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INTERNATIONAL ECONOMIC COMPARISONS

The U.S. economy shows mixed signs. The current account deficit widened in the first quarter of 1989. Consumer spending weakened, durable goods orders dropped, and business inventory increased in May.

The current account deficit widened by 7.0 percent to $30.7 billion in the first quarter of 1989 (from $28.7 billion in the last quarter of 1988). The widening of the deficit, however, was largely because of the recent appreciation of the dollar. Investment income receipts increase as the dollar depreciates and decline as the dollar appreciates.

The strengthening of the dollar has the advantages of improving U.S. terms of trade and warding off inflationary pressures since imports will be relatively cheaper. The slowdown in inflation will allow the Federal Reserve to adopt less restrictive monetary policies and ease interest rates. Lower interest rates relative to West Germany and Japan would make dollar assets less attractive to foreign investors and thus would reduce the demand for dollars, thereby dampening pressures on the dollar's excessive rise. Lower interest rates would also expand domestic investment, thus easing the pressures on domestic prices as the U.S. economy approaches full capacity. Moreover, because import prices will decline as the dollar rises, the dollar's appreciation will provide real resources at bargain prices. Cheaper imports will further ease the pressures on capacity utilization and domestic prices. Real gains in productivity based on cheaper imports and capital expansion may partially offset the rise in nominal export prices resulting from the dollar's appreciation.

The U.S. Department of Commerce revised figures on U.S. economic performance show that durable goods orders dropped by 4.2 percent in May; the drop contrasts with a strong gain of 3.2 percent in April. Personal consumption increased by only 0.3 percent in May. In contrast, the U.S trade deficit narrowed considerably to $8.3 billion in April from $8.9 billion in March, and the U.S. trade deficit with Japan declined from $4.2 billion to $3.9 billion.

Economic Growth

The annualized rate of real economic growth during the first quarter of 1989 was 4.4 percent in the United States and 1.9 percent in the United Kingdom. The real growth rate in the fourth quarter of 1988 was 3.4 percent in Canada, 2.7 percent in West Germany, 4.8 percent in Japan, and 3.8 percent in France. The latest available data indicate that the rate of real economic growth (annualized) during the third quarter of 1988 was 3.9 percent in Italy.

Industrial Production

U.S. industrial production remained unchanged in May after increasing by 0.6 percent in April. Output increased in business equipment and materials but declined in construction supplies for the fourth successive month. Output of cars and trucks dropped. Production of consumer goods other than cars also fell in May. Output of manufacturing and commercial equipment as well as commercial aircraft continued to gain. U.S. industrial production in May 1989 was 3.9 percent higher than it was in May 1988.

Other major industrial countries reported the following annual growth rates of industrial production: during the year ending January 1989, Italy reported an increase of 6.7 percent; during the year ending March 1989, Canada reported an increase of 1.0 percent; France reported an increase of 2.9 percent; and the United Kingdom reported an increase of 0.9 percent.

During the year ending April 1989, Japan reported an increase of 7.5 percent and West Germany reported an increase of 6.5 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index increased 0.6 percent from April to May 1989, and 5.4 percent for the year ending in May 1989. During the 1-year period ending in April 1989, consumer prices increased 2.4 percent in Japan, 4.6 percent in Canada, 8.0 percent in the United Kingdom, and 3.6 percent in France. During the 1-year period ending in May 1989, consumer prices increased 3.1 percent in West Germany and 6.8 percent in Italy.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor force basis, including military personnel) declined to 5.1 percent in May from 5.2 percent in April 1989. The national statistical offices of other countries reported the following unemployment rates in April: France, 10.0 percent; Japan, 2.3 percent, Canada, 7.8 percent; West Germany, 7.9 percent; Italy, 16.8 percent; the United Kingdom, 6.5 percent. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Table 1 shows newly revised macroeconomic projections for the U.S. economy in April-December 1989 and January-June 1990, by four major forecasters, and the simple averages of these forecasts. The forecasts represent percentage changes over the preceding quarterly period at annual rates except for unemployment which are simply the average annual rates. The average forecast projects a decline in nominal and real GNP growth rates starting the second quarter of 1989 followed by an improvement in the first 6 months of 1990, with a slight increase in the unemployment rate. The causes of the predicted economic slowdown are a projected moderation in the pace of consumer spending because of slower income growth and a decline in export growth as the dollar appreciates in response to higher interest rates. Inflation (measured by the GNP deflator index) is expected to slow down in the third and fourth quarters of 1989, to rise in the first quarter of 1990, and to moderate in the second quarter.

Investment

The U.S. Department of Commerce reported that U.S. businesses plan to increase their real capital spending in 1989 to $451.0 billion, a 6.4-percent increase over last year's actual spending of $424.0 billion. In 1988, real actual spending on investment rose by 10.3 percent.

Manufactures account for nearly 21.4 percent of the increase in total real capital spending, the nonmanufacturing sector accounts for the remainder of the spending increase.

In current dollars, U.S. manufacturers plan to increase investment spending by 8.2 percent for 1989. The largest planned increases are in blast furnaces, steel works, and motor vehicles. Large increases are also planned for stone-clay, glass, and aircraft. The auto industry plans an increase of 15.1 percent in capital spending in 1989. The

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, 1989-90

Indicator and quarter	*Data Resources Inc.*	*Merrill Lynch Economics Inc.*	*Wharton F.A. Inc.*	*UCLA Business Forecasting Project*	*Mean of 4 indicators and forecasts*
GNP:[1]					
1989:					
April-June	7.5	8.1	7.9	7.5	7.7
July-September	4.9	5.1	7.1	2.1	4.8
October-December	4.4	4.5	6.6	2.3	4.4
1990:					
January-March	4.5	6.1	6.6	3.2	5.1
April-June	5.7	7.2	7.3	6.3	6.6
GNP:[2]					
1989:					
April-June	1.9	2.4	2.6	1.6	2.1
July-September	1.0	-0.3	1.9	-2.3	0.1
October-December	0.9	-0.6	1.8	-1.3	0.2
1990:					
January-March	-0.2	1.1	1.4	-1.7	0.1
April-June	1.7	2.4	2.7	2.3	2.3
GNP deflator index:					
1989:					
April-June	5.5	5.6	5.2	5.8	5.5
July-September	3.9	5.4	5.0	4.5	4.7
October-December	3.5	5.1	4.7	3.6	4.2
1990:					
April-June	4.8	4.9	5.1	5.0	5.0
January-March	3.9	4.7	4.5	3.9	4.2
Unemployment, average rate:					
1989:					
April-June	5.3	5.2	5.3	5.2	5.2
July-September	5.4	5.4	5.5	5.4	5.4
October-December	5.5	5.9	5.7	5.7	5.7
1990:					
January-March	5.7	6.1	5.8	6.1	5.9
April-June	5.9	6.0	5.9	6.3	6.0

