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International Economic Indicators

The U.S. real GNP grew a sluggish 2.1 percent during the first quarter of 1985, according to official U.S. Government estimates. But analysts generally anticipate a revival of U.S. economic expansion in the coming months. Private forecasts for the real growth of the U.S. economy during the second quarter of 1985 range between 2.5 and 5.5 percent. The immediate outlook for overall economic performance in the industrialized nations also remains favorable.

Many private and some official analysts now see the rising tide of imports into the United States as a threat to the vitality of U.S. economic recovery. The increasing number of investigations at the U.S. International Trade Commission may be considered a barometer of the growing pressure of foreign competition on domestic producers. ITC's caseload increased from 266 in fiscal year 1983 to 282 in fiscal year 1984. If the current trend continues, the caseload will reach 313 in fiscal year 1985 and 326 in fiscal year 1986. Foreign commentators express concern that growing U.S. trade problems will trigger protectionism in the United States and cause frictions among trading partners.

Monetary experts are strongly divided over whether central bank intervention should be used to reduce the dollar's strength. Advocates say that coordinated central bank intervention reduces market volatility and economic uncertainty. Opponents say that by distorting the free play of market forces, intervention causes misleading signals in foreign exchange markets and ultimately promotes economic inefficiencies.

Industrial production

U.S. industrial production in February slumped by a steep 0.5 percent, leaving it 0.8 percent below its record level of August 1984. Analysts cite the displacement of domestic production by foreign imports and an unseasonably harsh winter as causes of the decline. Strong demand for both consumer and capital goods, however, are expected to boost U.S. industrial output in the coming months.

The annual rates of industrial growth in the key developed countries, calculated by dividing the latest available monthly output by the output in the corresponding month of the previous year, were as follows: the United States, 2.9 percent; Canada, 4.4 percent; France, -1.6 percent; Italy, -0.4 percent; Japan, 8.6 percent; the United Kingdom, 0.6 percent; and West Germany, 1.1 percent. Britain's 0.6-percent rise in January was the first for 6 months.

The EC noted a strengthening of industrial recovery in the member countries since the summer of 1984. The latest trend indicators show a rise in the industrial production of all major EC countries in the coming months.
Employment

The rate of unemployment in the United States (on a total labor force basis including military personnel) was 7.2 percent in March, the same as in February. Seasonally adjusted unemployment rates in February as reported by national statistical organizations were as follows: Canada, 11.0 percent; the United Kingdom, 13.0 percent; and West Germany, 9.2 percent. The January unemployment rate was 11.2 percent in France, 13.7 percent in Italy, and 2.4 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see tables at the back of this issue.)

External balances

The monthly deficit in U.S. merchandise trade rose to a seasonally adjusted $11.4 billion in February from $10.3 billion in January. The February deficit was the largest since September 1984.

France's merchandise trade deficit increased from $398 million in January to $663 million in February. This made the realization of the French Government's goal of balancing the country's trade in 1985 more difficult.

Among West European nations, Spain and Greece are the most heavily indebted. External bank claims against Spain amounted to $26.5 billion, and those against Greece amounted to $12.6 billion in 1984, according to a joint report of the OECD and the BIS.

An official West German financial report indicated that the country's long-term net capital outflow almost doubled from 1983 to 1984, owing mainly to the high dollar and attractive U.S. interest rates.

Prices

The U.S. consumer price index rose 0.3 percent in February 1985. The increase was 0.2 percent in both December and January. The February rate keeps the annual rate of U.S. inflation at 3.5 percent. Some private economists expressed concern that a substantial drop in the dollar's exchange rate could quickly push the inflation rate to 5 to 6 percent, unleashing a new wage-price spiral.

In February 1985, the annualized rate of consumer-price inflation was 3.7 percent in Canada, 6.4 percent in France, and 2.3 percent in West Germany. The January rate was 8.6 percent in Italy, 2.9 percent in Japan, and 5.0 percent in the United Kingdom.

The OECD reported that the average increase in consumer prices in OECD countries was 5.3 percent in 1984, the same as in 1983. This is the lowest average inflation rate of the member countries since 1972. OECD data also show a trend of declining inflation rates during 1984.
Forecasts

The Commerce Department predicts that the U.S. merchandise trade deficit in 1985 will be in the range of $148 to $153 billion. This would represent an increase of $25 to $30 billion from the $123-billion deficit registered in 1984.

The projections of the administration, the Congressional Budget Office, and the Federal Reserve for the 1985 growth of the U.S. real GNP average 3.5 to 4.0 percent. Both the administration and the Congressional Budget Office predict that the U.S. price level will continue rising at its current 4-percent annual rate through the end of this decade.

Forecasters believe that although the Japanese economy may have passed its fastest period of expansion during this cycle, Japan faces a period of sustained recovery. European recovery is generally considered fragile and is unlikely to bring about a significant reduction in the Community's unemployment by the end of this year. The slowing pace of expansion forecast for Canada parallels the moderation of U.S. growth.

The starting date of the new round of trade negotiations is still uncertain. Even though all trading partners have agreed in principle to the new round, many observers believe that preliminary negotiations will push the start of substantive negotiations into 1986 or beyond.
International Trade Developments

U.S. frustration with Japan mounts

American frustration with Japan reached a groundswell this month, as U.S. legislators and administration officials made it clear that the continually increasing U.S. trade deficit with Japan was becoming politically intolerable. Exasperated U.S. negotiators admitted that protracted trade negotiations have failed to stop the deterioration in U.S. trade performance with Japan. A host of bills aimed at Japan worked their way through Congress, and the administration took its frustrations with Japan to the press, intimating that retaliatory measures would not be unthinkable if Japan refused to take stronger steps to open its market to foreign goods.

The U.S. trade deficit with Japan was over $37 billion in 1984, and the gap is likely to be even wider in 1985. U.S. producers of capital goods and in basic industries have been facing extreme pressures from Japanese manufactured goods in the past year. Indeed, even though autos were the leading U.S. import item from Japan in 1984, the import value of other capital goods exceeded that of transportation equipment (including autos) for the first time. Especially notable were the increases registered in Japanese shipments of office machinery, industrial equipment, and telecommunications products.

