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INTERNATIONAL ECONOMIC COMPARISONS

Strong foreign demand for U.S. goods and signs of increased capital spending later this year are the brightest spots in the nation's modestly expanding economy. Growth performance remains excellent in Japan and satisfactory in Europe. Economic policymakers in the industrialized world now consider inflation a greater threat than recession. Money supply increases have outstripped real output gains in the key industrialized countries during the past 12-months at least.

Economic Growth

The rate of real economic growth (measured by either the latest available quarterly gross national product (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, 2.3 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 3.45 percent.

Industrial Production

U.S. industrial production rose by 0.7 percent in April after 0.2 percent growth in March. Capacity utilization in U.S. industries rose to 82.7 percent in April, the highest rate since March 1980. U.S. auto output, measured in 1982 constant dollars at annual rates, declined sharply from $100.5 billion in the last quarter of 1987 to $94.0 billion in the first quarter of 1988. As a result of drawing down inventories, car sales (also in constant dollars at annual rates) increased from $92.7 billion during October–December 1987 to $104.3 billion during January–March 1988. At $48.1 billion, sales of imported new autos during the first quarter of 1988 remained virtually unchanged from those in the closing quarter of 1987, but were considerably above the $45.3 billion quarterly average of 1987.

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, 5.7 percent; France, 2.9 percent; Italy, 7.8 percent; Japan, 12.8 percent; the United Kingdom, 3.3 percent; the United States, 5.7 percent; and West Germany, 3.1 percent. Industrial output during the two decades (1967 to 1987) rose by an estimated 57 percent in Japan, 37 percent in Canada, 34 percent in the United States, 20 percent in Italy, 18 percent in West Germany, 16 percent in the United Kingdom, and 11 percent in France.

Capital Transactions

Foreign private holdings of U.S. Treasury securities declined by $6.1 billion to $90.3 billion as of December 31, 1987, after increasing by $8.3 billion in 1986. This was the first decline in foreign private holdings of U.S. Treasury securities in over a decade. Before 1977, the changes in holdings were relatively insignificant. The two largest numbers historically in the growth of privately held U.S. Treasury securities occurred in 1984 ($23.0 billion) and 1985 ($20.0 billion). Partly to reduce their large, unclaimed dollar balances, official foreign holders (mainly central banks) increased their stock of U.S. Treasury securities by $43.3 billion to $214.4 billion as of December 31, 1987.

International Reserves

International reserves (consisting mainly of gold, foreign exchange, and reserves held at the International Monetary Fund) decreased in the United States from $48.7 billion in 1986 to $47.7 billion in 1987. During the same period, these reserves increased from $43.3 billion to $82.2 billion in Japan, and from $55.8 billion to $83.5 billion in West Germany. Changes in foreign-exchange reserves accounted for the bulk of these changes. The huge buildup of Japanese and West German foreign-exchange reserves leaves these two export champions of the 1980's with powerful alternatives to improve the global economy. They can increase their imports beyond their export revenues, make loans to debtor countries, and improve technology abroad through direct investments.

Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) dipped to 5.4 percent in April from 5.5 percent in March. At 174,000, the increase in nonfarm employment in April was roughly one-half the 350,000 average monthly gain of the first quarter.

West Germany's unemployment rate was 8.9 percent in April. The national statistical offices of other countries reported the following unemployment rates for March: 7.8 percent in Canada, 10.3 percent in France, 15.7 percent in

Italy, 2.6 percent in Japan, and 9.0 percent in the United Kingdom. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

According to the investment firm McKinsey & Co., few of the 8.3 million jobs currently maintained by U.S. multinational corporations abroad will return to the United States in the foreseeable future. U.S. corporations worked for decades to develop their global networks of production, distribution, and research and development. They may be reluctant to answer the politicians's call to move jobs back to U.S. shores.

Prices

The U.S. Consumer Price Index rose at a seasonally adjusted rate of 0.4 percent in April 1988, following a 0.5 percent rise in March. The index rose at an average monthly rate of 0.3 percent during March 1987- March 1988. The proportion of purchasing agents reporting higher prices early in the second quarter was 70 percent. Such prices were evident for a score of vital industrial inputs. These are expected to be passed on in higher prices for final outputs.

The average rate of inflation during the 1-year period ending in April 1988 was 1.1 percent in West Germany. The average rate of inflation during the 1-year period ending in March was 4.1 percent in Canada, 2.5 percent in France, 4.9 percent in Italy, 0.7 percent in Japan, 3.5 percent in the United Kingdom, and 3.9 percent in the United States.

Stock Prices

The average stock prices index in the United States was 1.1 percent higher during October-December 1987 than the level in January-March 1988. Stock prices in the other major industrialized countries declined over the same period as follows: 14.6 percent in West Germany, 10.3 percent in France, 1.7 percent in the United Kingdom, and 1.0 percent in Japan.

Forecasts

The U.S. economy

Private analysts expect U.S. real economic growth during January-June 1988 to be less than the 2.0-percent rate registered during the previous 6 months in 1987. Based on first quarter expansion rates, the U.S. real GNP will advance 1.4 percent during January-June 1988 compared with that in July-December 1987. Despite this, the majority of economists and corporate executives do not anticipate recession at least through mid-1989.

The U.S. Department of Commerce forecasts that U.S. industry shipments in constant dollars will increase by a median of 2.4 percent in 1988. (Median is the middle value.) This is considerably higher than the 1.3-percent median compound annual growth rate calculated for 1972-88. According to a U.S. Department of Commerce survey, 8 of the 15 fastest growing industries are related to electronics, defense, and medicine. Seven of the fastest declining industries are related to construction. According to the same survey, U.S. businesses plan to increase their spending for new capital and equipment by 8.8 percent in 1988. This would represent a major acceleration from the previous 2-year period given the fact that capital spending declined by 2.0 percent in 1986 and increased by 2.4 percent in 1987. A McGraw-Hill survey on planned investment also shows an 8.8-percent increase in capital spending in 1988. The recent increase in construction employment seems to corroborate strong investment sentiment among U.S. businesses. All major industry groups, except the automobile industry, plan increases in capital spending.

The U.S. Department of Commerce forecasts a decline in the U.S. merchandise trade deficit, from $172 billion in 1987 to $142-$152 billion in 1988. The Department projects substantial declines in the deficit with Europe, and the Newly Industrialized Countries (NIC's) of Asia, but only a marginal decline in the deficit with Japan.