[1] Current dollars.
[2] Constant (1982) 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.

following tabulation shows planned spending changes, by major sector (in billions of current dollars), 1988-89:

Item	Actual spending 1988	Planned spending 1989	Percentage change, 1989/1988
All industries	429.67	472.08	9.9
Manufacturing	165.70	179.35	8.2
Durable	78.12	82.13	5.1
Nondurable	87.58	97.22	11.0
Non-manufacturing	263.97	292.72	10.9
Mining	12.67	12.00	-5.3
Transportation	21.35	24.86	16.4
Railroad	7.06	7.61	7.8
Air transport	7.25	9.57	32.0
Other transport	7.04	7.68	9.1
Public utilities	46.51	50.77	9.2
Commercial & other	183.44	205.09	11.8

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit fell to $8.3 billion in April from $9.5 billion in March, representing a decline of 12.7 percent. The April deficit was 13.6 percent lower than the $9.6 billion average monthly deficit registered during the previous 12-month period, and was 5.7 percent lower than the $8.8 billion deficit registered in April 1988. During the period from May 1988 to April 1989, the deficit was highest in June 1988 ($11.7 billion) and lowest in July 1988 ($8.0 billion). In manufactures, the trade deficit declined from $7.2 billion in March to $6.7 billion in April.

The pronounced growth in exports and the decline in imports for the third consecutive month lead to the record improvement in the U.S. trade deficit. Seasonally adjusted exports increased from $30.3 billion in March to $30.6 billion in April 1989. Imports declined by 2.9 percent from $39.9 billion in March to $38.8 billion in April 1989.

Compared with those of a year earlier, the biggest percentage gains in exports of manufactures were registered in iron and steel (89.0 percent), aluminum (44.0 percent), copper (53.0 percent), metalworking machinery (40.0 percent), railway vehicles (41 percent), general industrial machinery (32 percent), and organic and inorganic chemicals (32.0 percent). The biggest percent increases in imports were recorded in nickel (105 percent), platinum (52.0 percent), airplanes and parts (42.0 percent), metalworking machinery (41.0 percent), and miscellaneous metal manufactures (35.0 percent).

The oil import bill increased from $3.7 billion in March to $4.1 billion in April partly because of the rise in average oil prices from $15.97 in March to $17.83 in April. The agricultural trade surplus declined from $2.0 billion to $1.6 billion.

On a regional basis, the United States experienced improvements in its deficit with Japan (from $4.2 billion in March to $3.9 billion in April). The U.S. deficit with West Germany narrowed slightly from $805 million to $718 million, and the U.S. deficit with the EC declined from $502 million to $437 million. U.S. deficits with other areas increased, however. The U.S. deficit with Canada increased (from $387 million in March to $476 million in April), with the East Asian NIEs (from $1.2 billion to $1.5 billion), and with OPEC (from $1.1 billion to $1.3 billion). The U.S. surplus with Western Europe narrowed from $397 million in March to $231 million in April. The U.S. trade surplus with Eastern Europe and selected areas narrowed from $416 million to $153 million, and the U.S. trade deficit with all developing countries (including OPEC) increased from $3.0 billion to $3.6 billion.

Super 301 Designations Provoke Strong Reaction

On May 25, 1989, United States Trade Representative (USTR) Carla Hills designated three "priority countries" and six "priority practices" under the so-called Super 301 provision of the Omnibus Trade and Competitiveness Act of 1988. She cited Japan for three particular trade barriers: exclusionary government procurement policies for supercomputers and satellites and technical barriers to sales of forest products. Brazil was named for its web of import bans and restrictive licenses that obstruct foreign penetration, and India was listed for its limits on foreign investment and the closure of its insurance market to foreign companies. USTR Hills explained that these six practices "are among the most important" obstacles to U.S. sales abroad and their elimination "is likely to have significant potential to increase U.S. exports." Although it was expected by many that Korea and Taiwan would appear on the list of unfair traders, last minute negotiations with these two nations resulted in significant trade liberalization agreements.

The Super 301 provision directed the USTR to identify "priority practices," those practices which, if eliminated, are likely to have the most potential to increase U.S. exports, and "priority countries," named for the quantity and pervasiveness of significant trade barriers. Under the law, the priority practices will be subject to investigation and negotiation for a period of 12 to 18 months to secure their removal; if these negotiations fail, the targeted countries' exports may face U.S. sanctions and tariffs of up to 100 percent. The USTR maintains that her actions under Super 301 will serve to strengthen the global trading system.

The United States is a huge market for the exports of Japan, Brazil, and India. Thirty-four percent of Japan's total exports were shipped to the United States in 1988. The 1987 figures for Brazil show the United States as that nation's largest export market, receiving 27 percent of its total exports. India also ships a considerable portion of its exports (18 percent) to the United States. Some argue that the United States ought to be particularly careful in dealing with Japan so as not to undermine national security interests in the Pacific. Japan is also a significant contributor to the financing of the U.S. budget deficit through its investors' large-scale purchases of Treasury bonds. Those who support the USTR's decision point to Japanese unwillingness to face its global responsibilities as justification for action. Although most will concede that the United States must take some responsibility for the huge trade deficit with Japan, it is a common charge that Japan is suffering from what Mr. Takeshi Isayama, Director of the Ministry on International Trade and Industry's (MITI) Americas and Oceania Division calls "an obsession with destitution syndrome." Newly appointed U.S. Ambassador to Japan Michael H. Armacost concurs, saying that Japan's emphasis on production, while appropriate and necessary during its "catch up" days after World War II, now serves to restrict competition, keeps U.S. firms out, and raises prices for Japanese consumers. "An economic superpower can no longer plead that the world should give it time to adjust," he added.

