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CONTENTS

INTERNATIONAL ECONOMIC COMPARISONS

Revised macroeconomic projections point to sustained U.S. economic growth, albeit at a more moderate pace and slightly higher rate of inflation in 1989 than occurred in 1988 (see the section on forecasts). Last month, the U.S. economy continued its strong growth creating 400,000 additional jobs. This economic growth has been fueled by lower oil prices, improved business confidence and profit margins, moderate wage increases, buoyancy of capital spending, and the lagged effects of the dollar depreciation.

Nevertheless, many economists are alarmed by the rapid growth of debt in the United States, especially debt incurred by nonfinancial sectors to finance leveraged buyouts (LBOs) of corporate equities. The Federal Reserve Board statistics on debt show that total debt of domestic nonfinancial sectors grew by 69.4 percent, from 1982 to the end of the third quarter of 1988. U.S. takeover activity hit a record high of $311.4 billion in 1988. (See the section on growth of domestic debt.) Some economists are calling for structural changes in the financial system to curb the proliferation of LBOs and moderate the growth of nonfinancial debt.

It is difficult to assess the long-term impact of LBOs on the U.S. corporate structure and financial system, since they have occurred only during years of economic prosperity. Buyouts are financed by high-risk, high-yield (generally the rate of return has ranged between 13 and 18 percent) financial instruments known as junk bonds. LBOs often produce such highly leveraged companies that they must sell part of their newly acquired assets to meet loan payments. This raises their debt to asset ratio and downgrades their market rating. Also, the debt burdened companies are unable to invest in new plant and equipment, thus limiting their future growth.

Aside from the dangers of exposing banks and trust funds to risk in the case of a recession, LBOs tend to concentrate ownership of corporate assets and liabilities. This amounts to a movement towards privatization, which could have a profound impact on equity markets. Privately owned corporations are not legally bound to release financial information as publicly held corporations are. The lack of financial information might cause investors' confidence to wane, and the capacity of equity markets to raise capital from many small savers and to distribute risk between many shareholders might be diminished. Many observers fear that this would lead to industrial decapitalization.

An acceleration of takeovers has also dominated European stock markets in 1988, albeit at a lower rate than in the United States. Many European companies that used their relatively strong currencies to buy American companies are now stalking other European firms. American and Japanese companies are also taking more interest in the European common market, but European governments are considering legislation to curb an anticipated onslaught of corporate raiders in 1989.

Economic Growth

The annualized rate of real economic growth during the third quarter of 1988 was 2.7 percent in the United States, 3.4 percent in the United Kingdom, 4.0 percent in Canada, 3.4 percent in West Germany, 5.6 percent in Japan, and 3.9 percent in Italy. The latest available data for France indicate that the rate of real economic growth (annualized) during the second quarter of 1988 was 3.5 percent.

Industrial Production

U.S. industrial production rose 0.3 percent in January 1989 after rising a 0.5 (revised) percent in December 1988. The January gain reflected further increases in the output of nondurable consumer goods, construction supplies, and durable materials. Within the manufacturing sector, production of all major industries except transportation equipment and paper rose in January. The output of motor vehicles fell sharply. U.S. industrial production in January 1989 was 5.0 percent higher than it was in the corresponding month of 1988.

Average overall capacity utilization in U.S. factories, mines, and utilities in January 1989 was 84.4 percent, unchanged from December 1988, which was the highest level in 9 years. In manufacturing, capacity utilization in January stood at 84.8 percent compared with 84.6 percent in December 1988. Capacity utilization in mining and utilities declined by 0.7 percent from December to January.

Other major industrial countries reported the following annual growth rates of industrial production: during the year ending September 1988, Italy reported an increase of 4.6 percent; during the year ending November 1988, Canada reported an increase of 2.5 percent, and France reported an increase of 4.3 percent; and during the year ending December 1988, Japan reported an increase of 8.2 percent, the United Kingdom an increase of 1.5 percent, and West Germany an increase of 4.2 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index increased 0.6 percent from December 1988 to January 1989. During the 1-year period ending in December 1988, consumer prices increased 4.0 percent in Canada, 6.8 percent in the United Kingdom, 3.1 percent in France, 4.6 percent in the United States and 1.0 percent in Japan. During the l-year period ending in January 1989, consumer prices increased 5.7 percent in Italy.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor-force basis, including military personnel) increased slightly to 5.4 percent in January 1989 from 5.3 percent in December 1988. West Germany reported an unemployment rate of 8.0 percent in January 1989. The national statistical offices of other countries reported the following unemployment rates in December: the United Kingdom 7.2 percent; Japan 2.3 percent; Italy 16.4 percent; and France 10.1 percent. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Investment

Table 1 shows real capital expenditure in the United States by sector from 1985 to 1988. It shows that 1988 real capital spending is projected to increase in manufacturing by 12.5 percent, and in nonmanufactures by 11.0 percent compared with that in 1987. However, the dollar amount of real capital spending in nonmanufactures surpassed that in manufactures by an average of 58.3 percent over the period 1985–88. This shift reflects a transition towards a service economy. This investment trend is unsettling, because those export industries within the manufacturing sector that have contributed the most to the reduction in the trade deficit (electrical machinery, machinery except electrical, motor vehicles, and aircraft) have experienced either a long-term stagnation, or a reduction in real capital spending. Further, within the nonmanufacturing sector, most real capital spending increases occurred in nonexporting sectors-commercial and other activities comprising wholesale and retail trade, finance and insurance, and personal and business services.

U.S. Foreign Direct Investment Position

Table 2 shows U.S. direct investment abroad and foreign direct investment in the United States by area and country from 1985 to 1987. Over this period, foreign direct investment in the United States increased by 41.9 percent compared with growth of only 34.1 percent in U.S. direct investment abroad. However, at the end of 1987 U.S. direct investment abroad was still 18.0 percent higher than foreign direct investment in the United States. Between 1985 and 1987, U.S. direct investment abroad was highest in the European Community (EC) where it grew by 50.2 percent. It was concentrated in the following sectors: petroleum (15.6 percent); machinery except electrical (14.9 percent); finance (except banking), insurance, real estate (13.7 percent); chemicals and allied products (10.5 percent); wholesale (8.7 percent); transportation equipment (6.3 percent); and banking (4.7 percent). U.S. direct investment in developing countries as a whole ranked second, and investment in Canada ranked third. U.S. direct investment in developing countries grew by 35.0 percent and it was concentrated in manufacturing (31.0 percent); petroleum (27.0 percent); finance (except banking), insurance, and real estate (18.5 percent); wholesale (9.0 percent); and banking (8.4 percent). Of the total U.S. direct investment in developing countries 59.4 percent was in Latin America. U.S. direct investment in

Table 1
Real capital expenditure in the United States, by sector, 1985-88

Sector	1985	1986	1987	1988[1]
	Billions of 1982 dollars			
All Industries	391.6	376.2	384.9	429.4
Manufacturing	158.9	143.7	145.9	164.1
Durable goods	74.5	69.2	71.2	79.5
Nondurable goods	84.3	74.5	74.7	84.6
Nonmanufacturing	232.7	232.5	239.0	265.3
Public utilities	46.2	43.2	41.1	41.6
Commercial and other	150.8	159.3	168.5	191.4
Mining and transportation	35.9	30.0	30.2	32.3

[1] Projected.

