6.5	6.7	6.4	6.5	6.5

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: September 1993.

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

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of $37.1 billion and imports of $47.4 billion in July 1993 resulted in a merchandise trade deficit of $10.3 billion, $1.7 billion less than the June deficit of $12.1 billion. The July deficit was 37.7 percent higher than the deficit registered in July 1992 ($7.51 billion) and 19.8 percent higher than the average monthly deficit registered during the previous 12 months ($8.6 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 July 1993 for specified major commodity sectors are shown in table 2. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 4.

Table 2
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors and agriculture, Jan. 1992-July 1993

Sector	1993 Exports		Change			
	Jan. July 1993	July 1993	Jan.-July 1993 over Jan. July 1992	July 1993 over June 1993	Share of total Jan.-July 1993	Trade balances Jan-July 1993
	Billion dollars		Percent		Billion dollars	
ADP equipment & office machinery	15.4	2.1	.4	-8.1	5.7	-8.36
Airplane	12.4	1.0	-23.4	-56.4	4.7	10.49
Airplane parts	5.4	.8	-2.2	1.3	2.0	3.86
Electrical machinery	20.8	2.9	12.9	-2.6	7.8	-5.04
General industrial machinery	11.3	1.5	2.9	-8.8	4.2	1.32
Iron & steel mill products	2.0	.3	-7.0	-3.6	.7	-2.80
Inorganic chemicals	2.4	.3	-3.6	9.7	.9	.57
Organic chemicals	6.5	.9	-1.2	2.2	2.4	1.12
Power-generating machinery	11.2	1.4	9.3	-15.4	4.2	1.34
Scientific instruments	8.8	1.2	5.6	-7.7	3.3	4.15
Specialized industrial machinery	10.3	1.5	5.0	4.1	3.8	2.42
Telecommunications	7.2	1.0	14.2	-7.3	2.7	-7.19
Textile yarns, fabrics and articles	3.4	.5	1.5	-11.8	1.3	-1.48
Vehicle parts	10.9	1.1	13.0	-37.5	4.1	.72
Other manufactured goods[1]	15.4	2.1	-3.5	-5.7	5.7	-4.68
Manufactured exports not included above	65.7	8.8	8.0	-3.6	24.6	-55.30
Total manufactures	289.1	27.5	3.3	-10.3	78.3	-58.86
Agriculture	24.1	3.0	-.3	-3.2	9.0	10.20
Other exports	33.8	5.0	1.0	3.1	12.7	-11.48
Total	267.1	35.5	2.6	-8.1	100.0	-60.14

[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)*, September 93.

Table 3
U.S. merchandise trade, seasonally adjusted, June-July 1993

Item	Exports		Imports		Trade balance	
	July 93	June 93	July 93	June 93	July 93	June 93
Current dollars—						
Including oil	37.1	37.6	47.4	49.7	-10.3	-12.1
Excluding oil	36.5	37.2	43.1	44.9	-6.6	-7.7
1987 dollars	35.8	35.8	46.4	48.0	-10.6	-12.2
3-month-moving average	37.9	38.3	48.1	48.5	-10.2	-10.2
Advanced-technology products (not seasonally adjusted)	7.8	9.4	6.9	7.2	.9	2.2

Source: *U.S. Department of Commerce News, (FT 900),* September 93

Table 4
U.S. merchandise trade deficits and surpluses, not seasonally adjusted, with specified areas, Jan. 1992-July 1993

(Billion dollars)

Area or country	July 1993	June 1993	July 1992	Jan.-July 1993	Jan.-July 1992
Canada	-.64	-.99	-.36	-6.00	-3.34
Mexico	.11	.13	.66	1.74	3.74
Western Europe	-1.78	-1.70	-1.11	.89	7.05
European Community (EC)	-1.60	-1.27	-.81	1.15	8.36
Germany	-1.09	-.97	-.78	-4.90	-3.31
European Free Trade Association (EFTA)[1]	-0.35	-.64	-.48	-1.80	-2.22
Japan	-4.74	-4.33	-4.03	-31.61	-26.34
China	-2.26	-1.99	-2.07	-11.75	-9.31
NICs[2]	-1.44	-1.11	-1.67	-5.91	-6.98
Eastern Europe/FSU	.19	.11	.33	1.62	1.92
Former Soviet Union	.18	.03	.24	1.05	1.70
Russia	-.10	-.01	.19	.55	.81
Other Eastern Europe	-.01	.01	.01	.07	.18
OPEC	-1.31	-1.38	-1.40	-8.25	-5.35
Trade balance	-12.52	-11.75	-9.89	-60.14	-38.96

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

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

Note.— Because of rounding, country/area figures may not add to the totals shown. 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),* September 93.

