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# INTERNATIONAL ECONOMIC REVIEW

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*In This Issue:*

International Economic Comparisons

U.S. Trade Developments

International Trade Developments:

*Uruguay Round Resumption Awaits Farm Plan*

*Polish-American and Hungarian-American Enterprise Funds are off to a good start*

Statistical Tables



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**OFFICE OF ECONOMICS**

John W. Suomela, *Director*

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## INTERNATIONAL ECONOMIC COMPARISONS

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### Summary of U.S. Economic Conditions

Barring a widespread collapse in consumer confidence, a failure of the financial system as a result of real estate price collapse, or a steep rise in oil prices due to the Gulf war, the consensus outlook for the U.S. economy in 1991 is slower growth and tolerable rate of inflation.

Real economic growth dropped in the fourth quarter of 1990 as consumer and business spending contracted. The U.S. Department of Commerce reported that real GNP contracted by 2.1 percent in the fourth quarter of 1990, the first downturn since 1986. GNP statistics show that seasonally adjusted personal spending fell by 3.1 percent, durable goods spending fell by 8.6 percent and nondurable spending fell by 5.8 percent in the fourth quarter of 1990. Commerce also reported that housing starts dropped 12.4 percent in December 1990, the steepest decline since June 1982. Nevertheless, the fourth quarter GNP decline was more moderate than many forecasters had projected. Also the low level of inventory held by businesses indicates that the economic downturn may be short lived.

Forecasts for 1991 are for weak expansion in the United States and for moderate expansion in Germany and Japan. The Organization for Economic Cooperation and Development (OECD) expects the U.S. economy to grow by 0.5 percent to 1.0 percent in 1991, Japan's economy to grow by 3.7 percent, and Germany's economy to grow by 3.0 percent. In the 24 OECD countries growth is expected to average 2.0 percent in 1991 and 2.5 percent in 1992. Private forecasters expect U.S. growth rate to range from -1.9 percent to 2.1 percent in 1991. Growth of U.S. industrial output is expected to slow in 1991. The U.S. Department of Commerce predicts, in its latest Industrial Outlook report, that the average growth rate of all industries covered in the report is expected to drop to 1.13 percent from 1.38 percent. High technology and health related industries are expected to outperform other industries. Commerce predicts 8.9 percent growth in 1991 in the semiconductor and related industries. Motor vehicles and construction will experience a negative growth in 1991. The aircraft industry including engines and parts will experience 4.6 percent growth rate in 1991, down from 17.9 percent in 1990. The strongest sector in the services industries will be electronic information, computer software, and data processing, with growth ranging from 16.0 percent to 20.0 percent. Commerce forecast assumes that U.S. real growth rate in 1991 will range from 1.0 percent to 3.0 percent.

### Economic Growth

The annualized rate of real economic growth in the United States in the fourth quarter of 1990 was a negative 2.1 percent. Real growth rate was 1.4 percent in the third quarter, 0.4 percent in the second quarter, and 1.7 percent in the first quarter of 1990. The annualized rate of real economic growth in the third quarter of 1990 was -4.0 percent in the United Kingdom, 6.8 percent in West Germany, 5.3 percent in France, 4.1 percent in Japan, -1.0 percent in Canada, and 2.7 percent in Italy.

### Industrial Production

U.S. industrial production dropped by 0.6 percent in December after revised declines of 1.8 percent in November and 0.7 percent in October 1990. The December 1990 index was 1.4 percent lower than it was in December 1989. A drop in auto and truck production along with declines in other related industries and construction supplies accounted for a large part of the December decline.

Capacity utilization in manufacturing, mining, and utilities dropped in December 1990 by 0.6 percent to 80.4 percent, its lowest level since April 1987. Other major industrial countries reported the following annual growth rates of industrial production. For the year ending November 1990, Japan reported an increase of 6.5 percent, and Germany reported an increase of 6.0 percent. For the year ending October 1990, the United Kingdom reported a decrease of 1.5 percent, Canada reported a decrease of 2.8 percent, and France reported an increase of 1.1 percent. For the year ending September 1990, Italy reported a decrease of 0.6 percent.

### Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.3 percent in December, from 0.2 percent in November 1990, and increased by 6.1 percent during the year ending December 1990.

During the 1-year period ending December 1990, consumer prices increased by 2.7 percent in Germany and 6.4 percent in Italy. During 1-year period ending in November 1990, consumer prices increased by 9.7 percent in the United Kingdom, 3.6 percent in France, 5.0 percent in Canada, and 4.2 percent in Japan.

### Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor force basis, including military personnel) increased to 6.0 percent in December from 5.8 percent in November and from 5.6 percent in October 1990.

In December 1990, Germany reported 6.6 percent unemployment. In November 1990, the United Kingdom reported 6.2 percent unemployment, Japan reported 2.1 percent, Canada reported 9.1 percent, and

Italy reported 9.6 percent unemployment. In October 1990, France reported 8.9 percent unemployment. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

### Forecasts

Table 1 shows macroeconomic forecasts by four major sources for the U.S. economy for October 1990 to September 1991 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 average forecasts GNP for the quarter point to a sluggish growth in nominal GNP rates and continued negative growth in real GNP rates in the first two quarters of 1991, followed by a modest recovery in the third quarter of 1991. There are many possible reasons for the economic slowdown in 1990 and 1991: the flattening of consumer spending, particularly consumer spending on durable goods and housing as a result of the sharp increases in consumer prices, fueled by the rise in oil prices,

and the increase in excise taxes introduced in the new budget plan; the sharp decline in investment spending because of reduced business expectations and the reduction in available credit as a result of S & L crisis and the less expansionary fiscal positions adopted by other industrial countries. The average of the forecasts predicts an increase in the unemployment rate in the remainder of 1990 and the first three quarters of 1991. Inflation, measured by the GNP deflator index, is expected to rise initially and then dip in the second and third quarters of 1991.

