EASTERN EUROPEAN MARKETS FOR PENNSYLVANIA EXPORTS

Report of the Task Force on
East European Business Development

General Assembly of the Commonwealth of Pennsylvania
JOINT STATE GOVERNMENT COMMISSION
January 1995

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TO THE MEMBERS OF THE GENERAL ASSEMBLY:

The Joint State Government Commission is pleased to present this report entitled Eastern European Markets for Pennsylvania Exports which focuses on those East European markets that show the best immediate prospects for export development.

The report is the result of the work of the Task Force on East European Business Development, chaired by Senator Michael M. Dawida, pursuant to Senate Resolution No. 33 adopted May 5, 1993.

Respectfully submitted,

Roger A. Madigan

Roger A. Madigan
Chairman

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INTRODUCTION

As a state characterized by mature industries, Pennsylvania must be ever alert to explore new avenues for furthering economic growth. The export sector has experienced dramatic expansion in recent years, especially in those areas of the world that are newly emerging as modern economies. Among the most promising is Eastern Europe, which in the late 1980's dramatically shook off the oppressive bonds of Communist stagnation. With its rich representation of people with cultural ties to this region, Pennsylvania is admirably positioned to assist the process of wealth creation in Eastern Europe. Eastern Europe truly represents a natural outlet for Pennsylvania's entrepreneurial energies.

In order to discover the means whereby the Commonwealth could best assist the citizens of Pennsylvania in opening the East European market, the General Assembly appointed the Task Force on East European Business Development to study the issue and make appropriate recommendations with the assistance of its bicameral research agency, the Joint State Government Commission.[1] Senator Michael M. Dawida chaired

[1] 1993 Senate Resolution No. 33, Printer's No. 875, adopted May 5, 1993.

the task force. Under the task force's direction, Commission staff has assembled its findings and recommendations in the following report.

EXECUTIVE SUMMARY

The East European Market

The breakup of the Soviet Bloc has led to the opening of a potentially huge new market for U.S. exports in the nations that formerly comprised it. However, the region has experienced great difficulties in making the transition to a market economy. Along with political instabilities, most of these nations must contend with high unemployment and inflation and declining output. Poland, Czechoslovakia and Hungary have so far succeeded best in stabilizing their economies.

In order to target its efforts productively, the Commonwealth should focus on those East European markets that show the best immediate prospects for export development. The economic performance and apparent direction of the nation's economy are important factors. Other key considerations include the size of the potential market, political stability, freedom from trade barriers, lessening of state controls, and a stable and convertible currency.

The Commonwealth of Independent States (CIS) fares poorly under these criteria at present. However, a promising reform initiative is being launched by Ukraine under President Leonid Kuchma. Among the Central European nations, Poland, Hungary and the Czech Republic again present the best picture, as all have made progress in privatizing their economies and strengthening their currencies.

Foreign Trade

As in the domestic economy, service exports have shown greater growth than exports of goods and merchandise. The export markets in Central Europe are truly burgeoning. Eastern Europe is the fastest growing area in the world for U.S. service exports, while merchandise exports to the region have grown by 24 percent per year since 1987.

Russia is already one of the leading trading partners of the U.S. The fastest growing markets in Eastern Europe are Poland, Hungary and the Czech Republic, both for the entire U.S. and for Pennsylvania.

Pennsylvania lags behind the other major manufacturing states in level of exports as a proportion of the economy, although it has closed the gap somewhat since 1988. One study indicates that state efforts to promote exports can generate impressive results. It is therefore imperative that state government support Pennsylvania businesses in their efforts to expand overseas commerce.

Federal Trade Programs

Federal trade assistance programs can significantly assist Pennsylvania businesses to find their way in the Eastern European market. This report describes five such programs that are administered by the U.S. Department of Commerce.

Pennsylvania Trade Programs

The Pennsylvania Department of Commerce administers several programs that can assist export growth:

-- Office of International Trade. This is the central agency for international trade development.

-- Capital Loan Fund. Export Assistance Loans are available from the Fund to help finance the manufacture of products for export.

-- Pennsylvania Export Partnership. This trade development agency oversees the Trade Event Grant Program and the Regional Export Matching Grant Program, which provide financial and technical assistance to small and medium sized firms participating in international trade fairs.

-- Appalachian Regional Commission. This joint state/federal program provides a broad range of services to that portion of Pennsylvania that is within the Appalachian region, including export outreach assistance.

Other avenues of export assistance include multi-state trade promotion groups and local economic development organizations.

The efforts of these governmental organizations can be augmented through the formation of the Pennsylvania International Partners in Progress (PIPP). This nonprofit consortium is under development to provide a range of services to exporting firms through close cooperation with a similar organization being formed in Eastern Europe.

RECOMMENDATIONS

The Task Force on East European Business Development recommends:

1. Warsaw Office

An overseas representative office should be established by the Office of International Trade in the center of the growing Eastern European market place. The office should house an information clearinghouse and marketing and research operations, in order to facilitate the expansion of commercial contacts between Pennsylvania firms and potential markets in the Eastern European nations. Since Poland, Hungary and the Czech Republic appear to be the most promising markets, and Poland is the largest of these, Warsaw would appear to be the ideal location for this office.

2. Pennsylvania International Partners in Progress (PIPP)

PIPP is planned as an international nonprofit corporation incorporated in Pennsylvania and open to all Pennsylvania companies interested in doing business in Eastern Europe. The unique feature of this structure is that a parallel organization of Eastern European business entities is also being organized, providing PIPP with a direct link to the targeted market. It is anticipated that PIPP will become fully operational in three to five years and will receive substantial assistance from the Commonwealth. The task force envisions that PIPP could also serve as a conduit for current federal grants and assistance, such as subsidies, loan guarantees and administrative support.

3. Amendments to the Capital Loan Fund Act

a) The task force supports proposals by the Department of Commerce to strengthen the act, which can provide an important source of funds for export initiatives. In particular, the task force urges that the loan limits be reviewed, that the job retention projects should emphasize the competitiveness of small firms, that manufacturing service firms be eligible for export assistance loans and that a signed contract not be required as a prior condition for export assistance loans.

b) Although the Capital Loan Fund Act provides for loans to processors of farm commodities, no reference is made to export development. The General Assembly should amend the act to make investments in export development by processors of value–added farm commodities eligible for Class IV loans.

4. Funding of Export Assistance Loan Program

While the Export Assistance Loan Program is established by the Capital Loan Fund Act, it differs from Class III loans under the same act in that no line item appropriation is made for the former. Designation of a source of funding for export assistance loans would help further the Commonwealth's export development program.

5. Extension and Review of PEP Program

Service firms should be eligible to receive Trade Event Grants under the Pennsylvania Export Partnership (PEP) program; these grants are presently limited to manufacturing and processing firms. The program should also be reviewed to streamline the grant approval process. The PEP program should be continued beyond its present statutory sunset date of June 30, 1995.

6. Performance Audit of SBDC's and LDD's

A performance audit should be conducted of the Small Business Development Centers (SBDC's) and the local development districts (LDD's) to ensure that they are assisting the export development program and are not duplicating their efforts in the Appalachian region.

POTENTIAL TRADING PARTNERS

The late 1980's witnessed changes in the former Soviet Bloc that were revolutionary by any measure. The collapse of the Soviet empire and the breakup of the Union of Soviet Socialist Republics allowed millions of people to begin transforming their socio–economic order from a totalitarian command system to one based on representative government, individual liberty and free enterprise. Among the many ramifications of this development is the opening of a potentially enormous market for U.S. exports.

In this portion of the report, we will evaluate that market in terms of its economic characteristics. This section will list the characteristics of a desirable overseas trading partner and use those criteria to indicate which of the East European nations presently offers the best immediate prospects for trade development. Presumably, the Commonwealth's export initiative should focus on those countries as well.

Economic Overview of Eastern Europe

The East European nations, with a few notable exceptions, exhibit a sorry lack of macroeconomic stability and performance. Since the breakup of the Soviet Bloc, there has been considerable economic and political turmoil in almost every nation of Eastern Europe, resulting in negative growth in total output and employment.

Table 1 shows estimates of population, Gross Domestic Product, per capita Gross Domestic Product, the rate of inflation, the unemployment rate and the rate of growth in GDP for the nations of Eastern Europe.[2] The statistics on population are the most reliable in the table. Most of the macroeconomic data on GDP, inflation rates, unemployment rates and growth rates are derived from official sources. The Central Intelligence Agency notes that most of the official unemployment rates are quite low, but that there are large numbers of unofficially unemployed workers throughout Eastern Europe. Russia's official estimate of 1.4 percent unemployment is particularly too "official" to be relied upon. All of the GDP estimates are "purchasing power equivalents," which are unreliable when the exchange rate falls dramatically, as it has in most of these countries. The high inflation rates are reflected in a falling foreign exchange rate and give rise to unreliable estimates of the dollar equivalents

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[2]In this report, we refer to the former Soviet Bloc as Eastern Europe. The nations that formerly comprised the Soviet Union with the exception of the Baltic States (Estonia, Latvia and Lithuania) are referred to as the CIS nations, because they presently comprise the Commonwealth of Independent States. The Baltic States, the former Soviet satellites, Albania and the nations that formerly comprised Yugoslavia are collectively referred to as Central Europe. Of course, the CIS nations include vast areas of Asia, but since the report focuses mostly on Russia, Ukraine and Belarus, the CIS nations can be considered part of Eastern Europe for convenience of nomenclature.

Table 1

Estimated Population, Gross Domestic Product, Inflation Rate, Unemployment Rate, and Real Income Growth Rate for Eastern European Nations in 1993

Commonwealth of Independent States (former Soviet Union)	1993 Population (millions)	1993 GDP (billions)	1993 Per Capita GDP	1993 Inflation Rate	1993 Unemployment Rate	1993 Growth Rate
Russia	149.3	$775	$5,191	252%	1.4%	−12%
Ukraine	51.8	205	3,958	540	Large	−16
Uzbekistan	22.1	54	2,443	216	Large	−4
Kazakhstan	17.2	60	3,488	336	Large	−13
Belarus	10.4	61	5,865	360	Large	−9
Azerbaijan	7.6	16	2,039	240	Large	−13
Tajikistan	5.8	7	1,207	456	Large	−21
Georgia	5.6	8	1,393	486	20	−35
Kyrgyzstan	4.6	11	2,391	276	Large	−13
Moldova	4.4	16	3,636	360	Large	−4
Turkmenistan	3.9	13	3,333	540	Large	8
Armenia	3.5	7	2,029	168	Large	−10
Total, CIS	286	$1,232	$4,306	332%		−11%
Central Europe:						
Poland	38.5	180	4,675	37	16	4
Romania	23.2	64	2,759	72	11	1
Yugoslavia	10.8	10	926	hyper	60	ND
Czech Republic	10.4	75	7,212	19	3.3	0
Hungary	10.3	57	5,534	23	13	−1
Bulgaria	8.8	34	3,864	64	16	−4
Slovakia	5.4	31	5,741	23	14	−5
Croatia	4.7	22	4,681	312	21	−19
Bosnia−Herzegovina	4.6	ND	ND	ND	ND	ND
Lithuania	3.8	12	3,158	188	2	−10
Albania	3.3	ND	ND	ND	ND	ND

Table 1--Continued

	1993 Population (millions)	1993 GDP (billions)	1993 Per Capita GDP	1993 Inflation Rate	1993 Unemployment Rate	1993 Growth Rate
Latvia	2.7	$13	$4,815	24%	6%	-5%
Macedonia	2.2	2	1,000	156	27	-15
Slovenia	2	15	7,500	23	16	0
Estonia	1.6	9	5,500	31	Large	-5
Total, Central Europe	132	$524	$4,413	81%	17%	-5%
Total, Eastern Europe	419	$1,756	$3,961	217%		-9%

SOURCE: U.S. Bureau of Census, International Data Base, 1993, and U.S. Central Intelligance Agency, The World Factbook, 1994 (Washighton, D.C.).

Note: Totals may not add because of rounding. Per capita GDP's are based on unrounded GDP estimates.

of a nation's output. In most countries, the estimates of GDP and per capita GDP are likely too low, and the decline in GDP is probably overstated.

