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CONTENTS

Economic Indicators

The United States

The U.S. economic recovery continues to proceed at a strong pace. Industrial production is near its all-time high, the number of unemployed workers has fallen by 2 million in the last 9 months, and prices are increasing at a rate substantially below double-digit figures.

Industrial production rose a strong 1.5 percent in September to push within 0.1 percent of its previous peak in July 1981. Especially large increases in production occurred in automotive products and business equipment. September's increase followed increases of 1.2 percent in August and 2.2 percent in July.

The unemployment rate fell from 9.3 percent in September to 8.8 percent in October. The sharp decline pushed the unemployment rate 2 percentage points below the recession peak of December 1982. Since December 1982, the number of unemployed workers has fallen from 12 million to less than 9.9 million. Analysts were puzzled by the October report because the figures show that the size of the U.S. labor force fell by 553,000 workers, an unusual event in an economic recovery. Analysts were divided on whether the October decline would be reversed in November.

The index of leading economic indicators rose 0.9 percent in September, the thirteenth consecutive monthly increase. The index increased 0.3 percent in August (revised) and 0.6 percent in July. For the third quarter as a whole, the index rose 2.8 percent, substantially less than the 5.9-percent increase in the first quarter and the 4.7-percent increase in the second. The slower rate of increase in the third quarter suggests that economic growth is likely to slow in coming months.

Sparked by sharply higher prices for new and used cars, consumer prices rose 0.5 percent in September. Consumer prices, which increased 0.4 percent in August and July, increased just 2.9 percent for the 12 months ending in September 1983. Most analysts expect consumer prices to increase between 4.5 and 5.5 percent in 1984.

Producer prices rose 0.2 percent in September, following increases of 0.4 percent in August and 0.1 percent in July. In the last 12 months, producer prices increased 1.4 percent. Small increases in producer prices tend to be reflected in small increases in consumer prices in ensuing months.

Both long- and short-term interest rates increased in September. The yield on 3-month Treasury bills, which has ranged between 7.5 and 9.5 percent in 1983, rose from 8.5 percent to 8.75 percent. The yield on 30-year Treasury bonds, which has ranged between 10.25 and 12.0 percent in 1983, rose from 11.25 to 11.75 percent.

Higher U.S. interest rates helped push the value of the U.S. dollar higher against most major currencies. The value of the U.S. dollar increased by about 1 percent against the Japanese yen, British pound, and Canadian, and increased by about 3 percent against the Swiss franc, German mark, and French franc.

The U.S. merchandise trade deficit for September was $5.8 billion, sharply lower than August's record deficit of $7.2 billion. The trade deficit for the first 9 months of 1981 is $46.6 billion, which already surpasses 1982's record deficit. The huge trade deficit has been caused by a strong U.S. dollar, which has lowered exports and increased imports, and by the surging U.S. economy, which has increased demand for both domestic good and imports.

International comparisons

Economic indicators suggest that economic recovery continues in the major industrial countries, but at different rates. France faces difficulties from increases in inflation. Japan, bowing to domestic and international pressure, has announced an economic package that stimulates domestic demand, but that also attempts to strengthen the yen.

Unemployment.--Britain's Department of Employment reported that British unemployment in October, seasonally adjusted, decreased slightly to 12.3 percent of the labor force, down from 12.4 percent in September. Government officials and private sector economists cautioned that further declines are not expected soon.

Statistics Canada reported that Canadian unemployment, seasonally adjusted, declined from 11.3 percent in September to 11.1 percent in October. The October rate was the lowest since June, 1982.

Current account balances.--France's Foreign Trade Ministry reported that the current account, seasonally adjusted, moved from a $366.2 million deficit in the second quarter to a $113.6 million surplus in the third quarter. The turnaround was welcome news to French officials, and evidence that the strict austerity plan imposed last March was working. The merchandise-trade surplus of $40.8 million in September contrasted sharply with a $49.1 million deficit in August. The gain was attributed to a decline in imports, down 4.9 percent, rather than an expansion of exports. Exports fell 3.8 percent. Until French inflation is reduced, French exports will be less able to compete in foreign markets without a further weakening in the franc. Without export growth, French gains on the current account are limited to import declines brought about by restricting domestic consumption.

Britain's Department of Trade reported that the monthly current-account surplus, seasonally adjusted, increased from $33 million in August to $400 million in September. The merchandise-trade surplus was $163 million, and was only the second monthly surplus in 1983. Despite the September figures officials thought that, partly because of the stronger pound, the current-account surplus would not reach their target of $2.2 billion for 1983.

Japan's current-account surplus, seasonally adjusted, declined from $2.05 billion in August to $1.96 billion in September. The Finance Ministry reported that the merchandise-trade surplus also declined slightly from $3.1 billion in August to $2.6 billion in September.

The Deutsch Bundesbank reported that West Germany's current-account deficit, seasonally adjusted, declined sharply from $1.3 billion in August to $225 million in September. The decline was smaller than expected, however.

Prices.--The French National Statistics Institute issued a preliminary report that French retail prices increased by 0.7 to 0.8 percent from August to September. The figures dashed hopes that French inflation would achieve the target levels of 8 percent set for 1983. Government forecasts are now for 8.4 percent inflation in 1983, but predictions from private sources range as high as 9.1 percent. The disheartening inflation figures are expected to increase pressure on the French Government to tighten price controls to prevent wages from increasing and the franc from falling further.

According to figures released by the Department of Employment, British retail prices increased 0.4 percent from August to September and 5.1 percent from September 1982. Government officials attributed the rise to price increases in food, autos, and transportation. Market analysts expect British prices to increase gradually in coming months.

The Federal Statistics Office reported that, West German consumer price increases slowed from 2.9 percent on an annual basis, in September to 2.6 percent in October.