The world economy

Both the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) have revised upwards their growth forecasts for the industrialized countries. The OECD now forecasts an average of 3.00 percent growth in the combined real GDP of the 24-member countries in 1988, compared with its 2.25 percent growth forecast in December 1987. The IMF expects that real growth in the industrialized countries will average 2.8 percent in 1988, compared with its earlier expectation of 2.6 percent.

U.S. TRADE DEVELOPMENTS

An unusual confluence of seasonal, irregular, and long-term factors caused the U.S. merchandise trade deficit to plunge from $13.8 billion in February to $9.7 billion in March. The deficit had not fallen as low as $10.0 billion since March

1985 and had not been persistently below that level since early 1984. Most noteworthy among the irregular factors that contributed to the decline in the deficit were the $0.7 billion increase in nonmonetary gold exports and the $0.6 billion decrease in petroleum and petroleum product imports.

The March data confirms that forces are at work to reduce the deficit over the long haul. At $36.0 billion, the cumulative deficit for the first 3 months of 1988 was $3.2 billion lower than the deficit during the corresponding period of 1987. The deficit, including both goods and services, measured in 1982 constant dollars, declined by 2.3 percent, from $135.3 in January–March 1987 to $132.2 billion in January–March 1988 (table 1). The ratio of imports to exports declined by 4.5 percent, from 1.34 to 1.28 during the period. At this rate, the deficit in constant dollars would disappear in 5 to 6 years. This scenario presumes larger and larger absolute declines in the annual deficit over the period, but acceleration is by no means guaranteed. Imports increased from the first quarter of 1987 through the first quarter of 1988, exceeding the growth of the GNP. Import growth was 12.0 percent and GNP growth was only 3.5 percent in the first quarter of 1987 compared with that in the first quarter of 1988. This trend continued during January–March 1988. Imports grew by 1.3 percent from the fourth quarter of 1987 to the first quarter of 1988, whereas GNP grew by only 0.6 percent. The constant dollar imports-to-GNP ratio (or the average propensity to import) increased from 0.141 in the first quarter of 1987 to 0.152 in the fourth quarter and to 0.153 in the first quarter of 1988. In order to improve the imports-to-exports ratio at the same time the proportion of imports to GNP is also increasing, exports must swell by larger and larger absolute amounts. Since the rest of the world's ability and willingness to absorb U.S. exports will vary, the process of deficit reduction under the current circumstances may be easily lengthened or derailed.

At $4.5 billion, the March deficit in the critical machinery and transport equipment sector was lower than both the $6.0 billion deficit in February and the $5.6 billion deficit registered in March 1987. The cumulative first quarter deficit decreased to $15.6 billion in 1988 from $17.2 billion in 1987. During February and March, there were significant increases in exports of aircraft and parts, office machines and automatic data processing (ADP) equipment, electrical machinery, power generating machinery, specialized and general industrial machinery, new passenger cars, and telecommunications equipment. Import increases were significant in office machines, ADP equipment, electrical machinery, aircraft and parts, general industrial machinery, telecommunications equipment, new passenger cars, and parts for motor vehicles and tractors.

The petroleum and petroleum product import bill decreased from $3.8 billion (233 million barrels) in February to $3.2 billion (206 million barrels). The average price per barrel declined from $16.4 in February to $15.7 in March. The U.S. surplus in agricultural trade increased from $1.0 billion in February to $1.2 billion in March. Exports of wheat, corn, soybeans, cotton, and animal feeds showed the most significant gains.

The March trade deficit with Japan, the 12-nation European Community (EC), the Organization of Petroleum Exporting Countries (OPEC), and the East Asian Newly Industrialized Countries (EANIC's) was lower than the average monthly deficit during the previous 12-month

Table 1
Exports and imports of goods and services in constant dollars

(Billions of 1982 dollars, seasonally adjusted at annual rates)

	1987				*1988*
Item	*I*	*II*	*III*	*IV*	*I*
Exports of goods and services	397.7	414.5	437.0	453.5	464.5
Merchandise	258.6	270.5	291.3	303.7	315.5
Durable goods	161.6	166.8	181.6	195.7	203.3
Nondurable goods	96.8	103.5	109.6	108.0	112.1
Services	139.1	144.0	145.6	149.6	149.0
Factor income	74.6	77.8	78.6	85.8	83.5
Other	64.5	66.0	67.0	63.7	65.5
Imports of goods and services	533.0	547.1	575.5	589.2	596.7
Merchandise	425.1	432.7	454.8	465.2	472.2
Durable goods	253.5	258.2	266.1	280.5	278.7
Nondurable goods	171.6	174.5	188.7	184.7	193.5
Services	107.7	114.3	120.5	124.0	124.5
Factor income	48.0	54.0	58.6	62.6	61.8
Other	59.6	60.3	62.0	61.2	62.5
Balance	135.3	132.6	138.5	135.7	132.2

Source: U.S. Department of Commerce, Bureau of Economics analysis.

period. However, the March trade deficit was higher with Canada than during the previous 12-month period.

INTERNATIONAL TRADE DEVELOPMENTS

EC Council Makes First Decision on New Component Dumping Regulation

On April 18, the EC's Council of Ministers made its first ruling under a controversial new EC trade law that extends antidumping duties that are presently levied on imports of fully assembled products to goods assembled within the EC from largely imported parts. The EC Council agreed to extend definitive duties currently applied to imports of electric typewriters and electronic weighing scales to those assembled in the EC by Japanese firms using a high proportion of imported components.

The new regulation has been in effect for just under 1 year. On June 22, 1987, the EC Council adopted this regulation modifying the EC's antidumping regulation of July 23, 1984, to prevent circumvention of antidumping duties. The new rules are designed to penalize foreign firms that avoid antidumping duties by assembling products in so-called screwdriver plants in the EC using low-priced imported parts. The new regulation states that antidumping duties may be levied on products sold on the EC market after having been assembled or produced in the EC provided that (1) the company assembling or manufacturing the goods in the Community is related to, or associated with, one of the manufacturers whose exports of similar goods are already subject to a definitive antidumping duty; (2) assembly or production operations in the EC opened or substantially increased after the initiation of antidumping proceedings; and (3) the value of the parts or materials used in the screwdriver factory that originate in the country exporting the product subject to an antidumping duty exceeds by at least 50 percent the value of all other parts or materials used. In order to meet the latter condition, imported components must account for at least 60 percent of the total value of the finished product.

