INTERNATIONAL ECONOMIC REVIEW

January 1988

In This Issue:

Office of Economics

U.S. International Trade Commission

Washington, DC 20436

OFFICE OF ECONOMICS

John W. Suomela, *Director*

The *International Economic Review* is a monthly staff publication of the Office of Economics, U.S. International Trade Commission. The *Review* is not an official Commission publication: the opinions and conclusions it contains are those of the authors, and do not necessarily reflect the views of the Commission or of any individual Commissioner. The *Review* is produced as part of the Commission's international trade monitoring program. Its purpose is to keep the Commission informed about significant developments in international economics and trade, and to maintain the Commission's readiness to carry out its responsibility to provide technical information and advice on international trade matters to policymakers in the Congress and the Executive branch. The *Review* is available to Government officials outside the Commission on a request basis. Inquiries or comment on items appearing in the *Review* may be made directly to the author, or to:

Editor, *International Economic Review*
Trade Reports Division/OE, Room 602
U.S. International Trade Commission
500 E Street SW., Washington, DC 20436
Telephone (202) 252-1255

CONTENTS

INTERNATIONAL ECONOMIC COMPARISONS

Western nations agree that they need tighter, more comprehensive coordination of their domestic economic and exchange rate policies to spark another business upswing and reduce global trade imbalances. The seven leading industrial nations are preparing to meet again. The much-wished reduction of the U.S. trade deficit, an equally desirable acceleration of the West German economy, and exchange rate stability will be the focal points of negotiations.

Data on U.S. industrial production and employment show the strong momentum and growth potential of the Nation's economy. But the necessary and difficult transition from consuming more than we produce to producing more than we consume endangers steady economic growth. The single biggest concern is whether increased exports and export-led investment will substitute for the likely shrinkage in consumer outlays in 1988. From the second to the third quarter, personal consumption grew by 2.1 percent, exports by 4.3 percent, and investment by 0.7 percent.

A decline in total spending, a fall in commodity prices, and a sudden increase in short-term interest rates over long-term rates (inversion of the yield curve) are signs of a recession. At present, none of these indices gives a clear indication of a coming recession.

Industrial Production

U.S. industrial production rose by 0.4 percent in November, following a robust 0.9 percent jump in October. New orders for factory goods rose by 1.1 percent in October 1987 and were 10.6 percent higher than during the corresponding month of 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, 1.9 percent; Italy, 0.9 percent; Japan, 4.9 percent; the United Kingdom, 2.2 percent; the United States, 5.1 percent; and West Germany, −1.1 percent.

The Morgan Guaranty Trust Co. estimates that Japan's industrial workers average $12.19 an hour in wages and fringe benefits, U.S. industrial workers $13.67, and West German industrial workers $18.07.

Investment

The latest data on capital spending support the view that the massive sell-off of stocks in October 1987 did not bruise U.S. business optimism. New orders for the U.S. capital goods industries rose at a seasonally adjusted 2.9 percent from $38.87 billion in September to $39.99 billion in October. The closely watched barometer of future investment activity, new orders for non-defense capital goods, rose by a seasonally adjusted 1.3 percent to $30.15 billion in October, after climbing by 0.7 percent in September.

Reflecting sluggishness in consumer spending, manufacturers' inventories increased by 0.5 percent in October. Measured in 1982 constant dollars, construction spending in the United States declined by 0.3 percent from an annual rate of $353.3 billion in September to $352.8 billion in October.

External Balances

The U.S. current account deficit increased from $141.4 billion in 1986 to $155.3 billion in 1987, according to Data Resources Inc. Private foreign holders of dollar balances showed a growing reluctance to invest in U.S. Treasury papers and other dollar denominated assets. As a result, the net dollar purchases of Asian and European central banks may have totaled $110–$115 billion during 1987. Since foreign central banks immediately invest their new dollar balances in U.S. Treasury paper, the lack of interest by private investors has so far not handicapped the foreign financing of U.S. Federal deficit.

The International Monetary Fund (IMF) reported a decline in the aggregate trade surplus of developing countries in the Western Hemisphere, from $4.27 billion during the first quarter of 1986 to $1.54 billion during the first quarter of 1987. The trade balances of Brazil, Peru, Chile and Venezuela have deteriorated, but Mexico's trade surplus increased over the period.

Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) dipped to 5.8 percent in November from 5.9 percent in October. At 7.1 million, the number of unemployed in the United States is more than a million below the level of a year ago.

The national statistical offices of other countries reported the following unemployment rates for October: 8.4 percent in Canada, 14.3 percent in Italy, 9.8 percent in the United Kingdom, and 9.0 percent in West Germany. The September rate was 10.5 percent in France and 2.8 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

Prices

The U.S. Consumer Price Index rose at a seasonally adjusted rate of 0.3 percent in November 1987, following a 0.4-percent rise in October. Private economists say that inflation was 3.2 percent for the full year of 1987 and believe that prices remain under control.

