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Summary of U.S. Economic Conditions

The Department of Commerce revised upward its estimates of growth in real GDP (the output of goods and services produced in the United States measured in 1987 prices) beginning with the first quarter of 1990. According to these revised estimates, GDP grew in the second quarter of 1993 at an annual rate of 1.8 percent ($22.8 billion) following an 0.8 percent growth rate in the first.

Major GDP components expanded in the second quarter with the exception of business spending on inventory which declined. Consumer spending, spurred by low interest rates and moderate price increases, grew in real terms by 3.2 percent ($27.0 billion) in the second quarter following a 0.8 percent ($6.6 billion) increase in the first. Business spending on nonresidential fixed investment (new equipment and structures) surged 14.4 percent ($19.2 billion). In contrast, business spending on inventory dropped, subtracting $15.4 billion from the second quarter's GDP. The federal government's spending on defense and non-defense purchases increased by 3.1 percent ($2.7 billion). Exports of goods and services (seasonally adjusted at annual rates in 1987 dollars) escalated by 4.8 percent following a decline of 2.4 percent in the first quarter. Imports, however, increased by 13.1 percent in the second quarter, leading to an annualized deficit on goods and services trade of $73.1 billion up from an annualized deficit on goods and services of $59.8 billion in the first quarter.

Personal income increased in the second quarter to $5.4 trillion (seasonally adjusted annual rate) from $5.2 trillion in the first quarter. Personal savings increased to $212.6 billion from $177.9 billion. As a percent of GDP, personal savings increased to 4.5 percent from 3.9 percent in the first quarter.

Revised quarterly data for the past three years show stronger growth rates than was estimated earlier. The most striking revision of GDP growth rates was in the 1992 fourth quarter when the GDP grew at a revised 5.7 percent annual rate rather than the 4.7 percent previously reported. In the third quarter, GDP grew at 3.4 percent annual rate and in the second quarter GDP grew at a 2.8 percent annual rate rather than the 1.5 percent previously estimated.

Further, revised data on GDP growth rates for the years 1990-92 show that the 1990-91 recession was not as deep and the 1992 recovery was not as weak as have been previously reported. According to the Department of Commerce, the percent change from the preceding year in real GDP was revised upward from 0.8 percent to 1.2 percent in 1990, from -1.2 percent to -0.7 percent in 1991, and from 2.1 percent to 2.6 percent in 1992. The revisions for all 3 years reflect increases in personal consumption expenditures, nonresidential fixed investment on producers durable goods and state and local government changes. Net exports of goods and services contributed significantly to the upward revision in 1992 GDP growth. Such revisions are usually undertaken by Commerce every three years and are based on more comprehensive data than were available before. The revision also affects data on personal income and corporate profits, contradicting claims of income and profit stagnation during the three-year period.

Current dollar personal income and corporate profits were revised upward in all three years. For 1990, personal income was revised upward by 0.2 percent to $4.4 trillion; for 1991 personal income was revised upward by 0.5 percent to $4.9 trillion and for 1992 personal income was revised upward by a hefty 1.7 percent to $5.1 trillion. Personal saving as a percentage of GDP improved markedly particularly in 1992 increasing to 5.3 percent from the 4.8 percent estimated earlier, according to Commerce revised estimates.

Corporate profits—profits before tax with inventory valuation and capital consumption adjustment—were revised upward in all three years—by $18.9 billion to $380.6 billion in 1990, by $23.2 billion to $369.5 billion in 1991 and by $13.4 billion to $407.2 billion in 1992. Revised corporate profits in the second quarter of 1993 grew to $443.3 at an annualized rates from $432.1 billion in the second quarter.

U.S. Productivity

Productivity (as measured by output per hour of all persons engaged in production) fell in the second quarter at a seasonally adjusted annual rate of 2.1 percent in the business sector and 2.5 percent in the nonfarm business sector, according to the Department of Labor. The productivity decline in the second quarter was larger than that of the first and was the largest in 4 years. In the first quarter, productivity fell in the business sector by 1.5 percent and by 1.6 percent in the nonfarm business sector.[1]

The decline in overall business productivity in the second quarter occurred despite large gains in manufactures productivity. Analysts attributed the decline to the plunge in productivity of services. Services productivity (usually included in the business sector but not in manufactures) is notoriously low since this sector is more labor intensive and less amenable to cost cutting or technological changes than other sectors. Corporate restructuring and cost cutting in manufactures reduced the number of hours worked by 2.2 percent and unit labor costs by 0.3 percent, whereas output increased by 2.7 percent over the first quarter. As a result, productivity in manufactures rose by 5 percent. Within manufactures, durable goods productivity surged 7.1 percent; output increased 3.6 percent; hours worked fell 3.3 percent; and unit labor cost declined 2.5 percent. Nondurable goods productivity increased 2.2 percent; output grew 1.4 percent; hours worked declined 0.7 percent; and unit labor cost increased 3.1 percent.

Annual data, however, show different productivity changes compared with the quarterly data. From April-June 1992 to April-June 1993, overall U.S. productivity recorded gains. In business, productivity increased 0.7 percent; output increased 2.7 percent; hours worked increased 1.9 percent; and unit labor cost rose 2.6 percent. In manufacturing, productivity increased 5.2 percent; output increased 3.3 percent; hours worked fell 0.8 percent; and unit labor cost declined 1.3 percent. The largest gains were recorded in durable goods where productivity rose by 7.8 percent; output expanded 6.4 percent; hours worked fell by 1.4 percent; and unit labor cost declined 3.9 percent.

Slow productivity growth has been held responsible for sluggish economic growth in the U.S. in recent years. Longer term statistics covering several decades show that U.S. overall productivity declines, whenever they occurred, represented only short term swings around a norm. Available statistics on productivity covering the past 5-decades show that the highest productivity growth occurred during 1938-50 when it increased by 4.03 percent. During the same period, productivity in Japan declined by 3.2 percent and in Germany productivity declined by 0.4 percent. Thereafter, U.S. productivity grew on average by 2.41 during 1950-60, by 2.51 during 1960-70, by 1.92 percent during 1970-79, and by 0.97 during 1979-89. Because of the recession, U.S. productivity dipped to a negative 0.8 percent in 1989. In 1990 and 1991, U.S. productivity grew by only 0.3 percent. However, as the economy started growing in 1992, productivity growth rose to 2.8 percent. These statistics clearly show that, after discounting for cyclical swings, there was no discernible declining trend in U.S. long-term productivity and that U.S. productivity growth averaged between 1.9 and 2.8 percent over the past 43 years.

U.S. International Investment Position in 1992

The U.S. Department of Commerce reported that the negative U.S. net international investment position (valued at the current cost of replacing plant, equipment, and other tangible assets) increased by $156.5 billion to negative $521.3 billion in 1992 compared with negative $364.9 billion in 1991. Total U.S. assets abroad increased to $2,003.4 billion in 1992, from $1,998.4 billion in 1991, whereas total foreign assets in the United States increased to $2,524.7 billion in 1992, from $2,363.3 billion in 1991.

U.S. direct investment abroad at current replacement cost grew by $11.0 billion to $666.4 billion in 1992 from $655.3 billion in 1991. Foreign direct investment in the United States at current replacement cost grew by $5.1 billion to $492.3 billion in 1992 from $487.2 billion in 1991. Capital flows, price changes, and exchange rate changes accounted for most of the changes in net U.S. investment positions.

U.S. direct investment at historical-cost basis

Detailed estimates of U.S. direct investment by area and industry are available only on a historical-cost basis. The U.S. direct-investment position abroad, on a historical cost basis, increased by $25.6 billion from

[1] Productivity as measured by the Department of Labor relates output to manhours. However, this measure actually reflects the joint effects of changes in several other factors, including technology, capital investment, capacity utilization, and organization and managerial skills—in addition to the effort of the labor force.

$461 billion in 1991 to $486.7 billion in 1992. The 6 percent increase was the smallest since 1984. In 1992, capital outflows for U.S. direct investment abroad increased by $5.0 billion to $37.1 billion, partly reflecting: a) the intention of U.S. corporate parents to expand their global operations; b) increased investment opportunities in the rapidly growing economies in the Pacific Rim area and in parts of Latin America; c) prospects for future growth in the EC's single market; d) continued economic liberalization in Eastern Europe; and e) improved profit margins in the United States and lower domestic interest rates relative to foreign rates which encouraged U.S. parents to finance their affiliates' operations with U.S. funds.

By the end of 1992, the $25.6 billion increase in U.S. direct investment abroad was spread among several major geographical areas. The largest increases were in Latin America and in other parts of the Western Hemisphere, in Asia and the Pacific, and in the EC. However, the positions in the EC, particularly in the United Kingdom at $77.8 billion, and in Canada at $68.4 billion, remained the largest ones (see table 1).

Foreign direct investment in the United States

The foreign direct investment position (on a historical-cost basis) in the United States increased by 1.2 percent ($5.1 billion) from $414.4 billion in 1991 to $419.5 billion in 1992. The increase was lower than the 5.0 percent increase in 1991 and the average increase of 16 percent in 1982-90. The slowdown was due to a substantial decline in capital inflows, particularly inflows of equity capital. Net capital inflows for foreign direct investment in the United States dropped to $3.4 billion—the lowest level since 1975—from $25.4 billion in 1991. Net equity capital inflows fell by $19.4 billion to $22.5 billion, the lowest level since 1985. The decrease was widespread by industry and by country.

Factors contributing to the decrease in equity capital inflows included: a) continued economic weakness in the United States, which made new investments and expansions less attractive; b) economic weakness in several industrialized countries, reducing the availability of funds for investment abroad; and c) recent economic developments and market reforms in other parts of the world, possibly attracting investment funds away from the United States.

