# INTERNATIONAL ECONOMIC REVIEW

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# INTERNATIONAL ECONOMIC COMPARISONS

U.S. consumer spending resumed real growth at an annualized rate of 3.8 percent during the first quarter of 1988, exceeding the 2.3-percent annualized real growth of the Gross National Product (GNP). Although analysts are relieved to see consumer spending rebound after the 2.5- percent decline during the closing quarter of 1987, they hope that total production will grow faster than consumption in the future. If the growth of consumption remains too high, interest rates may have to rise in order to keep inflation under control. This could prolong the process of eliminating the Federal budget and trade deficits.

Private consumption as a percentage of the GNP is 66.6 percent in the United States, 57.2 percent in Japan, and 55.3 percent in West Germany. The coordinated efforts by the leading industrial nations to restore balanced trade will very likely lead to a reduction in this proportion in the United States and increase it in Japan and Europe. Forces are in motion in the rest of the industrialized world to increase domestic consumption. After a difficult period of adjusting to the higher yen, the Japanese economy is now thriving on domestic demand. In Europe hope is growing that the elimination of all barriers to the free movement of goods, labor, and capital in 1992 will reduce chronic unemployment and will unleash a new epoch of high prosperity throughout the continent.

## Economic Growth

The rate of real economic growth (measured by either the latest available quarterly GNP or Gross Domestic Product (GDP), annualized) was 6.3 percent in Canada, 1.6 percent in France, 1.8 percent in Italy, 7.0 percent in Japan, 2.7 percent in the United Kingdom, 4.8 percent in the United States, and 2.9 percent in West Germany. The average growth rate for the seven leading industrialized countries (using 1986 GDP's as weights) was 4.57 percent.

## Industrial Production

U.S. industrial production rose by 0.1 percent in March following zero growth in February. A 0.6-percent rise of business equipment production in March was in line with the sustained strong domestic demand for investment goods.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with output in the corresponding month of the previous year, were as follows: Canada, 7.3 percent; France, 7.0 percent; Italy, 1.6 percent; Japan, 12.5 percent; the United Kingdom, 4.5 percent; the United States, 5.7 percent; and West Germany, 7.4 percent.

Estimates by Data Resources Inc. show that U.S. industrial competitiveness has improved dramatically over the past 2 years. In 1985, average hourly compensation in manufacturing industries was 100 percent higher in the United States than in Japan and 36 percent higher than in West Germany. In March 1988, using average 1987 levels of compensation converted at current exchange rates, U.S. hourly wages were only 5 percent higher than in Japan and were 32 percent lower than in West Germany.

## Investment

According to unofficial, preliminary estimates by the U.S. Department of Commerce, foreign direct investments in the United States increased by $40.6 billion, or by 19.4 percent, to $249.9 billion during 1987. (The term "foreign direct investments in the United States" stands for foreign capital transfers to firms in U.S. territory in which foreign ownership is at least 10.0 percent.) Europeans brought in more capital than the Japanese. U.S. direct investments abroad increased by $40.0 billion, or 15.4 percent, to $299.9 billion over the period. (The term "U.S. direct investments abroad" includes U.S. capital transfers to firms overseas in which U.S. ownership is at least 10.0 percent.) Recent trade figures suggest that direct foreign investments on U.S. soil continued to grow during the early months of 1988.

The latest detailed statistics on direct foreign investments are for 1986. U.S. direct investments abroad increased by $30.1 billion to $259.9 billion during that year, whereas foreign direct investments in the United States increased by $24.7 billion to $209.3 billion. The number of foreign direct investments (acquisitions and/or establishment of new U.S. affiliates) during 1986 was 1,051. The sources of direct foreign investments were as follows: 351 originated from Japan, 178 from the United Kingdom, 114 from Canada, 60 from West Germany, 45 from France, 42 from the Netherlands, 39 from Switzerland, and 222 from all other countries. The number of foreign direct investments by economic sector was 452 in manufacturing, 137 in real property, 132 in services, 110 in wholesale trade, 70 in retail trade, and 150 in all others. At yearend 1986, the direct investment positions

of the leading sources were as follows: the United Kingdom, $51.4 billion; the Netherlands, $42.9 billion; Japan, $23.4 billion; Canada, $18.3 billion; and West Germany, $17.4 billion. The aggregate position of the 10-nation European Community (EC) was $124.3 billion.

A portion of the foreign direct capital investments in the United States is bound to enhance the efficiency of some domestic industries. Economists generally consider some foreign control over U.S. productive facilities a lesser evil than the maintenance of inefficient domestic production behind tariff barriers.

## Taxes

According to West Germany's Commerzbank, the current rate of withholding taxes on interest income from bonds is 27.0 percent in the United Kingdom, 25.0 percent in Canada and France, 21.6 percent in Italy, 20.0 percent in Japan, and 10.0 percent in West Germany. The United States does not withhold any tax on interest income from bonds.

The combined top Federal, State, and local personal income tax rate in the United States declined from 55 percent in 1984 to 33 percent in 1988. According to a study by the Brookings Institution, the comparable figure declined from 88 percent to 76 percent in Japan, from 65 percent to 57 percent in France, from 51 percent to 45 percent in Canada, and from 65 percent to 60 percent in Italy.

## Trade

Exports play a significantly smaller role in the U.S. economy than in the economies of other major industrialized countries. Calculations based on 1986 data, made by the Organization for Economic Cooperation and Development (OECD), indicate that exports as a percentage of the GDP were 7.1 percent in the United States, 14.6 percent in Japan, 25.1 percent in France, 27.9 percent in Italy, 28.8 percent in Canada, 29.4 percent in the United Kingdom, and 32.5 percent in West Germany.

## Subsidization

According to a study by the Kiel Institute (West Germany), the United States subsidizes private production the least among the major industrial powers. In 1981–82, subsidies as a percentage of GDP (excluding general government consumption) were 2.0 percent in the United States and in Japan, 4.0 percent in France, 4.8 percent in Canada, 4.9 percent in West Germany, 5.5 percent in Italy, and 5.8 percent in the United Kingdom. (Subsidies reached 12.0 percent in Sweden and 11.0 percent in Ireland and Norway during the period.) Over a 10-year period, this index of subsidization advanced the most in Canada and the least in the United States. The British journal *The Economist* claims that unless the protection of domestic industries through subsidization is regulated within the EC, the economic and trade benefits from the planned measures of integration may fail to materialize.

## Employment

The rate of unemployment in the United States (on a total labor force basis including military personnel) declined slightly from 5.6 percent in February to 5.5 percent in March. Many economists are fearful that given the prevailing constraints to economic growth, further declines in unemployment may undermine price stability.

The national statistical offices of other countries reported the following unemployment rates for February: 7.8 percent in Canada, 10.4 percent in France, 15.7 percent in Italy, 2.7 percent in Japan, 9.1 percent in the United Kingdom, and 8.7 percent in West Germany. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

## Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.5 percent in March, following a 0.2-percent rise in February 1988. Producer prices for finished goods increased by 0.6 percent in March. The increase was 0.4 percent in January and 0.2 percent in February.

The average rate of inflation during the 1-year period ending in March 1988 was 1.0 percent in West Germany. The average rate of inflation during the 1-year period ending in February 1988 was 4.0 percent in Canada, 2.4 percent in France, 4.9 percent in Italy, 1.2 percent in Japan, 3.3 percent in the United Kingdom, and 3.9 percent in the United States.

## Forecasts

### *U.S. economic conditions*

Mr. Leo Cherne, director of the Research Institute of America for over 50 years, is one of the many prominent economists who believe that a slowdown is in store for the U.S. economy during 1988. Mr. Cherne predicts that the U.S. real GNP will expand by only 1.0 to 1.5 percent in 1988. He expects civilian unemployment,

5.6 percent in March 1988, to climb above 6.0 percent for the full year and inflation to accelerate from 4.4 percent in 1987 to 5.0 percent in 1988. He predicts only a small reduction in the trade deficit in 1988.

Data Resources Inc. forecasts that the Nation's merchandise trade deficit in current dollars will sink by at least $50 billion during 1988- 89. This would mean a reduction in the deficit from $171 billion (exports f.a.s., imports c.i.f.) in 1987 to approximately $121 billion in 1989.