According to the World Bank, agricultural raw material prices have declined by 5 to 6 percent since Black Monday, but prices for foodstuffs remained steady.

The average rate of inflation during the 1-year period ending in October 1987 was 4.3 percent in Canada, 3.1 percent in France, 5.3 percent in Italy, 4.5 percent in the United Kingdom, 4.5 percent in the United States, and 0.9 percent in West Germany. The average rate of inflation during the 1-year period ending in September 1987 was 0.6 percent in Japan.

The United States versus the Soviet Union

Western estimates of Soviet production vary greatly. According to Wharton Econometric Forecasting Associates, the 1987 Soviet Gross Domestic Product (GDP) in constant dollars was $1.3 trillion versus a U.S. GDP of $3.2 trillion. The per capita Soviet GDP is roughly one third of the comparable U.S. figure. At the same time, military spending consumes 16 percent of Soviet Gross National Product (GNP), compared to 7 percent of the U.S. GNP.

Soviet efforts to catch up with the United States in overall production, technological development, and living standards have stalled. The 2.5-percent average growth in the Soviet GDP during the 1980's was roughly equal to the average U.S. growth rate over the same period. Moreover, Western analysts do not forecast acceleration in Soviet economic growth at least through 1992. But even if Soviet growth doubled to 5.0 percent and U.S. growth remained a moderate 2.5 percent, it would take the Soviet Union 36 years to catch up in GDP with the United States.

From the inception of the Soviet Union, the country's political leadership has regarded the development of heavy industry as basic to a modern industrial society and military power. Heavy industries were developed to the detriment of other sectors and this tilt distorted the country's economic structure as is apparent from the following comparisons. Soviet steel production was an estimated 161 million tons in 1987, whereas U.S. production was only 87 million tons. In contrast, Soviet car production of around 1.3 million units in 1987 compares with the U.S. car production of around 7.0 million units. Rough-and-ready calculations show that Soviet computer and computer parts production in 1987 was about one-sixth of the $47 billion U.S. output. The United States produces an annual 300 million metric tons of grain (wheat and corn) on average, the Soviets produce 200 million metric tons in a very good year. These are among the many economic indicators that demonstrate the Soviet Union's need for economic reform.

Forecasts

Economic growth

Private U.S. forecasters project 3.0 to 4.0 percent growth in the Nation's economy for 1987, and 2.0 percent for 1988. The Administration scaled back its forecast for real economic growth to 2.4 percent in 1988.

Nearly three months after Black Monday, economists are still divided over whether the biggest one-day decline in stock market history presages the end of the longest peacetime recovery. During the past 80 years, recessions have occurred 8 out of 9 times whenever stock prices dropped by at least 35 percent. On Black Monday, the Dow Jones Industrial Average of 30 stocks declined by 36.1 percent from its previous 12-month high and the Dow Jones Composite Index of 65 stocks by 33.6 percent. However, most economists share the view that the current situation lacks historical precedent, and that attributing too much to the October crash leads to unrealistic forecasts. Some are strongly convinced that continued growth in the service sector will—at least in the foreseeable future—compensate for any damage that the goods-producing sector may have suffered or will suffer from a reduction in aggregate demand.

Europeans are increasingly confident that the U.S. economy showed zero real growth, the British economy could still expand at an annual rate of 2 percent in 1988. However, worries in Europe run high about the West German economic situation. West German real economic growth slowed from an annual rate of 1.5 percent in the second quarter of 1987 to only 0.5 percent growth during the third quarter. Private economists forecast only 1.5 to 1.75 percent real growth for full year of 1987. European corporate leaders and politicians urge the West German Government to accelerate implementation of its fiscal stimulus program. Trade in the EC would certainly suffer a fatal setback if West Germany slipped into a recession. West Germany's annual imports from other EC states totaled $99.5 billion in 1986 (United Nations' statistics); U.S. demand from these countries amounted to only $53.4 (U.S. Government statistics). If the change from 1985 to 1986 and the intentions of current trade policies are any guide, non-West-German EC members will increase their exports to West Germany faster than to the United States in 1988.

Japan's economy grew by 2.0 percent during the third quarter of 1987, giving credence to the Government's claim that the annual growth rate for fiscal year 1987 will be 3.5 percent.

U.S. external debt

Economists at the investment firm Goldman, Sachs & Co. estimate that—even under conservative assumptions—the current $400 billion U.S. net foreign debt will exceed $700 billion by yearend 1989, and that the annual net interest payments on the debt will increase from $17.2 billion in 1987 to $38 billion in 1989. If the trade deficit is eliminated by 1992, annual debt service payments on the accumulated debt will be about $70 billion. If the deficit is not eliminated until 1997, annual debt service payments might reach $90 billion in 1992.

Nobel laureate economist Paul Samuelson predicts that the role of the dollar as the key international currency will lessen if the depreciation of the dollar continues much longer.