On the same day that the priority practices for negotiation were identified, President Bush announced that he had directed the Secretaries of State and Treasury and the USTR to form a high-level committee to propose negotiations with Japan on structural adjustment matters outside of the 301 process. This is known as the Structural Impediments Initiative. Some of these structural impediments include Japanese pricing practices, a distribution system that tends to exclude foreign-made products, anti-competitive practices like bid-rigging, and the high Japanese savings rate. Prime Minister Uno indicated to the Bush administration's top economic officials that his country was willing to discuss U.S. complaints, as long as U.S. structural problems are also addressed. Organizational talks began in June at the Tokyo meeting of U.S. and Japanese subcabinet officials. Many observers have expressed dissatisfaction with this "2 track" approach of arranging for separate talks concerning structural impediments outside the framework of Super 301. They fear that the structural talks will wrongly receive lesser priority, as Administration and Congressional sources have suggested that action on Japan's structural impediments may be the key to reducing the $52 billion trade deficit facing the United States.

Foreign reaction to the U.S. announcement has been swift and sharp. Government officials in all three "priority" nations quickly pointed out that the United States has its own trade barriers and that the persistent U.S. trade deficits are more a result of irresponsible U.S. fiscal policy rather than of foreign trade barriers. All say they will not negotiate in the antagonistic atmosphere the United States has created, and all have threatened to file complaints with GATT. A common assertion is that the U.S. action "undermines the spirit of free trade... and will have adverse effects on the Uruguay Round," as stated by MITI Vice Minister Shingeo Muraoka.

Although the Administration defends the legitimacy of its decision to list Brazil and India as unfair traders, critics argue that the two countries were targeted partly as a means to cushion the blow for Japan, and partly as a means to an ulterior end. The United States is known to be irritated at the sluggish progress of Brazil's approach for terminating its import substitution policies. According to testimony at a June 8 hearing of the House Ways and Means Subcommittee on Trade, the eradication of Brazilian and Indian practices cited under Super 301 is not likely to produce significant improvements for U.S. exports. It was argued that Brazil and India were named as priority countries in order to pressure them to ease their opposition to the U.S. position on key issues in the current GATT meetings. Brazil and India's opposition to the U.S. proposition that services, trade-related investment, and intellectual property protection be brought under GATT, has been "an element" in deciding to include them on the unfair traders list, according to a Bush administration official quoted in the *Journal of Commerce*.

The governments of the three targeted countries are not the only sources of opposition to the U.S. action. Critics maintain that the correct forum for discussing trade-related problems the United States has with other nations is in GATT-sponsored multilateral negotiations like the current Uruguay Round. By acting unilaterally, they claim that Washington not only sidesteps but jeopardizes the broader process. A statement made by GATT Director-General Arthur Dunkel criticized the Super 301 statute, claiming that it makes the multilateral process more difficult. The United States faced additional criticism at the Ministerial meeting in Paris of the Organization for Economic Cooperation and Development (see separate article, below).

Fears of a move toward a global system of managed trade are growing in the wake of the U.S. decision. Economist Milton Friedman is "very pessimistic," and sees, at the least, the development of a system of managed trade in which countries allot market shares to each other, thereby eliminating competition. Mr. William Archey, Vice President, International, of the U.S. Chamber of Commerce, goes a step further in warning that "we are entering a period of global adversarial trade among the major trading blocs."

Uruguay Round Negotiating Groups Back at Work

With the Montreal Midterm Review now concluded, negotiating groups have begun meetings to follow up on their assigned task of completing the trade round in 1990. Over the past two months, the 15 negotiating groups assigned topical negotiating responsibilities have devoted their energies to reviewing the decisions adopted by senior-level officials at the December and April Midterm Review meetings of the Trade Negotiations Committee. The groups have also focused on establishing the procedures they will adopt to meet those goals. The groups have resumed work on all issues yet to be resolved during the last half of the Uruguay Round.

At meetings of the Tropical Products group, participants announced their implementation schedules for the trade liberalization agreed to in December. The liberalization package, primarily involving tariff cuts, included concessions from a number of developed and developing countries. Most countries announced they will have implemented the tariff cuts by midyear. Indonesia and Poland also submitted new proposals at recent meetings.

Participants in the Group of Negotiations on Services discussed a sectoral reference list (an indication of sectors of interest to particular participants) and agreed to hold more meetings on particular sectors. Issues related to telecommunications and construction were covered in June. The group will discuss transportation and tourism in July, followed by a meeting in September to cover professional and financial services. Examination of questions related to definitions of services trade concepts and GATT principles applicable to services will also be on meeting agendas.

Procedural issues were emphasized in the Negotiating Group on Agriculture. The group agreed to schedule four main issues for further discussion in July. These issues, drawn from the work program mandated by the Midterm Review, are (1) the terms and use of aggregate measures of agricultural supports, (2) stronger and more effective GATT rules, (3) ways, such as tariffication and decoupled income support (i.e., freezing government farm support levels and acreage set-aside requirements), to adapt agricultural support and protection so as to minimize effects on trade, and (4) ways to cushion the negative effects that agricultural reform may have on food-importing developing countries.

Negotiating proposals continued to be submitted to the Group on Textiles and Clothing and the Group on Safeguards. Both groups, as well as the Tariffs Group, were directed by the Midterm Review texts to begin "substantive negotiations" by midyear. The Tariffs Group made further progress on the data base for use in negotiations. All three groups have scheduled their July meetings as the starting point for substantive negotiations. The Group on the Functioning of the GATT System met to begin implementing the new Trade Policy Review Mechanism (TPRM) agreed to at the Midterm Review. The group established a technical group to draft a format for country reports to be submitted to the TPRM.

Discussions to further clarify certain issues and the need for the submission of additional proposals were addressed in the Groups on Trade-Related Investment Measures, GATT Articles, and Subsidies and Countervailing Duties. The Group on Trade-Related Aspects of Intellectual Property Rights agreed to meet again in July to discuss negotiating issues and the applicability of basic GATT principles to intellectual property protection.

Other groups discussed specific topics unique to their agenda. The Group on Multilateral Trade Negotiation (MTN) Agreements and Arrangements agreed to schedule marathon meetings to cover the Tokyo Round codes on antidumping, standards, and import licensing. Not all GATT members have agreed to implement these codes; therefore, the group will be attempting to encourage more signatories. The Group on Nontariff Measures discussed proposals calling for multilateral rules on export restrictions, preshipment inspection, and rules of origin. Australia continued to promote the use of a formula approach to deal with certain quantifiable nontariff measures. The Dispute Settlement Group agreed that its next set of discussions would focus on compensation procedures, implementation of panel reports, and the handling of so-called nonviolation complaints.

