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International Economic Indicators

Economic recovery in Western industrialized nations continues at an uneven rate, according to the latest available data. Inflation in June averaged less than 5 percent in the seven major industrial democracies. Western Europe is experiencing chronic unemployment. Tensions over balancing trade among North America, Europe, and Japan persist.

Industrial production

U.S. industrial production increased 0.5 percent in June, or at a seasonally adjusted annual rate of 6.1 percent. In contrast, Japan's seasonally adjusted annual rate was only 1 percent in June, the lowest rate during the second quarter. British industrial production fell by 2.8 percent during the second quarter compared with the first quarter. Such short-term differences underline the uneven nature of the current economic recovery.

Employment

The U.S. unemployment rate rose from 7.0 percent in June to to 7.4 percent in July. This was the first increase in 20 months. Unemployment also increased in Western Europe, according to the latest available data. Seasonally adjusted unemployment rates increased steadily throughout the second quarter in the U.K., France, and West Germany (see statistical tables). Britain's unemployment rate climbed from 12.6 percent in June to 12.9 percent in July.

Growing unemployment in Western Europe is more than a possible tremor in the current economic recovery. Jobs continue to disappear in the Community as a result of severe cuts in some industrial and agricultural sectors. Meanwhile, the Community's working population continues to grow. According to surveys made by the Community, the number of unsuccessful jobseekers in the EC increased from 6.5 million in 1980 to 11.3 million in 1983. It is apparent from the European press that unemployment receives very serious attention both on national and on Community levels.

External balances

The $8.9-billion U.S. merchandise trade deficit in June brought the second-quarter's total to $29.9 billion and the first half's total to $59.8 billion. In contrast, Japan posted a record $13.5 billion surplus in its merchandise trade for the first half of 1984. Japan's surplus in trade with the United States reached a record $14.5 billion.

Italy had an all-time high trade deficit of $1.8 billion for the month of May. France's seasonally adjusted merchandise trade deficit was $596 million in June. This raised the first half's seasonally adjusted deficit to $2.7 billion, putting the Government's plan of limiting the 1984 deficit to $2.8 billion in serious jeopardy. The merchandise trade balance in the U.K. narrowed to $200 million in June from $440 million in May, according to the Chemical Bank of New York.

West Germany's merchandise trade surplus fell from $1.6 billion in May to $448 million in June, the smallest monthly surplus reported in nearly 3 years. The country's current account balance plunged to a $1.1-billion deficit in June from a roughly equal-sized surplus in May. In addition to the metalworkers' strike that caused a 15-percent drop in exports in May, seasonal factors and higher contributions to the European Community have been cited as reasons for this development. The country's 1984 current account surplus is not expected to match that of last year.

Prices

U.S. consumer prices rose 0.2 percent in June, or at annual rate of 2 percent.

Consumer prices in all OECD nations rose by 0.4 percent in May compared with 0.6 percent in April, according to data published by the OECD. The 12-month rates from June 1983 through May 1984 were as follows: United States, 4.2 percent; Italy, 11.3 percent; France, 7.8 percent; the U.K., 5.1 percent; Canada, 4.8 percent; West Germany, 2.8 percent; and Japan, 2.0 percent. The weighted average of these rates amounted to 4.5 percent.

The annual rate of consumer price increase in the 10-nation European Community was 7.5 percent in May. This indicates a deceleration in inflation from the annual rates of 11.4 percent in May 1982 and 8.6 percent in May 1983. Second-quarter consumer price indices rose at a slower rate in all the seven leading industrialized countries than during the first quarter of 1984 (see statistical tables).

Forecasts

The U.S. merchandise trade deficit will amount to about $65 billion during the second half of 1984, representing an almost 9 percent increase over the first-half's deficit, according to data published by the Chemical Bank of New York. The continued strength of the dollar, faster growth in the United States than abroad, and the current imbalance between U.S. imports and exports, requiring exports to increase significantly faster than imports to keep the deficit from widening, were cited as reasons. The Conference Board sees strong signs, however, that a transition to slackening import growth and accelerating export growth is about to begin. This transition is expected to eventually correct the current imbalance in U.S. foreign trade.

Japan's merchandise trade surplus may total $46.2 billion during the one-year period ending next March, according to a major Japanese trading house. Japan's merchandise trade surplus was $24.3 billion during the 1983 fiscal year. The country's current account surplus during the April 1984-March 1985 fiscal term is predicted to exceed $30 billion. Earlier forecasts put the surplus at $23 billion. Officials in Japan caution that the country's swelling external surpluses could provoke countermeasures by other industrialized nations. The recently announced steps to liberalize foreign access to Japan's financial markets (see IER, June 1984) are generally regarded to be insufficient to strengthen the yen and reduce Japan's swelling surpluses vis-a-vis the United States and Europe in the immediate future. Bank of Japan officials say that as long as no new downward trend in U.S. interest rates is in view, the yen will remain weak against the dollar. Japan's growing trade surplus is reportedly one of the major reasons Japanese economists have made an upward revision, to 5 percent, in the country's real GNP growth for the fiscal year ending in April 1985.