### *U.S. Government debt*

The Congressional Budget Office (CBO) projects that the U.S. Federal deficit will rise from $150 billion in fiscal year 1987 to $157 billion in fiscal year 1988, and to $176 billion in fiscal year 1989. The deficit then will drop, according to the CBO, to $167 billion in fiscal year 1990, to $158 billion in fiscal year 1991, to $151 billion in fiscal year 1992, and to $134 billion in fiscal year 1993. The underlying assumption is that the U.S. economy will expand at a median rate of 2.6 percent during 1988-93 and that current budgetary policies will continue. The Administration projects that the deficit will decline to $146.7 billion in fiscal year 1988 and to $129.5 billion in fiscal year 1989. An important element of the current deficit reduction strategy is "The Balanced Budget Reaffirmation Act" that requires that the budget be balanced by 1993 through across-the-board spending cuts if Congress and the Administration are unable to agree on stipulated deficit reduction targets during 1988-93.

Most economists consider government (internal) deficits to be the primary cause of trade (external) deficits. If the internal U.S. deficit were to rise again, domestic investments would have to be financed increasingly by domestic savings; otherwise the small ground gained in controlling the external deficit would be lost. Political pressure to avoid increases in the internal deficit will remain strong in the foreseeable future.

## U.S. TRADE DEVELOPMENTS

At $13.8 billion, the seasonally unadjusted U.S. merchandise trade deficit widened in February for the second consecutive month. The cumulative deficit for the first 2 months of 1988 showed no reduction compared with that in the corresponding period of 1987. The real exchange rate index of the dollar increased from January to February 1988, signaling appreciation of the dollar over the period (table 1). These setbacks notwithstanding, some gains in reducing the U.S. trade imbalance remain in evidence. The February deficit was 3.7 percent below the $14.4 billion deficit of February 1987 and 2.1 percent below the $14.1 billion average monthly deficit reported for the previous 12-month period. Also, the quantity of exports increased more than twice as fast as the quantity of imports from January through December 1987.

Exports in February amounted to $23.6 billion, the third largest monthly figure ever recorded. They exceeded February 1987 exports by 21.7 percent. Compared with January levels, export increases in February were notable in aircraft, autos and parts to Canada, and electrical machinery. At $37.4 billion, the import figure was also the third largest on record. It exceeded imports in February 1987 by 10.9 percent. Compared with January levels, import increases in February were the most significant in automatic data processing equipment, electrical machinery, power generating machinery, and telecommunications equipment.

The deficit in the critical machinery and equipment category was $6.0 billion in February 1988, only slightly lower than the $6.3 billion deficit in February 1987. The cumulative January-February deficit in this category barely changed over the period: it was $11.6 billion in 1987 and $11.1 billion in 1988. An increase in capital goods imports from the first 2 months of 1987 to that in the corresponding period of 1988 is associated with the current growth of direct foreign investment in the United States. (For more details on this subject, see the section on investment in the article on International Economic Comparisons.)

The surplus in agricultural trade increased from $279.1 million in February 1987 to $1,040.2 million in February 1988. Increases in exports of soybeans, wheat, corn, and cotton were particularly significant. The agricultural surplus was $816.9 million in January 1988. The U.S. oil import bill increased slightly from January to February 1988 as the increase in the volume, from 6.9 million barrels per day in January to 8.3 million barrels per day in February, more than offset the decline in the average price of imported oil, from $16.92 per barrel to $16.42 per barrel.

Compared with the corresponding period of 1987, the cumulative January-February deficit increased in trade with the Newly Industrialized Countries (NIC's), Canada, West Germany, and Mexico. The deficit declined in trade with the 10-nation European Community as a whole, Japan, and the Nonmarket Economy Countries over the period.

**Table 1**
**Indexes of the quantity and unit value of U.S. exports and imports and the real exchange rate by months and quarters, January 1985-March 1988**

(1977=100)

| Period | Quality Indexes | | Unit value indexes | | Real-exchange-rate index of the dollar[1] |
|---|---|---|---|---|---|
| | Exports | Imports | Exports | Imports | |
| **1985:** | | | | | |
| January | 118.0 | 148.0 | 156.3 | 160.4 | 133.0 |
| February | 107.7 | 133.3 | 157.4 | 160.2 | 135.6 |
| March | 127.8 | 148.2 | 157.4 | 159.6 | 136.6 |
| April | 113.8 | 147.8 | 156.4 | 159.2 | 133.1 |
| May | 115.0 | 150.6 | 157.6 | 160.1 | 133.9 |
| June | 112.6 | 156.7 | 157.5 | 158.4 | 133.1 |
| July | 105.2 | 140.4 | 156.4 | 158.4 | 130.6 |
| August | 105.3 | 135.9 | 154.4 | 159.1 | 130.7 |
| September | 108.7 | 162.2 | 154.5 | 159.2 | 131.8 |
| October | 112.9 | 146.6 | 154.4 | 159.7 | 127.8 |
| November | 113.4 | 153.4 | 153.6 | 161.0 | 126.8 |
| December | 108.4 | 156.2 | 154.7 | 162.0 | 126.8 |
| **1986:** | | | | | |
| January | 107.5 | 164.5 | 156.2 | 160.2 | 126.3 |
| February | 112.5 | 150.6 | 155.3 | 158.0 | 123.0 |
| March | 120.1 | 171.0 | 155.5 | 153.9 | 121.2 |
| April | 114.0 | 155.2 | 155.1 | 152.6 | 120.1 |
| May | 108.8 | 163.4 | 156.1 | 152.5 | 118.5 |
| June | 106.4 | 171.7 | 157.1 | 152.4 | 120.1 |
| July | 102.7 | 183.7 | 157.7 | 153.0 | 118.5 |
| August | 109.7 | 159.7 | 156.2 | 152.0 | 117.6 |
| September | 109.2 | 155.8 | 157.2 | 151.6 | 118.0 |
| October | 120.6 | 158.2 | 156.9 | 156.3 | 118.8 |
| November | 116.2 | 190.4 | 156.8 | 156.5 | 119.6 |
| December | 114.9 | 147.1 | 157.5 | 155.6 | 120.1 |
| **1987:** | | | | | |
| January | 102.7 | 143.9 | 157.3 | 157.2 | 116.0 |
| February | 117.5 | 167.9 | 155.5 | 158.4 | 115.0 |
| March | 131.1 | 171.1 | 157.9 | 159.8 | 114.4 |
| April | 124.8 | 163.3 | 158.2 | 161.2 | 112.1 |
| May | 125.9 | 167.7 | 158.9 | 163.5 | 111.4 |
| June | 126.9 | 175.7 | 157.9 | 165.2 | 112.3 |
| July | 123.1 | 175.7 | 160.0 | 168.0 | 113.2 |
| August | 122.8 | 166.6 | 159.9 | 169.7 | 113.1 |
| September | 125.5 | 161.9 | 163.9 | 170.8 | 111.5 |
| October | 127.1 | 183.4 | 161.4 | 169.3 | 111.1 |
| November | 142.6 | 172.1 | 160.6 | 169.7 | 108.3 |
| December | 147.1 | 172.9 | 159.0 | 168.8 | 105.7 |
| **1988** | | | | | |
| January | [2] | [2] | [2] | [2] | 105.4 |
| February | [2] | [2] | [2] | [2] | 106.2 |
| **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 | 123.8 | 168.1 | 161.3 | 169.5 | 112.6 |
| October-December | 138.9 | 176.1 | 160.3 | 169.3 | 108.4 |
| **1988:** | | | | | |
| January-March | [2] | [2] | [2] | [2] | [3]105.8 |

[1] The inflation adjusted index based on bilateral exchange rates with 101 U.S. trading partners.
[2] Not available.
[3] Quarterly figures, based on January and February data only.

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

Shortly before the release of the February data on U.S. trade, the seven leading industrialized countries (Group of 7) reaffirmed their commitment to maintain the value of the dollar on foreign-exchange markets. Seeing the second monthly increase in the deficit, many investors in the U.S. stock market concluded that the dollar was too high to correct the trade imbalance. They were concerned that U.S. monetary policymakers would restrict the growth of money supply to support the dollar in accordance with the Group 7 agreement and that this would raise interest rates. The plunge in U.S. stock prices that followed the announcement of the February trade figures once again reminded us how forcefully news about the deficit has affected business confidence since October 19, 1987.

