# INTERNATIONAL ECONOMIC REVIEW

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# INTERNATIONAL ECONOMIC COMPARISONS

The Federal Government's deficit is declining and this should help efforts to balance the Nation's trade account. The Federal deficit, which reached $221 billion in fiscal 1986, is forecast to fall within the range of $173 to $190 billion during fiscal 1987, and to subside between $108 and $140 billion during fiscal 1988. Estimates vary according to assumptions of economic growth and the effects of the new tax system. Even if the deficit reaches $140 billion during fiscal 1988, which is about $32 billion above the Gramm-Rudman deficit reduction target, the rate of reduction would be $40 billion per year since the end of fiscal 1986. Even at this slower-than-desired pace, interest rates and, consequently, the price of the dollar on foreign-exchange markets, could be kept sufficiently low to ensure the success of the long overdue U.S. export offensive.

What casts a shadow on this comforting view is the Federal debt of well over $2.0 trillion, which will remain even if the war to reduce the deficit is finally won. Moreover, the Federal debt is only one of the several clouds that looms larger every day over the Nation's financial landscape. Mortgage debt, shared by households and businesses, has reached roughly $2.5 trillion, and corporate credit market debt for nonfinancial institutions was last reported at $1.6 trillion. Consumer debt is at $600 billion, and the $200-billion net foreign debt is estimated to be growing by $100 billion per year. Private, public, domestic, and foreign debts are linked through a complex system of financial markets. This long-established and smoothly working system has proved to be much more resilient than many pessimistic analysts have estimated during the past 20 years. It has withstood imprudent schemes and economic fluctuations of considerable amplitude. But most economists agree that the debts and creative financial methods that developed during this decade of deregulation might have serious adverse consequences in the event of a new recession.

Despite U.S. efforts to comply with the request of trading partners to reduce the Federal deficit, West Germany and Japan have failed so far to comply with U.S. requests to pursue more expansionary economic policies. The U.S. view is that more dynamic growth in Europe and Japan would help avoid the unpalatable alternatives of protectionism or recession as means of narrowing U.S. trade imbalances. These "solutions" to the trade deficit might well lead to a contraction of world trade and welfare. Japan and West Germany are concerned that adopting stimulative fiscal and monetary policies would jeopardize their long-term economic prospects. Press comments suggest that administration spokesmen remained impassive in face of the December plunge in the U.S. merchandise trade deficit because they did not want to supply European and Japanese policymakers with arguments against the U.S. call for more stimulative economic policies in their countries.

## U.S. External Balances

The U.S. merchandise trade account showed a record deficit of $169.8 billion (C.I.F. basis) for 1986. The $145.0 billion deficit in manufactures trade was also a new record and the $58.6 billion-deficit with Japan was the worst bilateral trade imbalance in the Nation's history. But the monthly deficit declined sharply from a revised $15.4 billion in November to $10.7 billion in December 1986, the lowest monthly deficit since March 1985. Declines in imports rather than increases in exports accounted for the improvement. From November to December 1986, exports declined by 0.9 percent and imports by 23.1 percent. The deficit decreased with Japan, Canada, the European Community (EC), and the developing countries as a whole. In the critical area of manufactures trade, the deficit shrank from $16.8 billion in November to $9.8 billion in December. This was primarily the result of sharp drops in the imports of telecommunications equipment and autos. Although imports of oil and oil products showed moderation from November to December 1986, experts believe that the U.S. oil import bill is on the rise. A substitution of imported for domestically produced oil and successful production-restraining agreements by members of the Organization of Petroleum Exporting Countries are the basis for this view. The surplus in U.S. agricultural trade increased from November to December, 1986.

The United States, the world largest international debtor, had an estimated net debt of $200 billion at yearend 1986.

## Other External Balances

Japan's merchandise trade surplus in current dollar terms surged by 65.5 percent, from $56.0 billion in 1985 to $92.7 billion in 1986. In yen terms, however, the surplus widened by only 26.0 percent. In current dollar terms Japanese exports increased by 19.0 percent during 1986, but the volume of these exports declined by 1.2 percent. (For more on the distorting effect of the recent shifts in the dollar-yen exchange rate, see *IER*, January 1987.) Japan's motor-vehicle exports declined from 6.7 million units in 1985 to 6.6 million units in 1986. This was the first year-to-year decline since 1982. For the month of December, 1986, shipments were 17.8 percent below their level one year earlier. These drops are blamed primarily on reduced shipments to the Middle East and East Asia. According to Japanese sources, Japan's motor-vehicle shipments to the United States and Europe increased by 10 percent from 1985 to 1986.

The value of manufactured product exports from the developing countries may have exceeded earnings from energy products in 1986, according to the General Agreement on Tariffs and Trade (GATT). If final data agree with the preliminary estimates, this would be a historical "first" and it has been characterized by GATT as a "promising feature of world trade." The developing countries' share of world exports of manufactures increased steadily from 7.0 percent in 1973 to 12.5 percent in 1985, and is expected to be above that in 1986.

