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*In This Issue:*

International Economic Comparisons

U.S. Trade Developments

International Trade Developments:

*U.S.-Japan negotiations shift into high gear*

*Outlook is optimistic for a new U.S.-Soviet grain pact*

Statistical Tables

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INTERNATIONAL
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**OFFICE OF ECONOMICS**

John W. Suomela, *Director*

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

# CONTENTS

# INTERNATIONAL ECONOMIC COMPARISONS

## Summary of U.S. Conditions

The U.S economy has been healthier this year than anticipated. The U.S. Department of Commerce reported that real gross national product (GNP) grew at an annual rate of 2.7 percent in the second quarter of 1989, a full percentage point higher than was earlier projected. Higher consumer spending, business and government expenditures, and exports sales provided the momentum for growth.

Moreover, falling interest rates have contributed to a 14.4 percent increase in new home sales in July (compared with that in June). Industrial output rose by 0.3 percent in August whereas the Producers Price Index fell 0.4 percent largely because of a reduction in energy prices. However, factory orders for a broad spectrum of durable and nondurable goods declined by 1.7 percent even though these orders are usually inversely related to interest rates.

The seasonally adjusted merchandise trade deficit declined in the second quarter of 1989 to $26.4 billion, an improvement of $1.4 billion over that of the first quarter of the year. However, trade in services recorded a deficit of $176 million in the second quarter of 1989, a sharp swing from the $1.5 billion surplus recorded in the first quarter of the year and from the $4.8 billion surplus recorded in the first quarter of 1988. The services trade deficit was the result of a large increase in U.S. payments of interest and other earnings on foreign investment in the United States. In the meantime, the deficit on current account grew to $31.0 billion during the second quarter of 1989. The annualized current account deficit for 1989, based on six months data, stands at $122.6 billion, which is an improvement over the 1988 deficit of $126.6 billion, and over the 1987 deficit of $143.7 billion. In July 1989, the U.S. trade deficit shrank to the lowest level in 4-1/2 years as a result of a considerable decline in imports. (See section on U.S. Trade Developments).

## Economic Growth

The annualized rate of real economic growth during the second quarter of 1989 was 2.7 percent in the United States and -1.4 percent in the United Kingdom. For the first quarter of 1989, the annualized rate of real growth was 12.0 percent in West Germany, 9.1 percent in Japan, 4.8 percent in France, 3.8 percent in Canada, and 3.0 percent in Italy.

## Industrial Production

U.S. industrial production rose 0.3 percent in August following a revised increase of 0.1 percent in July. The August gain in output was attributed to gains in the output of motor vehicles and parts and in coal mining. U.S. industrial production in August 1989 was 2.8 percent higher than it was in August 1988.

Capacity utilization in manufacturing, mining, and utilities stood at 83.8 percent in August 1989, unchanged from what it was in July. Excluding automotive production, the operating rate of manufacturing in August edged down slightly from 84.1 percent in July to 84.0 percent in August. The operating rate in mining increased 2.0 percent.

Other major industrial countries reported the following annual growth rates of industrial production: during the year ending July 1989, Japan recorded a 6.6 percent growth rate; during the year ending June 1989, France registered a 4.5-percent increase and West Germany reported a 2.1-percent rise, but industrial production in the United Kingdom declined 1.9 percent. During the year ending in May 1989, Italy's industrial production grew 3.1 percent and Canada's rose 1.6 percent.

## Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) remained unchanged in August 1989 (compared with the CPI in July), the first time it has not increased since September 1982. The index increased by 4.7 percent in the year ending August 1989 and it has increased at an annual rate of 4.3 percent over the past six months.

During the 1-year period ending in August 1989, consumer prices increased 2.9 percent in West Germany; during the year ending in July 1989, consumer prices escalated 8.2 percent in the United Kingdom, 7.0 percent in Italy, 5.4 percent in Canada, 3.5 percent in France, and 3.0 percent in Japan.

## Unemployment

Unemployment in the United States (on a total labor-force basis, including military personnel) fell to 5.1 percent in August, down from the July 1989 rate of 5.2 percent. The national statistical offices of various countries reported the following unemployment rates in July 1989: Italy, 16.5 percent; France, 9.6 percent; West Germany, 7.9 percent; Canada, 7.5 percent; the United Kingdom, 6.3 percent; and Japan 2.2 percent. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the statistical tables at the end of this issue.)

## Investment

In response to a June 1989 survey, the U.S. Department of Commerce estimated that U.S. business plans to spend $474.0 billion in current dollars in 1989 on new plants and equipment. This estimate is 10.0 percent higher than actual business spending in 1988 ($431.0 billion). Real expenditures in 1989 are expected to be 7.7 percent higher than those of 1988.