In September, the EC Commission launched its first investigations using the new trade law. Antidumping cases were initiated against six Japanese companies producing electronic typewriters and electronic weighing scales. On March 7, 1988, the EC Commission found that four Japanese firms had circumvented antidumping duties on electronic typewriters, and one Japanese manufacturer had avoided dumping levies on electronic weighing scales. According to the investigation, local content at the plants varied between 4 percent and 25 percent. As a result, the Commission proposed that the EC Council approve duties ranging from about $26 to $67 on each electronic typewriter and a duty of $79 on each electronic weighing scale. These duties imposed on the assembled product would be proportional to the value of the imported parts and would have the same impact as the duty imposed on the imported finished product. The Council adopted the Commission's recommendations and formally approved the imposition of duties on April 18.

The Japanese Government warned that the decision could potentially harm Japanese direct investment in the Community. In addition, Japanese officials announced the Government's intention to challenge the EC's decision in the GATT. In the meantime, the EC Commission is investigating Japanese photocopier producers under the same components antidumping law.

Canada Agrees to Alter its Liquor Sales Practices

Canada is taking cautious moves to amend its provincial pricing, listing, and distribution practices on sales of imported alcoholic beverages. To counter domestic criticism, Canada will change its practices with respect to wine and spirits, but not beer. Canada agreed in late March to the adoption of a GATT panel report that recommended removal of Canada's discriminatory regulations on wine and spirits, practices implemented by its provincial liquor boards. Canada has indicated that it is now undertaking negotiations with the provinces to arrive at possible changes in the regulations. However, the Canadian trade minister, Pat Carney, stated that Canada will not change its practices affecting imported beer. He noted that only one-half of 1 percent of Canada's imported beer comes from the European Community (EC), the party that originally lodged the complaint.

U.S. exports of alcoholic beverages to Canada are covered by the U.S.-Canada Free Trade Agreement. The Agreement requires the Canadian Government to eliminate the discriminatory provincial liquor practices regarding wine and spirits. However, it specifically exempts U.S. beer exports from this provision.

Since Canada foresees the regulatory changes as a threat to the domestic wine industry, the

Government will move gradually to eliminate the practices on imported wine. The domestic distilleries are expected to weather the changes fairly well. Canadian beer brewers, on the other hand, lobbied hard for the exclusion of beer from any changes. They feared that U.S. breweries could potentially swamp the Canadian market with low-cost, excess supplies.

The GATT dispute between Canada and the EC was a long-running one. In March 1985, the GATT Council set up a panel under article XXIII:2 at the request of the EC. The EC alleged that certain practices of the Quebec liquor board, in particular a markup on the sale price of certain alcoholic beverages, as well as other forms of restriction and discrimination, were unfair under GATT rules. As a result, the EC claimed the Quebec liquor board actions gave imports less favorable treatment than domestic products. The panel report ruling against the Canadian practices was completed and circulated to the parties in November 1987. After the report was circulated, Canada and the EC unsuccessfully attempted to arrive at a bilateral solution. In March 1988, when the report was adopted by the Council, Canada indicated that it would report back to the Council by yearend on its progress in eliminating the barriers.

At the same time, however, the Canadian wine industry is taking a close look at EC subsidies on wine production. On March 16, the industry formally petitioned the Canadian Government, seeking duties and quotas on exports to Canada of subsidized EC wine. The move is seen as part of a broader struggle regarding the effects on Canadian producers of the EC Common Agricultural Policy on wine and grapes as well as many other agricultural products.

Question: Where's the Beef? Answer: It's not in Korea

Agricultural issues have held center stage in bilateral negotiations between the United States and the Republic of South Korea (South Korea) for some time as the United States seeks improved market access for its agricultural products. Several important products are now either banned entirely from Korea or are subject to quantitative restrictions. A particularly contentious bilateral issue is Korea's ban on foreign beef imports.

Since 1984, Korea has granted no import licenses for beef with the exception of high-quality beef for tourist hotels. Since May 1985, it has prohibited shipments altogether, except for one shipment of 49 tons for the annual meeting of the International Monetary Fund (IMF) in Seoul in October 1985. The United States claims that the ban is GATT-illegal because it contravenes GATT rules prohibiting quantitative restrictions. Moreover, it "nullifies and impairs" Korea's pledge to open its market in exchange for certain tariff concessions made during the Tokyo Round of multilateral trade negotiations. Those concessions have continued during the 3-year ban. The United States has suggested that Korea open its beef market gradually by permitting luxury hotels to import high-quality beef for their largely foreign clientele. Following that, imports could resume at a pace to compensate for the 3-year ban and eventually expand beyond tourist hotels. Such a move should only affect a relatively small percentage of the total beef market.

The Korean position is that opening their market would destroy the domestic cattle industry. (An investigation into the Saemaul scandal, now playing prominently in Korea's press, has raised speculation that the domestic industry's problems are due partly to the illegal importation of 24,000 head of cattle through the Saemaul cooperative in 1983. Press reports allege that this amount sufficiently exceeded the Government's import ceiling for the year to contribute to the current severe surplus in the domestic industry and the plummet in beef prices.) Reportedly, high-quality beef imports are opposed by the powerful Agriculture, Forestry, and Fisheries Ministry partly because of the slump in the domestic livestock industry. U.S. negotiators pursued "quiet diplomacy" through bilateral negotiations but when the issue remained unresolved after numerous consultations, the United States set the end of 1987 as an informal deadline.

In February 1988, the American Meat Institute filed a section 301 petition and in March the USTR initiated an investigation into Korea's policies on beef imports. Additionally, the United States requested formation of a GATT dispute panel. Korea initially blocked formation of the panel, saying they wanted more time for bilateral negotiations. Continued discussions proved fruitless, however, and on May 4th the GATT agreed to set up an arbitration panel to hear the dispute.

Other agricultural items subject to restrictive Korean import licensing or de facto import bans include oranges, apples, peaches, grape juice, orange juice concentrate, avocadoes, edible offals, pork, frozen potatoes, and alfalfa cubes and bales.

Citrus and Beef Dispute Moves to the GATT

On May 4, the United States requested the formation of a dispute settlement panel to rule on whether Japan's quotas on beef and citrus are consistent with that country's obligations under the General Agreement on Tariffs and Trade (GATT). The action followed several days of talks between United States Trade Representative Clayton Yeutter and Japan's Minister of Agriculture Takashi Sato.