## Industrial Production

U.S. industrial production increased by 0.5 percent during December 1986, following a 0.6-percent gain in November. Production, which grew at an annual rate of 3.25 percent during the fourth quarter of 1986, was only about 1 percent higher in December 1986 than it was a year earlier.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with the output in the corresponding month of the previous year, were as follows: Canada, -2.0 percent; France, 0 percent; Italy, 3.3 percent; Japan, 0.3 percent; the United Kingdom, 0.3 percent; the United States, 0.9 percent; and West Germany, 1.3 percent.

U.S. oil production averaged 8.3 million barrels a day in December 1986, 682,000 barrels less than during the corresponding month of 1985. This has rekindled fears about U.S. dependence on foreign oil as well as the plight of the Nation's energy industry. Crude steel production in the non-Communist world declined by 4.3 percent last year, according to the International Iron and Steel Institute. The drop in U.S. production was 8.0 percent; in the EC 7.2 percent; and in Japan, 6.6 percent. Offsetting these declines in the industrialized world were some output gains in the developing countries: Brazil's steel output increased by 3.9 percent during 1986.

## Investment

Nonresidential investment in the United States declined slightly from $454.4 billion during the third quarter of 1986 to $451.0 billion during the fourth quarter. Residential investments edged up from $197.2 billion to $199.3 billion during the period.

Among the explanations for the spectacular increase in U.S. stock and bond prices during the early weeks of 1987, ample supplies of credit, low nominal rates of interest and inflation, and hope for an export boom generated by the low price of the dollar in foreign-exchange markets figured most prominently. These factors evidently outweighed the negative influence of weak corporate earnings, sluggish economic growth, fiscal uncertainties, and the possibility of further drops in the dollar that could prompt a rise in interest rates and inflation. Analysts are sharply divided over the market's immediate prospects.

## Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) remained at 6.6 percent in January, the same as in December and lower than the 6.9 percent average rate reported for the full year of 1986.

The national statistical offices of other countries reported the following unemployment rates: the December rate was 9.4 percent in Canada, 11.3 percent in the United Kingdom, and 8.7 percent in West Germany. The November rate was 10.6 percent in France, 14.0 percent in Italy, and 2.8 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.) The unemployed in the EC numbered 16.4 million in December 1986, the highest monthly average ever recorded in the EC's 30-year history.

Employment in the manufacturing industries of the United Kingdom declined by 28.0 percent between 1979 and 1985, according to British reports. In the United States, the reduction was 2.0 percent during the same period; in West Germany, 8.5 percent; and in Italy, 9.4 percent.

Organization for Economic Cooperation and Development (OECD) statistics show that the number of people benefiting from job retraining programs in the United States is twice as high as that in OECD Europe.

## Prices

The U.S. Consumer Price Index advanced 0.2 percent in December. A 19.7-percent drop in energy prices is credited for keeping price rises at only 1.9 percent for all of 1986. Analysts believe that stabilizing oil prices and rising import prices will push inflation to 3.5-4.0 percent during 1987.

The annualized rate of inflation in December 1986 was 4.2 percent in Canada, 3.7 percent in the United Kingdom, and 1.1 percent in the United States. The annualized rate of deflation was 1.0 percent in West Germany during the month. The annualized rate of inflation during November 1986 was 2.4 percent in France, 4.7 percent in Italy, and 0.2 percent in Japan.

## Forecasts

### *U.S. external deficits*

The OECD forecasts that the U.S. current account (the tally of a nation's trade in goods and services, the flow of its earnings from investments and transfer payments) will run annual deficits in the order of $100 billion "for many years to come." This means that, overseas lenders willing, U.S. foreign debts will top $500 billion by the end of the decade.

Bank of America projects a total improvement in the U.S. manufactured goods trade balance by $200 billion over the next 10 years, largely as a result of the cheap dollar. Exports of high-technology products are forecast to double during the period. Exports of manufactured goods are expected to rise from $173 billion in 1986 to $200 billion in 1987.

### *Economic growth*

OECD projects a slowdown in Western economic growth during 1987. OECD expects the U.S. economy to grow at an annual rate of 3.25 percent during the first half of 1987 and, at a slower 3.0-percent rate during the second half. In Japan, economic growth is forecast to decelerate from 3.0 percent during the first half of 1987 to 2.5 percent during the second half; in West Germany from 2.5 percent to 2.0; in the EC from 2.5 percent to 2.25 percent. For the first half of 1988, OECD expects growth rates of 3.0 percent in the United States, 3.25 percent in Japan, and 2.0 percent in both West Germany and the EC as a whole.

# INTERNATIONAL TRADE DEVELOPMENTS

## United States and European Community Agree on Compensation for Lost U.S. Feedgrain Sales

On January 29, the administration abandoned its plans to impose 200-percent duties on certain EC imports in retaliation for lost U.S. feedgrain sales to Spain. The long-term trade dispute, resulting from the enlargement of the EC to include Spain and Portugal over a year ago, ended when the EC agreed to provide the United States with what was considered adequate compensation.