## Canadian Textile and Apparel Industries Gain Additional Duty Concessions

The Canadian clothing industry, like its counterparts in other industrialized countries, has sought Government assistance to help deal with increased competition from abroad. On March 22, 1988, Canadian Finance Minister Michael Wilson announced a new $50.5 million per year duty remission and tariff reduction program on imported fabrics. The program is "designed to strengthen the competitive positions of Canadian textile and apparel industries in the domestic market."

The assistance program has been the subject of much discussion on both sides of the border, especially early this year when it was first reported and proposed as a $200 million assistance program. At that time, the U.S. textile and apparel industry expressed strong opposition to the program, claiming that it would undermine the goals of the U.S.-Canada Free Trade Agreement (FTA), currently in the midst of the ratification process in both the United States and in Canada. Robert Laidlaw, president of the American Textile Manufacturing Institute (ATMI), said that the trade association "would have no choice" but to oppose the FTA if the textile assistance program were implemented. The ATMI maintained that the provisions of the FTA had been carefully negotiated to ensure that both countries received equal benefits, but the proposed assistance program would instead give Canadian firms "far greater benefits than those accorded U.S. textile manufacturers."

The actual duty remission scheme announced March 22 amounts to approximately one-quarter of the relief originally proposed and is scheduled to go into full effect on January 1, 1989. The textile proposal is a three-tier program that includes tariff reductions, duty remission, and the formation of a trade tribunal to examine future reductions in textile tariffs. In response to previous U.S. concerns, the program is directed mainly toward fabrics imported from the United States.

Tariffs will be reduced on imports of 13 different types of fabrics and yarn in the following categories: (1) broadwoven specialty fabrics not made in Canada; (2) certain woven fabrics from the United States; and (3) certain U.S. fabrics including corduroy, textured nylon yarn for hosiery, and cotton-wool blended yarn fabrics for shirts and blouses. Tariffs on all imports in the first category will be completely removed as of September 1988. Tariffs on imports from the United States in the second category will be completely removed as of January 1, 1989, and tariffs on imports of non-U.S. fabrics in the category will be reduced by 50 percent. The third category includes only U.S. fabrics, and the tariffs will be removed on January 1, 1989.

In addition, on January 1, 1989, there will be new Canadian duty remission programs for denim, converter fabrics, outerwear and related fabrics, and girls' and ladies' shirts and blouses. Two current duty remission programs for shirting fabric and tailored collar shirts will be extended as of the same date.

The Canadian Government contends that the goods eligible for the duty remission and tariff reduction programs are not being produced in Canada. The domestic textile industry would therefore not be affected, and the program would help those Canadian industries that use imported fabrics. However, some companies such as Montreal-based Monterey Textiles Inc. disagree with the Government and contend that 25 percent of their products compete with those to be included in the remission program.

The final provision of the Canadian proposal will create a Canadian International Trade Tribunal to "study the economic impact of textile tariffs...and make recommendations of the levels to which the tariffs should be reduced."

Canadian clothing manufacturers are still finding fault with the program, saying that not enough assistance has been provided. On the other hand, Canadian newspaper editorial writers claim that the program itself directly conflicts with the principles of free trade. If the Government adhered to the principles of free trade, they contend, it would enable the Canadian clothing industry to have complete access to all foreign produced fabrics and would fully eliminate textile duties rather than selectively reduce tariffs.

In the United States, criticism of the program has moderated considerably since the dollar figures involved have decreased from $200 million to approximately $50.5 million. Opposition still exists, however. Jack Sheikman, president of the Amalgamated Clothing and Textile Workers Union, asserts that the new program "makes a mockery of the U.S.-Canada Free Trade Agreement" by upsetting the previously negotiated balance of tariff reductions. The Canadian duty remission program assists Canadian clothing manufacturers, thereby placing U.S. producers at a disadvantage and pitting "Canadian workers against American workers."

Despite the criticism, Canadian Finance Minister Wilson has been consistent in his defense of the relief package. Wilson maintains that reducing the size of the relief program from the clothing sector's original proposal was the only way to adequately meet the needs of the industry for foreign produced fabrics, concomitant with minimizing the risk to domestic textiles industry through the lower duties.

## Canada Fishes for a Resolution to the Salmon and Herring Dispute

Amid strident domestic criticism, the Canadian Government agreed in late March to adopt the findings of a General Agreement on Tariffs and Trade (GATT) dispute settlement panel that ruled against Canada's measures prohibiting exports of unprocessed salmon and herring. In response to the GATT upholding of the complaint raised by the United States, Canada indicated that it would work to remove the export restrictions by January 1989 and would replace them with acceptable new regulations.

The dispute came to the fore in 1986 and in early 1987 when the United States first consulted with Canada about the ban on the export of unprocessed herring and salmon. The U.S. complaint followed a section 301 petition filed in April 1986 by Icicle Seafoods and nine other seafood processors. The petition alleged that the Canadian prohibition on exports of unprocessed herring and salmon violated GATT article XI (which bans quantitative restrictions) and provided Canadian seafood processors with an unfair cost advantage that burdens U.S. exports in third-country markets. The United States Trade Representative initiated the investigation in May 1986 and held GATT consultations with Canadian officials in September and October 1986.

Following unsuccessful consultations, the United States requested and obtained a GATT dispute settlement panel in March 1987. Initially released in November, the panel report supported the U.S. position that Canada's export controls were inconsistent with GATT rules on quantitative restrictions. When the panel report was initially released, Canada postponed GATT Council consideration of the report. Canada tried unsuccessfully to arrive at a bilateral solution with the United States or at least to find support among other GATT members to oppose the panel findings.

In March 1988, Canada agreed to accept and implement the panel findings and indicated its intention to examine similar U.S. regulations, particularly the Magnuson Act (an act that authorizes, among other things, U.S. embargoes against countries enforcing fishery management regimes not recognized by the United States) in its effort to work out new GATT-consistent rules. At the same time, Canada will firm up certain other fishing regulations that are also governed by the U.N. Convention on the Law of the Sea, by replacing the ban with a landing requirement. The new regulations may help stem domestic cries that Canada "caved in" on its GATT rights and address controversial fishing rights complaints within Canada. The regulations will require salmon and herring to be landed in Canada rather than sold directly by fishermen to processing boats at sea. The requirement will enable Canada to monitor catches, in order to enforce its maritime fisheries regime.

## Brazil and Mexico: Policies Compared

In recent years, Brazil and Mexico—the two most indebted Latin American countries—have taken different approaches to resolving their massive foreign debt problems. They have also chosen different paths in handling foreign trade and investment issues, especially in their dealings with the United States.

In 1985, Brazil and Mexico began to drift toward opposing sides of the "growth versus austerity" controversy in their domestic economic policies. Mexico embraced an austerity policy as recommended by foreign bankers and the International Monetary Fund (IMF). In contrast, Brazil insisted on limiting current sacrifices and followed a growth-oriented policy, losing its IMF support as a result (*IER*, December 1985 and October 1986). Also in 1985, Brazil's drive to establish technological independence led to its first serious bilateral trade dispute with the United States. The dispute triggered a section 301 investigation by the U.S. Government of Brazil's trade and investment policies on computers and software copyright protection (*IER*, November 1985 and January 1987). This was

followed by another 301 case against Brazil in 1987, which involved pharmaceuticals.

Since alienating the IMF, Brazil has failed to reestablish relations with this international organization. In contrast, Mexico has continually cooperated with the IMF and, as a result, has been rewarded by favorable treatment in times of crisis. In 1986, when Mexico encountered new, serious financial problems caused by plummeting petroleum prices and a major earthquake, the IMF helped the Mexican Government obtain fresh loans from reluctant foreign creditors (*IER*, August 1986).

In addition to its rift with the IMF, Brazil infuriated its creditors in February 1987 by halting interest payments on commercial debt amounting to $69 billion. In June, the Brazilian Government extended the payments moratorium to include $44 billion owed to foreign governments (*IER*, March 1987 and June 1987). By contrast, the Government of Mexico has kept up with its payments obligations, albeit at the cost of declining living standards and mounting political tension. (Mexico's foreign debt currently amounts to $106 billion compared with Brazil's $113 billion.)

Despite its status as a GATT member, Brazil has drifted toward increasingly protectionist policies in recent years and now maintains a wide range of trade restrictions. This policy has served to make Brazil less dependent on imports than most other nations. On the other hand, Mexico, historically known for its isolationist economic policies, has made steady progress in opening its economy to the outside world. After formalizing this policy shift by joining the GATT in 1986, Mexico accelerated import liberalization in 1987, partly to fight inflation.