## Forecasts

In manufacturing, planned investment expenditures (in current dollars) may expand by 9.4 percent in 1989. Durable goods industries plan 5.0 percent higher spending in 1989, whereas nondurable goods businesses expect to boost investment outlays by 13.2 percent. Large increases within the durable goods sector are expected in the aircraft, blast furnace (steel), and motor-vehicle industries. For nondurable goods, substantial expansions are anticipated in the paper, rubber, petroleum, and food businesses. Smaller increases are foreseen in chemicals and textiles. Table 1 shows business expenditures on plants and equipment by industries, 1986-89.

Table 2 shows newly revised macroeconomic projections for the U.S. economy in July–December 1989 and January–June 1990, by four major forecasters, and the simple average of these forecasts. The forecasts represent percentage changes over the preceding quarterly period at annual rates, except for unemployment figures, which are simply the forecast average rates. The average forecast is for a slight decline in nominal and real GNP growth rates starting the third quarter of 1989 followed by an improvement in January–June of 1990. The percentage of unemployed is predicted to increase slightly through the first and second quarters of 1990. The speculated economic slowdown is attributed to a projected decline in exports and to a buildup in inventory that might dampen investment spending. Exports are expected to lessen as the dollar appreciates in response to either higher U.S. interest rates or the softening of economic conditions abroad. Inflation (measured by the GNP deflator index) is expected to decline in the fourth quarter of 1989, rise in the first quarter of 1990 and then moderate in the second quarter.

## U.S. Net Investment Income

U.S. net investment income (income received on U.S. assets abroad less payments made on foreign assets in the United States) has fluctuated widely during the 1980s (see table 3). It reached its peak of $34.1 billion in 1981 then fell below $20.0 billion in 1984 for the first time since World War II. Net income bounced back above $20.0 billion from 1985 to 1987, then dwindled to its lowest postwar level of $2.3 billion in 1988. Consequently, income payments to foreigners rose at a faster rate than income receipts from abroad.

Three factors caused the deterioration in U.S. net investment income: (1) changes in U.S. net investment position (the difference between the value of U.S. assets abroad and the value of foreign assets in the United States), (2) interest rate differentials, and (3) changes in the value of the dollar against foreign currencies.

The major factor responsible for the large decline in U.S. net investment income in the 1980s has been the deterioration in the U.S. net foreign investment position. The U.S. net investment position peaked at $140.9 billion in 1981 and then plunged to $3.3 billion in 1984. In 1985, the United States recorded its first negative net investment position of $111.4 billion since World War I. At the end of 1985, U.S. assets abroad totaled only $949.7 billion whereas foreign assets in the United States equaled $1,061.1 billion. By 1988, the U.S. negative net investment position reached $532.6 billion with U.S. assets abroad equaling $1,253.7 billion while foreign assets in the United States totaling to $1,786.2 billion. Valuation adjustments have added about $17.0 billion to the U.S. negative net investment position.

**Table 1**
**U.S. business expenditures on new plants and equipment, 1986-89**
(In billions of dollars)[1]

| *Item* | *1986* | *1987* | *1988* | *1989*[2] |
|---|---|---|---|---|
| Manufacturing | 142.69 | 145.90 | 166.32 | 181.90 |
| Durable goods | 69.14 | 71.01 | 78.30 | 82.23 |
| Nondurable goods | 73.56 | 74.88 | 88.01 | 99.67 |
| Nonmanufacturing | 236.78 | 243.78 | 264.44 | 291.75 |
| Total All Industries | 379.47 | 389.67 | 430.76 | 473.65 |

[1] In terms of current dollars
[2] Forecast for 1989.

Source: U.S. Bureau of the Census.

**Table 2**
**Projected quarterly percentage changes of selected U.S. economic indicators, 1989-90**

| 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: | | | | | |
| July-September | 5.1 | 5.2 | 6.5 | 2.1 | 4.7 |
| October-December | 4.5 | 4.6 | 6.3 | 2.3 | 4.4 |
| 1990: | | | | | |
| January-March | 5.1 | 6.1 | 6.9 | 3.2 | 5.3 |
| April-June | 5.8 | 7.2 | 7.6 | 6.3 | 6.7 |
| **GNP:**[2] | | | | | |
| 1989: | | | | | |
| July-September | 1.2 | -0.3 | 1.5 | -2.3 | 0 |
| October-December | .9 | -0.6 | 1.9 | -1.3 | .2 |
| 1990: | | | | | |
| January-March | .3 | 1.3 | 1.8 | -1.7 | .4 |
| April-June | 1.8 | 2.4 | 3.2 | 2.3 | 2.4 |
| **GNP deflator index:** | | | | | |
| 1989: | | | | | |
| July-September | 3.9 | 5.5 | 4.9 | 4.5 | 4.7 |
| October-December | 3.5 | 5.2 | 4.3 | 3.6 | 4.2 |
| 1990: | | | | | |
| January-March | 4.8 | 4.7 | 5.0 | 5.0 | 4.9 |
| April-June | 3.9 | 4.7 | 4.2 | 3.9 | 4.2 |
| **Unemployment, average rate:** | | | | | |
| 1989: | | | | | |
| July-September | 5.3 | 5.4 | 5.4 | 5.4 | 5.6 |
| October-December | 5.5 | 5.9 | 5.6 | 5.7 | 5.7 |
| 1990: | | | | | |
| January-March | 5.7 | 6.1 | 5.7 | 6.1 | 5.9 |
| April-June | 5.8 | 6.0 | 5.7 | 6.3 | 5.9 |