The immediate dispute centered on the adoption by Spain upon its accession to the EC of the EC's system of variable import levies which significantly raised Spanish tariffs on corn and sorghum. U.S. officials estimated the higher Spanish duties would cost the United States $400 million worth of corn and sorghum exports to Spain in 1986 and succeeding years. The administration demanded compensation and imposed a December 31 deadline for negotiating a permanent compensation agreement. However, no agreement was forthcoming and the administration announced its intention of imposing 200-percent duties on a range of EC imports on January 30. (See *IER*, January 1987.) With the January 30 deadline only a day away and a potentially serious trade war threatening, U.S. and EC officials approved a multifaceted compensation settlement. The accord is retroactive to January 1 and covers the years 1987–1990.

Under the agreement, the EC will ensure that Spain imports 2 million metric tons of corn and 300,000 metric tons of sorghum from non-E.C. suppliers over each of the next four years. These purchases will be made by means of either reduced-levy quotas or direct purchases in world markets under the authority of the EC Commission. Alternatively, the quota can be filled by substitute products such as corn gluten feed, citrus peels and pellets and brewing residues. Although all potential external suppliers will benefit from the agreement, the United States is expected to maintain its traditional share of the Spanish feedgrains market. Agriculture Undersecretary Daniel G. Amstutz estimates that U.S. farmers will provide about 2 million of the 2.3 million metric tons of feedgrains to be imported by Spain from outside suppliers.

The agreement also withdrew the requirement in the enlargement treaty that Portugal purchase at least 15 percent of its grains from the EC.

U.S. and EC officials estimate that non-EC sales of grains to Portugal could increase by 350-400,000 metric tons per year as a result. Already last year the United States had imposed nonrestrictive quotas on imports of EC wine, apple juice, candy and chocolate in retaliation for this provision. (See *IER*, July 1986.) The United States has now relaxed these quotas.

The EC agreed to provide further compensation in the form of lower tariffs on over 20 industrial and agricultural products including dried onions, avocados, certain fruit juices, plywood, some chemicals, aluminum sheets and silicon wafers. U.S. officials estimate that these concessions could give U.S. exporters an additional $70-100 million worth of sales annually.

Lastly, the EC agreed to extend to Spain and Portugal its current zero tariff rate on soybean products and corn gluten feed.

These negotiations took place under article 24:6 of the General Agreement on Tariffs and Trade, which covers the obligations of an enlarged customs union to its trading partners. U.S. officials indicated that this settlement represented the first time that the United States had received "full and fair compensation following an enlargement of the EC."

## Canada Deregulates Financial Services

Over the next 18 months, Canada's financial markets will undergo what has been described as the biggest shakeout since the depression. By June 30, 1988, barriers that have segmented the financial services industry and limited participation by foreign financial firms in Canada will be significantly relaxed. Presently, Canada has the most compartmentalized financial services industry of any major western country. The regulatory changes will dramatically cut the distinctions between the so-called "four pillars" of Canada's financial market. Those pillars are banking, trust and loan companies, securities firms (called investment dealers in Canada) and insurance companies. When the new policy is completely implemented, barriers between financial services firms will be cut and diversification among financial firms will be allowed, and foreign presence will be increased.

The deregulation is expected to usher in fierce competition among the new entrants, both Canadian and foreign. In addition to bankers and brokers from New York, London and Tokyo, Canadian chartered banks, trusts, and insurance companies are also planning their entry into the deregulated securities market. Although some foreign banks may purchase existing investment banking firms, others may chose to establish their own securities divisions. One analyst at Manufacturers Hanover noted that some 75 percent of the work of a large securities firm could be done by a large bank.

There have been no new foreign securities firms established in Canada since 1971. Since then, Canadian investment bankers have successfully fought for continued exclusion of foreign brokers. They argued that a country so economically dependent on the United States in other areas required a domestically owned securities industry with a nationwide service commitment. The changes take place against a backdrop of reforms instituted by the Mulroney government since 1984 which are designed to enhance competition in Canada. The main principles of the new financial services policy are (a) maintenance of strong and healthy Canadian participation; (b) fostering competition that will benefit Canadian consumers through foreign entry; and (c) protection of the ability of Canadian financial institutions to be world class participants, by assuring that non-residents' access to Canadian domestic markets is commensurate with Canadian firms' access to markets abroad. Mr. Thomas Hockin, Minister of State for Finance characterized the changes as removing "legislation designed for an earlier and less dynamic era." He predicted Canadian competitiveness will be facilitated in a time of increasingly global capital flows.

The lead to deregulate was taken by the government of Ontario, which regulates the province's securities, and most trust companies. The province, which includes the Toronto Stock Exchange, recently announced the lowering of barriers to ownership of securities firms faced by firms based outside the province and by foreigners. The cap on the single foreign ownership element of Ontario securities firms rose from 10 to 30 percent January 1, 1987. Other Canadian financial institutions will be allowed up to 50-percent ownership of investment dealerships. Ontario will also allow greater foreign participation in securities underwriting and trading, and broaden commercial lending allowed trust companies. While the provinces have regulatory authority over securities and most trust companies, the federal government regulates banks, insurance, and some trust companies.