Brazil's bilateral relations with the United States have deteriorated in the past few years as U.S. industry complaints against its unfair trade practices have encompassed an ever-broadening spectrum of items. For its part, Brazil has in turn loosened economic ties by energetically diversifying away from U.S. suppliers and seeking new export markets. As a result, the U.S. share of Brazil's imports of commodities such as grains and coal has declined, as has its share of some major Brazilian export items such as orange juice. As it scaled down its economic dependence on the United States, Brazil forged closer trade relations with countries such as Japan and the U.S.S.R. and began to vigorously pursue regional "trilateral" trade with Argentina and Uruguay.

Unlike Brazil, Mexico has generally attempted to settle its disputes with the United States and, in recent months, has moved toward a comprehensive bilateral agreement on trade and investment. A framework accord "on the principles and procedures for consultations" was concluded in November 1987 (*IER*, December 1987). This was quickly followed by substantive understandings on trade in textiles, steel, beer, and wine. Negotiations to resolve still other broad issues—including agricultural trade, foreign investment, and protection of intellectual property—are continuing. In February, during his sixth summit meeting with the Mexican President, President Reagan lauded the dedicated efforts of the two countries to work together.

This significant improvement in U.S.-Mexican economic relations coincided with an escalating U.S.-Brazilian dispute over Brazil's computer policy (*IER*, March 1988). Nonetheless, the end of last year and the first months of this year have seen a distinct softening in Brazil's attitude toward the outside world. The Sarney Administration replaced key economic officials, including the finance minister and the president of the Central Bank. In February 1988, Brazil ended its year-long moratorium and resumed paying interest on foreign commercial debt. The banks responded favorably by restoring short-term credit lines to Brazil.

Brazilian officials also are reportedly seeking an agreement with the IMF again. Such an accord would have to be in place before commercial banks can consider any long-term rescheduling of Brazil's commercial debt. However, an agreement with the IMF would undoubtedly require austerity measures that, until recently, Brazil has steadfastly refused to adopt.

An economic reform program announced in early April (the third one in 3 years) appears to inaugurate a new era of economic restraints in Brazil. The program involves a 2-month wage freeze without a price freeze and major cuts in Federal budget expenditures. In the last few months, Brazil has also made certain concessions to the United States in the computer dispute. This allowed President Reagan on February 29 to postpone retaliatory action pending further develop- ments in the implementation of Brazil's new software legislation (*IER*, March 1988).

## Groundwork Laid for U.S. Participation on Kansai and Other Major Projects

On March 30, the United States and Japan agreed to certain procurement measures that are expected to give U.S. firms greater access to construction opportunities on the Kansai International Airport (KIA) and other major projects in Japan. A bilateral exchange of letters formalizing

the arrangement is expected to occur in the near future. The agreed-upon procurement procedures cover 14 construction projects totaling approximately $16.9 billion during the next 10 to 12 years. The negotiating breakthrough appears to have forestalled a recommendation by the cabinet-level Economic Policy Council (EPC) that the President initiate action under section 301.

The procurement measures address certain U.S. concerns about Japanese licensing, registration, and bidding procedures for major public works projects. The new procedures eliminate the requirement that U.S. firms demonstrate previous experience in Japan before being granted a construction license. In the past, this requirement has prevented U.S. firms with worldwide reputations and experience from being selected as bidders (*IER*, October 1987). To date, only two U.S. firms have been granted construction licenses. The new procedures also require the Ministry of Construction to provide a status report after 90 days on a company's licensing application upon request.

A monitoring committee consisting of the Japanese Ministries of Foreign Affairs, Transport, and Construction and the U.S. Embassy in Tokyo will be established. The committee will monitor implementation of the procurement procedures for the KIA project and will review the procurement process for other major projects managed by private commissioning entities to determine whether fair and nondiscriminatory procedures are followed.

The arrangement on major projects was reached in the midst of escalating pressures from the United States. On February 25, the U.S. Trade Policy Review Group recommended that the President initiate a section 301 investigation of Japan's bidding practices for construction projects. The EPC then threatened to follow suit if no agreement was reached by March 31. Another incentive for movement in the Japanese negotiating position was a decision by the Washington Metropolitan Area Transit Authority (WMATA) to reject a $49.2 million bid by Kiewit Construction Co. and Kajima Engineering Inc. for a construction contract on the Metro subway system. WMATA based its decision on an amendment to the FY 1987 continuing resolution that prohibits foreign construction firms from participating in federally funded projects unless their government provides reciprocal access for U.S. firms.

Three types of procurement procedures will apply to 14 projects under the exchange of letters. The first type of procedures (K-1) covers the Kansai International Airport, Tokyo Bay Bridge, and a new $200 million NTT headquarters building. Under the K-1 procedures, firms have 30 days to submit their applications for bidder designation following publication of the tender notice. A 60-day period is set aside between selection of bidders and submission of bids for construction services. Nondesignated bidders can file complaints with the Kansai International Airport Corp. (KIAC). If complaints are not resolved by the KIAC or after being referred to other Ministries, contractors and suppliers can seek redress through international arbitration procedures such as those of the International Chamber of Commerce.

The second type of procedures (K-2 or "special procedures") will apply to Japanese Government-contracted portions of certain projects, including the aprons and runways for Haneda Airport and New Hiroshima Airport. (The terminal buildings for these two airports will be commissioned to the private sector and will be covered under K-3 procedures.) The K-2 procedures are similar to K-1 procedures except that the time between designation and bidding for construction services is 40 days.

The Government of Japan will encourage private and third-sector (mixed private/local government) entities to adopt other nondiscriminatory procurement procedures (K-3) on seven major projects, including the Haneda, New Hiroshima, and New Kitakyushu airport terminals. These guidelines include the establishment of contact points to facilitate entry by foreign firms, use of nondiscriminatory specifications, and provisions requiring an explanation of specifications, supplier qualifications, and procurement criteria in advance of bid designation. The Japanese Government "expects" that these procurement procedures will be followed for other private/third-sector entities and "will be sure" that they are followed on airport terminals at Haneda, Hiroshima, Kitakyushu, and Narita. However, the Government of Japan has no legal authority to enforce these procedures in the private sector. During previous negotiations, the United States had urged Japan without success to allow U.S. firms to participate actively in the design phase of the terminals at Kansai airport in order to ensure that U.S. firms would be able to supply equipment and services.

The exchange of letters on Kansai and other major projects lays the foundation for changes in Japanese procurement practices for construction services and has halted recommendations for a section 301 investigation, at least until the agreement is reviewed. However, both U.S. Government officials and industry representatives say that problems remain. The continued existence

of the dango system—whereby contracts for construction work are informally divided among competitors by mutual consultation—is likely to make it difficult for foreign firms to win contract awards, regardless of the formal procedures used. The issues of hiring U.S. firms as subcontractors on construction projects and cross-bonding (the practice of contracting with other companies to fulfill obligations in the event that the prime contractor defaults on responsibilities) remain unresolved. U.S. construction industry representatives note that even though the exchange of letters will establish nondiscriminatory procurement procedures, the procedures themselves do not automatically guarantee increased market access. Cultural factors and informal deals among Japanese construction firms are likely to continue to impede U.S. access to the Japanese market.

## China's New Trade Reforms

The marked improvement in China's merchandise trade balance in 1987, following a combined 2-year deficit of more than $20 billion in 1985–86 (*IER*, February 1988), has allowed Chinese leaders to again move ahead with plans to strengthen the country's role in the world economy. In addition to the improvement in its foreign-exchange position, the political environment in China is also much more favorable for the expansion of reform programs. After a nearly yearlong power struggle between party leaders and their critics over the extent and speed of reforms, the selections for the top party positions at the 13th Chinese Communist Party Congress in November represented a clear-cut victory for the economic reform leadership and reconfirmed China's policy of opening to the international economy.

In a report before the party congress, Zhao Ziyang, the newly appointed Secretary General of the Communist Party, established the overall direction of China's foreign economic policy as one of increased openness, accelerated growth in exports, and greater reliance on technology transfer. This address was followed by a series of announcements in early 1988, made by both Zhao Ziyang and the new Premier, Li Peng, that called for the reform of export policies and for special programs to attract foreign investment, especially in the coastal regions. In March, China's Ministry of Foreign Economic Relations and Trade (MOFERT) also announced new policies to restructure the foreign trade system in general.