GATT Panel Sacks U.S. Sugar Import Policy

A recently issued GATT panel report has found that the U.S. sugar import regime violates GATT rules by unfairly restricting imports. The report was presented on June 22 at the GATT Council meeting. Rather than block the ruling, the United States allowed the panel report to be adopted by the Contracting Parties. Formal adoption of the report's findings compels the Administration to seek alternative, GATT-consistent ways to implement the program or possibly offer compensation to sugar-producing members of GATT affected by the measures.

The panel on the U.S. sugar program was requested by Australia in September 1988 after consultations with the United States failed to reach a compromise. The purpose of the panel was to review the United States' quotas on sugar imports since Australia had complained that these restrictions violated GATT rules. Australia also claimed that its share of the U.S. market has declined as a result of the quotas. The Australian complaint was supported by Canada, the EC, Argentina, and others. The panel rejected the U.S. quota program as inconsistent with article XI (prohibition of qualitative restrictions) and with article II:1(b) (schedule of concessions).

The sugar quotas were established in 1982. Under the program, the United Sates imposes fluctuating quotas on sugar imports to keep the supply stable and the domestic price of sugar high. The restrictions are imposed under a Headnote to Chapter 10 of the Tariff Schedule of the United States. Since the establishment of the program, the sugar quotas have been progressively reduced except for a slight easing last year owing to drought conditions. In 1981, for example, the United States imported about 4.5 million tons of sugar. Quotas for 1989 will allow imports of only 1.25 million tons of sugar. Concurrently, U.S. consumption of sugar reached 16.5 million tons in 1988, compared with 10 million tons in 1981. Imports of sugar-containing products are restricted under section 22 of the Agricultural Adjustment Act, for which the United States obtained a GATT waiver in 1955. The United States did not block the adoption of the panel report when it came before the GATT Council, in spite of protests by domestic sugar producers.

The U.S. Administration and some officials in Congress are reportedly already reviewing possible options for complying with the GATT ruling. Several alternatives are available, each with its own set of advantages and disadvantages. Two possibilities under consideration include higher duties or increased quotas to replace the current program. Also under consideration are tariff-rate quotas under which a certain amount of imports would have little or no tariff but additional imports would incur higher tariffs. Such options still might require compensation to trading partners since current duties are bound by GATT agreements and cannot exceed given levels. Also, Congress would have to approve any such changes in the program. Another possibility is for the Administration to maintain the current program but with a lower support price. This action could trigger greater imports. Although this option would not respond to the issue of GATT legality of the program, some officials think it might satisfy suppliers' desire for greater market share.

Another alternative under consideration is to implement the program under section 22 of the Agricultural Adjustment Act. Section 22 covers refined sugar and sugar-containing products. The United States uses section 22 provisions to regulate imports of products subject to domestic support programs. The support program also covers cotton, peanuts, and some dairy products.

However, the section 22 program is also being challenged in the GATT. On May 19, 1989, the United States and the EC agreed on the formation of a GATT panel. The panel will study the EC's complaint concerning U.S. sugar quotas and the continued existence of the GATT waiver. The EC argues that the waiver was not granted on a permanent basis and thus the U.S. maintenance of the program for over 30 years constitutes an infringement of the GATT. Although Australia's complaint did not involve the section 22 restrictions, Australia and other GATT members such as Japan, New Zealand, and Argentina, support the EC complaint.

Responding to GATT-members' concerns, the United States has asserted that it has put both the sugar import program and the section 22 waiver on the negotiating table in the Uruguay Round. Inasmuch as the U.S. position favors the elimination of all trade-distorting agricultural practices by all GATT members, the U.S. programs apparently could be eliminated if other trading partners are willing to eliminate their trade-distorting agricultural practices. Uruguay Round negotiators have often debated, however, the fairness of trading concessions to secure the elimination of GATT-illegal practices. In response to U.S. industry concerns, the United States has noted that changes in the program could take some time to implement. Although obtaining compliance with panel rulings is the objective, under current GATT dispute settlement procedures, enforcement has traditionally been weak and no specific deadline for compliance is laid out.

Mexico Liberalizes its Foreign Investment Rules

On May 15, Mexico announced a sweeping liberalization of its foreign investment rules. The move is designed to attract foreign capital to Mexico to help generate employment, to bring in up-to-date technology, and to add to insufficient domestic resources for investment. The Mexican economy has been depressed for years under the country's crushing foreign debt burden and the impact of low oil prices (*IER*, November 1988 and June 1989). Growth was near zero in 1988.

The recent foreign investment regulations are a new step in Mexico's historic process of ending the country's long economic isolation behind high protective walls. Economic liberalization began in 1984, and accelerated in 1986 when Mexico joined the General Agreement on Tariffs and Trade (GATT). Since then, officials have dismantled many trade barriers, or eased them considerably.

Under a 1973 foreign investment law and other laws and regulations, foreign investment in Mexico was excluded from specified areas of the economy, and in other areas it was generally limited to 49-percent ownership. Because in recent years these rules have been applied in an increasingly flexible manner, the new regulations serve to formalize to some degree more liberal investment procedures that have been in place for some years.

However, there are also some entirely new features under the new rules. Foreign companies will now be given the opportunity to exercise majority control through a system of "fideicomisos" or trusts for a period of 20 years. Also, approval of foreign investment will be automatic (except in sectors reserved for the state and national companies), provided investors satisfy the following six conditions:

- Capital does not exceed $100 million.
- Financing is external.
- Projects are located outside the Valley of Mexico City, Monterrey, and Guadalajara, where most of the country's existing industry and business is concentrated.
- Over the first 3 years of the project, there is an "equilibrium in the balance of foreign exchange", i.e., exports and imports are balanced.
- Permanent employment is generated and training given to Mexican personnel.
- "Adequate" technology is used to satisfy environmental requirements.

Foreign investments that do not qualify under these specifications are not discouraged. Procedures for approving them will be streamlined and much of the red tape will be eliminated. Another important new incentive to attract foreign investors is allowing them to remit 100 percent of their profits.

In addition, the new rules will open economic sectors previously closed to foreign ownership, including telecommunications, auto parts, commercial fishing, and secondary petrochemicals. In the tourism industry, which is considered of critical importance for the Mexican economy, outsiders will be allowed 100-percent ownership. However, industries deemed "strategic"—such as banking, petroleum, mineral exploration, power generation, railways, and broadcasting—will continue to be off limits to foreigners.

The United States, which currently accounts for some 62 to 65 percent of all foreign investment, has objected to Mexico's restrictive foreign investment regulations for many years, and the subject had been an issue of enduring contention between the two countries. Much of this conflict is now likely to disappear. However, Mexican officials emphasize that they want to diversify foreign investment; therefore, they are actively pursuing investors from Japan and European countries.