Source: Survey of Current Business, September 1988, vol. 68.

Table 2

U.S. direct investment abroad and foreign direct investment in the United States, by areas and countries, 1985-87

(In billions of dollars)

Area or country	U.S. direct investment abroad 1985	1986	1987	Foreign direct investment in the United States 1985	1986	1987
Total	230.3	259.6	308.8	184.6	220.4	261.9
Canada	46.9	50.0	56.9	17.1	20.3	21.7
EC (12), total	81.4	98.5	122.3	107.4	127.2	157.7
United Kingdom	33.0	35.7	44.7	43.7	55.9	74.9
Netherlands	7.1	11.6	14.2	37.1	40.7	47.0
West Germany	16.8	20.9	24.5	14.9	17.3	19.6
France	7.6	8.9	11.5	6.7	7.7	10.2
Other EC	16.8	21.4	27.4	5.0	5.6	5.9
Other Europe	23.8	23.7	26.7	14.3	17.0	20.3
Japan	9.2	11.3	14.3	19.3	26.8	33.4
Australia, New Zealand and South Africa	10.8	11.2	13.2	3.3	5.5	6.6
Developing countries	52.8	60.3	71.2	23.2	23.5	22.2
Latin America	28.3	34.8	42.3	16.7	16.8	15.3
Other Africa	4.5	4.3	5.1	(1)	(1)	(1)
Middle East	4.6	4.6	4.8	4.9	4.9	5.0
Other Asia & Pacific	15.4	16.6	19.0	1.6	1.8	1.9
International	5.4	4.6	4.3	(2)	(2)	(2)
OPEC	10.4	10.9	11.5	4.6	4.8	5.0

[1] Included in figure for Other Asia & Pacific.
[2] Not available.

Source: U.S. Department of Commerce, Survey of Current Business, August 1988

Canada grew by 21.3 percent and it was concentrated in manufactures (45.3 percent); petroleum (21.0 percent); finance (except banking), insurance, real estate (15.5 percent); wholesale trade (5.6 percent); and other (12.6 percent).

Total foreign direct investment in the United States increased dramatically from 1985 to 1987 due to the pronounced increase from the EC(12) (46.8 percent) and Japan (73.0 percent). Although Japanese investment in the United States has grown faster in percentage terms than that of the EC, in absolute terms investment from the EC, and in particular from the United Kingdom and the Netherlands, significantly outpaced that of Japan during the period. Canada's direct investment in the United States grew by 26.9 percent over the period, whereas developing countries total direct investment in the United States declined slightly.

Table 3 shows the percentage distribution by major sectors of foreign direct investment of the United Kingdom, the Netherlands, Canada, Japan and OPEC in the United States through the end of 1987. Investments of the U.K., the Netherlands, and Canada in the United States were widely distributed among industries, but Japan's direct investment tended to be concentrated in wholesale trade, banking, and real estate. As of the end of 1987, OPEC direct investment was mainly in these same industries.

Table 3

Share by sector of foreign direct investment, from selected countries, in the United States, 1987

Industry	United Kingdom	Netherlands	Canada	Japan	OPEC
Petroleum and mining	(2)	(2)	10.3	(2)	(2)
Food and kindred products	5.6	11.7	2.0	(1)	(2)
Chemicals and allied products	12.1	12.8	(1)	1.6	(1)
Primary and fabricated metals	1.5	1.1	11.8	1.7	(2)
Machinery	5.0	3.2	8.6	4.6	(1)
Other manufacturing	7.2	5.4	10.1	7.2	(1)
Wholesale	9.3	4.7	11.0	44.0	2.9
Retail trade	5.2	3.8	5.5	(3)	(3)
Banking	2.5	5.3	6.4	10.2	7.3
Finance except banking	(2)	5.5	2.1	7.9	(3)
Insurance	8.1	6.6	8.3	(2)	(1)
Real estate	7.3	7.0	15.5	13.3	16.7
Other industries	9.7	(2)	7.4	7.1	(2)

[1] Less than $500,000.
[2] Suppressed to avoid disclosure of data of individual companies.
[3] Less than one percent.

Source: U.S. Department of Commerce, Survey of Current Business, vol. 68, August 1988.

Balance-of-payments flows (income, royalties, license fees, and charges for other services), accruing from U.S. direct investment abroad, grew from $39.8 billion in 1985 to $61.6 billion in 1987, representing an increase of 54.7 percent. Part of the income increase was due to the dollar depreciation that took effect in 1985. Profits earned abroad in appreciating foreign currencies bought more dollars than before. Income and royalties on foreign direct investment in the United States increased from $5.8 billion in 1985 to $10.4 billion in 1987.

Growth of Domestic Debt

The tabulation at the bottom of the page shows the outstanding domestic debt of U.S. nonfinancial sectors during 1983 through the third quarter of 1988.

During this period, the total debt owed by nonfinancial sectors increased by 69.4 percent, a yearly average increase of 16.0 percent. Also, during period, U.S. Government debt grew by 75.2 percent, and debt of private domestic nonfinancial sectors grew by 67.7 percent, a yearly average growth of 12.5 and 11.3 percent, respectively. The amount of debt financed through corporate bonds nearly doubled. Many financial analysts have argued that the rapid growth of private nonfinancial sector debt is a direct result of the tax code, which allows interest expense on corporate debt to be deducted from taxable income, but does not allow dividend payments to be deducted. Tax treatment for debt is the same whether the debt is used to finance new investment projects or to finance LBOs. Although proponents of LBOs contend that buyouts create wealth in the form of higher equity prices, legal and brokerage fees, opponents maintain that buyouts merely shuffle wealth, taking from some and giving to others. Opponents of LBOs also claim that such wealth really represents intangible "paper" wealth. Economists estimate that the surging volume of LBOs may have accounted for around 14.0 percent of the total growth in corporate debt over the past decade. Takeover activity in 1988 is estimated at $311.4 billion.