European Community forecasts on employment are not promising. The EC predicts that the West European jobless rate will rise to 11.4 percent in 1985 from this year's 11.1-percent rate. The current economic recovery, however, has slightly improved the immediate outlook for the European Community's strictly controlled steel industry. EC officials are seriously concerned about the U.S. International Trade Commission's recommendation to limit U.S. steel imports in order to remedy injury to the U.S. steel industry. However, they expect a solution to the current U.S.-EC standoff in steel trade that will allow the 1982 Carbon Steel Arrangement between the United States and the European Community to remain in force.

International Trade Developments

GATT's Government Procurement Code--success or failure?

According to a study just released by the General Accounting Office (GAO), noncompliance with the Government Procurement Code is the norm, rather than the exception, in the international trade community. The methods of noncompliance are diverse, subtle, and, in many cases, legal. The study, entitled "The International Agreement on Government Procurement: An Assessment of Its Commercial Value and U.S. Government Implementation," examines the problems in implementing the Government Procurement Code. The GAO study focuses on the reasons for the code's failure to produce the expected increase in trade volume and makes recommendations for successful utilization of the code in the future.

The U.S. executive branch predicted that $20-$25 billion in new contract opportunities for U.S. firms would result from the code's implementation. Instead, the 1981 figure was a sobering $4 billion. How could such a gross miscalculation have occurred? The GAO study provides some of the answers.

The Government Procurement Code, enacted in January 1981, is one of six non-tariff barrier codes that was created in the Tokyo round negotiations. It was intended to discourage "buy-national" purchasing policies of governments. Seen as thinly veiled subsidization, these policies were recognized by GATT trade partners as a violation of Article XIII of the agreement.

The GAO attributes part of the blame for the code's disappointing effects to the signatory countries' use of code provisions to dodge the spirit of the code. One provision states that the code applies only to contracts larger than 150,000 SDR's. Governments are splitting up contracts that exceed the minimum SDR level into numerous smaller contracts that can be awarded on a discriminatory basis. Another tactic is the single-tendering procedure for awarding contracts. Single tendering is the noncompetitive selection of a contract recipient. This practice is allowed when there is only one supplier that can meet a government's specialized demand or when supplies are needed urgently and there is not sufficient time to give notice of the contract opportunity. The details of single-tendered contracts are not made public and are therefore hard to refute. Of all government procurements in Japan, 65 percent are single-tendered contracts.

Insufficient notification time is perhaps the most common method of procurement discrimination. Under the code, 30 days' notice of procurement opportunities is required. When governments ignore this provision, foreign competition is effectively excluded. The study points out that foreign firms need sufficient notice in order to properly prepare and submit proposals.

It has also been alleged that the United States has not fully complied with the code. The EC claims that 90 percent of U.S. offerings have provided less than 30 days' notification. In addition, some countries question the U.S. claim that it has opened up $18 billion in procurements to foreign firms, whereas opportunities provided by all other signatory countries combined to

U.S. firms have amounted to only $4 billion. The EC report states that 60 percent of the U.S. opportunities were in the area of fuel and related industries where established channels of procurement allow little real promise of competition. The EC also claims that the U.S. Government has been increasing the number of procurements awarded to small businesses in order to keep contracts below the 150,000 SDR level.

The GAO reports that circumvention is not entirely responsible for the code's ineffectiveness. It points out that the code's intended effects have been thwarted in the United States by inefficient promotion of the procurement opportunities that are available abroad. For example, GAO found that no U.S. company informed through the the Department of Commerce's Trade Opportunities Program (TOP) had placed a successful bid.

The code's effectiveness has also been reduced by lax monitoring and enforcement measures. GAO reports that the Department of Commerce, the Department of State, and the United States Trade Representative all have made considerable efforts to enforce the code's provisions, but that overseas embassies, the most crucial link in the monitoring and enforcement chain, have failed to devote the necessary resources to make the process work. For example, the U.S. embassy in Brussels had allotted only 2.5 workdays to the code since its implementation.

Despite all these problems, the code still could realize its expected potential. The GAO puts forth several recommendations to address the present limitations to the successful functioning of the code. First, more embassy resources should be allocated to informing U.S. businesses of the Government Procurement Agreement and the opportunities it provides. Second, Commerce should revise its efforts to notify U.S. businesses of procurement opportunities. This revision could be accomplished by substituting for the TOP a process by which U.S. firms operating in the country of a procurement's origin are notified of available procurements. The last suggestion by the GAO is to increase monitoring by the embassies with the help of U.S. private firms abroad. The private sector could advise the embassy on the extent of the monitoring needed and of significant violations occurring in that country.