The newly relaxed foreign investment rules may also transform the economics of U.S. companies in the "in-bond plants" or "maquiladoras." These are plants generally located near the U.S.-Mexican border that process materials or assemble components produced in the United States to where they also return the processed or assembled products. In the past, when Mexico was hostile to foreign investors, the Government nonetheless allowed maquiladora plants full U.S. ownership as an exception to the general rule of minority foreign investment. In exchange for this privilege, the maquiladoras (which were mostly, but not exclusively, U.S.-owned) had been limited to 20 percent sales of their production on the Mexican market. The balance had to be exported. Under the new rules, the maquiladoras will apparently change their status to that of other fully foreign-owned companies in Mexico and will have the same selling privileges on the Mexican market.

EC Responds to USTR's Report on Foreign Trade Barriers

In what has become an annual ritual, the EC Commission released its fourth report on U.S. trade barriers on May 3, just a few days after the United States Trade Representative (USTR) published its *1989 National Trade Estimate Report on Foreign Trade Barriers* (See *IER*, May 1989). The EC's 41-page document cites about 40 U.S. measures that pose obstacles to EC exports, covering a wide variety of tariff and nontariff barriers to trade. The report is patterned after the format of the USTR study: it describes U.S. trade barriers, estimates the potential amount of EC trade affected by each practice, and describes the actions taken or intended to be taken by the EC in response to these U.S. practices.

The purpose of the EC's trade barriers list is to "first make clear that EC exporters face trade practices which impede exports when trading with the United States and second, to illustrate the range of barriers which confront EC exporters." The report categorizes the 40 U.S. barriers into 15 separate subheadings, including tariffs, quantitative restrictions, standards, public procurement policies, intellectual property protection, tax barriers, and investment barriers. Some of the individual trade barriers listed are very general, such as the Section 301 procedure under the Omnibus Trade and Competitiveness Act of 1988; others are specific, such as provisions hurting EC exports of machine tools or olive oil.

EC officials categorize all U.S. measures cited in the report into three distinct types of barriers. Most of the practices fall into the first group: those measures that have a negative effect on EC exports and those "whose legality in terms of international trading rules is in doubt." Examples of barriers in this category are Buy America restrictions in public procurement, untimely inspection procedures of perishable products by U.S. Customs, and certain agricultural import quotas. The second type of measure consists of those U.S. practices that the United States has failed to modify or compensate for after dispute settlement procedures under the GATT have found them inconsistent with GATT rules. Two such examples are the U.S. environmental "superfund," which taxes imported petroleum and chemicals at a higher rate than similar domestic products, and Customs user fees. A third category consists of provisions of U.S. trade laws that could be used to harm EC trading interests. The entire Omnibus Trade and Competitiveness Act of 1988 falls into this last category.

EC officials have been particularly critical of the Trade Act that introduces "Super 301." (Section 301 under U.S. trade law gives the President the authority and the means to challenge unfair trade practices.) "Super 301" required the USTR to identify "priority countries" with objectionable trade practices and begin negotiations to eliminate these practices on a firm timetable. The EC was not named a priority country in the May announcement from USTR. However, because the law requires the United States to retaliate should bilateral negotiations fail within 18 months, the EC believes it is illegal under the GATT: "Unilateral action under Section 301 on the basis of a unilateral determination without authorization from the GATT Contracting Parties is GATT illegal."

EC officials have also criticized the 1988 Trade Act's provision instituting a "Super 301" type process for the telecommunications sector. In February, the USTR identified the EC as a "priority country" for negotiations aimed at opening markets to exports of U.S. telecommunications products and services. Again, the EC strongly objects to the provision of the trade law that authorizes retaliation should negotiations fail: "The Community cannot accept a unilateral determination by the United States of what constitutes a barrier or of when 'mutually advantageous market opportunities' have been obtained."

The first EC report on U.S. trade barriers was issued in December 1985. Since the last report was released in December 1987, the number of U.S. obstacles named has increased about 25 percent. Some of the increase is attributable to specific provisions of the 1988 Trade Act. Another example of new measures is an increase in Department of Defense Buy America restrictions in 1988. The current report also lists for the first time two investment barriers and barriers relating to financial institutions. The investment barriers cited include the Exon-Florio provision of the 1988 Trade Act, which gives the President the authority to block foreign takeovers that threaten national security, and the Communications Act of 1934, which imposes limitations on foreign investments in radio communications.

EC officials have expressed concern not only over the U.S. trade barriers themselves, but also over the U.S. failure to abide by its GATT obligations, including its failure to implement findings of GATT dispute settlement panels. The EC claims that it intends to pursue its complaints through existing mechanisms in conformity with GATT rules.

OECD Ministers Criticize Unilateral Trade Actions

At their annual meeting, ministers representing the 24 member nations of the Organization for Economic Cooperation and Development (OECD) rejected unilateral trade policy measures and other attempts to manage trade and denounced such moves as a threat to the multilateral trading system. In a communique issued at the close of their 2 day Paris meeting, member countries said they "firmly reject the tendency towards unilateralism, bilateralism, sectoralism, and managed trade which threatens the multilateral system and undermines the Uruguay Round negotiations."

Although the declaration was agreed to by all member countries including the United States, and did not specifically mention any U.S. actions, the denunciation of unilateral trade policy measures was widely interpreted as criticism of recent U.S. actions taken under the so-called Super 301 provisions of the 1988 Trade Act (see separate article, above). A few days before the meeting, the United States had singled out Japan, Brazil, and India as "priority countries" under Super 301 for certain trading practices that the

United States argues impede trade. Those countries could face U.S. sanctions against their exports for failure to phase out the measures. The United States defended its actions and said that removal of the trade barriers by the three countries "would go a considerable distance" toward another of the communique's recommendations: strengthening the multilateral trading system.

The ministers made several observations regarding the economic health of member countries. They stated that for continued, balanced growth in the United States, containing inflationary pressures and cutting the current account deficit remain priorities. For both Japan and West Germany, the ministers said that external adjustment, which has recently weakened, should be strengthened through sustained growth of domestic demand driven by "prudent but flexible" policies and structural reforms. Future economic developments in Japan envisioned by the ministers included improved market access for both goods and services, to contribute to "a strong expansion of imports."

For the first time, the condition of the environment was a subject of attention by the ministers. They stated that "continuing environmental deterioration will threaten the achievement of sustainable economic development and an improved quality of life for all." The ministers said that OECD countries "bear a special responsibility" in confronting environmental problems. They identified several areas in which the organization will work for developing approaches to environmental problems.