Congress apparently wished to turn up the heat in March by swiftly moving on a number of bills aimed specifically at Japan. The Senate took the lead in the effort by passing a nonbinding resolution condemning Japan's closed attitude toward foreign products and calling for swift Japanese action to open its markets to competitive U.S. goods. The House later passed a similar resolution. In early April, the Senate Finance Committee reported out legislation requiring the President to develop a list of Japan's barriers to U.S. products and to draw up a plan of action to eliminate them. Barring a satisfactory Japanese response, the bill urges the President to take retaliatory measures against Japanese products, especially autos, electronics, and telecommunications equipment.

As the drumbeat of criticisms reached a fever pitch, President Reagan and Prime Minister Nakasone were forced to intervene. The President ordered high ranking Reagan administration envoys to Tokyo in late March to forge a compromise on telecommunications trade issues (see related article below). And, on April 9 Prime Minister Nakasone made an unusual personal appeal to the Japanese people, warning that resolution of the current trade conflict must be a national priority. Indeed, the Nakasone message was viewed as the mark of a new era, in which Japan's economic outlook would shift from "export or die" to "import to survive."

Although Japanese trade barriers play some role in inhibiting U.S. shipments, fundamental economic forces also underlie the bilateral trade imbalance, particularly the loss of U.S. competitiveness in the production of some manufactured products and the high value of the dollar in foreign exchange markets. The effect of the highly-valued dollar is to make imports more attractive in the U.S. market and to undercut U.S. price competitiveness in foreign markets.
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Cyclical factors have also been crucial: because Japan was less affected than the United States by the recent recession, Japanese suppliers maintained high investment levels. They were thus well-placed to supply new capital equipment when the U.S. economic recovery picked up steam in 1983 and 1984. These shipments have played a crucial role in improving the U.S. manufacturing plant. Furthermore, the U.S. economic recovery began earlier and has been stronger than Japan's economic resurgence. U.S. imports from all sources have risen dramatically since the recovery began.

Furthermore, Japan's burgeoning trade surplus has been more than offset by massive capital outflows, most finding their way to U.S. financial markets. These funds have kept U.S. interest rates lower than they would have otherwise been and helped finance the investment needed to upgrade American productive facilities. Such investments will ultimately play an important role in reversing sagging U.S. trade performance. Nevertheless, the last month has brought into focus an increasing U.S. frustration with Japan because of its failure to take effective measures to open its markets to competitive imported goods.

Japan and United States agree on autos, steel, and telecommunications trade

The increasing acrimony in U.S.-Japanese trade relations evidenced over the past few months is hardly surprising given the weighty decisions facing policymakers in the two countries. Three major manufacturing industries--steel, autos, and telecommunications--have dominated the bilateral negotiating agenda over the past several months. But by early April, the two countries had managed to fashion compromises in each of these sectors. Partly because a protectionist backlash was feared if all restrictions were lifted, Japan decided in late March to maintain ceilings on its U.S.-bound auto shipments, albeit at much higher levels. And, after months of often heated negotiations, the two countries appear to have ironed out most of the details of a steel restraint agreement. Japan and the United States resolved some U.S. problems with Japan's new telecommunications regulations by mid-March, but it took high-level intervention at the eleventh hour for the two countries to reach a compromise on several of the more thorny telecommunications trade issues. Nevertheless, some U.S. concerns were not fully addressed. The two sides agreed to continue discussing these concerns over the next 60 days. Highlights of the specifics of the compromises reached in March are presented below:

**Autos.**--Although President Reagan announced on March 1 that the United States would not seek a fifth year of limits on Japan's car shipments, Japan apparently feared that taking no action was politically dangerous. The voluntary export restraints on U.S.-bound car shipments, imposed by Japan at the behest of the United States 4 years ago, were due to expire on March 30, 1985. On March 28, Japan decided to keep caps on its car shipments for a fifth year, but raised the ceiling on those shipments by nearly one-fourth for the year ending March 30, 1986. Japan's 2.3-million unit limit was a result of an effort to reconcile conflicting signals from the United States: President Reagan's March 1 announcement that the United States was no longer seeking voluntary limits on Japan's auto shipments, and Congress' subsequent threats to legislate car quotas. Allotments for particular Japanese makers have not yet been announced.
Steel.--The President had decided in September of last year to shield U.S. steel producers from import competition for a 5-year period. The President took this action after the U.S. International Trade Commission found that sharply increasing steel imports had been a substantial cause of harm to domestic firms and workers. Japan, which supplied nearly one-fourth of the United States' imports of steel in 1984, was among the countries most affected by the new U.S. policy.

The United States concluded agreements with seven steel supplying countries, including Japan, on December 19, 1984. These agreements commit them to sharply reduce their steel exports to the United States over a 5-year period. Japan agreed to limit its overall share of the U.S. market to 5.8 percent by capping shipments of specialty steel products and of carbon steel sheet, plate, tubular goods, shapes, and bars.

However, the two sides continued to haggle over the specific terms of the restraint agreement. Japan wanted the restraints to be embodied in a year-to-year renewable agreement, with annual reviews to examine changes in market demand and industry performance. It also wanted the flexibility to decide the mix of products to be shipped within its 5.8-percent market share. The United States wanted an agreement with rigid limits on shipments of each product. It also wanted the agreement to be retroactive to October 1, 1984 (i.e., to count all shipments since that time against the first year quota), and for it to remain in effect for 5 years, without reviews or revisions.

According to a compromise reached on March 13, Japan will limit its exports to 5.8 percent of the U.S. market for 5 years, and the agreement will be reviewed at the end of 1985 and in December 1987. Although the restraints were made retroactive to October 1, the United States will allow Japan's first-year exports to go beyond the pact's provision for advanced use or carryover of up to 8 percent of each year's global quota. The restrictions on steel will fall into six broad product categories and seven subcategories. However, Japan will be able to change the mix of shipments between categories by as much as 5 percent a year and by up to 7 percent annually on products within the categories. The two sides will also monitor exports of 18 other products. If shipments of any one of these products increase by more than 10 percent from one restraint year to the next, the United States can put the item under quota. Japan's Ministry of International Trade and Industry will allocate export shares to Japanese producers. Individual export shares will be based, in part, on average 1980-1984 exports to the United States.

