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International Economic Indicators

Sluggish growth in some major industrial nations awakened worries about the vulnerability of the 30-month old economic recovery and brought the issue of economic policy choices back into focus. A growing number of commentators urge the United States to gradually lower interest rates by increasing the money supply. They also urge the West European nations, particularly West Germany, to accelerate their growth through expansionary fiscal policies. There is a widespread belief that prolonged sluggishness in U.S. and European economic expansion now poses a greater threat to the recovery than the resurgence of inflation. Many analysts argue that strengthened domestic demand in Europe, besides reviving output and employment in the partner states, could also boost production in the United States by increasing overseas demand for U.S. products. Economic policymakers in Europe, however, are apparently not convinced that they have much room to maneuver given their current economic policies.

The Organization for Economic Cooperation and Development (OECD) estimates that the growth in U.S. import demand raised West European output by 0.5 percent in 1984. This increase in output accounted for 22 percent of the 2.25-percent rate of growth in the West European economies in 1984. U.S. import demand is expected to raise West European output by 0.75 percent in 1985. This would represent 30 percent of the 2.5-percent growth rate projected for the West European economies in 1985. Despite this development, OECD views the widening U.S. trade gap as a threat to world economic recovery.

The consensus view of analysts is that U.S. economic growth will bounce back in the coming months and Western economic recovery will continue at least this year and in 1986.

Industrial production

U.S. industrial production in April declined by 0.2 percent following a 3.0-percent gain in March and a revised 0.1-percent increase in February. 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, 2.0 percent; Canada, 6.4 percent; France, 0.8 percent; Italy, 6.4 percent; Japan, 7.3 percent; and the United Kingdom, 3.7 percent.

West German industrial output has virtually stagnated so far this year. Although output in March and April was 4.5 percent higher than during the corresponding period of 1984, output declined by 0.5 percent from March to April.

Employment

The rate of unemployment in the United States (on a total labor force basis including military personnel) remained 7.2 percent in May, the same as in April and March. Unemployment rates in April as reported by national statistical offices were as follows: Canada, 10.9 percent, and the United Kingdom, 13.1 percent. (For foreign unemployment rates adjusted to U.S. statistical concepts, see tables at the back of this issue.) West German unemployment, currently an explosive political issue, dropped to 8.8 percent in May compared with 9.3 percent in April.

External balances

The monthly deficit in U.S. merchandise trade increased from $11.0 billion in March to $11.9 billion in April. This was the largest monthly deficit in the first 4 months of 1985.

Press reports from Europe show that protectionist sentiments against Japanese competition are growing. Despite the voluntary restraint agreements between the European Community (EC) and Japan, covering almost 40 percent of Japanese exports to the EC, Japan's surplus in merchandise trade with the EC increased from $11.8 billion in 1983 to $12.8 billion in 1984. This deficit was about one third the 1984 U.S. trade deficit with Japan.

Competition from Japan has not affected West Germany's foreign trade performance. The $1.8-billion surplus in West Germany's merchandise trade balance in April brought the surplus to a total of $6.2 billion during the first 4 months of 1985. Private analysts expect the Federal Republic's 1985 merchandise trade surplus to exceed last year's record of $17.4 billion.

Prices

The U.S. consumer price index rose 0.4 percent in April 1985, following a 0.5 percent increase in March and a 0.3 percent increase in February. In April 1985, the annualized rate of consumer price inflation was 3.9 percent in Canada; 6.5 percent in France; 8.8 percent in Italy; 6.9 percent in the United Kingdom; and 2.5 percent in West Germany. The March rate was 1.6 percent in Japan.

Consumer prices in OECD countries rose by 0.5 percent in February. The rise over the 12-month period remained 4.9 percent, the same as in the previous 2 months. The average price increases in the industrial countries as measured by the GNP deflator declined from 4.9 percent in 1983 to 4.1 percent in 1984.

Forecasts

In June, 1984, OECD predicted that GNP in the organization's member countries would rise at an average of 2.75 percent in 1985. Now, 1 year later, the OECD expects that 1985 growth will be 3.25 percent. The OECD's current forecasts of a 4.75 percent average inflation and a 8.25 percent average unemployment for 1985 are also optimistic revisions of previous forecasts.

The OECD forecasts that the U.S. current account deficit, rising by $20-25 billion in both 1985 and 1986, will increase to a total of $145 billion in 1986. The U.S. current account deficit registered a new high of $101.6 billion in 1984. Many analysts say that if the United States continues to increase its current account deficit at the current rate, markets may suddenly lose confidence in the dollar generating confusion in world financial markets.