As in previous years, agriculture appeared on the agenda of the OECD Ministerial meeting. The ministers endorsed a report prepared jointly by the Agriculture and Trade Committees. The report noted a decline in governmental assistance to the agriculture sector in 1988, but said that "the role of market signals in orienting agricultural production remains insufficient almost everywhere." According to OECD estimates, member countries spent approximately $270 billion on agricultural support in 1988, the highest level since 1985.

Finally, ministers encouraged continuation of the informal dialogue the organization began with Taiwan, Korea, Hong Kong, and Singapore last year. They suggested that the discussions, which began by focusing on general economic policy issues, should continue with dialogue on more specific issues.

Canadian International Trade Tribunal Becomes Canada's Principal Trade Remedy Agency

The Canadian International Trade Tribunal (CITT) became operational on December 31, 1988. A few days later the U.S.-Canada Free-Trade Agreement took effect. Although the two events have no explicit, causal linkage, the increased ties between the two countries and the similarity of function of their respective trade organizations is noteworthy.

The CITT replaced the former Canadian Import Tribunal, the Tariff Board, and the Textile and Clothing Board, assuming most of the inquiry and appeal functions of its predecessors. The purpose behind the amalgamation of the three Canadian institutions was to strengthen and streamline Canada's facilities for trade remedies and inquiries. In its initial mailing to the Canadian trade community, the CITT declared itself "a court of easy access, dedicated to a user-friendly approach." The CITT is an independent, quasi-judicial body, much like the U.S. International Trade Commission (USITC).

The Tribunal has rules and policies similar to a court of law, but it is not as formal or strict. It is composed of nine full-time members, including a Chairman and two Vice-Chairmen, all of whom may serve terms of up to 5 years. At present, six members have been appointed, and three vacancies exist. The Tribunal is not part of any other government department or agency. The work of the Tribunal is supported by a staff of about 80 individuals, and its operations are governed by the Canadian International Trade Tribunal Act, originally proclaimed on September 16, 1988. Regulations for the Tribunal were promulgated in December. The CITT Act states that the Tribunal's hearings are to be conducted by panels of three or more members, and are to be carried out as "informally and expeditiously" as possible. Like the USITC, the CITT has authority to subpoena witnesses and to require parties to submit certain documents, including those that contain confidential business information. Access to such information is strictly controlled by the act.

The CITT is considered the main judicial institution in Canada's trade remedy system. Its functions are both judicial and advisory. Its two judicial functions are to act as an administrative court in the case of (1) appeals from Revenue Canada rulings (i.e., decisions on customs, excise, and related matters); and (2) injury findings in antidumping and countervailing duty cases. In this latter respect, the CITT's role is the same as that of the USITC.

The advisory functions of the Tribunal relate to its ability to act as a standing commission of inquiry with powers to conduct research, find facts, hold public hearings, and report to the Government and the public on a broad range of trade-related matters. CITT advisory functions fall into two general areas: import safeguard inquiries and general inquiries into trade and tariff matters. Although the latter are very broad and may include any matter relating to the economic, trade, or commercial interests of Canada, including negotiating interests of the Government, the import safeguard programs are rather specific. These cover three types of programs: Government-directed inquiries, producer-directed inquiries (neither of which are unlike the sec. 202, escape-clause provisions of U.S. law), and safeguard inquiries concerning Canadian special preference programs. The special preference inquiries apply to the programs established to promote economic development in developing countries. There are two such Canadian programs—the GPT (General Preferential Tariff) Program and the CARIBCAN program. Both of these programs are similar to the U.S. GSP and CBI programs.

The producer-directed inquiries represent a departure from prior import relief programs. They establish a new right of direct access for Canadian industries to petition the Tribunal for a determination of whether increases in imports are causing serious injury. An affirmative determination may result in emergency relief in the form of import quotas or additional duties. Under the previous system of import relief, this form of direct access was provided only to the textile and clothing industry. A unique feature of the Canadian safeguard action process is that the CITT is not required to make specific recommendations for relief. Neither is the Government required to act pursuant to a CITT report. In the United States, the President is required to consider the relief recommended by the USITC in ultimately determining what action would be in the national economic interest.

Japan to Become the World's Largest AID Donor in 1989

Japan's massive trade surplus and burgeoning economic muscle have fueled calls in the United States for Japan to shoulder a greater share of the burden of ensuring global economic growth and stability. Foreign aid has been a key element in Japan's effort to meet these demands. In 1989, Japan allocated $11.4 billion for foreign aid, making it the world's leading supplier of foreign aid.

Although U.S. officials are generally pleased with Japan's growing commitment to foreign aid, the United States has several concerns about Japan's emerging role. Japan's foreign aid agencies have been criticized as greatly understaffed and too decentralized; as a result, there are concerns that the procedures for evaluating, granting, and administering loans is ineffective and inefficient. Japan's foreign aid policy has also been criticized for having too narrow a focus upon one geographic area, providing too few grants, and for tying its aid to purchases of Japanese equipment and services.

These concerns have occurred partly because of differing aid philosophies. The U.S. foreign aid philosophy has leaned toward charity and/or strategic rationale. In Japan, according to one foreign aid expert, the concept of charity is alien, and Japan's aid philosophy is to foster self-reliance as soon as possible, to maintain an apolitical stance on the part of the donor, and to combine public and private efforts to promote development.

The large amounts of money budgeted for aid are somewhat misleading since Japan has had difficulties spending all of the money authorized. As one U.S. aid expert has observed, larger aid budgets do no one any favors, including Japan's poorest recipients, which have difficulty absorbing the avalanche of funds. One reason is the small size of Japan's foreign aid staff. The two aid agencies, the Overseas Economic Cooperation Fund (OECF), responsible for Japan's overseas development assistance (ODA) loans and the Japan International Cooperation Agency (JICA), which administers technical cooperation and most of the grant aid, have fewer than 1,400 employees worldwide. Despite the substantial increase in the volume of aid, staff size has increased only marginally in the last decade.

Further complicating the effective extension of aid has been the decentralization of policymaking. A number of agencies, ministries, and organizations are directly involved in policymaking and implementation of foreign aid in Japan. Four agencies participate in coordinating the OECF: the Ministries of Finance (MOF), Foreign Relations (MFA), and International Trade and Industry (MITI), and the Economic Planning Agency (EPA). Several other ministries and agencies are involved in particular aspects of ODA programs. Since loans, grants, and technical cooperation are handled separately by different organizations, it is difficult to coordinate an efficient response to particular situations. The four agencies often work at cross purposes, hindering operations and planning. MFA is arguably the main defender of foreign aid, MOF is concerned with holding down expenditures as much as possible, and MITI is most likely to defend the link between trade and the private sector.

