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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Statistics show a continued slump in the Nation's economy. Total industrial production declined and unemployment rose in the fourth quarter of 1991. Although the U.S. economy was reported to have grown by 0.3 percent in October-December 1991, it declined by 0.7 percent for all of 1991, the first annual decline since 1982. The index of leading economic indicators registered its second consecutive monthly decline in December 1991.

A major factor thwarting the economic recovery is the high level of consumer indebtedness and the high level of interest rates on consumer debt. The Federal Reserve reported that consumer debt increased $27 million in November 1991 to a seasonally adjusted $730.8 billion. Interest rates on consumer debt remain high (ranging from 14 percent to 21 percent) in spite of the Federal Reserve's lowering of the discount rate to 3.5 percent, the lowest in 20 years. Consumers trying to meet debt and interest payments have little income left to expand consumption, a key to economic recovery. The extreme caution commercial banks exercise in providing new loans is a further hindrance.

High interest rates on consumer loans and other factors have hurt the sales of motor vehicles in the United States during the past 2 years. Interest rates on car loans averaged between 12 and 13 percent in 1989 and 1991. Higher local taxes, higher prices, and the larger downpayments required for new car loans further increased the cost of car ownership and spurred car owners to keep their vehicles longer rather than to buy new ones. The average age of cars on the road, as estimated by the Motor Vehicle Manufacturers Association, climbed to 7.8 years in 1990, the highest since 1950. New motor vehicle sales declined by 18.3 percent to 12.8 million units in 1991 from 15.6 million units in 1988. New car sales declined by 18.2 percent from 10.5 million units in 1988 to 8.6 million units in 1991. Of this total, the sale of domestically produced new cars declined from 7.3 to 6.3 million units; and the sale of imported new cars, from 3.2 to 2.3 million units. The average expenditure per domestic car rose from $13,900 in 1988 to $15,900 in 1991, whereas the average expenditure per new imported car rose from $15,200 to $17,500 over the same period.

Analysts predict a moderate recovery during the second half of 1992. Although most consumer rates remain high, interest rates in general and relative to those of other countries have dropped. Relatively lower U.S. interest rates have put downward pressures on the foreign value of the dollar, which declined by 4 percent in the third quarter of 1991. As a result, U.S. export prices declined, boosting exports. The decline in the foreign value of the dollar has also increased import prices, cutting demand for imports.

Lower interest rates might also encourage increased capital spending, particularly in the second half of 1992. Data published by the U.S. Department of Commerce show that U.S. businesses plan to increase nominal spending on new plant and equipment by 5.4 percent, by 1992 or 5.7 percent in real terms. (I.e., a decrease is projected in the implicit price deflator when measured in 1987 dollars). Capital spending declined by 0.5 percent in nominal and 1.1 percent in real terms in 1991.

Changes in Economic Statistics

Starting with third quarter 1991 data, the U.S. Department of Commerce has introduced major changes in the national income and product accounts. Some of these changes affect the yearly estimates and the methods of accounting for the Nation's total output. Most importantly, Commerce will use the gross domestic product (GDP) rather than the gross national product (GNP) as a measure of production. The GDP is regarded as the more appropriate measure for short-term monitoring and analysis. For example, changes in employment are more consistent with changes in the GDP than with those of the GNP. The replacement of GNP with GDP as the primary production aggregate led to redefinition of net exports of goods and services to exclude net receipts of factor income. Exports is redefined to exclude receipts of factor income, and imports is redefined to exclude payments of factor income. Moreover, Commerce will use 1987 rather than 1982 as the base period for calculating real growth rates.

Changes were also made in the treatment of government receipts, business incomes and expenses, international transactions, and in the classification of government agencies. Commerce has introduced new estimating procedures and new and revised data, and has updated the seasonal factors for quarterly estimates. In order to keep our readers abreast of these changes and to preserve the continuity and the consistency of our reports, the new GDP quarterly series are reproduced for the period 1987-91 in table 1.

Economic Growth

Changes in aggregate national output are measured by the increase or decline in the growth rate of the real gross domestic product (GDP)—the output of goods and services produced in the country in 1987 prices. At an annualized rate, the real GDP declined by 2.5 percent in the first quarter, increased by 1.4 percent in the second quarter, by 1.8 percent in the third quarter, and 0.3 percent in the fourth quarter of 1991. After increasing by 1.0 percent in 1990, the real GDP declined by 0.7 percent in 1991.

Table 1
Newly revised quarterly estimates of real gross domestic product (GDP) 1987 forth quarter- 91 fourth quarter

	1987	1988				1989				1990				1991			
	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
	Percent changes from previous quarter, seasonally adjusted at annual rates (1987=100)																
GDP	5.9	2.6	4.3	2.5	3.9	2.5	1.9	1.1	1.2	1.7	1.6	0.2	-3.9	-2.5	1.4	1.8	0.3
Personal consumption expenditures	-0.1	7.1	2.5	2.9	4.1	-0.2	1.0	4.1	0.1	2.1	0.0	2.8	-3.5	-1.3	1.4	2.3	-1.1
Nonresidential fixed investment	1.6	5.7	11.0	2.9	2.7	0.9	2.7	0.8	-2.5	7.1	-4.6	8.5	-7.7	-17.4	-3.3	-3.7	-2.4
Residential fixed investment	-1.8	-5.8	3.7	2.7	3.3	-5.9	-11.9	-5.6	-7.3	0.6	-15.7	-16.2	-15.0	-24.8	3.1	10.9	10.6
Exports of goods and services	16.7	23.6	10.3	6.8	14.0	12.4	17.2	0.9	13.7	8.8	4.8	-0.4	17.7	-7.4	19.4	7.3	15.4
Imports of goods and services	8.7	-1.2	-4.0	8.7	11.7	-6.1	6.9	6.8	4.0	-2.5	1.7	9.6	-9.3	-15.4	13.3	22.3	-2.0
Government purchases	3.7	-4.1	0.9	-0.9	5.0	-3.4	5.2	4.1	0.7	6.4	2.2	-0.3	4.6	2.8	-0.1	-3.4	-5.9
Gross domestic purchases	5.4	0.6	2.9	2.8	3.9	0.7	1.1	1.7	0.3	0.6	1.3	1.3	-6.5	-3.5	0.9	3.4	-1.6
Final sales of domestic product[1]	1.0	6.3	4.6	1.9	4.1	0.8	2.1	2.7	0.4	4.6	-0.5	0.9	-0.3	-2.4	1.2	-0.7	0.1
GNP[2]	6.2	3.0	3.8	2.4	4.3	2.1	1.5	1.4	1.8	1.7	0.9	0.7	-2.5	-2.8	0.3	2.0	—

[1] GDP less change in business inventories (CBI).
[2] GDP plus net receipts of factor income from the rest of the world.
Source: U.S. Department of Commerce official statistics.

The annualized rate of real economic growth in the third quarter of 1991 was 0.7 percent in the United Kingdom, -1.9 percent in Germany, 3.3 percent in France, 0.9 percent in Canada, 1.6 percent in Japan, and 0.2 percent in Italy.

Industrial Production

Seasonally adjusted U.S. industrial production declined in nominal terms by 0.2 percent in December after declining by 0.2 percent in November and by 0.1 percent in October 1991. A drop in the output of motor vehicles and parts and in the output of utilities due to warmer-than-usual weather accounted for the decline. The output of motor vehicles and parts declined by 1.0 percent and the output of utilities dropped by 3.0 percent in December. After increasing by 2.6 percent in the second quarter and by 6.6 percent in the third quarter of 1991, seasonally adjusted U.S. industrial production declined by 0.5 percent in the fourth quarter. The December 1991 index was 0.6-percent higher than in December 1990. Capacity utilization in manufacturing, mining, and utilities slipped a 0.3 percentage point in December 1991 down to 79.0 percent.

Other major industrial countries reported the following annual growth rates of industrial production. For the year ending November 1991, Germany reported an increase of 2.3 percent and Japan reported a decrease of 0.6 percent. For the year ending October 1991, Canada reported a decrease of 1.9 percent, France reported an increase of 0.4 percent, and the United Kingdom reported a decrease of 1.2 percent. For the year ending September 1991, Italy reported a decline of 3.1 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.3 percent in December after rising by 0.4 percent in November and by 0.1 percent in October 1991. The consumer price index rose by 3.1 percent during the 12 months ending December 1991. Falling energy cost, the slow rise in food prices, and the recession combined to hold down the rise in the overall consumer price index.

During the 1-year period ending December 1991, consumer prices increased by 4.2 percent in Germany and 6.0 percent in Italy. During the 1-year period ending November 1991, consumer prices increased by 4.2 percent in Canada, 3.0 percent in France, 4.3 percent in the United Kingdom, and by 3.1 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States increased to 7.1 percent in December from 6.9 percent in November 1991.

In December 1991, unemployment was 6.2 percent in Germany. In November 1991, unemployment was 10.3 percent in Canada, 8.8 percent in the United Kingdom, 9.8 percent in France, 2.1 percent in Japan, and 10.2 percent in Italy. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasts point to a moderate rebound of economic growth starting the second quarter of 1992, followed by stronger growth in the remainder of the year. Moderating the recovery in the first half of 1992 will be the general slowdown in the global economic growth, particularly in the industrialized countries; an expected sluggish rise in consumer spending, particularly consumer spending on durable goods, and an expected low rise in capital investment. Table 2 shows macroeconomic projections for the U.S. economy for the period October 1991 through December 1992, by four major forecasters and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented on an annualized basis as percentage changes over the preceding quarter. The forecasts of the unemployment rate are averages for the quarter.

Several factors appear to be working in favor of stronger growth in the second half of 1992. Spending on both consumer and capital goods is projected to accelerate. An expected surge in export growth as a result of the decline in the foreign value of the dollar and the anticipated improvement in the industrialized countries' economic conditions should increase foreign demand for U.S. exports. (The dollar depreciated by 4 percent against major currencies in the third quarter, after appreciating in the second quarter of 1991.) The buildup of the currently low level of business inventories could propel the recovery in the industrial sector. The average of the forecasts points to a slight decline in the unemployment rate in the second half of 1992. Inflation (as measured by the GDP deflator) is expected to rise in the first quarter of 1992, to slow in the second, and to rise again in the remainder of the year.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit declined from $6.3 billion in October to $3.6 billion in November 1991. The November deficit was the lowest since March 1983. A record decrease in November imports and a slight increase in exports accounted for the improvement in the monthly balance. Exports increased by $400 million to $37.5 billion in November and imports decreased by $2.4 billion to $41.0 billion. The trade deficit dropped from $95.4 billion in January-November 1990 to $59.3 billion in the corresponding period of 1991.

Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 3.

Table 2
Projected quarterly percentage changes of selected U.S. economic indicators, October 1991-December 1992

Quarter	*UCLA Business Fore-casting Project*	*Merrill Lynch Capital Markets*	*Data Resources Inc.*	*Wharton E.F.A. Inc.*	*Mean of 4 fore-casts*
	GNP current dollars				
1991					
October-December	1.9	2.3	2.5	2.0	2.2
1992					
January-March	1.5	3.1	2.9	1.7	2.3
April-June	2.8	6.0	6.2	4.1	4.8
July-September	4.5	7.2	7.4	5.8	6.2
October-December	5.1	6.9	7.9	6.5	6.6
	GDP constant (1987) dollars				
1991					
October-December	-0.2	-1.0	0.3	0.5	-0.1
1992					
January-March	-1.0	-1.0	-0.5	-0.5	-0.8
April-June	1.4	2.4	2.8	2.8	2.4
July-September	2.9	3.4	4.1	3.5	3.5
October-December	3.3	3.1	4.6	3.6	3.7
	GDP deflator index				
1991					
October-December	2.1	3.4	2.2	1.5	2.3
1992					
January-March	2.5	4.1	3.5	2.2	3.1
April-June	1.4	3.5	3.3	1.3	2.4
July-September	1.6	3.7	3.2	2.3	2.7
October-December	1.8	3.7	3.2	2.9	2.9
	Unemployment, average rate				
1991					
October-December	7.0	6.8	6.8	6.8	6.9
1992					
January-March	7.4	7.0	7.0	7.1	7.1
April-June	7.5	7.0	7.0	7.2	7.2
July-September	7.6	6.8	6.9	7.2	7.1
October-December	7.5	6.7	6.7	7.2	7.0

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: January 1992.

Source: Compiled from data provided by The Conference Board. Used with permission.

Table 3
U.S. merchandise trade, seasonally adjusted

Item	*Exports*		*Imports*		*Trade balance*	
	October 1991	*November 1991*	*October 1991*	*November 1991*	*October 1991*	*November 1991*
Current dollars—						
Including oil	37.1	37.5	43.4	41.0	-6.3	-3.6
Excluding oil	37.1	37.5	40.2	38.2	-3.1	-0.7
1987 dollars	34.8	35.1	40.2	38.0	-5.4	-2.9
Three-month-moving average	35.6	36.6	42.2	42.3	-6.6	-5.6
Advanced-technology products (not seasonally adjusted)	8.6	9.3	5.8	5.3	+2.9	+4.1

Source: U.S. Department of Commerce News, FT 900, January 1992.

The November 1991 deficit was 40 percent lower than the $6.0 billion average monthly deficit registered during the previous 12-month period and 62 percent lower than the $9.5 billion deficit registered in November 1990. When oil is excluded, the November 1991 merchandise trade deficit decreased by $2.4 billion from the previous month.

Nominal export changes and trade balances in November 1991 for major commodity sectors are shown in table 4. Only airplanes, automatic data processing and office machinery, and agricultural products recorded increases from October to November 1991. Airplanes led the sectors that recorded trade surpluses in January-November 1991. The U.S. agricultural trade surplus increased from $1.5 billion in October to $2.1 billion in November 1991.

U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 5. From October to November 1991, the United States registered declines in bilateral merchandise trade deficits with Japan, EFTA, Germany, the Newly Industrializing Countries (NICs), China, and OPEC. The U.S. deficit with Canada increased over the period. U.S. trade surpluses with the EC, Western Europe and the U.S.S.R. increased markedly. From January-November 1990 to the corresponding period in 1991, the United States registered substantial declines in its bilateral trade deficits with Germany, Canada, the NICs, and OPEC. The U.S. deficits with Japan and China increased, whereas U.S. trade surpluses with the EC, Western Europe and CIS increased substantially over the period.