### U.S. TRADE DEVELOPMENTS

The U.S. merchandise trade deficit narrowed in November 1990 due to the accelerated decline in imports over the decline in exports of industrial commodities. Seasonally adjusted, U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in the tabulation at the top of the next page.

**Table 1**  
Projected quarterly percentage changes of selected U.S. economic indicators, 1990-91

| Quarter                            | <i>UCLA<br/>Business<br/>Forecasting<br/>Project</i> | <i>Merrill<br/>Lynch<br/>Capital<br/>Markets</i> | <i>Data<br/>Resources<br/>Inc.</i> | <i>Wharton<br/>E.F.A.<br/>Inc.</i> | <i>Mean<br/>of 4<br/>fore-<br/>casts</i> |
|------------------------------------|--|--|------------------------------------|------------------------------------|--|
| <b>GNP:<sup>1</sup></b>            |  |  |                                    |                                    |  |
| 1990:                              |  |  |                                    |                                    |  |
| October-December . . . . .         | 2.5  | 0.9  | 0                                  | 1.2                                | 1.5                                      |
| 1991:                              |  |  |                                    |                                    |  |
| January-March . . . . .            | 1.6  | 3.1  | 1.2                                | 2.1                                | 2.0                                      |
| April-June . . . . .               | 2.8  | 1.6  | 2.6                                | 5.8                                | 3.2                                      |
| July-September . . . . .           | 3.8  | 4.4  | 6.2                                | 7.0                                | 5.3                                      |
| <b>GNP:<sup>2</sup></b>            |  |  |                                    |                                    |  |
| 1990:                              |  |  |                                    |                                    |  |
| October-December . . . . .         | -2.1   | -3.5   | -3.0                               | -2.3                               | -2.7                                     |
| 1991:                              |  |  |                                    |                                    |  |
| January-March . . . . .            | -2.9   | -1.6   | -2.1                               | -0.9                               | -1.9                                     |
| April-June . . . . .               | -2.1   | -2.5   | -0.4                               | 2.9                                | -0.5                                     |
| July-September . . . . .           | 0.8  | 0.4  | 3.0                                | 4.1                                | 2.1                                      |
| <b>GNP deflator index:</b>         |  |  |                                    |                                    |  |
| 1990:                              |  |  |                                    |                                    |  |
| October-December . . . . .         | 4.7  | 4.6  | 3.1                                | 3.7                                | 4.0                                      |
| 1991:                              |  |  |                                    |                                    |  |
| January-March . . . . .            | 4.6  | 4.8  | 3.3                                | 3.0                                | 4.0                                      |
| April-June . . . . .               | 4.9  | 4.1  | 3.0                                | 3.4                                | 3.9                                      |
| July-September . . . . .           | 3.0  | 4.0  | 3.2                                | 2.8                                | 3.2                                      |
| <b>Unemployment, average rate:</b> |  |  |                                    |                                    |  |
| 1990:                              |  |  |                                    |                                    |  |
| October-December . . . . .         | 5.9  | 5.9  | 5.9                                | 5.9                                | 5.9                                      |
| 1991:                              |  |  |                                    |                                    |  |
| January-March . . . . .            | 6.7  | 6.5  | 6.6                                | 6.4                                | 6.5                                      |
| April-June . . . . .               | 7.2  | 7.0  | 7.1                                | 6.5                                | 7.0                                      |
| July-September . . . . .           | 7.4  | 7.1  | 7.1                                | 6.5                                | 7.0                                      |

<sup>1</sup> Current dollars.

<sup>2</sup> Constant (1982) dollars.

Note.—Percentage changes in the forecast represent compounded annual rates of change from the preceding period. Quarterly data are seasonally adjusted.

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

|   | Exports |        | Imports |        | Trade balance |        |
|---|---------|--------|---------|--------|---------------|--------|
|   | Oct.90  | Nov.90 | Oct.90  | Nov.90 | Oct.90        | Nov.90 |
| Current dollars:  |         |        |         |        |               |        |
| including oil .....   | 35.0    | 33.6   | 46.0    | 43.3   | -11.0         | -9.7   |
| excluding oil .....   | 34.1    | 32.7   | 38.7    | 37.0   | -4.6          | 4.3    |
| 1987 dollars .....  | 32.1    | 30.7   | 39.6    | 37.1   | -7.5          | -6.4   |
| Three-month-moving average .....                                | 33.2    | 33.5   | 43.2    | 43.5   | -10.0         | -10.0  |
| Advanced technology products<br>(not seasonally adjusted) ..... | 7.9     | 7.4    | 5.8     | 5.3    | 2.2           | 2.0    |

Including oil, the seasonally adjusted U.S. merchandise trade deficit in current dollars declined by 12.0 percent in November to \$9.7 billion, from \$11.0 billion in October 1990. The November 1990 deficit was 14.1 percent higher than the \$8.5 billion average monthly deficit registered during the previous 12-month period and 2.1 percent lower than the \$9.9 billion deficit registered in October 1989. Excluding oil, the November merchandise trade deficit declined by 6.5 percent from October 1990.

In November 1990, both imports and exports of industrial goods declined. However, imports declined considerably faster than exports. Including oil, seasonally adjusted exports in current dollars declined by \$1.4 billion in November to \$33.6 billion while imports decreased by \$2.7 billion to \$43.3 billion. Excluding oil, U.S. imports declined by \$1.7 billion to \$37.0 billion in November from October 1990. The U.S. oil import bill declined to \$6.4 billion in November from \$7.3 billion in October 1990.

On a cumulative January–November basis, the seasonally adjusted merchandise trade deficit in current dollars declined by 7.4 percent from a year earlier to \$95.0 billion from \$102.6 billion; exports increased by \$28.0 billion to \$360.6 billion whereas imports increased by \$34.1 billion to \$455.5 billion.