Telecommunications.--After nearly 3 years of debate, Japan enacted legislation in December 1984 that will break up the monopoly held by Nippon Telegraph and Telephone (NTT) over domestic telephone and communications services. The legislation opened the door to competitors, effective April 1, 1985, in both the data services market and the market for customer provided equipment—telephones, answering machines, etc. By 1987, new competitors will be allowed to enter Japan's market for regular long distance telephone service (e.g., AT&T, MCI, and Sprint in the United States).
To ensure that all comers will have fair access to Japan's newly opened telecommunications markets, U.S. negotiators have focused their attention on the language in the ordinances implementing the NTT break-up. They wanted to make sure that the ordinances, which were slated to become operative on April 1, would not disadvantage U.S. suppliers. In particular, the United States wanted to ensure that American competitors would not face insurmountable administrative barriers—such as unnecessary technical standards, discriminatory certification procedures, or preemptive registration requirements—when trying to sell communications equipment and services in Japan.

In late March, U.S. negotiators secured a major concession: Japan agreed to accept foreign generated tests when certifying equipment to be connected to its network. It also agreed that only one, truly independent agency, would be charged with certifying the conformity of telecommunications equipment with Japanese product standards. But the United States had to resort to high level intervention before Japan would allow greater foreign input into the standards-drafting process.

The two sides are still divided over the number of standards that must be met, but Japan agreed to keep talking about disputed requirements for another 60 days. The United States has thus far been unsuccessful in its attempts to convince Japan that "harm to the system" should be the sole criteria used to judge whether equipment may be attached to the network. Japan maintains that some of the standards it is imposing are needed to maintain the overall quality of telephone services, while others would ease the transformation to a deregulated market.

Trade deficit with Canada: catalyst for protectionist legislation?

The nearly $34-billion bilateral trade deficit that the United States had with Japan in 1984 has received considerable press attention in the last few weeks. The bilateral deficit—accounting for 30 percent of the overall U.S. merchandise trade deficit—has contributed to calls on Capitol Hill for increased protection for U.S. goods. These calls have been reinforced by a perceived intransigence on the part of the Japanese on a number of current negotiating fronts.

Less in the public eye is the U.S. deficit with Canada, the nation's largest trading partner. In 1984, this deficit exceeded $21 billion. The combined U.S. deficits with Japan and Canada accounted for over half of the entire U.S. merchandise trade deficit in 1984, although trade with these two countries represented only 35 percent of total U.S. trade. The Canadian trade situation, like the Japanese, may have contributed to a number of pieces of legislation being introduced in the present session of Congress.

Currently before the House is a bill (H.R. 1088) that would impose quantitative limitations on imports of softwood lumber from Canada for a period of 5 years. The amount restricted would be a function of the average value of imports of Canadian softwood during the period 1970 through 1979. The softwood lumber problem has led to increasing concern recently, particularly in the Pacific Northwest where newspaper editorials calling for
import protection have appeared and job losses of 2,400 or more have been cited. As a result of the increase in the value of the U.S. dollar, Canadian lumber has become increasingly competitive in the United States. Lumber was the focus of bilateral trade discussions in Ottawa in February and such discussions are likely to continue in the face of congressional pressure for import curbs from Canada. The U.S. International Trade Commission, at the request of the U.S. Trade Representative, recently instituted an investigation into the conditions surrounding the importation of softwood lumber into the United States. The study is to update a 1982 ITC investigation and is expected to examine the Canadian system of valuing government-owned lumber for sale to private lumbering firms.

Two bills address the issue of swine and pork products from Canada. One--H.R. 1084--mirrors Canadian policy by quarantining imports of swine and swine products from Canada for such periods as U.S. swine products are quarantined in Canada. The other--H.R. 1085--calls for additional duties on such products from Canada and is before the House Committee on Ways and Means. The bill would direct the Secretary of Agriculture to determine whether and to what extent Canadian subsidies to swine producers are greater than U.S. subsidies. U.S. imports of Canadian articles would be subject to an additional duty equal to the amount of benefit accruing to Canadian producers or processors as a result of the subsidy. Countervailing duty (CVD) determinations are customarily made by the U.S. Department of Commerce and the U.S. International Trade Commission. A CVD investigation involving live swine and fresh, chilled and frozen pork from Canada is currently underway.

Yet another bill (H.R. 1002) would single out Canada for special tariff treatment in the importation of Canadian tourist literature into the United States. This bill is in response to comparable treatment that U.S. tourist material receives in Canada in the form of a Federal excise tax and would impose a 10-percent duty on such literature coming from Canada. A less dramatic course is suggested by H. Con. Res. 48 which expresses the sense of Congress that the President should urge the Canadian Government to discontinue its practice of imposing taxes on travel literature imported from the United States.

A concurrent resolution (H. Con. Res. 55) expressing the sense of Congress on the question of beef and veal exports to Canada is also in the legislative hopper.

A bill that would establish a fast-track method of handling surges of imports of certain fresh vegetables has been introduced into both houses of Congress. The legislation (H.R. 110 and S. 101) was triggered by a Canadian policy that imposes a surtax on imported perishable vegetables and has been the subject of repeated U.S. complaints. Entitled the Fresh Vegetable and Potato Trade Act of 1985, the bill would have the Secretary of Agriculture monitor the imports and prices of certain vegetables (cabbages, carrots, celery, lettuce, red and yellow onions, potatoes, and radishes are specifically included, but provision is made for others to be added should the need arise). The Secretary of Agriculture would also define criteria for putting a temporary surtax system into effect whenever the price of imported vegetables falls below a benchmark price or the volume of such imports exceeds those of an earlier representative period.
The likelihood of passage of these pieces of legislation varies from remote to probable. However, their significance lies in the fact that they indicate the mounting pressure for concrete action coming from the legislative branch of government. The administration, in its effort to promote open and fair trade, opposes legislation of the type described.