Forecasts

Table 4 shows newly revised macroeconomic projections for the U.S. economy in 1989, by four major forecasters, and the simple average of these forecasts. The forecasts represent percentage changes over the preceding quarterly period at annual rates. The average forecast is for a decline in nominal and real GNP growth rates starting in the second quarter of 1989, and a slight increase in unemployment rates. The causes of the predicted economic downturn are a projected moderation in the pace of consumer spending, a decline in export growth, and a rise in short-term interest rates. Export growth rates are expected to slow, as the dollar appreciates in response to higher interest rates. Inflation (measured by the Gross National Product (GNP) deflator index) is expected to rise in the second and third quarters and moderate in the fourth quarter of 1989.

The Organization for Economic Cooperation and Development (OECD) projected a 3.0-percent growth rate in U.S. real GNP for 1989, matching the average growth rate of OECD-Europe, and a 2.5 percent growth in total U.S. demand, a half percentage point below the expected the OECD-Europe average. The OECD predicted that the U.S. inflation rate would reach 4.5 percent, a half percentage point lower than OECD-Europe average inflation rate, and that the U.S. unemployment rate would be at 5.5 percent compared with an average 10.25 percent for OECD-Europe. The U.S. deficit on current account balance is projected to reach $116 billion in 1989. World trade is expected to grow by 7.0 percent in 1989 compared with a growth rate of 7.5 percent in 1988.

The International Monetary Fund (IMF), in its latest revised forecast, predicts that the overall output of industrial countries will increase by 2.8 percent in 1989 compared with a 3.9-percent increase in 1988. The IMF also expects that infla-

Sector	*1983*	*1984*	*1985*	*1986*	*1987*	*Jan-Sept. 1988*
	Billion dollars					
Debt owed by nonfinancial sectors,total	5,204	5,954	6,797	7,618	8,301	8,817
U.S. Government	1,178	1,377	1,600	1,815	1,959	2,064
Private domestic nonfinancial sectors	4,026	4,577	5,197	5,803	6,342	6,753
Form of debt:						
Debt capital instruments	2,718	3,040	3,488	3,946	4,404	4,715
Tax-exempt obligations	472	522	658	689	724	749
Corporate bonds	423	469	543	664	764	842
Mortgages	1,823	2,049	2,287	2,593	2,917	2,057

Table 4
Projected quarterly percentage changes of selected U.S. economic indicators, and unemployment rate, 1989

Indicator and quarter	*Data Resources Inc.*	*Merill Lynch Economics Inc.*	*Wharton F.A. Inc.*	*UCLA Business Forecasting Project*	*Mean of 4 fore-casts*
GNP:[1]					
January-March	8.1	9.7	8.5	8.6	8.7
April-June	4.8	6.6	6.3	5.0	5.7
July-September	5.0	4.0	6.6	3.9	4.9
October-December	5.1	3.6	6.4	3.7	4.7
GNP:[2]					
January-March	5.0	5.0	3.6	5.0	4.6
April-June	.7	1.7	1.6	.8	1.2
July-September	.7	-.3	2.0	-.2	.5
October-December	1.3	-.6	2.5	-.1	.8
GNP deflator index:					
January-March	3.0	4.4	4.7	3.4	3.9
April-June	4.1	4.9	4.6	4.1	4.3
July-September	4.3	4.2	4.4	4.2	4.3
October-December	3.8	4.2	3.8	3.8	3.9
Unemployment rate:					
January-March	5.4	5.4	5.3	5.5	5.4
April-June	5.5	5.3	5.4	5.6	5.4
July-September	5.6	5.5	5.5	5.7	5.6
October-December	5.7	5.9	5.6	5.8	5.7

[1] Current dollars.
[2] Constant dollars.

Note.—Percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted.

Source: Compiled from data presented in The Conference Board, *Statistical Bulletin*, vol.21, No.11, November 1988. Used with permission.

tion will rise slightly, to 3.5 percent. The output of developing countries is estimated to increase by 4.0 percent in 1989 compared with 3.6 percent in 1988. World trade is projected to grow by 5.6 percent in 1989 compared with 7.6 percent in 1988.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit declined by 2.5 percent in December 1988, to $11.9 billion from $12.2 billion in November. The December trade deficit was 2.6 percent higher than the $11.6 billion average monthly deficit registered during the previous 12-month period, but was 13.8 percent lower than the $13.8 billion deficit registered in December 1987. During calendar year 1988, the monthly deficit ranged from a high of $14.4 billion in February to a low of $9.5 billion in July. The cumulative January–December deficit declined from $170.3 billion in 1987 to $137.3 billion in 1988.

The following tabulation shows the percentage changes in the January–December year-to-date figures for U.S. exports, U.S. imports, and the U.S. deficit:

Item	*January-December 1986 to January - December 1987*	*January-December 1987 to January-December 1988*
Exports	11.9	26.8
Imports	11.0	8.3
Deficit	9.8	-19.4

Seasonally adjusted exports increased by $1.65 billion, from $27.5 billion in November to $29.2 billion in December 1988. Imports increased by $1.3 billion, from $39.7 billion in November to $41.1 billion in December. In manufactured goods, although both exports and imports increased, the growth in exports was greater than that of imports. Consequently, the deficit in the manufacturing sector declined by $1.8 billion, from $13.8 billion in November to $12.0 billion in December. By commodity group, the biggest percentage gains in exports of manufactures were registered in automatic data processing office equipment, organic and inorganic chemicals, general industrial machinery, iron and steel mill products, electrical machinery, airplanes and airplane parts, power generating machinery, metal working machinery, scientific instruments and parts, specialized industrial machinery, paper newsprint, telecommunication equipment and parts, and spacecraft and parts. The biggest percentage decreases in imports were in aluminum, artwork, organic and inorganic chemicals, synthetic chemicals, resins and plastics, iron and steel products, musical instruments, paper newsprint, clothing and footwear, copper, gem diamonds, power generating machinery, tires and tubes and toys. The oil import bill remained virtually unchanged at $3.1 billion in December 1988. The agricultural trade surplus increased to $1.7 billion from $1.4 billion in November.

On a regional basis, the United States experienced declines in its deficits with Canada, Western Europe, the developing countries as a whole, the Newly Industrialized Countries (NICs) and Communist countries in Europe and Asia. The deficit with Japan increased slightly. The deficit with Canada declined by almost one-half, from $849 million in November to $449 million in December. The deficit with Western Europe declined from $2.0 billion in November to $1.6 billion in December. The deficit with the NICs declined slightly from $2.9 billion in November to $2.8 in December, and the deficit with developing countries declined to $4.0 billion in December from $4.2 billion in November. The U.S. deficit with Japan increased slightly from $5.3 billion in November to $5.4 billion in December, and the deficit with West Germany rose to $1.4 billion from $1.3 billion.