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

Source: Compiled from data received by telephone from the Conference Board, *Statistical Bulletin*. Used with permission.

## U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit inched down to $7.6 billion in July from $8.0 billion in June. The July deficit was 19.2 percent lower than the $9.4 billion average monthly deficit registered during the previous 12-month period and was 10.6 percent lower than the July 1988 deficit of $8.5 billion.

U.S. imports dropped 2.6 percent in July to $38.3 billion from $39.3 billion in June. Whereas exports declined by 1.9 percent in July to $30.7 billion from $31.3 billion in June.

Imports were curtailed in all product groups except consumer goods in terms of end use. Imports of capital goods registered the largest decline -5.9 percent. Total exports declined, but gains were recorded in capital goods (up 3.1 percent) and industrial supplies and materials (up 1.6 percent). Meanwhile, the U.S. agricultural trade surplus remained unchanged at $1.3 billion. In addition, the U.S. oil import bill grew from $4.2 billion in June to $4.3 billion in July because of an increase in the volume of imports.

**Table 3**
**U.S. net investment income, 1980-88.**

(In billions of dollars)

| Item | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|
| Receipts of income on U.S. assets abroad: | | | | | | | | | |
| Direct investment | 37.1 | 32.5 | 21.4 | 20.5 | 21.2 | 33.2 | 38.5 | 54.7 | 48.3 |
| Other private receipts | 32.8 | 50.2 | 58.0 | 51.9 | 59.5 | 50.1 | 43.7 | 44.6 | 52.8 |
| U.S. Govt. receipts | 2.6 | 3.7 | 4.1 | 4.8 | 5.2 | 5.5 | 6.4 | 5.3 | 6.7 |
| Total | 72.5 | 86.4 | 83.5 | 77.2 | 85.9 | 88.8 | 88.6 | 104.7 | 107.8 |
| Payments of income on foreign assets in the United States | | | | | | | | | |
| Direct investment | 8.6 | 6.9 | 3.2 | 5.6 | 9.2 | 6.1 | 5.4 | 9.5 | 16.7 |
| Other private payments | 20.9 | 28.5 | 33.4 | 28.9 | 38.4 | 35.5 | 39.0 | 48.9 | 59.7 |
| U.S. Govt. Payments | 12.6 | 16.9 | 18.3 | 17.8 | 19.8 | 21.3 | 22.6 | 24.0 | 29.0 |
| Total | 42.1 | 52.3 | 54.9 | 52.4 | 67.4 | 62.9 | 67.0 | 82.4 | 105.5 |
| Net investment income | 30.4 | 34.1 | 28.6 | 24.8 | 18.5 | 25.9 | 21.6 | 22.3 | 2.3 |

Source: Survey of Current Business, June 1989, vol. 69.

The United States experienced improvement in its merchandise trade deficits from June to July with China (from $661 million to $510 million), with Canada (from $549 million to $449 million), and with France (from $341 million to $175 million). The U.S. deficit worsened with most other areas: with Japan (from $3.9 billion to $4.0 billion), with OPEC (from $1.6 billion to $1.7 billion), with Taiwan (from $1.2 billion to 1.3 billion), and with Mexico (from $99 million to $118 million). The U.S. surplus with the EC of $44 million turned into a deficit of $588 million while the U.S. trade surplus narrowed with the U.S.S.R. (from $323 million to $165 million). The trade surplus with Egypt increased from $159 million to $297 million.

## U.S.-Japan Negotiations Shift into High Gear

After coasting in neutral during a wave of Japanese political turmoil for much of the summer, U.S.-Japan trade negotiations shifted into high gear in September. Japan's newly appointed prime minister, Toshiki Kaifu, traveled to San Francisco, Boston, and Washington from August 31 to September 4, assuring President George Bush and other American leaders of Japan's intention to continue previous efforts to expand imports. On September 4 and 5, the so-called Structural Impediments Initiative (SII) got off the ground in Tokyo, with both countries focusing on deep-seated practices inhibiting the correction of their massive trade imbalances. The semiannual U.S.-Japan Trade Committee meeting was held in Hawaii on September 7–9, with the United States emphasizing removal of specific irritants in the bilateral trade relationship, including Japan's barriers to U.S. construction services, supercomputers, satellites, and forest products.