In the past, the United States has avoided a direct confrontation with Japan over citrus and beef by agreeing to annual quota increases. However, following the most recent bilateral accord in 1984, the United States repeatedly warned Japan that it would not renew an agreement based on quotas when the earlier one expired on March 31, 1988. The United States requested that Japan remove its quotas on beef and citrus, eliminate marketing restrictions on orange juice and reform its beef import and distribution system (see *IER*, December 1987). Estimates for potential annual sales if the quotas were removed range from $1 billion to $1.5 billion.

Low-level bilateral discussions were held in February and again just before the 1984 accord expired on March 31, but no progress was made toward reaching an arrangement. As a result, the United States requested the formation of a dispute panel at a GATT Council meeting on April 8. In order to buy more time to negotiate a bilateral accord, Japan blocked the request. U.S. negotiators warned Japan that they would request the formation of a panel at the next GATT Council meeting on May 4 and would consider initiating a section 301 trade investigation if the Japanese again blocked the formation of a dispute settlement panel.

Ambassador Yeutter chaired a week of talks with Japanese Agriculture Minister Sato that ended in a stalemate on May 3. The following day, as promised, the United States requested the formation of a GATT dispute settlement panel to arbitrate the case. This time, the Japanese acceded to the request. In announcing the U.S. action, Ambassador Yeutter said that the United States would have preferred to reach a bilateral agreement rather than pursue the matter under the GATT; however, the United States had found part of the Japanese proposal to be unacceptable. The most controversial issues reportedly centered on the timing for elimination of the quotas, the level of increase in the quotas, and the proposed substitute border measures.

During the talks, the United States requested that the Japanese set a "date certain" for the elimination of all quotas on citrus and beef. The United states also called for the immediate elimination of citrus juice blending requirements and substantial cuts in Japan's tariffs on citrus. In addition, the United States requested significantly increased market access during a transition or phaseout period. U.S. negotiators reportedly offered to accept a 3-year phaseout of Japanese beef quotas and a 5-year phaseout of citrus quotas if adequate compensation were offered by the Japanese. After liberalization or "date certain" for liberalization, the United States wanted assurances that any substitute measures imposed by the Japanese such as import duties plus fixed surcharges or duties plus variable surcharges were not import restrictive.

The Japanese reportedly offered to remove the quotas on beef over a period of 3 years, to increase the quota levels by 10 percent per year, and to eliminate them entirely during the fifth year. In exchange for the removal of quotas, the Japanese proposed unspecified substitute border measures, such as variable levies. The U.S. objected to this proposal, claiming that the substitute measures would be just as restrictive as current quotas. Under the Japanese proposal, quotas on citrus and orange juice would also be removed within 5 years. U.S. negotiators had pushed for a 2-year removal period for orange juice. A 5-year removal period was deemed unacceptable unless the U.S. citrus industry was offered compensatory payments for any period over 2-years.

The Administration links the elimination of Japan's beef and citrus quotas to negotiations on agricultural issues under the Uruguay Round. The United States tabled a proposal before the GATT in June 1987 calling for the elimination of all market access barriers and subsidies on agricultural products over the next 10 years. The United States views Japanese restrictions on beef and citrus as not only a bilateral trade problem, but as a challenge to the principle of free trade. The Administration fears that if Japan were accorded special treatment and allowed to maintain its quotas, other trading partners might be encouraged to follow suit. The 1987 ruling in the so-called GATT-12 case supports the U.S. position that Japanese quantitative restrictions on 10 other categories of agricultural products are inconsistent with GATT rules. This ruling raises the Administration's expectations that its position will be upheld in the current case.

For Japan, the issue of eliminating import restrictions on beef and citrus is both a sensitive political and economic issue. On the one hand, it appears inevitable that liberalization will eventually occur given the high costs to Japanese consumers of maintaining the quotas and the momentum building among certain interest groups for liberalization. However, the Japanese agricultural lobby continues to wield considerable influence over the decisions of the ruling Liberal Democratic Party (LDP). As a result, Prime Minister Takeshita has been forced to walk a political tightrope over the issue. Some hardliners within the LDP favor a GATT dispute settlement because they think Japan will win its case. If not, an unfavorable decision may make it easier for the same politicians to justify liberalization to their agricultural constituents. The opposition parties in the Diet also favor the GATT approach because it presents political problems for Prime Minister Takeshita and gives them a campaign issue in local elections. Prime Minister Takeshita and his supporters would prefer to reach a bilateral agreement, ideally before the economic summit scheduled for June.

United States Trade Representative Clayton Yeutter has indicated that he would like to continue to try to reach agreement through negotiations while the GATT proceedings continue. However, he has stated that the Japanese will have to show movement on beef and citrus before any progress could be made during bilateral negotiations in June.

U.S. and Japanese Negotiators Assess Semiconductor Pact

U.S. and Japanese negotiators held a series of meetings in April to assess the bilateral arrangement on semiconductor trade. The most recent round ended on April 30, 1988, without resolution of the two principal outstanding issues, third-country dumping and market access. Although no further talks are formally slated for May, the subject is likely to be at the top of Prime Minister Takeshita's agenda when he comes to New York in early June. The odds are that he will be pushing to have the remaining $164 million in U.S. sanctions, imposed in April 1987 because of a lack of improvement in U.S. sales in Japan, removed by the economic summit scheduled for June 19 in Toronto. In the meantime, working level officials will be trying to come up with ways to bring Japan's monitoring of third-country dumping in line with GATT rules.

Third-country dumping

Monitoring of third-country dumping is a key aspect of the bilateral arrangement on semiconductor trade initialed by the United States and Japan in July 1986 and officially signed on September 2, 1986 (*IER*, August 1986). However, on May 4, 1988 the GATT Council adopted a report by a dispute settlement panel finding that the way Japan attempted to meet this commitment was inconsistent with the GATT. In light of the Council's decision, Japan must either bring its measures into conformity with the GATT or face the prospect of retaliation.

Background

Even before the ink was dry, the U.S.-Japan semiconductor arrangement had provoked outcries from a number of semiconductor consumers, many of whose governments supported the EC in its complaint before the GATT panel. Fearing higher prices and restricted supplies of key semiconductors, they charged that the world's two major producers had essentially created a price-fixing cartel that could only work by restraining output. The United States consistently maintained that the bilateral arrangement was intended to prevent below-cost sales by individual Japanese companies, not to limit Japanese production and exports. In practice, however, the Japanese Government found that it was unable to sustain prices above the arrangement's fair-market values without reducing a glut in semiconductor supplies.