INTERNATIONAL TRADE DEVELOPMENTS

The Sarney Administration Makes A New Effort to Rescue Brazil's Economy

On January 16, the Sarney Government of Brazil announced its third comprehensive economic program in 4 years in an effort to bring Brazil back from the brink of hyperinflationary collapse. The new program, called "the Summer Plan," provides for currency reform, an indefinite freeze on prices and wages, and fiscal austerity measures.

The currency reform of the Summer Plan is the second of the Sarney administration. In February 1986, the Sarney Government introduced the cruzado as part of the anti-inflationary Cruzado Plan package. Officials then hoped that the economic and currency reform would break the rapid devaluation of the cruzeiro, the currency then in use. Instead, after an initial slowdown, inflation accelerated, reaching a record 1,000 percent annual rate in 1988 (*IER*, January 1989.) This time, officials replaced 1,000 units of cruzados with one unit of the "new cruzado". Each "new" cruzado is intended to be worth about one U.S. dollar.

A freeze on wages and prices, relied on heavily in the first Cruzado Plan (*IER*, March 1987), is also an important part of the Summer Plan. However, unlike the original Cruzado Plan which failed to implement the necessary fiscal restraints, this austerity program includes the long overdue step of slashing the country's bloated Federal budget. In his address announcing the Summer Plan, President Sarney said he was decreeing the toughest fiscal policy in Brazilian history. Budget-cutting austerity measures include the closing of 5 ministries and 42 state-run businesses, and massive layoffs of public-sector workers.

Brazilian presidential elections are scheduled for this November, and the January reform package is widely seen as a desperate attempt to rekindle waning confidence in the Sarney administration. In the first 2 years of the administration some aspects of economic performance had been promising (*IER*, October 1988), but overall the economy has since deteriorated. In 1988, the economy was characterized both by record inflation and stagnation (less than 1 percent Gross Domestic Product growth in real terms).

Although Brazil continued to have a large merchandise trade surplus in 1988 (amounting to $19 billion), massive interest payments on debt ($10 billion) and a variety of other factors caused its hard-currency reserves to dwindle. Finance minister Nobrega warned that reserves might fall to a critical level if the U.S. Government were to deny a bridge loan Brazil requested in support of the Summer Plan.

Economic stagnation in the past year had the effect of further depressing *per capita* income, which has been on the decline in Brazil for years. As before, the burden of this trend fell disproportionately on the poor. Brazil is a country with one of the most inequitable income and wealth distributions in the world. It has been calculated that 1 percent of the population owns one-half of the country's wealth. The extent of social inequities and the drop in real wages (31 percent from 1985) turned labor leaders against the Sarney Government, and these leaders recently renewed their calls for a payments moratorium on Brazil's foreign debt. (The administration suspended interest payments on commercial debt in February 1987, but resumed servicing debt in 1988 in exchange for a debt-rescheduling agreement on more favorable terms.)

Disenchantment with the Sarney Government is not restricted to labor interests; it cuts across the whole spectrum of Brazilian society. Uncertainties for private entrepreneurs—stemming from inflation, the stagnation of the economy, certain economic provisions of Brazil's new Constitution, and an explosive social climate—led to an exodus of private capital during the past year, primarily to the United States. Capital flight on the present scale is a relatively new phenomenon in Brazil. Unlike other wealthy Latin Americans (mostly from Argentina, Mexico, and Venezuela), most wealthy Brazilians kept their money at home throughout the 1980s. The Summer Plan includes restrictions on access to foreign exchange in an effort to reduce capital flight.

Despite their widespread dissatisfaction, Brazilians have given the Sarney administration another chance to save the economy. In Brazil, both Houses of Congress approved most provisions of the Summer Plan by a wide margin. Some measures designed to blunt growing labor opposition to the reforms are still open to congressional vote. With the end of the Carnival season and the resumption of normal economic activity, it will soon be apparent how well the Summer Plan has worked in controlling inflation. Early indications of the Plan's overall impact will undoubtedly spur additional economic policy decisions.

Breakthrough on U.S.-EC Hormone Dispute

The U.S.-EC dispute over hormone-treated beef continued through February, but talks at the end of the month have eased tensions for the time being. Since the beginning of 1988, the EC has banned the importation of beef raised with the aid of hormones, citing health concerns of European consumers. The U.S. Government has argued that there is no scientific evidence to indicate that growth hormones pose a health hazard and, therefore, has claimed that a ban on such meats is an unfair barrier to trade. Other nations that export beef to the EC have complied with the ban, but the United States was given a 1-year grace period until January 1, 1989, in hopes that U.S. and EC trade officials would find a suitable solution (see *IER*, January 1989).

However, negotiations in 1988 failed to resolve the dispute and on January 1, 1989, the EC implemented its ban on imports of hormone-treated meat (excluding beef marked for use in pet food). U.S. officials estimated that the ban would cause U.S. exporters to lose $100 million annually in sales to Europe. Consequently, the U.S. Government retaliated the same day by imposing 100-percent tariffs on an assortment of European exports worth an estimated $100 million. The European goods targeted by the retaliatory measure were boneless beef, processed pork hams and shoulders, prepared or preserved tomatoes, soluble or instant coffee extracts, some fermented beverages with less than 7 percent alcohol content, some fruit juices, and packaged pet food. U.S. officials also suggested that EC meat imports could be banned by using the "reciprocal meat inspection" provision of the 1988 Omnibus Trade and Competitiveness Act. The provision, which was created as a direct result of this dispute, allows the United States to discontinue meat imports from countries that disallow the entry of American meats not proven to be a health risk.

Fears of a spiraling trade war worsened when the EC Commission met on January 5th and composed a list of American products on which counter-retaliatory tariffs would be imposed. The finalized list of U.S. goods to be affected consisted of dried fruit and in-the-shell walnuts, estimated to hurt U.S. exports worth $96 million. On January 23, EC Foreign Ministers decided to delay implementation of these counter-retaliatory measures to provide further time to resolve the dispute. At a meeting of the GATT Council on February 8, EC representatives, as well as other GATT members, condemned the unilateral retaliatory measures taken by the United States, and no progress towards resolution was made. However, breathing room was created when U.S. and EC officials agreed to allow unhindered entry of U.S. hormone-treated beef and tariff-affected EC products, which were in overseas transit prior to January 1st.