U.S.-Soviet trade

Analysts forecast an improvement in U.S. Soviet commercial relations—including joint industrial ventures—but no significant departures from past levels of bilateral trade. U.S. grain exports make up nearly four-fifths of trade between the two countries and the current 28 million metric tons of overall annual Soviet import demand is unlikely to increase. The USDA expects the Soviet grain harvest to exceed 200 million metric tons for the second consecutive year in 1987 and the reduction of agricultural import dependence is one of the central motives of the new, more realistic Soviet economic policy.

In the wake of the Reagan-Gorbachev Summit, the United States will likely resume its purchases of Soviet nickel, mink, and fox and buy more textile products in 1988, but this will add relatively little to overall trade between the two countries. U.S.-Soviet manufactures trade remains constrained by Soviet hard currency shortage and limited U.S. demand for Soviet manufactured goods, particularly amidst the projected reduction in the overall U.S. import demand. Average annual trade turnover between the two countries for the next 8 years will likely fall between the $2.6 billion annual average of the 1980's and the annual $4.5 billion peak of 1979.

U.S. TRADE DEVELOPMENTS

At $17.6 billion, the U.S. merchandise trade deficit in October 1987 reached a new monthly record. It exceeded the $14.1 billion September deficit by 25.3 percent, the $14.3 billion average deficit for the previous 12-month period by 23.2 percent; and the $14.7 billion deficit of October 1986 by 19.8 percent. The 12.3 percent increase in imports from September to October more than offset the 3.7 percent rise in exports.

The $3.0 billion jump in the manufactures trade deficit from September to October accounted for five-sixths of the $3.6 billion overall increase in the deficit. Imports of clothing, footwear, new passenger cars, electrical machinery, telecommunications equipment, aircraft and parts, and power generating machinery were particularly high. Exports of military goods, gold, power generating machinery, new passenger cars, and specialized industrial machinery were among the major gainers. The U.S. merchandise trade deficit in constant dollars increased from a $162.2 billion annual rate during the second quarter of 1987 to a $163.3 billion rate during the third quarter. This was the net result of a 7.7 percent increase in exports and a 5.1 percent increase in imports. Imports exceeded exports by a ratio of 1.56 during the third quarter of 1987.

The oil import bill increased from $3.9 billion in September to $4.3 billion in October. The volume of oil imports increased from 212.1 million barrels to 233.1 million barrels, and the average price of imported oil increased from $18.53 per barrel to $18.62 per barrel. Strong industrial growth and stock-piling for the winter explain the increase in oil imports. Higher shipments of soybeans, animal feeds, and fruits and vegetables account for the slight increase in agricultural surplus from $0.6 million in September to $0.7 million in October. Owing largely to the Government's successful export promotion, the $4.3 billion agricultural trade surplus registered for January-October 1987 exceeded the $3.4 billion surplus for the full year of 1986.

From September to October, the U.S. deficit in trade increased with Japan, the 12-nation EC, Canada, members of the Oil Producing and Exporting Countries (OPEC), and with non-OPEC developing countries. The cumulative deficit for the first 10 months of 1987 increased in trade with Japan, the members of OPEC, and the non-OPEC developing countries over the corresponding period of 1986, but it declined in trade with the EC and Canada in a similar, 10-month comparison. The combined deficit with South Korea and Taiwan increased by $6.2 billion from $18.9 billion during January-October 1986 to $25.1 billion during January-October 1987.

Table 1 shows exports, imports and the balance of trade in goods and services in constant dollars. The deficit increased by 1.7 percent from the second to the third quarter, implying a $2.2 billion-increase in the volume of the deficit over the period.

Table 1.—U.S. trade of goods and services with the world, quarterly from 1985 to present at annual rates

(Billions of 1982 dollars)

Year/ Quarter	*Exports*	*Imports*	*Net imports*
1985:			
I	369.7	450.7	81.0
II	364.7	472.4	107.7
III	360.5	475.4	114.9
IV	366.5	495.8	129.3
1986:			
I	371.5	494.4	123.0
II	370.2	517.0	146.8
III	379.6	541.2	161.6
IV	388.3	540.1	151.8
1987:			
I	397.8	533.0	135.2
II	414.5	547.2	132.7
III	433.3	568.2	134.9

Source: National Income Product Accounts, Bureau of Economic Analysis, Department of Commerce. These statistics differ from the Census trade statistics in that they are seasonally adjusted and include trans-shipments and gold. In addition, some military transactions are excluded.

Exports increased by 4.5 percent and imports only by 3.8 percent, but the increment in the volume of imports was larger than the increment in exports because imports exceeded exports by a ratio of 1.3 during the second quarter. This ratio improved slightly during the third quarter as a result of a greater percentage growth of exports than imports over the period. Assuming another 3.8 percent growth in imports during the fourth quarter, exports would have to grow by 5.0 percent to keep the volume of the deficit from increasing.