When first implementing the third-country monitoring mechanism, the Japanese Government required individual semiconductor producers to submit information on their costs of production and to submit export contracts, including prices, for review. The Ministry of International Trade and Industry (MITI) employed administrative guidance, or informal persuasion, to discourage suppliers from making below-cost sales to foreign customers. But only shipments above a certain value were required to undergo such scrutiny, and an active grey market developed.

Based on evidence of continued third-country dumping, the U.S. Government threatened Japan with stiff sanctions, and in early 1987, the Government of Japan reportedly resorted to informal production controls. The controls were transmitted through MITI's quarterly supply/demand "forecasts" and, according to some accounts, unofficial industry-wide price floors for key semiconductors. The Japanese Government also radically lowered the review threshold, effectively doubling the number of shipments subject to clearance. As a result of these measures, the grey market quickly dried up and prices in third-country markets rose. This improved "compliance" was cited by the Reagan Administration when it lifted $51 million in sanctions in June and the remaining $84 million in dumping-related sanctions in November 1987.

However, in November 1987 after long delays in export licensing and critical shortages of certain semiconductors began to develop, the U.S. Government sought and received assurances from Japan that it was not placing restrictions on production, supply, or shipments. The United States also insisted that cost-price monitoring be carried out on a company-specific basis. It appeared that the Japanese Government may have resorted to industry-wide, rather than company-specific goals in an effort to avoid a shake out of smaller, less established Japanese producers.

The panel report

The EC registered a complaint about the bilateral arrangement with the GATT in October 1986. The EC charged that the U.S.-Japan arrangement was harming EC commercial interests, both by discriminating against EC suppliers in the Japanese market and by preventing EC semiconductor users from purchasing semiconductors at free-market rates. After two rounds of bilateral talks failed to produce acceptable results, in February 1987, the EC requested formation of a GATT dispute settlement panel to examine its complaint. The GATT Council agreed to establish a panel in April.

In submissions to the panel, the EC charged that the third-country monitoring mechanism amounted to extraterritorial regulation of its imports, noting that Japan and the United States are the two leading suppliers of semiconductors critical to its high-tech industries. The EC claimed that shortages of key semiconductors and 30 to 60 percent increases in prices resulted from the U.S.-Japan arrangement. Japan asserted that the measures it used to discourage dumping were not legally binding, and were therefore outside the GATT's purview. It also asserted that the GATT did not provide Contracting Parties with a right to purchase products at prices below their costs of production; indeed, Japan noted, the GATT explicitly condemned dumping as a market distorting practice.

The panel did not examine the GATT consistency of the bilateral arrangement itself, but rather focused on the means the Japanese Government used to achieve its ends. Although the panel did not specifically find any individual Government of Japan actions inconsistent with the GATT, it concluded that the combination of measures employed by the Japanese Government to prevent third-country dumping served as a coherent system that effectively restricted Japanese exports. The panel determined that the system as a whole was not in conformity with GATT Article XI:1, which bars Contracting Parties from imposing quantitative restrictions on exports. It also concluded that excessive Government of Japan delays in export licensing constituted restrictions on exportation that were inconsistent with article XI:1. (Export licensing *per se* was not found to be inconsistent with article XI:1, as long as licenses are granted in a fairly automatic, timely fashion.)

The panel said that there was no evidence that U.S. firms had been accorded preferential access to the Japanese market as a result of the market access portion of the arrangement. Indeed, data submitted to the panel indicated that sales by third-country suppliers, including those from the EC, increased at a faster pace than sales by U.S. firms. The panel also did not support the EC view that GATT antidumping rules, as embodied in article VI and the Antidumping Code, give only importing countries the right to take measures concerning goods dumped in their markets.

Reactions

Initial reactions to the panel report, circulating since March, were predictable. At first Japan seemed to be interpreting the panel's findings rather broadly, believing that all formal monitoring mechanisms were invalidated by the panel's ruling. In March and April bilateral meetings, Japan claimed that other actions, which would be permitted under the GATT, could either require new legislation or be ineffective. The United States made it clear that it planned to hold Japan to the third-country dumping portions of the arrangement, noting that the bilateral accord addresses only desired results. Officially, the EC maintained that the GATT ruling required Japan to abrogate the third-country dumping portion of the arrangement and to dismantle monitoring of third-country sales.

In early May, Japan signaled its readiness to reach a compromise with the EC and the United States that would be consistent with the GATT *and* the arrangement. At this point, however, the three appear to have widely divergent views on the GATT panel report and its implications. The Japanese Government apparently believes that the report will require the dismantling of all formal, coercive mechanisms to monitor and control third-country sales. It is therefore "studying" the possibility of ending its formal monitoring of costs and prices by company and product. (The link between reviews of export prices and export licensing was broken in November 1987.) However, because of their general, nonbinding nature, the Japanese Government has suggested that it will continue to issue quarterly supply/demand forecasts and to offer administrative guidance to firms to avoid below-cost sales. The United States views the matter differently, arguing that measures to limit supply, rather than those intended to prevent dumping, were the focus of panel concern. It thinks the panel viewed the quarterly supply/demand forecasts and export licensing as the primary culprits in restricting the quantity of semiconductor exports. The United States feels that only company- and product-specific monitoring will ensure an end to below-cost sales and believes those mechanisms would be permissible under GATT rules. Although the United States has offered to explore other ways to achieve this objective, it has not been particularly forthcoming with proposals. The EC, meanwhile, seems to be torn between ensuring adequate supplies and lower prices for its semiconductor users and protecting domestic suppliers from a feared Japanese onslaught if the monitoring system is removed. [At the request of an association of EC semiconductor producers, the EC began its own investigations of alleged Japanese dumping of EPROMs and DRAMs in April and July 1987.]

Analysts predict that U.S.-EC, U.S.-Japan, and Japan-EC negotiations will get down to brass tacks over the next 3 to 5 months. In the meantime, the status of the bilateral arrangement remains somewhat ambiguous. Japan is apparently still enforcing its third country dumping provisions, but in a different (as yet specified) way than it was before. With semiconductor firms around the globe operating at full capacity and continued strong demand, the market is likely to sustain prices while the three major powers resolve their differences.