Kaifu's visit to Washington, reportedly intended as much to boost the new prime minister's domestic image as to underscore the importance of U.S.-Japanese ties, broke no new ground on specific issues. However, it may have signaled the determination of President Bush to hang tough on trade. Contrary to predictions that electoral losses in July by Japan's Liberal Democratic Party (LDP) Upper House elections would lead the United States to ease up pressure on Japan, the President implied that a mere continuation of past market-opening efforts was insufficient. [The LDP's first major postwar election defeat has been widely blamed on the imposition of an unpopular 3 percent consumption tax, successive political scandals, and liberalization of agricultural imports.] Citing a perception by the American public that Japan is not playing "fair," President Bush placed heavy emphasis on the bilateral trade relationship and urged Japan to exert greater efforts to expand imports and remove barriers to U.S. business.

Kaifu stressed Japan's continued willingness to resolve specific market access problems and agreed with President Bush on the importance of removing structural impediments to trade. He suggested, however, that poor management of the U.S. economy and flagging U.S. competitiveness, not specific or structural Japanese barriers, are the most significant structural causes for America's continued trade woes. Japan's Economic Planning Agency (EPA) has projected that a five-year, $75 billion dollar reduction in the U.S. Federal budget deficit would reduce the overall U.S. current account deficit by $45 billion and decrease Japan's current account surplus by $20 billion. Meetings by Kaifu in Mexico and Canada followed the U.S. trip, as Japan's new ruler seeks to exert global leadership in line with the country's role as top foreign aid donor, major financial power, and manufacturing juggernaut.

The Structural Impediments Initiative was proposed by the Bush administration on May 25 (the same day "priority practices and countries" under Super 301 were announced) in an effort to address some of the fundamental factors preventing an improvement in the bilateral trade imbalance. Japan's land, tax, transportation, and distribution policies were at the top of the U.S. agenda, as were a host of informal Japanese business practices normally considered to be anti-competitive in the United States. Responding to U.S. efforts to ensure that the talks led to concrete action, Japanese officials finally agreed at a mid-June meeting in New York that they would cover Japanese and U.S. barriers—including the United States budget, savings, investment, and education "deficits"—with a mid-term assessment due next spring and a final report due July 1990. Japan formally agreed to the talks at the July Paris Economic Summit.

Although touted by advocates as an opening thrust into the web of informal and formal Japanese practices that hold back imports, the initiative has been criticized on Capitol Hill as a smokescreen for Japanese inaction. During a July 20 hearing, members of the International Trade Subcommittee of the Senate Finance Committee complained that there was little likelihood that the initiative would yield quantifiable results. Failure to achieve real progress soon might, some of the Senators intimated, prompt a move toward a more "results oriented," i.e., managed, approach to bilateral trade.

The first formal SII discussion, held in Tokyo on September 4 and 5, provided little reason for optimism. Prospects for major progress in the talks had already been downplayed in the wake of the LDP's poor showing in July. The defeat was thought likely to make it difficult for the Japanese Government to take on the entrenched interests—such as mom-and-pop store operators, farmers, and landowners—which are threatened by the reforms proposed by the United States. At the same time, it was feared that the uncertainty and disarray during the realignment of power could make it arduous for Japan to reach and implement decisions. During the initial round, Japanese negotiators took the offensive, seeking to shift the limelight from structural deficiencies in Japan to those in the United States and refusing to apologize for practices in Japan that, in their view, have contributed to Japan's economic success and social stability. The two sides did agree to schedule another SII meeting for November 6.

U.S. negotiators can take solace from the fact that domestic forces might ultimately push Japan in the desired direction. The LDP appears to be viewing its July setback as a signal that it must do more to ensure that Japanese citizens enjoy the fruits of the country's economic success. In August 9 press conferences, following their appointments to the Kaifu cabinet, Minister of International Trade and Industry, Hikaru Matsunaga pledged to pursue "the realization of an economic society in which people enjoy comfort and which is full of vitality," and EPA Director General Sumiko Takahara stated that, "In the past, it seemed that priority was given to macroeconomic theories and the logic of the business sector. From now on, administration of the economy must focus on the people's livelihood." Putting these policies in practice would imply removal of some of the same structural barriers the United States is raising in the SII. If they do occur, however, such changes may be packaged as "home grown," rather than driven by American pressure, in order to assure the LDP full credit for responding to the cries of Japanese consumers for lower prices, more affordable housing, and greater leisure time.

Discussions in Hawaii, held under the auspices of the subcabinet-level U.S.-Japan Trade Committee, focused on more narrow U.S. complaints. The initial round of discussions gave both sides an opportunity to place opening markers in what is likely to be year-long discussions. They agreed to hold working level consultations in the future on construction services, supercomputers, satellites, telecommunications, semiconductors, agriculture, and forest products.