The pace of economic growth in industrial countries is expected to be 3.0 percent in 1985 and 1986, according to the IMF. The Fund expects a gradual reduction in the geographical lopsidedness of industrial country growth rates as the global recovery continues. It predicts that inflation, as measured by the GNP deflator, will fall from 4.1 percent in 1984 to 4.0 percent in 1985 and to 3.75 percent in 1986.

Private economists in the United Kingdom foresee a 3.0 percent or better growth for the nation's economy in 1985 with inflation falling below 5.0 percent in early 1986. Unemployment in the United Kingdom, however, is not expected to decline significantly in the near future. These forecasts are based on the assumption that the United States will take effective measures to reduce the Federal deficit in the near future.

International Trade Developments

Focus in U.S.-Mexican commercial relations moves to the issues of transborder trucking and discriminatory natural resources pricing

A long-delayed bilateral subsidies agreement reached this April (IER, May 1985) is generally hailed as a sign of improving economic relations between the United States and Mexico. However, persistent allegations by U.S. industries of unfair practices by Mexico threaten these relations with continued friction. Two issues that prompted recent U.S. action are receiving considerable attention at this time. The first is U.S. legislation scheduled to take effect on July 1, which will restrict Mexican trucks crossing the U.S. border. The second is proposed legislation which would protect U.S. industry against the effects of discriminatory natural resources pricing by the Mexican Government. U.S. producers charge that such practices amount to export subsidies.

Transborder trucking.--On July 1, 1985, the Motor Carrier Safety Act of 1984 will take effect. Enacted in October 1984, this law will make it more difficult and expensive for Mexican truckers to operate in U.S. territory. The statute provides that privately owned Mexican truckers must have a certificate of operation from the U.S. Interstate Commerce Commission (ICC) to cross the U.S. border. To obtain such a certificate, Mexican companies must prove to the ICC that their trucks are insured, meet all U.S. safety standards, and are up-to-date in Federal highway tax payments. (Previously, only publicly owned trucking companies needed such a permit.) The most controversial part of the new law reduces the range of goods that can be transported by Mexican trucks into the United States. Items which had been exempt from previous trucking regulations--mostly agricultural and horticultural products from Mexico--will be affected.

Some believe that the measure will have an adverse impact on trade with Mexico, causing Mexican companies in some instances to pay U.S. truckers in dollars for hauling their products to U.S. destinations. This would make the Mexican items more expensive in the U.S. market.

The new transborder trucking provisions are a response to Mexico's refusal to allow U.S. trucks within its territory (as were their less-stringent predecessors of 1982 and 1983). Being barred from operating in Mexico has long been a source of complaint by truckers on this side of the border. Unresponsive to repeated calls for reciprocity by the U.S Government, Mexico presently decries the transborder trucking measure as a new threat to its dollar earnings.

Natural resources pricing subsidies.--This May, two bills (HR 2451 and HR 2345) were introduced in Congress concerning natural resources discriminatory pricing practices of foreign governments. The bills would subject imports using government-set, low-priced raw materials to countervailing duty actions on the grounds that these pricing practices sometimes amount to trade-distorting domestic subsidies. The bills are aimed predominantly at allegedly unfair Mexican competition in the United States with certain U.S.-produced energy-intensive products. A proposal on this issue was made last year, but it was narrowly defeated.

The impetus for legislation on this issue has come from complaints by U.S. producers against imports of cement, ceramic tile, lime, carbon black, and ammonia from Mexico. U.S. producers claim that such items greatly benefit from the artificially low-priced Mexican natural resources they incorporate. The inputs in question are natural gas, heavy fuel oil, and petroleum feedstock, the prices of which are determined by the Mexican Government.

On May 14, 1985, a hearing on the subject was held before the House Subcommittee on Trade. Witnesses for U.S. industry charged that PEMEX, a Mexican Government monopoly, sells petroleum and natural gas to domestic users at considerably lower prices than for export. Meanwhile, they pointed out, U.S. producers of energy-intensive products must pay world market prices for the energy and materials they utilize.