The Commonwealth of Independent States and Its Business Partners Face a Difficult Period of Transition

The Commonwealth of Independent States (CIS) has inherited a badly faltering economy. According to the consulting firm PlanEcon, during the tumultuous months of 1991, Soviet gross national product (GNP) declined by an estimated 13.0 percent, industrial output by 7.5 percent, agricultural output by 11.2 percent, and investment by 6.0 percent. The projected budget deficit for 1991 was 150 billion rubles, or 9.0 percent of gross domestic product (GDP). The deficit has been financed primarily by printing money. Inflation rose to heights not experienced since the aftermath of World War I. Comparing September 1991 to September 1990, the index of wholesale prices rose by 164 percent and the index of retail prices by 103 percent. Although these price hikes resulted in a 40-percent increase of enterprise profits, the central government's revenues from profit taxes did not increase at all. Additional revenues remained at the republic and local levels.

Different from the situation in Poland, where price increases led to an increase in consumer goods deliveries, retail price increases in the new commonwealth have not increased the availability of goods in state stores. Barter transactions between farmers and industrial firms swallow up much of the agricultural output. Analysts agree that farmers have been slow to respond to price increases because the agricultural policies of the new Governments are unclear.

The Soviet energy sector is in an apparent crisis. Crude oil production declined by 10.0 percent and coal production by 11.0 percent from the first three quarters of 1990 to the corresponding period in 1991. The low prices paid by the state for output cannot begin to finance operating costs. Production difficulties are compounded by the reluctance of oil-producing republics to ship supplies elsewhere in the CIS.

Employment in the Soviet state industrial sector plummeted by 9.0 percent and in the collective farm sector by 5.0 percent during the first three quarters of 1991. However, a number of those left unemployed by the disruption of the state sector have found employment in nonstate enterprises. The private sector has absorbed approximately 8 million workers since 1990. As a result, the overall drop in employment in the former Soviet territories was only an estimated 2.0 percent during 1991. Unemployment is currently aggravated by an increasing number of displaced persons. The violent standoff between Armenia and Azerbaijan and other border conflicts have elevated this number to an estimated 700,000.

Soviet exports to the former socialist countries declined by 56.8 percent and imports from those countries by 60.0 percent, from the first 9 months of 1990 to the corresponding period of 1991. In trade with the former socialist countries, exports and imports were roughly equal during 1991. Soviet exports to the market economies decreased by 15.3 percent and imports from those countries by 47.0 percent, from the first three quarters of 1990 to the corresponding period of 1991. In trade with the market economies, the Soviets recorded a surplus of $6 billion. Unfortunately, this surplus is not alleviating the liquidity crisis of the new commonwealth. Most of the surplus has disappeared abroad in unauthorized bank deposits made by individuals and enterprises.

U.S. exports to the former Soviet Union amounted to an estimated $3.4 billion during 1991. Although this figure is slightly higher than the $3.1 billion reported for 1990, the outlook for 1992 worries U.S. businesses. Grains, shipped to the central Soviet Government under a long-term agreement, represented the mainstay of U.S. exports to the dissolved country. U.S. grain exporters are concerned that this long-term contract, which assured them a relatively large and stable market, may not be assumed by the CIS.

According to a U.S. Chamber of Commerce spokesman, U.S. companies that want to export to the CIS now must be extremely innovative and patient. Old commercial contacts, such as the Soviet Chamber of Commerce and Industry, the traditional counterpart of most Western industrial firms doing business in the former Soviet Union, have been liquidated. New commercial contacts, even if they have

Table 4
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors, January 1990-November 1991

Sector	Exports January-November 1991	Exports November 1991	Change January-November 1991 over January-November 1990	Change November 1991 over October 1991	Share of total January-November 1991	Trade balances January-November 1991
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	23.5	2.2	5.2	1.4	6.1	-3.61
Airplanes	21.9	2.9	23.4	43.5	5.7	18.83
Airplane parts	9.4	0.9	4.2	-4.3	2.4	5.62
Electrical machinery	27.7	2.6	5.7	-7.9	7.2	-4.46
General industrial machinery	15.7	1.4	7.8	-11.9	4.1	2.46
Iron & steel mill products	3.9	0.3	31.8	-11.4	1.0	-3.73
Inorganic chemicals	3.8	0.4	8.9	-14.0	1.0	0.88
Organic chemicals	10.1	0.8	5.8	- 7.1	2.6	2.59
Power-generating machinery	15.4	1.5	6.4	-9.8	4.0	2.34
Scientific instruments	2.4	1.2	12.0	-4.2	3.2	6.24
Specialized industrial machinery	15.3	1.4	8.9	-1.4	4.0	5.19
Telecommunications	9.1	0.9	8.0	0	2.3	-12.32
Textile yarns, fabrics and articles	5.0	0.5	10.3	-9.6	1.3	-1.34
Vehicle parts	13.2	1.3	-2.7	-9.2	3.4	0.23
Other manufactured goods[1]	23.1	2.1	13.8	-9.5	6.0	-4.49
Manufactured exports not included above	89.8	8.2	10.8	-6.5	23.2	-75.11
Total manufactures	299.2	28.4	9.5	-3.1	77.3	-60.68
Agriculture	34.6	4.0	-2.8	18.9	8.9	14.42
Other exports	53.3	4.7	2.8	-9.9	13.8	-13.68
Total	387.1	37.1	7.3	-2.1	100.0	-59.94

[1] This is an official U.S. Department of Commerce commodity grouping.

Note.—Because of rounding, figures may not add to total shown.

Source: *U.S. Department of Commerce News (FT900)*, January 1992.

been identified, are likely to be out of foreign exchange and uncertain about their authority in a country without commercial law. Moreover, some analysts worry that the new commonwealth's domestic market could become fragmented by the introduction of new currencies, internal tariffs, and disparate export-and import-licensing procedures.

Analysts concur that economic recovery in the CIS depends primarily on how speedy and extensive the privatization of state property will be throughout the commonwealth and how successful efforts will be to establish a unified, liberal framework for interstate and external economic activities. A great deal also depends on how fast oil production recovers and on how quickly and efficiently the United States and other industrialized democracies provide aid and assistance to the troubled republics.

Update on U.S. Trade Relations with China

On October 10, 1991, following the failure of bilateral negotiations alone to resolve critical trade issues, the Bush administration initiated a formal investigation into China's market-access barriers. The investigation could result in the imposition of punitive trade sanctions against China if the barriers are found to constitute unreasonable or discriminatory practices that unfairly restrict its imports of U.S. products. On November 26, 1991, after a 6-month investigation failed to produce a substantial commitment by China to improve its protection of intellectual property rights (IPR), the United States Trade Representative (USTR) proposed that trade sanctions be initiated in the form of higher tariffs on selected imports from China. January 16, 1992, was the

Table 5
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, with specified areas, January 1990-November 1991

(Billion dollars)

Area or country	*November 1991*	*October 1991*	*January-November 1990*	*January-November 1991*	*November 1990*
Japan	-3.41	-4.64	-3.71	-38.97	-37.67
Canada	-0.63	-0.31	-1.08	-4.82	-6.84
Germany	-0.48	-0.84	-0.86	-4.31	-8.93
EC	+1.75	+0.73	+0.05	+15.56	+4.95
Western Europe	+1.71	+0.52	-0.29	+15.02	+2.41
European Free trade Association(EFTA)	-0.10	-0.26	-0.43	-1.71	-3.36
NICs[1]	-1.23	-2.16	-1.58	-12.52	-18.67
C.I.S.[2]	+0.46	+0.25	+0.02	+2.47	+1.98
China	-1.34	-1.65	-1.04	-11.66	-9.68
OPEC	-0.85	-1.12	-2.52	-13.21	-22.46
Total trade balance	-4.65	-8.59	-10.53	-59.94	-95.51

[1] NICs include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

[2] Commonwealth of Independent States, previously the U.S.S.R.

Note.—The difference between trade balances shown in total exports table and those shown in the above (country/area) table represents exports of certain grains, oilseeds, and satellites that are not included in the country/area exports.

Source: *U.S. Department of Commerce News (FT-900)*, January 1992.

deadline set for an agreement that would obviate the imposition of sanctions. Meanwhile, when the IPR issue was not resolved by the initial November 26 deadline, a conference report version of a bill that would make the renewal of China's MFN status in 1992 subject to certain human-rights reforms and other specified conditions was overwhelmingly agreed to by the House. The Senate vote was delayed to prevent a pocket veto of the bill during the congressional recess.

Market-access investigation

China's market-access barriers became a major bilateral issue when U.S. exports to China amounted to only $4.8 billion in 1990, $1.0 billion less than their level in 1989. The U.S. trade deficit with China increased by $4.3 billion, or by 70 percent, to $10.4 billion in 1990. Although exports to China rose in 1991 (to an estimated $6.2 billion based on data through November), the U.S. deficit in trade with China also increased (to an estimated $12.7 billion). Much of this rapid deterioration in the U.S. bilateral trade balance can be traced to an increase in China's import- control measures during the last half of 1989, when authority over the operation of foreign trade was largely restored to the central Government, and to a further tightening of its import restrictions throughout most of 1990.

The market-access investigation is focusing on those Chinese import barriers that most affect major U.S. export interests and that also appear to be inconsistent with the multilateral rules and trade liberalization principles that would apply if China were a member of the General Agreement on Tariffs and Trade (GATT). According to the announcement made by the USTR, the barriers under investigation are selected product-specific and sector-specific import prohibitions and quantitative restrictions; selected restrictions made effective through import-licensing requirements; selected technical barriers to trade, including testing and certification requirements to ensure compliance with often excessive standards that apply to foreign goods but not to domestically produced goods; and China's failure to publish laws and regulations pertaining to restrictions on imports. The specific U.S. industries and exports most seriously affected by the four categories of barriers were not identified. However, since 1989, the central Government of China has maintained a monopoly control over the importation of major U.S. commodities such as grains and fertilizers. In early 1990, it imposed severe quantitative restrictions on imports of a number of building materials and further tightened controls on the use of wood in construction, including imported wood. In addition, its complex import-licensing system applies to a broad range of commodities, including various types of industrial machinery and other production equipment, raw materials, and consumer goods.

The investigation, which was undertaken by the USTR based on the authority conferred by section 301 of the Trade Act of 1974, could last as long as a year. Meanwhile, bilateral negotiations on the barriers under investigation are continuing. These talks also include consultations with China on the reduction of its prohibitively high tariffs, some of which range from 120 to 170 percent ad valorem, and on its import regulatory tax, a separate surcharge imposed over and above the applicable tariffs.

If China can satisfy U.S. standards in the market-access investigation, it will also be taking an important step toward meeting the requirements for its accession to the GATT. Some progress has reportedly already been made in the four areas that are the focus of the investigation. In the area of tariffs, China reduced duty rates on 225 commodities effective January 1, 1992, and has made a commitment to gradually eliminate the import regulatory tax.

IPR agreement

During the latest round of talks that began on January 10, 1992, and continued until the final hours of January 16, U.S. and Chinese negotiators reached an agreement on intellectual property protection that avoided the U.S. imposition of punitive trade sanctions. Under the agreement, or Memorandum of Understanding (MOU), signed on January 17, China has committed itself to make significant improvements in its copyright, patent, and trade secret laws and regulations, and will continue to consult with the United States as these changes are made.

In the area of copyrights, China has agreed, among other things, to join the Berne Convention and the Geneva Phonograms Convention; to extend protection to existing copyrighted works and sound recordings as well as to new works; and, once it joins the Berne Convention, to protect computer programs as literary works with a term of protection of 50 years. All of these commitments will require amendments to its copyright law, which became effective on June 1, 1991, and new implementing regulations on both copyrights and computers. In the area of patents, China will provide full product patent protection for pharmaceutical and agricultural chemical products beginning on January 1, 1993, and has agreed to accord "pipeline protection" to existing U.S. patented pharmaceuticals and agrichemicals that have not been marketed in China. It will provide a patent term of 20 years from filing. In the MOU, China has also made a commitment to adopt legislation to protect trade secrets from unauthorized use or disclosure, including that by third parties. In addition, China has agreed to adopt measures designed to effectively enforce IPR both in the domestic market and at its borders.

The investigation on China's inadequate protection of IPR was initiated on May 26, 1991, under the "Special 301" provisions of the Omnibus Trade and Competitiveness Act of 1988 (see *IER*, June 1991). It was scheduled to end on November 26, but an IPR agreement could not be reached by that time. The deadline was extended to provide the public an opportunity to comment on a draft list of Chinese products to which significantly increased tariffs might be applied. The proposed retaliation list, which consisted of products accounting for approximately $1.5 billion in U.S. imports from China annually, was to be reduced to about $400 million in annual imports. U.S. companies are estimated to have lost roughly that amount in 1991 and in each of several previous years as a result of Chinese piracy of computer software and other forms of intellectual property. The imposition of punitive trade sanctions against China was averted only when the sixth round of bilateral talks since the IPR investigation began, originally scheduled for January 10-12, was continued and an agreement was finally reached on the date that the USTR had earlier set as the final deadline.

Conditional MFN legislation

On November 26, 1991, following the announcement that U.S. and Chinese negotiators had failed to reach an IPR agreement, the House overwhelmingly— by a vote of 409 to 21—agreed on a conference report that places conditions on the extension of MFN status for China in mid-1992. The conference report represents a reconciliation of the two separate versions of the United States-China Act of 1991 (H.R. 2212) passed by the House and the Senate in July 1991.

The conference report version of the bill prohibits the President from recommending to Congress the continuation of MFN status for China beyond July 3, 1992, unless he reports that the Chinese Government (1) has accounted for citizens detained or accused in connection with its violent repression of dissent in Tiananmen Square on June 3, 1989, and released those imprisoned; and (2) has made overall significant progress in achieving specified objectives in the categories of human rights, trade, and weapons proliferation.