At yearend, the countries with the largest foreign direct investment positions in the United States were Japan ($96.7 billion), the United Kingdom ($94.7 billion), and the Netherlands ($61.3 billion), table 2.

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 annualized rate of 1.8 percent in the second quarter of 1993, following a growth rate of 0.8 percent in the first quarter.

The annualized rate of real economic growth in the first quarter of 1993 was -5.6 percent in Germany, 1.8 percent in the United Kingdom, 2.7 percent in Japan, 3.8 percent in Canada, -2.5 percent in France, and -0.2 percent in Italy.

Industrial Production

Seasonally adjusted U.S. nominal industrial production increased 0.4 percent in July 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 81.5 percent in July from 81.3 percent in June. Industrial capacity utilization was bolstered by a surge in utilities output because of the hot weather, which increased the demand for electricity. Capacity utilization in manufactures remained unchanged in July from June at 80.4 percent. For the year ending July 1993, industrial production increased 3.5 percent above its level in July 1992, and total capacity utilization grew by 1.6 percent. During the same period, capacity utilization in manufactures grew by 1.8 percent. For the second quarter as a whole, industrial production rose at a 1.9 percent annual rate, down from 5.5 percent in the first quarter of 1993.

The output of consumer goods increased 0.3 percent; the output of automotive products fell by 2.1 percent for the third consecutive month; and the output of appliances and televisions rebounded.

Other G-7 member countries reported the following annual growth rates of industrial production: for the year ending June 1993, Japan reported a decrease of 5.1 percent; Germany, a decrease of 8.7 percent; Italy, a decrease of 3.9 percent; and the United Kingdom, an increase of 3.3 percent; for the year ending May 1993, Canada reported an increase of 4.6 percent, and France reported a decrease of 3.4 percent.

Table 1
U.S. direct investment position abroad on a historical–cost basis at yearend

(Billions of dollars)

Countries	All industries	Petroleum	Manufacturing	Wholesale-trade	Banking	Finance except banking	Services	Other industries
All countries:								
1991	461.0	55.9	180.5	47.9	21.2	118.0	15.4	22.2
1992	486.7	55.2	187.3	51.1	23.5	129.6	15.8	24.3
Canada:								
1991	68.9	9.7	31.8	5.5	1.1	12.9	2.5	5.4
1992	68.4	8.0	33.3	5.6	0.9	12.9	2.3	5.5
All Europe: (including EC and EFTA)								
1991	233.3	23.0	92.7	28.4	9.1	64.5	10.0	5.5
1992	239.4	23.3	93.7	29.7	9.5	67.2	10.3	5.6
European Community:								
1991	197.7	18.3	88.5	18.9	7.0	50.8	9.1	5.2
1992	200.5	19.2	88.8	20.0	7.0	50.9	9.4	5.2
United Kingdom:								
1991	78.1	11.1	23.6	4.3	2.9	30.2	3.7	2.3
1992	77.8	13.2	20.3	3.9	2.6	32.0	3.8	2.1
Germany:								
1991	34.0	(1)	20.0	3.5	1.6	4.4	0.7	(D)
1992	35.4	2.1	21.0	3.3	2.0	4.7	0.8	1.6
Netherlands:								
1991	19.8	1.5	6.6	2.3	0.1	7.2	1.6	0.5
1992	19.1	1.5	7.2	3.0	0.1	4.9	1.6	0.7
Latin America and other Western Hemisphere:								
1991	76.2	4.1	25.1	3.0	6.3	32.5	1.3	4.2
1992	88.9	4.6	26.7	3.3	7.7	40.5	1.1	4.9
Asia and Pacific:								
1991	71.1	13.7	28.8	10.7	4.3	6.5	1.6	5.6
1992	78.2	14.9	30.8	12.2	5.1	7.0	1.7	6.5
Japan:								
1991	25.0	4.6	11.4	4.6	0.3	3.2	0.5	0.4
1992	26.2	4.8	11.9	5.4	0.2	2.7	0.6	0.6
OPEC:								
1991	9.4	5.1	1.9	0.4	0.4	1.0	0.2	0.6
1992	10.3	5.2	2.1	0.4	0.4	1.2	0.3	0.7

[1] Not available or suppressed to avoid disclosure of data of individual companies.

Note.—Figures may not add to totals because of rounding and of the exclusion of certain areas.

Source: U.S. Department of Commerce, press release, BEA 93/31, June 30, 1993.

Table 2
Foreign direct investment position in the United States on a historical–cost basis at yearend
(Billions of dollars)

Countries	All industries	Petroleum	Manufacturing	Wholesale-trade	Retail trade	Banking	Finance except banking	Services	Other
All countries:									
1991	414.4	40.2	156.6	64.4	21.6	10.7	34.2	34.4	52.5
1992	419.5	38.6	159.5	66.2	22.9	11.0	34.0	35.2	52.2
Canada:									
1991	37.3	1.4	16.1	(D)	2.0	3.5	4.0	4.5	5.9
1992	39.0	1.3	17.3	2.3	2.1	1.8	3.7	4.8	5.6
All Europe: (including EC and EFTA)									
1991	251.3	31.7	113.4	28.9	9.1	([1])	27.4	10.5	31.2
1992	248.5	30.0	113.6	27.1	9.9	([1])	27.2	10.9	30.4
European Community:									
1991	223.6	31.4	95.7	26.8	8.0	([1])	22.0	10.0	30.5
1992	219.1	29.5	95.8	24.6	8.9	([1])	21.4	10.5	29.6
United Kingdom:									
1991	100.4	14.4	42.3	7.5	2.0	2.0	10.0	3.8	18.5
1992	94.7	11.9	42.2	6.5	2.1	1.1	10.2	4.4	16.4
Netherlands:									
1991	59.4	12.4	18.3	7.1	1.9	3.0	5.6	4.5	6.6
1992	61.3	12.4	21.4	6.4	2.2	3.1	4.8	4.6	6.4
Germany:									
1991	28.6	0.2	15.5	8.3	0.8	([1])	4.5	1.2	1.4
1992	29.2	([1])	15.1	8.1	0.9	([1])	4.5	1.1	1.7
France:									
1991	24.2	2.9	15.1	1.5	1.3	([1])	1.6	0.1	3.2
1992	23.8	3.2	14.1	1.6	1.6	([1])	1.6	0.1	4.3
Latin America and Other Western Hemisphere:									
1991	17.7	2.4	4.6	3.4	1.9	([1])	2.0	2.2	1.4
1992	18.9	2.3	5.8	2.9	1.8	([1])	2.3	2.0	1.7
Asia and Pacific:									
1991	102.7	2.8	22.2	31.7	7.7	7.8	0.8	16.1	13.6
1992	107.7	2.9	22.5	33.4	8.4	9.2	0.8	16.4	14.2

Table 2—*Continued*

Foreign direct investment position in the United States on a historical-cost basis at yearend

(Billions of dollars)

Countries	All industries	Petroleum	Manufacturing	Wholesale-trade	Retail trade	Banking	Finance except banking	Services	Other
Japan:									
1991	92.9	0.2	18.6	30.6	7.1	9.2	0.5	15.3	11.6
1992	96.7	(D)	19.2	31.8	7.9	9.8	0.6	15.4	12.2
OPEC:									
1991	4.2	2.2	([1])	([1])	0.2	([1])	([1])	1.2	0.1
1992	4.2	2.1	([1])	([1])	0.3	([1])	([1])	1.3	0.1

[1] Not available, or suppressed to avoid disclosure of data of individual companies.

Note.—Figures may not add to totals because of rounding and of the exclusion of certain areas.

Source: U.S. Department of Commerce, press release, BEA 93/31, June 30, 1993.

Prices

The seasonally adjusted Consumer Price Index edged up by 0.1 percent in July 1993. The CPI advanced 3.0 percent during the 12 months, ending June 1993.

During the 1-year period ending July 1993, prices increased 4.3 percent in Germany, 4.4 percent in Italy, 2.1 percent in France, 1.6 percent in Canada, 1.4 percent in the United Kingdom, and 0.9 percent in Japan.

Employment

In August 1993, the unemployment rate was 6.4 percent, down from 6.8 percent in June 1993. This was the lowest rate since June 1992.

In other G-7 countries, unemployment in July 1993 was 11.6 percent in Canada, 8.3 percent in Germany, 10.8 percent in Italy, 10.4 percent in the United Kingdom, 11.6 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 improve in the third quarter to a 2.8-percent annual rate compared with the second quarter growth rate of 1.6 percent. The real growth rate is expected to increase to 3.9 percent in the fourth quarter. The average growth rate for 1993 is expected to be 3.3 percent. Factors that are likely to restrain the recovery include: 1) the general slowdown in foreign economic growth, particularly in Japan, and in Germany and in other EC countries, which is expected to continue into 1994, and 2) ongoing structural adjustments in the financial and nonfinancial sectors, which are 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, unless counterbalanced by monetary expansion, the upcoming tax increase and cuts in government spending could reduce consumer spending and confidence, thus moderating the recovery in 1993 and 1994. Table 3 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 6.9 to 7.0 percent throughout 1993 and then a decline to 6.7 percent in 1994. Inflation (as measured by the GDP deflator) is expected to moderate, averaging about 3.0 percent. The slow rise in wages and compensations is expected to hold down inflation within the 3—percent rate throughout 1993.