A recent report by the U.S. International Trade Commission (Potential Effects of Foreign Governments' Policies of Pricing Natural Resources, May 1985, USITC Pub. 1696) also found that Mexican petroleum products and natural gas "are generally sold to domestic industrial consumers at a price below international market prices and are usually sold for export at international market prices" (p. 28). The USITC report comments that low natural resource prices are not at issue insofar as they reflect the comparative advantage of a country. Instead, at issue is the transfer of government-controlled low prices to benefit domestic industrial users, thereby unfairly promoting their exports. In the words of the report, "concern generally arises . . . over the implications of using lower priced materials to produce items that are then exported, compete with U.S. produced products, and potentially disrupt world markets" (p. X).

At the May hearing, presentations were also made in opposition to the proposed legislation. Great concern was expressed that the improvement of U.S.-Mexican commercial relations expected from the April subsidies agreement may be jeopardized if such a measure is passed.

Tone worsens as problems plague the 1985 U.S.-EC trade agenda

The United States and the European Community (EC) have locked horns over several potentially disruptive trade differences that will entangle the two trading giants during 1985 and beyond. Some of the disputes stem from fundamentally different approaches to state intervention in the economy; others are narrower problems over specific products like steel pipe and corn gluten.

When compared to a trade turnover of $100 billion, the value of trade in products on which the two sides differ appears small. Yet when viewed in terms of specific sensitive sectors--e.g., wine, wheat, or textiles--there are serious problems. With threats of protectionism being traded across the North Atlantic, the tone of the relationship has not been conducive to resolving bilateral trade problems. Import relief pressures are mounting in the United States because of the surge of imports fueled by a very strong dollar, and in the EC because of high unemployment and sagging industrial competitiveness. Competition has grown increasingly sharp as the two sides compete for third country markets, particularly North African and Middle Eastern agricultural markets.

Most of the trade discord is rooted in different approaches to economic and trade policy that are as old as the U.S.-EC relationship itself. For example, differences over whether exchange rates should be set by coordinated policy or by the market, and the type and amount of state intervention in the farm economy have plagued relations over many years. Differences over trade policy are even sharper.

One of the most confrontational differences is over the use of export subsidies. The United States has generally opposed export subsidies, although it uses a mixture of credits and subsidies to foster certain farm exports. Conversely, the EC extensively uses export subsidies to alleviate domestic farm surpluses. The United States believes that some of these subsidies contravene the rules of the GATT Subsidies Code. The Europeans maintain that their export subsidies conform with GATT rules. To protest the EC's subsidized sale of butter to the Soviet Union last year, the United States withdrew from the International Dairy Arrangement. To match the EC effort, the United States is expected to implement a new program--the "Bonus Incentive Commodity Export Program" (BICEP)--to subsidize certain farm exports to specific markets.

Wheat is a case in point. The EC has become one of the world's leading wheat exporters, competing with the United States for third country markets. Large wheat surpluses in both the United States and the EC will create stiffer conditions of competition as the two seek to increase their share of the world market. Government subsidies to foster exports is expected to grow as international competition increases.

The United States has, on occasion, used trade as a lever of foreign policy, particularly with the Soviet bloc, whereas Europeans generally prefer to avoid such usage. The West Europeans would like to expand market outlets in the Soviet bloc. However, certain EC members disagree with the United States about which export products have military applications and thus should be subject to COCOM restrictions on sales to the Soviet bloc. The United States and the EC are also at loggerheads over the issue of extra-territoriality in foreign trade, i.e., the extent to which U.S. domestic law extends to foreign companies that are subsidiaries of U.S. firms. The EC believes that U.S. domestic laws should not apply to U.S. subsidiaries abroad.

In addition to fundamental trade policy differences, the 1985 trade agenda is packed with a number of specific issues which could result in restrictive action if left unresolved. The EC's proposed imposition of a tariff quota on imports of nongrain feed ingredients has been met by a round of U.S. protests and promises of retaliation (see IER March 1984, p. 6). The United States disagrees with the EC's usage of citrus tariff preferences for Mediterranean states, claiming they impair concessions made to the United States. The EC claims the tariff cuts are compatible with the GATT and do not harm U.S. exports (see IER May 1985, p. 13). A provision in the 1984 Trade and Tariff Act that temporarily allows U.S. grape growers to introduce antidumping and countervailing duty complaints against imports has angered the EC, which depends on the U.S. market as its largest wine outlet. In response to U.S. curbs on specialty steel imports imposed in 1983, the EC imposed retaliatory duties and quotas on a number of U.S. products in 1984. The recently concluded voluntary export restraint agreement which holds the EC to 7.6 percent of the U.S. market for steel pipe and tube for 2 years was an uneasy truce, and came only after a temporary U.S. embargo of such products during the end of 1984. As both sides grapple with the rationalization of their steel industries, pressures for import protection and export promotion will certainly test wills to resist restrictive action.

