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INTERNATIONAL ECONOMIC COMPARISONS

The range of assessments of Western growth prospects has widened in recent weeks. The Governments of the three major industrial nations, the United States, Japan, and West Germany, continue to predict a uniform 4.0-percent real growth in their respective economies for 1987. However, many private analysts in these countries disagree. According to major opinion polls, a real growth of about 2.8 percent may be expected for the U.S. economy in 1987. Private analysts in West Germany have become vocal about their worries that the D-Mark's significant appreciation has reduced short-run growth prospects for the country's export-led economy. Shrinking volumes of Japanese exports caused similar concerns in that country. The International Monetary Fund's recently issued economic growth forecasts for these countries occupy the middle ground between the optimistic official and increasingly pessimistic private projections (see section on Forecasts).

Highly stimulative, export-promoting economic policies and relatively stable prices provide the basis for a new boom in the United States. But sluggish production in energy, heavy industry, and agriculture have caused regional slumps, stagnating capital spending, and widespread financial problems. This murky situation has prompted fencesitting among analysts. Although fewer analysts predict an imminent upturn, neither do many analysts predict an imminent recession.

The currently operating downward forces would have pulled the economy into a recession 10 years ago, according to the economists at Shearson Lehman Brothers. They suggest that by providing relatively stable employment, the rapid growth of the service sector is moderating the U.S. business cycle. During the five postwar recessions, employment in the service sector increased, but it fell in the other nonagricultural sectors.

The recent meeting among the finance ministers and central bankers of the five leading industrial nations did not enjoy good press. The Germans and Japanese have reportedly argued that the dollar is already cheap enough and that they are doing everything in their power to ensure strong economic growth at home. The U.S. delegates, who hold the line on the Nation's exchange rate policy, intimated that the dollar may have to go down further in order to correct the trade imbalance.

Economists agree that unless strong economic growth is resumed in the United States, imports will fall and exports may fail to rise. This is an undesirable alternative, since it would tend to reduce global trade and welfare. The essential point to recognize is that the accumulated U.S. debt is a foreign claim on U.S. goods and services. The eventual repayment of this debt will serve only to reduce the rate at which domestic consumption grows if overall economic growth is strong, but could cause consumption to fall if it is weak or nonexistent.

Industrial Production

U.S. industrial production inched up 0.1 percent in August following a miniscule increase in July. Revisions of monthly statistics reveal a slightly stronger U.S. industrial performance during the preceding 2 months than earlier estimated. Spending for construction projects increased by 1.1 percent in August. Unfortunately, factory orders for manufactured goods fell by 1.4 percent during the month.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with the output in the corresponding month of the previous year, were as follows: Canada, -2.1 percent; France, 1.5 percent; Italy, 2.4 percent; Japan, -2.7 percent; the United Kingdom, 2.4 percent; the United States, 0.3 percent; and West Germany, 1.5 percent.

Investment

The U.S. Commerce Department's latest survey indicates that U.S. real capital spending will decline by 2.5 percent during 1986. Spending during the second half, however, will exceed the first half's spending. Nonresidential fixed investment in real terms represented 12.5 percent of the Nation's gross national product (GNP) during January–June 1986. Although this falls short of 1985's unusually high 12.9 percent, it still exceeds the average rates during the 1960's and 1970's.

More than two-thirds of Japan's acquisitions of foreign assets are in the United States, according to *The Japan Business Survey*. Desire to develop international operations and the need to cope with the yen's appreciation were cited as the major reasons for the foreign asset buying binge. The next largest target of Japan's foreign acquisitions is Western Europe. Until 1984, major Japanese concerns (e.g., steelmakers) and commercial banks most commonly acquired foreign assets, but now smaller firms in the food, machinery, and the service sectors are also in the market.

Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) increased from 6.7 percent in August to 6.9 percent in September. The national statistical offices of other countries reported the following unemployment rates: the August rate was 9.7 percent in Canada; 10.2 percent in France; 13.4 percent in Italy; 11.7 percent in the United Kingdom; and 8.8 percent in West Germany. The July rate was 2.9 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

The British journal *Economist* found that the rate of unemployment required to keep inflation stable (NAIRU) has increased in the major industrialized countries over the past decade. In the United States, the NAIRU increased from 6.0 percent during 1971–75 to 6.5 percent during 1981–83. Over the same period, the rate increased from 1.0 percent to 2.0 percent in Japan, from 3.5 percent to 8.0 percent in France, from 4.0 percent to 9.2 percent in the United Kingdom, and from 1.5 percent to 8.0 percent in West Germany. (The tradeoff between inflation and unemployment rates, the so-called Phillips-curve relation, has been much debated among economists. Theoreticians generally agree that this tradeoff holds true for inflation caused by increases in aggregate demand but not for inflation caused by contraction in aggregate supplies.)