INTERNATIONAL TRADE DEVELOPMENTS

United States Imposes Sanctions on China and Pakistan

On August 24, after several months of examining a mounting body of evidence, the United States issued a determination that China had transferred M-11 missile components to Pakistan. As a result of this finding, sanctions were imposed that deny new U.S. licenses to export specified high-technology items, both munitions and civilian items having potential military use, to either country for 2 years. The decision will affect an estimated $400 million to $500 million in sales of U.S.-built satellites and satellite components to China each year, according to a Department of State official. However, the effect on U.S. exports to Pakistan is expected to be minimal.

Although the potential loss in U.S. exports to China is significant, U.S. law requires that sanctions be placed on countries that knowingly transfer certain types of technology to countries that do not adhere to the Missile Technology Control Regime (MTCR), and the nature of the specific sanctions to be imposed are determined by the MTCR guidelines. China was determined to have sold to Pakistan, a country that does not adhere to the MTCR, items on the MTCR list related to the development or deployment of the M-11 missile (Category II items), but conclusive evidence did not exist for a determination that it had transferred items that would make a substantial contribution to the development and production of the missile (Category I items). The sanctions imposed therefore consist of only Category II items. China does not belong to the 23-member MTCR, which the United States and other missile-technology-supplier countries established in 1987 to control the spread of missile and missile-delivery systems, but in early 1992 the Chinese Government made a written commitment to the United States to abide by the provisions of the MTCR.

A variety of items are included in the Category II list, but satellites and satellite equipment are the only U.S. exports to China likely to be affected by the sanctions. The export to China of most Category II items, including satellites, are prohibited under U.S. sanctions imposed following the Chinese Government's brutal military suppression of the student-led prodemocracy movement in June 1989 or are restricted under other U.S. laws and international guidelines. However, in March 1992, after China had provided assurances that it would adhere to the MTCR guidelines, the Bush administration began to consider and issue, on a case-by-case basis, waivers of the provisions of U.S. law prohibiting satellite exports to China. As a result, negotiations on several contracts for U.S.-built communications satellites to be launched in China had been concluded or were in progress when the new sanctions were imposed.

The United States offered China the opportunity to launch satellites commercially when a U.S. company applied for licenses to export three of its satellites for launching on Chinese rockets, and the two countries began negotiations on the terms of such an arrangement. Between October 1988 and January 1989, the United States and China signed agreements covering pricing and other aspects of international trade in commercial space launch services, safeguards to prevent the unauthorized transfer of U.S. space technology to unfriendly third countries, and liability in the event of a launching accident. These three agreements met the requirements for the United States to issue export licenses for U.S.-made communications satellites to be launched in China and marked the entry of China into the international market for launch services. However, the initial sanctions prohibiting U.S. exports of satellites to China were imposed within a few months after the agreements were signed.

China has to date launched only two U.S.-built satellites. An export license was issued for one of the three pending satellite launches by China prior to imposition of sanctions in 1989, and the sanctions were subsequently waived and export licenses issued for the two other satellites that had led to the signing of the agreements. The first launching, which was made on behalf of a Hong Kong-based consortium, took place in April 1990. China launched the second U.S.-made communications satellite for an Australian company in August 1992. The third satellite was exported to China but a launching accident occurred in December 1992.

Citing U.S. national interest, former President Bush waived the prohibition on U.S. satellite exports to China with respect to six specific projects in September 1992, and President Clinton issued waivers for two additional projects in July 1993. U.S. export licenses had been issued for only three of the projects before the new sanctions were imposed, and no more can be approved while the sanctions remain in force. Moreover, the European communications satellite industry, located mainly in France, could possibly fill the void caused by the sanctions since it is reportedly competitive with the U.S. industry in terms of both cost and quality.