During the dispute, four States: Kansas, Wyoming, Montana, and Texas, approached the EC independently, offering to export beef free of hormones. Texas had been the most active in seeking a separate agreement, but before trade with the EC could begin, meat certification procedures had to be clarified. (Only the Food Safety and Inspection Service of the U.S. Department of Agriculture has the authority to certify meat for export.) Texas State Agriculture Commissioner Jim Hightower presented a plan, worked out with EC officials, in which meat from hormone-free cattle could be certified as such and shipped to Europe. The plan met the EC's requirements, and compelled the U.S. Government to act. At a weekend meeting on February 18 and 19, U.S. and EC officials agreed to establish a joint task force to help ease the trade war tensions. Over the following 75 days, the task force is charged with working out the technical problems associated with the export by the United States of hormone-free beef to the EC. In the meantime, the United States is expected to relax its sanctions to the extent that it can increase its exports of hormone-free beef to the EC.

Other issues have complicated the hormone dispute. In early January, illegal hormones were found in West German beef purchased by the

U.S. armed forces stationed there. Unlike the hormones used in raising U.S. cattle, these black-market hormones are widely regarded as dangerous and are banned internationally. This discovery heightened existing U.S. concerns with the EC's ability to monitor its own beef production and prompted the United States to issue a 3-month ultimatum to nine EC member states (excluding Portugal, Greece, and Luxembourg). The nine countries have been given until March 31 to prove to the United States that the Community's ban on the use of hormone growth promoters is effective. They are to provide details on the implementation of surveillance measures and frontier controls on meat trade. The U.S. Government believes that if the EC cannot effectively implement the ban on its own soil, then its arguments for banning imports of hormone-treated beef appear quite weak. If the EC is not able to demonstrate sufficient control of hormone use within the Community, the United States could refuse to import meat from the EC on sanitary grounds.

Because the creation of the U.S.-EC task force is considered a positive step toward resolution, the February 20 meeting of EC Foreign Ministers resulted in the postponement of any counter-retaliatory measures. Therefore, no other major developments in the hormone-treated beef conflict are expected until the end of April.

Foreign Investment and Mergers in Canada

Investment Canada in its annual report for fiscal year 1987–88 showed direct foreign investment in Canada climbing by 18 percent over that in the previous year. The C$8.7 billion inflow was the highest in Canada's history. The continued globalization of the world economy offers one explanation for the increase in foreign direct investment in Canada. Other factors include the political stability of the area, the excellent transportation infrastructure already in place, and the decline in the value of the U.S. dollar.

Citing the "explosion of foreign investment" in the world since the mid-1980s, the Investment Canada report acknowledged the importance of "strategic partnering" in expanding markets and securing international competitiveness. It called attention to the global sourcing and market niche strategies increasingly being adopted by Canadian firms.

The United States is the largest foreign investor country in Canada, while Canada trails the United Kingdom and Japan as a source for foreign direct investment in the U.S. Analysts in the United States and Canada predict that trade and investment will increase in both countries as a result of the Free Trade Agreement (FTA). Whether the increases in foreign direct investment will be mainly bilateral or will come from the rest of the world, remains to be seen. The implementation of the FTA on both sides of the border is still in its earliest stages, and the longer term effects of the trade pact in the investment sphere are unclear.

The growth in foreign investment in Canada comes despite a long standing Canadian concern over foreign ownership of its economic base. This fear led to official control and review of foreign investment in the late seventies and early eighties. However, with the establishment of Investment Canada and its mandate of outreach and promotion of the investment potential of Canada, it was felt that Canada's negative image in international investment circles was diminishing. Data recently reported by Investment Canada seem to bear this out. Canadian concerns over foreign investment may emerge again, however, if FTA opponents successfully portray the growth in foreign investment as a loss of Canadian economic control.

Recent events have already raised separate Canadian fears of an increased concentration of economic power. These fears are the result of a spate of significant mergers in Canada. Since mid-January mergers have occurred in such industries as beer, air transportation, gasoline, and paper products. Because the merger wave follows so closely on the implementation of the United States-Canada free-trade pact, Canadian opponents of the agreement are quick to claim a causal linkage between the economies of scale needed for a continental market and the move toward larger corporations. The merger wave appears to reinforce a deep-seated sensitivity to foreign ownership in certain sectors of Canadian society.

The consolidation in the beer industry is the result of the merger of the brewing operations of Molson Breweries of Canada Ltd. with Carling O'Keefe Breweries of Canada Ltd. Carling O'Keefe is owned by Elders IXL Ltd., an Australian firm. The merger will create Canada's largest brewery and will result in the elimination of 1400 jobs and the closing of seven breweries. The new company, Molson Breweries, accounts for 53 percent of the Canadian (domestic) beer market; it will have only one major domestic competitor, John Labatt Ltd.

The announced merger in the petroleum sector will affect $4.9 billion in corporate assets. Texaco Inc. will sell its Canadian subsidiary, Texaco Canada Inc., to Exxon's Canadian subsidiary, Imperial Oil of Canada Ltd. Imperial's position as Canada's largest energy company will be strengthened by the takeover. The 3200

Texaco employees in Canada have been guaranteed job security for 2 years, but layoffs are expected after that.

Although the reported growth in foreign investment in Canada during fiscal year 1987–88 occurred prior to the implementation of the FTA, continued increases in foreign investment are expected as familiarity with the terms of the FTA spreads. The more likely strengthening of investment activity in Canada, coupled with the upsurge in merger activity and Canadian sensitivity to foreign ownership in general, allows opponents of the pact an opportunity to counter the generally optimistic predictions of the effects of the FTA. Such opposition only underscores the importance of the Investment Canada objective "to explain to Canadians how foreign investment can help to improve our industrial competitiveness."

The United States and China Sign Maritime and Satellite Agreements

The United States and China recently concluded two unrelated agreements that call for a substantial increase in commercial cooperation between the two countries. One is a maritime transport agreement that provides for an increase in the volume of bilateral cargo carried by regularly scheduled U.S. flagships serving China. The other accord, which actually consists of three separate agreements, allows China to launch U.S.-built communications satellites.

The 4-year maritime transport agreement is intended to ensure that U.S. and Chinese vessels each carry a "substantial share"—specified as at least one-third—of the oceanborne trade between the two countries. The remaining one-third of the bilateral cargo may be carried by vessels of any country, including those of the signatories, provided that the U.S. and Chinese shares are not significantly different. The cargo-sharing provisions, which the pact makes subject to annual verification, cover all bilateral commercial shipping except the cargo of bulk vessels, i.e., vessels such as oil tankers that carry only one commodity. The two parties have agreed to continue consultations to facilitate more participation by U.S.-flag vessels in the bilateral bulk trade as well.