External Balances

The deficit in U.S. merchandise trade narrowed substantially from $18.0 billion in July to $13.3 billion in August. The entire drop was due to reduction in imports. The manufacturing trade deficit dropped from $16.1 billion in July to $12.1 billion in August. After three consecutive monthly deficits, farm trade showed a slight surplus. The deficit in trade with Japan decreased from $5.5 billion in July to $4.7 billion in August and with the European Community (EC) from $3.8 billion to $2.3 billion. The deficit also narrowed in trade with Canada and Mexico.

Analysts at the Manufacturers Hanover Trust point out that the widely publicized 30 percent depreciation in the trade-weighted value of the dollar during the past 18 months is a misleading statistic. The weights are more than 10 years old and do not reflect the relative importance of various countries in current U.S. trade. Recalculation of the index with up-to-date trade weights show that the dollar has depreciated by only 4.0 percent over the period. It is even more disturbing that the dollar's value remained unchanged or even appreciated in terms of the currencies of several important nonindustrial trading partners.

West German imports increased by 7.0 percent but exports by only 2.0 percent during the first half of 1986. West Germans say that the appreciation of their currency against the dollar cuts deeply into their export performance because many of their overseas customers pay them in U.S. dollars. For example, the country's exports to East Asia and South America declined by 15.0 percent during the first half of 1986. This has prompted concern about the country's economic prospects. The belief, held by many West Germans, is that the country's economic health is tied to export performance. This belief is well illustrated by the close correlation between movements in the domestic stock market and the dollar exchange rate of the D-Mark. Since January 1986, each episode of decrease in the value of the dollar has been immediately followed by a corresponding drop in the composite stock index.

Prices

The U.S. Consumer Price Index increased by 0.2 percent during August, after remaining unchanged from June to July. Although analysts continue to warn of the inflationary dangers inherent in the fast growth of the money supply and the weaking dollar, they expect inflation to remain under control in the foreseeable future. Economists at Harris Bank, Chicago, say that the U.S. economy is presently operating at 5.0 percent below its noninflationary potential. They also believe that lower marginal tax rates in the wake of the new tax legislation will spur U.S. growth, further restraining price increases by boosting supplies.

The price level declined by 0.5 percent in West Germany during the 1-year period ending in September. The inflation rate during the 1-year period ending in August was 4.3 percent in Canada, 2.0 percent in France, 0.1 percent in Japan, 2.4 percent in the United Kingdom, and 1.6 percent in the United States. The rate during the 1-year period ending in July was 5.9 percent in Italy.

Forecasts

Economic growth

The U.S. economy will grow by 2.6 percent during 1986, according to a recent survey conducted by Blue Chip Economic Indicators. The administration has forecast a 2.9-percent growth for 1986.

The United Nations Conference on Trade and Development (UNCTAD) forecasts a 2.8-percent real growth in the combined economies of industrialized nations for 1986 and 2.9 percent for 1987. The actual growth was 2.8 percent during 1985. In its most recent forecast for 1987, the International Monetary Fund (IMF) projects a 3.5-percent real economic growth in the United States, 3.0 percent in West Germany, and 2.9 percent in Japan.

Chase Econometrics Canada has scaled back its forecast for the real growth of the Canadian economy during 1986 from 3.6 percent to 3.0 percent. Last year's growth was 4.5 percent.

U.S. debts

Recent commentaries and predictions about the U.S. Federal and trade deficits reflect economists' strong conviction that the Nation's internal and external deficits are linked. Failure to resolve these deficits might well create stress in international relations. For example, Mr. Robert Hormats, Vice President of Corporate Finance at Goldman, Sachs, and Co. predicts that unless U.S. imbalances improve soon, domestic political pressure to save Government money by cutting foreign aid and withdrawing U.S. troops from Europe could mount.