**EC retaliates against Canadian import restrictions on beef**

The European Community (EC) recently announced retaliatory measures it intends to take against Canadian exports in response to a dispute concerning Canadian import quotas imposed for 1985 on beef from the EC. In addition, it announced it would retaliate against Canadian import quotas on footwear from the EC in effect over the past 8 years. Following unsuccessful consultations in the General Agreement on Tariffs and Trade (GATT) on both disputes, the EC formally notified the GATT of its retaliatory duty increases on March 4, 1985.

In response to a nearly 230-percent increase in EC beef exports over 5 years, Canada notified the GATT it would impose quotas under Article XIX emergency action (on increased imports which cause or threaten serious injury to domestic producers). The 1985 Canadian quota of 2,700 tons, a fraction of last year's quota of 23,000 tons, was exceeded in the first 2 weeks of this year. Although Canada recently revised the quota upwards to 6,900 tons, the offer was rejected by the EC as inadequate.

For the past 8 years, Canada and the EC have been trying to reach an agreement, through Article XIX consultations, on Canadian import quotas on leather shoes from the EC. No satisfactory solution to the problem has arisen from these consultations. Therefore, the EC notified the GATT Secretariat of its intention to seek compensation.

In view of the failure of GATT Article XIX consultations on both issues, the EC has prepared lists of the products on which the EC would exercise its rights under Article XIX to suspend substantially equivalent concessions with regard to Canadian products. The retaliatory lists for beef affect agricultural products and the ones for footwear affect industrial products. Measures regarding agricultural goods ban imports of Hilton beef and increase tariffs on honey, maple syrup, frozen blueberries, pork and beef offal, and mustard seed. The measures on industrial products include banning imports of Canadian footwear and increasing tariffs on certain petrochemical products, textiles, and machinery. At meetings held on March 28 and 29, the EC and Canada resolved the dispute on Canadian import quotas on shoes, which means the EC will lower tariffs or raise quotas on a total of 17 products. No settlement has been reached regarding beef.

**Experts prescribe treatment for trade system malady**

Faced with stalemate among GATT members on a number of key trade problems, GATT Director General Arthur Dunkel decided to seek an independent diagnosis of the ills of the trading system. In November 1983, he invited Senator Bill Bradley and six other trade specialists from around the world to pool their expertise. The group has now assessed the malady and prescribed
solutions in a recently released report entitled *Trade Policies for a Better Future*. The report notes a malaise in which the relevance and effectiveness of GATT rules are eroding, but asserts that the GATT system of trade rules should be nursed back to good health. If well received, the report may help forge international consensus on issues that nations will have to confront in the proposed new round of multilateral trade negotiations.

The group cautions, however, that a new round of trade negotiations will not succeed unless the increase in protectionist remedies is reversed. In its report, the group observes that domestic political considerations have led to a jaundiced view of protectionism in which its costs and benefits are misperceived. While the benefits of protection are immediately visible, the report says, the costs are long term and largely invisible and thus not adequately weighed in policy decisions. It notes a fundamental irony in the use of protection to allay the consequences of economic changes that would promote sought-after growth. Protectionism, according to the report, does not save jobs for long, but preserves jobs in protected industries at the cost of jobs foregone in export industries. Pro-growth policies, rather than trade restrictions, are prescribed as the best medicine for unemployment.

Erosion of the effectiveness of the GATT system is credited partly to the inadequacy of the rules themselves. Since some inadequacies of the 1979 MTN codes are now apparent, the report says these codes should be improved and applied vigorously, particularly the one on subsidies and countervailing duties. Special treatment the GATT rules accord to sectors such as agriculture and textiles is seen as unproductive—not necessarily allowing efficient producers the maximum opportunity to compete. The report proposes that the GATT members agree to eliminate special treatment for agriculture and put trade in textiles and clothing, currently governed by the Multifiber Arrangement, under ordinary GATT rules. Rules that grant developing countries certain privileges and exceptions are characterized by the report as having provided few benefits. It estimates that if developing countries are more fully integrated into the GATT system of rights and responsibilities, they will reap greater advantages.

Some of this erosion also is ascribed to abuse and evasion of existing rules by GATT members. The group concludes that one way countries abuse the system is by stretching its built-in flexibility beyond the originally intended limits. According to the report, such abuse of rules on customs unions and free trade areas threatens the multilateral basis of the system. Countries have evaded the rules, the report says, by seeking trade advantages through bilateral agreements, such as voluntary export restraints, and national measures, such as certain nontariff barriers, for which GATT coverage is unclear (hence termed "grey area" measures). The group advises setting up a timetable for bringing these grey area measures into conformity with GATT rules.

The group recommends several oversight measures to insure a healthier system of trade rules. It calls for the rules to be consistently enforced and kept up to date. When safeguard actions against domestic injury from imports are allowed, the group says these should follow the rules and be linked to adjustment assistance and surveillance. Finally, the group recommends that the GATT strengthen its dispute settlement mechanisms and establish a permanent ministerial-level body to improve observance of existing rules or of any improved rules drawn up in the future.
March 29, 1985, the Council of Ministers of the European Community (EC) agreed to the terms of entry of Spain and Portugal into the EC. The EC extended membership to the United Kingdom, Denmark, and Ireland in 1973 and to Greece in 1981. The new agreement came 8 years after Spain and Portugal applied for membership—reflecting difficulties facing both sides in this third round of enlargement. Serious accession negotiations, which began 2 years ago, quickly became entangled in differences over exports of Spanish and Portuguese horticultural products with which the EC is already fully supplied or oversupplied—e.g., wine, olive oil, and fruits and vegetables. There was never any real European opposition to Spanish and Portuguese accession in principle, but there was considerable disagreement over the terms of accession—in particular the transition period during which both sides would eliminate trade barriers.

The target date for accession is January 1, 1986—reflecting the EC's unwillingness to further delay Spain's membership for political reasons. Meeting this date will be very difficult. The accession treaties must first be translated into all official languages of the EC—which could take several months—and then be submitted for ratification by each of the national parliaments of the EC members, Spain, and Portugal—which could take 8-10 additional months.