The United States is willing to open discussions with China to determine whether conditions for a waiver can be negotiated and the sanctions lifted, according to a statement made by Assistant Secretary of State Winston Lord. Although Chinese officials were unwilling to discuss the many reports about the M-ll missile-related transfer with U.S. officials before the sanctions were imposed, they have since then indicated that they would be willing to enter into negotiations leading to a possible waiver.

Castro's Latest Reform: Dollars Legal in Cuba

On August 13, 1993, Fidel Castro signed into law measures decriminalizing the possession of freely convertible foreign currency such as U.S. dollars in Cuba. The new measures permit all Cuban citizens to exchange convertible foreign currency for Cuban pesos and to open foreign-currency-denominated bank accounts. The new law also permits Cuban citizens so authorized to spend certain foreign currencies—specifically German marks, French francs, Spanish pesetas, British pounds sterling, Canadian dollars, and U.S. dollars—in Cuban Government-run foreign-currency establishments.

The Castro regime has strictly controlled Cubans' access to, and use of, foreign currency since 1961. With annual economic assistance from the former Soviet Union reaching an estimated $4 billion in 1990, Cuba had little need for foreign currency. More than 80 percent of Cuba's trade was with, and was subsidized by, the former Soviet Union. Foreign trade, conducted exclusively by the Cuban Government, typically involved barter arrangements in which Cuba provided the Soviet Union nickel, sugar, and tobacco at above-market prices in exchange for oil, capital goods, and consumer products needed on the island.

Prior to the new currency law of August 1993, the Cuban peso was the only currency most Cubans were legally permitted to possess or use on the island. Although not freely convertible into U.S. dollars, the peso had an official exchange rate equivalent to $1.00. Permission to possess foreign currency was granted to Cubans who traveled or lived abroad while on official Government business; Cuban artists who performed or sold their works abroad; and Cubans who received remittances from relatives abroad and foreign inheritances. Foreign tourists and foreign workers at diplomatic missions in Cuba also were entitled to possess foreign currency. These were the only individuals entitled to exchange foreign currency for Cuban pesos. Diplomats, foreigners, and certain Cuban workers in the tourism sector were authorized to spend foreign currency in Government-run foreign-currency stores (which typically were stocked with a wide variety of products not otherwise available on the island).

The Cuban economy entered a recession during the late 1980s as the Soviets, as part of their economic restructuring, began curtailing economic assistance to the island. Cuba's recession deepened following the 1991 breakup of the Soviet Union and consequent termination of subsidized trade arrangements. (See *IER*, June 1992.) Although the Russian Government maintains an oil-for-sugar barter trade agreement and provides trade credits, it does not subsidize Cuba's trade.

Ensuing shortages of oil, industrial machinery, and agricultural inputs such as fertilizer and farm machinery caused Cuban agricultural and industrial production to plummet and dashed most of the island's prospects even to conduct barter trade. A lack of foreign currency reserves and dwindling foreign-currency-generating exports now restrict the Cuban Government's ability to purchase imports. This situation led Fidel Castro to announce in a July 1993 speech that the value of Cuban imports fell from $8.1 billion in 1989 to $2.2 billion in 1992, with a further decline to $1.7 billion projected for 1993. To cope with the crisis, the Cuban Government implemented a rationing program for food, fuel, and other products in October 1990 that remains in effect.

As the economic recession deepened, the Cuban Government found it difficult to enforce its currency laws. Dollars had long been used in the black market by the small number of Cubans legally permitted to have foreign currency and Cubans who received money from relatives abroad. However, non-authorized foreign currency use increased significantly after 1991. Products otherwise unavailable for Cuban pesos or ration cards often were available in the black market for dollars. The increased demand for dollars drove up the black market exchange rate to 60 pesos per dollar, according to one recent estimate. Some sources reported that ex-patriot Cubans in the United States stepped up remittances to their relatives still in Cuba, although the United States continues to limit to $300 every 3 months the amount of money Cuban-Americans can send to relatives in Cuba. Estimates of the annual inflow of dollars into Cuba from families in the United States range from $300 million to $1 billion.