The potential for misunderstanding and trade disruption is as strong now as ever. This is due to policies on both sides that are guided by domestic economic predicaments. The Americans want to limit damage to their manufacturers from surging imports and to promote export sales in the face of the high-valued dollar. The Europeans are battling high unemployment and scrambling to meet stiff competition from the American and Japanese high-tech industries.

Efforts by the two sides to create an international trading environment compatible with their own economic policy is reflected in their different ideas on the proper agenda for a new round of multilateral trade negotiations (see IER March 1985, p. 5). While the EC generally agrees that there should be a new round in due course, members are united in opposition to American expectations that export subsidies and other elements of the Common Agricultural Policy will be subject to trade negotiations. France is opposed to liberalizing international trade in services and high-tech, fearing this could cement Japanese and American leads in these sectors. The EC, particularly France, also believes that a new trade round must be accompanied by negotiations to reform the international monetary system.

Given the potential for trade disruption posed by the many issues on the U.S.-EC trade agenda, readers should not expect smooth sailing during the last half of 1985. The trade issues at hand are undergirded by a set of broad fundamental policy differences that have existed for a very long time. The issues involve high stakes, not so much in terms of the total value of two-way trade, but for key farm and industrial sectors in the countries involved.

Malaysia moves into heavy industry

Before yearend 1985, the Malaysian Government plans to introduce major economic policy reforms which could radically change the structure of its economy. The recent performance of Malaysia's major exports (petroleum, palm oil, rubber, timber, tin, cocoa) has been erratic. This has helped convince Government planners that heavy industrialization is necessary to lessen the country's dependence on raw material exports that are vulnerable to fluctuating demand and prices. The proposed reforms include changes in industrial incentives, investment guidelines, foreign equity participation rules, foreign investment guarantees, and agricultural policy. Relaxation of longstanding trade restrictions with China is also being considered.

The goal of the reforms is to transform the Malaysian economy into a fully industrialized nation by the end of the century. According to officials, this will be accomplished through development of the steel, cement, paper and pulp, petrochemicals, and automobile industries. The keystone of this policy is rapid development of the state-owned Heavy Industries Corporation of Malaysia (HICOM).

Government planning has revolved around developing HICOM's major industries: cement, sponge iron and steel billets, aluminum diecasting, passenger cars, motorcycle engines and general heavy engineering. The goal of HICOM is to lead Malaysian industry from assembling imported components and partial processing of its own raw materials to full processing of raw materials and manufacturing of capital goods. Also, unlike the industrial policy of other East Asian NIC's, exports will be emphasized only after an indigenous heavy industrial base has been established. Most of HICOM's products will be marketed only domestically for some years. However, this import-substitution strategy appears to carry some risk. Malaysia's domestic market could prove too small for the scheme's success.

Paradoxically, Malaysia's existing structure of industrial incentives seems at odds with Government priorities and actually discourages the development of heavy export industries. For example, the customs tariff structure discourages increased value-added in manufactured products and inhibits resource-based industries. Restructuring of the tariff system and an overhaul of industrial incentives are therefore a major part of the planned reforms. Currently, most of Malaysia's manufacturing is in light industry, has little local content, and is foreign-owned and sheltered in free trade zones. Electronics and textiles are typical Malaysian industries. The Government aims to have manufacturing contribute 27 percent to gross domestic product by 1990, up from 12 percent in 1970 and 19 percent in 1980.

Prospects for a U.S.-Canada free-trade area brighten

In a report issued last month, two staff economists of the respected C. D. Howe Institute in Toronto concluded that Canada's long-term economic interests will best be served by negotiating a free-trade area with its major trading partner. In 1984 Canada and the United States were each other's largest trading partners. Canadian exports to the United States accounted for 74 percent of all Canadian shipments abroad while U.S. exports to Canada were 20 percent of all U.S. foreign sales.

The concept of a free-trade area between the two countries has been examined in the past, but has generally not been pursued due to Canadian sensitivity to questions of national sovereignty and the asymetric nature of the economic relationship. In 1983, the Canadians floated the idea of a sectoral free-trade initiative with the United States. The idea was actively considered for some time, and both governments explored possibilities for sectoral liberalization. However, as this process advanced, it became increasingly obvious that the need to forge a relative balance between trade creation and trade diversion in the sectors under consideration would be practically impossible.