<u>Natural gas glut in Western Europe may slash Soviet pipeline revenues</u>.

The pipeline from the Urengoi natural gas field in Siberia to Western Europe was expected to yield a hard currency bonanza for the Soviet Union. According to some earlier Western forecasts, Soviet sales to West European countries would rise as high as 40 billion cubic meters (bcm) annually and be worth as much as $11 billion each year. But West European demand for Soviet gas has declined due to the glut of natural gas on the market. Moreover, the fall in the price of oil, to which gas prices are linked, is also working to the Soviets' disadvantage.

Indicative of the changed European natural gas balance is the 24-year contract between the Soviet foreign trade organization, Soyuzgazeksport, and the Italian state-owned energy group, Ente Nazionale Idrocarburi (ENI), that was signed in May of 1984. According to informed observers, ENI will pay less for Soviet gas than France and West Germany must pay under contracts they signed in 1982. Apparently, the Soviet price is also less than ENI pays for Algerian gas. Moreover, Italy will purchase only about half as much gas as originally specified in the technical agreement reached before the Italian Government responded to the declaration of martial law in Poland by declaring a "pause for reflection" in the negotiations. Instead of 8 bcm annually, Italy will purchase only about 4.4 bcm.

France and West Germany are now attempting to renegotiate their contracts with the Soviet Union. Gaz de France, which has been forced to store surplus Algerian, Soviet, and Dutch gas, is thought to be seeking a reduction in minimum annual purchases and a 10-percent reduction in price.

Plans for the construction of a second export pipeline from the Urengoi field in Siberia to Western Europe apparently have been scrapped. The West European countries that would be called upon to finance the pipeline and buy the additional gas show no interest in the project. There are indications that the Soviets have also dropped the idea. For example, the Soviet official responsible for economic planning of the oil and gas industry told an interviewer that the Soviet Union had decided not to try to expand exports of natural gas, but to use more of it as a feedstock for chemicals.

Energy analysts expect the gas glut to persist through 1990, forcing the Soviet Union to compete with Norwegian, Dutch, Algerian, and, possibly, African suppliers for the European market. In a buyers' market, the Soviet Union may, as some analysts now forecast, be able to sell only about half the natural gas they expected to--20 bcm annually rather than 40 bcm--during the 1980's and 1990's. Alternatively, the Soviets might adopt a policy of price cutting to maintain market share. The revised revenue estimates are correspondingly lower--$5 billion or even $2.5 billion instead of $11 billion.

Since oil and natural gas exports account for about three-quarters of Soviet hard currency earnings, offsetting lost pipeline revenues may prove difficult. In the opinion of many analysts, oil exports probably could not make up for losses in natural gas exports. Estimating Soviet oil production is notoriously difficult, but large increases in the amount of Soviet oil available for export through the 1980's are not foreseen. Moreover, most observers expect prices to remain depressed in the near term. However, modest amounts of oil could be freed up for export to hard currency countries by continued substitution of gas for oil in domestic production and by reduced shipments to Eastern Europe. The Soviets are not expected to substantially increase sales of diamonds and gold, two other potential hard currency earners, because of the price depressing effect of large sales of these two commodities. In addition, the Soviet Union's lack of success in exporting machinery and equipment to hard currency countries makes manufactured goods an unlikely alternative source of additional hard currency. Thus, barring an unforeseen increase in the price of oil or a change in the market for natural gas in Western Europe, the Soviet Union will have less, perhaps substantially less, hard currency to import Western technology and grain and to repay the $10 billion in credits for pipeline equipment that were guaranteed by West European governments.

<u>A strong reserve position and small foreign debt attest to China's exceptional creditworthiness</u>

According to figures released by the Chinese Government to the International Monetary Fund, China's foreign currency reserves stood at $14.3 billion at the end of 1983, up from $11.1 billion at the end of 1982. With these reserves, which do not include its gold holdings of about $0.5 billion, China is among the world's top foreign-currency holding countries. In December 1983, only West Germany ($37.3 billion), Japan ($20.4 billion), Italy ($18.5 billion), France ($18.1 billion), and Saudi Arabia ($17.5 billion) had greater holdings of foreign reserves than China. This large accumulation of reserves by China has occurred since 1980, when its foreign currency holdings were only $2.3 billion at yearend. Given China's low trade volume relative to that of the developed economies, the growth of its foreign currency reserves has been remarkable. Since China also has a relatively small foreign debt, it is in a strong net creditor position to pursue its ambitious plans for economic modernization.

