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John W. Suomela, *Director*

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Editor, *International Economic Review*
Trade Reports Division/OE, Room 323
U.S. International Trade Commission
701 E Street NW., Washington, DC 20436
Telephone (202) 523-1995

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INTERNATIONAL ECONOMIC COMPARISONS

The global crash of stock markets in October ushered in lower interest rates in the key industrial countries and strengthened U.S. determination to reduce the Federal deficit. Economists generally believe that lower interest rates in this country will not compensate—at least in the near term—for the growth-restraining effects of losses in household and corporate wealth and the impending reduction in the budget deficit. Most current projections place 1988 economic growth in the low range (see the section on Forecasts below), but there is no evidence of an imminent recession. Economic performance statistics for the post-crash months are not yet available, and business remains optimistic both at home and abroad.

One of the basic conditions for avoiding a period of global economic adversity is that other industrial powers increase their pace of economic growth to offset any decline in U.S. growth rates. Among the key industrial countries, Japan has embarked most definitely on a fiscal stimulus program. West Germany may soon follow suit, according to news reports. Tight fiscal policy in the United Kingdom has recently been relaxed, and France has postponed a reduction in deficit spending by slowing its privatization program. Like the United States, however, Italy is attempting to trim its huge fiscal deficit. Nonetheless, the overall increase in the efforts of industrial nations to coordinate economic policies, including an enhanced policy cooperation among the members of the European Community, is encouraging.

Industrial Production

U.S. industrial production rose by a robust 0.6 percent in October, following zero growth in September. The industrial production index has not declined since January. Despite this and other indications of continuing growth, some key sectors show signs of stagnation. For example, U.S. auto output in constant dollars declined for the third consecutive quarter during July–September 1987. At an annual rate of $93.2 billion, U.S. auto output in the third quarter of 1987 was lower than any annual average since 1984. Industry analysts anticipate considerably fewer car sales for the full year of 1987 than the 11 million sold in 1986.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with the output in the corresponding month of the previous year, were as follows: Canada, 6.1 percent; France, 0.1 percent; Italy, 0.9 percent; Japan, 4.2 percent; the United Kingdom, 3.6 percent; the United States, 5.7 percent; and West Germany, −1.1 percent.

Japan's industrial sector is apparently recovering after the setback it suffered following the yen's drastic appreciation in 1986. Orders for industrial machinery in Japan were 20.8 percent higher during April–September 1987 than during the corresponding period of 1986.

A serious contender for world leadership in industrial productivity and competitiveness, Japan lags behind other industrialized countries in many other areas of economic life. According to a Japanese Government survey, for example, productivity in the wholesale and retail trades may be 31 percent below that of the United States. This also illustrates the need for Japan to alter its economic structure in order to better satisfy the country's domestic demand.

Investment

U.S. fixed investment in constant dollars increased by 2.8 percent from an annual rate of $662.2 billion in the second quarter of 1987 to $681.0 billion in the third quarter. Fixed investment amounted to $680.3 billion in the third quarter of 1986. Business inventories in the third quarter of 1987 showed the slowest quarterly increase so far this year.

Although the severe decline in stock prices during October is expected to reduce U.S. capital spending, surveys do not indicate major changes in corporate investment plans. Many analysts contend that the steep, worldwide drop in interest rates since October will spur investment in the industrialized countries.

In order to attract the foreign capital necessary to finance an annual external deficit of about $160 billion, borrowers in the United States must compete with borrowers elsewhere. This means that financial investment in the United States will have to be made attractive by relatively high rates of return.

Trade

Japan's surplus in merchandise trade declined from $7.4 billion in September to $6.8 billion in October. This was the sixth consecutive monthly decline. Although Japan's merchandise trade surplus is expected to be only slightly lower for the full year of 1987 than the $82.7 billion registered in 1986, the decline is projected to be more significant in volume and yen terms. Japan's $11.4-billion tax cut that will go into effect in December could further increase its demand for imports.

So far, exporters from the European Community, South Korea, Taiwan, Hong Kong, and Singapore appear to be the largest winners in the race for Japan's expanding import market. Asia's newly industrialized countries have not only a geographic but also an exchange-rate advantage in competing for Japanese customers since their currencies are tied to the depreciating U.S. dollar.

Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) edged up to 5.9 percent in October from 5.8 percent in September.