Taken together, the federal and the Ontario reforms will dramatically cut restrictions on foreign ownership of Canadian securities firms. Beginning June 30, 1987, Canadian financial institutions will be allowed to own brokerage companies. Foreigners will not be allowed to bid on existing securities firms until that date. At that time, a 50-percent limit on foreign ownership of existing brokers will be allowed. Full foreign ownership will be permitted on June 30, 1988. The phasing of the deregulation allows Canadian firms the first opportunity to buy the largest securities firms.

The changes in financial services could affect the current U.S.-Canada Free Trade Arrangement negotiations, which include services. According to one U.S. financial industry analyst, the recent regulatory moves by Canada leave little that could be further deregulated or negotiated in Canada's financial services.

Unlike proposals for bilateral free trade with the United States, the policy of exposing financial markets to international competition is widely accepted in Canada as a precondition for international competitiveness. Although securities business may by limited by market size in Canada, deregulation is expected to precipitate repatriation of financial services which have gone to markets outside Canada. The practice of major Canadian financial deals being transacted in foreign markets may also be stemmed. Another result expected from the financial changes should be that international bankers to boost their investment in Canada as they gain more management control over those investments.

In another development, announced in late January, Montreal and Vancouver will be allowed by federal authorities to offer limited tax-free banking services to Canadian non-residents. The policy is intended to draw banking business to Canada from other offshore tax havens, such as the Channel Islands. Deposit and loan services will be offered, but not letters of credit, foreign exchange transactions or loan guarantees. The changes are aimed at attracting banking business which is presently transacted offshore without displacing business currently done in Canada.

## New Focus Provided to U.S.-Canadian Free Trade Negotiations

Canada and the United States, each other's largest trading partners, have much to gain from the free trade agreement (FTA) now being discussed. One major obstacle faced by the negotiators is to design a mechanism to resolve bilateral trade disputes. The recent settlement of the softwood lumber dispute outside of the traditional trade remedy framework has led to speculation in some quarters that this highly controversial issue may have hindered negotiations. Other commentators feel that the softwood lumber disagreement has instead underscored more than ever the need to establish common trade rules and subsidy definitions in any future free-trade understanding.

Prime Minister Mulroney made a proposal to President Reagan in November 1985, suggesting that the United States and Canada commence formal negotiations aimed at broadening trade relations. The negotiating process formally began in May 1986, the same month that a coalition of U.S. lumber producers filed a petition alleging unfair subsidization of lumber in Canada. The lumber dispute, instead of disrupting the trade talks, seemed to give them more focus. Canada's primary complaint concerning the petition initiated by the U.S Coalition for Fair Lumber Imports was that the case resurrected issues that had been settled previously in a 1982–83 case. The claim was that Canadian policies had not changed, but the U.S. interpretation of what constituted a subsidy had shifted.

The main issue that initially led to the lumber dispute was the market results of different pricing methods for Government-owned timberland in the United States and in Canada. In the United States, lumber producers bid competitively for timberland in open auctions through sealed bids. In many cases, the U.S. companies bid several years in advance for harvesting rights, so a producer's profitability requires accurate forecasting. In Canada, each Province calculates its own harvesting fees. The U.S. lumber industry petitioned the U.S. International Trade Commission and the Commerce Department, asserting that the Canadian timberland fees are set below market value and thus constitute a subsidy.

The original petition against Canadian lumber imports was initiated in November 1982, and was ultimately dismissed by the Commerce Department. Commerce could find no significant evidence that a subsidy existed. However, a later case involving carbon black from Mexico indicated a change in the U.S. definition of what constituted a subsidy. The concept of "specificity" led to the re-evaluation of government programs that in theory benefit a broad range of industries while in practice discreetly promote a specific industry. The new standard for determining which economic policies are specific enough to warrant countervailing duties led the U.S. lumber industry to renew its effort to seek countervailing duties against exports of Candian lumber. A case was instituted in May 1986 and was scheduled for a final Commerce Department determination in December 1986. A decision finding measurable subsidization would, in Canadian minds, have meant a reversal of the 1982–83 ruling.

As a result of the lumber settlement, the ongoing FTA negotiations may continue with a sharper focus. Developing a list of common trade definitions and rules as well as determining prohibited domestic subsidies will be important elements of any bilateral agreement. Canada has characterized as harassment the ability under U.S. law of any American special interest group to repeatedly file a trade complaint with the Commerce Department. Although Canada realizes the United States will not eliminate its countervailing duty (CVD) laws, nor exempt Canada from their application, it wants to be assured that the same CVD case will not have to be fought several times. In providing a highly visible example of a bilateral dispute, the U.S.-Canadian lumber problem could well establish concensus on the need for some guidelines for the negotiation of new trade rules.