A 3-year U.S.-Chinese maritime transport pact with almost identical provisions, including the commitment of each party to permit the national flag-ships of the other country to carry at least one-third of the bilateral cargo, was concluded in 1980. The agreement was not renewed in 1983 because vessels flying the flag of China had continued to carry a disproportionately large amount of the two-way cargo despite a number of consultations to resolve this issue. However, with the expansion of China's role in the international economy since the early 1980's and, in particular, the growth in its trade with the United States, the share carried by U.S. flagships has increased even in the absence of an agreement. Although this higher share amounted to only about 22 percent of the bilateral cargo in 1988, according to the U.S. Department of Transportation, the higher volume of trade contributed to the successful negotiation of the new maritime pact. A more important factor, however, was the U.S. belief that the Chinese Government was serious about complying with the spirit of the agreement, in view of its continuing commitment to an open-door policy and the greater freedom of operation it has permitted foreign companies doing business with China in recent years. During the negotiations, the Chinese pledged to expedite U.S. carrier applications for business offices in China, and in December they authorized the first such office.

The bilateral accord on satellites was negotiated following the administration's decision to approve, subject to certain conditions, export license applications for the use of Chinese space launch services. The applications were submitted by the Hughes Aircraft Co., a unit of General Motors Corp., for two of its satellites ordered by an Australian company, AUSSAT, and for a third Hughes-built satellite that will be launched on behalf of the Asia Satellite Telecommunications Co. (Asiasat), a Hong Kong-based consortium with Chinese and British ownership. China has been launching satellites since 1970, and it has successfully launched four of its own communications satellites since 1984. The U.S.-Sino accord marks China's initial entry into the international market for commercial launch services.

As preconditions for licensing the launches of the AUSSAT and Asiasat satellites on Chinese launch vehicles, the United States and China negotiated three separate agreements. The first two agreements, which were reached in October, establish the necessary safeguards to protect sensitive U.S. satellite technology from possible misuse or diversion to unfriendly third countries and define China's liability for damages in the event of a satellite or launch accident. The third agreement, covering trade practices, will safeguard the U.S. domestic launch industry against possible market disruption or unfair trading practices arising from the entry of China into the launching market. Its provisions, which were worked out in December, include a commitment by China to launch no more than nine communications satellites for other countries during the next 6 years covered by the accord and to distribute its launch services proportionately during this time. China has also agreed to adhere to market-economy practices with respect to government support, pricing, insurance, and the avoidance of government inducements. The trade agreement was formally signed on January 26, which permitted the U.S. export licenses to be issued. However, the satellites cannot be shipped to China until the licenses are approved by the Coordinating Committee for Multilateral Export Controls (COCOM), the 16-nation trade group that reviews and makes a final ruling on the export of advanced technology to Communist countries.

Pending COCOM approval, China will launch the satellite for Asiasat in April 1990, and the other two U.S.-built satellites for AUSSAT will be sent into space on Chinese rockets in July 1991 and February 1992. Even though the agreement is now in force, all future export license applications for the use of Chinese space launch services will continue to be reviewed on a case-by-case basis.

Rivalry in Soviet Grain Market Intensifies

Competition in world grain markets is intensifying despite the drought that reduced world grain output by 5.1 percent from 1987 to 1988. The underlying cause: global grain supplies have been growing faster than demand. Various national governments continue to aid their grain exporters, through more or less open methods of subsidization, to increase or protect their market shares. Nowhere is competition more intense than in the Soviet grain market, which is the world's largest.

During the purchase year July 1987–June 1988, the Soviets bought 32 million metric tons (mmt) of grains, or 16 percent of worldwide grain sales. Soviet import demand is projected to be even higher during July 1988–June 1989 as a result of a 7-percent decline in Soviet grain production from 1987 to 1988. Agricultural analysts expect Soviet grain imports to remain in the 25 to 30 mmt range for years to come.

From July 1987 to June 1988, the U.S. share of the Soviet grain market was roughly 50 percent, the European Community (EC) and Canada each held 15 percent of the market, and the remaining 20 percent was divided among Australia, Argentina, Eastern Europe, China, and Austria. Besides the United States, the Soviet Union has grain supply agreements with Canada, Argentina, France, China, and Hungary. Whereas most principal grain producers tend to offer either wheat or corn to the Soviets, U.S. producers offer both. During the 5-year U.S.-Soviet Long-Term Grain Agreement (LTA), which was in force during October 1983–September 1988, the United States sold 62.5 mmt grains to the Soviets—38.7 mmt of corn and 23.8 mmt of wheat.

Competition for sales of wheat to the Soviets may be sharpest between the United States and the EC. During calendar years 1985 and 1986, annual wheat sales from the EC to the Soviet Union significantly exceeded those of the United States. Sales for 1987 were closer, however, and in 1988 the situation was reversed: U.S. wheat sales amounted to an estimated 8.0 mmt compared to EC sales of 5.0 mmt. Analysts contend that the outcome of the U.S.-EC competition in 1989 is wide open. The U.S. Government has bolstered the competitive position of U.S. grain exporters to the Soviet Union by extending the LTA for 23 months in November 1988. Since then, the USDA announced that the Soviets can buy as much as 20 mmt of U.S. grains (up from 12 mmt) without further consultation between the two governments. The USDA also offered price discounts on wheat sales through its Export Enhancement Program (EEP). (The EEP, initiated in 1985, reduces the price of a U.S. agricultural commodity to a stipulated level by augmenting the U.S. exporter's shipments with those of the USDA's Commodity Credit Corporation. The extent of price reduction is referred to as "the bonus rate.") But even so, the EC has a competitive edge: "Currently, the amount of EC subsidy on wheat exported to the Soviets may be three times higher than the bonuses paid through USDA's EEP program," according to Mr. Peterson, Vice-president of the United States Wheat Associates, Inc.

The competition is sharpening in other grain markets as well, such as the wheat markets of China, Japan, and North Africa; and the corn markets of Japan, Korea, Taiwan, and Mexico. Many analysts believe that the projected glut in grains and a number of other agricultural commodities through this century will inevitably lead to increased competitive subsidization, an outcome that international institutions are ill-equipped to combat. The impasse at the GATT ministerial conference in Montreal, Canada, in December 1988, is largely attributed to disagreement among major industrial countries concerning the reduction of trade-distorting measures, among which agricultural subsidies figured prominently. This discord postponed the approval of agreements negotiated in other areas of the Uruguay Round Agenda. Although most producers of agricultural products agree in principle that subsidies should be lessened, no agreement as to a method or time-frame for achieving this is expected in the near future.