In the former Soviet Union, the two largest independent states are Russia and Ukraine. Russia is apparently the largest and most productive state in the CIS with a $775 billion GDP. The Ukraine is second with a $205 billion GDP. Uzbekistan, Kazakhstan and Belarus are the next three largest in terms of population and GDP. Belarus has a fairly small population of 10.4 million people and a surprisingly high per capita GDP of $5,865. The remaining seven states are small, and have low levels of GDP and generally low per capita GDP's. Stagflation burdens the Commonwealth nations, in that all are experiencing extremely high inflation rates, large numbers of unemployed and falling real output and productivity.

The recent economic malaise of Eastern Europe, particularly of the CIS nations, is due to dislocations caused by the partial transition from a state-controlled to a market economy. Prior to the 1989 breakup of the Soviet Union, most Eastern European trade was controlled by the state and conducted within the Council for Mutual Economic Assistance (CMEA), the trade organization for the Soviet Bloc countries. With the disintegration of the Soviet Union, the CMEA trading system collapsed.[3] The elaborate state allocation of raw materials, intermediate goods and finished goods ground to a halt. In most cases the resources previously employed in the CMEA network could not be shifted to new products, new locations or different employments. This was because the state directed materials allocation system was not and, in some cases, still has not been replaced by a price and profit seeking allocation system.

As a result, Eastern European economies were saddled with a large contingent of economic resources trapped in unproductive and unprofitable industries. These industries could no longer command a flow of state–supplied raw materials, energy and intermediate products. Consequently, the labor force in many of these industries was effectively unemployed, although some were still paid wages by the state.

The response of almost all of the Eastern European nations has been to continue the flow of funding to their state industries and the heavy subsidies for the production and distribution of many goods and services. Oil and energy prices, for example, are set at a fraction of their world energy price level to customers within Eastern Europe, while exported oil and gas are sold at the world market price. Bread prices are set below the

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[3] Patricia S. Pollard, "Trade Between the United States and Eastern Europe," Federal Reserve Bank of St. Louis, Review, July/August 1994, pp. 25–37.

cost of wheat used in producing it; rents are set below the cost of supplying housing. All of these activities are funded by the state by means of a large expansion of the money supply through new bank loans and the printing press. The result is a classic recipe for brewing inflation -- too many rubles chasing too few goods.

The recent macroeconomic performance of the Central European nations, with a few notable exceptions, is not much better. In general, these nations have high rates of inflation, high rates of unemployment and falling real output of goods and services. The notable exceptions are Poland, the Czech Republic and Hungary. These three have moderately high inflation rates and somewhat less severe unemployment rates, and their economies have either grown or stabilized their decline. Romania, Slovakia, Slovenia and Estonia show higher inflation rates, higher unemployment rates, lower per capita GDP and moderate declines in real output and productivity. The Romanian economy grew in 1993, but its inflation rate is debilitating and its per capita GDP is not up to the top three.

In 1993, the total population of Eastern Europe was about 419 million. The total reported GDP was about $1.8 trillion. In the CIS nations, population was 286 million and the GDP was $1.2 trillion, resulting in a per capita output of about $4,300. In Central Europe, the population was 132 million and GDP was at least $524 billion, resulting in a per capita GDP of about $4,400. In contrast, Pennsylvania, with a GDP of about $300 billion and 12 million residents, registered a per capita GDP of about $25,000. Pennsylvania's success is the result of being part of a sound national economy. The U.S. has experienced moderately low inflation, generally low unemployment and moderate annual growth in real output almost every year since 1940. Even in our most virulent periods of stagflation in 1974–75 and 1979–82, the inflation rate rarely exceeded 12 percent annually and the level of output continued to grow.[4]

Criteria for Evaluating Trading Partners

In considering whether a foreign nation shows promise as a trading partner, the level of GDP, the price level, total employment and unemployment, and the national deficit or surplus are perhaps not as important as the growth rates of these measures and the general direction the economy is heading. Ideally, a viable and dependable trading partner should be moving towards macroeconomic stability as measured by a falling or stable and reasonably low inflation rate, a falling or stable and reasonably low unemployment rate, a falling or stable government deficit which is a reasonable fraction of the country's GDP and finally a stable and

[4]Economic Report of the President, 1994, table B–62.

reasonably low real interest rate. The general level of macroeconomic activity, as indicated by the level of GDP and the per capita GDP, is a fairly good indicator of the size of the market for Pennsylvania exporters.[5]

Trading partners should exhibit substantial political stability. The country's political process should permit orderly, nonviolent change over time in both policies and elected officials. A process which reasonably protects minority political views without unduly thwarting the will of the majority is desirable. Private property rights must be recognized, protected and subjected to the rule of law.

Artificial barriers to trade and commerce, such as state licenses and quotas on importing and exporting goods, are detrimental to mutually beneficial trade and exchange based on comparative advantage. Free and open trade generates information on costs and opportunities that is reflected in prices and the demand and supply of goods and services available to consumers and producers in the trading countries. A desirable trading partner should be dismantling price controls on producer and consumer goods. Government subsidies to favored industries and for particular goods should be substantially reduced or eliminated.

[5] Z. K. Wang & L. Alan Winters, "The Trading Potential of Eastern Europe," Journal of Economic Integration, Autumn, 1992, pp. 113–136.

State control of investment, output, prices, employment and other aspects of economic activity should be gradually declining, and the resources and manpower involved in state control and management should be reemployed in useful activity elsewhere in the economy. State control of international trade should be reduced and state sponsored monopolies dismantled by an extensive privatization of economic activity.

A stable and convertible currency, with a known and primarily market determined rate of exchange, is a prerequisite to international trade activity. All exchange controls on current account transactions should be abolished and the controls on capital flow gradually reduced with the goal of minimal regulation. The state should replace such controls with other policy instruments, such as tariffs and the management of a stable but floating exchange rate generally pegged to the value of a basket of foreign currencies. Every CIS nation is depreciating its currency by engaging in inflationary monetary and fiscal policies. In many East European nations, the current market exchange rates are simply not available. There may be an official exchange rate and a black or gray market rate which is substantially lower. The presence of a dual exchange rate, or the lack of a known exchange rate, indicates that the currency is not convertible into hard currency; international trading is then likely to resort to barter or to risk severe currency devaluation.

As of 1993, East European nations were struggling, with varying degrees of difficulty, to establish a currency suitable for international trade.[6] In the Czech Republic and Slovakia, the koruna is 30 per $1 U.S. dollar in 1993. The exchange rate has deteriorated over time, as the koruna traded at 15 per U.S. dollar in 1989. At this time, the koruna is convertible for almost all current account transactions. The Hungarian forint is almost completely convertible in virtually all current account transactions. From 1989 to 1993, the forint declined in value from 59 to 94 to the U.S. dollar, but this devaluation has not been as rapid as the inflation rate. The Polish zloty is completely convertible for all current account transactions, and the currency appreciated in recent years, but depreciated in 1993.

By and large, the CIS nations do not comply with the above criteria. They are experiencing a raging inflation and plummeting exchange rates. Most have yet to develop a coherent set of economic and political policies that will permit sustained private growth and development.

Ukraine is struggling to break out of the sluggish command economy based on central planning and control. Real output of goods and services is apparently declining over the 1990–1994[7] period, while inflation

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[6]Dani Rodrik, "Foreign Trade in Eastern Europe's Transition: Early Results," National Bureau of Economic Research, Working Paper No. 4064, (Cambridge, Mass., 1992), pp. 1–57; The World Factbook.

[7]Craig R. Whitney, "East Europe's Hard Path to New Day," New York Times, September 30, 1994, pp. A9–A11.

is rampant. The currency is not convertible, and there is no recent information on its exchange rate value.

In October 1994, Ukrainian President Leonid Kuchma unveiled a comprehensive economic reform package that includes private ownership of property and land, reform of the financial system and an accelerated program of privatization of state-owned industries.[8] Private ownership of land remains a contentious issue for the Communist-dominated parliament. If these reforms are adopted, however, the Ukrainian economy will be firmly on the road to integration with the world economies, and the future status of Ukraine as a valued trading partner of Pennsylvania businesses will brighten considerably.

The desirable characteristics of reasonable economic and political stability are present in some degree in several Central European nations such as Poland, Hungary and the Czech Republic. In addition, these three nations have established and maintained a record of steady growth in imports from United States over the past three years.

Since 1992, Poland, Hungary and the Czech Republic have achieved a substantial degree of openness to foreign trade with Western Europe and the United States. In all three countries, trade is now de-

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[8]"Ukraine President Proposes Reforms to Save Economy," Wall Street Journal, Oct. 12, 1994, p. A-12.

monopolized and privatization of the foreign trade sector is proceeding apace.[9]

In Poland, about 60 percent of all imports are undertaken by private entities and the fraction of exports in private enterprise is close to 25 percent. The number of private companies has grown from 2000 in 1990 to well over 20,000 in 1993. It is estimated that Poland's imports from the U.S., which were $900 million in 1993, will grow to $7 billion by the year 2000.[10] In other words, Poland's imports from the U.S. will grow by a billion dollars per year in each of the next six years.

In the Czech Republic, there has been a concerted effort to convert its state–owned and –controlled economy to private enterprise. Those measures resulted in a huge increase of private entrepreneurs involved in commerce. There are over 225,000 such entrepreneurs as of 1993, and an estimated 40 percent of economic activity is privately owned and operated. It is also estimated that 90 percent of all domestic prices are set by market forces in 1993.

Hungary is undergoing a difficult and painful transition to free enterprise. As of 1993, approximately 50 percent of all economic activity

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[9]See Rodrik, "Foreign Trade" for a discussion of the foreign trade policies and the trends in privatization of foreign and internal trade in Poland, Hungary and the Czech Republic.

[10]U.S. Department of Commerce, Business America, 1994, p. 28.

was in the hands of private enterprise and, by all accounts, this percentage will continue to rise. However, Hungary still suffers from a large external debt and a continuing trade deficit along with an internal budget deficit. Nevertheless, the trend is decidedly toward Western–style economic reform.

The demographic, political and economic characteristics of the remaining Central European nations are less desirable for export growth. The Baltic nations of Lithuania, Latvia and Estonia are very small, and their economies are still contracting due to the strain of privatization and the breakdown of old trading patterns established by the Soviet Union. Latvia and Estonia, however, are making some progress in stabilizing their economies and implementing market reforms with only moderately high inflation rates. Lithuania is privatizing and reforming its economy, but its inflation rate is extremely high. All three countries wish to establish trading contacts with Western economies. Other Central European countries, such as Romania, Bulgaria, Slovakia and Slovenia, exhibit less macroeconomic stability. These countries have, in general, been slower in adopting market reforms, in privatizing enterprise, in freeing prices and outputs to respond to market forces and in dismantling the state–owned and– controlled economic system. These countries have not been as eager as some others to integrate their economic activities and orient them toward Western markets.

U.S. AND PENNSYLVANIA FOREIGN TRADE

This section of the report will use quantitative economic data to analyze the following issues, with particular emphasis on Eastern Europe:

- Growth of exports as compared to other sectors of the U.S. economy.
- Leading and fastest growing foreign markets for U.S. and Pennsylvania exports.
- Leading and fastest growing East European markets for U.S. and Pennsylvania exports.
- Goods for which Pennsylvania exports have grown fastest.
- Pennsylvania's performance as an exporter compared with that of other states.
- Whether a state government initiative can help significantly to increase Pennsylvania exports to Eastern Europe.

<u>Growth of the Export Sector</u>

Foreign trade in merchandise exports and the provision of services to foreign nationals has, in recent history, been the fastest growing component of the United State's Gross Domestic Product (GDP). The double digit annual growth rates in U.S. exports of goods and services that began in 1986 and lasted through 1989 were, in part, the result of a rapid and substantial fall in the foreign exchange value of the U.S. dollar vis-a-vis all major foreign currencies. In part, the growth in demand for U.S. exports was due to the relatively high levels of economic growth enjoyed by our major international trading partners.

The falling prices of U.S. exports touched off an export boom that began in 1986 and lasted until 1991. Since 1991, the foreign exchange value of the dollar has remained fairly constant (except for the falling value of the dollar in terms of the yen and the mark), and our major trading partners in Western Europe, Canada and Japan have remained mired in a slump. As a result, the export boom of the late 1980's has slowed in 1992 and 1993.