Market Access

Little progress has been made on the market access front since the bilateral arrangement was signed. The share of U.S. suppliers in the Japanese market has remained essentially flat since October 1986, hovering in the 9 to 10 percent range. The U.S. industry argues that the U.S. share would need to average 12 to 13 percent in 1988 in order to meet the objective of a 20 percent U.S. market share by 1991. Japan counters that the U.S. share has remained constant in a growing market. With expanding production in Japanese user industries such as computers, Japan points out that actual U.S. sales have grown by 40 percent over the past year. The Japanese Government also questions whether U.S. suppliers have sufficient capacity to meet higher demand, complaining that many U.S. makers treat the Japanese market as a residual when U.S. demand takes off. Japan also suggests that U.S. suppliers do not produce semiconductors in sufficient quantity for consumer products, which account for over 40 percent of Japanese semiconductor demand.

Representatives from the U.S. Semiconductor Industry Association and the Electronics Industry Association of Japan are slated to meet in Tokyo on June 1 and 2 to discuss ways they can work together to increase U.S. market share in Japan. Both sides seem to agree that U.S. sales might improve with more direct involvement by U.S. suppliers in the early stages of the procurement process in Japan, as well as a greater presence by U.S. engineers and service personnel. Joint product development has also been suggested.

With such different official views on market access, though, it seems improbable that the President will remove the remaining $164 million in sanctions soon. The Administration appears particularly wary of doing anything to strain already tense relations with Capitol Hill before the fate of the Omnibus Trade Bill is sealed. Nevertheless, Japanese negotiators are still trying to create a climate in which both sides would be able to proclaim victory in the semiconductor dispute during the Toronto Economic Summit.

Foreign Auto Sales in Japan Increase Over Those of Last Year

The Japan Automobile Importers Association (JAIA) trade data show that sales of imported cars in Japan during January-October 1987 rose 42 percent compared with those in the corresponding period of 1986, totaling 78,301 units.

The share of imports in the Japanese passenger car market ranged from 2.2 percent in January-October 1986 to 2.9 percent in January–October 1987. Total sales of imported cars by origin and make are shown in table 2.

By origin, American-made car sales in January–October 1987 increased by 68.5 percent over those a year earlier, but represented only 4 percent of total import sales. German-made car sales increased by 35.7 percent during the same period and represented 76 percent of total import sales. British-made car sales increased by 76 percent and represented 7 percent of total import sales, while Swedish-made car sales increased by 50 percent and represented 5 percent of total car sales. Sales of French-made cars recorded the highest percentage increase of 132 percent, but represented only 4 percent of total import car sales.

By make, the highest percentage increase in foreign car sales during the period January-October 1986 to January–October 1987 in Japan was recorded by Chrysler (148 percent), followed by Ford (107 percent). However total sales of these two makes were smaller than total sales of Volkswagen, BMW, and Mercedes cars. The three German-makes recorded the highest total unit sales.

Lower retail prices resulting from the yen's relative appreciation, lower interest rates, and aggressive sales strategies by foreign producers reportedly have led to the increase in sales of car imports in Japan. The yen-denominated sales prices of leading foreign cars declined by 12 to 17 percent during the past 2 to 3 years, reflecting the appreciation of the yen against foreign currencies. Consumer interest rates for the purchase of foreign-made cars declined from 8.9 and 11.0 percent in 1985 to 7.5 and 8.5 percent in 1987.

Moreover, aggressive sales strategies adopted by foreign carmakers helped the penetration of foreign cars into the Japanese market. BMW established its own sales company in Japan to gain direct control of sales. Mercedes-Benz concluded a contract with Mitsubishi Motors to sell Mercedes cars in Japan. General Motors plans to start selling 2,900 cars through Suzuki Motors Co. dealerships. Ford plans to start selling 3,000 Taurus models in Japan through Autorama Inc., a Mazda Motors Dealership.

Quadrilateral Trade Ministers Confer on Agricultural Subsidies

Liberalizing international trade in agriculture was a major subject of discussion at the biannual meeting of the Quadrilateral Trade Ministers held in mid-April near Vancouver, British Columbia. The meeting brought together United States Trade Representative Clayton Yeutter, Canadian Minister of International Trade John Crosbie, EC Commissioner for External Relations Willy de Clerq, and Japan's Minister of International Trade and Industry Hajime Tamura. The ministers discussed recent efforts to reduce agricultural subsidy programs worldwide that create export subsidies.

The United States and the EC sharply differ on the issue of liberalizing agricultural trade. This divergence of views was apparent at the press conference following the meeting. Ambassador Yeutter repeated the U.S. view that there was no justification for industrial countries to subsidize exports of agricultural products. He stressed an "urgent need" for countries to reach some consensus in current GATT Uruguay Round discussions on the subject of agricultural subsidies by December. On December 5, the GATT Trade Ministers will convene in Montreal for a mid-term review of the Uruguay Round negotiations. Ambassador Yeutter observed that a significant amount of work remains if, as the United States is urging, a framework agreement on agricultural trade can be negotiated by the end of the review.

Agricultural trade is one of the most contentious issues on the negotiating agenda, which also seeks to incorporate for the first time into GATT disciplines trade in services, trade-related investment measures, and trade-related aspects of intellectual property rights. The purpose of the December meeting will be to review progress in the negotiations as they pass the half-way mark, and possibly conclude some preliminary framework agreements.

Table 2
Total sales of imported cars, by origins and makes in Japan, January-October 1986 to January-October 1987.

Origin and make	*January-October 1986*	*January-October 1987*	*Percentage increase: By origin*	*Percentage increase: By make*
	Units		Percent	
United States	1,892	3,188	68.5	(1)
GM	1,476	2,231	(2)	51.2
Ford	338	701	(2)	107.4
Chrysler	46	114	(2)	147.8
Others	32	142	(2)	399.0
West Germany	43,816	59,462	35.7	(1)
Volkswagen	12,641	17,329	(2)	37.1
BMW	12,763	17,718	(2)	38.8
Mercedes	11,065	15,282	(2)	38.1
Others	7,347	9,133	(2)	24.3
United Kingdom	3,199	5,350	76.2	(1)
Sweden	2,532	3,797	50.0	(1)
France	1,362	3,166	132.5	(1)
Italy	2,415	3,162	30.9	(1)
Others	108	176	63.0	(1)
Total sales	55,324	78,301	41.5	41.5

[1] Not available.
[2] Not applicable.