Table 3
Projected quarterly percentage changes of selected U.S. economic indicators, July 1993-Dec. 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.	4.4	6.4	6.7	7.5	6.3
Oct.-Dec.	8.3	6.2	5.9	7.4	7.0
1994:					
Jan.-Mar.	7.8	5.6	5.9	6.3	6.4
Apr.-June	6.0	5.4	5.6	5.9	5.7
	GDP (*constant (1987) dollars*)				
1993:					
July-Sept.	0.5	3.6	3.1	3.9	2.8
Oct.-Dec.	4.7	3.5	3.0	4.2	3.9
1994:					
Jan.-Mar.	3.5	2.6	3.3	2.7	3.0
Apr.-June	2.8	2.9	3.5	2.7	3.0
	GDP deflator index				
1993:					
July-Sept.	3.9	2.7	2.5	3.4	3.1
Oct.-Dec.	3.5	2.6	2.8	3.1	3.0
1994:					
Jan.-Mar.	4.1	2.7	2.5	3.5	3.2
Apr.-June	3.1	2.4	2.0	3.1	2.7
	Unemployment, average rate				
1993:					
July-Sept.	7.1	6.9	7.0	6.9	7.0
Oct.-Dec.	6.9	6.9	7.0	6.8	6.9
1994:					
Jan.-Mar.	6.8	6.8	6.8	6.7	6.8
Apr.-June	6.7	6.7	6.7	6.7	6.7

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from the preceding period. Quarterly data are seasonally adjusted. Date of forecasts: Aug. 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 $37.6 billion and imports of $49.7 billion in June 1993 resulted in a merchandise trade deficit of $12.1 billion, $3.7 billion higher than the May deficit of $8.4 billion. The June deficit was 75.4 percent higher than the deficit registered in June 1992 ($6.9 billion) and 47.6 percent higher than the average monthly deficit registered during the previous 12 months ($8.2 billion).

As reported by the U.S. Department of Commerce, the seasonally adjusted U.S. merchandise trade is shown in table 4, in billions of dollars. Nominal export changes and trade balances in June 1993 for specified major commodity sectors are shown in table 5. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 6.

Table 4
U.S. merchandise trade, seasonally adjusted, May-June 1993.

	Exports		Imports		Trade balance	
Item	June	May	June	May	June	May
Current dollars—						
Including oil	37.6	38.9	49.7	47.3	-12.1	-8.4
Excluding oil	37.2	38.3	44.9	42.7	-7.7	-4.5
1987 dollars	35.7	37.1	48.0	45.4	-12.3	-8.3
Three-month-moving average	38.3	38.8	48.6	48.4	-10.2	-9.7
Advanced-technology products (not seasonally adjusted)	9.4	8.8	7.2	6.2	2.2	2.7

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

Table 5
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors and agriculture, Jan. 1992-June 1993.

Sector	1993 Exports Jan.-June 1993	1993 Exports June 1993	Change Jan.-June 1993 over Jan.-June 1992	Change June 1993 over May 1993	Share of total Jan.-June 1993	Trade balances Jan.-June 1993
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	13.3	2.2	0.2	5.2	5.8	-6.69
Airplane	11.5	2.3	-21.0	25.7	5.0	9.73
Airplane parts	4.7	0.8	-2.5	-3.8	2.0	3.29
Electrical machinery	17.9	3.0	12.5	-1.3	7.7	-4.07
General industrial machinery	9.8	1.7	3.3	0	4.2	1.22
Iron & steel mill products	1.7	0.3	-7.5	3.7	0.8	-2.28
Inorganic chemicals	2.1	0.3	-1.4	-20.5	0.9	0.48
Organic chemicals	5.6	0.9	-0.7	-2.2	2.4	0.97
Power-generating machinery	9.8	1.7	10.6	2.4	4.2	1.23
Scientific instruments	7.6	1.3	3.3	-3.0	3.2	3.47
Specialized industrial machinery	8.8	1.5	5.0	-4.0	3.8	2.11
Telecommunications	6.1	1.1	15.4	-2.7	2.7	-5.87
Textile yarns, fabrics and articles	3.0	0.5	1.4	-3.8	1.3	-1.20
Vehicle parts	9.9	1.7	15.4	1.2	4.3	0.92
Other manufactured goods[1]	13.2	2.2	-3.5	6.2	5.7	-3.92
Manufactured exports not included above	57.0	9.2	8.3	-11.3	24.6	-45.54
Total manufactures	181.6	30.6	3.8	-2.3	78.4	-46.54
Agriculture	21.1	3.1	0.6	-6.1	9.1	9.00
Other exports	28.8	4.9	2.1	-3.9	12.5	-10.08
Total	231.6	38.6	3.3	-2.8	100.0	-47.63

[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)*, Aug. 1993

Table 6
U.S. merchandise trade deficits and (surpluses), not seasonally adjusted, by specified areas, Jan. 1992-June 1993

(Billion dollars)

Area or country	June 1993	May 1993	June 1992	Jan.-June 1993	Jan.-June 1992
Canada	-1.02	-0.90	-0.36	-5.40	-2.98
Mexico	+0.13	+0.25	+0.33	+1.63	+3.08
Western Europe	-1.70	+0.33	-0.16	+2.67	+8.17
European Community (EC)	-1.27	-0.04	+0.07	+2.76	+9.17
Germany	-0.97	-0.70	-0.73	-3.82	-2.54
European Free-Trade Association(EFTA)[1]	-0.64	+0.12	-0.45	-1.44	-1.74
Japan	-4.33	-3.75	-3.55	-26.88	-22.30
China	-1.99	-1.80	-1.49	- 9.49	-7.25
NICs.[2]	-1.11	-0.52	-0.85	-4.46	-5.30
Eastern Europe/ FSR	+0.11	+0.31	+0.26	+1.43	+1.60
Former Soviet Republics	+0.03	+0.25	+0.23	+0.87	+1.46
Russia	-0.01	+0.18	+0.15	+0.45	+0.62
Other EE	+0.02	+0.02	+0.03	+0.07	+0.09
OPEC	-1.38	-1.04	-1.14	-6.94	-3.95
Trade balance	-11.75	-6.54	-6.72	-47.63	-29.07

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

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

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

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

INTERNATIONAL TRADE DEVELOPMENTS

United States and Japan Reach Framework Agreement

On July 9, 1993, at a joint press conference held in Tokyo, President Bill Clinton and Prime Minister Kiichi Miyazawa announced that the United States and Japan had reached a framework for a "new economic partnership." The framework agreement provides a mechanism for conducting future negotiations on both structural and sectoral issues with the goal of:

> . . . substantially increasing access and sales of competitive foreign goods and services through market-opening and macroeconomic measures, to increase investment, to promote international competitiveness and to enhance bilateral economic cooperation between the United States and Japan.[1]

The consultations will be conducted under the principle of a two-way dialogue. An assessment of progress achieved under the framework will be reported during biannual meetings between the leaders of the two countries. The assessments will be "based upon sets of objective criteria, either qualitative or quantitative or both as appropriate."[2] The directional or evaluative indicator would be decided on a case-by-case basis depending on the sector or area of negotiation. For example, U.S. officials stated that this criteria could refer to changes in procedures, numbers of joint ventures that have taken place, or numbers of bids won from those tendered under the terms of an agreement. As is discussed below, Japan's opposition to the inclusion of numerical targets affecting the negotiations and in reaching the compromise language contained in the agreement.

[1] "Joint Statement on the United States-Japan Framework for a New Economic Partnership," July 12, 1993.

[2] Ibid.

The Agreement

There are several major aspects of the agreement. First, in terms of macroeconomic issues, Japan agreed to take measures to promote domestic demand-led growth and to increase access to its markets for competitive foreign goods and services. These measures are "intended to achieve over the medium term highly significant decrease in its current account surplus. . . ."[3] This clause became a source of potential dispute within hours after the framework was announced. In separate statements, top U.S. Treasury officials, including Secretary Lloyd Bentsen, Deputy Secretary Roger Altman, and Undersecretary Lawrence Summers indicated that the United States interpreted the agreement to mean that Japan would reduce its global trade surplus to 1.5 to 2.0 percent of its gross domestic product (GDP). This same point was reiterated by USTR Mickey Kantor on July 12.

However, Japan's chief trade negotiator Sozaburo Okamatsu and Prime Minister Miyazawa both disagreed with this interpretation, noting that no numerical target was contained in the agreement. In a joint press conference on July 7 with President Clinton, Prime Minister Miyazawa directly rejected any call for setting a specific numerical target for reducing Japan's global surplus. He later specifically criticized a U.S. statement suggesting that Japan reduce its current account surplus by enacting tax cuts. In addition, top officials at Japan's Ministry of Finance reportedly indicated that the agreement does not obligate Japan to reduce its current account surplus in the short-term. The Japanese insisted that a reduction in the bilateral imbalance depends in part on actions taken by the United States as well. For its part, the United States agreed under the accord to "pursue the medium-term objectives of substantially reducing its fiscal deficit, promoting domestic saving, and strengthening its international competitiveness."

Secondly, the two countries agreed to engage in sectoral and structural negotiations. The initial major "basket" areas for negotiations include: (1) government

[3] Ibid.

procurement, (2) regulatory reform and competitiveness, (3) other major sectors, (4) economic harmonization, and (5) implementation of existing arrangements and measures. Negotiations in the first area will focus primarily on "significantly expanding Japanese government procurement" of computers, supercomputers, satellites, medical technology, and telecommunications. These products have been the subject of bilateral negotiations and agreements in the past. In the area of regulatory reform, measures will be taken to address laws, regulations and guidance that impede market access foods and services. Financial services, insurance, competition policy, transparent procedures and distribution will be subject to negotiations under this basket category. Autos and parts will be the subject of discussions under the "other major sector" category, with the aim of "achieving significantly expanded sales opportunities to result in a significant expansion of purchases of foreign parts by Japanese firms in Japan and through their transplants." Economic harmonization will address issues affecting foreign direct investment in the United States and Japan, such as intellectual property rights, access to technology and long-term buyer-supplier relationships. Finally, under the fifth basket category, all existing bilateral arrangements and commitments made under SII will be "closely monitored and fully implemented".