In seasonally adjusted constant dollars, the November trade deficit declined by \$1.1 billion from October 1990. The trade surplus in advanced technology products declined to \$2.0 billion in November from \$2.2 billion in October 1990. (Advanced technology products as defined by the U.S. Department of Commerce include about 500 products from recognized high-technology fields—for example, biotechnology—out of a universe of some 22,000 commodity classification codes.)

Nominal export changes on a monthly and cumulative year-to-date basis for specified major exporting sectors are shown in table 2. The November 1990 data show export increases over October in “other manufactured goods” category and airplanes. Exports declined in the remaining sectors.

Sectors that recorded the highest increases and contributed mostly to total exports for the January–November 1990 period compared with the same period of 1989 included airplanes, “other manufactured goods” category, textile yarns, fabrics and articles, telecommunications, vehicle parts, airplane parts, and electrical machinery.

The U.S. agricultural trade surplus rose to \$1.6 billion in November from \$1.2 billion in October 1990.

U.S. bilateral trade balances on a monthly and cumulative year-to-date basis with major trading partners are shown in table 3. The United States experienced improvements in bilateral merchandise trade balances in November 1990 with Japan, Canada, the EC, the NICs, China, the U.S.S.R. and OPEC. The deficit with Japan declined by \$660 million; with Canada by \$280 million; with the NICs \$560 million; with China by \$90 million; with OPEC by \$140 million; and with the EC by \$190 million. The deficit with Germany increased slightly.

On a year-to-date basis, however, significant improvements occurred in bilateral trade balances with Japan, Canada, the EC, and with the NICs compared to a year earlier.

## INTERNATIONAL TRADE DEVELOPMENTS

### Uruguay Round Resumption Awaits Farm Plan

#### *Uruguay Round Suspended*

The Uruguay Round of multilateral trade negotiations, having begun in 1986 at Punta del Este, Uruguay, and scheduled to end December 3 to 7, 1990, in Brussels, Belgium, reached a familiar impasse over the issue of agricultural reform. While much intensive negotiation took place during this ministerial-level meeting of the Trade Negotiations Committee (TNC), many countries seemed to have awaited news of a breakthrough in the agriculture group before committing themselves to negotiate further or more fully in other groups. Under the Punta del Este declaration that opened the Round, the collective results are to be treated as a single outcome. This “globality” of results may have discouraged some delegations from advancing better offers in other areas knowing that without a final agreement in the difficult area of agriculture a full package of Uruguay Round agreements could not be achieved.

**Table 2**  
**Nominal U.S. exports, not seasonally adjusted, of specified sectors, by specified periods, January 1989–November 1990**

| Sector                                  | Exports                      |                       | Change                       |                              | Share of total               |                  |
|---|------------------------------|-----------------------|------------------------------|------------------------------|------------------------------|------------------|
|   | January-<br>November<br>1990 | Nov-<br>ember<br>1990 | January-<br>November<br>1990 | November<br>1990             | January-<br>November<br>1990 | November<br>1990 |
|   |                              |                       | over<br>January<br>1989      | over<br>Octo-<br>ber<br>1990 |                              |                  |
|   | Billion dollars              |                       |                              |                              | Percent                      |                  |
| ADP equipment & office machinery        | 22.39                        | 1.96                  | 3.2                          | -10.1                        | 6.2                          | 5.9              |
| Airplanes                               | 17.69                        | 1.44                  | 35.0                         | 0.7                          | 4.9                          | 4.3              |
| Airplane parts                          | 8.77                         | 0.80                  | 10.2                         | -10.1                        | 2.4                          | 2.4              |
| Electrical machinery                    | 26.0                         | 2.40                  | 11.4                         | -6.6                         | 7.2                          | 7.2              |
| General industrial machinery            | 14.43                        | 1.28                  | 4.1                          | -9.2                         | 4.0                          | 3.9              |
| Iron and steel mill products            | 2.93                         | 0.33                  | -12.0                        | 0                            | 0.8                          | 1.0              |
| Organic & inorganic chemicals           | 13.00                        | 1.19                  | -4.8                         | -12.5                        | 3.6                          | 3.6              |
| Power generating machinery              | 14.26                        | 1.23                  | 1.5                          | -19.1                        | 3.9                          | 3.7              |
| Scientific instruments                  | 11.04                        | 0.99                  | 5.3                          | -8.3                         | 3.1                          | 3.0              |
| Specialized industrial machinery        | 14.00                        | 1.15                  | 6.1                          | -14.2                        | 3.9                          | 3.5              |
| Telecommunications                      | 8.36                         | 0.78                  | 13.0                         | -10.3                        | 2.3                          | 2.3              |
| Textile yarns, fabrics and articles     | 4.53                         | 0.42                  | 14.4                         | -4.5                         | 1.3                          | 1.3              |
| Vehicle parts                           | 13.64                        | 1.27                  | 11.8                         | -7.3                         | 3.8                          | 3.8              |
| Other manufactured goods <sup>1</sup>   | 20.81                        | 2.02                  | 25.2                         | 6.9                          | 5.8                          | 6.1              |
| Manufactured exports not included above | 81.16                        | 7.43                  | 8.6                          | -8.7                         | 22.5                         | 22.4             |
| Total manufactures                      | 273.00                       | 24.69                 | 9.5                          | -7.9                         | 75.7                         | 74.6             |
| Agriculture                             | 35.60                        | 3.46                  | -5.7                         | 14.2                         | 9.9                          | 10.4             |
| Other exports                           | 51.79                        | 4.96                  | 12.8                         | -9.0                         | 14.4                         | 15.0             |
| Total exports                           | 360.39                       | 33.11                 | 8.2                          | -6.2                         | 100.0                        | 100.0            |

<sup>1</sup> This is an official U.S. Department of Commerce commodity grouping.  
 Note: Detail lines may not add to totals because of rounding.