The Statistical Office of the European Community (EC) reported that consumer prices in the EC increased 0.8 percent from August to September. The largest price increases occurred in Greece (3.8 percent) and Italy (1.3 percent), while the smallest price increases occurred in Holland (0.4 percent) and West Germany (0.2 percent).

The Organization for Economic Cooperation and Development (OECD) reported that consumer prices in OECD countries increased 0.4 percent from July to August, and 4.9 percent from August 1982. The August rate reflected modest increases in retail food and energy prices that outpaced non-food, non-energy retail price declines.

Interest rates.--Responding to domestic pressure, the Japanese Government announced a lowering of the discount rate from 5.5 percent to 5 percent. The decline was part of an economic package designed to stimulate domestic demand and to promote imports and capital inflows. Other parts of the package more increased public spending, tax cuts, and some tariff reductions. Japan's Finance Minister has pledged to keep the yen from weakening after the discount rate falls. To support the yen, the Finance Ministry is expected to intervene in the exchange markets and to promote capital inflows.

Exchange rates.--Amid calls for greater internationalization of the Japanese yen, the International Monetary Fund (IMF) reported that yen reserve holdings by foreign countries declined in 1982. Yen holdings by foreign countries are an indicator of the extent of the yen's use as an international currency. In 1982, the decline was particularly notable among oil producing countries and other developing countries. The decline was the first since yen holdings began to increase in 1973. The decline is expected to continue in 1983.

According to market analysts Maxwell Stamp Associates, currencies within the European Monetary System (EMS) may be realigned in early 1984. They expect the dollar to weaken in the next several months. The weaker dollar will strengthen the West German mark more than other EMS currencies and drive the French franc to its floor level within the arrangement. In this case, the franc and the lira will be devalued and the mark revalued.

Japan will limit specialty steel and automobile shipments to the United States

In October, quantitative limits were set for two major products imported into the United States from Japan--automobiles and specialty steel. Japan agreed to continue its voluntary restraints on automobiles for another year and to cap specialty steel exports for 4 years. Formal or informal trade restraints are now in effect for at least 40 Japanese products--ranging from textiles to typewriters and to telecommunications apparatus--including 12 of the 20 leading U.S. import items in 1982.

Shipments of machinery and equipment accounted for 69 percent and minerals and metals for another 18 percent of the total value of U.S. imports from Japan in 1982. The bulk of machinery and equipment sales were accounted for by automobiles, trucks, motorcycles, machine tools, computers and other office equipment, while shipments of carbon steel plate, steel pipes and tubes, and stainless steel accounted for most shipments in the minerals and metals category. With the exception of computers and office equipment, restrictions are now in effect on shipments of all of these products to the United States.

Automobiles alone accounted for over one-fourth of U.S. imports from Japan in 1982. The United States is the world's largest market for Japanese cars; over a third of Japan's auto exports were shipped to the United States in 1982. Europe, which strictly limits imports of autos from Japan, accounts for another 20 percent of Japan's export sales. Thus, over half of Japan's overseas sales of autos are restrained in some fashion.

Japan agreed to extend for another year the voluntary limits on its automobile exports. Voluntary limits were agreed to in March of 1981, and have remained at 1.68 million units for the past 3 years. For 1984 the limit will be set at 1.85 million units, an increase of 10 percent. However, Japanese producers are expected to lose market share as a result of the new limits. They are expected to garner approximately 18 percent of the projected U.S. market for new automobiles next year, down from 22 percent in 1983.

Some of Japan's largest auto makers may lose more market share, depending on how the quota is allocated by the Japanese Government. For the past 3 years, quotas have been allocated based on 1979 market shares. This system has worked in favor of then-dominant Toyota, Nissan and Honda by preventing Mazda, Subaru, and Mitsubishi from increasing their U.S. sales. Those companies are now pushing for a larger piece of the pie, and two other producers have entered into the fray. Isuzu and Suzuki are seeking quota allocations so they can meet their commitment to supply GM with small cars. Quota allocations will be announced by March of 1984.

Import quotas were placed on specialty steel in 1976, when Japan was found to have dumped stainless and alloy tool steel in the United States market. Those quotas expired in 1979. In the ensuing period, other foreign manufacturers began to make inroads in the U.S. market. Late in 1982, the Commission instituted an "escape clause" investigation on specialty steel. In July, following an affirmative injury determination by the ITC, the President granted the specialty steel industry relief in the form of tariffs and quotas.

The President's announcement resulted in an uncharacteristically reaction from Japan. Japanese producers claimed that they had exerted self-restraint in both prices and shipmentrs since 1979, while other producers began to sell massive quantities at low prices. Japan initially sought compensation under article 19 of the GATT. After preliminary consultations, the Japanese decided to seek a country allocation within the overall U.S. quota, while reserving its right to seek compensation in the GATT for the additional duties imposed by the United States on stainless steel sheet and strip, and on stainless steel plate.

The result of the negotiation was a formal orderly marketing agreement (OMA) announced October 19, 1983. While forcing cuts in its shipments of specialty steel, the OMA guarantees Japan a larger share of the U.S. market. Under the agreement, in effect until mid-1987, Japanese shipments of stainless steel bar will be capped at 12,500 tons. While this is a 28.5 percent cut from 1982 levels, it represents 46.3 percent of the imported bar market- 2.7 points higher than Japan had last year. The same type of agreement was made for alloy tool steel. In absolute terms, Japan will ship less to the United States, but Japan's share of the import market will go up from 12.8 percent in 1982 to 18.2 percent under the new agreement. With stainless steel rod, Japan fared far better. It increased its allocation not only in relative terms, but in absolute terms as well--5,600 tons or 29.3 percent compared with 4,613 tons, or 21.1 percent in 1982.