Many analysts anticipate a $10 to $20 billion shortfall in Federal revenues during fiscal 1987. That would be sufficient to test the political will behind the Gramm-Rudman budget balancing process.

Private forecasters seem to agree that the U.S. merchandise trade deficit will increase from $145 billion in 1985 to $160 billion for 1986. Mr. Fred Bergsten, Director of the Institute of International Economics, forecasts a further increase in U.S. net external debt from $107.4 billion during 1985 to about $1 trillion by the early 1990's. According to a recently published survey, West German financial experts have come to the same conclusion. ■

INTERNATIONAL TRADE DEVELOPMENTS

Special Focus: The GATT Ministerial Meeting

Accord reached on launching the new round of trade negotiations

In a meeting held in Punta del Este, Uruguay, on September 15–19, trade ministers of the General Agreement on Tariffs and Trade (GATT) struck deals that led to a declaration launching the new round of multilateral trade negotiations. This round, now formally dubbed the Uruguay Round, will be the eighth in GATT's 38-year history. Following the meeting, U.S. Trade Representative Clayton Yeutter reported that "we achieved what many thought was impossible—an international commitment to resist protectionism, strengthen existing rules, and expand the multilateral trade system to cover major areas currently not under effective GATT disciplines." The final text of the Ministerial Declaration contains a strong "standstill and rollback" commitment to curb protectionist actions, directives to improve the rules on agriculture, safeguards, dispute settlement, and the nontariff barrier codes, and sections calling for negotiations on services, intellectual property rights, and investment. The declaration also establishes a Trade Negotiations Committee that will meet this month to begin its task of coordinating negotiating activities.

A handful of contentious issues dominated debate at the meeting. Reaching agreement on wording for the agriculture section of the declaration called for hard bargaining with EC negotiators, who were convinced that the draft language unfairly singled out EC measures. U.S. battled with "hardline" developing country delegates to gain the inclusion of "new issues"—services, intellectual property rights, and investment—on the agenda. Compromises were finally struck on agriculture and the new issues that enabled delegates to return to their capitals assured that their concerns were addressed.

Less contentious, but equally important, a strong standstill and rollback commitment by the Ministers quelled developing countries' fears that the "moratorium" on protectionist actions would not be taken seriously by developed countries. The commitment, a measure traditionally taken at the outset of a round, calls for Contracting Parties (GATT members) to refrain from taking trade actions inconsistent with the GATT and to phase out existing GATT-inconsistent measures. The Trade Negotiations Committee is charged with setting up a surveillance mechanism to oversee the implementation of this commitment.

Observers view the success of the Punta del Este Ministerial Meeting as a renewal of member's faith in the GATT, the centerpiece of the world trading system since 1947. The United States has pushed for a new round since the conclusion of the ineffectual 1982 Ministerial Meeting. A foremost U.S. objective is to strengthen the GATT rules, that serve as the yardstick for internationally agreed standards of fair play in international trade. The cornerstones of the rules are most-favored-nation treatment, or nondiscrimination among trading partners, and national treatment, the practice of applying internal measures to imports no less favorably than to domestic products (see the outline of GATT rules in app. A).

GATT membership has grown from the 23 countries that signed the GATT in 1947 to the 93 countries that are GATT members today (see app. B). Membership now includes all 24 industrialized OECD member countries, 64 developing countries, and 5 Eastern European countries. Notable traders that are not GATT members include the Soviet Union, Taiwan, and the People's Republic of China (although China, having formally applied to join the GATT in July, will participate in the negotiations).

Ministerial-level sessions are not a regular fixture in GATT practice. They are called together infrequently on an adhoc basis to address extraordinary matters such as launching a round of trade negotiations. On a routine basis, GATT members hold annual oversight sessions, usually in November, and in the interim national delegates attend monthly meetings of the Council of Representatives to manage GATT activities. The delegates also participate in numerous permanent committees and adhoc groups (see the organizational chart in app. C). The small GATT Secretariat, with no independent decisionmaking or enforcement role, aids member delegations by coordinating meetings and producing documentation.

One of the most significant results of the September meeting was its potential for changing the terms of developed and developing country trade relations. In Punta del Este, members approached their GATT relations from a pragmatic standpoint to reconcile their diverse interests. The declaration was adopted by consensus, rather than formal voting, as are most decisions in the GATT. Although this process has been criticized for yielding only incremental change, it has also induced compromise and flexibility. As developing countries have raised their membership from less than half, or 11 countries, in 1947 to over two-thirds today, the GATT Ministerial Meeting is an example of the way consensus has staved off much of the north-south acrimony that plagues other international institutions.