Other approaches are still being explored, including what are called functional or horizontal agreements. These would be agreements across sectoral lines that would cover broad areas of trade, for example, Government procurement, standards, etc.

The C. D. Howe study, entitled Taking the Initiative: Canada's Trade Options in A Turbulent World, endorses the idea of a comprehensive free-trade area. This bilateral free-trade approach seems to be in harmony with recent U.S. trade policy trends, too; an agreement with Israel establishing a similar area is currently before Congress. The U.S. Israel agreement will eliminate virtually all tariffs between the two countries over a 10-year period. The Howe study argues that if Canada is to improve its future economic prospects, the country must make major policy initiatives now. After exploring the global forces reshaping the world economy--rising competitive pressures, increasing protectionism, and the huge U.S. trade deficit--the report concludes that in order to be internationally competitive in the year 2000, Canada's response to these forces must be one of trade liberalization. The pursuit of bilateral intitiatives with the United States is the only option that offers Canada a realistic prospect for major improvement in export opportunities, the report says.

A Canadian-American Free Trade Area (CAFTA) would not bring a revolutionary change in conditions of bilateral trade. It has been noted elsewhere that a free-trade area will practically exist by 1987 when, with the final installment of the Tokyo round tariff reductions, 80 percent of Canada's exports to the United States and nearly two-thirds of U.S. exports to Canada will be duty-free. The study points out the additional advantages to both Canada and the United States that a CAFTA could bring. The authors argue that by such an agreement the two countries could demonstrate to the rest of the world that the practical key to future prosperity lies in freer trade.

China tightens controls against foreign exchange abuses

In October 1984, China announced a program of sweeping urban, industrial reforms. Except for a few key commodities, mandatory central planning would be eliminated. Enterprise managers would make the production decisions and would be held responsible for their profits and losses. The foreign trade system would also be decentralized, with new foreign trade enterprises that would freely compete for business replacing most of the functions of China's National Foreign Trade Corporations (IER, January 1985). Plans called for the gradual introduction of the reforms throughout the country. However, many enterprises--especially those in larger coastal cities and in the Special Economic Zones--were already conducting business as virtually autonomous units on an experimental basis when the new policy was announced. Within only a few months, China's policymakers have been forced to admit that the situation has gotten out of hand. The problem that has particularly alarmed them is the rapid rise in imports and consequent sudden drop in foreign reserves.

Figures recently released by Chinese officials revealed a surge in imports during the final quarter of 1984, resulting in an overall annual merchandise trade deficit for China of US$1.3 billion. This was followed by a 54.4-percent increase in the value of imports during the first quarter of 1985, compared with the same period of 1984, and a quarterly deficit of US$890 million. After rising to a record-level US$16.8 billion at the end of September 1984, China's foreign exchange reserves were down to US$14.4 billion by the end of March 1985. Total bank lending was 28.9 percent higher in 1984 than in the previous year, and loans rose by 48.4 percent in the month of December alone. Meanwhile, the foreign exchange black market has been flourishing, fueled not only by the easing of controls over Chinese business enterprises but also by the growing number of foreign companies doing business in China.

In a speech before the National People's Congress (which functions mainly to endorse the policies formulated by the Central Committee of the Chinese Communist Party), Premier Zhao Ziyang announced in late March that Government-department expenditures would be cut by 10 percent and purchases would be reduced by 20 percent. On April 5, the "Penal Provisions for Violation of Exchange Control Regulations" were issued. These new regulations identify a number of conditions under which enterprises or individuals could presumably be charged and, although somewhat ambiguous, make it clear that foreigners as well as any Chinese citizens found to be violators will be prosecuted. To tighten control over the extension of credit, particularly loans for projects that require foreign currency, China's banking system will again become more centralized. Higher interest rates on loans and bank deposits were recently announced, which should have the effect of dampening demand for credit and slowing spending.

However, using monetary policy as an instrument of control as the process of decentralizing the economy continues will not be an easy task. Those in charge have virtually no experience in operating within a relatively free-market environment. Bank policies were probably at least partly responsible for the excessive expansion of credit and the surge in imports during the last quarter of 1984. When plans for further decentralizing China's financial structure were formulated under the new reform program, policymakers announced that bank lending limits for 1985 would be based on actual lending in 1984. As a result, it is believed that some banks cut interest rates competitively to increase their loans during the last quarter and achieve higher 1984 base figures.