One of the ten human-rights objectives listed is preventing exports of forced-labor products and allowing U.S. and international officials to inspect places of detention suspected of such production. Provision is also made for imposing civil penalties on persons who knowingly violate or attempt to violate the U.S. ban on the importation of products made by forced labor. The trade objectives include providing adequate protection of U.S. intellectual property rights, providing U.S. exporters fair access to Chinese markets, and ceasing unfair trade practices against the United States.

As of early February, the Senate had not yet voted on the conference version of the bill. However, action by the Senate is expected long before June 3, 1992, the date by which President Bush must submit to the Congress his recommendation to extend the MFN status of China for another year.

Draft Text of Uruguay Round Agreement

Following productive discussions during 1991, GATT Director-General Arthur Dunkel called in September for trade negotiators to submit their final negotiated texts to him by November. (*IER*, November 1991.) More intensive bilateral and plurilateral negotiations among key participants followed. On December 20, 1991, Dunkel issued his version of a complete Uruguay Round agreement with final texts

for all subjects, including compromise texts inserted on his own initiative where negotiators had failed thus far to reach agreement.

Draft Final Act

At a meeting of the Trade Negotiating Committee (TNC) on December 20, Dunkel presented the draft agreement entitled *Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations.* Dunkel indicated that this draft agreement represents the first comprehensive text available that permits, for the first time, an assessment of the trade liberalization benefits that may be derived from the Round. He underscored that the Punta del Este Declaration inaugurating the Uruguay Round calls for negotiations as a "single undertaking." As such, "these negotiations are governed by the principle that nothing is final until everything is agreed." Dunkel thus enjoined participants in the Round to evaluate his draft text on its merits as a single package.

He indicated that, after a final text could be agreed, there were steps still necessary before the Uruguay Round was complete. These steps included the all-important "schedules of commitments" that would give effect to the specific agreements still under negotiation for (1) market access; (2) subsidy reductions in agriculture, including for internal support and export subsidies; and (3) trade in services. Completion of these schedules would allow the Group of Negotiations on Goods to proceed with its final evaluation of the Uruguay Round package of agreements, as called for in the Punta del Este Declaration, with the only other requirement being to review the entire package for legal conformity and internal consistency.

Finally, Dunkel called for the TNC to reconvene on January 13, 1992, after initial consideration of the tabled draft agreement. With presentation of a single text, participants are expected to begin the final leg of negotiations in the Uruguay Round, using the draft final act (or "Dunkel text") as a foundation from which to offer changes based on compromises at the political level.

January TNC Meeting

At the TNC meeting held January 13, 1992, participants agreed to follow a four-track process toward conclusion of the Uruguay Round. Without precise definition, Dunkel set out four areas that countries will pursue simultaneously:

(1) Negotiations on market access issues, such as tariff and nontariff barriers, in bilateral and plurilateral meetings;

(2) Negotiations on opening markets to trade in services;

(3) Legal review of the conformity and internal consistency of the draft final act, focusing particularly on enforcement procedures to ensure a strong legal foundation and sanctions against noncompliance; and

(4) Possible changes or adjustments to specific items in the draft text, to be agreed at the level of the TNC overseeing the Round.

Although no formal schedule was set for this procedure, participants considered mid-April to be near the point when political events in the United States and the European Community (such as national elections and new political appointments) would begin to overtake events in the Round and disrupt further negotiation. Thus, negotiators expect to aim for a political agreement by mid-April 1992 to conclude the Round, although drafting of implementation legislation and ratification in national legislatures may extend beyond that time.

Draft Final Act

Following are highlights of the text of the final act under consideration at the January 13 meeting.

Market Access

Negotiations on market access commitments, involving reductions of tariff and nontariff barriers to goods including access for tropical products, will continue into 1992 as one of the four tracks outlined by Dunkel at the January 13 meeting of the TNC. The commitments offered in the market access negotiations will depend in large part on what is included ultimately in the final text of the Uruguay Round agreements, since these access commitments will help adjust the final overall balance of rights and obligations undertaken in the text by signatories. Major items still at issue include the U.S. initiative for reciprocal duty elimination ("zero-for-zero" proposals) in eight industrial areas and the European Community's (EC) desire to reduce certain U.S. tariff peak rates.

Textiles

Textile negotiations have resulted in a complicated regime to bring world textile trade under GATT rules within 10 years by a three-stage phaseout of textile quotas, with increased growth rates for items remaining under quota. Stage 1 will be the 3 years from 1993 to 1995; stage 2 will run 4 years from 1996 to 1999; and stage 3 will last 3 years from 2000 to the end of 2002.

At the start of stage 1, 16 percent of items in the textile groupings of tops and yarns, fabrics, made-up textile products, and clothing, will be integrated into GATT disciplines from quota restrictions. In stage 2, 17 percent will be removed from quota. In stage 3, 18 percent will be removed from quota. Any remaining textile quotas will be eliminated in 2003 at the end of stage 3 and textiles under the agreement will stand integrated into GATT.

Items remaining under quota will enjoy an increase in allowed growth rates within their quota. In

stage 1, allowed growth rates will increase annually by a minimum of 16 percent; in stage 2, by 25 percent; in stage 3, by 27 percent. Where restrictions on an exporter represent 1.2 percent or less of an importer's total restrictions at the end of 1991, access improvement will be advanced by one stage for quota growth rates. GATT article XIX safeguard restrictions will apply, with certain selective provisions set out.

Agriculture

Agriculture remains the most hotly disputed item in the Uruguay Round, with the Government of France in effect rejecting the draft final text even before it was released, and the trade and agriculture ministers of the EC saying 3 days after it was released that substantial revisions to the text would be required. Agriculture is expected to be a dominant item discussed under the fourth track of Dunkel's approach laid out at the January 13 TNC meeting, whereby participants seek to negotiate specific changes in the draft final act.

The agriculture text arrays a complicated regime of support reductions in the three areas under discussion—internal support, market access, and export competition—over the 6 years beginning in 1993 and ending in 1999. Developing countries would receive special and differential treatment by receiving up to 10 years to implement the measures. The text calls for a review of the reform process after 5 years with a view to continuing to liberalize trade in agriculture.

Internal support. Internal support prices will be cut 20 percent using an aggregate measure of support (AMS), based on average support levels prevailing in 1986-88. Credit will be allowed for liberalization measures taken since 1986.

Market access. Market access barriers will be converted to tariffs (so-called "tariffication"), bound in the tariff schedules, and reduced an average of 36 percent over the 6 year period 1993-99. There will be no "rebalancing" as proposed by the EC, where certain tariff barriers could increase in exchange for reductions in others. However, the average 36 percent tariff reduction establishes only a minimum reduction of 15 percent for every tariff line item, meaning that some products under the agriculture agreement could have their "tariffied" rates reduced less than the average if other "tariffied" rates are reduced more than the average in order to achieve the overall 36 percent reduction. Minimum access equal to 3 percent of domestic consumption would be established in 1993, rising to 5 percent by 1999. This would mean, for example, that Japan or Korea would not be allowed to maintain a ban on rice imports justified by "food security" concerns.

Export competition. Export subsidies would be reduced by 24 percent in volume terms and 36 percent in terms of budget outlays, based on 1986-90. This could mean that reductions greater than these could result where export subsidies have risen since the 1986-90 average. Signatories would agree not to introduce export subsidies on agricultural products that are not already included for the base period used.

Health measures. A Draft Agreement of Sanitary and Phytosanitary Measures provides that signatories will endeavor to apply agricultural health measures that are based on scientific evidence. It encourages use of international standards, although it recognizes the right to use stricter ones, and covers the idea of equivalency of standards and of pest- and disease-free areas.

Intellectual Property Rights

The text concerning trade-related intellectual property (TRIPs) sets new or higher standards for protection of the intellectual property rights embodied in patents, copyrights, trademarks, trade secrets, and in semiconductor chips, as well as enforcement of these standards both within countries and at their borders.

The draft final act protects patents for 20 years from filing, limits compulsory licensing, and provides protection for product and process patents on goods such as pharmaceuticals. The text provides copyright protection to sound recordings for 50 years, provides computer software the same protection as a "literary work," and extends exclusive rental rights to each. Developing countries will have a 10 year transition period before they must comply with patent and copyright provisions of the text. Signatories will endeavor to avoid future conflicts with current geographical indications for wines and spirits, although current indications in dispute need not be changed. This would mean that long-standing usage of terms such as "burgundy," "champagne," "chablis," or "claret," outside of their correct geographical areas could be continued, but that future situations where such names might prove confusing or misrepresent a product to consumers would be protected against under the agreement.

Services

Framework Agreement. Negotiations on a General Agreement on Trade in Services (GATS) will be one of the four tracks set out by Dunkel at the January 13 TNC meeting. Discussions will revolve around (1) the "framework" agreement that sets out basic obligations such as most-favored-nation (MFN) treatment and transparency; (2) the annexes that contain additional provisions for particular sectors, which presently include financial services, labor mobility, telecommunications, and air transport services; and (3) market access commitments that will secure the specific elements to which the general legal provisions in (1) and (2) apply.

MFN Derogations. Derogations from applying MFN treatment will be possible on a sector-by-sector basis, but in principle derogations would last for no longer than 10 years with a review after the first 5 years. The United States, for example, has sought a general derogation from offering MFN treatment

broadly, where doing so would tend to operate to keep U.S. markets for certain services open while allowing other countries to keep their markets closed. The United States has also sought exemption, more specifically, from market access and national treatment commitments in the maritime transport sector.

A previous derogation from applying MFN commitments for basic long-distance services in the telecommunications sector was sought by the United States until December 1991. However, U.S. negotiators offered to include basic services in the sectoral annex on telecommunications, provided that other countries met certain liberalizing conditions in their markets.

Sector Annexes. The four sector annexes cover financial services, labor mobility, telecommunications, and air transport services. Previous discussions concerning an audiovisual annex or cultural exemption for national media industries were dropped from the draft final act. The financial services annex will allow regulators to take prudential measures to safeguard the integrity of financial systems as well as to harmonize with prudential measures of another country. The market access and national treatment provisions in the annex, however, have been reduced from obligations to guidelines.

GATT Rulemaking

Safeguards. The safeguards agreement includes stricter due-process provisions for importing countries taking safeguard actions in exchange for exporters waiving their right to retaliation for the first 3 years. Safeguard measures will be limited to a maximum of 8 years. Due-process procedures for taking safeguard measures will include a public hearing or similar opportunity to present and challenge opposing views; clearly defined criteria for injury determinations; a published report with a detailed analysis by the investigative body explaining the decision to take safeguard action; progressive liberalization of safeguard measures each year they are effective; as well as the right to take special safeguard measures where perishable products are concerned. The draft text also requires a phaseout of voluntary restraint agreements (VRAs) and similar "grey area" measures over a "reasonable" period of time, as well as prohibiting their future use.

TRIMs. The Dunkel text strengthens disciplines regarding trade-related investment measures (TRIMs) by prohibiting both domestic content and trade balancing requirements where firms must export in order to import. Developing countries, which typically make use of these investment measures, are given 5 years to phaseout investment measures in conflict with these prohibitions while new firms entering the market may have equivalent TRIMs imposed upon them so as not to disadvantage firms already present. However, the text does not prohibit export requirements.

Antidumping. The final draft text contains a number of additions and clarifications to the Antidumping Code. Anticircumvention provisions address for the first time a trade problem raised in particular by the EC and the United States whereby foreign exporters invest in minimal assembly plant operations in a host country so as to avoid or circumvent duties likely to be levied on goods imported below market price. The text also addresses procedural issues for antidumping cases including the majority standing of producers before a case can be initiated, increasing the *de minimis* dumping margin from 0.5 percent to 2 percent, phasing out dumping cases after 5 years, as well as fixing certain methodologies for determining dumping margins such as national average pricing or not allowing cumulative damage calculations.

Subsidies. The final draft text sets out stricter disciplines on trade-distorting subsidies than at present. The text prohibits export subsidies and presumes that domestic subsidies greater than 5 percent of export value will have adverse effects on trading partners and their goods.

The permitted subsidies category will allow only certain regional development subsidies, as well as research subsidies. Basic research subsidies will be allowed up to 50 percent of the total research cost, while applied research subsidies will be allowed up to 25 percent of cost, although EC subsidies for Airbus Industrie are explicitly excluded. No prototype or development subsidies are allowed.

Government Procurement. Negotiations concerning the GATT Government Procurement Code are proceeding in the GATT Committee on Government Procurement, in parallel with the Uruguay Round but as such not technically part of the Round. A year end draft of the Government Procurement Code under the responsibility of the Committee chairman indicates that issues concerning coverage under the code remain the main item to be concluded in 1992.

Key signatories, notably the United States and the European Community, have agreed to expand the code to cover as much remaining central government procurement as possible. This would include coverage of the European government-dominated utilities in the energy, telecommunications, and transportation sectors that was excluded when the original Government Procurement Code was negotiated during the Tokyo Round, coverage which U.S. negotiators have sought in talks subsequently. However, equivalent coverage of U.S. utilities remains a stumbling block for EC negotiators in that the U.S. telecommunications sector in particular is dominated by private firms rather than by government-controlled bodies that would be subject to the code's provisions.

Dispute Settlement. The draft final act sets out an integrated dispute settlement system that would aim to provide stricter GATT disciplines applying to all Uruguay Round agreements. The text provides for more automatic establishment of panels, adoption of panel reports, and compensation.

Panel reports would be adopted within 60 days, unless GATT Council members reject the report by consensus. Panel reports may be appealed to a newly formed appellate body, which would ensure consistent interpretation of the Uruguay Round accords. Failing implementation of panel recommendations, compensation through retaliation is permitted within 30 days of a request by the injured party unless a consensus of GATT Council members rejects the request. The draft text provides the principles for "cross-retaliation" between sectors and agreements, which would increase the effectiveness of the dispute settlement system.