The national statistical offices of other countries reported the following unemployment rates for September 1987: 8.6 percent in Canada, 10.5 percent in France, 14.3 percent in Italy, 2.8 percent in Japan, 10.0 percent in the United Kingdom, and 9.0 percent in West Germany. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

Unemployment rates for nine States of the European Community (excluding Spain, Portugal, and Greece) edged up from 10.8 percent in August to 10.9 percent in September.

Prices

As a result of moderation in energy and housing costs, the U.S. Consumer Price Index rose at a seasonally adjusted rate of 0.2 percent in September, following a 0.5-percent rise in August. Although U.S. producer prices for finished goods declined by 0.2 percent in October, inflationary worries remain acute as indicated by the large spread between short- and long-term debt rates on the U.S. bond market.

The average price of globally traded commodities jumped by 13.3 percent from June 1986 to June 1987. This was one of the decisive factors that caused Western monetary policymakers to raise interest rates, which many analysts believe contributed to the October nosedive in stock prices. However, some analysts now say that higher commodity prices are a blessing in disguise because they help restore international economic balance. Higher commodity prices mean increased export revenues for many indebted developing countries, enabling them to pay their Western creditors and buy more Western goods. Higher commodity prices also help reduce Japan's trade surplus. Since the island nation is heavily dependent on imported commodities, higher commodity prices increase the value of Japanese imports and, by increasing production costs, reduce its exports.

The average rate of inflation during the 1-year period ending in October 1987 was 0.9 percent in West Germany. The rate of inflation during the 1-year period ending in September 1987 was 4.5 percent in Canada, 5.0 percent in Italy, 0.6 percent in Japan, 4.2 percent in the United Kingdom, and 4.3 percent in the United States. The average rate of inflation during the 1-year period ending in August 1987 was 3.5 percent in France.

Forecasts

Economic growth

Following a downward revision of the Nation's economic growth prospects, the consensus of private economists now calls for real economic growth of 1.4 percent in the United States during the first half of 1988, 1.3 percent in the full year of 1988, and only 0.9 percent in 1989. Real growth reached 3.8 percent during the third quarter of 1987, up from 2.5 percent during the second quarter. Views about the near term course of the U.S. economy have become strongly polarized since the October collapse of the stock market. Some economists still believe that the U.S. economy will grow at a strong 3.0-percent rate in 1988, and others say that a recession is imminent.

Before the crash, national governments projected 3.0-percent real economic growth in Japan; 1.5 percent in France; 2.5 percent in the United Kingdom; and 2.0 percent in West Germany. For the moment, official forecasters abroad seem to be reserving judgment rather than making downward revisions in their forecasts.

Deficit

According to the estimates of the National Association of Manufacturers, the U.S. trade deficit will increase from $156 billion in 1986 (balance-of-payments basis) to $160 billion in 1987 and will then decrease to $130 billion in 1988. Several economists predict that the United States will not see any serious improvement in its trade deficit before 1995.

Financial Markets

Many private financial analysts predict an increasing number of defaults on corporate borrowing in the United States over the next few years. Defaults on corporate borrowing are expected to rise in the future because (1) corporate debt has increased to a record level (and was still rising during the second quarter of 1987); (2) a large number of corporate bonds carry excessively high yields compared with the yields on treasury papers; (3) debt service requirements that were postponed on an appreciable segment of corporate borrowing will come due during the next few years, when slow economic growth is expected to slow the growth of corporate incomes; and (4) lower stock prices have reduced the value of collateral on many corporate loans, increasing the risk of snowballing defaults.

U.S. TRADE DEVELOPMENTS

In its second consecutive monthly decline, the U.S. merchandise trade deficit dropped by an encouraging $1.6 billion, from $15.7 billion in August to $14.1 billion in September. However, the September deficit was not significantly lower than the $14.3 billion average deficit calculated for the previous 12-month period. Third-quarter data in constant prices are flatly disappointing. The deficit in constant prices increased from a seasonally adjusted annual rate of $162.2 billion in the second quarter to $165.5 billion in the third quarter, implying an increase in the volume of the deficit. At $44.5 billion in constant prices, the annualized third-quarter deficit in auto trade was not significantly different from the deficit registered earlier during the year. The minor reductions in the volume of the deficit in consumer-goods and capital-goods trade from the second to the third quarter were more than offset by the increase in the oil-trade deficit. Imports of petroleum and petroleum products in constant prices jumped from an annualized rate of $72.0 billion during April–June to $91.3 billion during July–September 1987.