Six other countries (Argentina, Austria, Canada, Poland, Spain, and Sweden) have made arrangements with the United States and now have formal OMA's. The combination of these seven countries, including Japan, only leaves 39 percent of the rod quota, and 28 percent of the alloy tool steel quota, to be allocated among suppliers from France, West Germany, Brazil and Korea.

Countervailing duty petition against textile imports from China

The new United States-China textile agreement signed in August, after a year of difficult negotiations, is generally viewed as a significant step toward improving relations with the Chinese. U.S. textile manufacturers contend, however, that the annual rate of import growth permitted under the agreement (an average 3.5 percent in controlled categories) will seriously damage the domestic industry. The American Textile Manufacturers Institute and two unions representing textile workers have sought further import relief. In a petition filed with the International Trade Administration of the Department of Commerce, they have alleged that China subsidizes its exports and should be subject to a countervailing duty of 40.4 percent *ad valorem* on its textiles, apparel, and related products, including all textile fibers. Almost half of the value of all U.S. imports from China in January-September 1983 consisted of textile products as defined in the petition.

The basis of the subsidization charge--the first to be brought by a U.S. industry against a nonmarket economy country--is China's dual exchange-rate system. In January 1981 China introduced an internal settlement rate of 2.8 yuan to the dollar for all external transactions, both export and import. This settlement price for Chinese enterprises has been maintained since that time. The official rate of exchange was 1.6 yuan to the dollar when the internal rate was established, but has fluctuated because it is pegged to a basket of currencies. The difference between the two rates as of May 31, 1983, when the official exchange rate was 1.9939 yuan to the dollar, was used to determine the amount of the subsidy requested in the countervailing duty petition.

The Department of Commerce accepted the CVD petition and initiated its investigation in October, but since there were virtually no precedents on which to base the case, it held a conference on the "novel issues" involved on November 3-4. The two leading issues to which interested parties responded were: (1) whether U.S. countervailing duty law covers nonmarket economy countries; and (2) whether dual exchange rates in either a market or nonmarket economy can confer a countervailable subsidy on a specified exporting sector where the same rate of exchange applies to all exported and imported products and the currency is not freely convertible. In addition to these basic legal and economic questions, another matter addressed at the conference (and one inseparable from the main issues) was the highly complicated system of artificial prices in the Chinese economy. Although a program to gradually reform the price structure was recently adopted by China's central planning authorities (IER, June 1983), most prices are still set in accordance with political decisions to redistribute assets within the economy, and do not necessarily reflect market forces. Their relationship to conditions of supply and demand is further obscured by a system of quotas and rationing. Textile products provide a notable example of this complex system of controls since apparel and fabrics are not only a major source of China's foreign exchange but also play an important role in the Government's efforts to raise the standard of living of the Chinese people.

The International Trade Commission will not participate in the countervailing duty investigation since there is no requirement under U.S. trade law to make a determination on the question of injury in this case. An injury determination would be required only if China had acceded to the Subsidies Code under the General Agreement on Tariffs and Trade and had been designated a country under the Agreement by U.S. authorities, or if China had accepted an equivalent obligation to limit subsidies under a bilateral agreement with the United States.

What's dutiable: the disk, its contents, or both?

Should the tariff on computer software be based on the value of the medium--the disk, magnetic tape, punched card, etc.--or should it be based on the market value of the software program? This question, which is now before the GATT Committee on Customs Valuation, is the most serious issue so far to come before the committee since the agreement on customs valuation entered into force on January 1, 1981.

Prior to the agreement, computer software was essentially valued according to the Brussel definition of value (BDV), that is, on the basis of the value of the medium on which the software resided. Since the entry into force of the Tokyo round agreement on valuation, however, some signatories have interpreted the agreement in such a way as to permit the inclusion of the value of the software itself in the dutiable value. This would mean that the value of the data, the information, the program, or whatever is contained on the carrier medium would be dutiable in addition to the value of the carrier medium itself.

The United States maintains that this new interpretation of the rules affecting the valuation of computer software introduces a lack of uniformity into customs valuation practices internationally, and in fact, introduces an unintended new barrier to trade in computer software. The anomaly of the situation is underscored by the fact that, under current circumstances and in a number of countries where technical facilities permit, the entire question of customs valuation of software is moot because software can be telecommunicated between countries by telephone or by satellite.

The United States has proposed that the GATT Committee formally decide to return to the international practice that existed before the code, where the information content of software generally did not form part of the dutiable value. Two-thirds of the countries applying the customs valuation code today were parties to the previous practice. Since the United States currently maintains specific duties on the items involved (e.g. 0.9¢/ sq. ft. of recording surface for magnetic tape), the valuation controversy, however resolved, will not result in an alteration of U.S. duties.

Opposition to the U.S. proposal is centered in a few developing countries who view it as an effort to obtain a permanently bound tariff concession on a product of rapidly-growing importance. They maintain that adoption of the proposal would lock governments into a zero-duty position with respect to software. The majority of countries that are important in software trade support the U.S. position. The GATT Committee on Customs Valuation is expected to address the issue at its November meeting. At stake is an estimated $2 billion in U.S. exports, not to mention the broader issues of trade in services and transborder data flows.

World debts: crisis continues

Despite the resilience recently shown by the international monetary system in staving off the default of a number of debtor nations, there remains an intense world-wide concern over the external debts of less developed countries (LDCs) and nonmarket economies (NMEs). Earlier this year the International Monetary Fund (IMF) estimated that by the end of 1983 the total external debts of nonoil producing LDCs will reach $664.3 billion. But later, during the September meeting of the IMF, some Governors of the Fund have been quoted to say that this number should be closer to $700 billion. All estimates assume that total external debts will continue to grow for years to come, and according to some, external LDC debts will be above the $1-trillion mark before this decade is over. Although the estimated total of NME external debts declined from $81.5 billion at the end of 1982 to a current $73.5 billion, the balance of payments situation of Poland and Romania is still on the critical list.