According to preliminary estimates, world trade expanded by 3.7 percent in 1987. If this rate of expansion continues through 1988, U.S. exports—representing 15.4 percent of world exports—could easily grow by 5.0 percent in the new year, leaving room for a 3.5-percent expansion of exports from the rest of the world.

United States proposes services framework

The United States presented a comprehensive proposal for liberalizing trade in services at a November meeting of the GATT services negotiating group. The U.S. proposal is a framework agreement on services which includes both general considerations and several specific concepts. The United States views creating a framework agreement on services as the first step in a negotiating process which would also include establishing specific service sector agreements. Service sectors that could be subject to such agreements include banking, insurance, transportation, telecommunications, computer and data processing, tourism, consulting, distribution services, health services, and education services.

In announcing the proposal, U.S. Trade Representative (USTR) Clayton Yeutter said that "the proposal provides our view of a set of rules to expand and liberalize the conduct of international trade in services." Yeutter stressed the importance the United States attaches to seeing GATT agree to a set of rules governing services trade by noting "we must have a set of enforceable rules to cover services because this sector is the fastest growing in the United States and the world, and because trade in goods and trade in services are interdependent."

The United States identified several general considerations it believes a framework agreement should contain. These concepts are: (1) calling for the "progressive liberalization of a wide range of service sectors in as many countries as possible;" (2) recognizing "the sovereign right of every country to regulate its services industries," with a framework only regulating measures with a "purpose or effect" of restricting market access by foreigners;" (3) seeking "agreement by countries to avoid adopting new restrictive measures on foreign service providers;" (4) aiming for a "progressive and time-phased liberalization of world services markets which contribute to development in a positive way, without compromising any individual country's development objectives;" (5) applying to "cross border movement of services" and establishment of foreign operations to deliver the service to the host country;" and (6) allowing broad yet flexible coverage by the framework, with the goal of extending its coverage to a wide variety of service sectors.

Specific concepts detailed in the U.S. proposal are transparency, non-discrimination, national treatment, state monopolies, subsidies, non-discriminatory accreditation procedures, and consultation/dispute settlement.

Regarding transparency, the U.S. proposal offers rules to ensure "that government measures affecting service industries are developed and maintained in a clear and predictable manner and that information on such measures is readily accessible and is made known to all interested parties on an equal basis." To meet that goal, the proposal: (1) advocates that signatories publish proposed and final regulations affecting services to allow interested parties a chance to comment; and (2) would require advance notification of regulatory changes so affected trading partners could discuss them.

On the concept of non-discrimination, the proposal calls for signatories to "extend the benefits of (the) agreement unconditionally to all signatories." The proposed framework would allow accession with limited exceptions to such an agreement for countries unwilling or unable to participate fully in such an accord. Regarding national treatment, the proposed framework would require signatories to regulate foreign and domestic service firms identically. Certain exceptions to national treatment contained in the proposal include cases of "national security considerations and fiduciary responsibilities." Such exceptions, however, would require the beneficiary to ensure that an exception did not hide a violation of national treatment, according to the U.S. proposal. Specific examples of the application of national treatment identified by the proposal are access to local distribution networks, access to local firms and personnel, access to customers, access to licenses, and the right to use brand names.

Procedures to deal with state monopolies and government subsidies are also outlined in the proposal. On the subject of state monopolies, discipline advocated by the proposal includes compensation to affected parties when a government elects "to transform the provision of a service from a competitive to a monopoly environment." For subsidies, the framework advocates creating rules governing the use of subsidies (export or domestic) possibly in a method analogous to existing GATT disciplines applicable to trade in goods. The proposal on subsidies also suggests developing a dispute settlement mechanism to resolve conflicts over the interpretation of a subsidy clause.

The framework recommends non-discriminatory accreditation procedures in order to "discourage licensing measures that are unrelated to competence and ability to perform" and to "prohibit those measures whose purpose or effect is to discriminate against foreign providers of licensed services." This aspect of the proposal recognizes that the extensive regulations which often characterize service industries, whether through governmental or professional bodies, "arise from a legitimate concern for consumer protection and the desire to maintain the highest professional standards," but may "extend beyond the legitimate standards of assuring competence and ability to perform a service and constitute an unjustifiable barrier to accreditation by foreign applicants."

Finally, the U.S. proposal recommends that a consultation and dispute settlement provision possibly similar to the existing form under GATT Articles XXII and XXIII be established for handling disputes arising from regulations covering trade in services.

Responding to the proposal, Brazil and India repeated their longstanding view that creating formal GATT rules governing trade in services is inappropriate and outside the purview of the organization's mandate. Resistance by developing countries to including trade in services on the agenda of the GATT talks predates the September 1986 Punta del Este ministerial meeting, which kicked off the Uruguay Round. This resistance is rooted in the fear by developing countries that an agreement to liberalize trade in services could hamper their economic development by restricting the ability to offer infant industry protection to fledgling service firms, and by requiring developing countries to grant market access to foreign multinational service firms which could out compete local service providers.