Table 1 shows that, rather than depreciating as supposed, the dollar appreciated in trade-weighted, inflation-adjusted (real) terms from the second to the third quarter of 1987. (The precipitous fall of the dollar in October, of course, is not reflected in third-quarter data.) The greater increase in import prices than in export prices from the second to the third quarter reveals a deterioration in the Nation's terms of trade. (Terms of trade is the ratio of a nation's average price of exports to its average price of imports. A decline in the value of the fraction means that, on average, the nation ships abroad an increasing number of goods in exchange for the same amount of foreign goods.) Deterioration in the terms of trade is a cost of regaining external economic balance.

Table 1
Indexes of volume and unit value for total U.S. exports and imports, by quarter, January-March 1985 through July-September 1987

(1977 = 100.0)

Time period	Volume Exp.	Volume Imp.	Unit value Exp.	Unit value Imp.	Trade-weighted value of the dollar [1]
1985:					
January-March	117.8	143.2	157.0	160.1	135.0
April-June	113.8	151.7	157.2	159.2	133.3
July-September	106.4	146.2	155.1	158.9	131.0
October-December	111.6	152.1	154.2	160.9	127.1
1986:					
January-March	113.4	162.0	155.7	157.4	123.5
April-June	109.7	163.4	156.1	152.5	119.6
July-September	107.2	166.4	157.0	152.2	118.0
October-December	117.2	165.2	157.1	156.1	119.5
1987:					
January-March	117.1	161.0	156.9	158.5	115.1
April-June	125.9	168.9	158.3	163.3	111.9
July-September	122.9 [2]	171.1 [2]	159.9 [2]	168.8 [2]	112.7

[1] The inflation adjusted index based on bilateral-exchange rates with 101 U.S. trading partners.

[2] Third-quarter trade statistics for the current year are not yet available. These statistics are based on July and August data only.

Source: Trade indexes: Office of Business Analysis, Department of Commerce; exchange rate index: Federal Reserve Bank of Dallas.

The reduction in the deficit from August to September occurred as a result of a 3.8-percent rise in exports and a 2.4-percent fall in imports. The $0.9 billion drop in the manufactures trade deficit was primarily the result of increased shipments of aircraft, automatic data processing equipment, and new passenger cars and parts, and decreased imports of clothing, footwear, cars, general industrial machinery, iron and steel mill products, and textiles.

The oil import bill dropped from $4.7 billion in August to $3.9 billion in September. The volume of oil imports decreased from 243.4 million barrels to 212.1 million barrels, and the average price of imported oil declined from $19.31 to $18.53 per barrel. Both the volume of oil imports and the price of imported oil are expected to rise during the winter months. Increased exports of corn, wheat, and fruits and vegetables accounted for an increase in the monthly surplus of U.S. agricultural trade, from $0.4 billion in August to $0.6 billion in September.

The U.S. deficit in trade with Canada increased from $0.9 billion in August to $1.3 billion in September. The deficit declined with all other major trading partners, including Japan and Western Europe.

The official stand of the United States and its trading partner countries is that exchange rates must be stabilized at their current levels. Foreign central banks continue to mop up excess dollars and try to set their interest rates low enough to head off appreciation in their currencies. But financial markets may have a different verdict than policymakers. Many analysts think that the dollar will depreciate another 30 percent during the next 10 years. New spells of market uncertainty could increase the challenge the world trading system now faces.

INTERNATIONAL TRADE DEVELOPMENTS

United States and Canada Agree on a Framework of Investment Principles

The United States and Canada embarked on negotiations toward a bilateral free-trade agreement (FTA) in the fall of 1985, when Prime Minister Mulroney notified President Reagan of his Government's intention to seek such an agreement. From the start of the process, certain objectives were clear. The Canadians were mainly seeking more secure and enhanced access to the larger U.S. market, and a principal aim on the U.S. side was increased investment opportunities in Canada. Canadian regulation of foreign investment was identified as a barrier to be removed or substantially modified to provide American investors improved access to Canada. Ambassador Yeutter stated in his assessment of the Canadian initiative that one U.S. objective should be "to obtain clarification and liberalization of Canadian policies toward U.S. direct investment in Canada."

The negative investment "atmosphere" of the late 1970's and early 1980's, under the Canadian Foreign Investment Review Agency (FIRA), has greatly improved under the Mulroney Government. With the dissolution of FIRA and its replacement by Investment Canada, many of the discriminatory provisions of investment review have been eased. The major objective of the negotiations in the investment sphere was to assure both Americans and Canadians that foreign investment would not be subject retroactively to any future regulations that discriminate on the basis of national origin.