At least in the short term, until the unwanted supply of currency in circulation can be reduced and the use of foreign exchange more closely controlled through the banking system, China appears to be relying mainly on the central Government's austerity measures. For U.S. and other foreign companies, the primary effect will probably be a slowdown in China's imports. However, since the largest reduction in imports will occur in consumer goods, this cutback in purchases is likely to have a less severe impact on U.S. firms than on Japanese companies.

Update on U.S.-Japan trade issues

The month of May was marked by continued progress in telecommunications talks and rising concern in the United States about imports of Japanese semiconductors. Company-by-company export quotas under Japan's voluntary restraints on autos were also announced, with firms producing autos for the major U.S. car companies allotted the lion's share of the projected 24-percent increase in Japan's U.S.-bound shipments in 1985. Recent developments in U.S.-Japan relations are highlighted below:

Telecommunications.--In early May, Japan announced that it was abandoning attempts to impose technical standards for telecommunications equipment that had been a source of concern for the United States. The step meant that the United States substantially achieved its objective of persuading Japan to impose only those standards needed to prevent equipment attached to the phone network from impairing its operation (IER, April 1985). Japan announced that it would eliminate 9 of 30 proposed technical standards for customer premise equipment (phones, modems, answering machines, etc.). The Ministry also announced that it would require all common carriers (including the newly privatized NTT) to include in their tariff filings information needed to attach equipment to the network. This requirement is designed to prevent common carriers in Japan from discriminating against foreign equipment suppliers by not allowing them to obtain information on the interface protocols that must be employed to attach equipment to the common carrier network. As a result of the May measures, Undersecretary of Commerce for International Trade Lionel Olmer indicated that the United States had gotten substantially all that it had asked for in bilateral telecommunications talks. He hinted that certain issues have yet to be addressed by the United States, including Japan's radio law, which currently makes it difficult for U.S. suppliers of cellular mobile telephones and portable terminals to sell their equipment in Japan.

Demand stimulation.--Former Japanese Foreign Minister Kiichi Miyazawa, picking up on statements made by Secretary of State Shultz last month (IER, May 1985), is now floating proposals to reduce Japan's personal income taxes. The tax cuts would be part of an overall effort to stimulate demand in Japan, enabling the economy to draw in more imports and to reduce its dependence on exports to sustain economic growth. More public-works spending was also proposed. Prime Minister Nakasone has been reluctant to consider these measures because of his commitment to get Japan's budget deficit under control. Instead, he has suggested that reducing red tape, deregulating Government enterprises, and encouraging private investment will provide the needed demand stimulus. Since the issue puts Prime Minister Nakasone in direct confrontation with influential politicians who have expressed an interest in succeeding him, the United States has adopted a wait-and-see attitude.

Electronics.--The United States and Japan held talks in late April on Japanese barriers to U.S. exports of electronic products. The two sides discussed a nine-point list submitted by the United States covering customs clearance, patent registration, and access to Government-sponsored research and development programs. The United States also expressed concern about continuing high levels of investment in new capacity by Japanese semiconductor makers in the face of a rapidly weakening U.S. market for such products. U.S. industry sources fear that Japanese suppliers will flood the U.S. market with low-cost memory and other semiconductor devices, further suppressing already falling prices for them. Japan's "buy national" policy for satellites used in fields other than telecommunications, such as broadcasting and mapping, was also raised by the United States. The United States and Japan are slated to hold further discussions on the electronics sector during the week of June 17.

Automobiles.--The Government of Japan informally told the nation's major automakers in late April how many cars each would be allowed to export under the expanded overall restraints announced in mid-March. The new limits generally reward the Japanese affiliates of American auto companies at the expense of the largest Japanese automakers. Under the scheme, General Motors and Chrysler will be able to import most of the cars they had planned to purchase in 1985 from their Japanese affiliates (Isuzu and Suzuki for GM and Mitsubishi for Chrysler). As a result, the two American makers will be allowed to import twice as many cars from their Japanese affiliates as they did in 1984. The overall limit on Japanese auto shipments is 2.3 million units for the year ending March 31, 1986, up 24 percent from the previous year (IER, April 1985).