Under the agreement, discussions were to start as soon as possible.[4] According to the framework accord, agreements are to be reached for government procurement, insurance and automotive industries, and other priority areas by the time of the first meeting of heads of Government in 1994 or within 6 months of the agreement. For the other areas, "agreements on measures" are to be announced at the second meeting of heads of governments in July 1994.

Another section of the framework agreement calls for joint collaboration on global issues of mutual interest, such as the environment, technology and human resources development, population growth, and AIDs. Progress on these issues will be reported at the biannual heads of governments meetings.

Background to the Framework Agreement

Over the past decade, approaches to U.S.-Japan trade relations have included both sectoral negotiations (such as market-oriented, sector selective or MOSS talks, begun in 1985) and structural approaches (the Structural Impediments Initiative or SII, begun in 1989). The so-called "Super 301" provision of the 1988 Trade and Competitiveness Act, which called for the identification of countries that discriminate against the United States in their procurement practices, was perceived by many to be directed at Japan. Under this provision USTR identified three sectors—satellites, supercomputers and forest products—for bilateral negotiations and eventual agreements with Japan. The United States has also pursued trade complaints with Japan in the GATT. However, frustrations have grown because, according to some in Congress and the business community, these approaches have resulted neither in significant increases in market access for U.S. firms nor in appreciable and sustained declines in the bilateral trade deficit.

At the beginning of the Clinton Administration, there was a conviction that a new approach toward U.S.-Japan trade relations was needed. Following the end of the Cold War, the U.S.-Japan security relationship was considered to be stable by most policymakers and regional threats had lessened. In addition, the administration recognized a need for improving economic relations. Not only were there concerns about the size, composition and persistence of the U.S.-Japan trade deficit, but there were also worries about the assymetric nature of foreign direct investments and bankholdings in Japan. For example, Japan has the lowest level of foreign direct investment (FDI) of all OECD countries, with only 0.6 percent of all global FDI compared to 44.3 percent for Europe and 24.2 percent for the United States. In response to some of these concerns, there were calls on Capitol Hill for renewing Super 301 and for replacing SII with another negotiating framework.

Two specific events early in the year contributeed to a shift in thinking towards U.S.-Japan trade relations and laid the groundwork for elements of the framework accord. First, it was reported that the foreign share of Japan's semiconductor agreement had reached 20.2 percent in the fourth quarter of 1992, thereby surpassing the 20 percent share set in the 1986 semiconductor agreement. To some this provided support for the case of results-oriented trade policy. The same event was greeted with concern on the part of the Japanese who worried that the United States might decided to adopt numerical targets in other sectors. Second, on February 12, the concept of "temporary quantitative indicators" was mentioned in the Advisory Committee for Trade Policy Negotiations report submitted to the Office of the U.S. Trade Representative on February 12. In addition to advocating a results-oriented trade strategy, the report also recommended that the two countries coordinate macroeconomic policies.

Beginning in February, interagency meetings were held to discuss potential policy options. It was decided that the primary objectives for the United States for

[4] Some issues will be taken up during annual bilateral negotiations to be held in late September.

upcoming bilateral discussion were that any agreement with Japan show tangible progress in bringing down the trade deficit, be results oriented, and include both sectoral and structural issues. The groundwork for the July accord was established at the Clinton-Miyazawa summit on April 16 when the two leaders agreed to establish a negotiating framework within 3 months and to have semiannual meetings. While no agreement was reached on how to proceed with the talks, it was noted that Japan's economy should be stimulated and that there should be sectoral discussions. To reiterate the United States' position, USTR Kantor sent a letter to MITI Minister Yoshiro Mori urging Japan to set specific goals for purchases of foreign products (such as computers, medical equipment, supercomputers and telecommunications equipment) in implementing its economic stimulus packages. He also said that the United States was continuing to monitor compliance with other bilateral agreements and urged Japan to contribute actively toward achieving success in the Uruguay Round. In a visit to Tokyo on April 23, U.S. Secretary of Commerce Ron Brown indicated that the United States would seek "measurable results" in sectoral talks.

In May and June, further inter-agency meetings were held under the leadership of the National Economic Council to finalize the outlines of a new trade policy. Throughout the spring, Japanese officials emphatically stated that they were opposed to market share or quantitative indicators as measures for progress because the United States might later retaliate if the goals were not met. Bilateral discussions during June 27 and 28 ended in a stalemate, reportedly over Japan's opposition to including numerical targets in the agreement and it appeared that there was little hope for an agreement by the time of the G-7 meeting. However, just before the meetings were about to begin in Tokyo, Prime Minister Miyazawa sent a letter to President Clinton with a new offer to help jumpstart the talks. U.S. negotiators returned to Tokyo and began several days of intensive negotiations which culminated in the Clinton-Miyazawa announcement of the agreement on the morning of July 10. There were reportedly divided views among Japan's Ministry of Finance, Ministry of Foreign Affairs, and Ministry of International Trade and Industry that had to be worked out before the Government of Japan could sign an agreement.

Reactions to the Agreement

In Japan, business leaders, especially auto producers, were pleased that numerical targets had not been included in the agreement itself, particularly since they had not yet met purchasing goals set forth at the January 1992 summit. However, Japanese press reports analyzing the accord were relatively pessimistic saying that the agreement was vague and came close to managed trade. They highlighted the differences in the two countries' interpretations of the agreement. Japanese Government officials stressed that "objective criteria" could not be equated with "numerical criteria." MITI officials predicted that Japan's new political leadership would support the framework agreement since it was a government-to-government agreement. MITI Deputy Vice Minister Okamatsu also warned that Japan would break off negotiations if the United States imposed unilateral sanctions and said that Japan would apply "objective criteria" to U.S. procurement practices in specific sectors.

U.S. negotiators claimed that the United States had achieved all of its goals with the framework agreement. However, from the moment that the agreement was announced, Administration officials began to downplay expectations about immediate results. In announcing the agreement, President Clinton said, "We should have no illusions. . . . Negotiating those agreements will surely be difficult. But now at least we agree on what the outcome of those negotiations needs to be: tangible, measurable progress."[5] During hearings before the House Ways and Means Committee on July 13, USTR Mickey Kantor stated, "By itself, it [the agreement] constitutes no market opening, guarantees no future success, and represents no panacea for the bilateral differences that have characterized our relationship with Japan."[6] In other hearings, top Administration officials stressed that the framework was only a beginning point and that difficult negotiations were to be expected. Charlene Barshefsky, Deputy U.S. Trade Representative indicated that the United States was prepared to use Section 301 if necessary to enforce provisions of existing arrangements and agreements.[7]

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[5] "Joint Press Conference with President Bill Clinton and Prime Minister Kiichi Miyazawa," Tokyo, Japan, July 9, 1993.

[6] "Report from the G-7 Economic Summit," House Subcommittee on Trade, Ways and Means Committee, July 13, 1993, testimony of Ambassador Michael Kantor, U.S. Trade Representative.

[7] In a side letter to the agreement the United States indicated that unlike SII topics, no topics under the framework agreement would be excluded from section 301. Japan, in its own letter, retained the right to withdraw from sectoral discussions if the United States imposes trade sanctions under section 301 in a sector under discussion.

By the beginning of August, however, some Japanese business leaders were stating that they supported numerical targets for measuring progress in reducing Japan's overall current account balance, but that they disagreed with setting market shares for particular products. Newly-elected Prime Minister Hosokawa indicated that he favored reducing Japan's trade surplus with the United States, however, he also noted that setting import targets was not an appropriate means for achieving this goal.

While some analysts praised the agreement for emphasizing results, others said said that it was just one more vaguely worded document that focused on procedures. According to President Clinton, ". . . we are not interested in managed trade or trade by numbers but better results from better rules of trade. This framework launches us on that road." The reaction by U.S. industry representatives of those sectors covered under the framework was generally positive, however, company officials noted that continued efforts would be needed to follow-up on both the new agreement and previous ones.

Economic Relations Between South Korea and China Expand

After more than a decade of increasing but limited bilateral trade and negligible Korean investment in China, economic relations between the two countries have expanded rapidly since 1990. By the first quarter of 1993, China had emerged as South Korea's third largest trading partner, following the United States and Japan. It was also Korea's leading destination for foreign investment. Conversely, Korea became China's sixth largest trading partner and fifth largest foreign investor. The recent growth in trade and investment has been largely attributable to policy changes that have allowed the two countries to take advantage of their geographical proximity and the complementarity of their economies. China offers an abundance of natural resources and a low-cost labor force, whereas South Korea has capital, advanced technology, and management expertise.

Bilateral Trade

South Korea and China initiated trade links indirectly via third countries, such as Hong Kong and Japan in the late 1970s when China began to pursue economic reform and open-door policies. The value of two-way trade, which amounted to less than $20 million in 1979, increased to more than $3 billion annually by the end of the 1980s. Throughout the 1980s, however, trade expansion continued to be limited by the absence of economic and diplomatic normalization. A breakthrough in Sino-South Korean relations was made in 1990 when the two countries agreed to establish nongovernmental trade offices in each other's capital and to empower these offices to carry out consular and liaison duties. Further bilateral talks led to a trade agreement that went into effect in February 1992 and an investment protection agreement that became effective in July 1992. South Korea and China established diplomatic ties in August 1992, thereby paving the way for further economic cooperation through direct negotiations at the government level.