U.S. direct investment in Canada has a total value of $46 billion. Canadian direct investment in the United States is $17 billion. Canada ranks fourth in terms of the value of investment in the United States behind the United Kingdom, the Netherlands, and Japan. In terms of the number of U.S workers employed, Canadian firms now employ over 527,000 Americans, second only to British-owned firms and more than double the number employed by U.S. affiliates of Japanese companies. Canadian investment presence is greatest in the U.S. real estate, petroleum, manufacturing, and banking sectors. U.S. investors, on the other hand, control 18 percent of all nonfinancial industries in Canada, ranging from a high of 64 percent in transport equipment to a low of 2 percent in agriculture, forestry, and fishing. Canadian industries with significant levels of U.S. investment include oil and gas, rubber products, textile mills, and chemicals. The recent shift in investment flows is notable: Canada's direct investment in the United States increased from 20 percent of total U.S. investment in Canada in 1975 to 60 percent of total U.S. investment in Canada in 1985. If the trends in U.S. and Canadian cross-border investment established during the last 10 years continue until 1991, Canadian investors will have as much foreign investment in the United States as U.S. investors have in Canada.

Under the proposed FTA, initiated in early October, Government interference in investment decisions will be limited. The agreement covers most sectors of the economy, energy being a notable exception. Other exceptions are "cultural" industries such as publishing, video, film, music, and broadcasting. Canada has committed itself not to review new business investments (thus making permanent the present and recent policy), and by 1993 it will limit the screening of direct acquisitions by foreign investors to those purchases greater than Can$150 million. The current threshold for the screening of direct acquisitions is Can$5 million. The screening of indirect acquisitions (currently set at Can$50 million), forced divestitures, and the imposition of minimum Canadian entry requirements will cease when and if the agreement becomes effective on January 1, 1989. The agreement also provides for the limitation of investment-related performance requirements (such as local content or import substitution) and the establishment of fair standards for expropriation and compensation, as well as for free transfers of profits and other remittances. These latter issues have not been particularly troublesome factors in U.S.-Canadian relations, but they are a standard part of recent bilateral investment treaties to which the United States has been a party.

The first major example of the new national treatment standard will be in the financial services sector. Heretofore, the size of foreign participation in Canadian banks was limited to less than 25 percent. Under the FTA, U.S. banks will be excluded from the overall limitations on foreign banks' share in Canada, and restrictions on the size of U.S. participation in Canadian financial institutions are eliminated. In effect, U.S. citizens and firms will receive national treatment for purposes of ownership in Canadian financial institutions.

The preamble to the agreement states the objectives of the pact. One such objective is "to significantly expand liberalization of conditions for investment within the free-trade area." That objective would appear to be accomplished for all future investment policies of both Canada and the United States. The agreement's chapter on investment, however, grandfathers most existing restrictions in both countries. In effect, a standstill on further restrictions has been accomplished. The major benefit of the agreement for cross-border investors is to proscribe all future restrictions on foreign investment.

The United States and Mexico Conclude a Trade Agreement

The comprehensive free-trade agreement the United States concluded with Canada in October was followed on November 6 by a pact with Mexico that sets up a framework for future negotiations on trade and investment issues. This pact, much like the far more ambitious agreement with Canada, is considered a landmark in U.S. economic relations with a neighboring country. Together, the two accords are viewed by some as steps towards a North American free-trade area.

The pact with Mexico is the first broad trade accord between the two countries in nearly four decades. The new accord is the product of negotiations that began in September 1985 and intensified in recent months. On the Mexican side, the pact was approved by its Cabinet following consultations with Mexico's business leaders and Senate. On the U.S. side, the cabinet-level Economic Policy Council approved the agreement. Since it is a framework agreement and not a formal treaty, it did not require ratification by the Senate.

The agreement does not commit either side to substantive policy changes, but creates procedures for doing so later. The text includes a joint statement of general principles on mutual trade and investment and sets up machinery for settling disputes and opening negotiations within 90 days on a wide range of issues. The accord also identifies specific subject areas to be discussed, such as textiles, steel, agriculture, investment, technology transfer, and intellectual property rights.

Mexico's principal objective in these negotiations will be to reduce barriers to the U.S. market for its exports. Mexico seeks to boost and diversify its nonpetroleum exports in order to build up the trade surpluses that are necessary to meet its foreign debt obligations and to sustain its economic growth. For example, Mexico is urging the revision of a bilateral accord on steel concluded with the United States in 1984. According to Mexico, this accord unduly restricts Mexican steel exports to the U.S. market. A key issue on the U.S. side is Mexico's protectionist foreign investment law, which, although implemented in a flexible manner, officially limits foreign investors to 49-percent ownership in Mexican enterprises. Weak patent and trademark protection in Mexico is another major topic urged for discussion by the United States. The new pact provides that either nation may request consultations at any time on any matter relating to bilateral trade or investment. Such talks must be held within 30 days of a request, unless otherwise agreed.