Foreign currency use also increased as the number of tourists from Europe, Canada, and Latin America and prospective foreign investors visiting the island rose. The Castro regime is promoting tourism and foreign joint ventures in Cuba as one way of replacing lost Soviet economic assistance. The Cuban Government reported that tourism alone generated a record high $530 million in revenue during 1992. In August 1993, travel agencies in Miami that specialize in trips for Cuban-Americans were notified by the Cuban Government of the lifting of several restrictions on visits to the island. These measures include increasing the number of Cuban-Americans permitted to visit the island from an average of about 90 per week to more than 400 per week, eliminating the ceiling on the amount of currency that can be brought in, and eliminating a requirement that visitors exchange their foreign currency for pesos upon arrival.

A few Cubans with access to dollars may benefit in the short run from foreign-currency legalization. However, the bulk of the Cuban population is poor and lacks access to foreign currency, and thus has little to gain from foreign-currency legalization. (A September 1993 measure authorizing tradespeople in more than 100 occupations—including taxi drivers, mechanics, plumbers, carpenters, hairdressers, cooks, and computer programmers—to engage in private business similarly may benefit only the limited number of Cubans able to finance such ventures.) Moreover, legalizing foreign currency possession does nothing to alleviate the shortages of food and other commodities in Cuba. To the contrary, numerous press reports indicated that stocks in Cuban foreign-currency stores were depleted quickly following the announcement of foreign-currency liberalization. The new law undoubtedly also will fuel price increases in the black market. Both Fidel Castro and economic policy czar Carlos Lage have spoken of the danger of mounting excess liquidity—inflation—in the Cuban economy.

Currency liberalization also is an effort on the part of the Cuban Government to capture some of the foreign exchange that circulates in the black market. The new law, however, does not make the Cuban currency convertible in international markets nor does it alter the effects of restrictions imposed by the United States on economic relations with the island. U.S. economic sanctions in place since 1962 prohibit most U.S. trade with Cuba as well as tourist and business travel to the island. The Cuban Democracy Act (CDA), signed into law in October 1992 by President Bush and implemented on July 4, 1993 by President Clinton, expands the economic sanctions as part U.S. policies to promote a transition to democracy in Cuba. Specifically, the CDA (1) gives the President the discretionary authority to determine whether to apply sanctions against any country that provides assistance to the Cuban Government; (2) prohibits the Department of the Treasury from authorizing subsidiaries of U.S. companies based in foreign countries to conduct trade with Cuba (the United Kingdom and Canada have invoked blocking legislation to prevent U.S. subsidiaries located within their territories from compliance); and (3) prohibits vessels that enter Cuban ports to engage in trade from loading or unloading freight in the United States for 180 days after their departure from Cuba unless licensed by the Department of the Treasury.

The U.S. State Department assesses Cuba's new foreign currency measures as "noteworthy," but underscores the necessity for more fundamental economic reforms. In particular, the State Department cites the decentralization of Cuban economic decisionmaking as one of the most important steps towards real economic reform yet to be undertaken by the Castro Government. Nevertheless, the Castro Government continues to hold to socialist dogma while making only incremental economic reforms. Meanwhile, the U.S. House of Representatives is considering legislation introduced by Charles Rangel (D-NY) in April 1993 to repeal the CDA and end U.S. economic sanctions against Cuba (H.R. 1943). Some sources indicate that this bill faces an uphill battle, because it must clear one of the House subcomittees chaired by Robert Torricelli (D-NJ), author of the CDA.

U.S. Trade With the Countries of the Central European Free-Trade Agreement Expands

U.S. trade with the Czech Republic, Hungary, Poland, and Slovakia, the signatories of the Central European Free-Trade Agreement (CEFTA), increased significantly during the first half of 1993. (For a description of the agreement, which has been in effect since March 1, 1993, see *IER*, August 1993.) U.S. exports (f.a.s.) to the region increased by 97.2 percent, from $504.8 million during the first 6 months of 1992 to $995.4 million during the corresponding period of 1993. U.S. imports (customs value) were up by 20.0 percent over the period, from $451.2 million to $541.3 million. If the trend of the first half continues through 1993, U.S.-CEFTA trade (exports plus imports) could rise from $2.3 billion during 1992 to $3.1 billion during 1993, the U.S. surplus in trade with the region could increase from $356.6 million during 1992 to $908.2 million during 1993.