Reversing the traditional Chinese position that China is a resource-rich economy, Zhao now maintains that China is resource poor, especially along its coast. In late January, he called for the acceleration of imports of raw and semifinished materials for processing in coastal provinces to speed up "the shift to China for labor-intensive manufacturing." One of the specific reforms announced for the coastal areas, and already underway in Fujian Province, is the outright sale of small State-owned industrial enterprises to individuals, including foreign individuals and companies. Other experiments in the leasing of land to foreigners, for periods of 20 and 50 years, are presently underway in Shanghai and the Shenzhen export zone near Hong Kong. These new policies represent in principle an extension of the factory management reforms that have been implemented throughout China since 1984 and reinforce China's official acceptance of wholly foreign-owned industrial enterprises.

Official emphasis on China's coastal zone for export promotion is supported by actual trade patterns. Eight coastal provinces generated 64 percent of China's total export sales in 1987, according to MOFERT, and their share was probably even larger since data released by the ministry include only its own trade transactions. Responding to this ongoing trend, China's leaders are extending the geographical scope of the country's south coastal "delta zones" and calling on them to create totally export-oriented economies, with emphasis on the processing and re-export of imported materials. Perhaps the most striking example of this new policy initiative is the designation of Hainan Island, which is off China's southern coast and nearly the size of Taiwan, as a special export zone in its entirety. Hainan Island's importance was further elevated at the National People's Congress, held in March and early April, when it was also designated an independent province.

The new reforms of China's foreign-trade structure announced by MOFERT in March call for a sweeping decentralization of China's foreign-trade companies. This would be accomplished by transferring administrative control of most of the local branches of MOFERT's general trading companies and those of other ministries to provincial and municipal governments. Thus, instead of MOFERT's centralized vertical control over the entire foreign-trade apparatus, the new pattern of control will become a territorially horizontal one, mainly at the provincial level.

To facilitate this administrative system, the reforms also include a further decentralization of control over the export and import of commodities. Exportable commodities, for example, will be divided into three categories: those that have been and will remain under MOFERT's centralized control; those subject to MOFERT's mandatory export plan but actually exported by local

foreign-trade companies; and those subject only to a nonmandatory plan specifying the total export value of major product groups, leaving local companies with almost full discretion to conduct the actual export business. The third category will cover the overwhelming majority of exports. A similar system was also announced for imports, under which only a small number of imported commodities will be managed by MOFERT and the rest will be managed independently by local companies without any central interference.

This new administrative structure is a different form of decentralization reform than that initiated in late 1984, which resulted in China's loss of control over imports and the large trade deficits of 1985 and 1986. The system will be coordinated through a network of contracts between MOFERT and the provincial governments, which will in turn control the administration of local foreign-trade companies. In addition, the existing system of export and import licenses and quotas will continue to operate, which means that MOFERT will still exercise broad control over the Nation's foreign trade. However, as a result of the improvement in China's trade balance in 1987, foreign-exchange controls in force during the past 3 years are now being relaxed. This move will encourage more spending on imports and, coming in conjunction with the new trade reforms, could again lead to a rising deficit in China's merchandise trade.

## Toward a Pacific OECD?

A quartet of Asian newly industrializing nations (NIC's) have been thrust into the international limelight over the past year. Each of these countries—Taiwan, South Korea, Hong Kong, and Singapore—has achieved exceptionally rapid economic growth over the past two decades despite having scant natural resources.

The most recent Organization for Economic Cooperation and Development (OECD) *Economic Outlook* report notes that the NIC's (particularly Taiwan and Korea) have emerged not only as major suppliers of manufactured goods but also as countries with large balance-of-trade surpluses. Collectively, the Asian NIC's are the fastest growing component of the U.S. trade deficit and have substantial trade and current account surpluses with the European Community members. In their trade with Japan, the NIC's are taking advantage of liberalized import policies and currency fluctuations to capture a growing share of that domestic market.

The OECD report makes several points about the role of the NIC's in the current trade balances of OECD members from 1985 through 1987.

1. The growth in the NIC's exports to the United States has actually been slower than that to other regions. However, given the dominant position of the U.S. market in their export strategies, the absolute increase in exports to the United States is significant and represents a considerable proportion of the total increase in U.S. imports over the period. U.S. exports to the NIC's have grown, but at a slower rate than those from other regions.

2. Both imports and exports between the NIC's and Japan have grown rapidly. However, these trends have worked to increase the overall Japanese surplus rather than diminish it. The rapid rise in trade between Japan and the Asian NIC's is indicative of a marked process of economic integration among these economies.

3. The rapid growth of European imports from the NIC's has been matched by rapid growth in European exports to the NIC's.

According to the British journal *The Economist*, the Asian NIC's are following a path mapped out earlier by the Japanese. It envisions the following scenario: the NIC's will hang on to their trade surpluses with protectionism until forced to open their markets; they will keep their currencies undervalued to boost exports; and when wage rates rise (as is occurring in Korea), they will automate production rapidly. Although the current account surpluses of Singapore and Hong Kong are relatively small, those of Taiwan and Korea together exceeded the combined surpluses of the OECD's principal European members in 1987. (Taiwan had a 1987 surplus of $20 billion, and Korea's surplus was $9.4 billion.) The OECD predicts that by 1989 the combined manufactured exports of the four NIC's may be about the size of Japan's exports of manufactured goods, and the combined surpluses of the four NIC's will exceed Japan's surplus. Thus, say sources at the OECD, the NIC's (and particularly Taiwan and Korea, since they account for most of the surplus) have "acquired a prominent role in the international adjustment process, and they can no longer be left outside the international economic debate."

The OECD would like to provide a forum for that debate since, in particular, it is anxious that developed nations see the surpluses of the Asian NIC'S as more than just misaligned exchange rates. The OECD fears that if the NICs are compelled to appreciate their currencies against those of their major trading partners (as the United States has urged them to do), they will then preserve their surpluses by cutting back imports (as

Latin American NIC's have done) to the detriment of world demand.

## Mixed Credit Offers Proliferate Despite Tightened OECD Rules

There are growing indications among member countries of the Organization for Economic Cooperation and Development (OECD) that a hard-won agreement to limit subsidies on export credits may be less effective than anticipated. These signs came out of a meeting of the OECD Export Credit Consensus held in late March to review progress under the accord. The agreement was meant to strengthen OECD rules governing mixed credits, which reduce the effective interest rates on loans to developing countries by mixing development aid with commercial export financing (*IER*, April 1987). When it was announced, the rule modification was greeted by the United States and many countries as a significant effort to limit the use of subsidized export credit offers for winning commercial export contracts. Under the accord, OECD members agreed to raise the minimum grant element of mixed credit offers from 25 percent to 30 percent on July 1, 1987, and to 35 percent one year later. The logic behind this rule was that the high grant elements would make it too costly to use mixed credits as a subsidy for large volumes of export sales. The changes also introduced a new method for calculating the grant element to more closely reflect actual costs in the country making the offers.

Despite the agreement, however, OECD statistics show that mixed credit offers actually increased in 1987. The OECD reported that mixed credit offers rose from $11 billion in 1986 to $15 billion last year. John Bohn, President of the U.S. Export-Import Bank, recently testified before Congress that two countries, France and Japan, had sharply increased their mixed credit offers in 1987. According to Bohn, French offers tripled to $2.4 billion, and Japanese offers rose from $2.7 billion to $3.5 billion.

The proliferation of offers may, however, suggest more about the market for large export projects than the fate of the OECD agreement. "We're dealing with a buyers' market where OECD countries are still tumbling over one another to do large capital projects" in developing countries, observed John Coleman, the Chairman of the OECD Consensus. Despite the apparent high level of export credit offers, the takeup rate by developing countries short on cash is believed to be quite low. In addition, the effect of the 35-percent threshold on mixed credit offers scheduled for implementation in July remains to be seen. Some OECD officials predict that implementation of the final phase of the new rules will quickly show whether the agreement is effective.

The 1987 results have led to speculation that the OECD rules may need more tightening. Additional rule changes are not likely until some time after the last increase in the required grant element takes effect. If necessary, tighter discipline could be effected through an even higher minimum, by further limiting the sectors to which export credits may be offered (they are banned for sales of aircraft and nuclear power plants), or by restricting their application only to the least developed countries.