For a long time, the United States has sought closer trade relations with Mexico that, in the view of some officials, might lead eventually to a free-trade area. Mexico has resisted on grounds that, as a developing country, it cannot afford to open its economy. Nonetheless, the current Mexican Administration launched a gradual process of liberalization in 1984, and speeded up this process last year by joining the General Agreement on Tariffs and Trade (GATT). The United States played an active role in helping

Mexico make the decision to take this historic step toward liberalizing its trade relations.

United States and Israel Commemorate FTA Anniversary

The United States and Israel marked the second anniversary of the U.S.-Israel Free-Trade Area Agreement (FTA) in Washington last month with an official review of the agreement and a conference bringing together American and Israeli governmental and business leaders. In an address to the conference, United States Trade Representative Clayton Yeutter characterized both the bilateral accord with Israel and the proposed U.S.-Canada free-trade agreement as major bilateral advances to "complement" the multilateral trade negotiations taking place under the auspices of the General Agreement on Tariffs and Trade (GATT). Senator Bob Packwood (R-OR) stated to the conference that the United States probably would not have entered into the proposed FTA with Canada had there not been an Israeli accord as a precedent. Packwood declared that it is "critical" that the FTA works since upcoming attempts to cut the U.S. budget deficit across the board may mean a reduction in bilateral economic aid to Israel. To make up for possible aid shortfalls, he advised Israel to boost exports to the United States.

Ariel Sharon, Minister of Industry and Trade for Israel, characterized the FTA as providing an opportunity for Israel to advance its economic independence from the United States. He envisioned that the 1.2 billion dollars' worth of civilian aid the United States supplies Israel annually would no longer be necessary in another 10 years. Israel could reach this goal, he predicted, if Israeli exports could rise from their current level of 0.6 percent of U.S. imports to 1 percent during that period. To achieve that level of trade, Minister Sharon is urging the Israeli private sector to seek more investment for Israel and boost export sales, activities which were also part of the purpose for his visit to the United States. Minister Sharon publicly expressed concern to Ambassador Yeutter that Israel, "the only stronghold of democracy" in the Middle East and a partner and a friend of the United States, is deeply concerned about the prospect of protectionist legislation now under debate in the U.S. Congress.

Representatives of the U.S. business community that trades with Israel expressed concern that the FTA has not boosted trade, and they noted that certain modifications of the agreement are in order. Joshua Maor, president of the Israel-America Chamber of Commerce and Industry, stated that the "full business potential of the FTA is yet to be exploited." He added that there exist several areas of the FTA where "update" is necessary for the benefits of the agreement to be fully realized. Echoing this sentiment, Mr. Abraham Barir, vice president of the Israel-American Chamber of Commerce and Industry, said that Israel should seek an exemption from U.S. antidumping and countervailing duty procedures and that the U.S. International Trade Commission should exclude Israeli exports when cumulating imports in injury determinations. Mr. Barir also argued that the FTA should supersede all other trade rules that would otherwise apply to U.S.-Israeli trade relations, including any new restrictions in the pending trade bill.

One specific topic that was discussed at length was the potential for Israel to become an economic "bridge" between the United States and the European Community (EC). Both the United States and the EC have free-trade relationships with Israel. The U.S.-Israel FTA is just 2 years old, but the EC-Israel agreement has been in existence for nearly 12 years. The twin arrangements mean that producers in one of the major markets can gain duty-free access to the other market if they meet certain conditions. The conditions for "bridge goods" to enter the United States duty free are that 35 percent or more of the value of the exported product must be Israeli (material of Israeli origin or cost of productive activity) and that the product must undergo "substantial transformation" in Israel, i.e., a new and different article for export must be created from the imported good. The development of "bridge goods" could help to increase Israel's bilateral trade with both the United States and Europe as more businesses become aware of the potential link. Igal Ayal, Professor of Economics at Tel Aviv University, presented a paper to the conference in which he estimated which types of goods would be prospective "bridge goods." He found that goods with low transport costs, products subject to high tariffs or nontariff barriers in one of the markets, and those produced by industries in which Israel is already competitive have the most potential for becoming "bridge goods."