The following tabulation shows U.S. exports to and imports from the CEFTA countries during January-June 1993 (*million dollars*):

Country	Exports	Imports
Czech Republic	138.9	136.0
Hungary	284.4	180.8
Poland	563.7	197.5
Slovakia	8.4	27.0

In trade with Poland, the largest U.S. trading partner in the region, aircraft and associated equipment, construction machinery and equipment, and cereals (mainly corn and wheat) led U.S. exports. Articles of apparel and clothing accessories, glassware, tractors, prepared meat, footwear, and copper were the leading items among U.S. imports.

In trade with Hungary, aircraft and associated equipment, telecommunications equipment auto parts, and automatic data processing equipment topped U.S. exports. Among imports, parts and accessories of motor vehicles, articles of apparel and clothing accessories, electrical machinery and apparatus, prepared meat, and footwear were the leading items.

In trade with the Czech Republic, automatic data processing machines, industrial machinery, metalworking machinery, and telecommunications equipment were the main U.S. exports. Textile yarns and fabrics, glassware, and industrial machinery (mainly machines and parts for the textile and leather industry, and tractors), and machine tools were the main imports.

In trade with Slovakia, electric distributors and data processing equipment were the top U.S. exports. Articles of apparel and clothing accessories, iron and steel products, and ball or roller bearings were relatively significant imports. (Separate data on U.S. trade with the two successor states to Czechoslovakia are available since January 1, 1993. For details, see *IER*, June 1993.)

U.S. commercial relations with the CEFTA countries have been normalized since the collapse of East European communism in 1989. The four countries have permanent most-favored-nation tariff status with the United States, and many of their exports enter the United States duty free under the U.S. Generalized System of Preferences (GSP). The entire range of services of the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank (Eximbank) are extended to all four countries. All CEFTA countries have bilateral textile agreements with the United States, ensuring them the possibility of considerable increases in their textile shipments to U.S. markets. The United States has bilateral investment treaties with the Czech Republic and Slovakia. (A bilateral investment treaty guarantees for U.S. investors conditions no less favorable than those accorded to domestic or third-country investors. Such a treaty provides for the unconditional repatriation of capital, the protection of intellectual property rights, and access to international forums of arbitration.) The United States and Poland have ratified a bilateral business and economic treaty that, in addition to the guarantees included in a bilateral investment treaty, also includes measures of business facilitation. Although legal and technical difficulties involved in the enforcement of intellectual property rights are delaying the implementation of the agreement, officials from the two countries are working to eliminate these difficulties.

The U.S. and the Hungarian Governments, determined to eliminate the legal and technical problems involved in the enforcement of intellectual property rights before concluding their business and economic treaty, have reported a breakthrough. On September 24, 1993, the two countries signed a comprehensive intellectual property agreement, removing the most difficult stumbling block to concluding the treaty. The United States, in coordination with its 16 partners on the Coordinating Committee on Multilateral Export Controls (COCOM) has significantly reduced controls on its high-technology exports to the region and contemplates further measures of liberalization. Hungary has been altogether removed from COCOM's list of proscribed destinations.

Trade between the CEFTA and the industrialized countries, which has grown rapidly since 1989, is about to receive a further boost. After years of decline, the region's economies are on the verge of recovery. The resumption of economic growth should bolster both export supplies and import demand in the region. The anticipated trade expansion comes at a critical time when the region's private sector, already accounting for 40 to 50 percent of its GDP, is about to become dominant in industry. Managers of state-owned enterprises already make decisions concerning foreign trade operations independent of officials at the state agencies that temporarily hold the majority of their stocks. However, managerial ambitions to maximize profits through foreign trade operations, in particular, are expected to intensify once the majority of stock passes into private hands. Most newly privatized firms in the emerging market economies want to modernize their capital assets, partially by importing machines and equipment from the industrialized countries. Moreover, newly privatized companies have shown an enhanced ability to identify and seize export opportunities. A further important factor facilitating trade expansion is the growing convertibility of the region's national currencies. (All four currencies are partially convertible.)