OECD Opens Dialogue with NIEs

The Organization for Economic Cooperation and Development (OECD) hosted a meeting in late January which, for the first time, brought together representatives from member countries and the newly industrializing economies (NIEs) of East Asia (South Korea, Taiwan, Hong Kong, and Singapore). The meeting was designed to launch informal discussions in areas of common economic interest to OECD members and the NIEs, and to help promote better understanding between the two groups. Officials, academics, and businesspersons from the OECD met with their counterparts from the NIEs during two days of meetings to discuss world economic issues and ways to ease trade tensions.

Mr. Jean-Claude Paye, Secretary-General of the OECD, characterized the meetings as "very open, very direct, and very constructive." He said that the participants had agreed to continue the dialogue. The Paris meeting was co-sponsored by the Institut Francais des Relations Internationales, an independent research organization. The meeting was dubbed an "informal seminar," with participants acting in their personal capacity, so as to avoid discussion of particular trade disputes and imbalances, and also to allow attendees to talk with the delegation from Taiwan. Although OECD members are interested in promoting a dialogue with Taiwan, they do not want to disrupt relations with China. Thailand and Malaysia were also invited to attend, but they declined to participate, reportedly out of fear that the talks might develop into criticism of the increasing trade surpluses of the fast-developing economies of East Asia.

The meeting was not a forum for discussing possible OECD membership of the NIEs. Rather, as one participant characterized it, the meeting was primarily an opportunity for participants to talk about the desirability or necessity of having closer policy coordination, "particularly in the macro-economic field." He said that an institutional link between the OECD and the NIEs might develop at some point in the future, "but that's a totally other thing and many OECD countries have considerable doubts about this." In general, OECD members must adhere to codes on capital and currency movement, direct investment, and trade which are more liberal than some of the NIEs currently allow.

Japan has taken an active role in trying to promote an economic dialogue between the two groupings. Last May, Japanese Foreign Minister Sosuke Uno proposed a broad dialogue including issues of mutual economic concern between OECD members and the Asian NIEs. One Asian diplomat said that "what Japan would like to see is that all these factors relevant to the coordination of macroeconomic policies in the world are taken into account."

The role of the NIEs in the world economy has been the subject of increasing interest and study by the OECD, particularly in the past year. The OECD Communique issued at its ministerial meeting last May declared that the development of the NIEs provided those economies "with the opportunity to play an increased role in the cooperative effort to manage the open world economy," and said that discussions with the NIEs could lead to better understanding and the convergence of views on international economic policy cooperation. Last June in its semiannual *Economic Outlook,* the OECD said that the economic performance of these four economies, and the current-account surpluses of Taiwan and South Korea "raised questions and concerns about their role in the international economy." In a July study, the OECD examined the development of the NIEs and their effect on the international economy in general, and the implications for OECD countries in particular. The report stated that "more coherent interaction into the international economy" for these economies is a problem facing both the NIEs and OECD members. It concluded that this problem requires adjustment by both sides.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1985–December 1988

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

Country	1985	1986	1987	1987 IV	1988 I	II	III	IV	1988 July	Aug.	Sept.	Oct.	Nov.	Dec.
United States	1.9	1.1	3.8	7.1	4.0	4.5	7.1	4.1	14.0	4.4	.9	6.2	4.4	3.5
Canada	2.8	.8	2.7	4.4	4.1	3.7	3.6	(1)	2.9	1.9	1.9	0	4.8	(1)
Japan	3.7	-.3	3.4	15.7	13.5	-1.0	10.2	8.7	-10.2	37.6	6.5	-11.8	33.9	10.8
West Germany ...	3.8	2.2	.1	2.9	9.9	-.8	5.3	(1)	-17.6	40.5	4.6	-22.8	4.7	(1)
United Kingdom ..	4.7	2.3	3.9	3.8	-1.3	6.4	4.2	(1)	4.4	4.4	4.4	-6.3	-1.1	(1)
France	.6	.9	2.1	3.9	2.6	3.8	11.7	(1)	8.0	0	11.6	-35.6	55.3	(1)
Italy	1.2	3.8	2.7	14.0	10.0	-2.1	15.6	(1)	39.9	31.3	-17.8	1.1	10.3	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, February 10, 1989.

Consumer prices, by selected countries and by specified periods, January 1985–December 1988

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

Country	1985	1986	1987	1987 IV	1988 I	II	III	IV	1988 July	Aug.	Sept.	Oct.	Nov.	Dec.
United States	3.5	1.9	3.7	3.6	3.4	4.8	4.7	4.3	5.2	5.2	4.1	5.1	3.0	4.1
Canada	4.0	4.2	4.4	3.5	3.4	4.7	4.4	3.9	3.9	5.1	4.6	4.7	2.2	2.1
Japan	2.0	.6	.1	1.1	-2.1	2.8	.7	3.1	-2.3	3.6	9.9	6.0	-4.6	-3.5
West Germany ...	2.2	-.2	.3	0	.7	1.9	1.9	1.7	2.1	3.2	1.6	.6	2.9	1.8
United Kingdom ..	6.1	3.4	4.1	4.9	2.7	6.1	8.7	8.4	7.8	13.4	7.1	11.7	3.9	5.9
France	5.8	2.5	3.3	2.4	2.3	2.9	3.7	3.0	4.2	4.3	3.4	2.7	2.3	3.6
Italy	8.6	6.1	4.6	5.7	3.4	4.4	5.9	6.6	6.6	7.7	5.1	6.4	8.1	5.7

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Feb. 10, 1989.

Unemployment rates,[1] by selected countries and by specified periods, January 1985–January 1989

(In percent)

Country	1985	1986	1987	1987 IV	1988 I	II	III	IV	1988 Oct.	Sept.	Oct.	Nov.	Dec.	1989 Jan.
United States	7.2	7.0	6.2	5.9	5.7	5.5	5.5	5.3	5.6	5.4	5.3	5.4	5.3	5.4
Canada	10.5	9.6	8.9	8.2	7.9	7.7	7.9	7.7	8.0	7.8	7.9	7.9	7.7	(2)
Japan	2.6	2.8	2.9	2.7	2.7	2.5	2.5	(2)	2.6	2.5	2.5	2.4	(2)	(2)
West Germany ...	7.5	7.0	6.9	7.0	6.9	7.0	6.9	6.8	6.9	6.9	6.9	6.8	6.6	(2)
United Kingdom ..	11.2	11.2	10.3	9.5	9.0	8.6	8.0	7.6	8.0	7.9	7.8	7.6	7.3	(2)
France	10.4	10.6	10.8	10.6	10.6	10.6	10.7	(2)	10.8	10.6	(2)	(2)	(2)	(2)
Italy	6.0	7.5	7.9	8.1	7.9	7.9	7.8	8.0	(2)	(2)	(2)	(2)	(2)	(2)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.
[2] 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, February 1989.