Mounting Pressures for Reform of Japan's Agricultural Policies

Reform of agricultural policies continues to be one of the most politically charged issues in Japan today. There are over 4 million farmers in Japan, but only 13 percent of them work on the land full time and 85 percent of farmers' income comes from second manufacturing jobs. Despite the fact that the agricultural workforce has been shrinking and the ruling Liberal Democratic Party has increased its voting presence in urban areas, two-thirds of Japan's elected officials continue to rely on rural votes for support and funding. The agricultural cooperatives are well organized and wield considerable influence on political decisions. Nonetheless, pressures are building inside and outside Japan in favor of reforming the agricultural sector, particularly the rice control policies. Proponents of gradual reform argue that reform would result in lower food prices for consumers, reductions in the Government's budget, and improvement in the international competitiveness of the agricultural sector. A brief update on key U.S.- Japanese agricultural issues follows.

GATT 12

In December 1986, the United States and Japan began negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT), after the United States filed a petition with the GATT, claiming that Japan's curbs on 12 agricultural products are inconsistent with the agreement. The products cited include processed beef, peanuts, processed cheese, and sugars and syrups. Japan claims that its import restrictions on both rice and beef are legal under the GATT because both items are state traded. The United States has rebutted this argument, asserting that the restrictions are GATT-illegal and would set a dangerous precedent for other sectors if allowed to stand. During the GATT investigation, there were two panel meetings and six rounds of written submissions. On November 13, the GATT panel reported its findings to the United States and Japan; however, the results are confidential.

Rice

Japanese rice production is very inefficient because of the small size of the average farm (approximately 5 acres compared with 526 acres in the United States), which leads to high operating costs. The Government maintains strict controls on the production and distribution of rice through a two-tiered pricing system under which farmers are paid a higher "producer price" for their rice than the price at which it is sold to domestic consumers. The Japanese Government's guarantee to purchase all domestically produced rice, combined with a decline in consumption, has resulted in a growing surplus during the last 4 years.

Reform of Japan's rice control policies has long been considered difficult because of the preeminent position of rice production as the backbone of Japanese agriculture, the political influence of the farming sector, and the role of rice in Japanese culture. The United States strongly objects to Japan's virtual ban on rice imports and has consistently called for the opening of this 10-million-ton market; Japan has rejected such demands, arguing that its price-support programs and protectionist policies are necessary to ensure food security.

On October 23, 1986, the Rice Millers' Association (RMA) filed a section 301 petition on behalf of U.S. rice producers, calling for an investigation of Japan's closed-market policy. Ambassador Clayton Yeutter rejected the petition, indicating that the United States would pursue access to Japan's rice market through the Uruguay Round (GATT) negotiations. In April 1987, Japan announced that it would put its agricultural policies on the negotiating table during the Uruguay Round, assuming that other countries did the same. The RMA decided to delay taking further action pending (1) the outcome of Congressional deliberations on the trade bill, (2) a decision in the GATT 12 case, and (3) selection of a new Prime Minister in Japan. According to one RMA source, the Association is now waiting to see what revisions are made in the section 301 provisions during the conference on the trade bill. If a trade bill is passed by the end of the year, the RMA will refile its petition at that time; otherwise, it will wait until mid-1988. The RMA says that a GATT 12 decision favoring the U.S. position on state trading would clearly strengthen its case.

Increasing dissatisfaction among Japan's urban residents, who spend over 26 percent of their income on food, and the burgeoning rice surplus have led to minor changes in its pricing policies. In July 1986 the Japanese Government reduced its "producer price" by 5.95 percent, and in September 1987 it announced a 2.5-percent reduction in the retail price for rice. Despite such cuts, Japanese consumers still pay 6 to 10 times the average world price for a pound of rice.

Beef

Japan's Ministry of Agriculture, Forestry, and Fisheries (MAFF) and its Livestock Industry Promotion Council (LIPC) annually establish and maintain a price range for imported beef. In 1984, following extensive negotiations with the United States, Japan agreed to expand its import quotas on beef, fresh oranges, and orange juice through March 1988. To a limited extent, the Japanese agreed to modify their beef import system to permit Japanese end users to negotiate product specifications and price with foreign suppliers, either directly or through Japanese importers. On August 13 of this year, MAFF announced it would raise its beef import quota of 177,000 metric tons for FY 1987–88 by 37,500 metric tons. Despite these measures and the yen's appreciation, which has lowered import prices, Japanese consumers have not experienced reductions in the retail price of beef (currently about $24 per pound). The United States continues to urge Japan to eliminate the quotas when they expire in March 1988.