Commercial bank lending to nonoil-producing LDCs and NMEs is declining. At the same time, Western support for multilateral financial organizations like the IMF faces increasing political difficulties. Yet from one source or another new funds will be needed to refinance maturing liabilities and to finance new investments in LDCs. Rescheduling debts beyond a certain limit endangers the equity of private banks unless they receive public assistance, but harsh austerity measures in LDCs trying to meet their payment obligations risks provoking a violent political backlash in those countries.

Although repudiation of debts would practically ensure that the repudiating debtor country could not get commercial loans in the foreseeable future, there is a growing political pressure in a number of LDCs to declare a moratorium on debt payments. The recent political wrangling in Brazil over austerity measures representing IMF conditions for assistance is well known from the press. The menace of repudiation by Argentina was considered even more pronounced during the past few months, and Polish leaders reportedly regard the recovery of production a priority over balance of payment considerations. But these are only a few examples of the world-wide tensions which have built up over the enormous burdens that citizens of poor countries must bear in order to keep their governments from defaulting.

Where will this unpromising situation lead?.--Pessimistic, moderate, and optimistic tones may be discerned in the cacaphony of assessments and predictions about the outcome of the debt situation. Pessimists say that it would be in the interest of several debtor countries to default. Instead of breaking their backs trying to meet payment obligations in hope of new development loans, which are not likely to be forthcoming, these countries would be better off to use their export revenues to import on a "cash and carry" basis, according to this view. Sooner or later, this line of reasoning goes, one of the debtor countries will recognize this and will declare a moratorium on payments. A moratorium declared by one debtor nation would be likely to lead to others and then to a chain reaction of bank failures. Even without a debtor moratorium, bank failures caused by erosion of equity from bad loans or from requirements to increase bad loan reserves could chain react. These events, which might be triggered by some outside event, like renewed problems with oil supplies from the Persian Gulf, etc. could have far reaching consequences for the U.S. economy and in the international sphere. The current situation, a pessimist would say, is leading to a crisis in international trade and financial relations.

Moderates say that the situation is salvageable without major changes in the institutions, norms and practices of international finance, but that creditors must own up to the fact that some LDC and NME loans are not worth 100 cents on the dollar. Many moderate analysts suggest that the market should be allowed to decide how much nonperforming IOUs are worth by offering these obligations for sale at a discount. While current official and private creditors would take substantial losses, these would be sustainable. These analysts recommend a variety of minor, innovative institutional solutions such as having the World Bank set up subsidiaries to raise funds for LDCs on Euromarkets.

Optimists maintain that multilateral organizations and the current system of international banking and financial relations has the capability to see the world through the prevailing debt crisis. The most articulate spokesmen of this view are the officials of multilateral organizations themselves. For example, Mr. Van Lennep, Secretary-General of the Organization for Economic Cooperation and Development (OECD), told the Interim Committee of the IMF on September 25, 1983, that the strategy of economic recovery and dealing with international debt problems has so far proved to be largely effective. In an official statement on the debt situation, the Basel-based Bank for International Settlements (BIS) recently contended that the aggregate current account deficit of non-oil producing LDCs appears to be manageable. The IMF maintains that the worst is over: fatalistic predictions and off-the-cuff recommendations emanate from the fact that private bankers and financial experts outside multilateral organizations, having no control over the situation and not knowing all the details, are understandably nervous. (To alleviate this problem, the Fund plans to develop by January a system to provide more current and comprehensive international banking and external debt statistics than have existed hitherto for private bankers engaged in loaning to LDCs and NMEs).

The IMF and other international organizations, joined by many prominent officials of Western central banks, are optimistic because they believe that a sustained, noninflationary economic recovery in the industrialized countries will spread to the rest of the world. This will bring about a lasting expansion of world trade, which will in turn generate export revenues for debtor countries enabling them to consolidate and subsequently reduce their debts. The result would be an end to the current extraordinary pressure on the international financial system.

This recovery scenario by itself is not unrealistic. A recovery in the United States and in most of the industrialized countries is indeed underway. The OECD estimates that real GNP in the OECD area is currently growing at a rate of 3-3 1/2 percent, and world trade has begun to grow again.

World economic recovery will have to go on for at least 4 or 5 years before the current crisis situation can be consolidated and the confidence of commercial bankers restored. The current precarious balance between the solvency of debtor nations and creditor banks may not last that long, however, without conceptual and practical changes in world finances.

Development of new ceramic materials, the "steel of tomorrow," to be spurred by Japanese Government

New ceramic materials are expected to replace steel and plastics in many uses in the years ahead. Commercial production of ceramic products has thus far been confined to a few areas, notably electronic parts. However, major research is now underway in a number of countries, often with governments taking a lead role. In Japan, the Government has put in place a number of mechanisms to propel its firms to commercial production of new ceramic materials and products. Among these mechanisms are several Government-sponsored research and development projects, a draft Government blueprint for the industry, and the creation of a new organizational unit within the Ministry of International Trade Industry (MITI) to handle the ceramics industry. Japanese firms are now leading the world in developing new ceramic materials and products. For instance, Kyocera International has garnered a 70 percent share of the world market for ceramic capacitors.