Unfortunately, Western European rather than U.S. firms are expected to get the lion's share of expanding CEFTA trade. Increasing access to CEFTA markets favors West Europeans firms far beyond the advantage of geographic proximity. Both the European Community (EC) and the European Free Trade Association (EFTA) have concluded free-trade agreements with each member of the CEFTA group. These agreements, along with the CEFTA itself, are scheduled to dismantle all tariff barriers among the signatories by 2001. At present, no agreement between the United States and the CEFTA countries is contemplated that would attempt to match the growing access of Western European competitors in the region. Some analysts even note that trade liberalization in the CEFTA region will result in so many new imports from Western European and other CEFTA sources, that local producers in individual CEFTA countries will feel imperiled and seek protection at least against non-European suppliers.

Even so, trade between the United States and the CEFTA countries is expected to increase significantly during the remainder of the decade. From the point of view of an individual U.S. company attempting to acquire market share in the region, success depends on careful planning, a clear entry strategy, and speed of action. The best prospects for U.S. exports to the region in the immediate future include air-conditioning and refrigeration equipment, furniture, food-processing equipment, automatic data processing equipment, auto parts, telecommunication equipment, computer software, construction products, household consumer goods, sporting goods, apparel, pollution control equipment, medical and laboratory equipment, and electric power systems.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1990–July 1993.

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

			1992	1993								
Country	1990	1991	1992	IV	I	II	Feb.	Mar.	Apr.	May	Jun.	Jul.
United States	1.0	–1.9	2.1	3.9	2.4	1.9	6.0	2.4	3.6	–2.4	–1.2	4.8
Japan	4.5	2.2	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Canada	0.3	–1.0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Germany	5.9	3.2	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
United Kingdom	–0.6	–3.0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
France	1.3	0.6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Italy	–0.6	–1.8	(1)	(1)	(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, August 16, 1993 and *International Financial Statistics*, International Monetary Fund, June 1993.

Consumer prices, by selected countries and by specified periods, January 1990–August 1993

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

				1992			1993							
Country	1990	1991	1992	II	III	IV	I	II	Mar.	Apr.	May.	Jun.	Jul.	Aug.
United States	5.4	4.2	2.7	3.4	3.2	1.7	4.0	2.9	1.2	4.8	1.2	0	1.2	3.6
Japan	3.1	3.3	(1)	2.6	5.8	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Canada	4.8	5.6	(1)	1.9	1.0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Germany	2.7	3.5	(1)	4.1	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
United Kingdom	9.5	5.9	(1)	4.0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
France	3.4	3.1	(1)	2.7	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Italy	6.1	6.5	(1)	5.6	4.4	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 20, 1992. *Consumer Price Index data*, U.S. Department of Labor, August 19, 1993.

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.

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

				1992		1993							
Country	1990	1991	1992	III	IV	I	II	Feb.	Mar.	Apr.	May	Jun.	Jul.
United States	5.5	6.7	7.4	7.5	7.3	7.0	7.0	7.0	7.0	7.0	6.9	7.0	6.8
Japan	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.3	2.3	2.6	2.6	2.6
Canada	8.1	10.3	11.3	11.5	11.4	11.0	11.4	10.8	11.0	11.4	11.4	11.3	11.6
Germany[2]	5.2	4.4	4.7	4.8	5.0	5.4	5.8	5.5	5.6	5.7	5.8	5.9	6.0
United Kingdom	6.9	8.9	10.0	10.1	10.6	10.7	10.5	10.6	10.6	10.5	10.4	10.4	(5)
France	9.2	9.8	10.2	10.2	10.5	10.6	11.0	10.6	10.8	10.9	11.0	11.2	(5)
Italy[3]	7.0	6.9	7.3	7.0	8.3	9.4	10.8	(4)	(4)	(4)	(4)	(4)	(4)

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

[2] Formerly West Germany.

[3] Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11–12 percent in 1989–1990.

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

[5] Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, September 1993.