STATISTICAL TABLES

Industrial production

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

				1986			1987		1987					
Country	1984	1985	1986	II	III	IV	I	II	May	June	July	Aug.	Sept.	Oct.
United States	11.2	2.0	1.0	-2.1	1.9	3.3	3.2	4.3	8.7	7.7	14.9	3.7	0	7.4
Canada	8.8	4.3												
Japan	11.1	4.6	-0.3	.9	-2.1	-2.4	5.6	-0.8	-15.5	66.2	12.1	-7.3		
West Germany ...	3.3	3.9	2.2	10.2	-4.5	-.1	-2.8	-.5	38.4	-10.9	-22.7			
United Kingdom ..	1.3	4.7	2.0	0.6	5.6	.5	4.0	2.9	11.2	-14.7	30.4	9.9		
France	1.7	.8	.7	6.2	5.4	-5.1	-1.3	8.1	12.4	26.0				
Italy	3.3	1.2	2.7	6.0	-12.8	7.3	11.5	6.7	30.7	-33.9	-6.8	-19.2		

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 6, 1987.

Consumer prices

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

				1986			1987		1987					
Country	1984	1985	1986	II	III	IV	I	II	May	June	July	Aug.	Sept.	Oct.
United States	4.3	3.6	1.9	-1.7	2.6	2.7	5.3	4.9	4.9	4.3	2.9	5.8	2.4	2.4
Canada	4.3	4.0	4.2	3.0	4.7	4.9	3.5	5.6		3.4	5.9	.9	0	
Japan	2.3	2.0	.6	.9	-2.0	-.1	-2.2	5.0		-2.3	-5.8	1.2	15.3	
West Germany ...	2.4	2.2	-.2	-1.0	-.5	-1.5	.9	1.4		.9	3.6	-1.0	-2.9	
United Kingdom ..	5.0	6.1	3.4	.7	2.4	6.5	5.7	1.9		2.6	4.6	3.6	3.6	
France	7.7	5.8	2.5	1.7	2.6	3.2	5.2	2.3		2.0	2.8	2.9	1.4	
Italy	10.6	8.6	6.1	5.0	5.0	3.2	4.1	4.3		5.6	7.1	3.3	9.0	

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 6, 1987.

Unemployment rates

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

				1986		1987			1987					
Country	1984	1985	1986	III	IV	I	II	III	May	June	July	Aug.	Sept.	Oct.
United States	7.5	7.2	7.0	6.9	6.9	6.7	6.2	6.0	6.3	6.1	6.0	6.0	5.9	6.8
Canada	11.3	10.5	9.6	9.7	9.4	9.6	9.1	8.8	9.1	8.9	9.1	8.8	8.6	
Japan	2.8	2.6	2.8	2.9	2.9	3.0	3.1		3.2	3.0	2.8	2.8		
West Germany ...	7.8	7.9	7.6	7.5	7.4	7.4	7.5	7.6	7.5	7.6	7.6	7.6	7.6	
United Kingdom ..	11.7	11.3	11.1	11.2	10.9	10.6	10.3	9.8	10.2	10.1	10.0	9.8	9.5	
France	9.9	10.4	10.7	10.8	10.8	11.2	11.3	11.2	11.3	11.2	11.2	11.2	11.0	
Italy	5.9	6.0	6.3	6.0	6.6	6.7	6.7	6.8						

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, November 1987.

Trade balances

(Billions of U.S. dollars, f.o.b. basis)

				1986			1987		1987					
Country	*1984*	*1985*	*1986*	*II*	*III*	*IV*	*III*	*IV*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*
UnitedStates [1] ...	-107.3	-133.6	-149.6	-139.6	-155.6	-166.8	-144.4	-148.0	-138.0	-150.0	-169.2	-164.4	-169.2	-151.2
Canada	16.0	12.8	7.3	7.6	6.4	8.0	9.2	8.4	14.4	8.4	1.2	4.8		
Japan	43.9	55.8	92.5	89.6	104.8	104.0	110.4	94.0	33.2	94.8	88.8	92.4		
West Germany ...	18.8	25.4	52.6	51.6	60.4	57.2	64.4	62.0	62.4	58.8	63.6	62.4		
United Kingdom ..	-5.7	-2.6	-12.4	-9.6	-17.2	-14.8	-6.8	-15.6	-9.6	-22.8	-14.4	-18.0		
France	-2.8	-2.6	.1	-4.4	-8.8	1.6	-4.0	-8.8	-7.2	-10.8	-7.2	-6.0		
Italy	-11.0	-12.1	-2.1	.0	1.6	-.8	-6.8	-12.0	-8.4	-6.0	-21.6	-14.4		

[1] Exports, f.a.s. value, unadjusted; imports, customs value, unadjusted. Beginning with 1986, figures include previously undocumented exports to Canada. Data for individual quarters do not reflect similar adjustments.
Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, November 6, 1987.