Table 2 shows the U.S. Gross Domestic Product, merchandise exports, service exports and total exports to all foreign countries and Eastern Europe over the 1980-1993 period. GDP grew in nominal terms by 135 percent over the 13-year period, a higher growth rate than that of merchandise exports. In contrast, service exports almost quadrupled in this same period. Merchandise exports to Eastern Europe lagged substantially due to their large drop in the 1980-86 period, which may be attributed to chilly international relations, the rise in value of the dollar and the decline

Table 2

U.S. Gross Domestic Product, Merchandise and Service Exports to all Nations and to Eastern Europe, 1980 through 1993
(In billions of dollars)

Year	Gross Domestic Product	Merchandise Exports	Service Exports	Goods & Services Exports	Exports to Eastern Europe	Percent, Eastern European Exports
1980	$2,708	$221	$48	$269	$4.1	1.9%
1981	3,031	234	57	291	4.4	1.9
1982	3,150	212	64	276	3.7	1.7
1983	3,405	202	64	266	3.0	1.5
1984	3,777	219	71	290	4.3	2.0
1985	4,039	213	73	286	3.2	1.5
1986	4,269	226	86	312	2.0	0.9
1987	4,540	254	98	352	2.2	0.9
1988	4,900	323	110	433	3.8	1.2
1989	5,251	364	127	491	5.5	1.5
1990	5,546	393	147	540	4.3	1.1
1991	5,723	422	163	585	4.8	1.1
1992	6,039	448	177	625	5.6	1.3
1993	6,374	465	185	650	6.2	1.3
1980–93 Growth	135%	110%	285%	142%	51%	–28%
1987–93 Growth	40%	83%	89%	85%	182%	54%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, June, 1994, Tables 1 and 2; Economic Report of the President, 1994.

in the Soviet and the Warsaw Pact economies. Eastern Europe's share of U.S. merchandise exports dropped from almost 2 percent in 1980 to less than 1 percent in 1986–87. In 1986 and 1987, while demand soared in the rest of the world for U.S. merchandise exports, the Eastern European demand for U.S. exports was flat.

In the 1987–93 period, exports grew faster than the GDP as a whole, reversing the relationship that prevailed in 1980–86. The growth rates of merchandise exports, service exports, total exports and merchandise exports to Eastern Europe were more than double the growth in GDP, and the growth rate of exports to Eastern Europe was four times as large as the growth in GDP. The share of Eastern European merchandise exports rose from 0.9 percent to 1.3 percent. If the Eastern European share were to regain the 1980 level of almost 2 percent, the level of exports would rise by 50 percent and the dollar value of U.S. exports to Eastern Europe would rise by $3.1 billion.

During the 1986–1991 period, the export sector of the GDP was the fastest growing sector of the economy and a significant creator of new jobs and income. Table 3 shows the compounded annual growth rates in GDP, merchandise and service exports, exports to Eastern Europe and the share of GDP represented by exports of goods and services for the 1980–93 period. The growth in GDP has actually exceeded the growth in

Table 3

Rates of Growth in Gross Domestic Product, Merchandise and Service Exports and the Ratio of Exports to GDP
1980 through 1993

Year	Percent Change, GDP	Percent Change, Goods Exports	Percent Change, Services Exports	Percent Change, All Exports	Goods Exports to Eastern Europe	All Exports Share of GDP
1980						9.9%
1981	12%	6%	19%	8%	7%	9.6
1982	4	−9	12	−5	−16	8.8
1983	8	−5	0	−4	−19	7.8
1984	11	8	11	9	43	7.7
1985	7	−3	3	−1	−26	7.1
1986	6	6	18	9	−38	7.3
1987	6	12	14	13	10	7.8
1988	8	27	12	23	73	8.8
1989	7	13	15	13	45	9.4
1990	6	8	16	10	−22	9.7
1991	3	7	11	8	12	10.2
1992	6	6	9	7	17	10.3
1993	6	4	5	4	11	10.2
1980−93 Average Growth	6.8%	6.2%	11.1%	7.3%	7.5%	9.6%
1987−93 Average Growth	6.9%	12.9%	13.6%	13.1%	24.1%	11.1%

SOURCE: U.S. Department of Commerce, Survey of Current Business, June, 1994; Economic Report of the President, 1994.

merchandise exports. However, the growth of service exports averaged an 11.1 percent compound rate, a major factor in keeping the growth rate of all exports at 7.3 percent. The growth in service exports has been the prime impetus for raising the total export share of GDP to 10.2 percent in the 1990's, because the merchandise and goods share of exports actually fell from 8.2 to 7.3 percent of GDP over the 13-year period. One obvious exception to the general trend in goods exports is the goods export picture in Eastern Europe. The average compound growth rate in merchandise exports to Eastern Europe is an astounding 24 percent for this same period. This growth rate cannot be sustained in the long run, but it may remain at a high level for several more years.

In 1993, U.S. imports of goods exceeded exports of goods by $132 billion. This figure is typically referred to as the "trade deficit." However, the sale of services by U.S. businesses to foreign nationals exceeded the purchases of foreign services by U.S. nationals by $57 billion. The 1993 goods and services balance of trade deficit was thus reduced to $75 billion. Nevertheless, this deficit was significantly larger than the 1992 goods and services deficit of $40 billion. Since the United States is in an economic recovery, U.S. imports of goods increased by $53 billion from their 1992 level, while our less robust trading partners increased their purchases of U.S. goods by only $17 billion. The resulting $36 billion increase in the

U.S. trade deficit is directly traceable to our increased goods deficit.

Since 1976, the United States has consistently incurred a negative balance of payments in goods and services. Generally, the goods account has been negative and the services account has had a positive balance. In 1993, the sale of services to foreigners was almost 30 percent of total foreign exports, and service exports have been growing at a much faster rate than goods exports. It appears that the United States has a comparative advantage in the production and distribution of services, and a comparative disadvantage in goods production. Consequently, any state export promotion program should emphasize encouraging service exports. It should be noted that the fastest growing area in the world for U.S. service exports is Eastern Europe.

The production and distribution of services as opposed to goods has been the leading edge of growth in the United States since the 1960's; we now see this trend evolving to the rest of our trading partners abroad. Moreover, the annual growth rate for service exports is almost double the growth in GDP over the 1987–93 period.

Exports to Particular Countries

Table 4A shows the U.S. merchandise exports by country for the 1988–93 period. The first part of the table shows countries that imported goods worth $2 billion or more in 1993. The top trading partners are

Table 4A

U. S. Merchandise Exports to Countries with Exports Worth More Than Two Billion in 1993
(Ranked by 1993 values, in millions of dollars)

Country	1988	1990	1993	1988–93 Annual Growth	1990–93 Annual Growth
Canada	$60,918	$82,966	$100,190	13%	7%
Japan	37,732	48,585	47,949	5	–0
Mexico	20,643	28,375	41,635	20	16
United Kingdom	18,404	23,484	26,376	9	4
Germany	14,331	18,690	18,957	6	0
Taiwan	12,131	11,482	16,249	7	14
Korea	11,289	14,399	14,776	6	1
France	10,085	13,652	13,267	6	–1
Netherlands	10,094	13,016	12,839	5	–0
Singapore	5,770	8,019	11,676	20	15
Hong Kong	5,691	6,840	9,873	15	15
Belgium	7,281	10,314	8,876	4	–5
China	5,039	4,807	8,767	15	27
Australia	6,981	8,535	8,272	4	–1
Switzerland	4,206	4,944	6,804	12	13
Saudi Arabia	3,799	4,035	6,666	15	22
Italy	6,782	7,987	6,458	–1	–6
Malaysia	2,875	3,425	6,064	22	26
Brazil	4,289	5,062	6,045	8	6
Venezuela	4,611	3,107	4,599	–0	16
Israel	3,247	3,200	4,420	7	13
Spain	4,217	5,208	4,181	–0	–7
Argentina	1,056	1,179	3,772	51	73
Thailand	1,964	2,991	3,768	18	9
Phillippines	1,880	2,472	3,529	18	14
Turkey	1,843	2,253	3,433	17	17
Colombia	1,758	2,038	3,229	17	19

Table 4A--Continued

Country	1988	1990	1993	1988–93 Annual Growth	1990–93 Annual Growth
Russia	$0	$0	$2,967		
Indonesia	1,056	1,897	2,770	32%	15%
Egypt	2,340	2,249	2,763	4	8
India	2,498	2,486	2,761	2	4
Ireland	2,182	2,539	2,731	5	3
Chile	1,065	1,672	2,605	29	19
Sweden	2,705	3,404	2,353	−3	−10
Dominican Rep.	1,362	1,658	2,349	14	14
South Africa	1,690	1,732	2,197	6	9
Subtotal	283,814	358,702	426,166	10	6
Total Exports, All Countries	$323,335	$392,975	$464,858	9%	6%

SOURCE: U. S. Census Bureau, Foreign Trade Division, by Massachusetts Institute for Social and Economic Research (MISER).

Canada, which takes almost 22 percent of all merchandise exports, followed by Japan and Mexico. Exports to the top ten trading partners equal $304 billion, almost two-thirds of all goods exported from the U.S. A number of other South American nations have experienced high annual growth rates in imports from the U.S. since 1988, such as Argentina, Colombia and Chile. In addition, several high growth nations from the Pacific Rim have exceptionally high growth rates of imports from the U.S.: Singapore, Malaysia and Indonesia. Russia is the one Eastern European importer on this list.

Table 4B shows the countries who have annual imports of U.S. goods of between $250 million and $2 billion. There is tremendous diversity in the growth rates among these countries. Again, the Latin American trading partners have very high annual growth rates. Three Central European countries also have very high growth rates: Poland, Hungary and the Czech Republic. (The data for the Czech Republic is included with the data for Czechoslovakia. The data on Table 5 show a high rate of growth of U.S. imports for Czechoslovakia for the 1988–93 period.)

The countries shown on Table 4A and 4B account for $458 billion or 98 percent of all U.S. exports produced and sold in 1993.

Table 4B

U. S. Merchandise Exports to Countries with Exports Worth Two Billion to $250 Million in 1993
(Ranked by 1993 values, in millions of dollars)

Country	1988	1990	1993	1988–93 Annual Growth	1990–93 Annual Growth
U. A. Emirates	$711	$998	$1,811	31%	27%
Costa Rica	696	992	1,547	24	19
Austria	748	873	1,326	15	17
Guatemala	591	758	1,310	24	24
New Zealand	942	1,133	1,247	6	3
Norway	932	1,281	1,211	6	–2
Panama	633	867	1,191	18	12
Jamaica	758	944	1,113	9	6
Ecuador	694	680	1,098	12	20
Denmark	970	1,311	1,092	3	–6
Peru	798	778	1,069	7	12
Kuwait	690	4,001	1,008	9	–25
Poland	304	406	916	40	42
Algeria	733	948	898	5	–2
Honduras	478	563	898	18	20
Nigeria	356	551	891	30	21
Greece	649	765	884	7	5
El Salvador	483	556	869	16	19
Finland	763	1,126	847	2	–8
Pakistan	1,093	1,143	810	–5	–10
Portugal	752	922	735	–0	–7
Bahamas	741	801	704	–1	–4
Bahrain	281	718	653	26	–3
Iran	73	166	616	149	90
Morocco	428	497	602	8	7
Luxembourg	124	134	561	70	106
Trin. & Tobago	328	430	529	12	8

Table 4B--Continued

Country	1988	1990	1993	1988–93 Annual Growth	1990–93 Annual Growth
Neth. Antilles	$432	$542	$523	4%	-1%
Paraguay	194	307	521	34	23
Brunei	78	143	478	103	78
Hungary	78	157	434	91	59
Lebanon	123	98	376	41	95
Jordan	373	309	363	-1	6
Romania	202	369	324	12	-4
French Guiana	283	271	323	3	6
Yemen	79	107	318	61	66
Ukraine	0	0	311		
Czech Republic	0	0	266		
Aruba	99	202	266	34	11
Bermuda	286	255	265	-1	1
Uruguay	100	146	253	31	24
Oman	130	163	252	19	18
Subtotal	$19,206	$27,411	$31,709	13%	5%

SOURCE: U. S. Census Bureau, Foreign Trade Division, by MISER.

Exports to Eastern Europe

Table 5 shows U.S. merchandise exports to Eastern Europe by country for the 1988–93 period. Total merchandise exports grew by 11 percent annually; however, the growth rates are difficult to evaluate for many of these countries because of dislocations caused by the breakup of the Soviet Union in 1991 and the continuing war in the former Yugoslavia. The export growth to the former Soviet Union is a modest 7 percent annually. The countries showing the most robust growth are Poland, Hungary and Czechoslovakia. Slovakia and Albania show promise, but are very small importers of U.S. merchandise. Romania is a somewhat larger importer of U.S. goods, and its growth rate is a respectable 12 percent annually.