Source: U.S. Department of Commerce News (FT 900), November 1990.

**Table 3**  
**U.S. merchandise trade deficits (-), surpluses (+) in billions of dollars, not seasonally adjusted, by specified areas**

| Area and country         | November 1990 | October 1990 | November 1989 | January-<br>November 1990 | January-<br>November 1989 |
|--------------------------|---------------|--------------|---------------|---------------------------|---------------------------|
| Japan                    | -3.79         | -4.45        | -4.01         | -37.63                    | -45.51                    |
| Canada                   | -1.07         | -1.35        | -1.09         | -7.06                     | -8.30                     |
| Fed. Republic of Germany | -0.92         | -0.89        | -0.77         | -8.95                     | -7.40                     |
| EC                       | -0.05         | -0.24        | -0.41         | +4.85                     | +0.65                     |
| Western Europe           | -0.41         | -0.63        | -0.80         | +2.45                     | -2.08                     |
| NICs                     | -1.59         | -2.15        | -2.13         | -18.55                    | -22.82                    |
| U.S.S.R.                 | +0.03         | -0.07        | +0.37         | +1.99                     | +3.17                     |
| China                    | -1.08         | -1.17        | -0.83         | -9.66                     | -5.71                     |
| OPEC                     | -2.52         | -2.66        | -1.77         | -22.48                    | -16.20                    |
| Total trade balance      | -10.79        | -12.80       | -10.75        | -95.58                    | -102.71                   |

Note. NICS include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

Source: U.S. Department of Commerce News (FT-900), January 1990.

Due to the impasse in the agriculture negotiations and its effect on the remaining groups, the chairman of the Brussels meeting, Dr. Hector Gros Espiell, closed the Ministerial meeting of the TNC on December 7, 1990, without concluding the Uruguay Round negotiations. He noted that, despite the substantial advances made in the negotiating process, participants appeared nonetheless to need more time to reconcile their positions in some key areas of the negotiations. He called upon GATT Director-General Arthur Dunkel, chairman of the TNC, to pursue consultations with participants until the beginning of 1991 with the aim of reaching agreement in areas

with outstanding differences and to reconvene the TNC in order to conclude the negotiations at a date the Director-General considers appropriate in light of his consultations.

#### Post-Brussels Consultations

To this end, Dunkel held consultations, including visits to Washington and Brussels. He set January 15, 1991, as the time to reconvene the TNC to report on his discussions. In his report, he noted that, while he found a "firm desire to press ahead" with the Uruguay Round, he was unable to report sufficient progress to warrant the reconvening of the Uruguay



Round talks as yet. Without setting a further meeting date, Dunkel said he would continue his consultations and would report again to the TNC as the situation became clearer.

His report elaborated that, while agriculture comes first to mind in discussing with participants the flexibility needed to resume negotiations, other areas would also need serious effort to bring together positions. These include tropical products, textiles, services, intellectual property rights and investment measures, and rules and institutional questions like dispute settlement. However, he cautioned this was not meant as an exhaustive list. He indicated that it was clear the "trigger for resumption" of work in all negotiating areas would come from an agreement to a "platform" from which agriculture negotiations could proceed. Dunkel's consultations were aimed at establishing such a platform, but to date he was only "cautiously optimistic" as to the possible outcome.

### *EC Brussels Farm Proposal*

Dunkel's consultations revolve mainly around the agriculture proposal offered by the European Community (EC) in Brussels. Most participants found it to be insufficient. In brief, the EC proposal centers on a 30 percent reduction in internal support measures to farmers for major products such as cereals, rice, oilseeds, livestock and sugar, and a 10 percent reduction for certain other products such as fruit, vegetables and tobacco, based on 1986. The base year would favor the EC significantly, being one in which EC support was particularly high already and consequently would lead to little additional EC reduction. Concerning border measures, the EC would agree to convert quantitative border measures, such as the variable levy into tariffs (so-called "tariffication"), but only with such adjustments as a corrective factor and a rebalancing of support and protection. Lastly, the EC proposal tabled in Brussels contained no specific commitment on export subsidies, implying that these would be reduced only as a result of reduced internal support.

Following the Brussels deadlock over agriculture, the EC Council at their Rome summit meeting on December 15 to 16, 1990, instructed the EC Commission to secure a resumption of the suspended trade liberalization talks and reach a balanced agreement "in the shortest possible time." The EC Agriculture Commissioner Ray MacSharry proceeded to develop plans for substantial reform of the Common Agricultural Policy (CAP), at one point describing these reforms as "revolutionary." Although the contents of this reform are particularly guarded, reports of an EC Commission seminar held on January 20 to introduce some of these ideas to Commissioners indicate some of its possible elements.

### *New EC Farm Proposal Developing*

Commissioner MacSharry has prefaced his reform on guarantees already promised to European farmers concerning the preservation of competitiveness of European agriculture, the establishment of neutral,

environmentally friendly production aids, and the improvement of the quality of farm products. Given these assurances, MacSharry has said his plan "might include the reduction of certain production quotas, actions on prices which might affect large producers, protection for small farmers through direct aids, the development of programmes for the non-food use of farm products, and improved environmental protection through the development of programmes to aid extensification." These elements would promote MacSharry's goal of shifting the focus of the CAP away from price support and toward direct income aid for farmers, including increases in early retirement funds and new set-aside programs and funds to promote nonfarming activities.

Resumption of the Uruguay Round negotiations on agriculture will need to first, await the completion of Commissioner MacSharry's unfolding reform, anticipated at the earliest within 2 to 3 weeks. Second, how or whether EC farm ministers will agree to a more stringent and austere farm reform is unclear, considering agreement on the previous proposal took seven difficult meetings over nearly three weeks. Finally, and perhaps most unclear, is whether the Uruguay Round participants who so roundly rejected the EC proposal at Brussels will find the emerging farm proposal sufficiently forthcoming in its trade provisions to warrant resuming negotiations in the other areas of the Round which have been, by and large, tied to resolution of the agriculture issue.