Trade rounds sponsored by the GATT have traditionally featured tariff-cutting exercises. World trading partners have negotiated to substantially reduce tariffs levels in the seven previous rounds that have spanned almost 40 years. Tariff negotiations entail government commitments to tariff concessions, or mutual, legally binding reductions in tariff levels. At times, an across-the-board tariff-cutting formula has been devised. But whether or not a formula is applied, tariff negotiations are essentially a collection of bilateral deals. Each country seeks to "sell" its own concessions to trading partners in exchange for the foreign concessions it values most.

As tariff levels have fallen, however, governments have recognized the impact on trade of proliferating nontariff measures. A reading of the Ministerial Declaration shows that the Uruguay Round will focus more than previous rounds on regulating and reducing the use of nontariff measures. In addition, the rules themselves are targeted for improvement. Members hope that strengthening the rules will help close the loopholes and stem the evasion of rules that has troubled trade relations in the 1980's. Oversight of the negotiations will be carried out by the Trade Negotiations Committee. National delegates will split into issue-specific negotiating groups to address the various topics on the agenda.

In negotiations on nontariff barriers, the central aim, like that in tariff negotiations, is to liberalize global market access. One aspect of new round negotiations will hinge upon improving the operation of the Codes. These codes, negotiated in the Tokyo Round, cover antidumping, subsidies and countervailing duties, standards, government procurement, customs valuation, and import licensing. Another facet may include tradeoffs to eliminate and reduce nontariff barriers modeled after the concession swapping associated with tariff negotiations.

Other items placed on the negotiating agenda by the Ministerial Declaration entail the strengthening of GATT rules. One of the key concerns of trade policymakers in the 1980's is that trade liberalization and GATT rules had not benefited all sectors equally. Developing countries showed particular concern about the adequacy of GATT rules with respect to trade in tropical products. Developing as well as certain developed countries had complained of the GATT's inattention to problems of trade in natural resources. To encompass the members' diverse trading priorities, negotiations on such sectors as agriculture, tropical products, and natural resources were included in the Ministerial Declaration. In addition, developing countries insisted on references to textiles and clothing in the declaration because of their concern that these are removed from direct GATT coverage by the Multifiber Arrangement.

Other areas of the rules on the new round agenda include subsidies (closely linked to agriculture issues) and safeguards, as well as other articles of the GATT such as those covering state trading or balance-of-payments import restrictions. In addition, customary GATT mechanisms will be examined with an eye to institution building. The strength of GATT as an institution is considered key to its continued credibility by many policymakers. New round proposals in this regard point to the coordination of GATT surveillance of members' trade practices and the effective administration of dispute settlement procedures. ■

Key compromise on agriculture smooths launch of new round

Liberalization of trade in agriculture is one of the key U.S. objectives in the new trade round. Massive surpluses and declining world exports of farm products have caused serious tensions in agricultural trade, particularly between the United States and the European Community. The EC and the United States each will spend about $25 billion on agricultural support in 1986. These large sums together with the mounting surpluses created by the expenditures, have been the primary source of interest in reform of GATT agricultural trading rules.

However the EC, largely because of French pressure, threatened progress towards launching the new round by initially rejecting compromise on the agricultural issue. The EC's main concern is the preservation of the Common Agricultural Policy (CAP), a cornerstone of the Treaty of Rome that created the Community in 1957. The CAP's system of export subsidies, known as export restitutions, bridges the gap between high domestic farm prices and the prices needed to sell abroad. The EC claims that the CAP does not violate article XVI of the GATT which allows agricultural export subsidies provided they are not used to gain an unfair share of the world market or to undercut world market prices. Nevertheless, as a result of the CAP's financial incentives to grow, together with improved technology, EC yields have increased substantially and have changed the EC from being a net importer to a major exporter of grains.

Last year, worldwide farm exports decreased 1 percent in volume and 6 percent in value; output grew by 2 percent. Responding to the escalating use of export subsidies and their contribution to world agricultural overcapacity, a group of 14 developed and developing nations led by Australia called upon the EC and the United States to reform their farm policies. The Australian group, known as the nonsubsidizing agricultural exporters or the Group of 14, directly attacked the EC's use of export subsidies. At the same time, the U.S. export enhancement program, designed to win back markets for American farmers, has aggravated the oversupply situation.