## China Makes More Concessions to Foreign Investors

In October 1986, China's State Council issued new regulations to encourage foreign investment (*IER*, November 1986). The concessions provided for in this document, which was issued following a sharp decline in the contracted value of new foreign investment in China during the first 9 months of 1986, responded to many of the complaints made by foreign companies already operating in China. However, no real solution was offered for the most common and pressing problem faced by joint Sino-foreign and wholly foreign-owned enterprises—a shortage of foreign exchange to import the machinery and raw materials required for production. This problem, exemplified by the temporary shutdown of a major U.S.-Chinese enterprise, the Beijing Jeep Corp., was finally addressed in a set of supplementary measures announced on January 20.

Since opening the country to foreign investment, the Chinese authorities have expected each joint-venture enterprise to generate the foreign exchange needed to meet its own import requirements by exporting the goods it produced. In accordance with this policy, the laws and regulations governing joint Sino-foreign ventures, including the new rules issued in October, included provisions that strongly favored export-oriented enterprises. However, this export policy has essentially failed since—hampered by an indequate infrastructure, bureaucratic red tape, and problems with quality control—most of the joint ventures and wholly foreign-owned enterprises have had difficulty producing export-competitive goods in the initial stages of production. As a result, many of them have experienced severe shortages of foreign exchange needed to maintain operations.

One provision of the regulations issued in October attempted to address the foreign-exchange problem by stipulating that enterprises with foreign investment may mutually adjust their foreign-exchange surpluses and deficiencies among each other. However, apparently recognizing the inadequacy of this concession, the new provisions issued in January by the Ministry of Foreign Economic Relations and Trade (MOFERT) offer additional sources of foreign exchange to help joint or wholly foreign-owned ventures that "have run into temporary difficulties." These supplementary measures allow enterprises with foreign investment to apply to their local provincial department of MOFERT to purchase the products of other enterprises on the domestic market and export these products to balance their foreign-exchange accounts. Apart from this source, they can also apply to their local department of MOFERT for a share of the foreign exchange that the governments of all provinces and municipalities with independent plans have earned by exporting their local products through specialized foreign trade companies, and which they are permitted to retain and use as they see fit. For the first time, this latter provision gives enterprises with foreign investment potential access to substantial supplies of foreign exchange to balance their accounts.

The Chinese Government has announced that additional regulations responding to the specific concerns of foreign investors will be implemented during the next few months. One of the changes in policy being considered would encourage the formation of joint ventures in import-substitution industries by allowing them to earn foreign exchange through the sale of their products in China. This proposed regulation thus implicitly recognizes that saving foreign exchange is the functional equivalent of earning it through exporting. Enterprises with foreign investment are now permitted limited access to the domestic market, provided the products they sell do not compete directly with goods produced by wholly Chinese-owned enterprises. However, their earnings in renminbi, China's currency, are not convertible into dollars or other hard currencies.

## Deficit With Japan Reaches Record Levels, Trade Frictions Increase

The U.S. merchandise trade deficit with Japan climbed to $58.6 billion in 1986, or 18 percent over the previous year. Japan accounted for 35 percent of the total U.S. merchandise trade deficit last year. However, administration officials, albeit hesitantly, predicted a drop in the annual deficit for 1987. Preliminary statistics for the month of December showed a decline from

November's record high deficit of $15.2 billion to $10.7 billion.

Announcement of the record 1986 deficit coincided with periods of "temporary instability" in the currency markets. In an emergency meeting on January 21, the United States and Japan reaffirmed their October agreement to cooperate on exchange-market issues. In the meantime, the groundswell for trade legislation that started in the 99th Congress continued to grow, with the administration showing signs of willingness to cooperate on measures designed to enhance U.S. competitiveness.

Although agreements were reached between the United States and Japan in late 1986 on a few key issues such as machine tools and cigarettes, many important trade concerns remain. These involve several sectors that will likely be the subject of consultations and statutory action later this year including auto parts, semiconductors, telecommunications equipment, electronics, and various agricultural products. A brief summary of recent developments regarding the Kansai International Airport project, automobiles, and supercomputers follows.

### *Kansai International Airport*

The Japanese Government has finally awarded a minor share of the $6.7 billion Kansai International Airport project to U.S. companies following months of pressure by U.S. trade officials and threats of retaliation by Members of Congress (*IER*, September 1986). The first breakthrough for U.S. firms attempting to gain access to the project occurred on January 21 when Bechtel Civil Corp. was awarded a $200,000 contract to provide design consulting services to the airport management organization. Shortly thereafter, two other U.S. firms were chosen to participate in the project. Delnote Co. won a $833,300 contract for precision measuring instruments, and Rexnord, Inc. received $400,000 in licensing fees. Although press reports indicate that Caterpillar Corp. was awarded a contract to supply $86.7 million dollars worth of construction equipment, no contract had been signed as of February 19, according to company officials. Caterpillar representatives note that the amount reported by the press represents the total value of construction equipment required for a project of comparable size to the Kansai airport.

Despite the apparent success of a few firms in winning business, U.S. participation thus far amounts to less than 1 percent of the value of the megaproject. Just days after the contracts were awarded, Under Secretary for International Trade Bruce Smart reiterated U.S. demands that companies be given timely information relevant to the bidding process. In addition, Senator Frank Murkowski (R-Alaska) threatened to file a section 301 case unless the Government of Japan opens its procurement system to U.S. contractors that are looking beyond the Kansai airport to multibillion-dollar construction projects now in the planning stages for Tokyo.