The centerpiece of MITI's promotional efforts is a 10 year project funded by its Agency for Industrial Science and Technology (AIST). Begun in 1981, the project will focus on development of structural ceramics for nuclear energy, aerospace, and thermal engine applications. The Government has decided to focus on development of structural ceramics, rather than ceramics for electronic uses, because private firms already have a number of projects underway to develop ceramics for use in electronics.

The 10 year research project is to receive approximately $42 million from MITI. The actual budget is to be determined each year. In 1981 MITI spent $1.7 million for the project and in 1982, it spent $2.7 million. Between 80 and 90 percent of the budget is given directly to the partcipating firms. Fifteen private firms from the electric power, electronics, machinery, metal, textile, and chemical industries are taking part, along with four Government laboratories. Nineteen separate research areas are being pursued, with different groups of firms specializing in particular research areas. One hundred private sector researchers are said to be involved, most on a part-time basis. There are no joint laboratories, but technical meetings are held to discuss research results. The patents that result from the project will generally be Government-owned, but exceptions will be made for companies that demonstrate that they have incorporated proprietary technology in the final product. So far, 10 patents have resulted from the project.

Separate research is also being conducted by MITI's own laboratories under the AIST. In late 1982, two of those labs developed methods to combine carbon and ceramics into a new material for machinery parts and components.

In addition to the MITI-sponsored programs, the Japanese Science and Technology Agency (STA) initiated a 5-year program in 1981 to develop new materials including ceramics, to be funded at over $10 million. The Ministry of Education also allocated approximately $1 million in 1982 for research to investigate new ceramic materials.

A variety of completed projects that were funded by STA have focused on ceramic development. It funded research on ceramic diesel engines and gas turbines under two energy-related programs. In the three years ending in 1980, STA spent 100 million yen--roughly $450,000--to fund research by Kyoto Ceramics (a private firm) to produce a prototype ceramic diesel engine for automobiles. The firm succeeded in developing such an engine in December of 1981.

This summer, MITI established a special inhouse section to cover the ceramics industry. In June, MITI set up a private sector advisory group for the industry. A "vision" for the industry is to be ready in May of next year. A preliminary draft was prepared in January 1983. "Visions" generally consist of projections of future trends in the industry and nonbinding goals for research, investment, and production, as well as estimates of the funding required to meet these goals.

In July, the United States Government asked Japan to agree to exchange research results on such materials by exchanging samples of new ceramic materials. (The United States has been engaged in the exchange of ceramic samples with West Germany for the past 4 years under the aegis of the International Energy Agency). Japan has agreed to set up an exchange program, probably before the end of this year. Test pieces of ceramic materials separately developed in both Japan and the United States are to be exchanged.

The United States ran a deficit in the labor content of trade in 1982

The United States ran a deficit in the overall labor content of its merchandise trade in 1982 after running surpluses in 1980 and 1981, according to a study just issued by the USITC. The overall deficit in 1982 was 450,000 work-years. Among individual sectors, agriculture had a surplus of 275,000 work-years, manufacturing had a deficit of 1,003,000 work-years, mining had a deficit of 56,000 work-years, petroleum had a deficit of 149,000 work-years, and services had a surplus of 483,000 work-years. The study also provides separate estimates of the labor content of imports and exports for 79 industry categories for the years 1978 through 1982.

The results of the labor-content analysis for individual trading partners were as follows: the United States ran deficits in the labor content of trade in 1982 with the other members of the Organization for Economic Cooperation and Development as a group, the newly industrializing countries as a group, Japan, Hong Kong, Korea, and Taiwan. Surprisingly, the deficit in labor content was greater for U.S. trade with Hong Kong, Korea, and Taiwan combined (640,000 work-years) than for U.S. trade with Japan (573,000 work-years), even though the dollar trade deficit with Japan was much larger than the dollar trade deficit with the other three countries. The United States ran surpluses in labor content of trade in 1982 with the European Economic Community, the less developed countries as a group, the members of the Organization of Petroleum Exporting Countries, Mexico and China. The largest surpluses were with the European Economic Community (226,000 work-years), the less developed countries (245,000 work-years) and the members of the Organization of Petroleum Exporting Countries (354,000 work-years).

The study also found that the labor content of a billion dollars of exports in 1982 exceeded the labor content of a billion dollars of imports for overall U.S. merchandise trade and for U.S. trade with most trading partners. The notable exception was U.S. trade with the newly industrializing countries, where the labor content of a billion dollars of imports exceeded significantly the labor content of a billion dollars of exports.

The report cautions that although the labor content estimates provide important information about employment effects of changes in trade for individual industries, actual employment effects depend on a number of other factors that are difficult to quantify. Such factors include the response of exchange rates to changes in trade, the responses of employers to changes in production, and the ability of domestic production to replace imports with no significant increases in cost.

In addition to providing estimates of trade-related employment, the data and methodology developed for this study can be used to analyze the effects of various trade policies on labor markets in individual U.S. industries.

Global recovery requires "sustainable, noninflationary growth" in the advanced industrial countries

The new Annual Report, 1983 of the International Monetary Fund (IMF) considers "sustainable and noninflationary economic growth" in advanced industrial countries as a necessary condition for solving the malaise of the world economy and trade. This was also the concensus at this year's annual meetings of the IMF and the World Bank which followed the release of the IMF annual report in mid-September. IMF officials and the authors of the new annual report of the General Agreement on Tariffs and Trade (GATT, International Trade, 1982/83) both express cautious optimism that the incipient recovery in some advanced industrial countries has already set the stage for a global recovery. The latest annual report of the Organization for Economic Cooperation and Development (OECD) estimates the current growth of the GNP in advanced industrial countries at 3 to 3.5 percent.