The Hawaii meetings were significant not so much for what they accomplished on specific issues, but for setting the stage for what appears to be a more comprehensive U.S. approach to trade negotiations with Japan.

Throughout the talks, U.S. Government negotiators sought to link the specific issues on the table to more fundamental barriers raised in SII. In the process, the U.S. representatives implied that American concerns were broader, and more clearly interwoven, than the long list of detailed items on the U.S. agenda which the Trade Committee might suggest.

U.S. participants complained that targeting of high-tech industries, protection of declining industries, and "Buy-Japanese" practices are elements of Japan's industrial policy that systematically stack the deck against foreign competitors. Japan's policy of fostering the development of particular industries and underwriting the commercial success of favored firms is at the root of U.S. market access problems in satellites and supercomputers, the U.S. side argued, where Japanese firms have benefited from favored government purchasing and official efforts to encourage technical and production advances. Recent decisions by Japan's Nippon Telegraph and Telephone (NTT) and the Ministry of Education to purchase only equipment using a Japanese-developed operating system, TRON, were also cited as a threat to U.S. commercial interests. U.S.-developed operating systems, such as MS-DOS and UNIX, have until now dominated the large and growing Japanese market for computers and communications. NTT's decision to utilize an in-house team to design its $400 million intelligent office complex and unwillingness to remove barriers to U.S. sales of processed wood products, such as laminated structural lumber, were cited as examples of how technical specifications and informal government-industry ties can block U.S. sales.

Japan used the occasion to express concern about growing U.S. unilateralism and isolationism and bristled at the threat of retaliation inherent in section 301 of the Trade Act. Noting that both countries have much at stake in the multilateral trading system, and particularly in the success of the Uruguay Round, Japanese officials called upon the United States to observe General Agreement on Tariffs and Trade principles when implementing trade policy. Removing obstacles to adoption of dispute settlement panel reports involving U.S. practices would, the Japanese suggested, enhance U.S. creditability. They also expressed apprehension about recent U.S. regulations concerning government review of foreign direct investments that have implications for U.S. national security. For its part, the United States recognized Japan as a pivotal player in the Uruguay Round's success and expressed appreciation for what has been fairly strong leadership by Japan on several key issues.

The recent bilateral meetings were conducted in a matter-of-fact and fairly constructive manner, as negotiators gingerly balanced pressures for action on the trade deficit and increased U.S. access against the need to maintain economic ties and cooperation on other issues, including the Uruguay Round. However, the importance of and the timetable for resolution of major trade issues, essentially keyed to the "Super 301" process, may mean that brinksmanship and confrontation will become the modus operandi of U.S.-Japan negotiations as the year unfolds. The significance of achieving satisfactory results in key areas of contention was underscored again during a September 13–15 trip to Tokyo by U.S. Secretary of Commerce Robert Mosbacher. United States Trade Representative Carla Hills is slated to visit Japan in early October.

## Outlook is Optimistic for a New U.S.-Soviet Grain Pact

Negotiations to conclude a new long-term grain supply agreement between the United States and the Soviet Union are scheduled to begin in December 1989, one year before the expiration of the current bilateral grain agreement. Chances for a new agreement are good. U.S.-Soviet commercial relations are at their postwar best and Soviet dependence on imported grains will persist, because Soviet agrarian reforms—although sound in principle—cannot produce quick results.

During 1989, the Soviet agricultural apparatus was once again reorganized. The bureaucratic super-agency Gosaprogrom, which had been responsible for agricultural policy and performance since 1986, was abolished. Its functions have been assumed by a commission on the national level, and by various government agencies on the local level. The Government has encouraged the internal reorganization of collective farms (kolhozes) and state farms (sovhozes) to enhance the individual farmer's role in production and marketing decisions. Legislation guiding the practice of leasing land and equipment to individual or groups of farmers was introduced. In some areas (for instance in the Orel region of the Russian Republic), the Soviets offered hard currency payments for above-the-plan sales of grains to the state. The Government has also announced the introduction in 1990 of new, agricultural state purchase prices that would purportedly fluctuate according to supply-and-demand conditions.

Western analysts remain generally pessimistic about a significant output-enhancing effect of these measures over the next decade. Administrative reorganizations aimed at trimming the bureaucracy proved to be an illusion in the past. Since market forces were not allowed to—or could not—fill the vacuum for decision making, bureaucratic control soon regained its original pervasiveness. The effectiveness of simulating market forces through the incorporation of centrally gauged supply and demand conditions in state purchase prices is also doubtful. Moreover, leasing will expand much slower than expected, because most Soviet farmers (or agricultural laborers) are psychologically ill-suited to function as entrepreneurs. Even those who are suited for the task may find the risk of entrepreneurship too high—given the uncertain availability of agricultural inputs such as machinery and fertilizers—and the rewards too low—given the limited availability of high-quality consumer goods. Finally, progress in Soviet agriculture is constrained by the inefficiencies and narrow capacities in the food-processing industries and the bottlenecks in transportation and other infrastructures.