### *Automobiles*

Japan's Ministry of International Trade and Industry (MITI) announced on January 27 that it would extend its voluntary restraints on exports of automobiles to the United States for the seventh consecutive year. The latest extension will be through March 31, 1988. The decision to limit exports of Japanese autos to the United States to 2.3 million units comes amid growing calls for protectionist trade legislation in Congress.

The extension of restraints is expected to have little effect on either congressional action or the sale of Japanese cars given the current influx of low-cost competitors into the U.S. market. According to some analysts, the quota extension is mainly a symbolic gesture on the part of the Japanese since it is unlikely that they will be able to sell more in 1987 than permitted under the quota level. Japanese producers have themselves lessened the import pressure by increasing their U.S. auto production by 41 percent since 1985, to 318,696 units. In addition, although the rise in the value of the yen has not yet dampened sales, it has forced Japanese producers during the past year to raise their U.S. prices by approximately 17 percent.

### *Supercomputers*

Following complaints by the U.S. industry, on December 10, 1986, the Office of the U.S. Trade Representative (USTR) announced a section 305 investigation on Japan's trade practices with regard to supercomputers. A Section 305 investigation requires the U.S. Trade Representative to provide information regarding a foreign government's trade policies or practices, relevant trade agreements, and U.S. legal trade remedies. U.S. producers allege that the Japanese Government may be engaging in industrial targeting practices. They are particularly concerned about MITI's program to develop a high-speed supercomputer by 1989.

The USTR's investigation will include an examination of the competitveness of Japan's supercomputer industry, its trading practices in the United States and third country markets, and the signficance of such technology to the U.S. economy. In addition, the issue of Japanese public sector procurement of supercomputers is expected to be discussed during upcoming market-oriented, sector-specific (MOSS) talks on electronics. The USTR's investigation and consultations with the Japanese are to be completed by March 10.

To date, there have been no sales of supercomputers by U.S. firms to Japanese Government agencies. Only one U.S. firm, Cray Research, Inc., has sold any of these machines in Japan. Cray's five supercomputer sales to private-sector firms are small in light of the 52 orders that the three major Japanese producers have won.

# STATISTICAL TABLES

## Industrial production

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

| Country | 1983 | 1984 | 1985 | 1985 III | 1985 IV | 1986 I | 1986 II | 1986 III | 1986 July | 1986 Aug. | 1986 Sept. | 1986 Oct. | 1986 Nov. | 1986 Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States ...... | 5.9 | 11.2 | 2.0 | 2.1 | 1.9 | 1.2 | -2.1 | 2.2 | 7.0 | 1.9 | .0 | 1.0 | 7.4 | 6.2 |
| Canada ........... | 5.3 | 8.8 | 4.3 | 9.4 | 6.1 | -.9 | – | – | – | – | – | – | | |
| Japan ............. | 3.5 | 11.1 | 4.6 | -.4 | -2.9 | .7 | .9 | -2.1 | -1.9 | -28.0 | 50.2 | -21.0 | | |
| West Germany ..... | .3 | 3.3 | 3.9 | .1 | .8 | -.4 | 10.2 | -5.0 | -22.2 | -6.7 | 25.9 | -21.5 | | |
| United Kingdom .... | 3.9 | 1.3 | 4.8 | .4 | .7 | 5.0 | -2.9 | 5.8 | 30.3 | 6.8 | 3.3 | -9.3 | | |
| France ........... | 1.1 | 2.5 | .5 | 7.3 | .0 | -5.8 | 6.2 | 9.2 | 9.2 | .0 | -8.4 | .0 | | |
| Italy ............... | -3.2 | 3.3 | 1.2 | -2.5 | -1.8 | 11.7 | 6.1 | -12.9 | -34.3 | -42.2 | 77.4 | -4.8 | | |

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Jan. 16, 1987.

## Consumer prices

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

| Country | 1983 | 1984 | 1985 | 1985 III | 1985 IV | 1986 I | 1986 II | 1986 III | 1986 July | 1986 Aug. | 1986 Sept. | 1986 Oct. | 1986 Nov. | 1986 Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States ...... | 3.2 | 4.3 | 3.5 | 2.6 | 4.3 | 1.4 | -1.7 | 2.6 | .4 | 2.2 | 4.1 | 1.8 | 3.3 | 2.4 |
| Canada ........... | 5.8 | 4.3 | 4.0 | 3.4 | 4.4 | 4.7 | 3.0 | 4.7 | 7.8 | 5.4 | 3.3 | 6.3 | 5.0 | |
| Japan ............. | 1.9 | 2.2 | 2.1 | 2.1 | 2.1 | .4 | .9 | -2.0 | -3.5 | -2.4 | 6.2 | 1.2 | -5.8 | |
| West Germany ..... | 3.3 | 2.4 | 2.2 | .2 | 1.0 | -.9 | -1.1 | -.5 | -2.5 | .8 | .7 | -4.9 | -1.4 | |
| United Kingdom .... | 4.6 | 5.0 | 6.1 | 3.0 | 3.2 | 4.2 | .5 | 2.6 | 1.0 | 2.4 | 8.0 | 3.0 | 11.4 | |
| France ........... | 9.5 | 7.7 | 5.8 | 4.3 | 3.2 | .9 | 1.7 | 2.6 | 1.1 | 2.7 | 4.7 | 2.0 | 3.0 | |
| Italy ............... | 14.9 | 10.6 | 8.6 | 7.2 | 6.9 | 5.9 | 5.0 | 5.1 | 3.8 | 6.8 | 2.3 | 1.9 | 3.4 | |