The IMF and GATT regard softening interest rates and the abatement of inflation as the most encouraging signs that the economies of the advanced countries are getting sounder. Nonetheless, they also express concern about the persistence of certain problems, such as unacceptably high unemployment, still too-high interest rates, and the possibility that the economic recovery might reignite inflation. The GATT report also noted that the decline of savings in industrial countries, compounded with the disappearance of capital exports by oil-exporting countries, could inhibit the recovery.

However, the primary concerns of leading international institutions were directed not at the advanced industrial world but at less developed countries (LDCs), including some oil exporting countries. Normally, a recovery in the industrial world is expected to be transmitted to developing countries through increased demand for their products and an increase in primary-product prices. This time though the GATT notes, protectionist pressures in the advanced countries and high interest rates might prevent the recovery from spreading to the LDCs as quickly as before. Even if the export earnings of the LDCs were to increase, the GATT claims that a major part of such increment would go to service their large accumulated foreign debt.

In 1982, world production and trade suffered their most severe setbacks since 1975. The IMF puts the decline in the volume of 1982 trade at 2.5 percent compared with the 3 percent fall experienced in 1975. (There was at least some year-to-year growth in each of the intervening years.) GATT calculates that a 2-percent contraction took place in the volume of both world exports and world production last year. The decline in world trade was even more pronounced in terms of U.S. dollars, owing to an average reduction of 4 percent in dollar unit values. The GATT estimates that the decline in unit values and in the trade volume combined resulted in a 6-percent reduction of global trade in dollar terms.

According to IMF data, all groups of countries shared in the trade decline, with the exports of the oil exporting countries contracting most rapidly (19 percent by volume). Meanwhile, despite a comparatively negligible decline in the volume of their 1982 exports (0.8 percent), those LDCs that do not possess exportable petroleum resources suffered most from the global recession and the resulting weakening of primary commodity prices. This was manifested in an outright decline of their 1982 per capita income levels as a group. These countries--poor even in better times--had to make major external adjustments, as evidenced by a 7.7 percent decline of their 1982 import volume.

Piracy on the high seas: commercial counterfeiting

Modern-day piracy is on the rise in the form of traffic in goods that bear counterfeit trademarks or that infringe on patent rights or copyrights. In recent years there has been a substantial increase in trade of counterfeit goods, not only in terms of total value, but also in the variety of products counterfeited, the sophistication of the distribution process, and in the similarity of fakes to the originals. World-wide counterfeit sales are estimated to be $18 billion dollars annually. 1/ The traditional market for counterfeit goods had been luxury items. It now includes designer jeans, video games, computers, automotive parts, and boating accessories.

Narrowly defined, commercial counterfeiting involves the unauthorized use of a registered trademark where the trademark is duplicated exactly and the product is either identical or very similar to the genuine product. A broader definition of counterfeiting would include patent or copyright infringement; the unauthorized use of a trademark on a dissimilar product; package simulation or "passing off" (a close but not exact copy of a familiar product's packaging or logo); and falsifying the country-of-origin label of a product. 2/

The counterfeiting problem has grown so large in recent years that several changes in U.S. law regarding trademark counterfeiting have been either instituted or proposed. Generally, the lawmakers' intent is to deter counterfeiters by making it much more costly to manufacture or knowingly trade in counterfeit goods. A bill currently under consideration in Congress would upgrade the offense from a misdemeanor to a felony and impose substantially increased fines, damage awards up to treble the value of "lost sales" or treble the counterfeiter's profits, and longer jail sentences.

Other manifestations of the counterfeiting problem are the security systems designed to enable producers to separate close fakes from the genuine article. Levi Strauss & Co. has recently tested a computerized code embedded in the fibers of the cloth labels on their products. Producers are also turning to the USITC for relief. The number of investigations involving copyright, trademark or patent infringement grew from 13 in 1979 to 33 in 1983. 3/ Finally, the International Anti-Counterfeiting Coalition (IACC), a consortium of American and European firms which have banded together with the intention of bringing world-wide attention to the problem, has had its membership grow from 12 in 1978 to a present 186.

1/ Due to the clandestine nature of the activity, it is next to impossible to obtain even a realistic ball-park figure on its magnitude. This figure is provided by the International Anti-Counterfeiting Coalition.

2/ Taiwanese officials were rather embarassed when a group of British offcials visiting a textile factory during a goodwill tour to Taiwan in 1981 observed the production of wool fabric bearing the label "Made in England."

3/ First 10 months of 1983.

While U.S. producers have come up with several methods to combat counterfeiting domestically, remedies to control the overseas dimensions of the problem are much harder to come by. U.S. producers do not have the leverage or the institutions to stiffen customs procedures in other countries on counterfeit imports. For many producers, sales lost overseas are much more significant than domestic sales lost to counterfeiters.

Many if not a majority of counterfeit products originate outside the United States. A handful of countries in East Asia are responsible for manufacturing the bulk of internationally traded counterfeit goods. Taiwan is widely believed to be the largest source of counterfeit goods, followed (at a distance) by South Korea, Hong Kong and Singapore.

U.S. producers have great difficulty protecting their intellectual property in other countries. The process of registering a trademark varies considerably from country to country. In many cases, ownership of an internationally recognized trademark may simply be granted to the first applicant, who may or may not be the legitimate owner. In addition, the East Asian concept of intellectual property, as embodied in the scope of their laws, often differs significantly from the Western concept. Penalties for violators are likely to be lenient, unenforced or simply nonexistent.

On the multilateral and international front, the IACC has spearheaded an attempt to introduce into the GATT a "Counterfeit Code." The code, now in draft form, would require that counterfeit goods (narrowly defined) be seized and destroyed or confiscated, instead of allowing re-export as is often the case now. It is supported by the U.S., the EC, Canada, and Japan but opposed by most developing countries. They consider the basic issue to be "intellectual property" and therefore outside the scope of the GATT, and they fear that a code would be used as a protectionist barrier against their exports. In addition, there is the question of reduced national income in terms of lost revenue from counterfeit exports and in terms of inexpensive imports of "brand-name" consumer goods.