After growing about 30 percent annually during 1988-90, two-way trade increased by 52 percent to $5.8 billion in 1991. South Korea recorded a bilateral trade surplus in 1988. However, the balance between the two countries favored China from 1989 through 1991, largely because of the import restrictions that China had imposed as part of the retrenchment policies it instituted in late 1988 to curb an overheated economy. South Korea exported $2.4 billion in merchandise to China during 1991 and imported $3.4 billion from China. A portion of Sino-Korean trade continues to pass through Hong Kong. In 1991, this indirect trade amounted to an estimated $1.4 billion, or nearly one quarter of the two-way total.

In 1992, the bilateral merchandise balance reversed as South Korea's exports to China grew by 89.5 percent over their 1991 level to $4.5 billion and its imports from China rose by only 8.3 percent to $3.7 billion. Korea's exports to China continued to expand during the first quarter of 1993, rising by 162 percent from their level during the corresponding period of 1992. South Korea exported $1.1 billion in goods to China during the quarter, whereas Chinese exports to Korea amounted to $0.8 billion. The Bank of Korea attributes the country's favorable trade balance mainly to increased shipments of steel, machinery, and textiles—bolstered by a surge in Korean investment in China—and to a decrease in demand for Chinese goods due to the sluggish Korean economy. On the other hand, the sharp increase in Korea's exports to China in both 1992 and 1993 also partly reflects the rapid growth of the Chinese economy and the resulting overall rise in its import demand. During the first quarter of 1993, China reported a global trade deficit for the first time in 4 years.

Foreign Investment

China accounted for 30.2 percent of South Korea's total foreign investment at the end of the first quarter of 1993, up from only 3.4 percent in 1990. China approved 187 South Korean investment projects, valued at $416 million, during 1992 and another 110 projects, valued at $195 million, during January-March 1993. As South Korean firms have experienced positive results from small-scale investments in China, their projects have begun to increase in size. The average size of South Korean investment in China amounted to $314,000 in 1991, but increased by 43 percent to $822,000 in 1992. Moreover, the growth of South Korean investment in China moved in the opposite direction to Korea's total foreign investment during the past 2 years. South Korea's total overseas investment peaked at $1.61 billion in 1990 and declined to $1.51 billion in 1991 and to $1.21 billion in 1992. In contrast, the value of the South Korean investment projects in China that were approved in 1990 amounted to $0.05 billion and increased by 60 percent in 1991 to $0.08 billion. In 1992, the approved South Korean investment in China amounted to $0.22 billion, an increase of 175 percent.

Korean companies have been most actively investing in the northeast Chinese provinces of Jilin, Liaoning, and Heilongjiang. The region has welcomed South Korean businesses: the city of Fushun has created a South Korean Economic Zone and the city of Benxi has signed contracts for 48 projects, valued at $58 million, of which 19 are joint ventures with South Korean firms. This region's commitment to foreign investment and trade as a means of increasing future growth is visible in the development of its infrastructure. Liaoning added 2,100 kilometers of asphalt roads in 1992, and the port area around the city of Dalian expanded its cargo capacity to handle over 55 million tons per year. Liaoning and Jilin enjoyed real GDP growth rates in 1992 of 12 and 14 percent, respectively, comparable to China's overall growth rate of nearly 13 percent.

Recent changes in the composition of trade and investment between China and South Korea reflect developments occurring in the economies of the two countries. For example, much of South Korea's economic growth over the past two decades was attributable to manufactures such as textiles and apparel, footwear, and toys. However, increased economic growth has led to higher wages and to a weakening of South Korea's comparative advantage in these labor-intensive sectors. As a result, South Korean firms have turned to investment in China (as well as in other Asian countries such as Thailand and Indonesia) for the low-cost labor they need to remain competitive. At the same time, China is continuing to restructure its economy by speeding up the adoption of market-oriented reforms throughout the country, a development that is creating a more favorable investment climate in the northeastern provinces that are preferred by South Korean firms.

SPECIAL FOCUS

SPECIAL FOCUS
Foreign investors focus on Vietnam

In recent years, Vietnam's economic relations with Asia and Europe have expanded dramatically in the wake of declining economic assistance from the former Eastern bloc. Foreign investors from these two regions are arriving in increasing numbers to set up joint ventures or deepen trade relations with Vietnam. By early 1993, the value of total foreign direct investment in Vietnam exceeded $5.2 billion. Asian and European governments are establishing or increasing official economic assistance to Vietnam. Meanwhile, U.S. companies, anxious to do business with Vietnam, have increased pressure on the U.S. Government in recent years to relax or lift the trade and financial embargo against Vietnam. With or without the embargo, however, investor enthusiasm over the future of Vietnam is tempered by a variety of problems ranging from an antiquated infrastructure to official corruption.

The increased attention to Vietnam comes in the wake of several economic forecasts that predict Vietnam could become the next economic success story of Asia. The Government of Vietnam, which embarked on a wide-ranging set of economic reforms in 1987, forecasts a doubling of per capita GDP—to $400 per person—between 1990 and the year 2000. Prime Minister Vo Van Kiet hopes Vietnam will reach that goal by maintaining an annual GDP growth of 9.5 percent. He estimates that Vietnam will require $4.0 billion of new investment each year, at least half of which is expected to come from overseas.

The U.S. trade and economic embargo

Most U.S. economic relations with Vietnam are prohibited under the terms of an economic embargo. An embargo against North Vietnam began in 1964 and was extended to the entire country in 1975 when the Government of South Vietnam collapsed.[1] Recently, however, the U.S. Government has exempted certain economic activity from the embargo. The embargo is subject to annual renewal on September 14. This year's renewal decision has drawn particular attention because of heightened business pressure to lift the embargo.

Bilateral relations with Vietnam are currently guided by a policy "road map" that calls for a step-by-step approach to full normalization of political and economic relations. Under this policy, the speed at which the United States and Vietnam normalize relations depends on progress by Vietnam in resolving the outstanding cases of prisoners of war and missing in action (POW/MIA) from the Vietnam War and its continued support for the peace process in Cambodia.[2] In response to Vietnamese cooperation in both areas, the United States has made several changes to the U.S. economic embargo of Vietnam in the last 2 years:[3]

- On December 17, 1991, U.S. travel agents were authorized to facilitate individual or group tours to Vietnam;
- On April 13, 1992, establishment of direct telecommunications links between the United States and Vietnam was allowed;
- On April 29, 1992, the sale of goods to meet basic human needs was allowed;
- On April 29, 1992, restrictions on projects by non-governmental and non-profit organizations were lifted.
- On December 14, 1992, U.S. firms were permitted to sign contracts with Vietnamese partners that may be executed should the embargo be lifted, and firms were authorized to engage in commercial transactions relating to contracts including opening offices in Vietnam, hiring staff, writing and designing plans, and carrying out preliminary studies and engineering and technical surveys.[4]

Many observers of trade and investment in Vietnam argue that the immediate effect of the U.S. embargo is to prevent Vietnam from undertaking large scale economic infrastructure projects. Such projects typically require high levels of capital that are available only from multilateral lending institutions.

[1] The trade and financial embargo is administered pursuant to the Trading with the Enemy Act, 50 U.S.C. App. 5(b) and is implemented by the Vietnam Foreign Assets Control Regulations, 31 CFR Part 500.

[2] U.S. Department of State, "Guidance on Vietnam Embargo," telegram, message reference no. 389489, prepared by U.S. Department of State, Washington, D.C. Dec. 3, 1992.

[3] The White House, "Statement by the Press Secretary, Dec. 14, 1992."

[4] U.S. Department of Commerce, "Recent Changes to the U.S. Embargo on Vietnam." Dec. 30, 1992. See also U.S. Department of State, Office of the Assistant Secretary/Spokesman, "Statement by Margaret Tutwiler/Spokesman: Vietnam — Humanitarian Exceptions to the Embargo," Apr. 29, 1992. For a description of Foreign Assets Control Regulations pertaining to the exceptions to the embargo effective Dec. 14, 1992, see 57 F. R. 62230.

Vietnam's eligibility to borrow from the International Monetary Fund (IMF) was suspended in 1985 after the country fell into arrears with the institution in 1984. Consistent with the economic embargo, the United States opposed extending such loans to Vietnam. In particular, the United States had opposed a French proposal at the International Monetary Fund (IMF)) to allow Vietnam to repay its $140 million in arrears. In July 1993, however, the Clinton Administration dropped its opposition to the repayment and to future multilateral lending to Vietnam.[5] Payment of the IMF arrears will make Vietnam eligible for new loans from the IMF, World Bank, and other lending institutions. After announcing its decision not to oppose new IMF lending to Vietnam, the United States dispatched a high-level delegation to Vietnam to urge further progress on unresolved POW/MIA cases. President Clinton said "our policy toward Vietnam must be driven not by commercial interests but by the overriding purpose of achieving further progress toward the fullest possible accounting of our POW/MIAs."[6]

In recent years, the World Bank, IMF, and Asian Development Bank (ADB) have been assessing Vietnam's potential borrowing requirements after a resumption of lending. For example, a number of irrigation and port projects to be financed by the ADB have been on hold pending Vietnam's resumption of borrowing from that institution, which in turn rested on settling the IMF arrears. Estimates of likely future lending by multilateral institutions vary, but the ADB is reportedly prepared to lend Vietnam between $250 and $400 million per year for infrastructure rehabilitation, agricultural development, and financial sector reform. The World Bank has studied possible projects to upgrade Vietnam's transport, energy, telecommunications, irrigation, and water supply. The IMF expects to approve $500 million worth of lending to Vietnam over the next 2-years.[7]

Vietnam has expressed interest in joining the General Agreement on Tariffs and Trade (GATT). During a June meeting between outgoing GATT Director-General Arthur Dunkel and Vietnam's Trade Minister Le Van Triet, Vietnam said it would soon request status as a GATT observer, and later apply for membership in the organization. A Vietnamese trade official said the upcoming request for membership "is part of our determination to enter into the world economy."[8]