GATT Institutions

Finally, the draft final act would establish a Multilateral Trade Organization (MTO) which would oversee the operation of: (1) the GATT and the Tokyo Round agreements, as amended by the final act of the Uruguay Round; (2) the General Agreement on Trade in Services (GATS); and (3) the Agreement on Trade-Related Aspects of Intellectual Property (TRIPs); as well as (4) the integrated dispute settlement process; and (5) the Trade Policy Review Mechanism.

The MTO would integrate on a common basis the new agreements negotiated during the Uruguay Round, such as on services and intellectual property, with the GATT rules for trade in goods as amended by Uruguay Round agreements. Membership would apply only to existing GATT Contracting Parties who accept the package of rights and obligations as a whole.

Congressional MTO Concerns. Deputy USTR Julius Katz addressed some of the concerns raised about the MTO by Congress in testimony before the U.S. House of Representatives in January. Asked if the MTO represented "the new United Nations for trade organization" or whether it would complement, supplement, or substitute for GATT, he responded that the MTO was more an "elaboration, a building-on" of the current GATT to give it a clearer legal status. This firmer foundation would bolster the "very flimsy institutional structure" that now relies on a [the GATT] secretariat on loan since 1947 from the Interim Committee for the Havana Charter.

Asked whether the Dunkel text restructures the GATT agreement into an MTO, Ambassador Katz said that the MTO is the institutional structure that will administer the agreements contained in the final act; the GATT agreement does not disappear nor is it replaced. More specifically, the substantive agreements - such as schedules of tariff concessions or revised codes of conduct - would be incorporated into the GATT. The MTO would then administer the package of GATT agreements, as well as the agreement on trade in services and the agreement on intellectual property. It would also administer the integrated dispute settlement system governing these agreements.

The combination of a legally sound organization administering these agreements under an integrated dispute process would induce signatories to the MTO to accept an entire package of trade rules, rather than be allowed to treat GATT rules and disciplines as "a la carte" because of GATT's present "jerrybuilt" structure. However, Ambassador Katz also indicated that the MTO is not "a new Havana charter," the accord resulting from the Havana Conference of 1946 that was to inaugurate an International Trade Organization (ITO) to administer the original GATT until defeated by the refusal of the U.S. Congress to ratify the ITO. He opined that many reports about the Dunkel text concerning loss of U.S. sovereignty were exaggerated, and that in his understanding Congressional prerogative to change U.S. law would continue to come first under the text. While this might put the United States in conflict with the international agreement as negotiated, requiring further negotiation, Congress would nevertheless be bound to the agreement only "to the extent it agrees to be bound."

Economic Reforms in Argentina

Recent monthly inflation figures indicate that the attempts to control prices in Argentine are showing signs of success. Inflation for August through November (as indicated by the consumer price index) measured 4.9 percent. [August: 1.3 percent; September: 1.8 percent; October: 1.4 percent; November: 0.4 percent.] These figures are the lowest monthly inflation figures in 17 years and indicate a dramatic improvement compared to the annual inflation rates of 3,079 and 2,314 percent of 1989 and 1990, respectively. Inflation for 1991 through November was 84.0 percent and, since the Government's Convertibility Plan went into effect on April 1, 1991, it has been only 21.1 percent. Since April 1, 1991, Argentina's national currency has been pegged to the U.S. dollar, a move that has led to discipline in both the country's public finance and monetary policy.

Current expectations are for real GDP to increase by 2.0-3.0 percent in 1991, following annual declines of 4.6 and 0.4 in 1989 and 1990, respectively. The major sectoral components of GDP—agriculture, industry, minerals and services—all increased during 1991, with the industrial sector showing a significant recovery relative to the last 2 years. Investment, as a share of GDP, also increased during 1991, from 8.6 percent to 13.8 percent. The unemployment rate for 1991 is estimated to be 6.4 percent, a drop from the 8.8 rate of the previous year.

Argentine attempts at reform have been reinforced by the multilateral lending institutions. In June 1991, the International Monetary Fund approved a $1.04 billion standby loan to support the country's currency reform program. In September 1991, the Paris Club's rescheduling of the official debt until the end of 1992 was a further sign of international recognition of the reform policies of the Argentine Government. Other support from both the World Bank and the Inter-American Development Bank have been forthcoming.

Another indicator of the response to the official reform efforts is the fact that the currency and gold that provide backing to the monetary base grew from $4.8 billion in March 1991 (before the Convertibility Plan) to $6.8 billion in September. Dollar deposits by Argentine citizens in local banks showed steady growth over the same period—rising from $1.5 billion in March to $5.7 billion in September. This reversal of the "frenetic" capital flight from the country constitutes another demonstration of public confidence in the efforts at reform, adjustment, and liberalization. The Menem administration hopes to conclude an agreement with the United States under the Brady plan before the end of 1992. This follows the successful negotiation of a bilateral investment treaty between the two countries last November.

Czechoslovakia, Hungary, and Poland Increase Economic Cooperation, Contemplate Free Trade

Since 1989, trade among the three new democracies of Czechoslovakia, Hungary, and Poland declined sharply, mainly as a result of the region-wide recession, the near collapse of commercial relations throughout the former Soviet bloc, and a radical shift of trade toward the developed world, particularly the European Community (EC). Trade turnover (exports plus imports) between Czechoslovakia and Hungary declined by an estimated 53.9 percent from 1989 to 1991. The decline in trade over the period was an estimated 27.2 percent between Hungary and Poland, and 25.2 percent between Czechoslovakia and Poland. However, at the end of 1991 there were strong indications that the decline of trade among the three countries has been arrested and, with the support of industrial democracies, the reconstruction of economic cooperation among them has begun.

The heads of state of Czechoslovakia, Hungary, and Poland established the guidelines for renewing economic cooperation among the three countries at two summit meetings during 1991. (The first took place in Visegrad, Hungary, in February and the second in Kracow, Poland, in November.) These guidelines call for the revitalization of trade among the three countries, the joint construction of a north-south highway and railway linking them, cooperation in environmental protection, and free trade (i.e., the elimination of customs and import quotas among them).

Analysts widely share the optimism of the three countries' Governments that trade among them will begin to recover in 1992. The initial confusion generated by the new trade rules among the former members of the Council for Mutual Economic Assistance (CMEA) is now believed to be over, at least in the three Central European states. (At the time of its dissolution in 1991, CMEA included Bulgaria, Romania, the Soviet Union, Mongolia, Vietnam, and Cuba, in addition to the three Central European states.) These new rules, introduced after January 1, 1991, allowed enterprises to trade with former CMEA partners without state supervision and stipulated the use of world market prices and convertible currencies in all trade transactions.

As a result of economic reforms, realistic terms of trade between each pair of countries have now been set. Moreover, both governments and enterprises see the extent to which the region's sparse foreign exchange reserves limit payments in convertible currencies. To cope with the temporary shortage of convertible currencies, clearing arrangements for groups of commodities, mutual extension of credit at low rates of interest, and barter and countertrade denominated in convertible currencies will play an increased role in regional trade during 1992. Industrial firms in each of the three countries are expected to reestablish at least some of the disrupted, bilateral long-term supply relations with firms from the other two states during the new year.

The construction of the new, north-south transportation links and the implementation of trilateral environmental protection projects will begin no later than 1993. In both areas, government-level agreements and assistance from the West, primarily from the EC, the World Bank, and the European Bank for Reconstruction and Development, will provide the framework and the incentive to carry out projects. However, the implementation of a trilateral free-trade agreement is expected to be slow and difficult.

The three countries have recently concluded bilateral association agreements with the EC calling for the establishment of free trade between each of them and the Community in 10 years. (For a description of these agreements, called second-generation association agreements or Europe agreements, see IER, May 1991, pp. 10 and 11.) Eminent economists from the the Central European countries claim that the EC barely provides more market access to the three Central European states through the Europe agreements than it has already provided through its GSP program. At the same time, the new agreements obligate the three countries to reciprocate free trade on an increasingly broader scale, liquidating fully and permanently all import duties and quotas in 10 years. In addition, the three countries are expected to conclude free-trade agreements with the European Free Trade Association (EFTA) during 1991. Under these circumstances, many analysts anticipate opposition by emerging industrial pressure groups in all three countries to yet another free-trade agreement with potential suppliers in great geographic proximity.

Nevertheless, analysts predict that a trilateral free-trade agreement will be gradually realized during this decade and the three countries will make significant progress in other areas of economic integration. EC officials reportedly encourage this process for two reasons. First, the elimination of tightly sealed borders, relatively high customs duties, and financial and economic restrictions among the three countries is a "sine qua non" for their integration into the Community. Second, the Community apparently wants the three emerging market economies to

absorb some of their new exports among themselves, rather than to unload them in EC markets.

The expansion of cross-border trade in the tristate area might be as much a necessity as it is a wish by EC officials. Prospects of trade with the rest of the former Soviet bloc are uncertain. Given the high technological, product service and marketing standards in the EC, firms from the three Central European states might find EC markets too competitive for some of their new exports. Consequently, once economic recovery gets underway in the three countries, and north-south transportation links expand, exporters from each of the three countries are expected to pay increasing attention to the markets of the other two. Proximity and significant commercial relations on a bilateral basis among the three countries represent a fertile ground for the expansion of trade. Despite the nearly catastrophic decline in trade within the region, for each of the three countries, the combination of the other two still represents the third-largest trading partner after Germany and the former Soviet Union. More trade will deepen the division of labor in the tristate area, a development that economic theorists consider conducive to the elimination of tariffs and other barriers of trade. (See article by Robert E. Baldwin, "The Political Economy of Trade Policy," in *The Journal of Economic Perspectives*, Fall 1989, pp. 119-134.)

High-level government statements from the three Central European countries have indicated an understanding that the requirements of EC membership, the planned, joint development of transportation, and the expected growth of trade among them will lead to an economic integration beyond a trilateral free-trade agreement. According to news reports, the three countries will study the possibilities of coordinating the development of their energy systems, telecommunications networks, and the desirability of creating a trilateral clearing system or even a payments union.

If efforts at trilateral economic integration succeed, the economic strength of the new unit would be impressive. The combined population of the three countries is 65 million, about one-fourth of the U.S. population. The combined territory of the three is about 205,000 square miles, roughly the territory represented by South Carolina, North Carolina, Virginia, West Virginia, Maryland, and Pennsylvania put together. The three countries' total output of goods and services, as measured by the sum of their 1990 Gross Domestic Products at current prices, is an estimated $391.3 billion or roughly 7 percent of the equivalent U.S. figure. Their total trade (exports plus imports) is about $41 billion, or 1.2 percent of world trade.

The new, market-based, regional cooperation in the process of development along the north-south axis of Central and Eastern Europe is expected to exert a stabilizing effect on economic relations throughout the former Soviet bloc. Analysts share the perception that trade in that extended region is more likely to recover as a result of such efforts than as a result of recurring attempts to create a successor organization for the CMEA.

U.S. policy toward an emerging free-trade agreement among Czechoslovakia, Hungary, and Poland has not yet been formulated. But numerous statements by U.S. policymakers in support of European integration efforts, in general, indicate that the United States will encourage the integration of the three Central European states as long as it does not violate the principle of nondiscrimination embodied in the GATT. Recently, former U.S. representative, Mr. Charles Vanik, called for the establishment of a free-trade agreement between the United States and each of the three countries. High-ranking officials from the Central European states expressed interest in the idea, but the extent of U.S. Government support is unknown at this time.

SPECIAL FOCUS

Survey of Investment Climate in South Korea

In recent years, the Government of the Republic of Korea has taken many steps to open its domestic economy to greater international competition. These changes, however, have often come after repeated and insistent outside pressure from the United States and other countries. Additionally, in the view of the United States, Korea needs to take more action in the future to widen foreign access to its economy. Greater openness, it is argued, would benefit not only foreign suppliers, but the overall health of the Korean economy, which has experienced less rapid growth in recent years. This article examines the climate for foreign investment in Korea by summarizing recent moves toward liberalization and by discussing areas where foreign participation remains limited.

Changing Climate for Foreign Investment

Relaxation of regulations pertaining to investment approval was part of a "Super 301" agreement reached with Korea in March 1989. That agreement, in which Korea promised to undertake wide-ranging liberalization measures, prevented the United States from naming Korea as a priority country under the so-called "Super-301" clause of the Omnibus Trade and Competitiveness Act of 1988. On July 1, 1989, for example, Korea dropped investment performance requirements as a condition for approving foreign investment (in sectors open to such investment). On July 1, 1990, foreign investment in wholesaling of cosmetics was allowed. The Government of Korea has announced that by January 1, 1993, foreign investors in open sectors will be able to proceed with investments 60 days after notification of investment plans. Under this plan, disapproval of proposed investment would only be possible for reasons of national security, public health, or violation of antitrust or fair trade laws.

In December 1990, Korea's National Assembly revised the Foreign Capital Inducement Act (FCIA), which is Korea's main law pertaining to foreign investment. Effective March 1, 1991, the revised law requires only notification—and not Bank of Korea approval—of foreign investments with 50 percent or less foreign equity. The revised FCIA allows investment except in cases where the proposed investment would be in a sector on the negative list of the FCIA or is rejected within 60 days under terms specified in the "Super 301" agreement.

Korea's financial regulations and policies adversely affect U.S. investment by limiting capital inflows or reducing access of foreign banks to local currency. These restrictions are particularly problematical for U.S. firms in Korea because U.S. banks are the primary domestic source of financial capital for U.S. investors in Korea.

The Ups and Downs of Foreign Investment in Korea

Total foreign investment in Korea fell by 26 percent in 1990, to $803 million. In 1990, according to official Korean statistics, Japan and the United States accounted for about 70 percent of all foreign investment in the country (see table 1). New U.S. investment reached $318 million, surpassing that of new Japanese investment, which stood at $236 million. New investment from Japan and the United States both registered declines in 1990 compared with 1989, but investment from Japan fell by a much larger degree than did U.S. investment: Japanese investment dropped 49 percent versus 3 percent for U.S. investment. New investment from all sources in Europe fell by 2 percent in 1990, to $207 million.

The level of Japan's investment, significantly lower than in recent years, reflects a turning away from Korea as a destination for investment in favor of other countries. In particular, Japanese foreign investment was more directed at the European Community, in anticipation of the integration of the 12 economies by 1992, and at the lower-wage countries of Southeast Asia. At the end of 1990, cumulative foreign direct investment by Japan stood at $2.26 billion and by the United States at $3.7 billion.