### **Polish-American and Hungarian-American Enterprise Funds are off to a good start**

The Support for East European Democracy Act of 1989 (the SEED Act) established the Polish-American Enterprise Fund and the Hungarian-American Enterprise Fund to help expand private sector activities in Poland and Hungary, with particular emphasis on small and medium-sized businesses. Apparently, both the U.S. and East European sides agree that the two enterprise funds have been successful thus far. The significance of these funds as catalysts of economic reform far exceeds their modest budgetary appropriations: \$240 million for Poland and \$60 million for Hungary during 1990, 1991, and 1992. (The 4:1 ratio roughly corresponds to the population ratio of the two countries.)

The funds are permitted to finance host country companies, joint ventures between U.S. and host country firms, and subsidiaries or affiliates of U.S. companies with business operations in the respective host countries. They may establish small loan banks and merchant banks to help expand local financial services. The Funds are also permitted to raise U.S. venture capital for investment in Poland and Hungary. The two organizations operate as private investment funds, seeking the best possible return on their equity investment and extending loans under similar conditions to those offered by commercial lenders. Nonprofit by law, the two organizations have a statu-

tory obligation to reinvest their earnings in the respective economies.

The Funds' market-driven rationalism in dealing with local partners is expected to strengthen entrepreneurial attitudes in the two East European countries. Assuming that prices already reflect scarcities and that profit incentives guide investment decisions in the two emerging market economies, the Funds' capital may also add momentum to the process of structural transformation currently underway in these countries.

Following the passage of the SEED Act in November 1989, two binational boards of directors, made of private citizens of the United States and the respective East European countries, were set up to exercise supervision over the Funds. Each board hired its own staff of portfolio managers and loan officers to take care of day-to-day operations. With offices in Washington, DC, New York, and in Warsaw and Budapest, respectively, the two Funds opened their doors in May 1990.

During the past 10 months, both organizations have received thousands of loan applications and other project proposals from U.S. businesses and from each of the two East European countries. Applications and proposals submitted to the Funds are evaluated without delay, principals of both organizations claim. Feasibility studies help select from among the proposals and applications those that contain the most viable business ideas. A large number of these

applications and proposals are dismissed after investigations of varying length.

To date, the Polish-American Enterprise Fund has provided capital in an effort to establish private banking in Poland and to set up loan desks for small businesses at selected financial institutions throughout the country. The Fund has also invested in a project, run by a local agricultural cooperative, to improve the sorting, packaging, and marketing of apples. It has also provided capital for the establishment of a Polish mortgage company and a United States-Polish joint venture for residential construction.

The Hungarian-American Enterprise Fund has helped create two United States-Hungarian joint ventures: one that intends to establish 24 stores for selling computers and office automation equipment in Hungary, and another one that wants to export Hungarian compact disc records to the United States. The Fund has also participated in the buyout of a Hungarian printing company incidental to its privatization, and it has organized loan windows for small businesses in local commercial banks.

Both Funds plan to expand their portfolios significantly during 1991, and they may begin to raise U.S. venture capital. However, the prospects of raising substantial amounts of capital for investment sites in Poland and Hungary depends largely upon progress in economic recovery, reduction in external debt, and in the further liberalization of economic activity in the two countries.

**STATISTICAL TABLES**

∞ **Industrial production, by selected countries and by specified periods, January 1987–October 1990**

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

| Country        | 1987 | 1988 | 1989 | 1989 |      |      | 1990 |      |                  |       |                  |                  |                  |                  |
|----------------|------|------|------|------|------|------|------|------|------------------|-------|------------------|------------------|------------------|------------------|
|                |      |      |      | II   | III  | IV   | I    | II   | III              | Jun.  | Jul.             | Aug.             | Sep.             | Oct.             |
| United States  | 4.9  | 5.4  | 2.6  | 2.9  | -1.3 | 0.2  | 0.6  | 4.3  | 3.7              | 8.0   | 2.2              | 0                | 1.1              | -9.3             |
| Japan          | 3.4  | 9.5  | 6.0  | 0.0  | 0.8  | 2.9  | 3.5  | 7.7  | 9.9              | -1.9  | 23.3             | 3.8              | -10.7            | 33.8             |
| Canada         | 2.7  | 4.4  | 2.3  | 1.3  | -0.2 | -1.9 | 1.7  | 1.3  | ( <sup>1</sup> ) | 0     | ( <sup>1</sup> ) | ( <sup>1</sup> ) | ( <sup>1</sup> ) | ( <sup>1</sup> ) |
| West Germany   | .2   | 3.2  | 5.3  | 4.8  | 1.4  | 8.4  | 8.3  | -0.1 | 7.1              | -30.8 | 30.6             | 0                | -2.0             | ( <sup>1</sup> ) |
| United Kingdom | 3.4  | 3.6  | .8   | -0.7 | 6.1  | 0.2  | -0.4 | 7.5  | -13.3            | 25.1  | -33.6            | -6.4             | -6.4             | ( <sup>1</sup> ) |
| France         | 2.1  | 4.4  | 3.8  | 8.7  | 1.2  | -1.2 | -1.7 | 5.0  | 5.5              | 4.3   | 28.7             | 0                | -12.8            | ( <sup>1</sup> ) |
| Italy          | 2.6  | 6.9  | 3.7  | 3.7  | 9.4  | 0.6  | -6.2 | 1.0  | 1.6              | 0     | -7.8             | 28.7             | -7.7             | ( <sup>1</sup> ) |

<sup>1</sup> Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, December 14, 1990.