Source: Japan Automobile Import Association (JAIA)

Ambassador Yeutter expressed confidence that a framework agreement on agriculture could be reached by the midterm review, but warned that Congress could create a legislative solution to the issue in the absence of a multilaterally agreed upon framework. Ambassador Yeutter stated that "it is not unreasonable" for a phased elimination of agricultural subsidies by the year 2000. He pointed out that "all of us are spending far too much on agricultural programs."

In the Uruguay Round discussions, the United States seeks broad liberalization of trade in agriculture, and improved GATT rules and disciplines for agricultural trade. To that end, the United States proposes eliminating subsidies that directly or indirectly affect trade, abolishing barriers to market access, and harmonizing health and safety measures.

The EC proposes a gradual worldwide reduction in agricultural subsidies. This proposal includes a plan to lower EC tariffs on cereals and raise them on cereal substitutes. The United States has characterized the EC submission as attempting "to propose an extension of the EC's highly managed agricultural system." The United States says that the proposal appears to try to increase the role of government in agricultural pricing and production and legitimize subsidies for processed products.

Fast Track for Tropical Products

Indications are favorable that the GATT Group Tropical Products may succeed in reaping results ahead of other Uruguay Round negotiating groups. The participants of the group are now in the process of tabling "indicative" lists of products and measures, and requests of specific countries, in preparation for formal negotiations on liberalization. If all goes well, concessions obtained in tropical products negotiations may be presented and affirmed at the Midterm Review to be attended by trade ministers in Montreal, Canada in December 1988.

Liberalization of trade in tropical products was singled out for fast-track treatment in the September 1986 Ministerial Declaration that launched the Uruguay Round of multilateral trade negotiations. Negotiations on tropical products were placed on the Uruguay Round negotiating agenda as a separate negotiating group, in recognition of the importance of trade in this sector to developing countries.

Over the last year, the group examined a range of broad proposals and approaches and agreed on considering a mix of methods, including request-offer procedures, among its negotiating techniques. In October 1987, the EC tabled an offer to progressively reduce or eliminate tariffs and quantitative restrictions on a wide range of tropical products. Part of the proposal called for the reduction of EC domestic taxes on tea, coffee, and cocoa. Overall, the proposal was seen at the time as a significant advance in the negotiations. The EC was the first major importer to make such a sweeping offer. Several conditions were linked to the EC offer, however. The EC called for multilateral burden-sharing, reciprocity by the main beneficiaries, and a reduction of export restrictions by the dominant suppliers of tropical raw materials.

By November 1987, some of the last proposals on negotiating approaches were presented by country delegations. The United States presented a plan that referred participants to its proposal put forth in the agriculture group, noting that the majority of tropical products are agricultural goods. Also, the United States offered a faster track for the phaseout of restrictions on tropical agricultural products than for other agricultural products. For nonagricultural tropical products, the United States endorsed the idea of employing a request-offer approach to negotiations.

Also, five African countries tabled a liberalization proposal that included several elements. They suggested (1) harmonization of tariffs on processed and semiprocessed tropical products at the low rates; (2) binding of tariff rates, particularly duty-free entry of raw tropical products; (3) elimination of internal taxes, global quotas, and discretionary licensing; and (4) easing sanitary or technical standards. Another delegation proposed the use of a formula to bind tariffs on tropical products at a lower level, combined with request-offer negotiations to reduce tariffs below that level.

Completing negotiations on measures to liberalize trade in tropical products will be tough, but the group's work is further along than that of any other negotiating group. Throughout May and June, the group will hold consultations to review the "indicative" lists and requests. An assessment of the consultations is scheduled for July and the group will take stock of overall progress in the fall prior to the Ministerial Mid-term Review.

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 Nov.	Dec.	1988 Jan.	Feb.	Mar.	Apr.
United States	1.9	1.1	3.8	3.3	3.1	4.3	8.7	7.1	4.9	4.9	4.6	0	1.8	8.7
Canada	2.8	.8	2.6	(1)	1.8	5.3	5.8	4.4	4.9	-1.0	9.0	-7.3	(1)	(1)
Japan	3.7	-.4	3.0	-2.4	5.6	-.8	15.2	15.7	0	17.7	6.8	29.8	4.4	(1)
West Germany ...	3.9	2.2	-.3	-.1	-1.8	-1.3	2.2	2.9	33.2	(1)	23.2	-5.6	(1)	(1)
United Kingdom ..	4.7	1.5	3.1	.5	2.7	3.5	6.3	3.8	-4.1	(1)	-4.1	-27.2	(1)	(1)
France	6	.8	2.1	-5.1	1.3	6.7	2.6	3.9	(1)	(1)	0	-10.8	(1)	(1)
Italy	1.2	2.7	4.0	7.3	12.8	8.1	-10.8	14.0	-10.9	(1)	177.2	-42.6	(1)	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, May 6, 1988.

Consumer prices

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

Country	1985	1986	1987	1987 I	II	III	IV	I 1988	1987 Nov.	Dec.	1988 Jan.	Feb.	Mar.	Apr.
United States	3.6	1.9	3.7	5.3	4.9	3.9	3.6	4.2	3.5	1.2	4.2	2.1	6.4	4.9
Canada	4.0	4.2	4.4	3.6	5.4	4.4	3.5	3.8	5.3	(1)	2.7	2.8	5.9	(1)
Japan	2.0	.6	.1	-2.2	5.0	-.8	1.1	(1)	-2.3	(1)	-3.5	-2.4	(1)	(1)
West Germany ...	2.2	-.2	.3	1.0	1.4	1.5	0	1.2	0	(1)	-1.0	2.7	1.8	(1)
United Kingdom ..	6.1	3.4	4.1	5.6	2.3	3.9	4.9	2.7	6.0	(1)	1.4	1.8	4.8	(1)
France	5.8	2.5	3.3	5.2	2.3	2.7	2.4	2.2	1.4	(1)	1.0	2.8	2.9	(1)
Italy	8.6	6.1	4.6	4.1	4.5	6.5	5.7	3.3	3.2	(1)	3.1	1.9	5.0	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, May 6, 1988.