Disagreement over the length of time required to eliminate barriers to two-way trade stymied negotiators on both sides throughout the talks. Spain and Portugal argued for longer transition periods during which import levies and quotas on products from the EC would be progressively reduced. The EC argued for a long transition period during which imports of Iberian wine, olive oil, fruits and vegetables, steel, and textiles would be subject to progressively reduced quotas.

After a transition period, Spain and Portugal will eliminate tariffs on industrial imports from the other EC members, thus subjecting previously protected domestic industries to fresh competition. On the other hand, Iberian farm products will enjoy duty-free access to the EC market after a transition period, thus offering new export market opportunities for farm producers. Spanish and Portuguese food consumers will face higher prices as food prices are more closely aligned with the much higher EC consumer prices. Lower Spanish and Portuguese production costs could give Iberian farmers a competitive advantage in EC markets. Spain—with the world's second largest fishing fleet—will enjoy gradual access to the EC's exclusive 200-mile fishing zone. Both Portugal and Spain are expected to enjoy a considerable influx of EC regional development aid.

To compensate EC farmers in southern France, Italy, and Greece for the competitive influx of lower-priced Spanish and Portuguese farm products, the Commission has proposed a $4 billion 5-year program to assist with production cutbacks in Mediterranean-type products, particularly wine. However, the EC's 1985 budget has no allocation for the program, and final agreement has not yet been reached.
The final terms of the accession treaties are not yet available to the public. Both Spain and Portugal were probably granted transition periods of 7 to 10 years for the reduction of barriers to import trade from the EC. At the end of the transition period, most two-way trade is expected to be free of tariffs and quotas. The EC probably agreed to limit exports of beef, cereals, and some milk products to Spain in response to Spanish fears of an influx of these products. In exchange, Spain probably agreed to allow the EC to regulate imports of Spanish fruits and vegetables for up to 10 years. Limiting such shipments will buy more time for southern EC farmers to adjust to new competition. Spain probably agreed to gradually gain access to the EC's exclusive fishing zone. Portugal conceded to the EC demand that it continue to limit textile exports after accession.

Spain and Portugal may be expected to grow more dependent on the EC market as a supplier and as an importer. In addition, since Spain's external industrial tariffs are much higher than the EC's Common External Tariff, its tariffs will come down over time, thus opening up the country to outside competition. U.S. sales of oilseed products in Spain could rise as Spain applies the EC's zero-duty rate on imports of oils and fats. Given Spain's free access over time to the EC market for fruits and vegetables, U.S. sales of like products to the EC could decline. The United States Government has expressed its support for Spanish and Portuguese accession to the EC. Any trade difficulties for U.S. industries arising from enlargement may be addressed through GATT talks with the EC.

U.S.-Israel Free Trade Area to eliminate tariffs by 1995

The administration recently submitted an accord to Congress to eliminate all tariffs between the United States and Israel by 1995. This bilateral free trade area (FTA) agreement, the first that the United States has reached with any country, would eliminate tariffs and nontariff barriers on virtually all trade between the two countries. The United States and Israel began discussions toward establishment of a FTA in January 1983. Passage of the Trade and Tariff Act of 1984 provided the authority to conclude such an agreement with Israel and also provided for "fast track" congressional review. Under these expedited procedures, the proposed agreement will be submitted to both Houses of Congress following congressional consultations. Once the legislation is formally submitted, it cannot be amended and action must be taken within 60 legislative days.

As the Administration enters into consultation with Congress prior to signing the FTA and submitting implementing legislation, it is expected the proposal will receive quick and relatively easy approval by summer. According to Congressional sources, the terms of the agreement, which have been initialed by both the U.S. and Israeli Governments, will probably be modified only slightly before the FTA is made final. Although the majority of the problems in reaching such an agreement have already been ironed out, three issues remain unresolved. The first involves forming a committee to resolve any disputes between the two partners. Second, some U.S. industry representatives are fearful that the increased competitiveness of Israeli imports may cause injury to certain domestic industries. And finally, because some Israeli manufacturers receive indirect subsidies, Israel must phase out
its export subsidy programs on processed agricultural products and industrial goods and must accede to the GATT subsidies code. Before the agreement can be implemented, it must be approved by both the U.S. Congress and the Israeli Knesset.

Both countries should benefit from the FTA. A recently implemented EC-Israel FTA calls for bilateral elimination of duties on manufactured goods by 1989. As a result, the United States is concerned about the increasing disadvantage of its goods in Israel vis-à-vis European Community and views the agreement as a means to increase access to Israel's $8-billion market. An advantage the U.S. agreement will have over that of the EC is that it includes not just manufactured goods, but also agricultural products, services, and investments. Domestically, the U.S.-Israel FTA agreement is also viewed as a means to maintain good relations with Israel, since it is of strategic and political importance to the United States.

With its requests for U.S. aid increasing at a steady rate, Israel views the agreement as a means to increase its exports to the United States and thereby lessen its dependency on financial assistance. Although Israel's exports enter the United States on a most-favored-nation basis or duty free under GSP, Israel stands to gain greater stability in its exports to the United States under an FTA. Under the GSP, products are subject to limitations that admit only certain products and cut off duty-free preference when an item reaches a certain level. Israel also views the agreement as especially helpful in maintaining jobs for its highly skilled workers by increasing its exports of high-technology products.

Under the proposed agreement, tariff reductions will take place in four product categories and will be staged over a 10-year period. (Israel will continue to be eligible for GSP during the staging.) All duties on products in category I will be eliminated when the agreement is implemented. Duties on category II products will be eliminated in three phases by 1989. An initial reduction in duties on category II items will occur when the agreement is implemented; the remaining duties will be cut 60 percent by 1987 and will be eliminated by 1989. Products in category III will become duty free in eight stages. Category IV consists of items that may cause injury to the importing country if duties are eliminated. Duties on these items will remain unchanged until 1990. On the U.S. side, category IV items include cut roses, gold jewelry, leather goods, footwear, certain bromine products, olives, citrus juices, and dehydrated garlic. These items were identified by the USITC as potentially sensitive and will have no duty reductions for the first 5 years of the agreement, giving U.S. industries time to adjust to the increased competition. Israel's most sensitive category IV products include refrigerators, radio navigation equipment, and aluminum bars.
The Caribbean Basin Initiative after its first year

Since the commencement of the Caribbean Basin Initiative (CBI) on January 1, 1984, 20 of the 27 eligible Caribbean Basin countries have taken advantage of the new trade program. The Caribbean Basin Economic Recovery Act (CBERA), which became law in August 1983, outlines its benefits and requirements for participation. The centerpiece of the CBI program consists of a one-way free trade arrangement that will allow "secure longterm access to the U.S. market for 12 years" as part of a three-pronged plan to promote private-sector development. Provisions of the act include: 1) the one-way free trade arrangement; 2) indirect investment incentives as a result of duty-free access and information exchange agreements; and 3) expanded economic assistance.