**Consumer prices, by selected countries and by specified periods, January 1987–November 1990.**

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

| Country        | 1987 | 1988 | 1989 | 1989 |     | 1990 |     |      |      |      | Oct. | Nov. |                  |
|----------------|------|------|------|------|-----|------|-----|------|------|------|------|------|------------------|
|                |      |      |      | IV   | I   | II   | III | Jun. | Jul. | Aug. |      |      | Sep.             |
| United States  | 3.7  | 4.1  | 4.8  | 4.0  | 8.1 | 3.7  | 6.4 | 6.7  | 4.7  | 9.6  | 9.5  | 7.5  | ( <sup>1</sup> ) |
| Japan          | .1   | .7   | 2.3  | 2.6  | 0.9 | 5.8  | 1.6 | -6.5 | -1.1 | 5.8  | 11.8 | 12.9 | ( <sup>1</sup> ) |
| Canada         | 4.4  | 4.0  | 5.0  | 3.9  | 6.0 | 2.7  | 4.1 | 5.5  | 3.2  | 3.9  | 5.9  | 10.3 | ( <sup>1</sup> ) |
| West Germany   | .2   | 1.3  | 2.8  | 3.0  | 2.5 | 1.7  | 3.6 | 1.9  | 2.2  | 7.5  | 5.3  | 8.4  | -1.0             |
| United Kingdom | 4.1  | 4.9  | 7.8  | 7.6  | 8.8 | 15.7 | 9.7 | 7.4  | 8.5  | 11.5 | 10.9 | 7.8  | ( <sup>1</sup> ) |
| France         | 3.3  | 2.7  | 3.5  | 3.9  | 3.1 | 2.6  | 4.3 | 2.3  | 2.5  | 7.8  | 7.6  | 6.0  | ( <sup>1</sup> ) |
| Italy          | 4.6  | 5.0  | 6.6  | 5.9  | 5.8 | 5.4  | 7.2 | 5.6  | 7.1  | 10.0 | 6.5  | 6.5  | 9.1              |

<sup>1</sup> Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, December 14, 1990.

**Unemployment rates, (total labor force basis)<sup>1</sup> by selected countries and by specified periods, January 1987–November 1990**

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

| Country        | 1987 | 1988 | 1989 | 1989 |     | 1990 |     |                  |                  |                  | Oct.             | Nov.             |                  |
|----------------|------|------|------|------|-----|------|-----|------------------|------------------|------------------|------------------|------------------|------------------|
|                |      |      |      | III  | IV  | I    | II  | III              | Jul.             | Aug.             |                  |                  | Sep.             |
| United States  | 6.1  | 5.4  | 5.2  | 5.2  | 5.3 | 5.2  | 5.2 | 5.5              | 5.4              | 5.5              | 5.6              | 5.6              | 5.8              |
| Japan          | 2.9  | 2.5  | 2.3  | 2.2  | 2.2 | 2.1  | 2.1 | ( <sup>3</sup> ) | 2.1              | 2.1              | 2.3              | ( <sup>3</sup> ) | ( <sup>3</sup> ) |
| Canada         | 8.8  | 7.7  | 7.5  | 7.3  | 7.5 | 7.5  | 7.4 | 8.1              | 7.8              | 8.3              | 8.3              | 8.7              | 9.0              |
| West Germany   | 6.2  | 6.2  | 5.6  | 5.6  | 5.5 | 5.3  | 5.2 | 5.1              | 5.1              | 5.1              | 5.0              | 4.9              | 4.7              |
| United Kingdom | 10.2 | 8.2  | 6.4  | 6.2  | 5.8 | 6.1  | 6.1 | 6.2              | 6.2              | 6.3              | 6.4              | 6.5              | 6.7              |
| France         | 10.5 | 10.1 | 9.9  | 9.9  | 9.8 | 9.3  | 9.3 | 9.3              | 9.3              | 9.3              | 9.3              | 9.4              | 9.4              |
| Italy          | 7.7  | 7.8  | 7.7  | 7.7  | 7.5 | 7.2  | 6.6 | 6.9              | ( <sup>2</sup> ) | ( <sup>2</sup> ) | ( <sup>2</sup> ) | 6.8              | ( <sup>2</sup> ) |

<sup>1</sup> Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.

<sup>2</sup> Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

<sup>3</sup> Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, January 1991.

**Money-market interest rates,<sup>1</sup> by selected countries and by specified periods, January 1987–December 1990**
*(Percentage, annual rates)*

| Country              | 1987 | 1988 | 1989 | 1989 |      | 1990 |      |      |      |      |      |                  |                  |                  |                  |
|----------------------|------|------|------|------|------|------|------|------|------|------|------|------------------|------------------|------------------|------------------|
|                      |      |      |      | III  | IV   | I    | II   | III  | Jul. | Aug. | Sep. | Oct.             | Nov.             | Dec.             |                  |
| United States .....  | 7.0  | 7.8  | 9.3  | 8.9  | 8.6  | 8.4  | 8.4  | 8.1  | 8.1  | 8.1  | 8.1  | 8.1              | 8.1              | 8.0              | 7.8              |
| Japan .....          | 3.9  | 4.4  | 5.3  | 5.4  | 5.6  | 6.2  | 6.7  | 6.7  | 6.8  | 6.9  | 8.3  | ( <sup>2</sup> ) | ( <sup>2</sup> ) | ( <sup>2</sup> ) | ( <sup>2</sup> ) |
| Canada .....         | 8.4  | 9.6  | 12.2 | 12.3 | 12.4 | 12.9 | 13.7 | 13.1 | 13.6 | 13.2 | 12.6 | 12.6             | ( <sup>2</sup> ) | ( <sup>2</sup> ) | ( <sup>2</sup> ) |
| West Germany .....   | 4.0  | 4.3  | 7.0  | 7.2  | 8.3  | 8.4  | 8.4  | 8.4  | 8.3  | 8.3  | 8.5  | 8.6              | 8.8              | ( <sup>2</sup> ) | ( <sup>2</sup> ) |
| United Kingdom ..... | 9.6  | 8.9  | 13.3 | 14.0 | 15.2 | 15.2 | 15.1 | 15.1 | 15.0 | 15.0 | 14.9 | 13.9             | 13.6             | ( <sup>2</sup> ) | ( <sup>2</sup> ) |
| France .....         | 8.1  | 7.9  | 9.2  | 9.2  | 10.3 | 11.0 | 9.9  | 10.2 | 9.9  | 10.1 | 10.3 | 10.0             | 10.1             | ( <sup>2</sup> ) | ( <sup>2</sup> ) |
| Italy .....          | 11.2 | 11.0 | 12.7 | 12.9 | 13.3 | 13.3 | 12.8 | 11.8 | 12.1 | 11.9 | 11.3 | 11.7             | 13.1             | ( <sup>2</sup> ) | ( <sup>2</sup> ) |