Statistics published in July 1984 by the Organization for Economic Cooperation and Development (OECD) and the Bank for International Settlements (BIS) show that China's gross foreign debt amounted to $6.2 billion at yearend 1983. Of this total, $4.3 billion consisted of loans extended directly to China by the official export-credit agencies of industrialized Western countries or guaranteed or insured by them. Approximately half the remaining $1.9 billion consisted of short-term debt owed to Western commercial banks, reflecting China's practice of limiting most of its medium- and long-term borrowing to the subsidized financing offered by government credit agencies. China continues, however, to have large undisbursed credit commitments from Western banks. In mid-1983, these commitments were 2.4 times the level of China's gross foreign liabilities, indicating how favorably Western commercial banks view China as a potential borrower. Moreover, the OECD/BIS data do not include the concessionary loans made by the World Bank and interest-free financing provided by its subsidiary, the International Development Agency (IDA). At the end of 1983, China had drawn only about $200 million of the $1.8 billion in loans, including $700 million in interest-free credits, committed to it by the World Bank and IDA. Additional loans authorized by the World Bank and IDA in 1984 have since added to the volume of undisbursed international credits committed to China's economic development.

China's accumulation of foreign reserves is primarily the result of the economic policy changes adopted by the Chinese Government over the past few years. On the basis of an ambitious 10-year plan announced in 1978, China signed contracts worth a total of $7.8 billion for the purchase of 22 large-scale plants from foreign suppliers. The result was a merchandise trade deficit totaling $5.8 billion for the years 1978 through 1980. In addition to resulting in a severe shortage of foreign currency, this import program led to domestic shortages of energy and raw materials and revealed the inadequacy of China's transportation and communications facilities to accommodate such a massive inflow of foreign technology. An economic readjustment program was initiated in 1979, and more investment cutbacks were made in 1980. A further retrenchment of the economy, involving the outright cancellation or indefinite suspension of a number of major construction contracts with Western suppliers (including some U.S. companies), followed in 1981. In the foreign trade sector, the readjustment policies called for severe restrictions on imports combined with efforts to press ahead to increase exports. The results were merchandise trade surpluses for China of $1.7 billion in 1981 and $4.6 billion in 1982.

By 1983, the growth in foreign exchange holdings enabled China to plan a large increase in imports for use in the development of the country's energy resources and the modernization of its existing industrial plants. Imports in 1983 fell far short, however, of the targeted 40-percent increase. Instead of the projected merchandise trade deficit, China realized a surplus estimated at $4.1 billion. The growth of exports was modest, as planned, but the Chinese Government did not explain why imports failed to reach the targeted level.

Most analysts project that by 1985 or 1986 China is likely to experience a merchandise trade deficit owing to more rapid import growth in combination with modest export growth. Nevertheless, they expect a continued current account surplus (projected by Wharton Econometric Forecasting Associates to last through 1988) to result in further substantial increases in China's foreign currency reserves. The primary component of nonmerchandise trade that will enable China to maintain a current account surplus is the interest payments it will receive from its foreign currency holdings. Additional net earnings will be provided by the rapid growth of tourism in China and by remittances, including unrequited official transfers, from abroad.

The continued buildup of foreign currency reserves suggests that China's gross foreign debt is not likely to increase significantly over the next few years. Another reason for this projection is that China has already experienced difficulties absorbing massive imports of foreign technology. Also, its traditionally mercantilistic approach to trade and a tradition of distrust of foreigners indicate that China's leaders will proceed cautiously in their adoption of development strategies based on foreign borrowing.

The nuclear age comes to Asia

With the drop in demand for nuclear power in the United States (there have been no new orders for reactors here since 1978) and in other developed countries, East Asia has become the world's healthiest market for nuclear power systems. Japan, South Korea, and Taiwan first began considering the nuclear option decades ago to fuel their ambitious industrial and economic development plans. More recently, the Philippines, Indonesia, and Malaysia have announced plans to build nuclear power reactors, and a nuclear reactor recently became active in Vietnam. One of the latest Asian converts to nuclear energy is China, which recently announced its own large nuclear energy program.

China will locate its first major nuclear power station in Daya Bay near the Shenzhen Special Economic Zone in Guangdong province. The success of this project depends on Hong Kong's willingness to purchase 70 percent of electricity output from the reactor at a price determined solely by China. Sales to Hong Kong will earn foreign exchange to help repay financing costs.

Two French companies, Electricite de France and Framatone will provide design, management, and the nuclear content of the station, and General Electric Co. of Great Britain will supply turbines and generators.