Many aid experts have urged Japan to improve the quality of its aid, which has been criticized because it relies heavily on loans rather than grants. A comparison between the United States and Japan reveals that the criticism has some validity. Grants represent 92.5 percent of U.S. bilateral ODA; Japan trails with 44.3 percent. At 49 percent, the grant element in Japan's ODA loans is also low, compared with those in the United States at 67 percent.

Japan has also been urged to ease the debt burden of countries to which it has made yen loans. With the yen nearly doubling in value against the dollar over the past three years, many countries are finding it difficult to pay back the yen-denominated loans. In May 1988, Tokyo decided to lower interest rates on new loans by almost half a percentage point to 1 percent for the least developed countries, ranging to 4 percent for middle income countries.

Another frequent criticism of Japan's aid program is that despite the expressed goal of channeling a larger proportion of assistance to regions outside Asia, Japan's geographic focus has really not changed. Japan continues to distribute the majority of its foreign aid funds to Asia, with only 10 percent or less each to Africa, Latin America, and the Middle East-North Africa.

The single most frequent criticism heard from U.S. companies competing for contracts under Japanese foreign aid contracts is that Japan "ties" its aid. Foreign companies have complained for years that Japan uses foreign aid as a commercial tool. They maintain that Japan tends to fund large-scale capital-intensive projects such as infrastructure, mining, and construction that require the purchase of expensive equipment. The equipment for these capital-intensive projects has usually been purchased in Japan because of formal requirements that "tied" the aid to the purchases. Although more recent Japanese Government figures show that Japanese aid is increasingly less tied, U.S. companies that compete against Japanese firms maintain that they are still effectively locked out of competing because of the manner in which Japanese aid proposals are written.

Foreign aid experts believe that many of the criticisms of Japan's aid program are valid, but point out that the trends over the last few years do reflect progress. The grant share of ODA has increased, terms have been softened, less money has gone to large-scale projects, and more funds have been targeted for the least developed countries. An encouraging sign for U.S. business is the general untying of yen loans which has been going on for several years. According to Japanese Government statistics, firms from less developed countries have been the primary beneficiaries of this untying. Recently, Britain's General Electric Co. outbid Mitsui to win a $64.8 million contract to supply the Thai railway system. The project will be funded by Japanese aid in the form of OECF yen loans.

Challenges proliferate in conducting any type of business overseas, yet with this new competitive environment, opportunities in the Japanese aid program deserve re-examination by American companies. The large amounts of money allocated to Japan's foreign aid is too important a source of business potential for American companies to give up on. In May, the Agency for International Development held two conferences to explain how American business can tap into the Japanese foreign aid market. Officials of the various Japanese aid agencies discussed the function of their agencies and procedures for competing for aid projects. Participants were also informed of Japanese firms interested in forming cooperative ventures. American companies if patient and persistent will hopefully realize new business opportunities with the gradual untying of Japanese foreign aid.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1986–March 1989

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

Country	1986	1987	1988	1988 III	1988 IV	1988 Nov.	1988 Dec.	1989 I	1989 Jan.	1989 Feb.	1989 Mar.
United States	1.1	3.8	5.7	7.1	4.5	4.4	4.4	1.9	5.3	0	0
Canada	.8	2.7	4.2	4.4	2.6	6.7	0	3.5	6.7	0.9	3.7
Japan	–.3	3.4	9.4	10.2	9.9	39.5	11.9	11.5	11.8	–18.4	0
West Germany	2.2	.2	3.1	6.4	2.9	9.5	33.4	(1)	15.2	–1.1	(1)
United Kingdom	2.3	3.4	3.8	5.5	.1	7.8	–5.3	–5.4	–14.2	–2.2	8.0
France	.9	2.2	4.3	13.1	–2.4	55.3	0	3.7	11.4	–10.2	–10.3
Italy	3.8	2.6	5.9	15.6	12.4	11.5	16.5	–4.4	–27.3	19.2	–17.8

[1] Not available.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, June 2, 1989.

Consumer prices, by selected countries and by specified periods, January 1986–April 1989

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

Country	1986	1987	1988	1988 I	1988 II	1988 III	1988 IV	1989 I	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.
United States	1.9	3.7	4.1	3.4	4.8	4.7	4.4	5.4	7.2	5.1	6.1	8.1
Canada	4.2	4.4	4.0	3.4	4.3	4.4	3.9	5.1	7.6	5.7	6.3	4.5
Japan	.6	.1	.7	–2.1	2.8	.7	3.1	–2.2	–2.3	–3.5	7.3	13.8
West Germany	–.2	.3	1.2	.7	1.9	1.9	1.8	4.9	9.0	4.7	3.2	4.9
United Kingdom	3.4	4.1	4.9	2.7	6.5	8.6	8.3	7.4	8.9	7.8	7.3	10.5
France	2.5	3.3	2.7	2.3	2.9	3.8	3.0	3.7	3.7	3.8	3.7	4.7
Italy	6.1	4.6	5.0	3.4	4.8	5.9	6.6	7.2	6.6	8.8	7.2	9.4

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, June 2, 1989.

Unemployment rates,[1] by selected countries and by specified periods, January 1986–April 1989

(In percent)

Country	1986	1987	1988	1988 I	1988 II	1988 III	1988 IV	1989 I	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.
United States	7.0	6.2	5.5	5.7	5.5	5.5	5.3	5.1	5.4	5.1	4.9	5.2
Canada	9.6	8.9	7.8	7.8	7.7	7.8	7.7	7.6	7.5	7.6	7.5	7.8
Japan	2.8	2.9	2.5	2.7	2.5	2.6	2.4	2.3	2.4	(2)	(2)	(2)
West Germany	7.0	6.9	7.1	7.1	7.2	7.1	7.0	7.9	6.5	6.4	6.2	6.3
United Kingdom	11.2	10.3	8.3	9.0	8.6	8.0	7.6	6.9	7.1	6.9	6.8	6.6
France	10.6	10.8	10.5	10.6	10.5	10.6	10.4	10.3	10.5	10.4	10.4	10.1
Italy	7.5	7.9	7.9	7.9	7.9	8.0	7.9	12.4	7.6	(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, June 1989.