U.S. trade balance, by major commodity categories and by selected countries

(Billions of U.S. dollars, customs value basis for imports)

				1986		1987		1987						
Item	*1984*	*1985*	*1986*	*III*	*IIV*	*I*	*II*	*Mar.*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*
Commodity categories:														
Agriculture	18.4	9.6	4.5	.5	2.3	1.4	1.3	.4	.5	.5	.3	.7	.6	.8
Petroleum and selected products, unadj	-52.5	-45.9	-31.8	-7.2	-6.8	-7.6	-9.0	-2.7	-2.5	-3.0	-3.5	-4.1	-4.2	-3.4
Manufactured goods	-78.9	-102.0	-134.3	-36.1	-34.7	-32.7	-34.9	-10.7	-10.9	-11.3	-12.7	-13.3	-12.2	-10.8
Selected countries:														
Western Europe	-14.1	-23.3	-28.2	-7.3	-6.3	-5.2	-6.6	-2.1	-1.9	-2.2	-2.5	-3.5	-2.1	-1.4
Canada [1]	-20.1	-21.7	-23.0	-5.9	-5.4	-3.2	-2.3	-.7	-.9	-.9	-.5	-.6	-.9	-1.3
Japan	-33.8	-46.5	-55.3	-13.5	-15.0	-13.6	-14.5	-4.7	-4.7	-4.8	-5.0	-4.8	-4.6	-4.4
OPEC, unadj	-12.3	-10.2	-8.9	-2.1	-1.8	-2.4	-2.8	-.7	-.7	-.9	-1.2	-1.6	-1.6	-1.4
Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj	$28.11	$26.59	$15.02	$11.41	$12.60	$15.55	$17.23	$16.23	$16.76	$17.16	$17.77	$18.15	$18.33	$17.49

[1] Beginning with February 1987, figures include previously undocumented exports to Canada.
Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Summary of U.S. Export and Import Merchandise Trade*, U.S. Department of Commerce, September 1987.

Money-market interest rates (90-day certificate of deposit)

(Percentage, annual rates)

Country	1984	1985	1986	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 May	June	July	Aug.	Sept.	Oct.
United States	10.7	8.3	6.5	6.0	5.8	6.1	6.8	6.8	7.0	6.9	6.5	6.6	7.3	8.0
Canada	11.3	9.7	8.6	6.1	8.4	7.4	8.0	9.2	8.3	8.5	9.2	9.2	9.3	
Japan	6.7	6.5	4.9	4.7	4.4	4.1	3.7	3.7	3.7	3.8	3.7	3.7	3.8	
West Germany	6.0	5.5	4.6	4.5	4.7	3.9	3.7	4.2	3.7	3.7	3.9	4.0	4.6	
United Kingdom	9.9	12.1	10.8	9.9	11.3	10.5	9.3	10.0	9.0	9.3	9.4	10.3	10.2	
France	11.7	10.0	7.7	7.2	7.6	8.2	8.1	7.9	8.1	8.1	7.9	7.9	7.9	
Italy	15.9	15.0	12.8	11.4	11.2	10.9	10.7	11.9	10.5	11.0	11.1	12.3	12.4	

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; percentage change from previous period)

Item	1984	1985	1986	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 May	June	July	Aug.	Sept.	Oct.
Unadjusted:														
Index number	122.4	127.1	106.0	102.8	102.7	97.1	94.1	95.2	93.5	94.8	96.0	95.7	93.9	93.5
Percentage change	7.2	3.8	-16.6	-3.7	-.1	-5.5	-3.1	1.2	.5	1.4	1.3	-.3	-1.9	-.4
Adjusted:														
Index number	119.6	122.5	101.5	96.9	98.3	93.4	90.5	91.6	89.9	91.2	92.6	92.2	90.0	90.5
Percentage change	6.1	2.4	-17.1	-2.2	1.4	-5.0	-2.9	1.2	.7	1.4	1.5	-.3	-2.4	.5

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

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

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