China has also announced plans to build up to a dozen nuclear power plants within its borders by the year 2000. China's long-term goal is to achieve self-reliance in building nuclear power stations by first learning from imported technology. China has joined the International Atomic Energy Agency (IAEA) and reached nuclear-technology transfer agreements with France, the United States, and West Germany. Although IAEA enforces an international nonproliferation treaty that attempts to control the spread of nuclear weapons, China is not a signatory to the treaty on the grounds that it infringes on Chinese sovereignty. Reportedly, China's pact with France contains provisions for prior approval from the French Government before China can transfer nuclear materials or technology. The West Germany-China accord allows for cooperation in all areas of nuclear research from basic theoretical research to the provision of hardware. The West German agreement also restricts China from using German technology and hardware in the production of nuclear weapons, and from reexporting nuclear materials or technology to third parties without permission from the West German Government.

The China-United States accord initialed by President Reagan in April (see IER, May 1984) may have reached a stumbling block in Congress because of possible ambiguity in the language of the agreement and congressional uncertainty about China'a commitment to a nuclear nonproliferation policy. However, the Sino-U.S. accord explicitly provides for the legal requirement of U.S. consent before fuel from U.S.-supplied reactors may be reprocessed.

China is also planning to provide storage facilities in its Gobi Desert for up to 4,000 tons of nuclear waste from European countries. With charges of $1,500 per kg., China could earn about $6 billion from this venture.

Profile: GATT dispute settlement since the Tokyo round

Trade disputes handled by the GATT have increased dramatically in number since the Tokyo round was concluded in 1979. In the last 5 years, GATT members filed 26 article XXIII complaints, half as many as had been filed over GATT's first 30 years of operation. Increased resort to GATT dispute settlement has prompted two quite contradictory conclusions. One is that the system of trade rules is breaking down. The other is that nations are expressing greater faith in the arbitration by GATT. In addition, trade specialists debate whether the growing number of international trade disputes stems mainly from the inadequacy of GATT rules, protectionism spurred by global recession, or the political intractability of economic adjustment.

Certainly, the rising number of complaints brought before GATT has tested the dispute settlement process and exposed weaknesses. Some observers argue that the dispute settlement mechanism has proved to be cumbersome and ineffective. One GATT observer, Michael Aho, trade specialist for Senator Bradley, said at a recent symposium on the future of the trading system that "unless disputes can be resolved in a reasonable, effective and equitable manner, GATT will continue to lose the respect of its members." He added, however, that "failure to use the GATT on grounds that its dispute settlement is ineffective has a self-fulfilling effect."

Article XXIII of the General Agreement leads to panel investigation of a dispute. Consultation and negotiation on trade disagreements may be pursued under other articles of the General Agreement and under provisions of the MTN codes, but none of these avenues precludes the use of article XXIII procedures. Panels solicit information from the disputants and other interested parties and determine whether GATT commitments have been violated. The panel makes recommendations, for possible adoption by the contracting parties, on steps to bring the offending practice into conformity with GATT rules. A signatory who decides not to comply with recommendations of the contracting parties stands the risk of incurring GATT-sanctioned retaliation by the injured party.

Looking at which countries have used article XXIII and what problems they have chosen to address is one useful starting point for evaluating dispute settlement. A sketch of the process reflects a broad picture of the international trading system, particularly those issues that trading nations find most troublesome.

Who participates in the dispute settlement process?-- Since 1979, the United States and the European Community (EC) have participated in article XXIII cases more often than other GATT members. The United States has filed more complaints under this article than any other country. The EC has been the most frequent target of members' complaints. Japan, Canada, and developing countries have used the dispute settlement process much less frequently.

The United States brought seven of the 26 complaints filed since 1979 and was the target of 6 complaints by other nations. With this record, the U.S. participation in all cases filed since 1979 stands at 50 percent. As for the EC, it filed six complaints and its trade practices were named in 10 complaints by other nations. Thus, the EC participated in 16 cases or 62 percent of the total. Japan brought only one article XXIII complaint before GATT but was the target of five complaints. Canada brought five cases but was the target of only one complaint. Taken together, various developing countries filed a total of six complaints, but none were named in other members' complaints.

How long does dispute settlement take?-- A record number of eight new complaints were filed in 1982. Six new complaints in 1980 gave that year the second highest number of new cases filed in GATT history. Partly as a result of this heavy caseload, unresolved cases, many initiated in 1982, remain on the agenda. Those cases which have been completed (including those withdrawn, resolved through bilateral settlement, and completed by panel review) required an average of 16-1/2 months to settle from the time article XXIII was invoked. Of the total 26 complaints, 17 have been resolved as of this date. About 90 percent of these were resolved within 2 years. Five complaints, or 31 percent, were resolved in less than 1 year and 10 complaints, or 63 percent, were resolved within 1 to 2 years. Only two cases filed since 1979 took more than 2 years to resolve. One case dealt with a U.S. complaint about Spanish domestic restrictions of sales of soybean oil. Canada brought the other case on U.S. measures restricting imports of Canadian tuna.