Tightening up the international use of mixed credit offers has been an issue of special concern to the United States for several years. Last year's accord was reached only after protracted negotiations with other member states. One tactic employed by the United States to force discipline on the issue was a congressionally-funded "war chest" administered by Eximbank. This $300 million fund, which trade bill conferees recently agreed to authorize through fiscal 1989, was designed for Eximbank to use when competing for export contracts against other subsidized export credit offers.

## Negotiations to Strengthen the GATT

The Uruguay Round negotiating group assigned to come up with ways to strengthen the GATT is known as the Group on the Functioning of the GATT System, or FOGS. The mandate for the FOGS group stems from criticism that has been leveled at GATT's effectiveness in the 1980's by the United States and other countries. Over the last year and in its most recent meeting on March 22, national delegations tabled a variety of proposals on how to achieve the group's aims. The most recent comprehensive proposal, tabled by the European Community (EC), suggests that the GATT should have a greater role and more authority in the area of trade policies, similar to that wielded by the International Monetary Fund (IMF) or the World Bank in monetary and investment policies.

The major negotiating themes of the FOGS group are threefold: first, to enhance GATT mechanisms for surveillance of trade policies and practices; second, to improve the decisionmaking ability of the GATT as an institution; and third, to empower the GATT to play a greater role in global economic policymaking. Accordingly, many proposals focus on centralizing or coordinating existing means of surveillance in GATT bodies, increasing the participation of members'

ministerial-level decisionmakers in meetings of the GATT, and improving the Secretariat's capacity to review trade policies and coordinate with such bodies as the World Bank and the IMF. Although there is broad agreement among negotiators on some proposals, disagreement remains on the fine points and some conceptual issues.

The EC submitted its views to the FOGS group at its March meeting. Touching on an area where disagreement remains pronounced, the EC proposed that the GATT should have authority equal to that of the World Bank and IMF and should open a liaison office to coordinate with these institutions. The EC also urged that trade ministers assume greater involvement in reviewing GATT activities and meet annually. This idea conforms to the proposals of the United States and Japan. Further, the EC proposed that trade policy reviews, in the form of regular reports on specific countries' efforts at trade liberalization, provide information to other GATT members without passing judgement. Other administrative changes in the GATT Secretariat were also suggested in the EC proposal.

Like that of the EC, a number of countries' proposals to the FOGS group have been comprehensive, covering all three major issues with a broad stroke. Proposals submitted earlier by the United States, Australia, and New Zealand, among others, were discussed throughout 1987 and early 1988.

Some of the proposals suggested a more active role of the GATT Secretariat regarding surveillance mechanisms. Existing GATT mechanisms for surveillance include the Uruguay Round Surveillance Body that monitors standstill and rollback commitments, special GATT Council meetings held twice a year on developments in the trading system, the Committee on Trade and Development, the Balance-of-Payments Restrictions Committee, the Committees of the Tokyo Round codes, and the Textiles Surveillance Body associated with the Multifiber Arrangement. Nevertheless, member countries have not consistently informed the GATT (through the notification process) of measures that affect their trading partners. To remedy this pattern, use of a permanent and comprehensive surveillance body has been proposed.

In the course of about a half dozen meetings of the group, specific proposals on surveillance have been tabled by Japan, the United States, Australia, Switzerland, and New Zealand. Although participants widely acknowledged that better surveillance would enhance transparency (GATT jargon for public disclosure), they disagreed on whether the primary function should be to ensure compliance with GATT rules or to offer an overview of trade trends and policy.

As the group considered a greater role for the GATT in international economic policy, it examined the relationship between the GATT and international financial organizations. Some delegations advocated closer cooperation to ensure that trade would be aptly considered in the formulation of broad international economic policies. Others disagreed, arguing that an overlapping of roles of the organizations could result.

During discussions on the possibility of greater ministerial-level involvement in the GATT, some delegations proposed the formation of a GATT Ministerial body. The group would meet on a regular basis and would be fashioned after the Consultative Group of 18, an existing body of the GATT that functions like a steering committee. Other delegations proposed that trade ministers participate in the regular Annual Session of the Contracting Parties. Such proposals have been tabled by Australia, Canada, the United States, New Zealand, and the Nordic countries.

## Movement Toward Sanctions Against South Africa

Two House Foreign Affairs subcommittees appear likely to approve new sanctions legislation against South Africa. The Subcommittee on Africa and the Subcommittee on International Economic Policy and Trade are in the process of considering a package of sanctions proposals designed to strengthen the sanctions now in place under the 1986 anti-apartheid act.

In October 1986, Congress, overriding President Reagan's veto, passed "The Comprehensive Anti-Apartheid Act of 1986." At the time, both opponents and supporters predicted that the legislation would send a strong signal to the South African Government, although they differed on the expected results. The Administration predicted increased violence and repression in South Africa and adverse effects on the U.S. economy due to South African retaliation. Supporters said sanctions would adversely affect Pretoria and cause it to "wake up" to the need to end apartheid.

In fact, neither prediction was entirely accurate. To date, the sanctions have damaged, but not seriously disrupted, the economy of South Africa and they have not led to a noticeable change in politics. According to studies by the Department of Commerce, the legislation caused a dramatic drop in South African exports to the United States. This trade, which had been remarkably steady for the preceding 5 years, col-

lapsed from January to June 1987. The value of U.S. imports from South Africa fell from $610.7 million in 1986 to $330.1 million in 1987. U.S. exports to South Africa of agricultural products, the subject of threatened South African retaliation, declined from $69.6 million in 1986 to $55.3 million in 1987. However, total U.S. exports to South Africa have actually increased since the passage of the act, rising from $1.1 billion in 1986 to $1.2 billion in 1987; they also rose to $113.7 million in January 1988 compared with $78.5 million in January 1987. According to a Commerce Department analysis, the volume of nongold exports from South Africa to the rest of the world stagnated in 1987 under the pressure of international trade sanctions.

The impact of U.S. sanctions on the internal political situation in South Africa has been less dramatic than either side predicted. Repression has continued, but whether it is more severe than would have been the case had the United States not imposed sanctions is subject to ongoing debate. There is little disagreement however, that the sanctions imposed by the act have not had their intended effect of accelerating an end to apartheid. The administration continues to call for an end to economic sanctions. In contrast, the prevailing and bipartisan view in the House is that stronger, more comprehensive, well-monitored sanctions are required. One action was taken in December 1987 with the passage of a provision denying U.S. firms operating in South Africa foreign tax credits and the right to defer payment of U.S. income tax on foreign earnings. The economic effects of this tax provision are yet to be determined, although opponents claim that, as the administration predicted, it has accelerated the takeover of U.S. assets by South African firms at bargain prices.

A much more comprehensive sanctions initiative is now underway in the House. The legislation being considered by the two House Foreign Affairs subcommittees would impose a total trade embargo, with exemptions for strategic material available only in South Africa and for U.S. assistance for victims of apartheid. Also under consideration is a proposal barring non-U.S. firms with investments in South Africa from obtaining Federal coal, gas, and oil leases in the United States. The provision is intended to encourage disinvestment by Shell and British Petroleum, the two major non-U.S. firms with the largest holdings in South Africa. The interests of both firms in U.S. leases exceed their interests in South Africa. Other proposals include a ban on the importation of South African diamonds, a ban on investment in U.S. capital markets by certain South African mining interests, an end to military and intelligence cooperation between the United States and South Africa, and measures to encourage other nations to impose sanctions. These proposals are all designed to strengthen the basic embargo legislation under consideration, known as the Dellums bill, after its sponsor Rep Ron Dellums (D-Calif.), and are likely to be added to this bill. Observers expect that the House will pass a "Dellums plus" bill, but that the Senate, reluctant to provoke a certain Presidential veto, will delay action until 1989.

This package of sanctions would be likely to have a greater economic impact than have previous U.S. anti-apartheid measures. With a trade turnover between the United States and South Africa of close to $1.6 billion in 1987, a total trade embargo is expected to have a significant economic impact. The actual effect in each country would depend on alternative markets and supplies. The measures proposed to strengthen multilateral sanctions, if effective, would make switching more difficult and thereby increase the impact on the South African economy. According to the U.S. Department of Commerce, reductions in demand for South Africa's nongold exports will have an important impact on the growth rate of South Africa's economy. Sanctions advocates in the House maintain that previous U.S. sanctions have been undermined by other countries willingness to replace U.S. trade and investment. As examples, they cite Japanese and West German sales of trucks to South Africa's military, Swiss and German banks' new lending, and new investments by Taiwan firms.