Unemployment rates

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

Country	1985	1986	1987	1987 I	II	III	IV	I 1988	1987 Nov.	Dec.	1988 Jan.	Feb.	Mar.	Apr.
United States	7.2	7.0	6.2	6.6	6.3	6.0	5.9	5.7	5.9	5.8	5.8	5.7	5.7	5.4
Canada	10.5	9.6	8.9	9.6	9.1	8.8	8.2	7.9	8.2	8.1	8.1	7.8	7.8	(1)
Japan	2.6	2.8	2.9	3.0	3.1	2.8	2.8	(1)	2.7	2.7	2.7	2.7	(1)	(1)
West Germany ...	7.5	7.0	6.9	6.8	6.9	7.0	7.0	6.9	7.2	7.3	6.9	6.9	6.9	(1)
United Kingdom ..	11.2	11.2	10.3	11.0	10.6	10.0	9.5	9.0	9.1	9.3	9.1	9.0	8.9	(1)
France	10.4	10.7	11.1	11.2	11.2	11.1	10.8	10.8	10.8	10.8	10.9	10.9	10.7	(1)
Italy	6.0	7.5	7.9	7.6	7.8	8.1	8.0	8.0	(1)	(1)	8.0	(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, May 1988

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

(Percentage, annual rates)

Country	1985	1986	1987	1987 I	1987 II	1987 III	1987 IV	1988 I	1987 Nov.	1987 Dec.	1988 Jan.	1988 Feb.	1988 Mar.	1988 Apr.
United States	8.3	6.5	6.8	6.1	6.8	6.8	7.6	6.7	7.2	7.7	6.9	6.4	6.9	7.2
Canada	9.7	8.6	8.4	7.4	8.0	9.2	9.0	8.7	8.7	8.9	8.7	8.6	8.7	8.9
Japan	6.5	4.9	3.9	4.1	3.7	3.7	3.9	3.8	3.9	3.9	3.9	3.8	3.8	3.8
West Germany ...	5.5	4.6	4.0	3.9	3.7	4.2	4.1	3.3	3.9	3.7	3.2	3.3	3.4	3.6
United Kingdom ..	12.1	10.8	10.0	10.5	9.3	10.0	9.2	8.9	8.9	8.9	8.6	9.3	8.7	8.3
France	10.0	7.7	8.2	8.2	8.1	7.9	8.5	7.9	8.7	8.7	8.1	7.4	7.9	7.9
Italy	15.0	12.8	11.3	10.9	10.7	11.9	11.6	11.0	11.4	11.5	10.8	11.1	10.4	10.4

[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	1987 I	1987 II	1987 III	1987 IV	1988 I	1987 Nov.	1987 Dec.	1988 Jan.	1988 Feb.	1988 Mar.	1988 Apr.
Unadjusted:														
Index number ...	127.1	106.0	94.2	97.1	94.1	95.2	90.3	87.5	90.0	87.4	87.4	88.2	86.8	85.7
Percentage change	3.8	-16.6	-11.1	-5.5	-3.1	1.2	-5.1	-3.1	-3.7	-2.9	0	.9	-1.6	-1.3
Adjusted:														
Index number....	121.7	100.9	90.2	93.4	90.5	87.0	87.4	84.9	86.6	84.3	84.6	85.4	84.7	83.4
Percentage change	1.8	-17.1	-10.6	-5.0	-2.9	-3.9	-2.1	-2.9	-3.8	-2.7	.4	.9	-.8	-1.5

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.

Trade balances

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

				1987				1987				1988		
Country	*1985*	*1986*	*1987*	*I*	*II*	*III*	*IV*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*	*Mar.*
United States (1) ..	-132.8	-149.3	-153.3	-145.6	-149.2	-158.8	-157.6	-151.2	-192.0	-140.4	-127.2	-121.2	-157.2	-97.2
Canada	12.4	7.5	7.8	9.6	9.2	8.4	4.4	(2)	9.6	6.0	(2)	6.0	13.2	(2)
Japan	55.8	92.5	96.2	110.8	94.8	89.2	91.6	(2)	93.6	86.4	(2)	104.4	104.4	(2)
West Germany	25.4	52.6	65.5	64.4	61.2	62.8	74.0	(2)	121.2	75.6	(2)	73.2	(2)	(2)
United Kingdom ...	-2.6	-12.4	-15.9	-6.8	-15.6	-20.0	-21.2	(2)	-9.6	-25.2	(2)	-31.2	-27.6	(2)
France	-2.6	.1	-5.3	-4.0	-8.8	-4.4	-4.4	(2)	-57.6	-1.2	(2)	-1.2	-10.8	(2)
Italy	-12.1	-2.1	-8.8	-6.8	-12.0	-6.4	-10.8	(2)	-7.2	-2.4	(2)	-10.8	-2.4	(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, May 6, 1988.

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

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

				1987				I	1987			1988		
Item	*1985*	*1986*	*1987*	*I*	*II*	*III*	*IV*	*1988*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*	*Mar.*
Commodity categories:														
Agriculture	9.6	4.5	8.0	1.4	1.3	2.1	3.2	3.6	0.8	1.1	1.3	1.0	1.2	1.4
Petroleum and selected products, unadj	-45.9	-31.8	-38.4	-7.6	-9.0	-11.7	-10.1	-8.9	-3.8	-3.4	-2.9	-3.0	-3.2	-2.7
Manufactured goods	-102.0	-134.3	-140.1	-32.7	-34.9	-36.3	-36.2	-32.0	-14.4	-11.1	-11.6	-10.7	-11.7	-9.6
Selected countries:														
Western Europe ...	-23.3	-28.2	-25.7	-5.2	-6.6	-7.0	-6.9	3.2	-2.6	-2.0	-2.3	-1.5	-1.2	-.5
Canada [1]	-21.7	-23.0	-11.4	-3.2	-2.3	-2.8	-3.1	-4.1	1.3	-1.2	-.6	-1.3	-1.4	-1.4
Japan	-46.5	-55.3	-56.4	-13.6	-14.5	-13.8	-14.5	-12.5	-5.5	-4.5	-4.5	-4.1	-4.2	-4.2
OPEC, unadj	-10.2	-8.9	-13.1	-2.4	-2.8	-4.6	-3.3	-2.2	-1.5	-1.0	-.8	-.6	-1.1	-.5
Unit value (per barrel)of U.S. imports of petroleum and selected products, unadj	$26.59	$15.02	$17.01	$15.55	$17.23	$17.99	$17.28	$15.14	$17.51	$17.54	$16.78	$15.57	$15.29	$14.56

[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, March 1988.

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