Nevertheless, analysts no longer rule out the possibility that Soviet agriculture will indeed take off during the first decade of the 21st century. Until then, modest increases in domestic grain output are expected to be gobbled up by increased domestic demand for grains, particularly for coarse grains to buildup livestock. Annual Soviet demand for imported grains during 1990–94 should remain in the neighborhood of the 32 million metric tons (Mmt) annual average of the previous 5-year period.

The favorable prospects for a new long-term agreement were underlined by preliminary figures of U.S.-Soviet grain trade during fiscal year 1988 (Oct. 1, 1988—Sept. 30, 1989). Under the current agreement, the Soviet Union must buy at least 4 Mmt each of wheat and corn during a fiscal year and 1 Mmt of wheat, corn, soybeans, and soybean meal in any combination for a total of 9 Mmt. In addition, the Soviets can buy up to 3 Mmt of wheat or corn. Beyond the 12 Mmt limit, purchases may be made only after consultation with the U.S. Government. During fiscal year 1989, the United States raised the "consultation level" three times, bringing the maximum purchase level to 24.0 Mmt. During this period, the Soviets purchased a record 16.3 Mmt of U.S. corn, 5.4 Mmt of wheat, 1.3 Mmt of soybean meal, and 0.4 Mmt of soybeans. At 21.7 Mmt, total grain sales (corn plus wheat) far exceeded the 12.5 Mmt average annual sales to the Soviets during the previous 5-year period of the current pact (Oct. 1, 1983–Sept. 30, 1988). Of the 5.4 Mmt wheat sold, 4.7 Mmt was contracted under the Export Enhancement Program (EEP).

Competition for market shares remains intense. According to estimates by U.S. Department of Agriculture's Economic Research Service, the U.S. share of total Soviet wheat imports declined from 50 percent during October 1987–September 1988 to 33 percent during October 1988–September 1989, but the U.S. share in the Soviet coarse grain market—which includes corn—increased from 50 percent to about 70 percent over the period. In the wheat market, the European Community (EC) is the major U.S. competitor, followed by Canada, Australia, and Argentina. Most of the loss in the U.S. market share during the period was EC's gain. In the coarse grain market, the non-U.S. share is distributed among a considerably larger number of suppliers including—in addition to the above—China, Hungary, Yugoslavia, and Romania.

# STATISTICAL TABLES

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

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

| Country | 1986 | 1987 | 1988 | 1988 IV | 1989 I | 1989 II | 1989 Jan. | Feb. | Mar. | Apr. | May | June | July |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | 1.1 | 3.8 | 5.7 | 4.5 | 2.2 | 2.6 | 5.3 | -2.5 | 0.9 | 8.0 | -1.7 | -2.5 | 2.6 |
| Canada | .8 | 2.7 | 4.2 | 2.3 | 4.0 | .6 | 6.7 | 0 | 4.7 | -0.9 | -0.9 | 0.9 | (1) |
| Japan | -.3 | 3.4 | 9.4 | 7.3 | 13.2 | -0.7 | 11.8 | -19.3 | 88.0 | -37.4 | 6.3 | 19.8 | (1) |
| West Germany | 2.2 | .2 | 3.1 | 1.9 | 10.3 | 1.2 | 15.2 | -4.3 | -6.3 | 20.2 | -24.7 | 27.1 | (1) |
| United Kingdom | 2.3 | 3.4 | 3.8 | -.8 | -5.6 | -3.1 | -14.2 | -3.2 | 4.5 | 6.8 | -16.2 | (1) | (1) |
| France | .9 | 2.2 | 4.3 | -1.2 | 5.0 | 7.4 | 11.4 | -10.2 | -10.3 | 53.5 | -19.1 | (1) | (1) |
| Italy | 3.8 | 2.6 | 5.9 | 2.9 | -3.9 | -.1 | -27.3 | 19.2 | -14.3 | 4.2 | -8.0 | 18.0 | (1) |

[1] Not available.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, Sept. 8, 1989.