The U.S. proposal is the first comprehensive proposal for a services agreement since GATT members placed the subject on the negotiating agenda at the Punta del Este ministerial. Japan and the EC are expected to table other negotiating proposals later this year.

Will the most advanced NICs lose their GSP privileges?

Rumors of an initiative to graduate the top beneficiaries from the GSP program are circulating in Washington. For several weeks news sources were reporting that the administration is considering a proposal to eliminate the duty-free privileges enjoyed by Hong Kong, South Korea, Singapore, Taiwan, and Brazil. Reportedly, the proposal was made by Treasury Secretary Baker in an October meeting with Secretary of State Schultz and then National Security advisor Frank Carlucci and later discussed at high levels within the office of the U.S. Trade Representative. Now USTR Yuetter has confirmed that GSP policy regarding eligibility for top beneficiaries is currently being reviewed and that graduation for all four Pacific Rim NICs is being considered.

There is some speculation that the move to change GSP policy now reflects the administration's desire to show a "get tough" attitude on trade matters. There is also speculation that eliminating GSP for the advanced NICs could make a small difference in the trade deficit (now at about $180 billion) as well as in the budget deficit (by collecting $500 million to $1 billion in revenues from imports). The contemplated move to graduate the top beneficiaries from GSP is also viewed as a reaction to several of these countries' large bilateral trade surpluses with the United States. The trade surpluses of the Asian NICs have increased significantly in the first ten months of the year; Taiwan's surplus is expected to reach almost $20 billion by yearend and Korea's surplus could go as high as $10 billion.

During the year, U.S. officials have persistently urged Taiwan, South Korea, Hong Kong, and Singapore to allow their currencies to appreciate in value to help reduce their large bilateral surpluses with the United States. In a recent speech, Treasury Assistant Secretary for International Affairs David Mulford hinted that if these countries failed to take steps to reduce their surpluses, the United States might be forced to take restrictive action. Congress has been increasingly frustrated by complaints of predatory practices by the NICs. Mulford has suggested that the NICs, by keeping their exchange rates undervalued, have unfairly boosted exports and accumulated "unjustifiable" current account surpluses and monetary reserves. Taiwan, for example, will have a current account surplus of more than $19 billion and with no external debt, The island's cash reserves are currently about $70 billion—the size of Japan's.

Both Taiwan and Korea have shown concern about their large bilateral surpluses with the United States. In independent actions, both relaxed their foreign exchange controls in mid-1987 in order to increase imports and reduce the foreign exchange reserves of their central banks. (See *IER*, September, 1987.)

The New Taiwan dollar has been allowed to rise about 30 percent in value against the dollar since last year, to a rate of less than 30 to 1. However, in spite of the resultant rise in export prices, U.S. demand for Taiwan-made goods remains strong and the trade balance continues to grow in Taiwan's favor.

Korea's financial situation is weaker than that of Taiwan (Korea has a $41 billion foreign debt that dwarfs its approximately $9 billion in foreign reserves) and in the past 18 months, the Korean won has appreciated only 8 percent against the U.S. dollar. Korea's real current account surplus will be approximately 8 percent of GNP by yearend. By contrast, Japan and West Germany each will have a current account surplus of about 4 percent of GNP.

Currently, 140 countries receive duty-free treatment for over 3,000 products. The current criteria for GSP were redefined in January 1987 after a two-year general review. As part of the review process, the United States held consultations with the four countries that account for the greatest proportion of GSP: Taiwan ($3.8 billion), South Korea ($2.2 billion), Hong Kong ($1.4 billion), and Singapore ($730 million). Last year these countries accounted for 61 percent of the total $13.3 billion of U.S. imports under the program.

Before the general review, the "competitive need" limit on GSP items was achieved when an item reached 50 percent of total U.S. imports or $70 million—at which point it was graduated from the program. After the review, a more severe set of limits—25 percent of total U.S. imports or $28 million—was set for certain products, particularly those from the advanced NICs.

The GSP program was also altered in another way after the general review. If a country met certain conditions pertaining to its labor practices, market access, and its stand on intellectual property rights, the lower competitive needs limits could be waived. This was an attempt to use GSP as bargaining leverage to help obtain these key U.S. goals. Businessmen and U.S. officials concede that this strategy has been particularly successful and some are dismayed that a valuable negotiating tool may be lost if the top NICs are graduated from GSP. Opponents to the initiative, particularly U.S. electronics companies that import components duty free from these countries, are registering their opposition with the U.S. Trade Representative's office. The administration should complete its review of GSP policy early in 1988.

EC Delays Implementation of Animal Hormone Ban

The EC's Council of Agriculture Ministers agreed on November 18 to a 12-month delay in the implementation of a controversial ban on the sale of meat from animals treated with growth hormones. The United States, whose livestock farmers rely heavily on hormone growth promoters, had threatened to retaliate against EC products had the ban been implemented as planned on January 1, 1988.