Table 1 shows that the value of U.S. imports under the CBI programs was $577.7 million in 1984, accounting for 6.5 percent of all imports from the Caribbean Basin region. Total U.S. imports from the region decreased from the 1983 level of $9.0 billion to $8.9 billion in 1984 as result of a decline in imports of petroleum, which is not covered under the duty-free program.

Although there are 27 countries eligible for CBI benefits, a country must meet specified mandatory and discretionary requirements for designation. The mandatory criteria include the requirements that the country must not be Communist, must not give tariff preferences to other countries, must not violate copyrights and copyright agreements, and must enter into an extradition agreement with the United States. The discretionary requirements relate to the beneficiary government's efforts to improve the economic conditions of its country. The government must express a desire to be designated and must negotiate the discretionary terms of the agreement with the Office of the U.S. Trade Representative.

Table 2 lists all 27 countries and shows the value of U.S. imports from each of them in 1982-84. Imports from those countries designated for CBI benefits have increased over the last year from $7.1 billion to $7.5 billion, but the imports from the nondesignated countries have decreased from $2.0 billion in 1983 to $1.4 billion in 1984.

Certain products from the countries designated for CBI benefits are allowed to enter the United States duty free under regulations that are more lenient than those applying to the GSP system. For example, there is no annual review of product coverage under the CBI program, although some protection of U.S. business interests is provided by the safeguard mechanisms in effect under U.S. import-relief law. In addition, a number of products are not eligible for CBI benefits. These products include textiles and articles of apparel covered by the Multifiber Arrangement, certain types of footwear and other articles of leather, crude and refined petroleum, canned tuna fish, and watches and watch parts if they contain any materials produced in a Communist country.
Table 1.—U.S. imports for consumption from the world and from the Caribbean Basin, 1982-84

<table>
<thead>
<tr>
<th>Item</th>
<th>1982</th>
<th>1983</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports from the world—1,000 dollars</td>
<td>242,339,988</td>
<td>256,679,524</td>
<td>322,989,519</td>
</tr>
<tr>
<td>Imports from the Caribbean Basin—do</td>
<td>8,007,561</td>
<td>9,005,965</td>
<td>8,896,499</td>
</tr>
<tr>
<td>Ratio of imports from Caribbean Basin to imports from the world—percent</td>
<td>3.3</td>
<td>3.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Dutiable value of imports from Caribbean Basin—1,000 dollars</td>
<td>5,547,313</td>
<td>6,236,632</td>
<td>5,169,164</td>
</tr>
<tr>
<td>Imports under items 806.30 and 807.00—do</td>
<td>605,341</td>
<td>752,052</td>
<td>824,002</td>
</tr>
<tr>
<td>Ratio of 806.30 and 807.00 imports to dutiable imports from the Basin</td>
<td>10.9</td>
<td>12.1</td>
<td>15.9</td>
</tr>
<tr>
<td>Ratio of 806.30 and 807.00 imports to total imports from the Basin</td>
<td>7.6</td>
<td>8.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Duty-free value of imports from the Caribbean—1,000 dollars</td>
<td>2,460,248</td>
<td>2,769,333</td>
<td>3,727,335</td>
</tr>
<tr>
<td>GSP duty-free imports from Caribbean Basin—do</td>
<td>399,124</td>
<td>604,137</td>
<td>626,007</td>
</tr>
<tr>
<td>Ratio of GSP duty-free imports to duty-free imports from the Basin</td>
<td>16.2</td>
<td>21.8</td>
<td>16.8</td>
</tr>
<tr>
<td>Ratio of GSP duty-free imports to total imports from the Basin</td>
<td>5.0</td>
<td>6.7</td>
<td>7.0</td>
</tr>
<tr>
<td>CBI imports from Caribbean Basin—1,000 dollars</td>
<td>-</td>
<td>-</td>
<td>577,704</td>
</tr>
<tr>
<td>Ratio of CBI-form imports to duty-free imports from the Basin</td>
<td>-</td>
<td>-</td>
<td>15.5</td>
</tr>
<tr>
<td>Ratio of CBI-form imports to total imports from the Basin</td>
<td>-</td>
<td>-</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Source: Compiled from official statistics of the U.S. Department of Commerce.
Table 2.--U.S. imports for consumption from the Caribbean Basin, by country, designated or non-designated for CBI benefits, 1982-84