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

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

| Country | 1986 | 1987 | 1988 | 1988 III | 1988 IV | 1989 I | 1989 II | 1989 Jan. | Feb. | Mar. | Apr. | May | June | July |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | 1.9 | 3.7 | 4.1 | 4.7 | 4.4 | 5.4 | 6.4 | 7.2 | 5.1 | 6.1 | 8.1 | 7.0 | 2.0 | 2.9 |
| Canada | 4.2 | 4.4 | 4.0 | 4.4 | 3.9 | 5.2 | 6.3 | 7.6 | 5.7 | 6.3 | 4.0 | 9.8 | 8.2 | 4.1 |
| Japan | .6 | .1 | .7 | .7 | 3.1 | -2.2 | 9.8 | -2.3 | -3.5 | 7.3 | 23.4 | 7.2 | -1.1 | -2.3 |
| West Germany | -.2 | .3 | 1.2 | 1.9 | 1.8 | 4.9 | 3.5 | 9.0 | 4.7 | 3.2 | 4.9 | 2.6 | 1.3 | .8 |
| United Kingdom | 3.4 | 4.1 | 4.9 | 8.6 | 8.3 | 7.5 | 8.6 | 8.9 | 7.8 | 7.3 | 9.7 | 9.3 | 7.9 | 6.9 |
| France | 2.5 | 3.3 | 2.7 | 3.8 | 3.0 | 3.7 | 3.9 | 3.7 | 3.8 | 3.7 | 4.4 | 4.7 | 1.8 | 3.0 |
| Italy | 6.1 | 4.6 | 5.0 | 5.9 | 6.6 | 7.2 | 7.6 | 6.6 | 8.8 | 7.2 | 8.9 | 6.3 | 6.7 | 5.8 |

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, Sept. 8, 1989.

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

*(In percent)*

| Country | 1986 | 1987 | 1988 | 1988 IV | 1989 I | 1989 II | 1989 Mar. | Apr. | May | June | July |
|---|---|---|---|---|---|---|---|---|---|---|---|
| United States | 7.0 | 6.2 | 5.5 | 5.3 | 5.1 | 5.2 | 5.0 | 5.2 | 5.1 | 5.2 | 5.2 |
| Canada | 9.6 | 8.9 | 7.8 | 7.7 | 7.5 | 7.6 | 7.5 | 7.7 | 7.6 | 7.3 | 7.4 |
| Japan | 2.8 | 2.9 | 2.5 | 2.4 | 2.4 | 2.3 | 2.4 | 2.3 | 2.4 | 2.2 | (2) |
| West Germany | 7.0 | 6.9 | 7.1 | 7.0 | 5.8 | 5.7 | 6.3 | 6.0 | 5.7 | 5.7 | 5.6 |
| United Kingdom | 11.2 | 10.3 | 8.3 | 7.6 | 7.0 | 6.5 | 6.9 | 6.6 | 6.5 | 6.4 | 6.3 |
| France | 10.6 | 10.8 | 10.5 | 10.4 | 10.2 | 10.1 | 10.4 | 10.3 | 10.3 | 10.1 | 10.2 |
| Italy | 7.5 | 7.9 | 7.9 | 7.9 | 7.6 | 7.8 | (2) | 7.8 | (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, September 1989.

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

*(Percentage, annual rates)*

| | | | | 1988 | 1989 | | 1989 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | 1986 | 1987 | 1988 | IV | I | II | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. |
| United States | 6.5 | 6.8 | 8.0 | 8.8 | 9.6 | 9.5 | 9.2 | 9.5 | 10.1 | 9.9 | 9.6 | 9.2 | 8.7 | 8.8 |
| Canada | 9.2 | 8.4 | 9.6 | 10.9 | 11.7 | 12.3 | 11.3 | 11.7 | 12.2 | 12.4 | 12.3 | 12.3 | 12.2 | 12.3 |
| Japan | 5.0 | 3.9 | 4.4 | 4.6 | 4.2 | 4.3 | 4.2 | 4.2 | 4.2 | 4.2 | 4.3 | 4.5 | 4.8 | 4.8 |
| West Germany | 4.6 | 4.0 | 4.3 | 5.1 | 6.2 | 6.8 | 5.6 | 6.4 | 6.6 | 6.3 | 7.3 | 6.9 | 7.0 | 8.7 |
| United Kingdom | 10.9 | 9.6 | 8.9 | 12.4 | 13.0 | 13.4 | 13.1 | 13.0 | 13.0 | 13.1 | 13.1 | 14.2 | 13.9 | 13.9 |
| France | 7.7 | 8.1 | 7.9 | 8.4 | 8.9 | 8.7 | 8.6 | 9.1 | 9.1 | 8.5 | 8.9 | 8.8 | 8.9 | 9.0 |
| Italy | 12.6 | 11.2 | 11.0 | 11.6 | 12.3 | 12.5 | 11.8 | 12.3 | 12.9 | 12.5 | 12.5 | 12.7 | 12.9 | (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, Sept. 11, 1989, and *Federal Reserve Statistical Release*, Selected Interest Rates, Board of Governors of the Federal Reserve System, August 1989.