The nonsubsidizing farm exporters argue that they are being shut out of their traditional markets because they do not rely on export subsidies. Moreover, they argue that lost sales are endangering political and economic stability, notably among debtor nations whose ability to repay their debt is being constantly eroded. They see the new round as presenting a key opportunity to address these concerns, but complained that early drafts of the GATT Ministerial Declaration were inadequate on agricultural issues. To pressure adoption of a stronger declaration, the 14 free traders met in Cairns in August and issued a communique calling for "the removal of market access barriers, substantial reductions of agricultural subsidies and the elimination, within an agreed period, of subsidies affecting agricultural trade."

The U.S. position on agriculture stands somewhere in between those of the EC and the nonsubsidizing exporters. The four major goals set out by the U.S. administration regarding agriculture in the Uruguay Round are more effective dispute settlement procedures, phaseout and elimination of market access barriers, phaseout and elimination of export subsidies, and greater harmonization of plant and animal health regulations. Like the Group of 14, the United States stresses the need for improved discipline of world trade in agriculture by giving agriculture equal status in GATT with manufactured goods.

This debate made the language on agricultural subsidies one of the major areas of confrontation in drafting sessions at Punta del Este. The Australian group sought strong language on a phased elimination of farm subsidies, whereas the EC, under pressure from France (and to a lesser extent from Ireland, Greece, and Spain), argued against an explicit reference to export subsidies and their removal over a fixed period. Singling out export subsidies was unjust, declared the EC, since they represent merely one aspect of the problem. In the EC's view, all measures affecting agriculture, including U.S. domestic farm subsidies, must be dealt with equally. The EC feared that a clear commitment on export subsidies would aim at the elimination of the CAP, whose fundamental mechanisms are not up for negotiation, they stressed.

The compromise wording hammered out during the last hours of the GATT Ministerial Meeting extends the areas for discussion to "all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade," thus covering the U.S. domestic support program as well as the EC's regime. France was pleased to note that no timetable was established for the elimination of farm subsidies. However, the signatories are committed to achieving a "phased reduction of their [subsidies'] negative effects" within the 4-year timeframe agreed for the new round.

Both the United States and the Group of 14 were enouraged because all agricultural trade issues will be open to discussion in the new round. The Australian group noted that although the declaration "does not fully meet our ideal," EC export subsidies will be subject to negotiation. The EC welcomed the agreement since "agriculture will be fairly and squarely addressed." Indeed, despite France's vociferous objection to putting CAP on the negotiating table, other EC countries such as the United Kingdom discreetly welcome the external pressure that may now arise for CAP reform given the huge farm surpluses and the CAP's serious drain on the EC budget. ■

Services linked to GATT talks

At the GATT Ministerial Meeting in Punta del Este, agreement was reached to include trade in services in the Uruguay Round. The services negotiations will be conducted along with the talks on goods trade, albeit in a separate negotiating group. The developed countries, led by the United States, advocate liberalized access for their firms to various service industry markets worldwide. With service industries the fastest growing sectors—and fastest growing exports—of the developed countries, the issue of securing expanded market access is of paramount importance to the developed countries.

The initial calls for including services in the new round were met with resistance by some less developed countries (LDC's). This LDC resistance was rooted in divergent viewpoints on the impact of services liberalization on their trade and development strategies. The developing countries argue that liberalized services trade threatens their economic development for two basic reasons. First, LDC's fear that continued and expanded access to developed country export markets in goods may be held hostage in exchange for negotiating concessions on access to their (LDC) service sectors. Second, LDC's are apprehensive that with foreign access to their service sectors, both domestic service firms and external payments balances would suffer.

The declaration drafted in Punta del Este accommodates these competing interests. The services discussions under the Uruguay Round will be conducted in one of several negotiating groups. In a compromise crafted by the EC, the separation was accepted by the Group of 10 developing countries led by Brazil and India—the most vocal opponents to discussing trade in services. This group insisted on such a separation to avoid being forced into conceding access to services sectors in exchange for gaining expanded markets for their goods in developed countries. Final semantic compromise on this point was achieved when the trade ministers launched the new round in goods in their capacity as contracting parties to the GATT, and agreed to services negotiations as representatives of sovereign governments. Nevertheless, the services group—like other negotiating groups—will report to the Trade Negotiations Committee. The U.S. administration anticipates that the outcome of the services negotiations may be contained in a GATT Code, which member countries may ascribe to if they so choose.