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Jan. 16, 1987.

## Unemployment rates

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

| Country | 1983 | 1984 | 1985 | 1985 IV | 1986 I | 1986 II | 1986 III | 1986 IV | 1986 Aug. | 1986 Sept. | 1986 Oct. | 1986 Nov. | 1986 Dec. | 1987 Jan. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States ...... | 7.5 | 7.2 | 7.0 | 7.0 | 7.1 | 7.2 | 6.9 | 6.9 | 6.8 | 7.0 | 6.9 | 6.9 | 6.7 | 6.7 |
| Canada ........... | 11.3 | 10.5 | 9.6 | 10.1 | 9.7 | 9.6 | 9.7 | 9.4 | 9.7 | 9.5 | 9.4 | 9.4 | 9.4 | – |
| Japan ............. | 2.8 | 2.6 | – | 2.9 | 2.7 | 2.8 | 2.9 | – | 2.9 | 2.8 | 2.8 | 2.8 | – | – |
| West Germany ..... | 7.8 | 7.9 | 7.5 | 7.8 | 7.8 | 7.6 | 7.5 | 7.3 | 7.5 | 7.4 | 7.3 | 7.3 | 7.3 | – |
| United Kingdom .... | 11.7 | 11.3 | 11.5 | 11.3 | 11.5 | 11.7 | 11.6 | 11.3 | 11.7 | 11.4 | 11.4 | 11.3 | 11.2 | – |
| France ........... | 9.9 | 10.4 | 10.6 | 10.3 | 10.2 | 10.5 | 10.7 | 10.7 | 10.7 | 10.6 | 10.7 | 10.7 | 10.8 | – |
| Italy ............... | 5.9 | 6.0 | 6.4 | 6.3 | 6.3 | 6.5 | 6.1 | – | – | – | – | – | – | – |

Note.—Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: Statistics provided by Bureau of Labor Statistics, U.S. Department of Labor, February 1987.

**Trade balances**

*(Billions of U.S. dollars, f.o.b. basis)*

| Country | 1983 | 1984 | 1985 | 1985 III | 1985 IV | 1986 I | 1986 II | 1986 III | 1986 July | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States[1] | -57.8 | -108.1 | -132.9 | -128.0 | -147.2 | -154.4 | -139.6 | -152.0 | -183.6 | -142.8 | -133.2 | -130.8 | -206.4 | -112.8 |
| Canada | 14.4 | 15.9 | 12.8 | 8.8 | 11.6 | 6.8 | 7.6 | 5.6 | 2.4 | 4.8 | 9.6 | 7.2 | - | - |
| Japan | 31.5 | 44.0 | 55.9 | 57.2 | 67.6 | 71.2 | 88.8 | 102.4 | 96.0 | 105.6 | 105.6 | 98.4 | 115.2 | - |
| West Germany | 16.6 | 18.8 | 25.3 | 27.6 | 29.6 | 40.8 | 52.4 | 60.8 | 62.4 | 63.6 | 56.4 | 46.8 | 57.6 | - |
| United Kingdom | -1.3 | -5.7 | -2.6 | -2.4 | -1.2 | -8.4 | -9.6 | -18.0 | -10.8 | -26.4 | -15.6 | -14.4 | -18.0 | - |
| France | -5.9 | -2.8 | -2.6 | -3.2 | -1.6 | .4 | -4.4 | 1.2 | -2.4 | 6.0 | -4.8 | .0 | -1.2 | - |
| Italy | -7.9 | -10.9 | -11.9 | -4.4 | -14.4 | -10.8 | .8 | 2.8 | -7.2 | 20.4 | -7.2 | -6.0 | 2.4 | - |

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

Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Jan. 16, 1987.