The current U.S.-EC conflict grew out of a December 1985 EC Directive that would have prohibited the use of artificial and natural hormones in EC meat production (except for limited therapeutic purposes) as well as the marketing of any hormone-treated meats after January 1, 1988. Strong consumer pressure behind the passage of the Directive was motivated by health concerns. However, four out of the five types of hormones banned for fattening animals under the Directive are approved and routinely used in the United States. Apart from a small amount of shipments of high grade Hilton beef (about 6–10,000 tons annually) which do not contain hormones or additives, most U.S. exports of meat to the EC come from animals that have been treated with growth hormones. At stake in the controversy is an estimated $120 million worth of annual U.S. shipments of meat and offal (byproducts from meat processing) to the EC. U.S. meat producers are particularly concerned that U.S. exports of items like kidneys and liver will be severely reduced. These products comprise a large share of U.S. exports to the EC and have virtually no other markets.

The U.S. Administration argues that scientific evidence indicates that growth hormones do not pose a health hazard. Findings of the EC's own Scientific Working Group on Anabolic Agents in Animal Production, as well as industry studies, the U.S. Food and Drug Administration, and the joint United Nations Food and Agriculture Organization/World Health Organization Codex Alimentarius Committee on Residues of Veterinary Drugs in Food, failed to establish a scientific basis for the ban. The U.S. Government therefore claims that the hormone ban represents an unfair trade practice. The EC has countered that the ban was intended as a consumer protection measure rather than a disguised trade barrier and is not discriminatory since the same treatment applies to domestically-produced meat as to imported meat.

In January 1987, the U.S. Government requested bilateral talks with the EC under the Agreement on Technical Barriers to Trade (the Standards Code), claiming that the EC's new certification rules create an "unnecessary" obstacle to international trade. After numerous bilateral consultations failed to resolve the issue, the Standards Code Committee commenced its investigation of the case in May. Subsequent meetings of the Committee proved inconclusive. In August, the EC blocked the U.S. request to establish a technical experts group to evaluate the effect of hormone usage on consumers. As the date for implementation of the hormone ban grew imminent, the U.S. Administration warned that retaliatory measures would be adopted if the ban was not modified.

On November 18, the EC agreed to postpone implementation of the ban on the marketing of hormone-treated meat for one year. The new deal will effectively impose two deadlines. The ban on the use of hormones in EC meat production will go ahead as planned on January 1, 1988. The compromise states that meat that has been implanted with growth hormones either inside the EC before January 1, 1988 or outside the EC in countries like the United States that will continue to treat animals with hormones, can be marketed in the EC under existing bilateral arrangements until January 1, 1989. Although certain EC member states such as Italy already ban imports of hormone-treated meat, France and the United Kingdom, the major EC importers of U.S. meat, have no such controls and can continue to market U.S. meat throughout 1988.

In addition to avoiding a trans-Atlantic trade dispute, the EC Commission indicated that the delay will aid them in resolving some internal problems that would have resulted had the entire ban been implemented on January 1, 1988. For example, the EC now has an additional year to market the large stocks of hormone-implanted meat currently held in public storage. Also, certain EC member countries that have just recently applied the ban or have not yet applied the ban to domestic production, require the extra period to slaughter hormone-impregnated livestock and market the meat.

Although U.S. officials welcomed the compromise, on November 25 the U.S. Administration published a list of 30 European food categories it is considering for retaliation should U.S. meat exports to the EC be interrupted. This list, covering $230 million of annual imports from the EC, is being pared back to cover EC exports to the U.S. worth about $100 million, reflecting the estimated amount of lost U.S. meat sales from the ban. If the new agreement appears satisfactory, the punitive duties will be suspended immediately. U.S. officials continue to urge an outright end to the ban, but indicated they remain "optimistic that the EC will permit dispute settlement to proceed in the interim in order to reach a permanent agreement based on scientific evidence."

The Bilateral Free Trade Agreement and U.S.-Canadian Energy Trade

The recently concluded free trade agreement (FTA) between the United States and Canada is being closely examined on both sides of the border. One important sector that is directly addressed by the trade pact is energy. The negotiated agreement promises advantages to both the United States and Canada in the energy sphere.

Although the framework for the pact was settled in early October, the precise text of the document only recently became public. The actual signing of the agreement took place on January 2, 1988. The next step will be the submission to the Congress and Parliament for final approval. The agreement, if endorsed by the legislative bodies in each country, will take effect on January 1, 1989.

Energy is one of the principal areas in which bilateral agreement was reached. While trade in automobiles and related equipment dominates cross border-commerce, trade in energy is also significant. Coal is one of the leading U.S. exports to Canada; petroleum and natural gas are major U.S. imports from Canada. Two-way energy trade measures about $10 billion annually and constitutes the world's largest energy trading relationship. In 1985 over four-fifths of Canada's exports of energy products, including oil, gas, electricity, and uranium, went to the United States.