LDC concern about the impact of allowing foreign entry to their service sectors was also addressed in the final declaration. The document reads that the negotiated agreement on services "shall respect the policy objectives of national laws and regulations applying to services." This clause hints that services negotiation may prove to be more difficult than goods negotiations. For example, a major difference between services and goods trade is that many services are subject to more domestic regulation than are goods. In general, services regulations are akin to nontariff measures. They are more difficult to pinpoint and remove than are tariffs, and are often designed for reasons other than import protection.

Although there exists no widely accepted definition of the services sector, GATT discussions on services have included the following: banking, insurance, transport, telecommunications (including film and broadcasting), computer services, consulting and other business services, tourism, distribution services, health services, and education services.

In discussion of a liberalized environment for services, national policies regarding foreign investment are often also raised. International sale of some important services requires conformance to local investment regulations. In addition to meeting investment regulations, banking and insurance, for example, require local laws granting the right of establishment in these sectors to foreign firms.

U.S. negotiators point out that regulations affecting trade in services fit into three categories. The first includes general national regulations pertaining to all forms of economic activity such as immigration laws and foreign-exchange regulations. The second category encompasses regulations or policies applicable to specific service sectors such as government ownership of railways or local purchase requirements for insurance. The final category incorporates noneconomic regulations, such as language requirements or protection of public standards of morality, which affect the activities of service industries such as advertising and film.

In each of these categories, some barriers may either intentionally or incidentally restrict the ability of foreigners to provide certain services. Barriers that may intentionally restrict foreign activity in a service sector include prohibition of foreign ownership of banks and restrictive visa or work regulations. Film censorship is an example of a barrier that may incidentally restrict foreign services activity. Barriers intentionally restricting foreign activity raise the question to negotiators of whether a basis exists for seeking removal of the domestic protection. Barriers incidentally restricting foreign activity raise this and other questions for negotiators. For example, negotiators will have to consider whether the main purpose of a barrier incidentally restricting foreign activity in a service sector takes precedence over those incidental effects.

If successful, negotiation of an agreement on rules for trade in services stands to benefit trade in goods as well as services. Trade in both goods and services depends on an infrastructure composed of financial, telecommunications, and transport services. In addition, as telecommunications and data transmission services grow, numerous other services emerge as tradeable, such as consulting, legal, and design services. ■

Intellectual property protection on the agenda

The trade distortions arising from piracy, misappropriation, and infringement of intellectual property rights is considered a critical issue for current and future U.S. trade. The concerns of Congress and the U.S. business community made intellectual property protection issues a major priority of U.S. negotiators for the new round. The interest of American businesses in this issue is broadbased. It includes book publishers, softwear developers, chemical and pharmaceutical manufacturers, luggage and furniture companies, the motion picture and sound recordings industries, machine makers, metal alloys innovators, and automobile manufacturers.

In Punta del Este, the trade ministers agreed on a broad negotiating mandate for intellectual property, including trade in counterfeit goods. According to the Ministerial Declaration, the new round negotiations will take into account the need to—

- promote a more effective and generalized application of existing international standards to intellectual property matters; and
- ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade; and
- shall aim to clarify and elaborate rules and disciplines with respect to these matters.

A major objective of U.S. businesses for including intellectual property in the GATT is to establish dispute settlement and enforcement procedures that are currently missing from existing intellectual property conventions. Another objective is to improve standards, particularly in the area of patents. U.S. negotiators are satisfied that the the Punta del Este text meets these objectives. The new round negotiations will also aim "to develop a multilateral framework of principles and rules dealing with international trade in counterfeit goods, taking into account work already done in the GATT." However, by focusing on trade-distortive aspects, the GATT efforts are meant to supplement, not substitute for, the extensive expertise of the World Intellectual Property Organization (WIPO).