What trade measures are most often disputed?--Quotas, rather than tariffs, have been the type of measure most often contested in recent article XXIII complaints. A total of 25 complaints filed since 1979 have disputed a specific trade practice. Ten cases, or 40 percent, have involved complaints against implementation of import quotas or bans. Six cases have involved disputes over duties or tariff changes, and five cases have involved discriminatory domestic regulations or policies. Subsidies have been contested only three times since 1979, but some subsidy disputes are being handled under separate procedures of the subsidy code instead.

What products lead the list of trade disputes?--As most trade analysts would suspect, agricultural products are most often the subject of trade disputes. Of the 24 complaints since 1979 involving specific products, 15 cases, or 63 percent, cite raw and processed agricultural and fisheries products. Over half of these complaints were against measures used by the EC on products such as apples, beef, poultry, canned fruit, citrus fruits, and sugar. Seven complaints, or 29 percent, concerned manufactured products. In five such cases, import quotas or bans were contested.

EC and 64 developing countries hold free trade talks

Background.--The European Community (EC) is currently negotiating renewal of the Lomé Convention--a long-term treaty governing nonreciprocal preferential trade between the EC and 64 African, Caribbean, and Pacific (ACP) countries. Under the Lomé treaty, the EC provides grants and loans to the ACP states to stabilize the prices they receive on 44 commodities exported to the EC, as well as a steady supply of economic development aid. First ratified in 1975 and renewed in 1980, the current treaty expires in early 1985. The present negotiating round began earlier this year.

Reasons behind the accord.--EC-ACP cooperation is based on close commercial ties. The EC wants to expand its market outlets in the ACP countries and to secure supplies of raw materials from them. The ACP states want to expand exports to the EC with the help of duty-free access and are in need of economic development aid. With an average income per capita of only $240.00, these countries are among the world's poorest.

Provisions.--The Lomé treaty covers about 99 percent of all goods produced by ACP members. Much of the remaining 1 percent consists of farm products that compete directly with EC farm products. The EC's Common Agricultural Policy restricts imports of farm products that are internally produced. However, this 1 percent of ACP exports to the EC not specifically covered by the duty-free provisions still receive some tariff preferences under the treaty. Lomé also offers a fund known as STABEX--to guarantee the stability of ACP earnings from their exports to the EC of 44 commodities, most of which are agricultural. The fund protects ACP countries from the full adverse effect of poor weather that destroys export crops or of changes in world demand that cause prices of primary commodities to drop. However, the EC places a cap on the maximum amount of aid a beneficiary can receive. Lomé also provides separate provisions for aid to ACP mining operations. Total EC aid under the current convention amounts to $5 billion, of which 65 percent consists of grants and the remainder low-interest loans. STABEX aid amounts to over $500 million and mining aid amounts to over $280 million.

<u>Critique of the accord</u>.--ACP countries criticize Lomé on five points. First, they feel that the Generalized System of Preferences provided by the EC to other developing countries has eroded their own margin of preference in EC markets. Second, they feel that all of their agricultural exports to the EC should receive duty-free access. Third, because most of the Lomé countries do not export industrial products to the EC, they cannot benefit from Lomé's free trade provisions for industrial products. Fourth, although the preferential trade provisions of Lomé were intended to ease access to the EC of exports from the ACP countries, their trade balances with the EC have steadily worsened. Fifth, according to the ACP countries, they are faced with a number of nontariff barriers and other restrictions in the EC that hinder trade. The net result of Lomé has been mixed for the ACP states. They have enjoyed a fairly sizeable transfer of resources from the EC, but their expectations for increased levels of exports to the EC have not been realized.

<u>Negotiations</u>.--The effect of Europe's lingering economic recession will make the EC more hesitant to concede to many of the ACP states' demands for further market access and increases in development aid. The southern EC members (France, Italy, and Greece)--already bracing for future Spanish and Portuguese accession--fear competition from imports of certain farm products from the ACP states. They are putting pressure on the EC to opt for aid over tariff concessions. ACP countries, faced with a growing trade deficit with the EC, are lobbying the EC for improved market access and increased funds for economic development.

<u>Interest to the United States</u>.--The current round of EC-ACP negotiations comes at a time when the United States is considering its own free trade accords with Israel and Canada that encompass some of the provisions found in the Lomé Convention. One such arrangement sponsored by the United States, the Caribbean Basin Initiative (CBI), has already been implemented. What CBI and Lomé share in common is that neither the United States nor the EC demand reciprocity in granting duty-free and preferential trade. Both Lomé and the CBI provide economic development aid but limit free trade in some sectors. However, whereas Lomé is a negotiated contract ratified by every signatory, the CBI is a trade-and-aid package granted by the United States to the Caribbean Basin countries.