Trade balances, by selected countries and by specified periods, January 1986–March 1989

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

Country	1986	1987	1988	1987 IV	1988 I	1988 II	1988 III	1988 IV	1988 Sep.	1988 Oct.	1988 Nov.	1988 Dec.	1989 Jan.	1989 Feb.	1989 Mar.
United States[1] ...	-137.5	-152.2	-119.5	-154.2	-131.0	-114.8	-111.4	-121.7	-110.3	-105.4	-127.9	-134.4	-105.6	-116.4	-114.0
Canada	7.1	8.3	7.2	4.4	7.2	8.4	10.4	3.2	4.8	4.8	3.6	6.0	12.0	4.8	3.6
Japan	92.5	96.2	94.6	91.6	99.6	86.4	90.4	102.0	90.0	102.0	102.0	104.4	99.6	120.0	79.2
West Germany[2] ..	52.6	65.6	72.8	74.0	64.4	78.4	71.6	76.4	66.0	67.2	84.0	78.0	91.2	81.6	75.6
United Kingdom ..	-12.6	-16.9	-36.0	-21.2	-28.4	-32.0	-38.8	-44.8	-25.2	-56.4	-40.8	-38.4	-44.4	-45.6	-34.8
France	.1	-5.2	-5.8	-4.4	-2.8	-4.0	-8.0	-8.4	1.2	-8.4	-7.2	-9.6	-4.8	-1.2	0
Italy	-2.0	-8.7	-10.0	-10.8	-12.4	-4.4	-10.4	-14.0	-19.2	-19.2	-10.8	-10.8	-22.8	-12.0	-14.4

[1] 1986, exports, f.a.s.value, adjusted; imports, c.i.f.value, adjusted.Beginning with 1987, figures were adjusted to reflect change in U.S.Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f.value.

[2] Imports, c.i.f value, adjusted.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, June 1989, and *Advance Report on U.S.Merchandise Trade*, U.S.Department of Commerce, June 15, 1989.

U.S.trade balance,[1] by major commodity categories, by selected countries, and by specified periods, January 1986–April 1989

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

Country	1986	1987	1988	1987 IV	1988 I	1988 II	1988 III	1988 IV	1988 Nov.	1988 Dec.	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.
Commodity categories:														
Agriculture	4.5	7.0	13.9	3.2	3.0	3.3	3.1	4.5	1.4	1.7	1.4	1.5	2.0	1.6
Petroleum and selected products (unadjusted)	-31.8	-39.5	-38.1	-10.1	-9.7	-9.9	-9.5	-9.0	-2.9	-3.2	-3.2	-2.9	-3.4	-3.8
Manufactured goods	-134.3	-146.1	-146.7	-36.2	35.0	-35.5	-36.8	-39.4	-13.8	-12.0	-8.6	-9.5	-7.2	-6.7
Selected countries:														
Western Europe	-28.2	-27.9	-17.2	-6.9	-4.0	-3.9	-4.6	-4.7	-2.0	-1.6	([2])	-.6	.3	.2
Canada[3]	-23.0	-11.5	-12.6	-3.1	-3.8	-4.1	-2.6	-2.1	-.8	-.4	-1.8	-.8	-.2	-.4
Japan	-55.3	-58.0	-55.5	-14.5	-13.1	-12.9	-13.3	-16.2	-5.3	-5.4	-3.5	-4.6	-4.2	-3.9
OPEC (unadjusted)	-8.9	-13.7	-10.7	-3.3	-2.6	-3.1	-2.8	-2.2	-.6	-.8	-1.1	-.8	-1.0	-1.3
Unit value of U.S.imports of petroleum and selected products (unadjusted)[4]	$15.02	$18.12	$14.19	$18.40	$15.10	$15.00	$14.07	$12.68	$12.42	$13.10	$14.46	$15.08	$15.97	$17.83

[1] Exports, f.a.s.value, unadjusted.1986-88 imports, c.i.f.value, unadjusted; 1989 imports, customs value, unadjusted.

[2] Less than $50,000,000.

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

[4] Beginning with 1988, figures were adjusted to reflect change in U.S.Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f.value.

Source: *Advance Report on U.S.Merchandise Trade*, U.S.Department of Commerce, June 15, 1989.

Money-market interest rates,[1] by selected countries and by specified periods, January 1986–May 1989

(Percentage, annual rates)

Country	1986	1987	1988	1987 IV	1988 I	1988 II	1988 III	1988 IV	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.	1989 May
United States	6.5	6.8	8.0	7.6	6.7	7.6	8.1	8.8	9.2	9.5	10.1	9.9	9.6
Canada	9.2	8.4	9.6	8.9	8.6	9.1	9.9	10.9	11.3	11.7	12.2	12.4	12.3
Japan	5.0	3.9	4.4	3.9	3.8	3.8	5.3	4.6	4.2	4.2	4.2	4.2	4.3
West Germany	4.6	4.0	4.3	4.1	3.4	3.6	5.0	5.1	5.6	6.4	6.6	6.3	7.3
United Kingdom	10.9	9.6	8.9	9.2	8.6	3.4	11.3	12.4	13.1	13.0	13.0	13.2	([2])
France	7.7	8.1	7.9	8.4	7.9	7.7	7.6	8.4	8.6	9.1	9.1	8.5	8.9
Italy	12.6	11.2	11.0	11.5	10.8	10.7	11.1	11.6	11.8	12.3	12.9	12.5	([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, June 1989, and *Federal Reserve Statistical Release*, Selected Interest Rates, Board of Governors of the Federal Reserve System, June 1989.

Effective exchange rates of the U.S.dollar, unadjusted and adjusted for inflation differential, by specified periods, January 1986–May 1989

(Percentage change from previous period)

Item	1986	1987	1988	1987 IV	1988 I	1988 II	1988 III	1988 IV	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.	1989 May
Unadjusted:													
Index[1]	106.0	94.1	88.0	90.3	87.5	86.5	90.9	87.2	88.1	88.5	89.7	89.9	92.6
Percentage change	-16.5	-11.2	-6.5	-5.1	-3.1	-1.1	5.1	-4.1	1.9	.4	1.2	.2	2.7
Adjusted:													
Index[1]	100.9	90.2	85.9	87.4	84.9	84.1	88.8	85.7	88.7	89.4	90.9	90.8	98.0
Percentage change	-17.1	-10.6	-4.8	.5	-2.9	-.9	5.6	-3.5	2.4	.7	1.5	-.1	7.2

[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, June 26, 1989.

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