(Customs value, in thousands of dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>1982</th>
<th>1983</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Designated countries:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caricom except Guyana</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Antigua</td>
<td>4,890</td>
<td>8,809</td>
<td>7,898</td>
</tr>
<tr>
<td>Barbados</td>
<td>106,631</td>
<td>202,047</td>
<td>252,598</td>
</tr>
<tr>
<td>Belize</td>
<td>38,464</td>
<td>27,315</td>
<td>42,843</td>
</tr>
<tr>
<td>Dominica</td>
<td>2,372</td>
<td>242</td>
<td>86</td>
</tr>
<tr>
<td>Grenada</td>
<td>401</td>
<td>211</td>
<td>766</td>
</tr>
<tr>
<td>Jamaica</td>
<td>278,108</td>
<td>262,360</td>
<td>396,949</td>
</tr>
<tr>
<td>Montserrat</td>
<td>749</td>
<td>924</td>
<td>989</td>
</tr>
<tr>
<td>St. Christopher-Nevis-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anguilla</td>
<td>11,557</td>
<td>18,758</td>
<td>23,135</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>4,703</td>
<td>4,700</td>
<td>7,397</td>
</tr>
<tr>
<td>St. Vincent and Grenadines</td>
<td>1,394</td>
<td>4,276</td>
<td>2,958</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>1,628,890</td>
<td>1,317,534</td>
<td>1,360,106</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>2,077,661</td>
<td>1,847,175</td>
<td>2,095,724</td>
</tr>
<tr>
<td><strong>Central Amer. except Nicaragua:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>358,127</td>
<td>386,520</td>
<td>468,633</td>
</tr>
<tr>
<td>El Salvador</td>
<td>310,022</td>
<td>358,898</td>
<td>381,391</td>
</tr>
<tr>
<td>Guatemala</td>
<td>330,142</td>
<td>374,692</td>
<td>446,267</td>
</tr>
<tr>
<td>Honduras</td>
<td>359,553</td>
<td>364,742</td>
<td>393,769</td>
</tr>
<tr>
<td>Panama</td>
<td>250,764</td>
<td>336,086</td>
<td>311,687</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>1,608,608</td>
<td>1,820,937</td>
<td>2,001,687</td>
</tr>
<tr>
<td><strong>Other designated:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>892</td>
<td>880</td>
<td>1,335</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>622,510</td>
<td>806,520</td>
<td>994,427</td>
</tr>
<tr>
<td>Haiti</td>
<td>309,860</td>
<td>337,483</td>
<td>377,413</td>
</tr>
<tr>
<td>Netherlands Antilles</td>
<td>2,106,750</td>
<td>2,274,510</td>
<td>2,024,367</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>3,040,012</td>
<td>3,419,394</td>
<td>3,397,542</td>
</tr>
<tr>
<td><strong>Total designated</strong></td>
<td>6,726,281</td>
<td>7,087,506</td>
<td>7,494,954</td>
</tr>
<tr>
<td><strong>Non-designated countries:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bahamas</td>
<td>1,045,217</td>
<td>1,676,394</td>
<td>1,154,282</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>14,830</td>
<td>8,607</td>
<td>6,212</td>
</tr>
<tr>
<td>Guyana</td>
<td>70,655</td>
<td>67,332</td>
<td>74,417</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>86,875</td>
<td>99,013</td>
<td>58,064</td>
</tr>
<tr>
<td>Suriname</td>
<td>60,147</td>
<td>63,147</td>
<td>104,636</td>
</tr>
<tr>
<td>Turks and Caicos Islands</td>
<td>3,556</td>
<td>3,965</td>
<td>3,935</td>
</tr>
<tr>
<td><strong>Total non-designated</strong></td>
<td>1,281,280</td>
<td>1,918,459</td>
<td>1,401,545</td>
</tr>
<tr>
<td><strong>Grand total Caribbean Basin</strong></td>
<td>8,007,561</td>
<td>9,005,965</td>
<td>8,896,499</td>
</tr>
</tbody>
</table>

Source: Compiled from official statistics of the U.S. Department of Commerce.
Country-of-origin rules have been established to ensure that the designated countries will not be used as distributors for other exporting countries seeking to take advantage of the preferential duty-free rates. The basic guidelines are: 1) the product must be imported directly from a beneficiary country into the customs territory of the United States; 2) the value-added by the beneficiary country must be greater than or equal to 35 percent of the product's customs value at the time of entry; and 3) the products that include foreign components must be substantially transformed within the beneficiary country to produce a new and different article of commerce.

The legislation approved by Congress stripped the final version of the CBERA bill of its tax incentives. However, U.S. companies have started to recognize the advantages of investing in CBI participating countries. Because the region is adjacent to the United States, transportation and communication costs are minimized, and investment opportunities in the region have become attractive to small- and medium-sized businesses who are novices at direct foreign investment. Moreover, many firms operating in this region procure their supplies from the United States, thereby stimulating U.S. exports.

Latin American governments look to the private sector

In recent years, less government presence and more official support of the private sector has been observed in various political/economic systems. In the United States, the current administration stands emphatically behind free market forces with both its tax policy and its phasing out of Government controls imposed by previous administrations. In Communist countries, Government leaders are experimenting with the introduction of market forces, in part by opening up specified areas of the economy to the private sector. Yugoslavia and Hungary pioneered this unorthodox shift in the Communist world. China is the latest and biggest convert to the cult of the market among Communist countries. There are further examples both in other advanced capitalist countries and in mixed economies. In the former group, notable examples of the reduction in direct government involvement in industries are Great Britain and, more recently, Mitterand's France.

A shift in the same direction is also taking place in Latin America. Mexico's de la Madrid Government and the new civilian Government that recently assumed power in Brazil have both initiated major disinvestment moves in the public sector. In February of this year, the de la Madrid administration announced that it was selling or liquidating 238 "non-essential" state companies and agencies. The need to trim from the Federal budget the spending of many unprofitable public enterprises in Mexico was cited as the principal reason. The administration is also considering converting the external debt of some of these companies into share packages. Foreign companies are invited to compete with Mexican firms at the auctions of public company shares "where the law permits" (see also IER, June and November, 1984). Many Mexican economists favor outright "transnationalization" (greater reliance on multinational companies) as a means of easing capital shortages and fostering economic growth.
Less sweeping measures of the Mexican Government also attest to a growing recognition of the private sector. In a recent policy change, authorities now permit private companies to import oilseeds directly for their own accounts. Earlier, only the Government's purchasing agent, CONASUPO, was authorized to import oilseeds (as well as grains and livestock). It is believed that private companies will step up efforts to diversify their sources. This practice will expose U.S. companies supplying the Mexican market to sharper price competition from other foreign suppliers (such as Argentina and Brazil). Some observers speculate that the new import rights of private companies in oilseeds might later be extended to grains. In any event, U.S. agricultural exports to Mexico may be adversely affected.

Brazil's new administration also disclosed plans to undertake the large-scale selling of state-owned companies to private buyers—both domestic and foreign. This program reinforces an existing trend. In the past 4 years, 133 state-owned companies were closed down, merged with others, or turned over to private investors. As with Mexico, the principal objective of Brazil's privatization moves appears to be controlling the budget by freeing it from inefficient state companies. Foreign debt is also a factor. Last October, state-owned companies were found to owe $47 billion of Brazil's $100-billion foreign debt. It has been proposed that at least some of this debt should be changed to private direct investment equity (IER, June 1984).