<sup>1</sup> 90-day certificate of deposit.

<sup>2</sup> Not available.

Source: *Federal Reserve Statistical Release, April 2, 1990 Economic and Energy Indicators*, Central Intelligence Agency, December 14, 1990, *Selected Interest and Exchange Rates*, Board of Governors Federal Reserve System, January 14, 1991.

**Effective exchange rates of the U.S. dollar, unadjusted for inflation differential, by specified periods, January 1987–December 1990**
*(Percentage change from previous period)*

| Item                     | 1987  | 1988 | 1989 | 1989 |      | 1990 |      |      |      |      |      |      |      |  |  |
|--------------------------|-------|------|------|------|------|------|------|------|------|------|------|------|------|--|--|
|                          |       |      |      | IV   | I    | II   | III  | Jul. | Aug. | Sep. | Oct. | Nov. | Dec. |  |  |
| Unadjusted:              |       |      |      |      |      |      |      |      |      |      |      |      |      |  |  |
| Index <sup>1</sup> ..... | 94.1  | 88.0 | 91.3 | 91.0 | 89.6 | 89.7 | 85.3 | 87.0 | 84.8 | 84.0 | 81.8 | 81.1 | 82.2 |  |  |
| Percentage change .....  | -11.2 | -6.5 | 6.4  | -1.9 | -.4  | .1   | -5.1 | -2.7 | -2.6 | -.9  | -2.8 | -.8  | 1.3  |  |  |
| Adjusted:                |       |      |      |      |      |      |      |      |      |      |      |      |      |  |  |
| Index <sup>1</sup> ..... | 91.8  | 87.4 | 91.8 | 91.8 | 90.8 | 90.9 | 86.8 | 88.3 | 86.2 | 85.6 | 83.9 | 83.4 | 84.7 |  |  |
| Percentage change .....  | -10.6 | -4.8 | 6.8  | -1.1 | -1.1 | .1   | -4.7 | -2.5 | -2.4 | -.8  | -2.0 | -.5  | 1.5  |  |  |

<sup>1</sup> 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, January 1991.

## Trade balances, by selected countries and by specified periods, January 1987–November 1990

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

| Country                    | 1987   | 1988   | 1989   | 1989   |        | 1990  |        |       |        |        |        |                  |                  |
|----------------------------|--------|--------|--------|--------|--------|-------|--------|-------|--------|--------|--------|------------------|------------------|
|                            |        |        |        | IV     | I      | II    | III    | Jun.  | Jul.   | Aug.   | Sep.   | Oct.             | Nov.             |
| United States <sup>1</sup> | -152.1 | -118.5 | -108.7 | -112.9 | -101.2 | -87.6 | -113.1 | -64.0 | -109.4 | -116.8 | -111.9 | -131.8           | -116.4           |
| Japan                      | 96.3   | 94.9   | 77.3   | 57.2   | 64.8   | 57.2  | 66.0   | 79.2  | 57.6   | 67.2   | 72.0   | 66.0             | ( <sup>3</sup> ) |
| Canada                     | 8.6    | 8.0    | 6.4    | .8     | 6.0    | 11.2  | 11.2   | 18.0  | 10.8   | 7.2    | 15.6   | ( <sup>3</sup> ) | ( <sup>3</sup> ) |
| West Germany <sup>2</sup>  | 65.7   | 72.7   | 72.1   | 65.2   | 90.0   | 62.4  | 67.2   | 48.0  | 75.6   | 68.4   | 57.6   | 62.4             | ( <sup>3</sup> ) |
| United Kingdom             | -16.9  | -36.9  | -37.9  | -27.6  | -38.4  | -34.8 | -28.4  | -32.4 | -36.0  | -27.6  | -18.0  | -25.2            | ( <sup>3</sup> ) |
| France                     | -5.2   | -5.4   | -6.6   | -8.4   | -1.6   | -7.6  | -15.6  | -2.4  | -10.8  | -12.0  | -22.8  | ( <sup>3</sup> ) | ( <sup>3</sup> ) |
| Italy                      | -8.3   | -10.7  | -12.8  | -9.6   | -14.4  | -7.6  | -10.0  | -4.8  | -9.6   | -8.4   | -10.8  | ( <sup>3</sup> ) | ( <sup>3</sup> ) |

<sup>1</sup> 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1987, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

<sup>2</sup> Imports, c.i.f. value, adjusted.

<sup>3</sup> Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, December 14, 1990 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, January 17, 1991.