Table 6 shows the United States exports of private services by country and area for the 1988–93 period. The data on service exports is not as complete as merchandise export data. Nevertheless, it is clear that the export of services is the fastest growing component of the U.S. international trade activity. The average annual growth rate in service exports is 17 percent over the 1988–93 period, and most of the countries and areas have attained double digit growth rates over that period. The Eastern European area is clearly the fastest growing importer of U.S. supplied services, with an average annual growth rate of 57 percent. Total

Table 5

U.S. Merchandise Exports to Central and Eastern Europe by Country, 1988–93
(Ranked by 1993 values, in millions of dollars)

	1988	1989	1990	1991	1992	1993	Average Annual Growth
Russia	$0	$0	$0	$0	$2,098	$2,967	
Poland	303	414	406	458	637	916	40%
Hungary	78	122	157	256	295	434	91
Romania	202	156	369	209	248	324	12
Ukraine	0	0	0	0	305	311	
Czech Republic	0	0	0	0	0	266	
Bulgaria	127	181	84	142	85	115	−2
Croatia	0	0	0	0	90	103	
Slovenia	0	0	0	0	38	92	
Belarus	0	0	0	0	25	92	
Latvia	0	0	0	0	54	89	
Armenia	0	0	0	0	25	78	
Uzbekistan	0	0	0	0	51	73	
Kazakhstan	0	0	0	0	15	68	
Lithuania	0	0	0	0	44	57	
Estonia	0	0	0	0	59	54	
Georgia	0	0	0	0	16	47	
Turkmenistan	0	0	0	0	35	46	
Azerbaijan	0	0	0	0	0.4	37	
Albania	7	5	10	18	36	34	77
Slovakia	0	0	0	0	0	34	
Moldova	0	0	0	0	9	31	
Kyrgyzstan	0	0	0	0	2	18	
Bosnia–Herzegovina	0	0	0	0	5	15	
Tajikistan	0	0	0	0	9	12	

Table 5--Continued

	1988	1989	1990	1991	1992	1993	Average Annual Growth
Macedonia	$0	$0	$0	$0	$4	$11	
Yugoslavia (N)	0	0	0	0	6	1	
Czechoslovakia	55	54	89	124	413	0	
Yugoslavia (O)	534	501	566	370	169	0	
Soviet Union	2,768	4,271	3,088	3,577	1,036	0	
TOTAL	4,074	5,704	4,769	5,154	5,809	6,325	11%
Subtotals:							
Soviet Union & CIS	2,768	4,271	3,088	3,577	3,626	3,780	7
Czech Republic & Slovakia	55	54	89	124	413	300	89
Yugoslavia (O) & (N), Bosnia, Croatia, & Macedonia	534	501	566	370	274	130	−15

SOURCE: U.S. Census Bureau, Foreign Trade Division, by MISER.

Table 6

United States Private Services Transactions by Area and Country, 1988 through 1993
(In millions of dollars)

	1988	1993	Percent of Total (1993)	Annual Growth
All Countries	$100,034	$184,811	100%	17%
Canada	10,445	16,573	9	12
Europe	35,700	66,868	36	17
Western Europe	35,250	65,139	35	17
Belgium– Luxembourg	1,198	2,432	1	21
France	3,860	6,976	4	16
Germany	5,934	11,729	6	20
Italy	2,481	4,202	2	14
Netherlands	2,414	4,189	2	15
United Kingdom	9,916	18,441	10	17
Other W. European	9,447	17,170	9	16
Eastern Europe	450	1,729	1	57
Latin America & Other W. Hemisphere	15,676	28,073	15	16
Mexico	4,549	8,681	5	18
Venezuela	926	2,383	1	31
Other	10,201	17,009	9	13
Other Countries	33,607	68,350	37	21
Australia	2,321	3,855	2	13
Japan	15,008	27,445	15	17
Other	16,278	37,050	20	26
International Org. & Unallocated	4,606	4,747	3	1

SOURCE: U. S. Bureau of Census, Bureau of Economic Analysis, Survey of Current Business, September, 1993 and June, 1994.

service exports to Eastern Europe account for one percent of all service exports in 1993. This is smaller than the 1.3 percent of merchandise exports, but the high growth rate, even if moderated to half the current level, ensures that Eastern Europe will consume a growing share of U.S. service exports over the next five to ten years.

Exports from Pennsylvania

Table 7 shows the merchandise exports shipped from Pennsylvania for the years 1991–93.[11] Since Pennsylvania is a large and highly diversified economy, the state's exports closely mirror those of the U.S. economy.[12] Well over two–thirds of the value of Pennsylvania's exports were manufactured items in the first six categories: Industrial machinery and computer equipment; electronic goods and electrical equipment; chemicals and allied products; transportation equipment; primary metals; and instruments and related products. While transportation equipment and primary metals hold significant shares, they are clearly declining over the past three years. Other industries which exhibit significantly declining shares of a growing export market are fabricated metal products; paper and

[11]In Tables 7–9, we use Origin of Movements of Commodities (OMC) data for state comparisons of exports because it is the only data available on a timely basis and is reasonably accurate for comparing rates of growth. Pennsylvania's true value added contribution to the nation's exports may be larger than is recorded by the MISER data, but as long as the data are recorded consistently over time, the rate of growth in export activity should be fairly accurate.

[12]Because the classification schemes differ between U.S. and Pennsylvania data, direct comparison between the categories is not always possible.

Table 7

Pennsylvania Merchandise Exports by Industry, 1991–1993
(Ranked by 1993 values, in millions of dollars)

	1991	1992	1993	Annual Growth 1991–1993	Percent of 1993 Total
Total, all industries	$11,289	$12,071	$12,328	4.6%	100.0%
Industrial machinery, computer equipment	2,214	2,416	2,487	6.2	20.2
Electronic, electrical equipment	1,437	1,542	1,668	8.0	13.5
Chemicals & allied products	1,241	1,455	1,624	15.4	13.2
Transportation equipment	1,091	1,297	1,075	–0.7	8.7
Primary metals industries	962	917	875	–4.5	7.1
Instruments & related products	663	727	771	8.1	6.3
Fabricated metal products	666	557	489	–13.3	4.0
Stone, clay & glass products	405	417	451	5.7	3.7
Food & kindred products	249	313	393	28.9	3.2
Lumber & wood products	292	356	347	9.4	2.8
Rubber & misc. plastic products	263	276	332	13.1	2.7
Printing & publishing	272	336	288	2.9	2.3
Misc. manufacturing industries	267	244	286	3.6	2.3
Bituminous coal & lignite	132	100	227	36.0	1.8
Paper & allied products	231	160	184	–10.2	1.5
Petroleum & coal products	224	245	171	–11.8	1.4
Textile mill products	85	117	121	21.2	1.0
Apparel & other textile products	65	80	98	25.4	0.8
Furniture & fixtures	76	67	72	–2.6	0.6
Scrape & waste	69	74	66	–2.2	0.5
Agricultural crops	72	60	57	–10.4	0.5
Special classification	63	134	55	–6.3	0.4
Leather & leather products	47	46	45	–2.1	0.4
Canadian goods returned to Canada	32	37	38	9.4	0.3
Agricultural goods, livestock	25	27	23	–4.0	0.2
Used or secondhand merchandise	67	9	23	–32.8	0.2

Table 7--Continued

	1991	1992	1993	Annual Growth 1991-1993	Percent of 1993 Total
Oil & gas extraction	$12	$18	$21	37.5%	0.2%
Non-metallic minerals	12	10	20	33.3	0.2
Fishing, hunting & trapping	14	15	7	-25.0	0.1
Forestry	5	11	6	10.0	0.0
Metal mining	39	7	6	-42.3	0.0
Tobacco manufactures	1	0.9	0.6	-20.0	0.0

SOURCE: MASSPORT trade development unit, adjustments to data from U.S. Census Bureau, Foreign Trade Division, by MISER.

allied products; petroleum and coal products; agricultural crops; used merchandise; fishing, hunting and trapping; metal mining; and tobacco products. The most rapidly growing export industries in Pennsylvania are chemicals and allied products; food and kindred products; rubber and miscellaneous plastics; soft coal; textile mill products; apparel; oil and gas extraction; and non-metallic minerals.

Tables 8 and 9 show Pennsylvania merchandise exports to foreign nations.[13] Pennsylvania's major trading partners as shown in Table 8A are almost identical with the major trading partners of the United States shown in Table 4A; even the rankings are highly correlated. Table 4B and Table 8B include virtually the same countries, but the rank order is not highly correlated. For Pennsylvania, the fastest growing major export markets as shown on Table 8A over the past three years have been Singapore, Thailand, Malaysia, Argentina, Turkey, Algeria, Ireland, Colombia and Russia. (It is improbable that these extremely high growth rates can continue for any extended period of time. Perhaps the high growth countries are importing capital goods from Pennsylvania, and these types of purchases will be large and concentrated in time.) Of the smaller export markets listed on Table 8B, the fastest growing in Eastern Europe are

[13]These tables can be compared with Tables 4 and 5, which show parallel data for all U. S. exports. Because of the aforementioned limitations on availability of export data broken down by states, the data only run from 1990.

Table 8A

Pennsylvania Merchandise Exports to Selected Foriegn Nations, 1990 through 1993
(Ranked by 1993 values, in millions of dollars)

	1990	1991	1992	1993	Annual Growth 1990–93
Total, All Countries	$10,431	$11,290	$12,071	$12,328	6%
Canada	3,331	3,301	3,536	3,951	6
Japan	638	674	691	739	5
United Kingdom	590	677	752	669	4
Mexico	583	694	742	654	4
Germany	529	719	659	609	5
Taiwan	297	370	316	393	11
South Korea	603	509	456	382	−12
Netherlands	283	367	412	374	11
Singapore	120	213	269	305	51
Brazil	295	302	288	296	0
Australia	273	251	249	263	−1
Italy	352	278	266	252	−9
France	229	266	260	237	1
Hong Kong	157	175	185	188	7
Thailand	39	174	188	178	119
Belgium	123	171	196	167	12
Saudi Arabia	104	173	238	152	15
Malaysia	57	80	114	140	49
China	120	82	98	135	4
Argentina	29	45	73	123	108
Turkey	30	59	121	110	89
Switzerland	87	73	89	108	8
India	67	66	66	100	16
Israel	63	70	64	98	19

Table 8A--Continued

Country	1990	1991	1992	1993	Annual Growth 1990–93
Venezuela	$53	$70	$126	$97	28%
Chile	61	52	87	91	16
Spain	116	105	172	91	–7
South Africa	80	80	106	85	2
Algeria	3	3	4	83	889
Phillippines	91	58	63	75	–6
Ireland	30	31	35	75	50
Colombia	31	31	53	68	40
Russia	0	0	35	61	74
Denmark	79	68	69	59	–8
Sweden	81	66	53	57	–10
United Arab Emirates	39	78	66	53	12
Subtotal	$9,663	$10,431	$11,197	$11,518	6%

SOURCE: MASSPORT Trade Development Unit, Adjustments to data from U. S. Census Bureau, Foreign Trade Division, by MISER.

Table 8B

Pennsylvania Merchandise Exports to Selected Foriegn Nations, 1990 through 1993
(Ranked by 1993 values, in millions of dollars)

Country	1990	1991	1992	1993	Annual Growth 1990–93
Egypt	$59	$71	$33	$49	−6%
Kuwait	9	32	29	46	137
Greece	45	79	80	46	1
Dominican Republic	37	25	44	43	5
Indonesia	30	66	87	39	10
New Zealand	36	35	34	36	0
Finland	35	30	26	33	−2
Portugal	25	28	23	33	11
Norway	27	28	27	29	2
Costa Rica	11	13	16	28	52
Austria	17	23	23	26	18
Guatemala	9	10	16	26	63
Poland	5	12	16	23	120
Bahrain	2	5	15	19	283
Honduras	2	5	14	18	267
Jordan	12	11	18	18	17
Jamaica	8	12	11	18	42
Trinadad & Tobago	6	10	15	17	61
Peru	28	21	14	17	−13
Bermuda	16	19	16	16	0
Ecuador	8	11	11	16	33
Panama	13	15	14	13	0
Bahamas	10	10	10	12	7
Pakistan	48	38	13	12	−25
Nigeria	11	7	10	11	0
Hungary	4	3	9	11	58

Table 8B--Continued

Country	1990	1991	1992	1993	Annual Growth 1990–93
Czech Republic	$0	$0	$0	$9	
Iran	1	30	69	8	233%
El Salvador	3	5	6	7	44
Netherlands Antilles	15	7	6	7	−18
Ethiopia	0.7	0.7	1	7	300
Uruguay	3	4	5	6	33
Lebanon	4	6	5	6	17
Ghana	5	0.8	1	6	7
Luxembourg	1	2	1	5	133
Paraguay	5	3	2	5	0
Croatia	0	0	9	4	
Bolivia	1	2	2	4	100
Barbados	4	4	3	4	0
Subtotal	$556	$684	$784	$733	11%

SOURCE: MASSPORT Trade Development Unit, Adjustments to data from U. S. Census Bureau, Foreign Trade Division, by MISER.