In both Mexico and Brazil, political opposition appears to be a major obstacle to implementing these planned shifts. Other difficulties are the questionable marketability of many unprofitable or inefficient state companies and an acute shortage of domestic private investment capital.

Expanded U.S.-Soviet trade in agricultural equipment and technology sought

On March 20, Senator Simon (D-IL) introduced Senate Resolution 103 declaring the sense of the Senate that the President should negotiate a long-term agreement on Soviet purchases of agricultural and food processing equipment and technology from the United States. Examples cited of the products to be covered under the agreement are seed, seed stock, breeding livestock, fertilizers, other agricultural chemicals, food processing equipment, and systems for irrigation, drainage, and desalinization.

In addition to providing for expanded trade in such products, the agreement envisaged by Senator Simon would contain "credible mutual assurances" that, once signed, contracts for commodities under the agreement would be performed by both governments. From the text of the resolution and his floor statement, it is clear that the "credible assurances" Senator Simon has in mind would be comparable to those contained in Article II of the U.S.-Soviet grain supply agreement signed in August 1983. The resolution also specifies that the new agreement should contain assurances that U.S. suppliers would receive "fair and equal access" to the Soviet market and should provide for information exchanges and trade facilitation. The Senator intends that the agreement should go into effect as soon as possible, but not later than October 1, 1985.
Although U.S. producers enjoy a comparative advantage in the production of many types of agricultural and food processing equipment and technology, they are liable to face considerable competition for the Soviet market from West European suppliers. A delegation from the British Ministry of Agriculture visited Moscow in mid-February to open "Britagroprom," an exhibit of British food processing and packaging machinery, seeds, and chemicals. During the fair, Shell International Petroleum signed a contract to supply agricultural chemicals, chiefly synthetic insecticides, to the Soviet Union. Similar exhibits have also been mounted by French, Italian, and U.S. firms. Since the beginning of the year, two other contracts between the Soviet Union and a European firm for products related to agriculture have been made public. Alfa-Laval, a Swedish company, won an order for the construction of what will reportedly be the world's largest dairy, and Kemira, a Finnish company, concluded a major barter deal for agricultural chemicals. The Finnish company will exchange herbicides and grain-fumigants for Soviet ammonia, potash, raw phosphate, and aniline.

**OECD fails to satisfy U.S. concerns over use of mixed credits**

Members of the Organization for Economic Cooperation and Development's (OECD) arrangement on export credits failed to settle a long-standing dispute over the use of mixed credits at a meeting held on March 11-13 in Paris. U.S. efforts to curb the use of mixed credits were again blocked by France, the principal source of mixed credits among the industrialized nations. Finally, however, a small concession was made to U.S. demands at the annual OECD Ministerial Council meeting held on April 11 and 12.

Due to relatively high commercial rates of interest and a slowdown in economic activity in many developed countries, subsidized export financing, including the use of mixed credits, has become an increasingly popular way to promote exports. Mixed credits combine commercial credits with aid grants intended to assist developing countries. According to the United States, this type of export financing has led to trade distortions and rising costs for governments. Furthermore, mixed credits are actually being used to support domestic industry rather than to aid developing countries. The United States is particularly concerned that mixed credits are supporting industries with high rates of return, such as telecommunications and transportation, which should be able to sustain commercial interest rates.

Rules governing the use of mixed credits are contained in OECD's Arrangement on Guidelines for Officially Supported Export Credits in order to insure fair competition for credit terms. Under the rules in effect in recent years, a mixed credit package with a grant element of less than 20 percent was illegal. If the aid component was between 20 and 25 percent of the value of the export financing, OECD had to be notified in advance. Aid elements comprising more than 25 percent of the total did not require prior notification. At the March meeting, the United States proposed to raise the minimum allowable level of aid in mixed credit deals from 20 percent to 50 percent in order to discourage the use of subsidized credits by making them prohibitively expensive. The United States also hoped that under the proposed rules, the grant element would be used for humanitarian (i.e., development) purposes rather than commercial purposes.
France opposed the U.S. proposal, however, and was singled out by U.S. officials as the force blocking efforts by the European Community to cooperate in solving the problem. According to OECD statistics, in 1982 France authorized $2 billion in mixed credits with grant elements of less than 50 percent. This amount accounted for approximately 30 percent of the total $6.4 billion offered by the industrialized countries. Also, France accounted for 40 percent of those export financing packages with aid components below 35 percent. In 1983, the total amount of mixed credits offered with grant elements of less than 50 percent fell to $3.7 billion, but France's proportion rose to 37 percent or $1.4 billion. France also increased its proportion to half of all mixed credits offered with aid components below 35 percent. While the United Kingdom, Japan, and Italy actively promote exports through mixed credits, France holds the dominant position in mixed credit authorizations and has been the major obstacle to attempts by the European Community to reach a common stance.

In response to French inflexibility, the United States warned that the Senate Finance Committee has made available a "$1 billion war chest" to counter aggressive mixed credit offers, despite U.S. reluctance to finance mixed credits. U.S. officials also indicated a willingness to accept a minimum concessional element of less than 50 percent and a phased transition, but the European Community did not present any new proposals at the March meeting. As a result, resolution of the issue was postponed to the Ministerial Council meeting held on April 11 and 12. At this meeting, OECD members agreed to increase the minimum allowable aid element from 20 percent to 25 percent, but this compromise fell far short of the U.S. objective to establish a 50-percent floor.
### Industrial production
(Percentage change from previous period, seasonally adjusted at annual rate)

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

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### Unemployment rates
(Percent; seasonally adjusted; rates of foreign countries adjusted to be roughly comparable to U.S. rate)

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

## Trade balances

**(Billions of U.S. dollars, f.o.b. basis, seasonally adjusted at annual rate)**

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*1/ Exports, f.o.b. value; imports, customs value.*

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

**(Billions of U.S. dollars, customs value basis for imports, seasonally adjusted unless otherwise indicated)**

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### Money-market interest rates

*(Percent, annual rate)*

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**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)*

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**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.