Bilateral negotiations between the United States and the longer East Asian sources of counterfeit goods are proving to be more sucessful in providing relief than the proposed GATT code. In response to pressure from the United States and other countries, Taiwan has in recent years instituted stiffer penalties and more comprehensive laws regarding various forms of counterfeiting. In addition, Taiwanese courts have handed down some decisions favorable to U.S. producers, and the Government has tried to educate lawyers and business executives about American trademark, copyright and patent law. South Korea is watching its southern neighbor closely.

USITC investigation No. 332-158 "The Effects of Foreign Product Counterfeiting on U.S. Industry," is expected to be available to the public in January 1984, and will provide new data on this issue.

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

Country	1980	1981	1982	1982			1983		1983					
				II	III	IV	I	II	Apr.	May	June	July	Aug.	Sept.
United States	-3.6	2.6	-8.1	-6.6	-3.4	-8.1	9.9	18.3	25.8	14.3	17.0	29.6	15.4	19.8
Canada	-1.5	0.9	-10.7	-10.5	-11.0	-14.4	22.3	12.7	22.4	19.8	21.9	10.7		
Japan	4.7	1.0	0.4	-6.4	6.5	-2.8	3.6	6.7	-2.3	3.6	12.3	2.3		
West Germany	-0.8	-2.7	-3.1	-2.0	-12.6	-5.4	5.1	8.1	22.0	-6.7	32.8	-11.9		
United Kingdom	-6.4	-5.1	1.5	1.6	2.1	0	4.8	0.7	8.5	12.2	-18.8	38.2		
France	0.7	-2.6	-1.5	4.2	-9.0	3.2	2.1	4.2	9.9	20.4	-24.3	20.3		
Italy	5.5	-2.4	-2.2	-17.2	-31.3	9.0	-1.9	-10.4	-42.6		-19.8	8.1		

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, Sept. 1983.

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

Country	1980	1981	1982	1982			1983		1983					
				II	III	IV	I	II	Apr.	May	June	July	Aug.	Sept
United States	13.5	10.3	6.2	4.6	7.6	2.0	-0.4	4.2	7.2	6.7	2.5	4.9	5.3	5.3
Canada	10.2	12.5	10.8	12.8	9.2	-1.2	3.0	4.2	3.1	-0.3	8.1	6.3	8.6	1.4
Japan	8.0	4.9	2.6	4.2	2.4	3.2	0.6	1.1	-2.7	6.4	-4.3	-0.1	3.2	-2.2
West Germany	5.5	6.0	5.3	5.7	4.5	2.8	0.4	1.3	1.0	3.7	3.3	5.1	7.1	5.6
United Kingdom	18.0	11.9	8.6	13.0	2.5	2.6	3.5	1.9	-1.7	4.6	4.2	9.1	8.5	11.3
France	13.5	13.3	12.0	12.7	5.7	7.6	11.0	10.6	13.1	10.0	10.5	7.2	8.5	12.1
Italy	21.2	19.3	16.4	12.9	18.1	19.9	13.3	14.2	14.6	14.7	12.1	13.7	10.7	9.7

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, Sept. 1983.

Unemployment rates
(Percent; seasonally adjusted; rates of foreign countries adjusted to be roughly comparable to U.S. rate)

Country	1980	1981	1982	1982			1983			1983					
				II	III	IV	I	II	III	Apr.	May	June	July	Aug.	Sept.
United States	7.1	7.6	9.7	9.4	10.0	10.7	10.3	10.1	9.4	10.2	10.1	10.0	9.5	9.5	9.3
Canada	7.5	7.6	11.0	10.5	12.1	12.7	12.5	12.4	11.7	12.5	12.4	12.2	12.0	11.8	11.3
Japan	2.0	2.2	2.4	2.4	2.4	2.4	2.7	2.7		2.7	2.7	2.6	2.5	2.8	
West Germany	2.9	4.1	5.8	5.6	6.0	6.6	7.0	7.4	7.5	7.4	7.4	7.4	7.5	7.5	7.5
United Kingdom	7.0	10.6	12.3	12.1	12.6	12.9	13.5	13.8	13.6	14.0	14.0	13.4	13.5	13.6	13.7
France	6.5	7.7	8.4	8.5	8.7	8.6	8.6	8.6		8.5	8.6	8.6	8.6	8.6	
Italy	3.9	4.3	4.8	5.0	4.6	4.5	4.9	5.7	4.8	5.7			4.8		

Note.--Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter. Therefore, data reported for a particular quarter are for the first month of that quarter.

Trade balances
(Billions of U.S. dollars, f.o.b. basis, seasonally adjusted at annual rate)

Country	1980	1981	1982	1982 II	1982 III	1982 IV	1983 I	1983 II	1983 Mar.	1983 Apr.	1983 May	1983 June	1983 July	1983 Aug.
United States 1/	-24.3	-27.5	-31.6	-17.6	-43.2	-40.4	-32.4	-54.8	-33.6	-44.4	-70.8	-48.0	-63.6	-74.4
Canada	7.5	6.2	14.8	14.8	14.8	16.4	13.2	16.8	13.2	19.2	15.6	14.4	13.2	12.0
Japan	1.6	20.1	18.4	22.0	22.8	17.6	27.6	31.6	22.8	33.6	37.2	24.0	38.4	34.8
West Germany	4.9	11.9	21.1	22.0	19.2	23.2	22.0	16.8	20.4	13.2	18.0	19.2	15.6	15.6
United Kingdom	3.0	6.4	3.6	0.8	2.8	8.4	1.2	-4.0	7.2	-7.2	-10.8	3.6	-6.0	-2.4
France	-14.1	-9.3	-14.0	-16.8	-17.2	-11.6	-14.0	-6.8	-10.8	-2.4	-12.0	-6.0	-4.8	0
Italy	-22.3	-15.9	-12.8	-12.8	-11.2	-10.4	-11.6	-5.6	-4.8	-10.8	2.4	-9.6	-6.0	-13.2

1/ Exports, f.a.s. value; imports, customs value.