U.S. business groups contend that continuation of the embargo means that U.S. companies lose business opportunities in infrastructure development projects and are missing out on export opportunities. The removal of restrictions on multilateral lending to Vietnam means that large contracts to rebuild Vietnam's antiquated and war-torn infrastructure will be awarded in coming months and years. As long as the embargo remains in place, business representatives assert, U.S. companies will be unable to compete for these or other projects. Likewise, U.S. exporters will be unable to sell needed imports to Vietnamese buyers.[9]

Some U.S. veterans groups oppose removing the economic embargo until all POW/MIA cases have been resolved. American Legion representative Richard Christian said recently that "The so-called road map for normalizing relations with Vietnam should be rolled up, put on a dark shelf and forgotten. The economic embargo is the only leverage we have with the government in Hanoi."[10]

Meanwhile, the American Chamber of Commerce (AmCham) in Hong Kong has been actively lobbying for removal of the embargo. The Chamber says that several major U.S. trading partners have recently dropped compliance with the embargo and are vigorously pursuing business opportunities in Vietnam. Japan, Australia, and the European Community, it points out, have resumed aid programs to Vietnam, abandoned the embargo, and now pursue business opportunities in that country.[11] Senator Frank

5 "U.S. Policy Toward Vietnam," *U.S. Department of State Dispatch,* July 12, 1993, p. 499.

6 "U.S. Policy Toward Vietnam," *U.S. Department of State Dispatch,* July 12, 1993, p. 499.

7 Susumu Awanohara and Murray Hiebert, "Plugging the Gap," *Far Eastern Economic Review,* Apr. 22, 1993, p. 70; "The Assault on Vietnam," *The Economist,* July 10, 1993, p. 27; and U.S. Department of State, "Proposed ADB Technical Assistance for Vietnam," telegram, message reference No. 32957, prepared by U.S. Embassy, Manila, Dec. 21, 1992.

8 "Vietnam Eager for Entry Into GATT," *Journal of Commerce,* Apr. 30, 1993; "Vietnam Wants to Gain GATT Observer Status," *The Asian Wall Street Journal Weekly,* June 28, 1993, p. 21; and "Triet Meets GATT Chief," *Vietnam Investment Review,* Hanoi, May 31-June 6, 1993, p. 3.

9 "U.S. Businesses Increase Contacts with Vietnam, as IMF Action May Weaken Embargo," *International Trade Reporter,* Mar. 31, 1993, pp. 567-568.

10 "Veteran's Groups Urge Clinton Not to Lift Embargo." *International Trade Reporter,* Apr. 14, 1993, p. 621.

11 U.S. Department of State, "AmCham Publishes Vietnam Position Paper for Washington Lobbying Trip, and Considers Holding Trade Seminar in Ho Chi Minh City," telegram, message reference No. 2065, prepared by U.S. Consulate, Hong Kong, Mar. 4, 1993.

Murkowski (R-Alaska), introduced legislation earlier this year to end the embargo. Senator Murkowski recently said that "our trade embargo no longer denies Vietnam of goods and services, it only denies Vietnam of American goods and services."[12]

In a recent survey of its membership, AmCham Hong Kong found that 86 percent of its members are interested in doing business with Vietnam after the embargo is lifted. Nearly half of the members indicated that they would start business operations with Vietnam immediately after removal of the embargo and that 41 percent would start within 3 years.[13] After a recent trip to Vietnam, Assistant Secretary of State for East Asian and Pacific Affairs Winston Lord said that about 160 U.S. firms already maintain a presence in Vietnam in anticipation of normalization of relations.[14]

Climate for foreign investment

Economic conditions

Vietnam, with a population of about 70 million and an annual per capita income of $200, is one of the world's poorest countries. However, some foreign observers conclude that Vietnam has the potential for becoming one of the fastest growing economies in the region over the next 10 years. They cite Vietnam's official commitment to a free-market economy and its recent success in reducing inflation. Vietnam's foreign investment law is one of the most liberal in the developing world. In addition, they note, Vietnam has a highly literate, low cost, hardworking work force, plus a large domestic market in a growing economy. Vietnam is self-sufficient in food and oil production and a growing exporter of both commodities. Agriculture employs about 70 percent of the work force and accounts for half of GNP. The country's natural resource base includes mineral deposits plus potentially large offshore oil reserves.[15]

The economy of Vietnam grew by 8.3 percent in 1992, up from about 5.0 percent in 1990 and 1991. In the first 6 months of 1993, GDP grew in line with the Government's projection of 7.5 percent. Vietnam's exports quadrupled between 1988 and 1992, when its foreign trade registered a small surplus. Exports reached $2.5 billion, and imports approached $2.4 billion last year. In the first 6 months of 1993, imports were $1.3 billion and imports $1.2 billion.[16]

In 1991 the Soviet Union cutoff economic aid to Vietnam. Since then, Vietnam's trade and economic ties have shifted from heavy dependence on trade with the East bloc to Asian neighbors. In 1988, for example, the former East bloc received 57 percent of Vietnam's exports and supplied 74 percent of its imports. By 1992, however, this pattern had changed dramatically. As shown in table 1, over three-quarters of Vietnam's exports and imports were traded with Asia last year. Vietnam's three major trading partners in 1992 were all Asian countries: Singapore, Japan, and Hong Kong. Trade with the former East bloc accounted for 8.6 percent of exports and 4.9 percent of imports in 1992.

Table 1
Vietnam's trade: total exports and imports, by countries and regions 1992

Partner	Exports	Imports
Three major trading partners:		
Singapore	26.7%	33.7%
Japan	20.0	7.8
Hong Kong	17.0	11.8
Trade with regions of the world:		
Asia	79.4%	77.5%
Western Europe	9.7	14.9
Former Eastern Bloc	8.6	4.9
Total trade with the world:		
(billions of dollars)	$2.5	$2.4

Source: Economist Intelligence Unit, "Indochina: Vietnam, Laos, Cambodia," Country report no. 1, 1993, p. 28.

Inflation, exceeding 600 percent in 1986 and ranging between 60 to 70 percent a few years ago, registered 18 percent in 1992. Inflation is expected to run at about 13 percent in 1993. Vietnam's budget deficit is currently about 6 percent of GDP. The Vietnamese currency, the dong, stabilized at about 10,550 dong to the U.S. dollar in 1992 following a long slide in value against the dollar. Estimates of official reserves range from $165 million to $400

[12] "Murkowski Offers Legislation Lifting Vietnam Trade Embargo," *International Trade Reporter,* Apr. 7, 1993, p. 583.

[13] U.S. Department of State, "1993 AmCham Business Survey: Hong Kong as a Regional Center," telegram, message reference No. 657, prepared by U.S. Consulate, Hong Kong, June 11, 1993.

[14] "U.S. Officials Take Cautious Line on Vietnam," *Washington Trade Daily,* July 22, 1993, p. 1.

[15] See, for example, U.S. Department of State, "Hong Kong Investment Bank Touts Vietnam's Economic Prospects," telegram, message reference No. 3258, Prepared by U.S. Consulate, Hong Kong, Apr. 2, 1993; "Vietnam Could Be Next 'Asian Dragon' Powerhouse in the Region, Expert Says," *International Trade Reporter,* Nov. 25, 1992, p. 2021; Steve Hirsch, "Embargo Seems Little Hindrance to

[15]—*Continued*
Foreign Countries' Economic Interest," Bureau of National Affairs, Special Report, May 4, 1992; and Central Intelligence Agency, *World Factbook, 1992.*

[16] See "Paying for Excess," *Far Eastern Economic Review,* July 8, 1993, p. 45, and Economist Intelligence Unit, "Indochina: Vietnam, Laos, Cambodia," Country report no. 1, 1993, p. 28.

million, significantly greater than the 1988 level of $15 million.[17]

Production and export of both rice and petroleum have grown in recent years. Vietnam's petroleum reserves are particularly attractive to foreign oil companies. Although estimates of the size of petroleum reserves are unreliable, oil and gas deposits are considered substantial; possibly between 1.5 and 3.0 billion barrels of crude oil (comparable to proven reserves of Malaysia or Australia) and as much as 10 trillion cubic feet of natural gas. In late 1992, the Australian firm Broken Hill Proprietary won a $1.5 billion contract to develop the Dai Hung (Big Bear) oil field. Dai Hung is reportedly Vietnam's largest oil and gas discovery thus far, containing an estimated 800 million barrels of recoverable oil and up to 3 trillion cubic feet of natural gas.[18]

Major export items include crude oil, rice, coal, tea, seafood, farm goods, rubber, and garments. Vietnam is the world's third largest exporter of rice, after Thailand and the United States. Economic reforms in the agricultural sector helped turn Vietnam from a net rice importer into one of the world's largest rice exporters within a few years. Rice exports reached 1.95 million tons in 1992 and are expected to pass 2.0 million tons this year.[19]

Foreign investment activity in Vietnam

Since the Soviet aid cutoff, Vietnam has stepped up its efforts to improve economic ties—trade, aid, and investment—with Japan, other Asian countries, and Europe. In particular, foreign investment has grown considerably in the last 2 years. By early 1993, 626 investment projects worth $5.2 billion had been granted licenses since Vietnam relaxed foreign investment restrictions. The majority of foreign investment is registered by firms from Taiwan, Hong Kong, the European Community, and Australia.[20] As shown in table 2, during the period January 1988 to December 1992, foreign investment licenses were approved for a total of 562 projects worth a total $4.6 billion. More than half the registered capital in the licensed investments was accounted for by projects in the industry and oil and gas sectors. Much of the foreign investment has reportedly gone into projects in the Southern part of the country, leading the Government of Vietnam to encourage investment and development in the North.[21]

Table 2
Foreign investment licenses issued in Vietnam, by sectors, Jan. 1988-Dec. 1992

Sector	Number of projects	Registered capital
		millions of dollars
Industry	302	$1,698.4
Oil and gas	23	1,090.3
Hotels and tourism	64	828.5
Agriculture and forestry	23	302.6
Services	70	224.6
Aquaculture	41	206.1
Transport and post	17	178.8
Finance and banking	9	110.4
Other	13	17.7
Total	562	$4,657.4

Source: State Committee for Cooperation and Investment, "Foreign Direct Investments in Vietnam," March 1993, p. 4.