Televisions.--In April, the U.S. Supreme Court agreed to determine whether Federal courts may consider concerted actions by Japanese companies as antitrust violations even if the Japanese Government officially requires such behavior. The case, Matsushita Electric Industrial Company vs. Zenith Radio Corp. and National Union Electric Corp., involves massive antitrust charges filed by two U.S. television makers alleging that Japanese companies conspired to drive U.S. manufacturers out of business. The Supreme Court decided to place the case on next year's calendar after pleas by both the Japanese Government and the U.S. Justice Department to reverse the decision of the Third U.S. Circuit Court of Appeals. The Circuit Court had ruled that statements by the Japanese Government that it had ordered establishment of minimum export prices did not necessarily exempt the Japanese manufacturers from antitrust liability. The television case has its origins in unfair trade procedures filed at the International Trade Commission by U.S. makers nearly 10 years ago.

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

Country	1982	1983	1984	1983	1984				1984		1985			
				IV	I	II	III	IV	Nov.	Dec.	Jan.	Feb.	March	April
United States	-8.1	6.4	10.7	10.1	11.4	8.6	6.4	-2.3	3.0	0	2.2	-1.5	3.7	-2.9
Canada	-10.0	5.7	8.7	13.8	2.4	3.3	13.1	0.7	20.2	6.0	-9.5	-4.1		
Japan	0.4	3.5	11.1	10.3	13.5	11.6	6.1	11.6	4.1	-7.7	-2.0	9.4	-21.4	
West Germany	-3.2	0.4	3.1	9.0	2.5	-10.9	16.5	5.5	-22.1	-13.5	-1.2			
United Kingdom	2.0	3.3	0.9	3.3	-2.4	-7.9	0.4	3.4	-6.0	8.5	20.2	-2.3		
France	-1.5	1.1	2.6	1.0	7.4	-4.0	9.5	-9.5	-16.5	-24.1	-17.1	74.0		
Italy	-3.1	-3.2	3.0	17.6	4.5	2.1	7.7	-6.9	-11.9	6.5	-37.9	158.1		

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, May 24, 1985.

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

Country	1982	1983	1984	1984				1985	1984		1985			
				I	II	III	IV	I	Nov.	Dec.	Jan.	Feb.	March	April
United States	6.2	3.2	4.3	5.0	3.7	3.7	3.5	3.3	2.7	2.3	2.3	4.2	5.8	4.9
Canada	10.8	5.8	4.3	5.7	2.7	3.3	3.3	5.5	5.8	6.4	6.0	5.3	1.9	
Japan	2.6	1.8	2.3	3.6	1.0	1.3	3.3	2.3	4.0	6.7	4.9	-4.3	-0.1	
West Germany	5.3	3.6	2.4	2.8	2.0	0.6	2.8	3.8	2.5	1.3	4.3	5.3	5.8	2.4
United Kingdom	8.6	4.6	5.0	4.4	3.0	5.5	6.0	7.0	3.5	2.6	7.4	8.9	14.0	
France	12.0	9.5	7.7	7.3	6.2	7.3	6.5	5.7	6.5	5.7	5.3	5.7	7.1	5.6
Italy	16.4	14.9	10.6	11.1	10.4	8.0	6.0	10.2	5.1	13.2	10.0	10.7	11.0	12.7

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, May 24, 1985.

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

Country	1982	1983	1984	1984				1985	1984	1985				
				I	II	III	IV	I	Dec.	Jan.	Feb.	March	April	May
United States	9.7	9.6	7.5	7.9	7.5	7.4	7.2	7.3	7.2	7.4	7.3	7.3	7.3	7.3
Canada	11.0	11.9	11.3	11.4	11.4	11.2	11.1	11.1	10.8	11.2	11.0	11.2	10.9	
Japan	2.4	2.7	2.8	2.8	2.7	2.8	2.7		2.6	2.5	2.6	2.6		
West Germany	5.9	7.3	7.4	7.2	7.4	7.5	7.3	7.4	7.3	7.4	8.0	8.0	8.0	
United Kingdom	12.2	13.1	13.4	13.2	13.3	13.6	13.5	13.6	13.6	13.6	13.2	13.2	13.4	
France	8.7	8.8	10.0	9.5	10.0	10.2	10.3	10.5	10.4	10.5	10.6	10.5	10.4	
Italy	4.8	5.3	5.6	5.5	5.6	5.5	5.6							

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

Source: Statistics provided by Bureau of Labor Statistics, U.S. Department of Labor, June 1985.