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, Sept. 1983.

U.S. trade balance, by major commodity categories and by selected countries
(Billions of U.S. dollars, customs value basis for imports, 1/ seasonally adjusted unless otherwise indicated 2/)

Item	1980	1981	1982	1982 II	1982 III	1982 IV	1983 I	1983 II	1983 Apr.	1983 May	1983 June	1983 July	1983 Aug.	1983 Sept.
Commodity categories:														
Agriculture	24.3	26.8	21.6	6.2	4.5	4.4	5.1	4.4	1.4	1.3	1.7	1.7	1.6	1.9
Petroleum and selected products, unadj	-71.9	-73.0	-54.6	-11.5	-15.0	-14.0	-9.6	-11.3	-2.9	-4.4	-4.0	-4.6	-5.0	-5.0
Manufactured goods	18.6	11.5	-4.9	-1.0	-1.7	-1.8	-4.1	-.7	-2.3	-3.0	-1.7	-2.7	-3.0	-2.2
Selted countries:														
Western Europe	20.9	13.5	7.6	2.4	1.6	.9	2.0	-0.6	.1	.1	3/	-0.1	.1	-.1
Canada	-6.1	-6.9	-12.6	-3.5	-3.6	-3.2	-2.8	-4.11	-1.4	-1.2	-1.5	-1.4	-1.1	-.9
Japan	-9.9	-15.8	-17.0	-4.4	-4.6	-3.4	-4.7	-4.3	-1.1	-1.8	-1.4	-1.8	-1.6	-1.0
OPEC, unadj	-34.4	-27.9	-8.3	-.5	-2.5	-1.2	-.5	-1.1	-.1	-.7	-.3	-.7	-1.5	-1.3
Unit Value (per barrel) of U.S. imports of petroleum and selected products, unadj	$30.57	$34.28	$31.48	$30.72	$31.36	$31.19	$29.77	$27.79	$27.51	$27.69	$28.17	$28.26	$28.60	$28.61

1/ Effective January 1982, the Census Bureau replaced f.a.s. value with customs value in various reports on the U.S. trade balance. Data presented in this table for January 1982 and thereafter reflect the customs value for imports. Data presented for December 1981 and before reflect the f.a.s. value.

2/ Effective January 1981, an adjustment was made in U.S. "Census basis" import data, to include imports into the U.S. Virgin Islands. For 1980, the effect of this adjustment is to increase reported U.S. imports by $4.2 billion. These adjustments are not reflected in the data presented here for time periods before January 1981.

3/ Less than $50,000,000.

Money-market interest rates
(Percent, annual rate)

Country	1980	1981	1982	1982 II	1982 III	1982 IV	1983 II	1983 III	1983 May	1983 June	1983 July	1983 Aug.	1983 Sept.	1983 Oct.
United States	13.0	15.9	12.4	14.5	11.5	9.1	8.8	9.6	8.5	9.2	9.5	9.8	9.4	9.2
Canada	13.1	18.4	14.4	16.0	14.9	11.3	9.4	9.4	9.3	9.4	9.4	9.5	9.4	9.3
Japan	11.4	7.5	6.8	6.9	7.2	7.0	6.5	6.6	6.6	6.5	6.5	6.5	6.8	9.5
West Germany	9.4	12.1	8.8	9.2	8.8	7.1	5.3	5.7	5.3	5.5	5.5	5.7	5.8	6.1
United Kingdom	16.6	13.8	12.2	13.3	11.4	9.9	10.1	9.7	10.2	9.9	9.8	9.8	9.6	9.3
France	12.2	15.3	14.6	16.1	14.4	13.1	12.4	12.3	12.5	12.6	12.3	12.3	12.4	12.4
Italy	17.5	20.0	20.0	20.6	19.4	19.0	17.9	17.5	17.8	17.7	17.5	17.5	17.4	17.3

Note.--The figure for a quarter is the average rate for the last week of the quarter.

Weighted average foreign currency value of the U.S. dollar, unadjusted and adjusted for inflation differential
(Index numbers, March 1973=100; and percentage change from previous period)

Item	1980	1981	1982	1982 II	1982 III	1982 IV	1983 II	1983 III	1983 May	1983 June	1983 July	1983 Aug.	1983 Sept.	1983 Oct.
Unadjusted for inflation differential between United States and other countries:														
Index number	98.5	106.9	117.2	115.9	120.0	120.8	120.3	121.0	119.6	121.5	122.3	124.0	116.7	112.0
Percentage change	0.1	8.5	9.6	3.6	3.5	0.7	1.8	0.6	-.3	1.7	0.7	1.4	-5.9	-4.0
Adjusted for inflation differential:														
Index number	97.9	108.6	117.3	115.2	119.8	121.3	117.9	118.3	117.2	118.7	118.3	120.8	115.8	114.8
Percentage change	1.7	10.9	8.0	2.1	4.0	1.3	0.5	0.3	-.6	1.3	-0.3	2.1	-4.1	-.9

Note.--The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adding (subtracting) the excess (shortfall) of U.S. inflation compared with inflation in these other nations; thus a decline in this measure suggests an increase in U.S. price competitiveness.