Taiwan is the largest single source of foreign investment in Vietnam, accounting for approximately $1.1 billion of approved foreign investment by the end of 1992. Earlier this year, Taiwan and Vietnam signed a bilateral investment guarantee agreement. The pact, covering current and future Taiwan investments, provides for profit repatriation and protection from governmental confiscation. Bilateral trade between Taiwan and Vietnam has increased dramatically in recent years, growing some 74 percent in 1992.[22]

In 1992, Singapore and Vietnam signed bilateral agreements on trade, investment, shipping, and civil aviation.[23] Foreign investors from Singapore have

[17] Economist Intelligence Unit, "Indochina: Vietnam, Laos, Cambodia," Country report no. 1, 1993, p. 3.

[18] U.S. Department of State, "Australia's BHP Petroleum Wins Contract to Develop Major Vietnamese Oilfield," telegram, message reference No. 10241, prepared by U.S. Embassy, Canberra, Dec. 30, 1992.

[19] "Vietnam," *International Trade Reporter*, Feb. 24, 1993, p. 331.

[20] State Committee for Cooperation and Investment, "Foreign Direct Investment in Vietnam," Hanoi, Vietnam, March 1993 and "Vietnam Vying for more foreign investment, better infrastructure," *Tokyo Business Today*, May 1993, pp. 14-15.

[21] U.S. Department of State, "Hanoi to Push Development in North," telegram, message reference No. 11712, prepared by U.S. Consulate, Hong Kong, Nov. 3, 1992.

[22] American Institute in Taiwan, "Taiwan and Vietnam Sign Investment Guarantee pact; Siemens' Taiwan Subsidiary Signs Telecommunications MOU," telegram, message reference No. 2879, prepared by American Institute in Taiwan, Taipei, Apr. 16, 1993.

[23] U.S. Department of State, "Economic News From Singapore," telegram, message reference No. 9846, prepared by U.S. Embassy, Singapore, Nov. 20, 1992.

invested in light industry, such as textiles and apparel and hotel construction projects.[24]

On November 6, 1992, Japan resumed economic aid to Vietnam, which had been suspended since Vietnam's 1978 invasion of Cambodia. Japan pledged a ¥45.5 billion ($370 million) commodity loan at concessional rates (1 percent interest with a 30-year repayment period).[25] Vietnam will use the funds for the purchase of steel and petroleum products. Numerous Japanese trading and construction companies have established representative offices in Vietnam in the last 2 years.[26]

Japanese firms appear interested in securing aid-related contracts as well as becoming involved in a variety of other projects. In January 1993, Vietnam awarded oil drilling rights for its last major oil field to a Japanese and French company. In February, a 130 member delegation from Japan's Keidanren, the Federation of Economic Organizations, visited Vietnam to explore prospective economic ties with Vietnam. The delegation included representatives of Nissho Iwai, Mitsubishi, Sony, The Bank of Tokyo, All Nippon Airways, Nissan, Toshiba, and Nippon Telegraph and Telephone (NTT).[27] Japan Airlines sought approval from Japan's Ministry of Transport to fly to Vietnam at a time when the airline is cutting back other overseas routes.[28] NTT and Kokusai Denshin Denwa are reportedly surveying Vietnam's requirements for consolidating and modernizing the country's communications network.[29]

France and South Korea are also expanding their relations with Vietnam. French President Francois Mitterand visited Vietnam earlier this year, becoming the first Western head of state to visit Vietnam since 1975. France ranks third in terms of value of foreign investment projects approved in Vietnam. French firms are particularly active in banking, oil, and telecommunications projects.[30] Mitterand opened France's trade office in Vietnam, signed seven cooperative agreements, promised to assist Vietnam in its dealings with multilateral lending institutions, and announced that his country would double aid to Vietnam.[31]

Korea and Vietnam resumed economic relations in late 1992. Total two-way trade between the two countries reached $470 million in 1992, nearly double the previous year's level. Major exports to Vietnam include textiles, cement, chemicals, steel, machinery and electronic products. Imports include coal, scrap iron, and timber. Korean firms are reportedly interested in investing in heavy industry and infrastructure projects in Vietnam and in tapping the country's potential for labor intensive manufacturing.[32] In early 1993, Korea agreed to provide $50 million in aid and a concessional loan worth $120 million.

Constraints affecting foreign investment

A number of constraints could undermine Vietnam's effort to absorb foreign investment efficiently and to meet its economic growth targets over the next decade. For example, much of Vietnam's infrastructure requires modernization. The Government of Vietnam estimates that maintenance, repair, and modernization of roads and bridges could cost at least $7 billion. Only 10-percent of the country's roads are paved. The only north-south highway is a potholed, two-lane road. About one third of the country's bridges need major repair or replacement. The upgrading of telecommunications is underway, but railways, airports, and air transport also require modernization. Cargo facilities in the southern port of Ho Chi Minh City and at the northern facility in Haiphong require updating, and silt in Haiphong harbor needs to be removed. Electrical capacity lags demand in both Ho Chi Minh City and Hanoi, and

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[24] U.S. Department of State, "Economic News From Singapore," telegram, message reference No. 6385, prepared by U.S. Embassy, Singapore, July 30, 1992.

[25] Murray Hiebert and Jonathan Friedland, "Hello, Uncle Nippon," *Far Eastern Economic Review*, Nov. 26, 1992, pp. 64-65.

[26] U.S. Department of State, "Vietnam's Wish List for Japanese Aid," telegram, message reference No. 20690, prepared by U.S. Embassy, Tokyo, Dec. 17, 1992.

[27] "Japan and Hanoi Seek New Partnership," *Japan Times*, Feb. 17, 1993, p. 3.

[28] U.S. Department of State, "Government of Japan Holds Civil Aviation Talks with Vietnam," telegram, message reference No. 4551, prepared by U.S. Embassy, Tokyo, Mar. 24, 1993.

[29] U.S. Department of State, "Government of Japan to Give Japanese Telecom Firms a Helping Hand in Vietnam," telegram, message reference No. 4362, prepared by U.S. Embassy, Tokyo, Mar. 22, 1993.

[30] U.S. Department of State, "French and Australian Telecom Firms Pushing Hard in Vietnam," telegram, message reference No. 1956, prepared by U.S. Consulate, Hong Kong, Mar. 2, 1993.

[31] Murray Hiebert, Nate Thayer, and Nayan Chanda, "French Dressing," *Far Eastern Economic Review*, Feb. 25, 1993, pp. 10-11.

[32] "Korean Companies Warm to Vietnam," *Business Korea*, February 1993, p. 34.

power outages occur in both cities as a result. Although modernization of the infrastructure will likely present economic opportunities to foreign investors, some observers of Vietnam stress that the country's outmoded infrastructure is an impediment to economic growth.

Other factors that may inhibit economic growth in Vietnam include relatively high unemployment, an underdeveloped banking and financial system, and corruption. Unemployment and underemployment are serious problems in Vietnam. Although reliable indicators are not available, one report estimates urban unemployment of 3.5 million and rural unemployment of 5 million out of a total work force of 32.8 million. Mrs. Pham Chi Lan, Deputy Secretary General Chamber of Commerce and Industry of Vietnam said recently that the Government seeks to develop banking conditions to allow the use of domestic savings for investment lending. Vietnamese citizens hoard an estimated $1 billion of their assets in gold, precious stones, and hard currency—assets that would be available for lending if entrusted to the banking system.[33]

Businesspersons and former government officials admit that official corruption and smuggling are common occurrences in Vietnam. In late 1992, the Communist Party Central Committee stepped up anti-corruption and anti-smuggling campaigns. In December 1992, the National Assembly revised Vietnam's criminal code to make the crimes of taking bribes, smuggling, and counterfeiting capital offenses.[34] Earlier this year two government officials found guilty of defrauding the State were sentenced to death for their actions.[35] Accounting fraud, particularly over-invoicing and falsification of confirmation letters, is reportedly a widespread practice in Ho Chi Minh City. A lack of inventory controls and other accounting practices increases the likelihood that the fraud continues unchecked.[36] Many smuggled imports, which totaled several million dollars last year, enter the country after bribery of customs officials.[37] Although several crossings on the land border between China and Vietnam were opened recently, the bulk of trade between China and Vietnam, legal and smuggled, takes place by sea.[38]

Vietnam has had mixed progress in developing laws and regulations pertaining to economic activities that also affect foreign investors. For example, Vietnam's draft regulations for foreign lawyers, if adopted, would establish the most liberal regulatory environment for foreign lawyers in the world.[39] The legal regime in other areas, however, may be more contentious. Land is officially owned by the people, although it may be transferred for private use. However, the state retains the right to reclaim land without compensation. A draft law designed to codify private use of farmland was severely criticized by farmers when introduced earlier this year.[40] Efforts to begin privatization and introduce a stock market have so far produced few results and encountered some resistance from the Communist Party leadership. Of 8 state-run enterprises set for privatization in a pilot program, seven withdrew within 9 months.[41] The slow pace of privatization means that the stock exchange will initially be limited to selling government and municipal bonds to Vietnamese citizens and state corporations.[42] Trademark registration rules give ownership rights to the first to file a trademark.[43]

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33 U.S. Department of State, "Vietnam — SRV Chamber of Commerce Talk at Bangkok American Chamber of Commerce," telegram, message reference no. 44638, prepared by U.S. Embassy, Bangkok, Oct. 5, 1992; and Murray Hiebert, "Ingot They Trust," *Far Eastern Economic Review*, Aug. 29, 1991, pp. 37-38.