Rising wages and labor-management disputes in Korea have also been cited as possible explanations for decreased levels of investment in recent years. Korean wages have increased at an average rate of 25.2 percent a year over the last 5 years. In addition, 13 of 332 (4 percent) labor-management disputes took place in foreign-invested firms in 1990. The number of such disputes rose to 20 of 212 (9 percent) between January and September 1991. Of the total labor-management disputes at foreign-invested firms, 15 took place in Japanese-owned firms, 9 in U.S.-owned firms.

Regarding specific industries receiving new foreign investment in 1990, 73 percent of the investment was in manufacturing industries and the remaining 27 percent in services. Investment in chemicals far outpaced manufacturing investment in electronics and transportation equipment. Banking accounted for the largest share of new investment in services, with hotels and foreign trade making up the remainder.

Early data for 1991 show foreign investment rebounding in Korea. The Government of Korea reports that during the first 9 months of 1991, new investment reached $1.3 billion, 99 percent higher than during the same period of 1990. The increases were largely accounted for by higher levels of investment in chemicals, electronics, foreign trading, and banking. Continuing a trend of recent years, investment from Japan declined, while investment from the United States and Europe rose. The Korean Government attributed the increased investment levels to an overall improvement of labor-management relations and to the somewhat relaxed restrictions on foreign investment in retail distribution.

Table 1
Foreign investment in Korea, 1989-90, by country of origin

Country/Sector	1989		1990	
	Million dollars	Percent	Million dollars	Percent
United States	328.8	30	317.5	40
Japan	461.5	42	235.8	29
Europe	211.9	19	206.7	26
Other	88.1	9	42.5	5
Total	1,090.3	100	802.5	100

Source: Ministry of Finance, Republic of Korea.

Current Economic Climate

The increased level of investment in Korea in 1991 is having the effect of widening Korea's trade deficit, according to some analysts. As investment in manufacturing and other sectors increases, imports of machinery and building materials have also grown. The trade deficit with Japan alone is expected to reach $9 billion in 1991, one-half higher than the $6 billion deficit of 1990. In addition, Korea's imports have become more expensive in recent years as the won continues to depreciate against both the dollar and the yen, falling by about 3.4 percent during the first 7 months of 1991. The depreciation in the won has, however, made Korean exports more price competitive abroad, and Korea's total exports rose 14 percent in the same period.

There are several signs in the Korean economy that have caused alarm among Government of Korea economic policymakers in recent months. Nominal GNP growth reached 9.1 percent in the first half of 1991, but inflation registered 8.3 percent in the same period. The country's current-account deficit for the first 9 months of 1991 was a record $8.5 billion. Government indicators also show declining worker productivity, increased spending on consumption, and a reduction in savings.

In reaction to these developments, on September 1991, the Government of Korea took steps to encourage the population to exercise restraint in consumption. This "movement to end excessive consumption," as it has been called in the Korean media, is reminiscent of the 1990 "anti-import campaign" in which Korean consumers, importers, and retailers were urged by the government to exercise self-restraint regarding purchases of imports. This year, however, Korean officials were quick to point out that the more recent anticonsumption campaign was directed more at deterring consumption of luxury goods than at imports in particular. In response, USTR Carla A. Hills said that Korea's definition of "luxury goods" is too wide, and added that "I am trying to convince our Korean friends that trade liberalization is not only occasionally good and necessary but is always a good policy." During her November trip to Seoul, she stated that "We worry that the current 'frugality campaign' could be a euphemism for protectionism." In response, the Government of Korea stresses that the campaign is focused on restoring "traditional Korean values such as diligence, thrift, and moderation," and that there is nor reason to fear "myopic government actions against free international trade."

Korea's tenuous economic relationship with Japan

An examination of the economy of Korea and its degree of openness requires a brief study of Korea's economic relationship with Japan. Economic relations between Korea and Japan have long been characterized by underlying tension. Korea has incorporated both Japanese technology and models of economic development into its highly successful economic growth period of the 1970s and 1980s. However, bitter memories of Japan's occupation of Korea earlier this century still persist.

Japan is Korea's main source of imports and second export market (after the United States). Much of Korea's imports from Japan are capital goods, electronics, electrical parts, and chemicals that are used in the production of finished goods which are likely to be exported to the United States and Europe. In 1990, Korea's bilateral trade deficit with Japan accounted for 70 percent of the country's worldwide trade deficit of $6.5 billion. A history of such deficits has led the Government of Korea to impose a variety of bilateral trade restrictions on imports from Japan in order to try and rectify the imbalance. For example, 258 Japanese goods are subject to import bans in Korea.

Korea has made allegations of Japanese "circumvention" of its import restrictions by sale in Korea of Japanese-produced goods made elsewhere in Asia. As a result, in July 1991, Korea imposed a 35 percent local content rule on imports in order for goods to qualify as originating from the country of export. Japanese goods produced outside Japan found to have less than 35 percent local content are to be counted under Korea's restrictions as imports from Japan.

Despite the high level of trade between the two countries, as well as similar approaches to economic development, Japan's total investment in Korea is

quite low. According to Japanese statistics, during 1951-89, total Japanese investment in Korea was $3.9 billion, accounting for about 1.5 percent of Japan's total overseas investment during the period. Recipients of higher levels of Japanese investment in the region during the period were Indonesia, Hong Kong, and Singapore.

Tax structure and incentives

Korea maintains two general categories of taxes—national and local. Each category includes a plethora of individual taxes. National taxes include corporation taxes, individual income taxes, inheritance and gift taxes, asset revaluation tax, excess profits tax, value-added tax, defense tax, education tax, special consumption tax, stamp tax, liquor tax, and telephone tax. Local taxes include resident tax, acquisition tax, registration tax, property tax, automobile tax, workshop tax, farmland tax, city planning tax, and excessive landholding tax. The national Government determines the rates of local taxes to ensure uniformity.

Korea's corporate income tax is assessed on the profits of any firm that sells goods or services, or maintains an agent or physical presence in Korea. Under the terms of the U.S.-Korea Tax Treaty, U.S. sales in Korea by companies without an agent or a presence in Korea are exempt from the tax. In addition to the corporate income tax, an accumulated earnings tax is imposed against certain companies in Korea. The tax is designed to distribute equitably the tax burden among corporations in Korea because of a recent lowering of domestic corporate income tax rates. Firms in Korea must pay a 10 percent value added tax to suppliers of goods and services (including imported items). Firms must collect a 10 percent tax on sales of goods and services. Every quarter, firms must pay the Government of Korea the difference between the amount of tax payable and the amount collected.

Under the recent revision of the FCIA mentioned above, certain limitations were placed on tax holidays in Korea. For some high-tech sectors, income tax that had previously been waived for the first 5 years of an investment, will now be waived only for the first 3 years, with a 50 percent waiver for the 4th and 5th years. Reductions were also put into effect on tax breaks for foreign property and equity investment, dropping from 100 percent to 50 percent.

Restricted Sectors

Korea maintains a "negative list" of sectors where foreign investment is prohibited or highly restricted. Sectors on the list include professional services (such as accounting, legal, and financial services), interpretation-translation services, maritime, retailing, transportation, telecommunications system consulting, and telecommunications services. In sectors where foreign investment is more easily allowed, according to USTR, foreign firms nevertheless face "cumbersome and arbitrary" regulations. These regulations reportedly limit the competition between foreign and domestic firms.

One area where foreign investors would like to become more involved in the near future is Korea's service sector. Foreign investors see Korea's less developed service sector as a potentially lucrative growth area in the coming years. The Korean Government plans to relax some restrictions on foreign activity in a number of these sectors. For example, majority-foreign ownership has been permitted in advertising since January 1, 1991, and wholly-owned subsidiaries of foreign travel agencies was allowed at the end of 1991. Korea plans on opening the securities market to foreign participation in 1992. A limited role for foreign investment brokers will be allowed. After several years of outside pressure, the life insurance sector is open to foreign participation. Also planned for future liberalization is the area of telecommunications services.

Financial services

Foreign access to certain aspects of Korea's financial sector began to widen on January 1, 1992. Foreign access to Korea's stock market was formally allowed on that date. The new access allows a foreign share of up to 10 percent of the value of the stock of 209 of the 687 companies listed on the Seoul exchange. The 10 percent foreign-held share excludes holdings by mutual funds. The rules allow a maximum 5 percent limit on individual stock holding by foreigners. Foreign shareholding of the remaining firms is more restrictive, and is prohibited in some cases (e.g., KEPO, the electric power company).

In August 1991, Korea announced a detailed plan to deregulate interest rates. The four-part plan beginning this year will be completed in 1997. The plan includes deregulation of interest rates for money market instruments and certificates of deposit by June 1992, deregulation of lending rates by the end of 1993, deregulation of interest rates on policy loans and special credit facilities during 1994-96, and removal of remaining limits on deposit rates and coupon rates on public bonds in 1997.

Manufacturing

In the manufacturing sector, full equity participation by foreign firms is allowed in about 95 percent of all industries. Until recent years, approval of new projects was often contingent on mandatory technology transfer, local content, export requirements, local equity participation, or other various performance requirements. The foreign investment approval process in Korea was streamlined in the wake of the May 1989 U.S.-Korea trade agreement. Changes implemented as a result of the agreement eliminated most of the performance requirements for sectors not included in the negative list. One notable exception is that foreign firms seeking certain tax benefits in Korea—that largely pertain to high-technology sec

tors—may be subject to some technology transfer or other requirements. By 1993, the case-by-case approval process for proposed foreign investment in open sectors will be replaced with a notification system.

Retail Distribution

Until July 1991, foreign investment in retail distribution was, in the U.S. view, virtually prohibited in Korea. Regulations limited foreign retailers to one shop no larger than 700 square meters. As a result, foreign firms had to rely on access to distribution networks through joint ventures and channels dominated by large Korean conglomerates (chaebol) and manufacturers. In July, the Government of Korea loosened these restrictions somewhat. The new rules allow foreigners to establish and operate independent retail outlets, but only on a relatively small scale. Foreigners may now operate up to 10 retail establishments, with a floor space of up to 1,000 square meters each.

Korea's industrial classification system divides retail business into 51 sectors. Of those, the new rules opened foreign participation in 36 retail areas. Prohibitions remain on foreign retailing in two sectors (cigarettes, antiques, and works of art). The previous limitations (one store no larger than 700 square meters) remain on foreign retailing of grains, vegetables, other foods and cigarettes, books, outlets for refilling gas containers, kerosine, meats, fruits, pharmaceutical products, cosmetics, gas stations, briquette coals, and gas.

The Investment Climate and Protection of Intellectual Property Rights

One factor that affects the willingness of foreign firms to invest in a country is the protection of intellectual property rights (IPRs). Foreign firms may be unwilling to invest in a country if they consider existing laws regarding the protection of intellectual property, or the enforcement of such laws, inadequate. The level of protection of IPRs in Korea has been a major bilateral issue between the United States and Korea in recent years.

The U.S. Government has been urging Korea to improve legal protection of IPRs for several years. As part of this effort, in May 1989, Korea was placed on the "priority watch list" under "Special 301" provision over lack of protection of IPRs. In particular, the United States expressed concern about inadequate enforcement of IPR laws, problems with the patent law, and lack of protection for semiconductor mask works.[1] Improved enforcement of IPR laws was largely responsible for Korea being moved from the "priority watch list" to the "watch list" on November 1, 1989. Nevertheless, in April 1990, Korea was still on the "watch list." Actions Korea took to prevent such a designation included (1) creating a task force to improve coordination among its ministries on IPR protection, (2) designating special enforcement teams of police and prosecutors, (3) instituting vigorous search and seizure efforts, and (4) prosecuting violators.

Other areas of IPR disputes have included trademarks and trade secrets. Trademark registration in Korea has been plagued by inconsistent determination of a "well-known" trademark. The trademark law in Korea has few written regulations regarding the provisions. Korean authorities, therefore, exercised considerable discretion in administering it. In 1990, some specific trademark disputes were settled. Also in 1990, Korea began compiling a list of internationally "well-known" trademarks to protect.[2] Korean law does not protect trade secrets, however. The Korean Industrial Property Office (KIPO) is reportedly in the process of drafting such legislation.

According to USTR, a "dramatic" improvement has taken place in legal protection for intellectual property in the past 5 years.[3] The Government of Korea maintains that "strenuous" enforcement of such laws takes place.[4] Inconsistent enforcement of IPR laws and penalties insufficient to deter future infringements remain a concern of the U.S. Government.[5] The U.S. Chamber of Commerce reports that "some observers believe that intellectual property rights can be successfully defended if the investor is willing to fight for them."

Autos and parts: The Issue That's Driving the United States and Japan Crazy

The principal sectoral issue facing the United States and Japan during 1991, according to value of total trade and level of political attention, was the U.S. deficit in autos and parts with Japan. The U.S. trade deficit with Japan in autos and parts reached $25.8 billion during 1990, or 65 percent of the total bilateral deficit.[6] During the first 10 months of 1991, the deficit totalled $20.9 billion. Auto parts accounted for $6.9 billion of the 1990 bilateral trade deficit. During 1986-1991, U.S. imports of Japanese autos actually fell by 7.4 percent from $21.0 billion to $19.5 billion or from 2.6 million units to 1.9 million units, primarily because Japan shifted more

[1] Legislation to protect designs of semiconductor chips is expected to be implemented in 1992. USTR, *1991 National Trade Estimate Report on Foreign Trade Barriers*, March 1991, p. 145.

[2] Ibid.

[3] Bureau of National Affairs, "Intellectual Property Rights Protection in Korea, Taiwan, and Thailand Surveyed," *International Trade Reporter*, vol. 7, June 6, 1990, pp. 812-13.

[4] For example, regarding counterfeiting, the KIPO reported in late 1990 that 63 crackdowns had netted 1,018 fake product makers and resulted in the confiscation of 325,000 counterfeit items. "Korea No Longer Haven for Pirated Name-Brands," *Korea News Review*, Dec. 1, 1990, p. 21.