Poland and Hungary. These are small importers of Pennsylvania products, but if their growth rates persist for any extended period of time, they will move up the rankings rapidly.

Table 9 shows the Pennsylvania merchandise exports to Eastern Europe by country for the 1990–93 period. The countries are broken into two groups, the CIS nations and the Central European nations. For all practical purposes there are only two CIS nations with any Pennsylvania exports: Russia and Ukraine. Russia with 92 percent of the exports is clearly a major trading partner.

All of the Central European countries are minor trading partners as of 1993. But the growth rates of some countries are impressive, if sustained over another 5– to 10–year period. Three countries stand out as potential major trading partners: Poland, Hungary and the Czech Republic. These three countries account for almost 80 percent of Pennsylvania exports to Central Europe in 1993. All three exhibit high growth rates in their demand for Pennsylvania exports. Exports to the two nations that formerly comprised Czechoslovakia have tripled in three years. However, in 1993, the total exports to Eastern Europe were 1 percent of Pennsylvania's total exports, a smaller share than the 1.3 percent of U.S. exports to Eastern European countries.

Table 9

Pennsylvania Merchandise Exports to Eastern European Countries, 1990–93
(In millions of dollars)

Commonwealth Independent States: (Former Soviet Union)	1990	1991	1992	1993	Annual Growth 1990–93
Armenia	$0	$0	$0.0	$0.2	
Azerbaijan	0	0	0.0	0.0	
Belarus	0	0	1.2	0.9	
Georgia	0	0	0.0	0.1	
Kazakhstan	0	0	0.1	1.8	
Kyrgyzstan	0	0	0.0	0.0	
Moldova	0	0	0.1	0.7	
Russia	0	0	35.0	61.0	
Tajikistan	0	0	0.0	0.0	
Turkmenistan	0	0	0.1	0.1	
Ukraine	0	0	0.8	2.2	
Uzbekistan	0	0	1.2	0.5	
Soviet Union	24	43	8.0	0.0	
Total, all CIS countries	$24	$43	$46.4	$66.6	59%
Central European Nations:					
Albania	$0.0	$0.2	$0.3	$0.1	
Bosnia–Herzegovina	0.0	0.0	0.7	0.1	
Bulgaria	0.5	6.7	6.5	1.0	33
Croatia	0.0	0.0	8.8	3.7	
Czech Republic	0.0	0.0	0.0	9.2	
Czechoslovakia	2.7	2.9	7.4	0.0	
Estonia	0.0	0.0	0.1	0.7	
Hungary	3.6	2.7	9.2	10.8	67
Latvia	0.0	0.0	0.4	2.0	
Lithuania	0.0	0.0	0.2	0.2	

Table 9--Continued

Central European Nations:	1990	1991	1992	1993	Annual Growth 1990–93
Macedonia	$0.0	$0.0	$0.0	$0.1	
Poland	5.5	11.5	15.9	23.2	107%
Romania	3.6	6.1	5.5	1.9	−16
Slovakia	0.0	0.0	0.0	0.3	
Slovenia	0.0	0.0	1.5	1.9	
Yugoslavia (new)	0.0	0.0	0.7	0.0	
Yugoslavia (old)	15.6	6.5	5.9	0.0	
Total exports, E. Europe	31.5	36.4	62.8	55.0	25
Total, E. European & CIS	$56	$79	$109	$122	40%
Ratio, E. European & CIS Exports to PA. total exports	0.5%	0.7%	0.9%	1.0%	

SOURCE: MASSPORT Trade Development Unit, Adjustments to data from U. S. Census Bureau, Foreign Trade Division, by MISER.

Exports by Individual States

Table 10 shows the direct manufacturing exports by state for 1986 and the merchandise exports by state for 1993.[14] Table 10 also shows the annual growth rate in exports over the 1976–86 and 1988–93 periods, and the ratio of reported state exports to state personal incomes in 1986 and 1993. This last measure is an approximation of the relative importance of international trade to the state's economic activity.

The rate of growth in exports over the two time periods is very diverse. The average annual growth for all states was 9.1 percent in the 1976–86 period, with a range from 51.4 percent for Nevada to 0.8 percent for Illinois. Among the top fifteen exporting states (California to Georgia) the average growth rate was 7.8 percent. However, this average was reduced by the disappointing performance of Pennsylvania, Illinois and New Jersey. These three states, along with Iowa, ranked in the bottom four in growth in manufactured exports over the 1976–86 period. Most of the states with very high growth rates were small exporters whose low base levels of exports help account for their high growth rates.

[14]The 1986 export data are based on estimates from the Exports from Manufacturing Establishments (EME) survey data. The 1993 state export data are from the estimates of the OMC generated by MISER. In 1986, the EME survey data allocated $158 billion in exports to the respective states; since the total value of exported commodities was $226 billion (see Table 2), $68 billion in export values were not allocated to the respective states because of the limitations of EME data.

Table 10

Merchandise Exports by State, 1986 and 1993, Annual Export Growth Rates, and The Ratio of Exports to State Income, 1986 and 1993 (Ranked by 1993 values, in millions of dollars)

	1 1986 Goods Exports	2 1976–86 Annual Growth	3 1986 Ratio of Exports to Income	4 1993 Goods Exports	5 1988–93 Annual Growth	6 1993 Ratio of Exports to Income	7 Weighted Average Growth
State totals	$158,360	9.1%	4.5%	$464,858	10%	8.7%	9.3%
California	17,216	11.3	3.8	70,310	9	10.3	10.7
Texas	10,982	11.1	4.9	52,197	10	15.1	10.8
New York	9,412	7.7	0.2	36,360	7	8.1	7.5
Washington	9,863	20.5	14.9	29,421	13	25.7	18.0
Michigan	10,878	5.8	8.0	25,140	4	12.9	5.2
Ohio	10,653	8.4	7.2	19,383	12	8.9	9.5
Illinois	7,209	0.8	4.0	18,957	13	7.2	4.8
Florida	3,373	14.8	2.0	18,204	7	6.4	12.2
Louisiana	3,020	11.8	6.0	15,209	0	21.3	8.0
Pennsylvania	6,027	2.8	3.6	12,328	12	4.8	5.7
Massachusetts	5,514	12.0	5.4	12,195	5	8.3	9.7
New Jersey	3,548	3.3	2.5	11,507	8	5.5	4.8
North Carolina	5,261	13.9	6.7	11,378	14	8.8	13.8
Virginia	2,704	7.5	3.0	10,164	6	7.3	6.9
Georgia	2,827	10.7	3.4	8,153	13	6.1	11.6
Indiana	4,787	6.9	6.6	8,033	14	7.3	9.2
Wisconsin	3,314	5.0	5.0	7,705	13	7.7	7.5

Table 10--Continued

	1 1986 Goods Exports	2 1976–86 Annual Growth	3 1986 Ratio of Exports to Income	4 1993 Goods Exports	5 1988–93 Annual Growth	6 1993 Ratio of Exports to Income	7 Weighted Average Growth
Minnesota	$3,692	13.6%	5.9%	$7,492	9%	7.9%	12.2%
Arizona	1,756	17.5	3.9	7,477	22	10.5	19.0
Tennessee	2,910	13.2	5.0	6,406	23	6.8	16.4
Connecticut	3,996	10.4	6.4	6,325	13	6.9	11.3
Oregon	1,863	12.6	5.3	6,128	7	10.4	10.8
Maryland	1,741	17.2	2.3	5,456	23	4.6	19.1
South Carolina	2,398	15.6	6.3	5,180	15	8.5	15.3
Kentucky	1,940	7.1	4.6	4,718	12	7.3	8.8
Missouri	4,268	16.3	6.1	4,000	9	3.9	13.9
Alabama	1,685	10.2	3.7	3,979	8	5.6	9.4
Colorado	1,478	14.0	3.0	3,511	13	4.6	13.8
Iowa	1,932	2.9	5.1	3,108	9	6.0	4.8
Kansas	1,835	18.9	5.2	3,027	11	5.9	16.2
Alaska	N.D.	N.D.	0.0	2,758	3	20.0	1.1
Vermont	384	9.2	5.4	2,734	27	24.4	15.0
Utah	669	19.9	3.6	2,541	34	8.5	24.6
Oklahoma	1,085	8.7	2.7	2,442	12	4.4	9.7
Mississippi	1,337	9.2	5.3	1,858	7	4.8	8.6
Delaware	430	12.8	4.4	1,625	7	10.7	10.9
Arkansas	1,065	6.4	4.1	1,566	24	4.0	12.3

Table 10--Continued

	1 1986 Goods Exports	2 1976-86 Annual Growth	3 1986 Ratio of Exports to Income	4 1993 Goods Exports	5 1988-93 Annual Growth	6 1993 Ratio of Exports to Income	7 Weighted Average Growth
Nebraska	$753	14.4%	3.5%	$1,560	14%	4.9%	14.3%
West Virginia	983	12.0	4.9	1,537	3	5.2	8.9
Idaho	503	19.8	4.5	1,236	15	6.4	18.3
Maine	801	21.4	5.3	1,141	8	4.9	17.0
New Hampshire	893	20.7	5.2	1,115	2	4.5	14.4
Rhode Island	482	7.9	3.4	1,025	17	4.8	10.8
Nevada	167	51.4	1.1	590	28	1.9	43.5
North Dakota	215	15.4	2.6	479	14	4.4	15.0
New Mexico	178	15.7	1.1	464	28	1.8	19.8
Wyoming	19	8.5	0.3	350	10	3.8	8.9
Hawaii	N.D.	N.D.	0.0	328	12	1.2	4.2
Montana	101	13.2	1.1	296	-5	2.0	7.1
South Dakota	213	21.1	2.6	286	42	2.2	28.1

SOURCE: C.C. Coughlin & T. B. Mandelbaum, "Accounting for Changes in Manufacturing Exports at the State Level: 1976-86." Federal Reserve Bank of Saint Louis, Review, Vol. 72, No. 5, Sept./ Oct. 1990, and U.S. Department of Commerce, Survey of Current Business, August, 1991, 1994, and U.S. Census Bureau, MASSPORT Trade Development Unit, 1994.

Column 3, the ratio of exports to personal income in 1986 is not comparable to column 6, the same ratio for 1993, because the former uses EME data and the latter OMC data. In 1986, total merchandise exports were $226 billion, total personal income was $3.5 trillion, and the national ratio was, therefore, 6.4 percent. Pennsylvania's ratio of 3.6 percent is below the national average, but not too different from the other states among the top fifteen. However, Pennsylvania's low growth rate in 1976–86 resulted in a smaller share of total exports in 1986 than the state commanded in 1976. If Pennsylvania had kept its export growth up to the national average, the 1986 export total would have been about $2 billion higher, and Pennsylvania's exports would account for 4.7 percent instead of the 3.6 percent of state personal income.[15]

Columns 4 through 6 of Table 10 show the 1993 export totals, growth rates and ratios of exports to income for 1993. The states with the fastest growing foreign trade sectors are generally small states with low base levels of exports, including South Dakota, Utah, Nevada, New Mexico and Vermont. States with high growth rates that are ranked among the top 25 exporting states are Maryland, Tennessee, Arizona and South Carolina.

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[15]Federal Reserve Bank of St. Louis, Review, Vol. 73, No. 4, pp. 65–79.

Column 7 combines the average annual growth rates of the 1976–86 period and the average annual growth rates of the 1988–93 period, each weighted by the number of years involved. The national growth rate is 9.3 percent. Maryland, Arizona and Washington are ranked among the top twenty states in total exports, and they clearly demonstrate a persistent excellence in pursuing export growth. The three small states, Nevada, South Dakota and Utah have also pursued export growth vigorously, although they have low export base levels.