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

Country	1981	1982	1983	1983 I	1983 II	1983 III	1983 IV	1984 I	1984 Jan.	Feb.	March	April	May	June
United States	2.6	-8.1	6.4	9.9	18.4	21.8	10.1	11.4	19.2	12.0	6.2	11.0	4.5	6.1
Canada	0.9	-10.7	5.9	22.1	13.1	18.5	13.8	2.1	31.8	-28.7	13.3	10.1	-4.3	
Japan	1.0	0.4	3.5	3.6	6.5	14.0	10.3	13.5	2.2	48.5	-14.7	10.0	32.6	1.0
West Germany	-2.3	-3.2	0.4	4.4	6.0	4.9	9.0	0.7	8.9	12.9	39.6	20.6		
United Kingdom	-3.9	2.0	2.9	5.3	0.5	5.7	3.3	1.2	4.7	-16.9	-8.9	-12.2	-14.4	
France	-2.6	-1.5	1.2	1.0	4.2	3.1	1.0	6.3	9.6	-8.7	19.9	-30.7	44.3	
Italy	-2.4	-2.2	-4.8	-2.0	-10.4	-4.9	17.6			-2.4				

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, August 3, 1984.

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

Country	1981	1982	1983	1983 II	1983 III	1983 IV	1984 I	1984 II	1984 Jan.	Feb.	March	April	May	June
United States	10.3	6.2	3.2	4.3	4.2	4.4	5.0	3.7	7.8	4.4	2.8	5.6	2.4	2.0
Canada	12.5	10.8	5.8	4.6	6.3	4.2	5.7	2.4	7.6	5.2	0	6.0	2.0	0.6
Japan	4.9	2.6	1.8	1.6	0.6	3.6	3.6	0.9	0.3	12.9	-0.2	-0.7	1.6	-4.5
West Germany	6.0	5.3	3.6	1.6	5.0	3.0	2.1	1.7	2.4	3.8	2.6	1.0	1.8	1.1
United Kingdom	11.9	8.6	4.6	2.2	8.2	6.1	4.3	2.7	2.1	6.4	2.3	0.7	3.3	5.2
France	13.3	12.0	9.5	10.4	9.3	8.6	7.2	6.1	6.7	7.7	6.4	3.7	7.6	8.0
Italy	19.3	16.4	14.9	14.4	12.5	11.1	11.2	10.6	11.8	11.1	11.4	10.9	9.2	10.3

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, August 3, 1984.

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

Country	1981	1982	1983	1983 I	1983 II	1983 III	1983 IV	1984 I	1984 Feb.	March	April	May	June	July
United States	7.6	9.7	9.6	10.4	10.1	9.4	8.5	7.9	7.8	7.8	7.8	7.5	7.1	7.4
Canada	7.5	11.0	11.9	12.5	12.2	11.6	11.2	11.3	11.3	11.4	11.4	11.7	11.2	
Japan	2.2	2.4	2.7	2.7	2.7	2.7	2.6	2.8	2.9	2.7	2.6	2.7		
West Germany	4.1	5.9	7.3	7.1	7.4	7.5	7.3	7.2	7.2	7.3	7.4	7.4	7.5	
United Kingdom	10.5	12.2	13.4	13.3	13.5	13.6	13.3	13.6	13.7	13.8	13.7	13.7	13.8	
France	7.7	8.7	8.8	8.7	8.8	8.8	9.0	9.5	9.6	9.7	10.0	10.0		
Italy	4.3	4.8	5.2	4.9	5.7	5.1	5.0							

Note.--Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: Statistics provided by Bureau of Labor Statistics, U.S. Department of Labor, August 1984.

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

Country	1981	1982	1983	1983 II	1983 III	1983 IV	1984 I	1984 II	1984 Jan.	Feb.	March	April	May	June
United States-1/	-27.5	-31.6	-57.4	-54.8	-65.2	-77.6	-104.8	104.8	-99.6	-106.8	-108.0	-129.6	-91.2	-92.4
Canada	6.2	14.8	14.6	16.8	13.2	14.8	14.4		18.0	10.8	13.2	16.8	15.6	
Japan	20.1	18.5	31.6	31.6	33.2	34.8	40.0		39.6	39.6	40.8	44.4	40.8	
West Germany	11.9	21.1	16.5	16.8	15.2	12.4	12.8	12.8	16.8	24.0	15.6	14.4	19.2	4.8
United Kingdom	6.4	3.6	-0.8	-4.0	2.4	0.8	-0.4	-7.2	-6.0	7.2	-3.6	-14.4	-4.8	-2.4
France	-9.3	-14.0	-5.9	-6.8	-1.6	-0.8	-6.0	-4.8	-7.2	-7.2	-3.6	-6.0	0	-7.2
Italy	-16.0	-13.0	-8.1	-5.6	-10.0	-3.2	-9.2		-6.0	-6.0	-16.8	-15.6	-14.4	

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

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, August 3, 1984.