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

(Percentage, annual rates)

				1992		1993									
Country	1990	1991	1992	IV	Dec.	I	II	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
United States	8.3	5.9	3.6	3.3	3.4	3.2	3.1	3.3	3.2	3.2	3.1	3.1	3.2	3.1	3.1
Japan	7.7	7.3	4.4	3.8	3.7	3.4	3.2	3.7	3.3	3.3	3.2	3.2	3.2	(2)	(2)
Canada	13.0	9.0	6.7	7.6	7.9	6.3	5.1	7.0	6.4	5.6	5.4	5.2	4.9	(2)	(2)
Germany	8.4	9.1	9.4	8.8	8.9	8.2	7.5	8.5	8.3	7.8	7.8	7.4	7.5	(2)	(2)
United Kingdom	14.7	11.5	9.5	7.5	7.1	6.3	5.8	6.8	6.1	5.9	5.9	5.9	5.8	(2)	(2)
France	10.2	9.5	10.1	10.3	10.7	11.4	7.7	11.7	11.7	10.9	8.7	7.4	7.1	(2)	(2)
Italy	12.1	12.0	13.9	14.5	13.6	11.7	10.7	12.5	11.4	11.3	11.4	10.7	10.1	(2)	(2)

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

Source: *Federal Reserve Statistical Release*, September 13, 1993 *Federal Reserve Bulletin*, July 1993.

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

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

(Percentage change from previous period)

				1992	1993									
Item	1990	1991	1992	IV	I.	II	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
Unadjusted:														
Index[1]	86.5	85.5	84.5	86.3	88.7	86.2	88.9	89.1	88.1	86.1	85.9	86.7	88.2	88.0
Percentage change	–5.3	–1.2	–1.1	5.6	2.7	–2.9	1.5	.2	–1.1	–2.3	–.2	.9	1.7	–.2
Adjusted:														
Index[1]	88.1	87.0	86.4	88.3	91.2	89.2	91.1	91.1	90.7	88.7	88.8	89.8	91.1	91.0
Percentage[2] change	–4.0	–1.2	–.7	5.8	3.1	–2.2	1.5	0	–.4	–2.2	.1	1.1	1.4	–.1

[1] 1980–82 average=100.

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

Source: Morgan Guaranty Trust Co. of New York, September 1993.

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

Country	1990	1991	1992	1992 IV	1993 I	II	Mar.	Apr.	May	Jun.	Jul.
United States[1]	–101.7	–65.4	–84.3	–86.3	–103.1	–122.5	–125.4	–122.2	–100.4	–144.7	–124.1
Japan	63.7	103.1	([3])	([3])	([3])	([3])	([3])	([3])	([3])	([3])	([3])
Canada	9.4	6.4	([3])	([3])	([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])	([3])	([3])	([3])	([3])	([3])	([3])	([3])	([3])
France	–9.2	–5.4	([3])	([3])	([3])	([3])	([3])	([3])	([3])	([3])	([3])
Italy	–10.0	–12.8	([3])	([3])	([3])	([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, September 16, 1993.

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

Country	1990	1991	1992	1992 IV	1993 I	II	Mar.	Apr.	May	Jun.	Jul.
Commodity categories:											
Agriculture	16.3	16.2	18.6	5.7	4.9	3.9	1.5	1.5	1.3	1.1	1.2
Petroleum and selected product—(unadjusted)	–54.6	–42.3	–43.9	–11.7	–11.0	–12.7	–4.1	–4.3	–4.2	–4.2	–3.8
Manufactured goods	–90.1	–67.2	–86.7	–26.5	–21.0	–25.3	–8.5	–8.0	–6.3	–11.0	–12.3
Selected countries:											
Western Europe	4.0	16.1	6.2	–.8	3.5	–0.9	.4	.4	.3	–1.6	–1.7
Canada[2]	–7.7	–6.0	–7.9	–2.8	–2.5	–2.8	–.6	–.9	–.9	–1.0	–.6
Japan	–41.0	–43.4	–49.4	–14.7	–13.2	–14.4	–5.2	–5.5	–3.7	–4.3	–4.7
OPEC (unadjusted)	–24.3	–13.8	–11.2	–3.4	–3.0	–3.4	–1.0	–1.4	–1.0	–1.4	–1.3
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$19.75	$17.42	$16.80	$17.37	$16.24	$16.49	$16.47	$16.71	$16.72	$16.06	$15.00

[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, September 16, 1993.