Among the top 15 ranked states in exports, New Jersey, Illinois, Michigan and Pennsylvania have growth rates substantially below the national average for the 1976–1993 period, although Pennsylvania has performed better than the national average over the 1988–93 period.

Are the excellent export performances of the high growth states due to especially effective state export promotion efforts, or are they due to the particularly effective activities of private entrepreneurs and their labor force? This question would require substantial research to answer, but there is some evidence to suggest that state expenditures on export promotion are related to the level of exports by state (as opposed to the growth rate). In an article published in the Federal Reserve Bank of St. Louis, Review, the author concludes, based on 1980 data, that state spending on export promotion raises the level of exports.[16] His results indicate that $1,000 spent on exports will generate increased exports of $432,000. This is a remarkable result, but should be interpreted as a conclusion based on one state raising its promotion expenditures, while the other states do not. If many states compete by promoting their exports vigorously, they cannot expect foreigners to buy more state exports on the scale suggested by the above estimate. For a salient test of this proposition, see Table 2 for the 1980–85 period, when U.S. merchandise exports actually fell absolutely and as a percentage of GDP. Most states were expanding their expenditures on export promotion during this time, but the terms of trade, the exchange rate, the price and quality of goods and the incomes and tastes of foreign nationals determined the level of demand for U.S. exports, not the states' export promotion expenditures.

Prospects for Export Growth in Eastern Europe

Most of the traditional large United States trading partners in Western Europe, Canada and Japan show low or negative growth over the 1990–93 period. Among the major trading partners, two areas of the world maintain high growth in their imports from the U.S.: Latin America and the Pacific Rim. Pennsylvania should naturally focus its efforts on

[16]Cletus Coughlin, "The Competitive Nature of State Spending on the Promotion of Manufacturing Imports," Federal Reserve Bank of St. Louis, Review, Vol. 70, 1988, pp. 34–42.

promoting exports to these emerging export growth centers. However, it is probable that almost every state in the nation with an export promotion office is also focusing on these markets.

Eastern Europe is now emerging as a third area of growth. Poland, Hungary and the Czech Republic form a newly opened market for U.S. exports, including 59 million potential consumers. This is a region where Pennsylvania could play a significant role in market building. Export markets generally grow independently of state sponsored efforts, but growth may be stimulated somewhat by a concerted effort on the part of potential trading partners. Therefore, it is in Pennsylvania's interest to forge close links with several countries that have a high growth potential for mutually advantageous trade and exchange between Pennsylvania businesses and consumers and their counterparts in Eastern Europe.

Increased export promotion efforts in the Central European market may have a salutary effect on the fortunes of Pennsylvania based exporters and their Eastern European counterparts for several reasons.

The historical, cultural, familial and ethnic ties between the citizens of Eastern Europe and the residents of Pennsylvania can now be re-established. What was once forbidden or severely discouraged by the Communist leadership is now encouraged by the current political climate.

Further, the initial opening of new market opportunities in Poland, Hungary and the Czech Republic may lead to a gradual opening to other promising East European economies, such as Belarus, Bulgaria, Romania and even Yugoslavia. Beyond these, there lie the Baltic States, the Russian Republic and other CIS nations that may recover from their current economic difficulties and begin to play a peaceful and prosperous role within the world economy. Policies proven to be successful in neighboring countries may be adopted over time by nations that seek economic growth and a rising standard of living. For example, Ukraine has recently adopted a set of policies that emulate the Polish model of administering "shock therapy" to the economy. Similarly, if the Pennsylvania foreign trade office results in successful outcomes in Poland, Hungary and the Czech Republic, the successes will be replicated. Gradually one Eastern European nation after another could take advantage of the Pennsylvania connection and its opening to growth– and wealth–creating foreign trade opportunities.

The task force recommends the establishment of a new Commonwealth trade office in Central Europe. The office should be in a centrally located city within a centrally located nation. The city of Warsaw in Poland is a logical choice. This choice may be timely since the economies of Poland, Hungary and the Czech Republic have begun to experience positive growth after the steep decline over the past five years.

The economies of several other Central European nations may have bottomed out and may begin to show surprising growth.

These new potential growth markets may enable Pennsylvania's businesses to gain a foothold in a new and burgeoning export market. The Commonwealth's foreign trade office is the first step in a concerted and focused foreign trade initiative. A Commonwealth foreign trade office, permanently established and staffed in Warsaw, will signify long–term commitment to mutually prosperous commercial relationships in Central Europe.

FEDERAL RESPONSE

Department of Commerce

The Department of Commerce offers assistance and information to exporters in order to increase U.S. competitiveness in the world economy and collects economic statistics and social data for the use of private analysts and government planners. It also provides support for scientific, engineering and technological research; promotes domestic and international economic well being and development; and assists international travel and tourism in the United States.

The Department of Commerce has established five programs that may assist business development in Central and Eastern Europe, viz., the United States and Foreign Commercial Service (US&FCS); the Business Information Service for the Newly Independent States (BISNIS); the United States – Russia Business Development Committee (BDC); the Consortia of American Business in Eastern Europe (CABEE); and the Consortia of American Business in the Newly Independent States (CABNIS). A description of each of these programs follows.

United States and Foreign Commercial Service (US&FCS)

The United States and Foreign Commercial Service is the federal government's primary export promotion agency. The service operates the commercial sections of seventy large American embassies and handles domestic duties as well.

The primary functions of this agency are to inform American companies about business opportunities abroad, run trade fairs and furnish general advice. Some of the agency's most important services are fee based. US&FCS provides direct assistance for American firms through its commercial offices in major foreign cities. The agency established a commercial office in Moscow almost 20 years ago. New offices were opened in Kiev and St. Petersburg in 1992. Additional commercial offices were more recently opened in Tashkent, Uzbekistan; Almaty, Kazahkstan; and Vladivostok, Russia. American Business Centers that will provide Western–style business facilities on a fee basis will be within the five new offices.

An important program offered by the US&FCS is the "Gold Key Service". U.S. companies make arrangements directly with the overseas commercial offices. For a fee, US&FCS will organize an entire schedule of customized business appointments according to the goals identified by the American firm.

Business Information Service for the Newly Independent States (BISNIS)

The Department of Commerce's Business Information Service for the Newly Independent States is a one-stop shopping service offering assistance to American firms interested in doing business in these markets. BISNIS provides American firms with information on market and industry developments, trade contacts and potential partner leads, government programs supporting trade and investment in the region, and general market guidance. BISNIS draws upon numerous resources, including commercial databases and publications, overseas reporting from U.S. embassies and information from other government agencies. In addition to preparing commercial reports on these markets, BISNIS has regular publications describing market developments and identifying commercial leads and potential NIS partners. These publications are sent free to interested U.S. firms.

United States-Russia Business Development Committee (BDC)

The U.S.-Russia Business Development Committee, which is co-chaired by U.S. Secretary of Commerce and the Russian Deputy Prime Minister for trade, was established to foster economic and trade relations. American companies can benefit through participation in BDC working subgroups organized by the Department of Commerce's trade development industry sector offices and the Bureau of Export Administration. U.S. firms are encouraged to join the BDC subgroups and participate in events such as trade missions, conferences, and other contacts with their Russian counterparts.

Consortia of American Businesses in Eastern Europe (CABEE)

In June 1991, the Commerce Department initiated the Consortia of American Businesses in Eastern Europe, a grant program designed to stimulate trade between Central Europe and the United States and to assist that region in the move toward privatization. CABEE provides grant funds to trade organizations to defray the costs of opening, staffing and operating U.S. consortia offices in Central Europe.

The consortia are nonprofit U.S. firms interested in trade with Central Europe. These organizations assist hundreds of member firms develop business relationships in Central Europe. The CABEE grant program has prioritized Poland, the Czech Republic, Slovakia and Hungary for project operations. In addition, the Commerce Department has targeted five industry sectors for participation in this program: agribusiness/agriculture, construction/housing, energy, environment and telecommunications; grants were awarded to agribusiness, construction, environment and telecommunications. Eight non–profit CABEE grantee commercial offices are located: three in Warsaw, two in Prague, two in Budapest and one in Sofia.

Consortia of American Businesses in the Newly Independent States (CABNIS)

In July 1992, the U.S. Commerce Department initiated the CABNIS grant program to stimulate U.S. business in the CIS nations and to assist the region in its move toward privatization. CABNIS provides grant funds to non-profit organizations to defray the costs of opening, staffing and operating U.S. consortia offices in the CIS. The CABNIS program, which is modeled after CABEE, serves as a venue for U.S. exporters who otherwise would be unable to enter such an evolving and complex market alone.

As an example of how CABNIS works, the American Building Products Export Council and the Home Builders Institute have cosponsored and built American style sample homes in Warsaw. American technology and personnel worked with their Polish counterparts to construct these homes. The objective of this exercise is similar to a trade show, with the intended result to be the generation of exports related to manufactured housing, housing components and manufacturing related services.

CABNIS consortia also work to enhance private sector development in the CIS nations. This assistance can take the form of marketing host country products, supporting indigenous counterpart organizations, promoting joint ventures with local companies, or providing technical training of local employees. The CABNIS offices are staffed with knowledgeable, indigenous individuals experienced with the industries that they represent.

CABNIS consortia remove many of the obstacles to exporting in the CIS for small- and medium-sized firms. By pooling commercial expertise and other resources, Pennsylvania companies that otherwise could not enter these markets will be able to gain a competitive foothold. Pennsylvania small to medium sized firms are encouraged to form a nonprofit umbrella organization in order to apply for funding under this program.

Other Federal Agencies

Depending upon a company's field of activity, there are other federal government agencies that can also be contacted for market information on Eastern Europe. For instance, if the U.S. firm is interested in mineral resources, it may contact the office of the Bureau of Mines specializing in the Eurasian region, which will have a commodities specialist with extensive contacts in the region. Similarly, the Federal Aviation

Administration, Department of Agriculture, Department of Energy, the Environmental Protection Agency and other federal agencies employ specialists who are knowledgeable about the region.

For a detailed listing and explanation of federal programs designed to help the Pennsylvania exporter, see Appendix A.

PENNSYLVANIA'S RESPONSE

The Commonwealth has several economic development initiatives that have both direct and indirect impact on Pennsylvania exporters. These may be divided into four types: Commonwealth agencies and programs; state and federal joint programs; multi–state programs; and local development agencies. Private and State initiative is creating Pennsylvania International Partners in Progress (PIPP), a public/private partnership to promote trade development in Eastern Europe.

Department of Commerce/Pennsylvania Economic Development Partnership

Office of International Trade (OIT)

The Commonwealth administers economic development and foreign trade issues through the Office of International Trade of the Department of Commerce. OIT directs its resources to those Pennsylvania based industries that provide the best opportunity to expand foreign markets for Pennsylvania produced goods. The office implements international marketing initiatives through the participation in international trade shows and trade missions by Pennsylvania's small and medium sized business. The office assists in securing export financing, insurance and export loan guarantees through the use of federal and state programs. The office advises the Governor and Secretary of Commerce on international trade related matters.

Pennsylvania budgeted $2.8 million for OIT operations in fiscal year 1993–94, an increase of 37 percent over the $2.0 million allocated in fiscal year 1992–93 and 91–92. Funds were applied to trade/export promotion, investment attraction, agricultural export promotion, international tourism and other. Of the amount appropriated, $580,000 was allocated for operation of the International Trade Office in Harrisburg; $1.2 million was allocated for the offices of overseas representatives in Brussels, Frankfurt, Tokyo and Toronto;[17] $500,000 was allocated to a new program, Pennsylvania Export Partnership (PEP); and $500,000 to the

[17]The Brussels, Frankfurt and Tokyo offices are dedicated solely to representing the interest of the Commonwealth of Pennsylvania. The Toronto office is a trade liaison office. Pennsylvania, Indiana and Wisconsin share the expenses of running this office. The office is housed with the U.S. Foreign and Commercial Service in Toronto and has access to the Service's data resources. The Pennsylvania portion of the project is supervised by OIT. The states participate in a regional endeavor in which each pays a portion of the total marketing costs incurred. Pennsylvania's share of the operating expenses is paid out of Commerce's operating budget.