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

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

| Item | 1983 | 1984 | 1985 | 1985 IV | 1986 I | 1986 II | 1986 III | 1986 IV | 1986 July | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commodity categories: | | | | | | | | | | | | | | |
| Agriculture | 18.4 | 9.6 | 4.5 | 2.5 | 1.7 | .0 | .5 | 2.3 | -.1 | .3 | .3 | .8 | .6 | .9 |
| Petroleum and selected products, unadj | -52.5 | -45.9 | -31.8 | -12.6 | -10.6 | -7.2 | -7.2 | -6.8 | -2.6 | -2.1 | -2.5 | -2.2 | -2.5 | -2.1 |
| Manufactured goods | -78.9 | -102.0 | -134.3 | -29.7 | -31.1 | -32.4 | -36.1 | -34.7 | -15.0 | -11.1 | -10.0 | -10.2 | -15.6 | -8.9 |
| Selected countries: | | | | | | | | | | | | | | |
| Western Europe | -14.1 | -23.3 | -28.2 | -7.1 | -6.6 | -8.0 | -7.3 | -6.3 | -3.7 | -2.1 | -1.5 | -1.0 | -3.4 | -1.9 |
| Canada | -20.1 | -21.7 | -23.0 | -6.8 | -5.9 | -5.8 | -5.9 | -5.4 | -2.3 | -2.1 | -1.5 | -1.5 | -2.8 | -1.1 |
| Japan | -33.8 | -46.5 | -55.3 | -12.5 | -14.3 | -12.5 | -13.5 | -15.0 | -5.2 | -4.4 | -3.9 | -4.7 | -6.4 | -3.6 |
| OPEC, unadj | -12.3 | -10.2 | -8.9 | -3.7 | -3.5 | -1.5 | -2.1 | -1.8 | -.7 | -.5 | -.9 | -.6 | -0.7 | -0.5 |
| Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj | $28.11 | $26.59 | $15.02 | $26.35 | $22.70 | $13.40 | $11.41 | $12.60 | $11.75 | $10.89 | $11.59 | $12.28 | $12.57 | $12.94 |

Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Summary of U.S. Export and Import Merchandise Trade*, U.S. Department of Commerce, December 1986.

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

*(Percentage, annual rates)*

| Country | 1983 | 1984 | 1985 | 1985 IV | 1986 I | 1986 II | 1986 III | 1986 IV | 1986 Aug. | 1986 Sept. | 1986 Oct. | 1986 Nov. | 1986 Dec. | 1987 Jan. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United States ...... | 10.7 | 8.3 | 6.5 | 7.8 | 7.6 | 6.5 | 6.0 | 5.8 | 5.9 | 6.0 | 5.8 | 5.7 | 6.0 | 5.9 |
| Canada ........... | 11.3 | 9.7 | 8.6 | 9.0 | 11.1 | 8.9 | 6.1 | 8.3 | 8.4 | 8.5 | 8.5 | 8.4 | 8.1 | |
| Japan ............. | 6.7 | 6.5 | 4.9 | 7.0 | 6.0 | 4.7 | 4.7 | 4.4 | 4.5 | 4.8 | 4.5 | 4.4 | 4.3 | |
| West Germany ..... | 6.0 | 5.5 | 4.6 | 4.8 | 4.5 | 4.6 | 4.5 | 4.7 | 4.3 | 4.4 | 4.6 | 4.7 | 4.8 | |
| United Kingdom .... | 9.9 | 12.1 | 10.8 | 11.6 | 11.9 | 10.1 | 9.9 | 11.3 | 9.6 | 10.0 | 11.1 | 11.4 | 11.4 | |
| France ........... | 11.7 | 10.0 | 7.7 | 9.1 | 8.7 | 7.4 | 7.2 | 7.6 | 7.1 | 7.1 | 7.5 | 7.5 | 7.9 | |
| Italy ............... | 15.9 | 15.0 | 12.8 | 14.3 | 15.5 | 12.9 | 11.4 | 11.2 | 11.0 | 11.2 | 10.9 | 11.1 | 11.6 | |

Note.—The figure for a quarter is the average rate for the last week of the quarter.

Source: Statistics provided by Federal Reserve Board.

**Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential**

*(Index numbers, 1980-82 average=100; and percentage change from previous period)*

| Country | 1983 | 1984 | 1985 | 1985 IV | 1986 I | 1986 II | 1986 III | 1986 IV | 1986 Aug. | 1986 Sept. | 1986 Oct. | 1986 Nov. | 1986 Dec. | 1987 Jan. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Unadjusted: | | | | | | | | | | | | | | |
| Index number ...... | 122.4 | 127.1 | 107.8 | 117.3 | 117.8 | 106.7 | 102.8 | 103.8 | 102.3 | 102.2 | 102.1 | 103.4 | 106.0 | 97.4 |
| Percentage change ........ | 7.2 | 3.8 | -15.1 | -6.2 | .4 | -4.6 | -3.7 | 1.0 | -1.5 | -.1 | -.1 | 1.3 | 2.5 | -8.1 |
| Adjusted: | | | | | | | | | | | | | | |
| Index number ...... | 119.6 | 122.5 | 100.6 | 112.0 | 106.3 | 99.1 | 96.9 | 99.9 | 98.1 | 97.5 | 98.3 | 99.6 | 101.7 | - |
| Percentage change ........ | 6.1 | 2.4 | -17.8 | -6.2 | -5.1 | -6.8 | -2.2 | 3.1 | -1.6 | -.6 | .8 | 1.3 | 2.1 | - |

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 U.S. and in these other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: *World Financial Markets*, Morgan Guaranty Trust Co. of New York.

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