If the oil disinvestment provisions are effective in forcing non-U.S. firms to leave South Africa, they would have a significant economic impact on South Africa which imports two-third's of its oil. U.S. firms would be required to disinvest under the embargo language of the bill. This provision is particularly controversial because of its extraterritorial aspects.

The ban on imported diamonds is considered to be unenforceable because it is not possible to identify the origin of diamonds once they enter international distribution channels. Similarly, the ban on military and intelligence cooperation is not expected to have an economic effect because such cooperation is already banned under the 1986 Act.

# STATISTICAL TABLES

**Industrial production**

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

| Country | 1985 | 1986 | 1987 | IV 1986 | 1987 I | II | III | IV | 1987 Oct. | Nov. | Dec. | 1988 Jan. | Feb. | Mar. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States .... | 1.9 | 1.1 | 3.8 | 3.3 | 3.1 | 4.3 | 8.7 | 7.0 | 13.3 | 4.9 | 4.9 | 3.6 | 1.8 | 1.2 |
| Canada ......... | 2.8 | .8 | 2.6 | (1) | 1.8 | 5.3 | 5.8 | 4.4 | (1) | 4.9 | -1.0 | 9.0 | -7.3 | (1) |
| Japan ........... | 3.7 | -.4 | 3.0 | -2.4 | 5.6 | -.8 | 15.2 | 15.7 | 15.9 | 0 | 17.7 | 8.0 | 29.8 | (1) |
| West Germany ... | 3.9 | 2.2 | -.3 | -.1 | -1.8 | -1.3 | 2.2 | 5.0 | -5.6 | 33.2 | (1) | 18.4 | (1) | (1) |
| United Kingdom .. | 4.7 | 1.5 | 3.1 | .5 | 2.7 | 3.5 | 6.3 | 4.2 | 11.0 | -4.1 | (1) | -7.0 | (1) | (1) |
| France .......... | .6 | .8 | 2.1 | -5.1 | 1.3 | 6.7 | 2.6 | 2.6 | 0 | (1) | (1) | 12.0 | (1) | (1) |
| Italy ............ | 1.2 | 2.7 | 4.2 | 7.3 | 12.8 | 8.1 | -10.8 | 16.9 | 33.7 | -10.9 | (1) | 80.1 | (1) | (1) |

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Apr. 8, 1988.

**Consumer prices**

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

| Country | 1985 | 1986 | 1987 | IV 1986 | 1987 I | II | III | IV | 1987 Oct. | Nov. | Dec. | 1988 Jan. | Feb. | Mar. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States .... | 3.6 | 1.9 | 3.7 | 2.7 | 5.3 | 4.9 | 3.9 | 3.6 | 4.6 | 3.5 | 1.2 | 4.2 | 2.1 | 6.2 |
| Canada ......... | 4.0 | 4.2 | 4.4 | 4.9 | 3.6 | 5.4 | 4.4 | 3.4 | 4.4 | 5.3 | (1) | 2.6 | 2.6 | (1) |
| Japan ........... | 2.0 | .6 | .1 | -.1 | -2.2 | 5.0 | -.8 | 1.1 | 0 | -2.3 | (1) | -3.5 | 3.6 | (1) |
| West Germany ... | 2.2 | -.2 | .3 | -1.5 | 1.0 | 1.4 | 1.5 | 0 | 2.0 | 0 | (1) | -1.0 | 2.7 | (1) |
| United Kingdom .. | 6.1 | 3.4 | 4.1 | 6.5 | 5.6 | 2.3 | 3.9 | 4.8 | 6.0 | 6.0 | (1) | 1.2 | 2.2 | (1) |
| France .......... | 5.8 | 2.5 | 3.3 | 3.2 | 5.2 | 2.3 | 2.7 | 2.4 | 2.9 | 1.4 | (1) | 1.1 | 2.4 | (1) |
| Italy ............ | 8.6 | 6.1 | 4.6 | 3.2 | 4.1 | 4.5 | 6.5 | 5.7 | 11.3 | 3.2 | (1) | 3.0 | 1.8 | (1) |

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Apr. 8, 1988.

**Unemployment rates**

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

| Country | 1985 | 1986 | 1987 | IV 1986 | 1987 I | II | III | IV | 1987 Oct. | Nov. | Dec. | 1988 Jan. | Feb. | Mar. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States .... | 7.2 | 7.0 | 6.2 | 6.9 | 6.6 | 6.3 | 6.0 | 5.9 | 6.0 | 5.9 | 5.8 | 5.8 | 5.7 | 5.7 |
| Canada ......... | 10.5 | 9.6 | 8.9 | 9.4 | 9.6 | 9.1 | 8.8 | 8.2 | 8.4 | 8.2 | 8.1 | 8.1 | 7.8 | (1) |
| Japan ........... | 2.6 | 2.8 | 2.9 | 2.9 | 3.0 | 3.1 | 2.8 | 2.8 | 2.8 | 2.7 | 2.7 | (1) | (1) | (1) |
| West Germany ... | 7.5 | 7.2 | 7.2 | 7.2 | 7.1 | 7.2 | 7.2 | 7.3 | 7.2 | 7.2 | 7.3 | 7.1 | 7.2 | (1) |
| United Kingdom .. | 11.2 | 11.2 | 10.3 | 11.2 | 11.0 | 10.6 | 10.0 | 9.5 | 9.4 | 9.1 | 9.3 | 9.1 | 9.0 | (1) |
| France .......... | 10.4 | 10.7 | 11.1 | 10.8 | 11.2 | 11.2 | 11.1 | 10.8 | 10.9 | 10.8 | 10.8 | 10.9 | 10.9 | (1) |
| Italy ............ | 6.0 | 6.3 | 6.8 | 6.6 | 6.7 | 6.7 | 6.8 | 7.0 | (1) | (1) | (1) | (1) | (1) | (1) |

[1] Not available.

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, April 1988.

### Trade balances

(Billions of U.S. dollars, f.o.b. basis, at an annual rate)

| Country | 1985 | 1986 | 1987 | IV 1986 | 1987 I | II | III | IV | 1987 Sept. | Oct. | Nov. | Dec. | 1988 Jan. | Feb. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States[1] | -132.8 | -149.3 | -153.3 | -166.8 | -145.6 | -149.2 | -159.6 | -155.6 | -151.2 | -192.0 | -140.4 | -127.2 | -130.8 | -147.6 |
| Canada | 12.4 | 7.5 | 7.8 | 8.0 | 9.6 | 9.2 | 8.4 | 4.4 | (2) | 9.6 | 6.0 | (2) | 6.0 | (2) |
| Japan | 55.8 | 92.5 | 96.2 | 104.0 | 110.8 | 94.8 | 89.2 | 92.4 | (2) | 93.6 | 86.4 | (2) | 104.4 | (2) |
| West Germany | 25.4 | 52.6 | 65.5 | 57.2 | 64.4 | 61.2 | 62.8 | 74.0 | (2) | 121.2 | 75.6 | (2) | 73.2 | (2) |
| United Kingdom | -2.6 | -12.4 | -16.3 | -14.8 | -6.8 | -15.6 | -20.0 | -21.2 | (2) | -9.6 | -25.2 | (2) | -31.2 | (2) |
| France | -2.6 | .1 | -5.3 | 1.6 | -4.0 | -8.8 | -4.4 | -4.4 | (2) | -57.6 | -1.2 | (2) | -1.2 | (2) |
| Italy | -12.1 | -2.1 | -8.8 | -.8 | -6.8 | -12.0 | -6.4 | -10.8 | (2) | -7.2 | -2.4 | (2) | -9.6 | (2) |

[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.
[2] Not available.

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, Apr. 8, 1988.