Hardwood Development Corporation.[18]

The Office of International Trade has targeted the medical, environmental, food processing and electronics instrumentation industries for trade development assistance. The companies eligible for assistance are small to medium sized, employing up to 2,000 employees; priority is given to firms employing fewer than 500 employees. Presently, OIT targets export markets in Western Europe, Canada, Mexico, Southeast Asia and Latin America.

Capital Loan Fund

Under the Capital Loan Fund,[19] the Department of Commerce is directed to determine eligibility requirements for certain federal loans and

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[18]OIT Budget (In thousands of dollars):

	Fiscal Year 91/92	Fiscal Year 92/93	Fiscal Year 93/94	Percent Change 1993–94
Harrisburg Office	$ 495	$ 525	$ 580	10.4%
Overseas Office	1,005	1,150	1,220	6.0
PEP	–	–	500	–
Hardwood Dev. Center	500	369	500	35.5
Total	$2,000	$2,094	$2,800	33.7%

Source: Office of International Trade, Department of Commerce.

[19]Act of July 2, 1984 (P.L.545, No.109), known as the Capital Loan Fund Act.

is authorized to make advances to area loan organizations (ALO's)[20] for the purpose of making certain capital development and export assistance loans. Class III Loans are made to support capital development projects of firms with fewer than 100 employees which demonstrate a substantial likelihood of providing long–term increases in net new employment opportunities. Loans are made to support the financing of land, buildings, machinery or working capital for the manufacture of products for export. The Fund is financed by appropriations from the General Fund and other sources. The amount available to the Fund for fiscal year 1993–94 is $12 million, unchanged from the previous fiscal year.

Another type of loan intended to further export development is the Export Assistance Loan. The purpose of the loan is to provide funding to small manufacturing concerns, with between 100 and 500 employees, who are penetrating or significantly increasing their share of international export markets. The Export Assistance Loan program was approved by the Legislature, but a source of funding was never identified. The task force believes that identification of a funding source for this program would facilitate the Commonwealth's export development initiative.

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[20]The Pennsylvania Capital Loan Fund is administered through 21 designated local Area Loan Organizations. These organizations process the loan applications then submit the completed application, with the local ALO's review, to the Department of Commerce for its review and approval. See Appendix B for list of ALO's.

The Capital Loan Fund Act provides for loans to processors of value–added farm commodities as a Class IV loan. The purpose of the loan is to provide funding to small secondary processing firms. Agricultural processor loans are funded by means of inter–agency transfers from the Department of Agriculture and require the approval of both departments. Historically, $1.0 million has been appropriated annually to the Department of Agriculture for this program. The qualifications for participation in this program are that the borrower must have 100 or fewer full–time employees and must demonstrate a substantial likelihood of providing long–term increases in net new employment opportunities. At present, the act makes no provision for funding exports of this type. The task force believes that value–added agricultural commodities should be included in the export development initiative. Therefore, the act should be amended to make investments in exports of those commodities eligible for Class IV loans.

The Department of Commerce proposes administrative and legislative changes to the Pennsylvania Capital Loan Fund.[21] The Department suggests that loan limits be raised; that the focus of job retention projects be on increasing the competitiveness of small companies;

[21]A draft copy of the proposed changes is on file in the office of the Joint State Government Commission.

that eligibility be expanded to include manufacturing service firms; and that signed contract requirements be eliminated. The proposed changes are designed to improve both the efficiency and effectiveness of the program, and the task force supports their adoption.

Pennsylvania Export Partnership (PEP)

The Pennsylvania Export Partnership is administered by the Department of Commerce and funded by appropriation from the Commonwealth. Funding of $500,000 is provided for the fiscal year 1993–94. The Pennsylvania Export Partnership Act[22] establishes the Pennsylvania Export Partnership Advisory Board, directs the Department of Commerce to develop certain international marketing initiatives, and authorizes the Department to participate in and accept contributions for trade development activities in cooperation with other nongovernmental entities. The act establishes the Trade Event Grant Program and the Regional Export Matching Grant Program and provides for additional responsibilities of the Department of Commerce. PEP brings together business, state and federal agencies, education, training and trade development organizations —— all with the common goal of promoting and

[22]Act of July 1, 1992 (P.L. 810, No.130), known as the Pennsylvania Export Partnership Act.

coordinating the export of Pennsylvania goods and services.

One tool PEP uses to contribute to Pennsylvania's export competitiveness is the Trade Event Grant Program. Under this program, the Commonwealth provides matching funds of up to $2,500 to help small and medium sized businesses defray certain costs associated with exhibiting or attending an international trade event. The grants are designed to encourage companies that could not otherwise afford to participate in these events.

Trade event grant recipients receive marketing assistance from an experienced trade specialist prior to and during the actual trade event.[23] The trade specialist helps a company assess the competition, determine its product's competitiveness, discover product improvements, identify and meet with potential agents or distributors, and arrange meetings with foreign buyers.

An applicant must be a business located within Pennsylvania, with sales of $50 million or less and with 500 or fewer employees. The company must either manufacture a product; process raw materials into products; package or repackage products; or assemble, package and sell products. Companies that have no proven export history will be given preference

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[23]All applications must be submitted through a PEP Regional Export Service Provider organization to the Office of International Trade. A list of the Service Providers appears in Appendix A. A Trade Event Grant Program application and list of eligible trade events also appears in Appendix A.

over experienced exporters; however, companies that have demonstrated export initiative in new foreign markets are also eligible. Participation is limited to one grant per company per fiscal year.

The Regional Export Matching Grant Program is also funded under PEP. Under this program, OIT has selected ten nonprofit organizations from across the Commonwealth to serve as PEP Regional Export Service Providers. Seven Local Development Districts (LDD's), two Small Business Development Centers and an Export Consortium were chosen as the Regional Export Service Providers. OIT will assist these providers in the development and execution of Regional Export Development Programs. Funding of each of the providers is on a matching grant basis.

Providers are expected to identify and recruit companies to participate in the Trade Event Grant Program. The providers are responsible for assisting companies in the completion of the grant application process and for conducting market research to assess the export potential of a company's product in a specific market. Each provider must supply OIT with adequate justification for a company's participation in a trade event for which grant assistance is being sought. In addition, the provider is responsible for assisting successful Trade Event Grant applicants with the grant reimbursement process following their participation in a trade event. The provider must also work closely with OIT to document a company's success at a trade event.

The Export Partnership Act is due to expire on June 30, 1995, and the task force urges its continuation.

Joint State/Federal Programs

The Pennsylvania Department of Commerce utilizes various services provided to states by the following federal agencies: the United States Department of Commerce; United States Agency for International Development (AID); Small Business Administration (SBA); Overseas Private Investment Corporation (OPIC); State Department; Export/Import Bank; the U.S. Customs Department; and the Appalachian Regional Commission (ARC).[24]

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[24] Under the provisions of the Appalachian Regional Development Act of 1965, as amended, (P.L. 89–4), the Federal Government instituted a program to assist the Appalachian region in meeting its special problems to promote economic development, and to establish a framework for attacking its common problems and meeting its common needs on a coordinated and concerted regional basis. The legislation authorized the creation and funding of Local Development Districts (LDD's) having a charter or authority that includes the economic development of counties or parts of counties or other political subdivisions within the region. By act of June 8, 1965 (P.L.107, No.74), the Governor was authorized to undertake such activities as may be necessary to implement the said Federal legislation, and by Executive Order No. 18, dated April 12, 1967, entitled The Administration of the Appalachia Program in Pennsylvania, the Governor directed Commerce to exercise the State's responsibilities in the Appalachia program.

The Appalachian region of the Commonwealth is divided into seven multi-county local development districts (LDD's).[25] The LDD's direct federal and state funds to economically depressed rural and urban areas within Pennsylvania's Appalachian region.[26] The LDD's provide business financing and access to the Pennsylvania Capital Loan Fund; set up business incubator facilities; assist businesses in foreign export sales; help companies obtain state and federal government contracts; provide job training programs; and promote tourism, community development and energy conservation.[27]

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[25]Local Development Districts and Counties Served:

- Northwest Pennsylvania Regional Planning and Development Commission – Erie, Warren, Crawford, Mercer, Venango, Forest, Lawrence, Clarion.
- North Central Pennsylvania Regional Planning and Development Commission – McKean, Potter, Elk, Cameron, Jefferson, Clearfield.
- Northern Tier Regional Planning and Development Commission – Tioga, Bradford, Susquehanna, Sullivan, Wyoming.
- Economic Development Council of Northeastern Pennsylvania – Lackawanna, Wayne, Pike, Luzerne, Monroe, Carbon, Schuylkill.
- Southwestern Pennsylvania Regional Development Council – Beaver, Butler, Armstrong, Indiana, Allegheny, Westmoreland, Washington, Fayette, Greene.
- SEDA-Council of Governments – Clinton, Lycoming, Centre, Union, Montour, Columbia, Northumberland, Snyder, Mifflin, Juniata, Perry.

[26]The LDD's are under contract with the Pennsylvania Department of Commerce to undertake economic and enterprise development activities within their respective geographic areas. A draft copy of the Agreement is on file in the office of the Joint State Government Commission.

[27]Under the agreement an LDD is to work cooperatively with existing resources within its area, including, but not limited to, Small Business Development Centers, Private Industry Councils, Ben Franklin Technology Centers, Community Action Agencies, Industrial Resource Centers, industrial development corporations and authorities, and housing and redevelopment authorities. The agreement includes a clearly defined export development component that directs the LDD to cooperate with the Office of International Trade.

Appalachian Regional Commission (ARC)

The Appalachian Regional Commission (ARC), a joint state/federally funded program, is administered by the Pennsylvania Department of Commerce and provides funding for export development. ARC funds are utilized in two ways. First, the Department of Commerce administers the Enterprise Development Program through the LDD's within the Appalachian region.[28] The Enterprise Development Program is designed to provide technical assistance to small and medium sized businesses located within this region. Each LDD is required to offer services in three core areas: development finance, procurement assistance and export outreach.

Under export outreach, the LDD's provide assistance to help businesses obtain foreign export sales. Trained export specialists aid small and medium sized companies that may have the potential to compete in foreign markets. The specialists receive leads on foreign sales opportunities through an extensive network of contacts, including offices of the U.S. International Trade Administration (ITA) and the Department's Office of International Trade. After identifying possible matches, the specialists provide a range of technical assistance to the business.

[28]The seven local development districts represent 52 of the Commonwealth's 67 counties and serve as liaisons to the federal government. ARC activities are restricted to that portion of the Commonwealth that is encompassed within the Appalachian Region.

The LDD's receive both state and federal funds to carry out the Enterprise Development Program. State funds come from a line–item appropriation made to the Department of Commerce for this purpose. In fiscal year 1994–95, the seven LDD's received a total of $1.5 million in state funds. These moneys are used to match federal funds received through the ARC, which in federal fiscal year 1995 totalled $2.5 million. It should be borne in mind that no fixed proportion of the $4 million in funding is set aside for export outreach assistance.

ARC funds have also been used to develop marketing guides for use by certain industry sectors and to develop the computer link–up currently in place between the Department and the LDD's. To access funds for individual projects, applications must be submitted through an LDD and must pertain to projects that affect the Appalachian region. ARC moneys must be matched with grantee funds, typically on a 50–50 basis.

<u>Pennsylvania State University</u>

Pennsylvania State University is active in Eastern Europe through programs administered by the College of Agriculture and the Applied Research Laboratory (ARL). The College of Agriculture and Extension Education actively participates in international agricultural development efforts by sending faculty and agriculture extension service providers to

Albania, Lithuania, Latvia, Hungary, Poland and Ukraine. Upon their return to Penn State, faculty members are expected to utilize the experience gained in teaching the college of agriculture students; extension service workers use their experience to enhance extension services to Pennsylvania's farmers.

The College of Agriculture's activities in Eastern Europe are funded entirely from the following federal sources: the Agency for International Development, the Department of Agriculture and the United States Information Service.

The College of Agriculture's involvement in Eastern Europe has provided a unique opportunity not only to faculty and students but also to Pennsylvania's farmers and processors of agricultural products. The Pennsylvania food processing industry and Polish farmers and food processors can benefit each other economically.

The Advance Research Laboratory (ARL) has been in existence for more than 50 years performing research principally for the United States Navy. The naval research activities are funded by the Department of Defense. ARL does not utilize any of the University's funds in conducting research activities. Due to the draw down in defense spending, ARL is seeking to work with private industry to translate dual–use technologies and related skills into commercial applications.