[5] U.S. Department of State Telegram (unclassified) Seoul, Jan. 11, 1991.

[6] If light trucks are included, the deficit for autos and parts would account for 75 percent of the overall bilateral deficit with Japan.

of its production to the United States during that period. However, Japanese autos currently account for almost 30 percent of the U.S. passenger car market.[7]

During 1991, two major issues garnered the attention of policymakers and auto industry representatives: low levels of U.S. sales of autos and parts in Japan and sales of parts to Japanese original equipment manufacturers (OEMs) in the United States. The auto industries of both countries levied allegations about the practices or behavior of their counterparts. Faced with the prospects of further declines in profits and worker layoffs, the U.S. auto industry stepped up pressures on several fronts to prompt the U.S. government into action. This article provides an overview of the issues facing the United States and Japan regarding autos and parts in 1991 and summarizes the major developments that led up to the President's visit to Tokyo in January 1992.

U.S. sales of vehicles and parts in Japan

Japan's auto market increased from 42.9 million vehicles from March 31, 1984 to 55 million vehicles as of March 31, 1990.[8] Domestic demand for autos has risen along with Japanese real incomes in recent years. The majority of Japanese households own at least one vehicle. The average vehicle life has stabilized at 4.8 years in Japan in 1989 compared with 7.6 years in the United States. Certain factors have encouraged the prospects for higher sales of both domestic and imported vehicles in Japan including the elimination of the commodity tax on autos, reduction in auto loan interest rates and the stabilization of auto prices.[9] However, worsening traffic congestion and the requirement that a car purchaser must provide proof of a parking space near his home may have limited auto purchases.[10]

U.S.-made autos accounted for only 0.5 percent of the 5.1 million new vehicle registrations during 1990.[11] [12] Total foreign imports accounted for only 3 percent of Japan's market in 1990. Sales of autos in Japan from production facilities in the United States (including Japanese-owned plants) totalled 28,602 vehicles in 1990 compared with 137,442 vehicles sold by Mercedes, which accounted for the highest number of imported vehicles in Japan.[13] The yen's appreciation since 1985 should have resulted in lower prices for imports. However, the prices of U.S. vehicles sold in Japan are higher for several reasons such as the need to modify the vehicles to meet Japanese certification and inspection requirements, and other factors relating to distribution.[14] [15] Because of difficulties associated with breaking into Japanese producer-dealer relationships and the unwillingness of Japanese dealers to carry foreign models, foreign auto makers hoping to sell in Japan must either build their own dealer networks or link up with independent dealers. However, the costs of establishing an independent dealer network are very high, primarily because of land prices, rents, salaries and servicing. With low sales volumes, the prices on imported vehicles must be raised to cover these costs.[16]

In 1991, imported auto sales in Japan declined along with the sale of domestically manufactured autos. For example, Mazda sold only 4,600 imported cars during the first 10 months of 1991, well under its announced target of 60,000 vehicles by Japanese Fiscal Year (JFY) 1992.[17] Suzuki's sales of Peugeot and General Motors vehicles declined by 40 percent during the first 8 months of 1991.[18] Honda had expected to sell 1,000 U.S.-made "Jeep Cherokees" and "Jeep Wranglers" during 1991 but sold only 363 by the end of October.[19]

The U.S. position in Japan's auto market has not always looked so dismal. In 1934, for example, Ford and GM dominated Japan's market with a combined share of 90 percent. However, in 1936, Japan passed the Motor Vehicle Manufacturing Business Act which excluded foreign manufacturers from producing in Japan and raised the duties on vehicles and parts. By 1941, the Government of Japan had seized the assets of U.S. auto producers. In 1965, the restrictions on imports were lifted, however, various policies and nontariff barriers made it difficult for foreign firms to enter the market while Japan was developing its domestic industry.[20] During the 1970's and 1980's, after Japan removed some of its restrictions, U.S. firms attempted to sell autos in Japan through sales agents. However, U.S. producers never established adequate numbers of dealers to service the market. During 1990, GM had 700 sales outlets, Ford had 300 and Chrysler had only 50 sales outlets.[21]

Several reasons have been suggested to explain the lackluster U.S. sales performance of vehicles in Japan. The Japanese claim that U.S. producers have

[7] All statistics in this section are official statistics published by the U.S. Department of Commerce.

[8] Includes autos, trucks and buses. Autos alone totalled 32.6 million as of Dec. 31, 1989.

[9] A.T. Kearney, *Distribution System of the Japanese Auto Parts Aftermarket*, U.S. Department of Commerce, June 1991, p. 8.

[10] Ibid., pp. 6-8.

[11] "In Japan's View, U.S. Car Companies Should Only Be Blaming Themselves," *New York Times*, Jan. 6, 1992, p. A1.

[12] "U.S. Cracks Car Keiretsu, But Not Market," *Nikkei Weekly*, Dec. 7, 1991, p. 9.

[13] John Burgess, "A Bumpy Road Back to Tokyo for Big Three," *Washington Post*, Jan. 10, 1992, p. A15.

[14] Ibid., p. 8.

[15] "Iacocca's Claim on Jeep Sales Questioned," *Wall Street Journal*, Jan. 14, 1992, p. A10.

[16] Ibid.

[17] JFY 1992 covers the period Apr. 1, 1992 through Mar. 31, 1993.

[18] "Imported Car Sales Drop," *Nikkei Weekly*, Dec. 7, 1991, p. 9.

[19] "Paper Discusses Sluggishness in Imports," *FBIS*, Nov. 1991, p. 8.

[20] See *Phase I: Japan's Distribution System and Options for Improving U.S. Access*, USITC publication No. 2291, June 1990, p. 58.

[21] "In Japan's View, U.S. Car Companies Should Only Be Blaming Themselves," *New York Times*, Jan. 6, 1992, p. A1.

failed to make high-quality products tailored to the Japanese market, that they have not made a serious commitment to the market (by not establishing production facilities or design centers and only few dealerships in Japan)[22] and that, in general, their products simply "do not measure up" to Japanese products. For example, U.S. companies have failed to offer small vehicles with right-hand drive[23] or retractable side-view mirrors—features which are commonplace on most Japanese vehicles. A 1991 survey of Japanese businessmen showed that 72 percent of potential car buyers in Japan would not buy a U.S. auto because of low fuel efficiency. Other factors included high price (61 percent), inadequate after-sales service (60 percent), and frequent mechanical trouble (49 percent).[24] According to one source, "The American car makers have done little to showcase their products here, tailor them to Japanese tastes or forge relationships with retailers, whereas European manufacturers have done all those things."[25] Meanwhile, the German producers have retooled their facilities to accommodate orders for either left or right hand and have also spent large sums of money to establish dealer networks in Japan. For example, BMW reportedly spent $500 million to set up its network of dealerships.

The U.S. industry counters these claims by saying that it has improved the quality and competitiveness of their products, that Japanese auto dealers refuse to handle their products, and that some characteristics of Japanese business practices and consumer attitudes make it difficult to sell in Japan. Close ties among Japanese producers and dealers reportedly discourage dealers from carrying more than one brand and may result in exclusive dealerships.[26] Japanese producers encourage loyalty from dealers through equity ties, exchange of personnel, and the provision of sales incentives, advertising support and financial services.[27] In addition, Japanese perceptions about the quality and fuel efficiency of U.S. autos compared to other autos have affected sales in Japan.

Access to Japan's market for original equipment manufactures (OEM) auto parts has been the subject of bilateral discussions since the market-oriented, sector-selective (MOSS) talks on auto parts began in August 1986. In 1990, U.S. auto parts suppliers accounted for less than 1 percent of Japan's $102 billion auto parts market.[28] One of the major problems that has been identified by U.S. industry and policymakers in selling parts to Japan is the lack of opportunity to participate in the design and engineering phase of new components (design-in process), including insufficient information and time to bid.[29] Japanese auto supplier associations or kyoryokukai, which tend to exclude nonmember firms, are actively involved in the design phase of auto parts, giving them an advantage over foreign suppliers during the bidding phase. The principal goal of the MOSS talks has been to give U.S. parts makers the opportunity to develop long-term design, engineering and supply relationships between the U.S. auto parts suppliers and Japanese OEMs.[30] This continues to be a priority for U.S. policymakers and the auto parts industry.

Japan's aftermarket for auto parts, accessories, chemicals, tools and testing equipment, was estimated at $7.72 billion in JFY 1988. Imports of parts accessories accounted for $109 million. The aftermarket for auto parts has declined in recent years for several reasons such as the longer life of original equipment (OE) parts, improved highway surfaces, and shorter average driving distances. In addition, there has been an increase in the warranty coverage for new parts, thereby reducing the demand for aftermarket parts.[31] The primary difficulty for foreign auto parts suppliers attempting to access Japan's after market is the shaken or vehicle safety inspection system, which is mandatory 3 years after purchasing a new vehicle and every 2 years thereafter up to 10 years. During shaken inspections, which are usually performed at dealers' repair shops, all parts are replaced on the vehicle (regardless of whether they are actually worn out) at costs that can exceed ¥150,000 ($1,190 at ¥126=1.00). Penalties for noncompliance are ¥200,000 or $1,587. Japanese OE manufacturers dominate about 90 percent of the total parts and accessories aftermarket. OE parts manufacturers are reluctant to use non-OE parts during shaken or other repair services because of their long relationships to auto manufacturers.[32]

U.S. parts and equipment sales to Japanese transplants in the United States

As of May 1991, Japanese investments in auto facilities in the United States totalled $6.2 billion. Japanese transplants currently have the capacity to produce approximately 1.8 million autos and light trucks and will have the capacity to produce 2.1 million units by 1992.[33] At the end of 1990, seven

[22] "U.S. Carmakers Partly to Blame," *Seattle Post-Intelligencer*, Jan. 10, 1992, p. A12.

[23] Left-hand drive vehicles are considered to be a status symbol on luxury autos and on those autos perceived by Japanese consumers to be prestigious.

[24] "Japanese Don't Buy U.S. Cars Because of Gas-Guzzler Image, Survey Shows," *The Weekly Japan Digest*, Sept. 16, 1991, pp. 4 and 5.

[25] "Japan Irked as Bush Visit Turns Into A Trade Quest," *New York Times*, Dec. 22, 1991, p. 16.

[26] Ibid.

[27] USITC *Phase I: Japan's Distribution System*, pp. 60-61.

[28] USTR *1991 National Trade Estimate Report on Foreign Trade Barriers*, March 1991, p. 135.

[29] *American Chamber of Commerce in Japan, United States-Japan Trade White Paper*, 1990, pp. III.5 - III.6.

[30] See, for example, USITC *Operation of the Trade Agreements Program*, 40th Report, 1988, USITC Pub. No. 2208, p. 112.

[31] *Distribution System of the Japanese Auto Parts Aftermarket*, pp. 10-11.

[32] *Distribution System of the Japanese Auto Parts Aftermarket*, p. 16.

[33] "Keiretsu, The Effects of Corporate Inter-Relationships on Japanese OEM Sourcing," Motor & Equipment Manufacturers Association, 1990, p. 1.

Japanese auto producers were involved in U.S. manufacturing operations either by themselves or through joint ventures with U.S. auto producers. In addition, Japanese companies owned 216 parts suppliers in the United States.[34]

The U.S. auto parts industry has expressed concerns about increasing numbers of Japanese parts suppliers moving to the United States and the low levels of procurement of parts from U.S. suppliers by Japanese transplants.[35] Japanese parts suppliers have followed the major OEMs to the United States and established facilities for a number of reasons including the appreciation of the yen against the dollar after 1985 which was expected to reduce the price competitiveness of Japanese exports to the United States; fears that domestic content legislation would be enacted, placing restrictions on imports of Japanese parts; incentives provided by Japanese manufacturers in the United States to encourage parts producers to locate nearby; and close ties or affiliations between parts suppliers and their customers.[36] The majority of Japanese investments in the auto and auto parts industries are characterized by keiretsu or other close relationships among Japanese producers and suppliers.[37] The U.S. auto industry has criticized these relationships for resulting in "implicit business contracts that preclude substantive procurement from new, 'outside' suppliers."[38] However, it has been noted that U.S. auto parts suppliers also have historical ties to specific auto manufacturers and have located near them in many cases. In addition, there are equity ties among U.S. manufacturers and their suppliers and many suppliers sell exclusively to a single manufacturer.[39] Japanese transplants claim that they have been trying to increase their purchases of U.S. auto parts, but have been unable to find reliable suppliers in the United States or suppliers who are willing to meet their specifications for high-quality parts. As evidence of their efforts to improve their purchasing records, according to Japanese producers, there are over 1,000 supply relationships between U.S. parts and equipment suppliers and Japanese auto producers, including 400 design-inrelationships.[40] The advantages and disadvantages of keiretsu, including the possible anticompetitive effects of such groupings, in the United States are currently the subject of studies by the U.S. Department of Justice, the Federal Trade Commission, and the General Accounting Office.

Developments during 1991

During 1991, the U.S. auto industry and some representatives in Congress increased pressures on Japanese auto producers through the filing of a petition with the USITC alleging dumping of minivans,[41] holding several Congressional hearings on auto-related issues, introducing trade reciprocity legislation and finally succeeding in having the issue discussed during a Presidential visit to Japan. High-level U.S. officials raised the auto issue with Japanese Government representatives at almost every opportunity throughout the year. A brief summary of the major bilateral developments follows.

In April 1991, the University of Michigan released a study, commissioned by the Auto Parts Advisory Committee (APAC), which predicted that the U.S. deficit in auto parts with Japan could reach $22 billion during 1994 and that one-half of all U.S. auto parts suppliers would go out of business by the end of the 1990's unless action were taken to curtail Japanese procurement practices.[42] [43] At the same time, the APAC recommended that the administration initiate a section 301 investigation of Japanese auto parts in the United States.[44] These events set the stage for a round of intense MOSS followup talks between the United States and Japan in July.