34 Economist Intelligence Unit "Vietnam, Laos, Cambodia," Country Report No. 1, 1993, p. 12.

35 Murray Hiebert, "Merchants of Death," *Far Eastern Economic Review*, Apr. 22, 1993, p. 25.

36 U.S. Department of State, "Accounting Fraud Common in Ho Chi Minh City," telegram, message reference no. 2069, prepared by U.S. Consulate, Hong Kong, Mar. 4, 1993.

37 Murray Hiebert, "Shady Commerce," *Far Eastern Economic Review*, Oct. 15, 1992, pp. 61-62.

38 U.S. Department of State, "The China-Vietnam Border: Some Border Trade, but Little Friendship at Friendship Pass," telegram, message reference No. 5741, prepared by U.S. Consulate, Guangzhou, Aug. 10, 1993.

39 American Institute in Taiwan, "Vietnamese Regulations for Foreign Lawyers," telegram, message reference No. 3764, prepared by the American Institute in Taiwan, Taipei, June 5, 1993.

40 "Vietnam: New Land Law," *Far Eastern Economic Review*, May 13, 1993, p. 14.

41 "Government Grappling with Problems of Privatization," *Vietnam Investment Review*, Hanoi, May 3-9, 1993, p. 8.

42 U.S. Department of State, "Vietnam Pushes Up Date for Opening Stock Market," telegram, message reference no. 3257, prepared by U.S. Consulate, Hong Kong, Apr. 2, 1993.

43 U.S. Department of Commerce, "What U.S. Companies Need to Know About Intellectual Property Protection in Vietnam," *Business America*, Oct. 5, 1992, p. 22.

Consequently, many foreign firms seeking trademark protection find their trademarks already have been registered to Vietnamese or other foreign companies.[44]

Foreign investors active in Vietnam express mixed views about the prospects of Vietnam becoming another fast-growing East Asian economy. "All the elements of an economic miracle are there," concludes Robert Kay, a Hong Kong-based consultant.[45] On the other hand, a Hanoi representative of a large Korean firm notes "for foreign investment to take off, you need better roads and ports, more reliable electricity and telecommunications. On this, Vietnam is still very poor."[46]

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[44] U.S. Department of Commerce, "Patent, Trademark, and Copyright Laws in Vietnam," telegram, message reference No. 20500, prepared by U.S. Department of Commerce, Washington, D.C. Oct. 15, 1992.

[45] "Gearing Up for Vietnam: Businesses Jockying for Position," *Atlanta Journal*, Apr. 2, 1993, p. G-1.

[46] Murray Hiebert and Susumu Awanohara, "The Next Great Leap," *Far Eastern Economic Review*, Apr. 22, 1993, p. 68.

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	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul
United States	1.0	–1.9	2.1	3.9	2.4	1.9	3.6	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])	([1])
Canada	0.3	–1.0	([1])	([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])	([1])
United Kingdom	–0.6	–3.0	([1])	([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])	([1])
Italy	–0.6	–1.8	([1])	([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–July 1993

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

				1992			1993								
Country	1990	1991	1992	II	III	IV	I	II	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.
United States	5.4	4.2	2.7	3.4	3.2	1.7	4.0	2.9	6.0	3.6	1.2	4.8	1.2	0	1.2
Japan	3.1	3.3	([1])	2.6	5.8	([1])	([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])	([1])
Germany	2.7	3.5	([1])	4.1	([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])	([1])
France	3.4	3.1	([1])	2.7	([1])	([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])

[1] Not available.

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

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

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

				1992			1993						
Country	1990	1991	1992	II	III	IV	I	II	Feb.	Mar.	Apr.	May	Jun.
United States	5.5	6.7	7.4	7.5	7.5	7.3	7.0	7.0	7.0	7.0	7.0	6.9	7.0
Japan	2.1	2.1	2.2	2.1	2.2	2.3	2.3	([5])	2.4	2.3	2.3	([5])	([5])
Canada	8.1	10.3	11.3	11.3	11.5	11.4	11.0	11.4	10.8	11.0	11.4	11.4	11.3
Germany[2]	5.2	4.4	4.7	4.6	4.8	5.0	5.4	5.8	5.5	5.6	5.7	5.8	5.9
United Kingdom	6.9	8.9	10.0	9.7	10.1	10.6	10.7	10.5	10.6	10.6	10.5	10.4	10.4
France	9.2	9.8	10.2	10.2	10.2	10.5	10.6	11.0	10.6	10.8	10.9	11.0	11.2
Italy[3]	7.0	6.9	7.3	6.9	7.0	8.3	9.4	([5])	([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.

,urce: *Unemployment Rates in Nine Countries*, U.S. Department of La[illegible] gust 1993.

Money-market interest rates,[1] by selected countries and by specified periods, January 1990–July 1993
(Percentage, annual rates)

Country	1990	1991	1992	1992 III	1992 IV	1992 Dec.	1993 I	1993 II	1993 Jan.	1993 Feb.	1993 Mar.	1993 Apr.	1993 May	1993 Jun.	1993 Jul.
United States	8.3	5.9	3.6	3.2	3.3	3.4	3.2	3.1	3.3	3.2	3.2	3.1	3.1	3.2	3.1
Japan	7.7	7.3	4.4	4.0	3.8	3.7	3.4	(2)	3.7	3.3	3.3	3.2	(2)	(2)	(2)
Canada	13.0	9.0	6.7	5.3	7.6	7.9	6.3	(2)	7.0	6.4	5.6	5.4	(2)	(2)	(2)
Germany	8.4	9.1	9.4	9.6	8.8	8.9	8.2	(2)	8.5	8.3	7.8	7.8	(2)	(2)	(2)
United Kingdom	14.7	11.5	9.5	10.0	7.5	7.1	6.3	(2)	6.8	6.1	5.9	5.9	(2)	(2)	(2)
France	10.2	9.5	10.1	10.3	10.3	10.7	11.4	(2)	11.7	11.7	10.9	8.7	(2)	(2)	(2)
Italy	12.1	12.0	13.9	16.1	14.5	13.6	11.7	(2)	12.5	11.4	11.3	11.4	(2)	(2)	(2)

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

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

Source: *Federal Reserve Statistical Release*, August 9, 1993 *Federal Reserve Bulletin*, June 1993.

Effective exchange rates of the U.S. dollar, by specified periods, January 1990–July 1993
(Percentage change from previous period)

Item	1990	1991	1992	1992 IV	1992 Dec.	1993 I	1993 II	1993 Jan.	1993 Feb.	1993 Mar.	1993 Apr.	1993 May	1993 Jun.	1993 Jul.
Unadjusted:														
Index[1]	86.5	85.5	84.5	86.3	87.5	88.7	86.2	88.9	89.1	88.1	86.1	85.9	86.7	88.2
Percentage change	–5.3	–1.2	–1.1	5.6	–1.8	2.7	–2.9	1.5	.2	–1.1	–2.3	–.2	.9	1.7
Adjusted: Index[1]	88.1	87.0	86.4	88.3	89.7	91.2	89.2	91.1	91.1	90.7	88.7	88.8	89.8	91.1
Percentage2 change	–4.0	–1.2	–.7	5.8	2.8	3.1	–2.2	1.5	0	–.4	–2.2	.1	1.1	1.4

[1] 1980–82 average=100.

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

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

Trade balances, by selected countries and by specified periods, January 1990–June 1993

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

Country	1990	1991	1992	1992 IV	1993 I	II	Feb.	Mar.	Apr.	May	Jun
United States[1]	–101.7	–65.4	–84.3	–86.3	–103.1	–122.5	–94.8	–125.4	–122.2	–100.4	–144.7
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, August 19, 1993

U.S. trade balance, [1] by major commodity categories,and by specified periods, January 1990–June 1993

(In billions of dollars)

Country	1990	1991	1992	1992 IV	1993 I	II	Feb.	Mar.	Apr.	May	Jun.
Commodity categories:											
Agriculture	16.3	16.2	18.6	5.7	4.9	3.9	1.8	1.5	1.5	1.3	1.1
Petroleum and selected product— (unadjusted)	–54.6	–42.3	–43.9	–11.7	–11.0	–12.7	–3.2	–4.1	–4.3	–4.2	–4.2
Manufactured goods	–90.1	–67.2	–86.7	–26.5	–21.0	–25.3	–6.4	–8.5	–8.0	–6.3	–11.0
Selected countries:											
Western Europe	4.0	16.1	6.2	–.8	3.5	–0.9	1.4	.4	.4	.3	–1.6
Canada[2]	–7.7	–6.0	–7.9	–2.8	–2.5	–2.8	–.9	–.6	–.9	–.9	–1.0
Japan	–41.0	–43.4	–49.4	–14.7	–13.2	–14.4	–4.1	–5.2	–5.5	–3.7	–4.3
OPEC (unadjusted)	–24.3	–13.8	–11.2	–3.4	–3.0	–3.4	–.9	–1.0	–1.4	–1.0	–1.4
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$19.75	$17.42	$16.80	$17.37	$16.24	$16.49	$15.70	$16.47	$16.71	$16.72	$16.06

[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, August 19, 1993.