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

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

| Item | 1985 | 1986 | 1987 | IV 1986 | 1987 I | II | III | IV | 1987 Sept. | Oct. | Nov. | Dec. | 1988 Jan. | Feb. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commodity categories: | | | | | | | | | | | | | | |
| Agriculture | 9.6 | 4.5 | 8.0 | 2.3 | 1.4 | 1.3 | 2.1 | 3.2 | 0.8 | 0.8 | 1.1 | 1.3 | 1.0 | 1.2 |
| Petroleum and selected products, unadj | -45.9 | -31.8 | -38.4 | -6.8 | -7.6 | -9.0 | -11.7 | -10.1 | -3.4 | -3.8 | -3.4 | -2.9 | -3.0 | -3.2 |
| Manufactured goods | -102.0 | -134.3 | -140.1 | -34.7 | -32.7 | -34.9 | -36.3 | -36.2 | -10.8 | -14.4 | -11.1 | -11.6 | -10.7 | -11.7 |
| Selected countries: | | | | | | | | | | | | | | |
| Western Europe | -23.3 | -28.2 | -25.7 | -6.3 | -5.2 | -6.6 | -7.0 | -6.9 | -1.4 | -2.6 | -2.0 | -2.3 | -1.5 | -1.2 |
| Canada[1] | -21.7 | -23.0 | -11.4 | -5.4 | -3.2 | -2.3 | -2.8 | -3.1 | -1.3 | -1.3 | -1.2 | -.6 | -1.3 | -1.4 |
| Japan | -46.5 | -55.3 | -56.4 | -15.0 | -13.6 | -14.5 | -13.8 | -14.5 | -4.4 | -5.5 | -4.5 | -4.5 | -4.1 | -4.2 |
| OPEC, unadj | -10.2 | -8.9 | -13.1 | -1.8 | -2.4 | -2.8 | -4.6 | -3.3 | -1.4 | -1.5 | -1.0 | -.8 | -.6 | -1.1 |
| Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj | $26.59 | $15.02 | $17.01 | $12.60 | $15.55 | $17.23 | $17.99 | $17.28 | $17.49 | $17.51 | $17.54 | $16.78 | $15.57 | $15.29 |

[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, February 1988.

**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 Oct. | 1987 Nov. | 1987 Dec. | 1988 Jan. | 1988 Feb. | 1988 Mar. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States .... | 10.7 | 8.3 | 6.5 | 6.0 | 5.8 | 6.1 | 6.8 | 6.8 | 8.0 | 7.2 | 7.7 | 6.9 | 6.4 | 6.4 |
| Canada ......... | 11.3 | 9.7 | 8.6 | 6.1 | 8.4 | 7.4 | 8.0 | 9.2 | 9.3 | 8.7 | 8.9 | 8.7 | 8.6 | (1) |
| Japan ........... | 6.7 | 6.5 | 4.9 | 4.7 | 4.4 | 4.1 | 3.7 | 3.7 | 3.8 | 3.9 | 3.9 | 3.9 | (1) | (1) |
| West Germany ... | 6.0 | 5.5 | 4.6 | 4.5 | 4.7 | 3.9 | 3.7 | 4.2 | 4.7 | 3.9 | 3.7 | 3.2 | 3.3 | (1) |
| United Kingdom .. | 9.9 | 12.1 | 10.8 | 9.9 | 11.3 | 10.5 | 9.3 | 10.0 | 9.9 | 8.9 | 8.9 | 8.6 | 9.3 | (1) |
| France .......... | 11.7 | 10.0 | 7.7 | 7.2 | 7.6 | 8.2 | 8.1 | 7.9 | 8.2 | 8.7 | 8.7 | (1) | (1) | (1) |
| Italy ............ | 15.9 | 15.0 | 12.8 | 11.4 | 11.2 | 10.9 | 10.7 | 11.9 | 11.9 | 11.4 | 11.5 | (1) | (1) | (1) |

[1] Not available.

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

Source: Statistics provided by Federal Reserve Board.

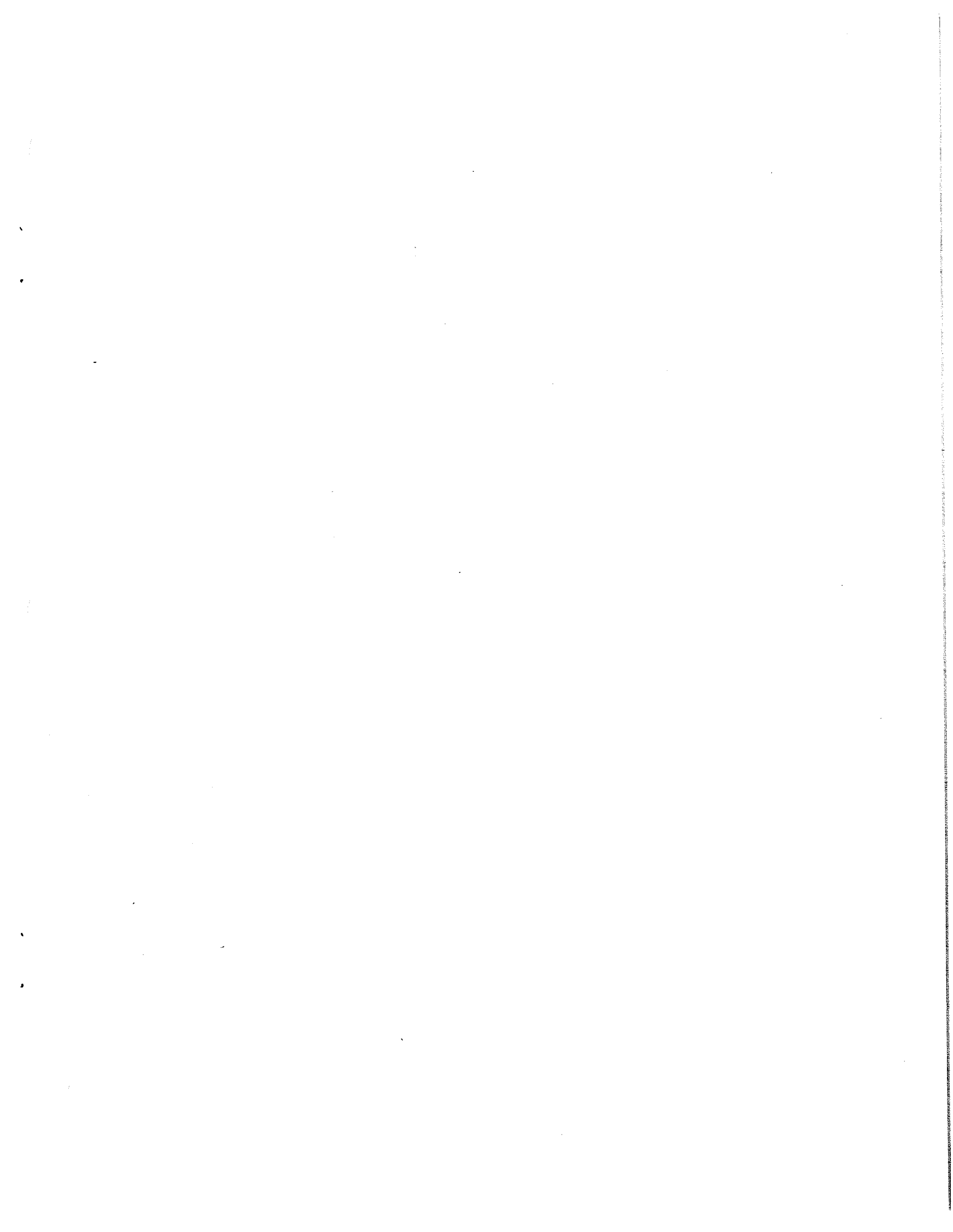
**Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential**

(Index numbers, 1980-82, average=100; percentage change from previous period)

| Item | 1985 | 1986 | 1987 | IV 1986 | 1987 I | 1987 II | 1987 III | 1987 IV | 1987 Oct. | 1987 Nov. | 1987 Dec. | 1988 Jan. | 1988 Feb. | 1988 Mar. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unadjusted: | | | | | | | | | | | | | | |
| Index number ... | 127.1 | 106.0 | 94.2 | 102.7 | 97.1 | 94.1 | 95.2 | 90.3 | 93.5 | 90.0 | 87.4 | 87.4 | 88.2 | 86.8 |
| Percentage change ...... | 3.8 | -16.6 | -11.1 | -.1 | -5.5 | -3.1 | 1.2 | -5.1 | -.4 | -3.7 | -2.9 | 0 | .9 | -1.6 |
| Adjusted: | | | | | | | | | | | | | | |
| Index number ... | 121.7 | 100.9 | 90.2 | 98.3 | 93.4 | 90.5 | 87.0 | 87.4 | 90.0 | 86.6 | 84.3 | 84.6 | 85.4 | 84.7 |
| Percentage change ...... | 1.8 | -17.1 | -10.6 | 1.4 | -5.0 | -2.9 | -3.9 | -2.1 | .1 | -3.8 | -2.7 | .4 | .9 | -.8 |

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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