Pressures on Japanese producers and U.S. policymakers continued to build from other directions, as well. On June 26, for example, a joint study by the Department of Commerce and Japan's Ministry of International Trade and Industry (MITI) indicated that of 68 uninstalled aftermarket parts surveyed, 87

[34] Ibid.

[35] A September 1991 study by the U.S. Department of Commerce showed that Japanese-owned auto facilities in the United States had increased their imports of parts from Japan from next to zero in 1980 to $2 billion during 1988. "Auto Transplants from Japan Play Big Role in U.S. Trade Gap, Study Finds," *Wall Street Journal*, Sept. 23, 1991.

[36] "Keiretsu," pp. 1-2.

[37] The term "keiretsu" is generally used to describe corporate groupings in Japan whose ties among member firms are reinforced through friendly cross-shareholding, exchange of personnel, interlocking directorates, interfirm financial relations, and historical ties. Keiretsu have a large variety of characteristics or structures. In this article, keiretsu is used to refer to kigyo keiretsu (intramarket or industrial keiretsu) organized around an independent company, its subsidiaries, and affiliates. Toyota Motor Corp., for example, owns 22.2 percent in Nippondenso, one of its leading component suppliers. Nippondenso itself has relations with approximately 65 other lower tier suppliers in its "kyoryokukai" association.

[38] *Keiretsu: The Effects of Corporate Inter-Relationships on Japanese OEM Sourcing*, Motor & Equipment Manufacturers Association, 1990, p. 2.

[39] *Keiretsu*, p. 8.

[40] U.S. Department of State Telegram (unclassified) Tokyo, Nov. 25, 1991.

[41] On May 31, 1991, a petition was filed with the USITC and the Department of Commerce alleging that minivans were being sold at less than fair value in the United States. In its preliminary decision, on July 10, 1991, the USITC found reasonable indication of actual or potential material injury to the U.S. industry from minivans sold at less than fair value. On December 20, 1991, in a preliminary ruling, the U.S. Department of Commerce ruled that Japanese auto producers were selling minivans in the United States at less than fair value. The dumping margins were found to be 6.4 percent for Mazda, 0.95 percent for Toyota and 4.23 percent for other Japanese producers. The Department of Commerce will issue its final ruling on May 11, 1992.

[42] Sean P. McAlinden, et al, "The U.S.-Japan Bilateral 1994 Trade Deficit," The Transportation Research Institute, University of Michigan, Apr. 1991, 80 pages.

[43] The Auto Parts Advisory Committee is a private-sector group established under the 1988 Omnibus Trade and Competitiveness Act to increase sales of U.S. OE and aftermarket parts to Japanese auto producers in Japan and the United States. "Auto Parts Issue Heats Up Again," *Japan Economic Institute*, Aug. 9, 1991, p. 9.

[44] Ibid.

percent were priced higher in Japan than in the United States and for 65 installed parts surveyed, 80 percent were priced higher in Japan than the same or comparable U.S. parts.[45] Also in June, the U.S. Customs Service announced an audit of Honda Manufacturing's operations in Canada to investigate whether Honda had complied with the 50 percent North American content requirement under the United States-Canada Free-Trade Agreement. Customs began investigating whether Honda should have paid duties on vehicles produced at its facility in Allison, Ontario. A preliminary version of the audit showed that Honda autos contained only 36 percent North American content.[46] [47]

During July 23 through 24, followup MOSS talks were held in Tokyo when Japan agreed to add the issue of how to increase U.S. sales of autos in Japan to the agenda. The two countries agreed to conduct research on the distribution of autos in Japan and Japanese safety and inspection requirements. The scope of the studies was to be further defined at high- level meetings in September. The studies currently underway cover three major areas: costs resulting from homologation/certification processes (environmental guidelines and standards and certification procedures), business practices associated with distribution of auto parts in Japan, and case studies of the experiences of Japanese, U.S., and European auto firms in entering Japan's market.[48]

In September, Toyota became the first major Japanese manufacturer to publish a compliance manual under new guidelines issued by the JFTC covering reciprocal, exclusionary, discriminatory, price restrictive, or cartelized practices. During the Structural Impediments Initiative (SII) talks, the United States had encouraged the JFTC to take steps towards stricter enforcement of its antimonopoly law. The Toyota booklet, designed for internal use and based on voluntary compliance, provides specific examples of illegal actions. Such actions include demanding that dealers take unpopular car models as a condition for accepting popular car models or jointly acting with parts manufacturers to refuse transactions with overseas suppliers. The JFTC is encouraging other companies to take such measures to ensure compliance with the antimonopoly law, however, actual implementation of the manuals is up to each individual company.[49]

At the Tokyo Motor Show in October, Undersecretary Michael Farren told the Japanese that the United States was looking for improvements in the trade imbalance. Leading U.S. manufacturers renewed their calls for a fixed ceiling on the overall share of the U.S. auto market, including production from Japanese transplants unless the bilateral trade imbalance in this sector is lowered. The Japanese indicated at that time that they favored extending the current limit of 2.3 million vehicles per year even though it has never been filled since it went into effect.[50] Then in November, Secretary of State Baker asked Prime Minister Miyazawa to address the issue of the trade imbalance in autos and parts.[51]

Shortly thereafter, Japan's five largest auto producers announced that they would increase their purchases of U.S.-made auto parts to $17.2 billion by the end of JFY 1994. In JFY 1990, Japanese purchases totalled less than half of this level of $8.5 billion.[52] Japanese firms claimed that the share of domestically made parts (including both traditional U.S. suppliers and Japanese suppliers in the United States) in vehicles produced in the United States would rise from 50 to 70 percent.[53] However, current estimates on the domestic content of Japanese autos are inconclusive and U.S. auto analysts dispute the Japanese claim of a current level of 50 percent domestic content. Toyota planned to increase its purchases to $5.0 billion, consisting of $3.6 billion of parts, materials and equipment from local suppliers by its U.S. transplants; $1.0 billion of parts from the United States by producers in Japan; and $400 million of U.S. machine tools and other items. Nissan and Honda planned to purchase $3.3 billion and $4.5 billion in U.S.-made auto parts, respectively. Mitsubishi intended to purchase $1.4 billion from U.S. suppliers and Mazda announced it planned to purchase $3.0 billion from U.S. firms.[54] Toyota, Nissan and Mitsubishi also announced plans to allow their dealers to handle brands of autos other than their own.

On December 4, President George Bush invited high-level executives from 15 U.S. companies, including the heads of the "Big Three" to accompany him on a trade mission to pressure Japan to open its market to foreign products.[55] The President's trip to Japan and Southeast Asia had originally been scheduled as a "goodwill" tour to help shore up U.S. relations in the region. However, mounting calls for President Bush to devote more attention to the domestic economy after the 1991 November elections led to the cancellation of his visit to Tokyo, following the 50th anniversary of Pearl Harbor on

[45] "Japan Car Parts Study May Fuel Fresh U.S. Anger," *Financial Times*, June 28, 1991, p. 6.

[46] "U.S. Won't Finish Probe of Canadian Honda Until February, Treasury Says," *Japan Digest*, Oct. 21, 1991, p. 5.

[47] "Honda's Claims Raise Doubts About Japan's Positive Impact," *San Francisco Chronicle*, Oct. 14, 1991, p. B1. The audit is expected to be completed in 1992.

[48] "U.S., Japan Set Parameters for Auto Study," *Washington Trade Daily*, Sept. 26, 1991, p. 3.

[49] U.S. Department of State Telegram (unclassified) Tokyo, Sept. 28, 1991.

[50] "Japanese Auto Execs Oppose U.S. Calls to Restrict Their Market Share," *Japan Digest*, Oct. 21, 1991, p. 5.

[51] "Article Views Automobile Debate With U.S.," *FBIS*, Nov. 25, 1991, p. 7.

[52] U.S. Department of State Telegram (unclassified) Tokyo, Nov. 25, 1991.

[53] Ibid.

[54] U.S. Department of State, Telegram (unclassified) Tokyo, Sept. 28, 1991.

[55] "Bush Invites Executives on Asia Trade Mission," *Washington Post*, Dec. 5, 1991.

December 7.[56] [57] By the time the President left for Southeast Asia, the trip was billed as a mission to secure jobs for Americans.

Even before the President arrived in Tokyo, Japanese Government and industry officials were reportedly frustrated that further demands were going to be made on Japanese firms to increase their purchases of U.S. auto parts despite the fact that all five major Japanese producers had announced procurement plans for U.S.-made parts one month before the summit. Following intense meetings in Tokyo on January 8 and 9, Japan announced that it would increase its purchases of U.S. auto parts from a level of $9 billion during JFY 1990 to $19 billion by JFY 1994. About $15 billion of the total $19 billion procurement would result from procurement of U.S. parts by Japanese auto firms in the United States, assuming a 50 percent increase in production by Japanese transplants in the United States.[58] This target could be met through purchases from Japanese-owned parts suppliers in the United States. Japanese imports of U.S. parts and vehicles would be expected to increase from $2 to $4 billion.[59]

Immediately, following the announcement of the import promotion measures, the "voluntary commitments" by Japanese auto producers were criticized by the auto industry executives themselves, government officials and analysts. Critics charged that if fulfillment of previous "action plans" was any indication, the new promises by Japan were unlikely to result in substantial improvement in the bilateral trade deficit. The import program was unlikely to address other fundamental factors that contribute to the U.S. trade deficit and affect U.S. competitiveness such as the U.S. budget deficit, relatively low savings rates, U.S. corporate emphasis on short-term profits, lower levels of spending on research and development, and other characteristics of U.S corporate and auto industry behavior.

Within just a couple of weeks, disagreement between the two countries over interpretation of the announcement emerged following Prime Minister Miyazawa's remark that the Japanese auto companies' import goals were considered by the Japanese to be "targets" and not "commitments," contrary to the U.S. view. The Prime Minister's remarks set off a storm of angry protests from U.S. auto industry representatives and policymakers who claimed that his statement demonstrated that the Japanese planned to renege on what the U.S. had viewed as an agreement. However, Japanese leaders attempted to reassure the U.S. Government and industry that the previously announced targets could be referred to as "promises" and that they would attempt to meet their goal of importing 20,000 more U.S. cars annually. There remained considerable skepticism among U.S. observers and the U.S. administration announced that it would hold meetings with MITI in late February or March to follow up on the agreement.[60] Thus, similarly to previous agreements there was confusion over exactly what had been agreed to by the two countries. There was uncertainty regarding the prospects for increased sales of vehicles and parts in Japan or to Japanese auto makers in the United States. At the end of the year, a cloud continued to hang over the future competitiveness of the U.S. auto industry.

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[56] "Japan Irked as Bush Visit Turns Into Trade Quest," *New York Times*, Dec. 22, 1919, p. 16.

[57] General Motors' announcement of massive lay-offs and plant closings in mid-December created further pressures on the President to raise the auto issue in Tokyo.

[58] The White House, Office of the Press Secretary, "Fact Sheet on U.S.-Japan Achievements on Auto and Auto Parts," Tokyo, Japan, Jan. 9, 1992.

[59] Japan also announced measures intended to increase imports of mainframe computers, paper products, and flat glass. The Japan Fair Trade Commission will study these industries from the perspective of competition policy. The White House, Office of the Press Secretary, "Fact Sheet on U.S.-Japan Achievements on Economic Issues," Tokyo, Japan, Jan. 9, 1992.

[60] "U.S. and Tokyo Scramble to Clear Up Confusion on Language of Trade Pact," *Wall Street Journal*, Jan. 22, 1992.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1988-September 1991

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

Country	1988	1989	1990	1990 IV	1991 I	II	III	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	5.4	2.6	1.0	-7.2	-9.6	2.4	6.3	-7.7	5.9	10.7	10.6	8.1	0	1.1
Japan	9.5	6.2	4.5	6.9	-0.5	-2.7	1.5	-22.3	5.8	27.4	-29.3	42.7	-22.9	-1.9
Canada	4.4	2.3	0.3	4.8	-1.2	-6.1	-3.1	-7.3	-7.4	-5.4	-2.2	-2.2	-5.4	-2.2
Germany	3.2	5.3	5.9	6.7	0.6	8.3	([1])	([1])	53.7	-24.5	29.0	-3.8	-24.0	([1])
United Kingdom	3.7	0.3	-0.8	-6.8	-1.1	-4.1	([1])	1.1	-25.6	-4.5	47.1	-3.3	-16.5	([1])
France	4.1	3.6	1.1	-10.2	1.0	4.5	([1])	-27.8	50.7	-2.1	3.2	10.0	0	([1])
Italy	6.9	3.9	-0.7	-8.1	3.9	-3.5	([1])	2.1	-22.1	17.0	30.6	-25.8	-37.3	([1])

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, December 13, 1991.

Consumer prices, by selected countries and by specified periods, January 1988-October 1991

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

Country	1988	1989	1990	1990 IV	1991 I	II	III	May	Jun.	Jul.	Aug.	Sept.	Oct.
United States	4.1	4.8	5.4	7.0	3.5	2.1	3.0	3.6	2.7	2.7	2.7	4.5	([1])
Japan	0.7	2.3	3.1	6.0	4.3	0.9	2.0	1.6	1.4	3.5	2.5	-2.8	1.0
Canada	4.0	5.0	4.8	6.9	11.3	2.6	2.7	1.6	4.9	1.9	2.9	0	([1])
Germany	1.3	2.8	2.7	4.2	1.4	3.5	7.8	4.1	6.8	15.2	2.2	3.3	([1])
United Kingdom	4.9	7.8	9.5	6.1	4.2	4.2	4.2	4.0	6.2	4.7	2.1	2.9	([1])
France	2.7	3.5	3.4	4.4	2.3	2.2	3.1	3.1	3.1	3.3	3.1	2.3	([1])
Italy	5.0	6.6	6.1	6.9	6.9	6.2	5.7	6.5	7.3	5.0	4.8	5.0	5.2

[1] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, December 13, 1991.