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)

Item	1981	1982	1983	1983 II	1983 III	1983 IV	1984 I	1984 II	1984 Jan.	Feb.	March	April	May	June
Commodity categories:														
Agriculture	26.8	21.6	20.0	4.4	5.2	5.4	5.2	4.4	2.1	1.4	1.7	1.4	1.7	1.3
Petroleum and selected products, unadj	-73.0	-54.6	-49.1	-11.3	-14.6	-13.2	-13.1	-13.4	-4.3	-4.3	-4.5	-5.0	-3.9	-4.5
Manufactured goods	11.5	-4.9	-31.3	-7.0	-7.9	-11.2	-19.0	-18.1	-6.0	-6.3	-6.7	-7.2	-5.8	-5.1
Selected countries:														
Western Europe	13.5	7.6	1.2	-0.6	-0.1	0.2	-3.6	-2.9	-.7	-1.2	-1.7	-1.3	-.9	-.7
Canada	-6.9	-12.6	-12.1	-4.1	-3.4	-3.7	-4.3	-5.1	-1.5	-1.4	-1.4	-2.3	-1.1	-1.7
Japan	-15.8	-17.0	-19.6	-4.3	-4.4	-6.2	-7.0	-7.8	-2.4	-2.2	-2.4	-2.4	-3.0	-2.5
OPEC, unadj	-27.9	-8.3	-8.2	-1.1	-3.5	-3.1	-2.6	-3.7	-.9	-1.0	-.7	-1.4	-1.0	-1.3
Unit Value (per barrel) of U.S. imports of petroleum and selected products, unadj	$34.28	$31.48	$28.60	$27.79	$28.49	$28.43	$28.31	$28.45	$27.98	$28.46	$28.49	$28.48	$28.50	$28.36

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.

Source: Summary of U.S. Export and Import Merchandise Trade, U.S. Dept. of Commerce, June 1984.

Money-market interest rates
(Percent, annual rate)

Country	1981	1982	1983	1983 II	1983 III	1983 IV	1984 I	1984 II	1984 Feb.	1984 March	1984 April	1984 May	1984 June	1984 July
United States	15.9	12.4	9.1	8.8	9.6	9.4	9.7	10.9	9.6	10.1	10.4	11.1	11.3	11.6
Canada	18.4	14.4	9.5	9.4	9.4	9.5	10.0	11.4	9.9	10.4	10.8	11.5	11.9	13.0
Japan	7.5	6.8	6.8	6.5	6.6	7.6	6.4	6.3	6.3	6.4	6.3	6.2	6.4	6.3
West Germany	12.1	8.8	5.7	5.3	5.7	6.1	5.9	6.0	5.9	5.8	5.8	6.1	6.1	6.1
United Kingdom	13.8	12.2	10.1	10.1	9.7	9.4	9.2	9.2	9.3	8.9	8.8	9.3	9.4	11.4
France	15.3	14.6	12.4	12.4	12.3	12.3	12.4	12.3	12.4	12.5	12.5	12.2	12.2	11.7
Italy	20.0	20.0	18.0	17.9	17.5	17.5	17.5	17.0	17.4	17.3	17.4	16.8	16.8	16.7

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

Source: Statistics provided by Federal Reserve Board.

Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential
(Index numbers, 1980-82 average=100; and percentage change from previous period)

Item	1981	1982	1983	1983 II	1983 III	1983 IV	1984 I	1984 II	1984 Feb.	1984 March	1984 April	1984 May	1984 June	1984 July
Unadjusted:														
Index number	99.5	109.8	114.2	113.0	116.3	116.4	117.2	118.8	117.3	115.3	116.7	119.5	120.2	124.1
Percentage change	9.7	10.4	4.0	1.9	2.9	0.1	0.7	1.4	-1.5	-1.7	1.2	2.4	0.6	3.2
Adjusted:														
Index number	100.7	109.8	112.4	111.1	114.1	114.3	114.4	114.9	114.1	112.0	113.1	115.9	116.3	119.8
Percentage change	12.5	9.0	2.4	0.9	2.7	0.2	0.1	0.5	-1.7	-1.8	0.7	2.0	0.6	3.0

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

Source: World Financial Markets, Morgan Guaranty Trust Company of New York.

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