Canada is one of the world's major energy producers. Among the 7 leading industrial countries, only Canada and the United Kingdom are net exporters of energy. Of these countries, Canada has the most energy-intensive economy. Canadians are the world's greatest consumers of energy on a per capita basis.

In 1986 Canada was the largest supplier of U.S. energy needs. More oil came from Canada than from Mexico, Saudi Arabia, or Venezuela. Canada accounted for almost all U.S. imports of electricity and natural gas. About two-thirds of U.S.imports and one fourth of total consumption of uranium are from Canada. North American energy interdependence was underscored by the recent announcement that nine Vermont utilities have contracted to purchase hydroelectricity from Hydro-Quebec, the provincial utility. The contract, which lasts 20 years, will take effect in 1995 and is valued at $5.5 billion.

Under the bilateral free trade agreement the United States receives nondiscriminatory access to Canadian energy supplies. This is provided in return for secure access to the American energy market. Subject to some very limited exceptions (e.g. short supply, national security) both sides have agreed to prohibit all restrictions on energy imports and exports, including quantitative restrictions, taxes, minimum price requirements, and equivalent measures. The United States agreed to open exports of Alaskan crude oil to Canada, subject to the condition that such oil be transported from Alaska in U.S. flag vessels. U.S. restrictions on the enrichment of Canadian uranium will be eliminated under the agreement. The Canadians agreed to eliminate any discriminatory pricing on electricity exported to the United States.

Proponents also claim that benefits will include: the creation of a more flexible, more efficient energy system for North America; greater certainty for energy producers and consumers; greater investment in the energy sector; reduced dependency on other energy sources; greater flexibility of response in the event of disruption in world energy markets; reduced energy costs in both countries; and improved competition with industries in Europe and the Far East. The value of bilateral trade in energy will expand as a result of the FTA. The market-opening measures contained in the agreement will enhance energy security in North America. Both countries agreed to consult on any regulatory actions in the energy sphere that could be discriminatory or inconsistent with the FTA.

One area where agreement was not reached in the FTA energy negotiations is investment. Elimination of all restrictions on investment in the Canadian energy sector evaded U.S. negotiators. Some liberalization on Canadian rules governing foreign investment (see *IER*, December 1987) was achieved, as was a pledge by Canada not to return to the much more restrictive regime that applied to the energy sector in the recent past.

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*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*
United States	11.2	2.0	1.0	-2.1	1.9	3.3	3.2	4.3	7.7	14.9	3.7	-0.9	7.6	4.9
Canada	8.8	4.3												
Japan	11.1	4.6	-.4	.9	-2.1	-2.4	5.6	-.8	66.2	12.1	-7.3	4	4.5	15.9
West Germany ...	3.3	3.9	2.2	10.2	-4.5	-.1	-2.8	-.5	-10.9	-22.7	-9.8	-5.6		
United Kingdom ..	1.3	4.7	2.0	.6	5.6	.5	4.0	2.9	-14.7	30.4	9.9	-11.8		
France	1.7	.8	.7	6.2	5.4	-5.1	-1.3	8.1	26.0	12.2				
Italy	3.3	1.2	2.7	6.0	-12.8	7.3	11.5	6.7	-33.9	-6.8	-19.2	9.9		

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, December 18, 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*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*
United States	4.3	3.6	1.9	-1.7	2.6	2.7	5.3	4.9	4.3	2.9	5.8	2.4	4.6	3.7
Canada	4.3	4.0	4.2	3.0	4.7	4.9	3.5	5.6	3.4	5.9	.9	0	4.4	
Japan	2.3	2.0	.6	.9	-2.0	-.1	-2.2	5.0	-2.3	-5.8	1.2	15.3	0	-2.3
West Germany ...	2.4	2.2	-.2	-1.0	-.5	-1.5	.9	1.4	.9	3.6	-1.0	-2.9	2.0	0
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	6.0	
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	2.9	
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	11.3	5.4

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, December 18, 1987.

Unemployment rates

(Percentage; seasonally adjusted; rate of foreign countries adjusted to be roughly comparable with U.S. rate)

				1986		1987			1987					
Country	*1984*	*1985*	*1986*	*III*	*IV*	*I*	*II*	*III*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*
United States	7.5	7.2	7.0	6.9	6.9	6.7	6.2	6.0	6.1	6.0	6.0	5.9	6.0	5.9
Canada	11.3	10.5	9.6	9.7	9.4	9.6	9.1	8.8	8.9	9.1	8.8	8.6	8.4	
Japan	2.8	2.6	2.8	2.9	2.9	3.0	3.1	2.8	2.8	2.8	2.8	2.8		
West Germany ...	7.4	7.5	7.2	7.2	7.0	7.1	7.2	7.3	7.6	7.6	7.3	7.3	7.3	
United Kingdom ..	11.7	11.3	11.1	11.2	10.9	10.6	10.3	9.8	10.1	10.0	9.8	9.5	9.4	
France	9.9	10.4	10.7	10.8	10.8	11.2	11.3	11.2	11.2	11.2	11.2	11.0	10.9	
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, December 1987.