Unemployment rates, (total labor force basis)[1] by selected countries and by specified periods, January 1988-November 1991

Country	1988	1989	1990	1990 IV	1991 I	II	III	Jul.	Aug.	Sept.	Oct.	Nov.
United States	5.4	5.2	5.4	5.8	6.4	6.7	6.8	6.7	6.7	6.7	6.8	6.8
Japan	2.5	2.3	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.1	([1])
Canada	7.7	7.5	8.1	9.1	10.1	10.3	10.4	10.4	10.5	10.2	10.3	10.3
Germany	6.2	5.6	5.2	4.8	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4.5
United Kingdom	8.2	6.4	6.4	6.7	8.1	9.1	10.0	9.7	9.9	10.1	10.2	10.3
France	10.1	9.9	9.2	9.2	9.2	9.6	10.0	9.8	10.0	([1])	10.2	10.3
Italy[2]	7.8	7.7	6.9	6.8	6.8	6.9	6.6	6.7	([3])	([3])	([3])	([3])

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

[2] Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11-12 percent in 1986-1990.

[3] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

[4] Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Deapartment of Labor, January 1992.

Money-market interest rates,[1] by selected countries and by specified periods, January 1988-December 1991

(Percentage, annual rates)

Country	1988	1989	1990	1990	1991										
				IV	I	II	III	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
United States	7.8	9.3	8.3	8.1	6.8	6.1	5.8	6.0	6.1	5.9	5.6	5.5	5.3	4.9	5.0
Japan	4.4	5.3	6.9	7.5	7.7	7.6	7.6	7.6	7.6	7.6	7.6	7.6	9.3	9.5	(2)
Canada	9.6	12.2	13.0	12.3	10.5	9.2	8.7	9.1	8.8	8.8	8.7	8.6	(2)	(2)	(2)
Germany	4.3	7.0	8.5	8.9	9.1	9.0	9.2	8.9	9.0	9.1	9.2	9.2	9.2	(2)	(2)
United Kingdom	8.9	13.3	14.8	13.8	13.1	11.5	10.7	11.4	11.2	11.1	10.9	10.2	11.5	(2)	(2)
France	7.9	9.2	10.3	10.1	9.7	9.3	9.5	9.2	9.6	9.6	9.5	9.4	10.4	10.5	(2)
Italy	11.0	12.7	12.7	13.0	12.7	11.7	11.8	11.5	11.5	11.9	11.9	11.7	8.4	8.5	(2)

[1] 90-day certificate of deposit.

[2] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Federal Reserve Statistical Release, November 12, 1991 Economic and Energy Indicators*, Central Intelligence Agency, December 13, 1991.

Effective exchange rates of the U.S. dollar, unadjusted for inflation differential, by specified periods, January 1988-December 1991

(Percentage change from previous period)

Item	1988	1989	1990	1991	1990	1991								
					IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.
Unadjusted:														
Index[1]	88.0	91.3	86.5	85.5	81.7	82.8	87.7	87.6	84.0	87.8	86.1	85.3	83.8	82.8
Percentage change	-6.5	6.4	-5.3	-1.2	-4.2	1.3	5.6	-.1	-4.1	-1.2	-1.9	-.9	-1.7	-1.2
Adjusted: Index[1]	87.4	91.8	88.1	87.0	84.1	85.2	89.6	88.4	85.6	88.8	86.8	86.9	85.4	84.4
Percentage change	-4.8	6.8	-4.0	-1.2	-3.1	1.3	4.9	-.1	-3.2	-1.6	-2.3	-1.0	-1.7	-1.2

[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, January 1992.

Trade balances, by selected countries and by specified periods, January 1988-November 1991

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

Country	1988	1989	1990	1990 IV	1991 I	II	III	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.
United States[1]	-118.5	-109.1	-100.5	-104.4	-68.8	-52.2	-77.7	-54.0	-57.4	-45.5	-71.4	-78.4	-83.2	-75.8	-42.8
Japan	94.9	77.4	63.2	66.0	87.6	94.0	(3)	92.4	92.4	104.4	99.6	115.2	(3)	(3)	(3)
Canada	8.2	5.9	9.3	9.6	9.2	10.4	(3)	9.6	12.0	8.4	1.2	12.0	(3)	(3)	(3)
Germany[2]	72.9	72.0	60.4	32.8	13.6	-0.8	(3)	13.2	-3.6	-7.2	0	16.8	(3)	(3)	(3)
United Kingdom	-37.5	-39.3	-32.0	-23.2	-21.6	-14.0	-14.4	-18.0	-19.2	-7.2	-12.0	-15.6	-15.6	(3)	(3)
France	-5.5	-7.0	-9.4	-13.6	-10.4	-5.2	-7.6	-3.6	-4.8	-7.2	-8.4	-7.2	-7.2	(3)	(3)
Italy	-11.1	-13.0	-11.8	-17.2	-1.6	-17.2	-18.4	13.2	-20.4	-10.8	-26.4	-10.8	-21.6	(3)	(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.

[3] Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, December 13, 1991 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, January 17, 1991.

U.S. trade balance,[1] by major commodity categories,and by specified periods, January 1988-November 1991

(In billions of dollars)

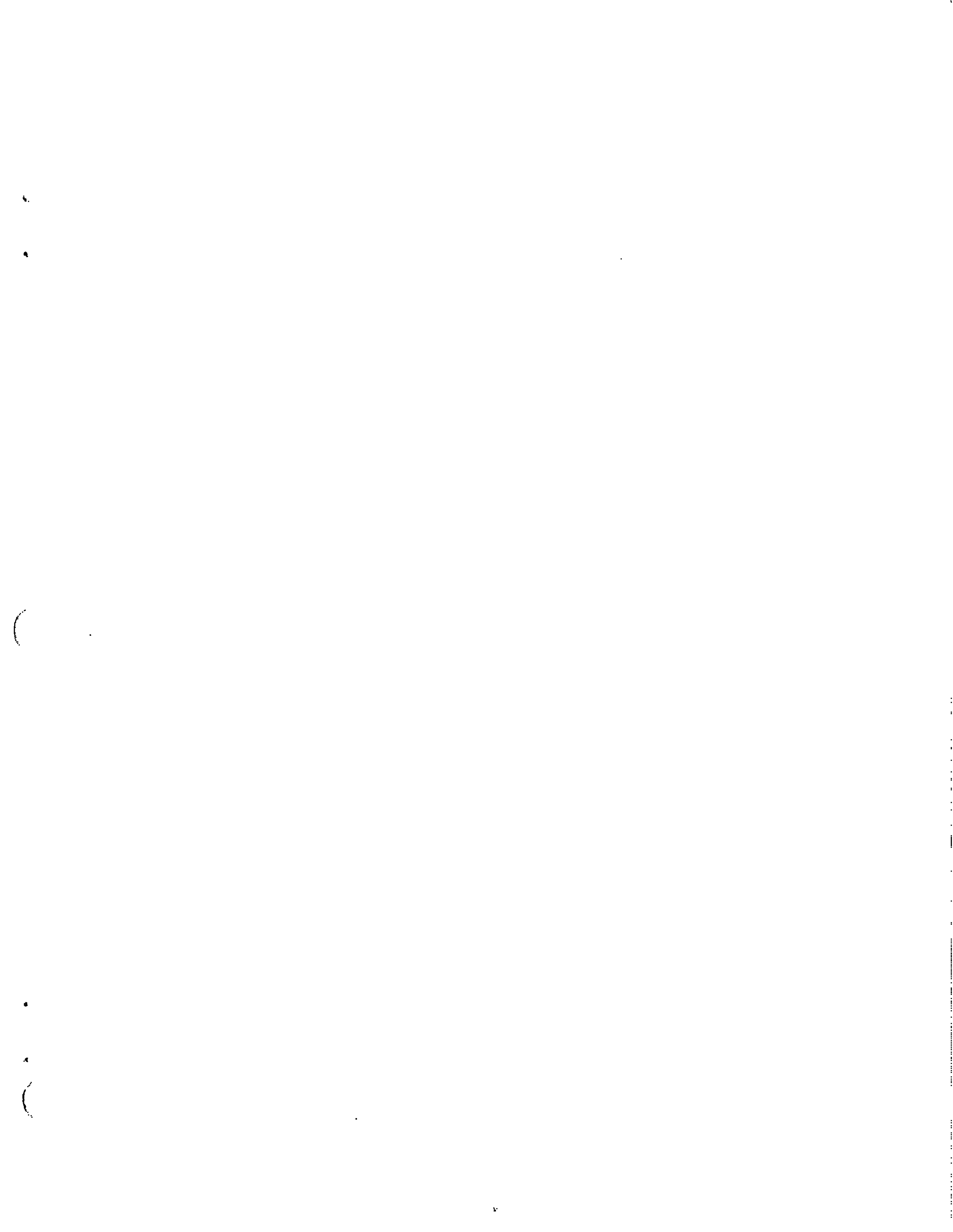
Country	1988	1989	1990	1990 IV	1991 I	II	III	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.
Commodity categories:														
Agriculture	13.9	17.9	16.3	4.2	4.4	2.8	3.3	1.0	.8	1.1	1.1	1.1	1.5	2.1
Petroleum and selected product-(unadjusted)	-38.1	-44.7	-54.6	-16.2	-10.4	-10.0	-10.9	-3.3	-3.4	-3.3	-3.9	-3.7	-3.5	-3.3
Manufactured goods	-146.1	-103.2	-90.1	-24.3	-14.7	-10.5	-20.9	-3.3	-3.6	-7.6	-7.0	-6.2	-9.3	-5.7
Selected countries:														
Western Europe	-12.5	-1.3	4.0	.6	5.7	5.1	1.9	1.3	1.7	-.01	.7	1.3	.5	1.7
Canada[2]	-9.7	-9.6	-7.5	-2.8	-1.4	-1.0	-1.5	-.3	-.4	-.4	-.7	-.3	-.3	-.6
Japan	-51.7	-49.0	-41.0	-11.7	-10.3	-8.9	-11.7	-2.4	-3.2	-3.8	-3.7	-4.2	-4.6	-3.4
OPEC (unadjusted)	-8.9	-17.3	-24.3	-7.1	-4.3	-3.3	-3.5	-1.3	-1.0	-1.1	-1.4	-1.0	-1.1	-.8
Unit value of U.S. imports of petroleum and selected products (unadjusted)[3]	$18.12	$16.80	$20.34	$28.20	$19.57	$16.44	$16.65	$16.55	$16.39	$16.08	$16.79	$17.09	$17.98	$18.04

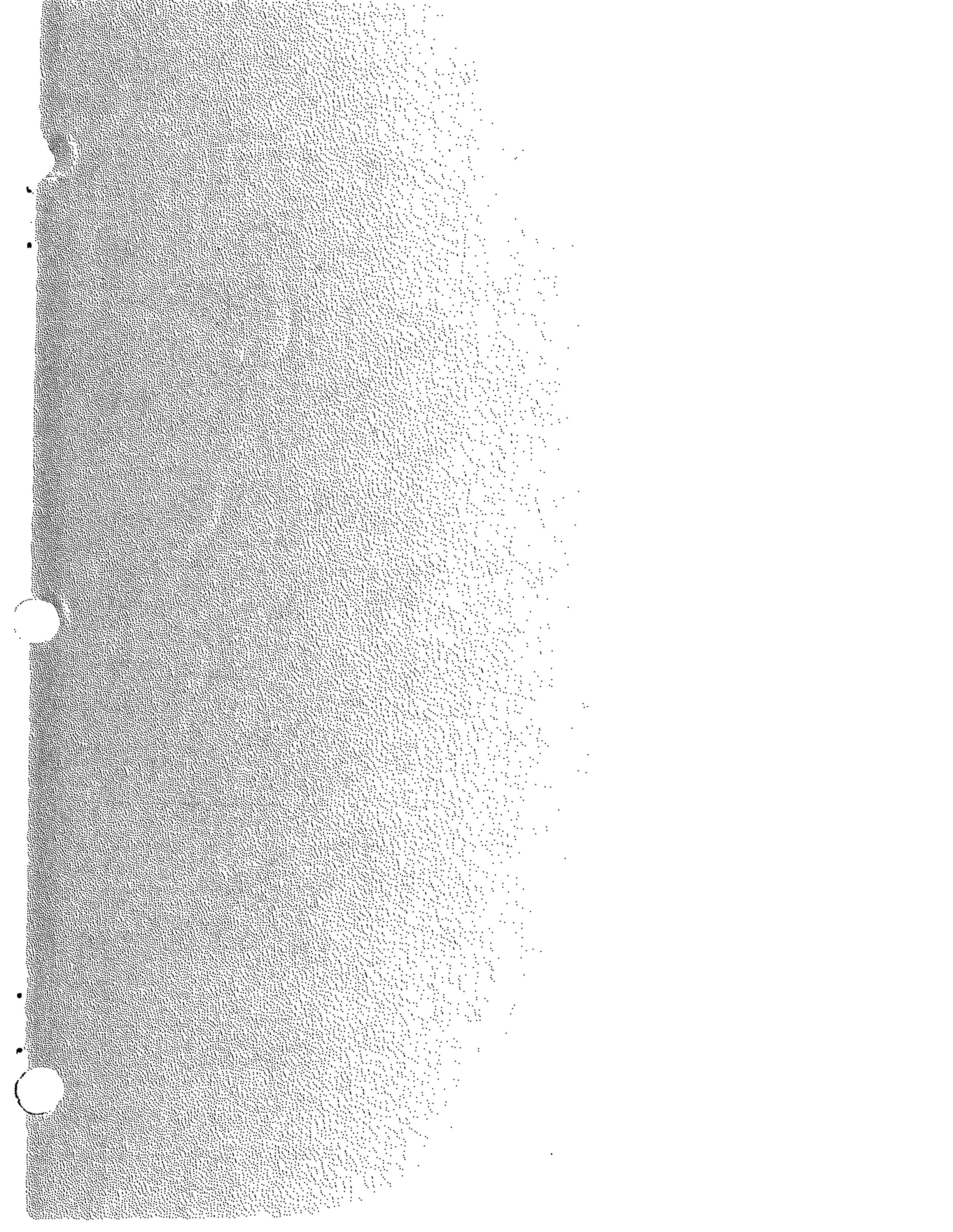
[1] Exports, f.a.s. value, unadjusted. 1986-88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.

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

[3] 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, January 17, 1991.





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