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

*(Percentage change from previous period)*

| | | | | 1988 | | 1989 | | 1989 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | 1986 | 1987 | 1988 | III | IV | I | II | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. |
| Unadjusted: | | | | | | | | | | | | | | | |
| Index[1] | 106.0 | 94.1 | 88.0 | 90.9 | 87.2 | 88.7 | 92.4 | 88.1 | 88.5 | 89.7 | 89.9 | 92.6 | 94.7 | 92.0 | 92.5 |
| Percentage change | -16.5 | -11.2 | -6.5 | 5.1 | -4.1 | 1.2 | 1.6 | 1.9 | .4 | 1.2 | .2 | 2.7. | 2.1 | -2.7 | .5 |
| Adjusted: | | | | | | | | | | | | | | | |
| Index[1] | 100.9 | 90.2 | 85.9 | 88.8 | 85.7 | 89.6 | 94.5 | 88.7 | 89.4 | 90.9 | 90.8 | 98.0 | 94.9 | 91.9 | 92.5 |
| Percentage change | -17.1 | -10.6 | -4.8 | 5.6 | -3.5 | 1.5 | 1.3 | 2.4 | .7 | 1.5 | -.1 | 7.2 | -3.1 | -3.0 | .6 |

[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, Sept. 6, 1989.

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

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

| | | | | 1988 | 1989 | | 1989 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | 1986 | 1987 | 1988 | IV | I | II | Feb. | Mar. | Apr. | May | June | July |
| United States[1] | -137.5 | -152.2 | -119.5 | -121.7 | -111.2 | -103.4 | -112.8 | -114.0 | -99.6 | -121.2 | -89.5 | -91.2 |
| Canada | 7.1 | 8.3 | 7.2 | 3.2 | 8.0 | 2.4 | 4.8 | 3.6 | 0 | 6.0 | 1.2 | (3) |
| Japan | 92.5 | 96.2 | 94.6 | 102.0 | 98.0 | 78.4 | 120.0 | 79.2 | 90.0 | 68.4 | 76.8 | (3) |
| West Germany[2] | 52.6 | 65.6 | 72.8 | 76.4 | 81.6 | 67.2 | 81.6 | 75.6 | 72.0 | 55.2 | 74.4 | (3) |
| United Kingdom | -12.6 | -16.9 | -36.0 | -44.8 | -40.8 | -38.0 | -45.6 | -34.8 | -44.4 | -33.6 | -36.8 | -48.0 |
| France | .1 | -5.2 | -5.8 | -8.4 | -2.4 | -8.4 | -1.2 | 0 | -.7 | -12.0 | -6.0 | -14.4 |
| Italy | -2.0 | -8.7 | -10.0 | -14.0 | -16.4 | -12.4 | -12.0 | -14.4 | -15.6 | -18.0 | -7.2 | (3) |

[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, Sept. 8, 1989, and *Advance Report on U.S.Merchandise Trade*, U.S.Department of Commerce, September 15, 1989.

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

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

| | | | | 1988 | 1989 | | 1989 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | 1986 | 1987 | 1988 | IV | I | II | Jan. | Feb. | Mar. | Apr. | May | June | July |
| Commodity categories: | | | | | | | | | | | | | |
| Agriculture | 4.5 | 7.0 | 13.9 | 4.5 | 1.6 | 1.4 | 1.4 | 1.5 | 2.0 | 1.6 | 1.3 | 1.3 | 1.2 |
| Petroleum and selected products (unadjusted) | -31.8 | -39.5 | -38.1 | -9.0 | -3.2 | -4.0 | -3.2 | -2.9 | -3.4 | -3.8 | -4.4 | -3.9 | -3.9 |
| Manufactured goods | -134.3 | -146.1 | -146.7 | -39.4 | -8.4 | -7.8 | -8.6 | -9.5 | -7.2 | -6.7 | -8.4 | -8.4 | -9.3 |
| Selected countries: | | | | | | | | | | | | | |
| Western Europe | -28.2 | -27.9 | -17.2 | -4.7 | -.08 | -.02 | (2) | -.6 | .3 | .2 | -.08 | -.2 | -.8 |
| Canada[3] | -23.0 | -11.5 | -12.6 | -2.1 | -.9 | -.5 | -1.8 | -.8 | -.2 | -.4 | -.7 | -.5 | -.4 |
| Japan | -55.3 | -58.0 | -55.5 | -16.2 | -4.1 | -4.0 | -3.5 | -4.6 | -4.2 | -3.9 | -4.3 | -3.9 | -4.0 |
| OPEC (unadjusted) | -8.9 | -13.7 | -10.7 | -2.2 | -1.0 | -1.6 | -1.1 | -.8 | -1.0 | -1.3 | -1.8 | -1.6 | -1.7 |
| Unit value of U.S.imports of petroleum and selected products (unadjusted)[4] | $15.02 | $18.12 | $14.19 | $12.68 | $15.17 | $17.96 | $14.46 | $15.08 | $15.97 | $17.83 | $18.40 | $17.67 | $17.12 |

[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, Sept. 15, 1989.

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