Trade balances

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

Country	1984	1985	1986	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 May	1987 June	1987 July	1987 Aug.	1987 Sept.	1987 Oct.
UnitedStates [1]	-107.3	-133.6	-149.6	-139.6	-155.6	-166.8	-144.4	-148.0	-150.0	-169.2	-164.4	-169.2	-151.2	-192.0
Canada	16.0	12.8	7.3	7.6	6.4	8.0	9.2	8.4	8.4	1.2	4.8			
Japan	43.9	55.8	92.5	89.6	104.8	104.0	110.4	94.0	94.8	88.8	92.4			
West Germany	18.8	25.4	52.6	51.6	60.4	57.2	64.4	62.0	58.8	63.6	62.4			
United Kingdom	-5.7	-2.6	-12.4	-9.6	-17.2	-14.8	-6.8	-15.6	-22.8	-14.4	-18.0			
France	-2.8	-2.6	.1	-4.4	-8.8	1.6	-4.0	-8.8	-10.8	-7.2	-6.0			
Italy	-11.0	-12.1	-2.1	.0	1.6	-.8	-6.8	-12.0	-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, December 18, 1987.

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

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

Item	1984	1985	1986	1986 III	1986 IV	1987 I	1987 II	1987 III	1987 May	1987 June	1987 July	1987 Aug.	1987 Sept.	1987 Nov.
Commodity categories:														
Agriculture	18.4	9.6	4.5	.5	2.3	1.4	1.3	2.1	.5	.3	.7	.6	.8	.8
Petroleum and selected products, unadj	-52.5	-45.9	-31.8	-7.2	-6.8	-7.6	-9.0	-11.7	-3.0	-3.5	-4.1	-4.2	-3.4	-3.8
Manufactured goods	-78.9	-102.0	-134.3	-36.1	-34.7	-32.7	-34.9	-36.3	-11.3	-12.7	-13.3	-12.2	-10.8	-14.4
Selected countries:														
Western Europe	-14.1	-23.3	-28.2	-7.3	-6.3	-5.2	-6.6	-7.0	-2.2	-2.5	-3.5	-2.1	-1.4	-2.6
Canada [1]	-20.1	-21.7	-23.0	-5.9	-5.4	-3.2	-2.3	-2.8	-.9	-.5	-.6	-.9	-1.3	-1.3
Japan	-33.8	-46.5	-55.3	-13.5	-15.0	-13.6	-14.5	-13.8	-4.8	-5.0	-4.8	-4.6	-4.4	-5.5
OPEC, unadj	-12.3	-10.2	-8.9	-2.1	-1.8	-2.4	-2.8	-4.6	-.9	-1.2	-1.6	-1.6	-1.4	-1.5
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	$17.99	$17.16	$17.77	$18.15	$18.33	$17.49	$17.51

[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, October 1987.

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

(Percentage, annual rates)

				1986		1987			1987					
Country	*1984*	*1985*	*1986*	*III*	*IV*	*I*	*II*	*III*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*
United States	10.7	8.3	6.5	6.0	5.8	6.1	6.8	6.8	6.9	6.5	6.6	7.3	8.0	7.2
Canada	11.3	9.7	8.6	6.1	8.4	7.4	8.0	9.2	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	3.8	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	3.9	4.0	4.6		
United Kingdom ..	9.9	12.1	10.8	9.9	11.3	10.5	9.3	10.0	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	7.9	7.9	7.9		
Italy	15.9	15.0	12.8	11.4	11.2	10.9	10.7	11.9	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)

				1986		1987			1987					
Item	*1984*	*1985*	*1986*	*III*	*IV*	*I*	*II*	*III*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*
Unadjusted:														
Index number ..	122.4	127.1	106.0	102.8	102.7	97.1	94.1	95.2	94.8	96.0	95.7	93.9	93.5	90.0
Percentage change	7.2	3.8	-16.6	-3.7	-.1	-5.5	-3.1	1.2	1.4	1.3	-.3	-1.9	-.4	-3.7
Adjusted:														
Index number ..	119.6	122.5	101.5	96.9	98.3	93.4	90.5	91.6	91.2	92.6	92.2	90.0	90.5	87.3
Percentage change	6.1	2.4	-17.1	-2.2	1.4	-5.0	-2.9	1.2	1.4	1.5	-.3	-2.4	.5	-3.5

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.

UNITED STATES
INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C. 20436

OFFICIAL BUSINESS

ADDRESS CORRECTION REQUESTED

Postage And Fees Paid
U.S. International Trade Commission

U.S. MAIL

ADDRESS CHANGE

- ☐ Remove from List
- ☐ Change as Shown

Please detach address [illegible] and mail to address above.