U.S. trade balance,<sup>1</sup> by major commodity categories, and by specified periods, January 1987–November 1990

(Percentage, annual rates)

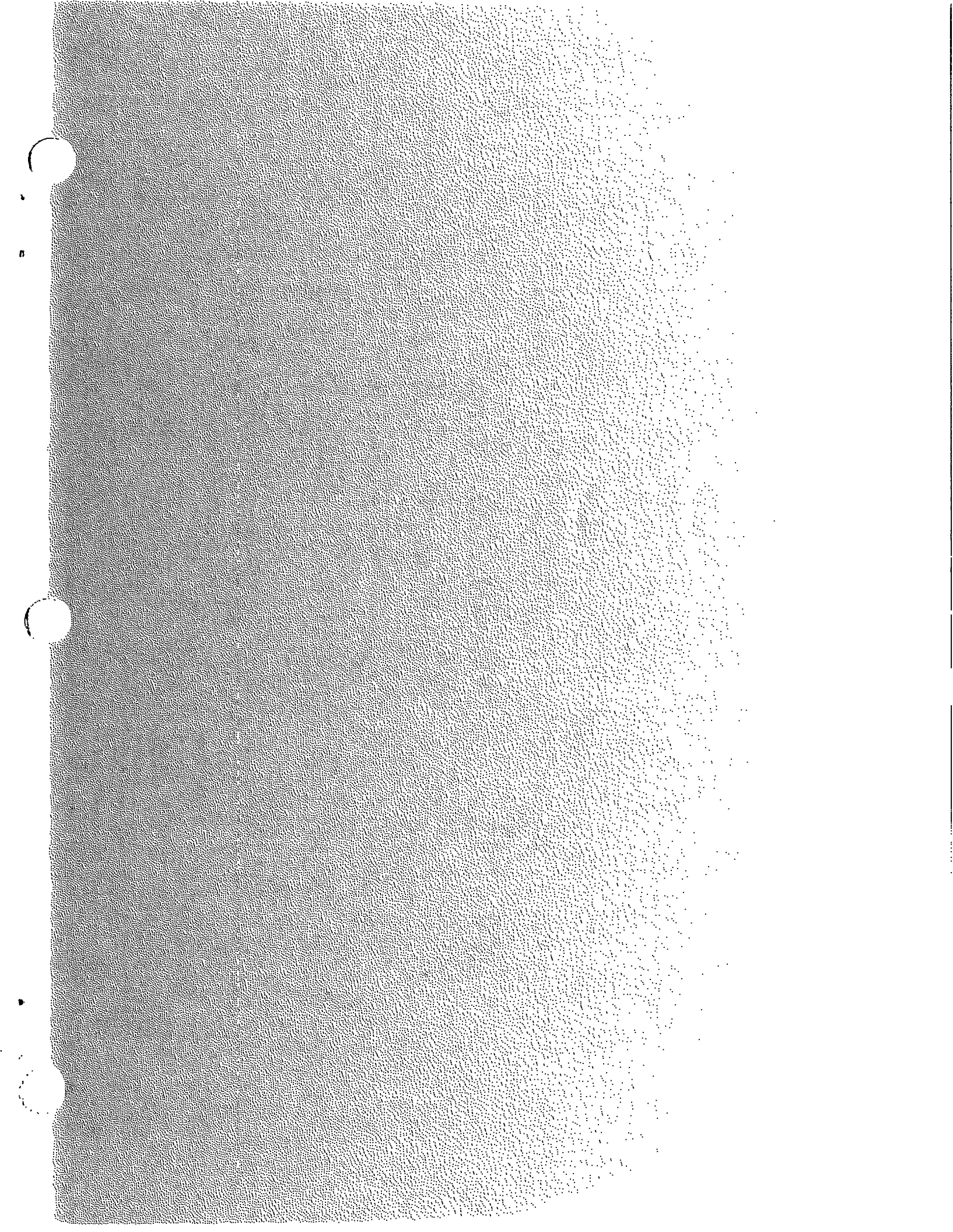
| Country  | 1987    | 1988    | 1989    | 1989    |         | 1990    |         |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|  |         |         |         | IV      | I       | II      | III     | Jun.    | Jul.    | Aug.    | Sep.    | Oct.    | Nov.    |
| Commodity categories:  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Agriculture  | 7.0     | 13.9    | 17.9    | 5.1     | 4.9     | 4.1     | 3.3     | 1.4     | 1.0     | 1.2     | 1.1     | 1.2     | 1.6     |
| Petroleum and selected product—<br>(unadjusted)  | -39.5   | -38.1   | -44.7   | -11.4   | -14.1   | -10.8   | -13.5   | -3.4    | -3.7    | -4.3    | -5.5    | -6.4    | -5.4    |
| Manufactured goods   | -146.1  | -146.1  | -103.2  | -27.7   | -19.4   | -19.5   | -27.0   | -6.9    | -10.2   | -9.4    | -7.3    | -10.4   | -9.1    |
| Selected countries:  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Western Europe   | -27.9   | -12.5   | -1.3    | -.6     | 1.4     | 2.9     | -.8     | .8      | -1.3    | -.4     | .9      | -.6     | -.4     |
| Canada <sup>2</sup>  | -11.5   | -9.7    | -9.6    | -2.8    | -.9     | -1.3    | -2.7    | -.7     | -1.0    | -.5     | -1.2    | -1.3    | -1.1    |
| Japan  | -58.0   | -51.7   | -49.0   | -12.2   | -9.6    | -9.9    | -9.9    | -3.1    | -3.     | -3.8    | -3.1    | -4.5    | -3.8    |
| OPEC<br>(unadjusted)   | -13.7   | -8.9    | -17.3   | -4.3    | -1.8    | -4.3    | -6.6    | -1.2    | -1.6    | -2.2    | -2.8    | -2.7    | -2.5    |
| Unit value of U.S. imports of petroleum and selected products<br>(unadjusted) <sup>3</sup> | \$15.02 | \$18.12 | \$16.80 | \$17.46 | \$19.26 | \$15.59 | \$19.45 | \$14.64 | \$14.50 | \$19.54 | \$24.31 | \$29.04 | \$29.44 |

<sup>1</sup> Exports, f.a.s. value, unadjusted. 1986–88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.

<sup>2</sup> Beginning with February 1987, figures include previously undocumented exports to Canada.

<sup>3</sup> Beginning with 1988, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f. value.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, January 18, 1991.



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