Trade balances, by selected countries and by specified periods, January 1985-December 1988

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

Country	1985	1986	1987	1987 III	1987 IV	1988 I	1988 II	1988 III	1988 July	Aug.	Sept.	Oct.	Nov.	Dec.
United States[1] ...	-132.6	-155.1	-170.3	-171.6	-171.9	-149.6	-133.1	-129.7	-113.7	-147.2	-128.1	-123.1	-146.6	-142.7
Canada	12.0	7.1	8.3	8.4	4.4	7.2	8.8	10.4	18.0	7.2	4.8	4.8	3.6	(2)
Japan	55.9	92.5	96.2	89.2	91.6	99.6	86.0	90.0	93.6	87.6	90.0	102.0	103.2	(2)
West Germany ...	25.4	52.7	65.7	62.8	74.0	64.4	78.0	71.2	70.8	79.2	66.0	67.2	81.6	(2)
United Kingdom ..	-2.6	12.6	-16.9	-20.0	-21.2	-28.4	-39.2	-37.6	-54.0	-37.2	-25.2	-56.4	-40.8	-36.0
France	-2.6	.1	-5.2	-4.4	-4.4	-2.8	-4.0	-8.0	-7.2	-16.8	1.2	-8.4	-7.2	-8.4
Italy	-12.1	-2.0	-8.5	-6.4	-10.8	-12.4	-4.8	-11.6	9.6	-4.8	-19.2	-15.6	-10.8	(2)

[1] Exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1986, figures include previously undocumented exports to Canada. Data for individual quarters do not reflect similar adjustments.

[2] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Feb. 10, 1989, and *Advance Report on U. S. Merchandise Trade*, U.S. Department of Commerce, February 17, 1989.

U.S. trade balance,[1] by major commodity categories, and by selected countries, and by specified periods, January 1985-December 1988

(In billions of U.S. dollars, c.i.f. value basis for imports)

Country	1985	1986	1987	1987 IV	1988 I	1988 II	1988 III	1988 IV	1988 July	Aug.	Sept.	Oct.	Nov.	Dec.
Commodity categories:														
Agriculture	9.6	4.5	7.0	3.2	3.0	3.3	3.1	4.5	.9	.8	1.4	1.4	1.4	1.7
Petroleum and selected products (unadjusted)	45.9	-31.8	-39.5	-10.1	-9.7	-9.9	-9.5	-9.0	-3.1	-3.4	-3.0	-2.9	-2.9	-3.2
Manufactured goods	-102.6	-134.3	-146.1	-36.2	-35.0	-35.5	-36.8	-39.4	-12.8	-12.6	-11.4	-13.6	-13.8	-12.0
Selected countries:														
Western Europe ...	-23.3	-28.2	-27.9	-6.9	-4.0	-3.9	-4.6	-4.7	-2.3	-1.4	-.9	-1.1	-2.0	-1.6
Canada[2]	-21.7	-23.0	-11.5	-3.1	-3.8	-4.1	-2.6	-2.1	-1.1	-.4	-.9	-.9	-.8	-.4
Japan	-46.5	-55.3	-58.0	-14.5	-13.1	-12.9	-13.3	-16.2	-4.4	-4.8	-4.1	-5.5	-5.3	-5.4
OPEC (unadjusted)	-10.2	-8.9	-13.7	-3.3	-2.6	-3.1	-2.8	-2.2	-.9	-1.2	-.7	-.8	-.6	-.8
Unit value (per barrel) of U.S. imports of petroleum and selected products (unadjusted)	$26.59	$15.02	$18.12	$18.40	$16.35	$16.11	$15.17	$13.41	$15.77	$15.15	$14.60	$13.46	$13.38	$14.16

[1] Exports, f.a.s. value, unadjusted; imports, c.i.f. value, unadjusted.

[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Feb. 17, 1989.

Money-market interest rates,[1] by selected countries and by specified periods, January 1985–January 1989

(Percentage, annual rate)

Country	1985	1986	1987	1987	1988				1988					1989
				IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
United States	8.3	6.5	6.8	7.6	6.7	7.6	8.1	8.8	8.7	8.2	8.4	8.8	9.2	9.2
Canada	9.6	9.2	8.4	8.9	8.6	9.1	9.9	10.9	9.9	10.5	10.5	10.9	11.2	(2)
Japan	6.5	5.0	3.9	3.9	3.8	3.8	5.3	4.6	4.0	4.2	4.3	4.2	4.2	(2)
West Germany	5.4	4.6	4.0	4.1	3.4	3.6	5.0	5.1	5.3	4.9	5.0	4.9	5.3	(2)
United Kingdom	12.2	10.9	9.6	9.2	8.6	3.4	11.3	12.4	11.3	12.1	11.9	12.2	13.1	(2)
France	9.9	7.7	8.1	8.4	7.9	7.7	7.6	8.4	7.6	7.9	7.9	8.0	8.4	(2)
Italy	14.9	12.6	11.2	11.5	10.8	10.7	11.1	11.6	11.0	11.3	11.3	11.5	12.0	(2)

[1] 90-day certificate of deposit.
[2] Not available.
Note.—The figure for a quarter is the average rate for the last week of the quarter.

Source: *Federal Reserve Bulletin*, Board of Governors of the Federal Reserve System, February 1989, and *Federal Reserve Statistical Release*, Selected Interest Rates, Board of Governors of the Federal Reserve System, Feb. 6, 1989.

Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential, by specified periods, January 1985–January 1989

(Percentage change from previous period)

Item	1985	1986	1987	1987	1988				1988					1989
				IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
Unadjusted:														
Index[1]	127.0	106.0	94.1	90.3	87.5	86.5	90.9	87.2	91.3	91.3	88.8	86.6	86.2	88.1
Percentage change	3.8	-16.5	-11.2	-5.1	-3.1	-1.1	5.1	-4.1	1.3	0	-2.7	-2.5	-.5	2.2
Adjusted:														
Index[1]	121.7	100.9	90.2	87.4	84.9	84.1	88.8	85.7	89.2	89.3	87.2	85.3	84.6	87.0
Percentage change	1.8	-17.1	-10.6	.5	-2.9	-.9	5.6	-3.5	1.5	.1	-2.4	-2.2	-.8	2.8

[1] 1980-82 average=100.
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: Morgan Guaranty Trust Co. of New York, February, 1989.

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