The East European countries and Ukraine, in particular, were highly advanced in the sciences during the Cold War era and have a large pool of science and engineering talent. ARL is providing "technology assessment" of technologies developed at that time by Ukrainian scientists, including the "electronic beam." ARL has several exclusive agreements with the Ukrainians to bring their technologies to Western industrial markets.

Multi–state Trade Promotion Groups

Pennsylvania is a member of the Council of Great Lakes Governors and the Council of State Government's Eastern Regional Conference. The Great Lakes Council provides information on investment demographics and other relevant statistics to major industries within the council membership.

The Council of Great Lakes Governors has undertaken a series of business development projects in the international arena aimed at generating additional sales, jobs, tax revenues and profits for the region. The states, through the trade directors, target specific sectors holding export opportunities for the region as whole in the areas of export promotion, data base and marketing strategy development, joint venture promotion and tourism.

The Export Task Force of the Council of State Government's Eastern Regional Conference formed the International Trade Data Network, which so far has linked up the trade offices of Rhode Island, New Hampshire, Connecticut and Pennsylvania. The network draws from more than 40 federal agencies and other sources. As part of its efforts to promote a regional trade strategy, the council had the Urban Institute identify promising Northeastern export categories; among those recommended were medical instruments, publications, hand tools and electrical equipment.[29]

Local Agencies

County, regional and city economic development organizations are actively engaged in trade development via the local development districts

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[29]The Urban Institute, Targeting Export Markets For Pennsylvania, (New York: Council of State Governments Eastern Regional Conference, 1993). The report offers an analysis of Pennsylvania's most competitive manufacturing export sectors and their chief international markets.

and small business development centers (SBDC's).[30] Funding for the development districts comes from both state and federal sources. The SBDC's are funded by the Commonwealth through the Department of Commerce and on the federal level by the Small Business Administration.

The SBDC's have jointly developed Pennsylvania Export Network Service (PENS), a software package to match foreign leads with Pennsylvania firms in the right industry. In its first six months of operation, the PENS program sent over 10,000 leads to almost 800 Pennsylvania firms. PENS has the potential to serve as the basis for the development of a much expanded data base serving all Pennsylvania based firms.

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[30]Small Business Development Centers (SBDC) and Counties Served:
Gannon University SBDC – Erie, Mercer, Crawford, Warren.
Clarion University SBDC – Potter, Vennago, Forest, Clarion, Armstrong, Cameron, Clearfield, McKean, Elk, Jefferson, Indiana (Indiana University of Pennsylvania Satellite).
Duquesne University SBDC – Butler, Lawrence, Beaver, Allegheny.
University of Pittsburgh SBDC – Allegheny, Washington, Greene, Fayette.
St. Vincent College SBDC – Westmoreland.
St. Francis College SBDC – Bedford, Blair, Cambria, Fulton, Huntington, Somerset.
Bucknell University SBDC –Centre, Clinton, Mifflin, Union, Lycoming, Montour, Northumberland, Snyder, Juniata, Perry.
Kutztown University Capital Region SBDC – Adams, Berks, Dauphin, Franklin, York, Lancaster, Cumberland, Lebanon.
University of Scranton SBDC –Lackawanna, Monroe, Pike, Wayne, Wyoming, Susquehanna, Tioga, Bradford.
Wilkes College SBDC – Luzerne, Columbia, Carbon, Schuylkill, Sullivan.
Temple University SBDC – Philadelphia, Delaware, Montgomery, Bucks, Chester.
University of Pennsylvania, The Wharton School SBDC – Philadelphia, Delaware, Montgomery, Bucks, Chester.
LaSalle College SBDC – Philadelphia, Delaware, Montgomery, Bucks, Chester.
Lehigh University International Trade Development Center SBDC – Lehigh, Northampton, Montgomery.

The SBDC's provide small business in the Commonwealth a competitive edge through free, individual management consulting and low cost business training workshops.. A network of university–based, management assistance centers, the SBDC's employ consultants with expertise in export assistance. The SBDC's sponsor seminars, consulting, networking, product promotion, trade fairs, and business oriented publications.

The LDD's provide general business advice which contains an export development component. By entering into contracts with PEP, the seven LDD's as export service providers, have committed themselves to providing a level of service and expertise in the local development districts. The task force supports this approach, but is concerned that duplication of effort might result. The task force seeks positive results from the export development program; a specific way of measuring those results would be for OIT to develop a performance audit of the SBDC's and the LDD's.

Public/Private Partnerships

At present there are no public/private sector partnerships in Pennsylvania to promote trade development. This could change with the creation of Pennsylvania International Partners in Progress (PIPP), a project proposed to be organized jointly by the Commonwealth and the private sector. Although the Commonwealth may play an important role in PIPP's development, it will not operate the organization. The project will represent a business development initiative linking Pennsylvania businesses to Eastern European businesses. PIPP's focus will be to increase Pennsylvania's participation in the export markets of Central Europe and the Commonwealth of Independent States. PIPP appears to be a suitable candidate for federal assistance via the CABEE or CABNIS consortia grant programs.

PIPP will be an international nonprofit corporation incorporated in Pennsylvania. Membership will be open to all businesses incorporated within Pennsylvania. The corporation will be governed by a Board of Directors, which will set dues and fees, including additional fees for translation and other services. Through the collection of dues and support from private sources, it is envisioned that the organization will quickly become self sufficient.

The unique component of this organization is that a sister organization will be created in Eastern Europe. This organization will provide PIPP with a direct link to its service area.

Additionally, a bond program might be established that targets Pennsylvania companies who conduct business in PIPP's service area. The aim of the program would be to provide direct, flexible financial assistance to Pennsylvania businesses interested in Central Europe and the CIS. This program might includes low interest loans or loan guarantees, small scale capital investment and other forms of financial assistance.

PIPP will also offer services such as translation, export assistance and participation in humanitarian aid projects. Trade lead development will be an important activity that will be facilitated by PIPP's structure. Both entities will maintain databases of its members that can allow for instantly linking Pennsylvania businesses with similar businesses in Eastern Europe and the CIS. PIPP may also serve as an additional conduit for federal export assistance, including federal grants, subsidies, loan guarantees and administrative support.

If implemented as suggested, this approach will address both the technical and financial concerns expressed by Pennsylvania business regarding this market. The goal is to evolve from foreign aid to a wealth–building system. Under the proposed system new partnerships are formed, and both sides participate financially, create jobs and reap the benefits of their enterprise.

PARTICIPANTS AT TASK FORCE HEARINGS

I. Hearing, April 14, 1994, Pittsburgh

The hearing format was that of a round table discussion.

GERALD A. BURKE, CPA, Urish Popeck and Company, Certified Public Accountants

BERNIE COLLIGAN, Office of the Mayor of Pittsburgh

EMANUEL DOMBAKIAN, Business Consultant for Eastern Europe, H. J. Heinz Company

SUZANNE ETCHEVERRY, University of Pittsburgh

RON FURNIVAL, Professional Services

ANN GLEASON, Staff Assistant, Office of the Honorable William J. Coyne, M.C., United States House of Representatives

DUAN HOVANEC, Slovak Translator

IGOR A. JOURIN, Ph.D., Assistant to Director, Office of Multicultural Education, La Roche College

JOSEPH MALLINO, Chief Financial Officer, Alexander Mill Services, Inc.

TIMONTHY W. MEHALLICK, Mehallick Manufacturing Co.

GEORGE MORDWINKIN

STEPHEN W. PAULOVITCH, President, Erie Balaton

KATHRYN PETRUCCELLI, University of Pittsburgh graduate student in Russian and East European Studies

JAMES P. SHONBORN, Russian Translator

DOUG TAYLOR, Alexander Mill Services, Inc.

JOHN J. URBANIAK, Aviar Software Inc.

GWEN L. VENESKEY, Aviar Software Inc.

JAY WEINBERG, Maglev Inc.

K. DALE WISSMAN, President, Mountain Vest Corporation

II. HEARING, MAY 5, 1994, PHILADELPHIA

The hearings consisted of two parts: 1) a tour of the Packard Avenue and other Marine Terminal facilities on the Delaware River, and 2) discussions held in the Tioga Administration Building of the Philadelphia Regional Port Authority.

Part I: Marine Terminal Facilities

HONORABLE JOSEPH L. ZAZYCZNY, Secretary of Administration, Commonwealth of Pennsylvania

Delaware River Port Authority:

PATRICIA A. HUGHES, Government Relations

JOSEPH MENTA, Assistant Director of Communications

Philadelphia Regional Port Authority:

TERRY FOLEY, Marketing Representative

WILLIAM B. McLAUGHLIN, III, Director of Communications, Governmental & Public Affairs

Other Participant

REGINA MARIE LEDERER, Alcohol Education Specialist, Pennsylvania Liquor Control Board

Part II: Tioga Administration Building

RONALD K. BEDNAR, Regional Planning Specialist, Bureau of Community Planning, Department of Community Affairs

HONORABLE JOSEPH L. ZAZYCZNY, Secretary of Administration, Commonwealth of Pennsylvania

Delaware River Port Authority

PATRICIA A. HUGHES, Government Relations

JOSEPH MENTA, Assistant Director of Communications

Philadelphia Regional Port Authority

TERRY FOLEY, Marketing Representative

WILLIAM B. McLAUGHLIN, III, Director of Communications, Governmental & Public Affairs

Philadelphia Economic Development Corporation

RAYMOND W. DEVLIN, Manager, Program Development

STEPHEN E. MEVEC, Manager, Research and Planning

Other Participants

ZORAN BALMAS deKIDE, President and CEO, EUR–AM Corporation

J. PETER HORAN, Account Representative, Janbridge, Inc.

EDWARD P. KOLINKA, Quality International Ltd.

JOHN W. KOPCHA, President, Kopcha Resource Management, Ltd.

REGINA MARIE LEDERER, Alcohol Education Specialist, Pennsylvania Liquor Control Board

EDWARD W. LUKIEWSKI, President, Polonia Federal Savings and Loan Association

WILLIAM F. LYONS, Vice President, Navmar Applied Sciences Corporation

ANTHONY J. MADERA, AJM

ANDRE MICNIAK, Esquire

MARK PARKER, Sales Engineer, Kras Corporation

GREGORY W. PIASECKI, Administration, Piasecki Aircraft Corporation

LAWRENCE PLUMMER, President, Kras Corporation

BOHDAN (BILL) PYTLOWANY, IDC–Group, Inc.

BERNARD M. RAYCA, Rayca International Group

PAMELA D. VARKONY, Partner, Director of Account Services, Spectrum Global

ZSOLT F. VARKONY, Partner, Director of Marketing Services, Spectrum Global

EUGENE J. WLODKOWSKI, Executive Vice President, Washington Savings Association

III. HEARINGS, JULY 6 & 7, 1994, STATE COLLEGE

The Penn State hearings were bifurcated: Part I of the University's presentation was conducted by administrators with detailed briefings on activities in the area of agriculture, presented by the College of Agriculture and Science; Part II was conducted by the Applied

Research Laboratory with presentations on technology assessment capabilities and activities in Central and Eastern Europe.

Part I: Nittany Lion Inn Conference Room

Pennsylvania State University (Office of the President)

RICHARD DIEUGENIO, Governmental Affairs

JOHN LEATHERS, Associate Vice President, Commonwealth Educational Systems

DAVID R. SCHUCKERS, Special Assistant to the President

College of Agriculture and Science

DONALD EVANS, Assistant Dean for Extension, Assistant Director Cooperative Extension, Associate Professor of Agriculture and Extension Education

J. DEAN JANSMA, Associate Dean for International Programs and Professor of Agricultural Economics

Applied Research Laboratory

L. RAY HETTCHE, Director and Professor of Engineering Research

PART II: Applied Research Laboratory

Pennsylvania State University (Office of the President)

RICHARD DIEUGENIO, Governmental Affairs

JOHN LEATHERS, Associate Vice President, Commonwealth Educational Systems

DAVID R. SCHUCKERS, Special Assistant to the President

Applied Research Laboratory

CHARLES H. BRICKELL, Research Associate

ROBERT J. HANSEN, Chief Scientist

L. RAY HETTCHE, Director and Professor of Engineering Research

EDMOND D. POPE, Senior Research Associate

HENRY E. WATSON, Senior Research Associate

College of Agriculture and Science

DONALD EVANS, Assistant Dean for Extension, Assistant Director Cooperative Extension, Associate Professor of Agriculture and Extension Education

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