The issue of trade in counterfeit goods first surfaced in GATT's 1982 work program. The Council was instructed to determine whether action in this area would be appropriate and, if so, the modalities for such action, given the efforts taken by other international organizations. In 1984, an experts' group met to discuss the issue further, but were unable to reach a consensus on the need for multilateral action in this area, or on the competence of GATT to handle the matter. According to U.S. Trade Representative Clayton Yeutter, the Punta del Este decision to include the trade-related aspects of intellectual property rights in GATT negotiations will provide an important new tool for addressing the problems of intellectual property rights infringements. ■

China applies to rejoin GATT

In keeping with the opendoor policy implemented in 1979 and the increasingly important role it has subsequently assumed in world trade, China formally applied for readmission to the GATT on July 15. As a result, China attended the Ministerial Meeting at Punta del Este in September and is expected to continue to participate in the new round of multilateral trade talks.

In recent years, China has taken a number of steps in preparation for making formal application for GATT membership. It was first granted observer status at the November 1982 Annual Session of the Contracting Parties, and became an active participant in the Multifiber Arrangement (which operates under the auspices of GATT) after joining in January 1984. China has been represented, in an observer status, at meetings of the GATT Council and its subsidiary bodies since November 1984. Its request to rejoin was based on its earlier membership (until withdrawal in 1950 after the Communists came to power) as one of the original contracting parties when the GATT was established in 1947. Whether or not China can reactivate its former membership in the GATT, as it requested, or must now rejoin as a new member is a legal question that has not yet been addressed.

China's accession to the GATT also raises a number of economic issues, and he admission procedure is likely to be a lengthy process. After the Chinese Government submits a memorandum describing the country's present economic system and foreign-trade regime, extensive deliberations will be required to determine the measures that it must take to conform with GATT rules. A GATT working party will then meet at regular intervals to consider the progress China is making in carrying out the required program. In one possible scenario, China could become an associate member in 1 or 2 years, and that decision might be followed by a 3-year period of provisional accession before China becomes a full contracting party to the GATT.

Another question that must be decided is whether China will be recognized as a developing country, which it considers itself to be, within the framework of GATT. With developing country status, the Chinese authorities could invoke provisions of the GATT, such as article 12 on balance-of-payments measures, that allow temporary exceptions to certain rules and obligations. ■

Soviet GATT bid rebuffed

At the Punta del Este Ministerial Meeting, the Soviet bid to participate in the new round failed for lack of sufficient support. In late March, a Soviet official indicated that the Soviet Union would seek observer status in the GATT and said that the issue was being discussed informally with Arthur Dunkel, the Director General of GATT. However, no formal request was made to the GATT Secretariat and the Soviet Union's informal soundings of the Contracting Parties' views elicited little support for the Soviet initiative.

In mid-August, the Soviet Union made another approach to the GATT, this time requesting to participate in the new round. The Soviet request was made formally in a letter delivered to the GATT Secretariat on August 15. The letter, portions of which were quoted in the press several days later, expressed the Soviet Union's wish to "participate" in the new round in order to obtain the "experience" necessary to decide whether or not to seek accession to the GATT. In an apparent reference to the new regulations on trade with noncommunist countries being prepared in Moscow, the letter also mentioned "prospective changes in the Soviet foreign trade regime." The new regulations, which were subsequently publicized, will permit a number of industrial ministries and enterprises to trade directly with Western countries and to form joint ventures with Western companies.

The GATT trade ministers did not formally act upon the Soviet request, but it is understood that the Soviet Union will not be eligible to participate in the new round under the conditions set out in the Ministerial Declaration for participation by non-GATT members. One of the provisions of the declaration allows new round participation by countries "that have already informed the Contracting Parties, at a regular meeting of the Council of Representatives," that they intend to negotiate the terms of their accession to the GATT. The Soviet letter to the Secretariat did not fulfill this condition. However, Soviet interest in seeking some form of involvement in GATT activities may continue, and the issue may be revived at some later date. ■

Economic Issues Dominated the Brazilian President's Washington Visit

While his negotiators were gearing up to oppose the U.S. position on services and other trade issues in Punta del Este, Jose Sarney, the President of Brazil, came to the capital of the United States. Mr. Sarney's discussions in Washington focused on his administration's economic policy, with special regard to Brazil's debt and its trade implications, and the economic accomplishments of his administration. Brazil is the largest debtor country in the developing world, owing some $105 billion to foreign banks and governments.

On September 10, President Sarney met with President Reagan; the next day, he addressed the joint session of the U.S. Congress and the National Press Club. He also aired his views in an article published in the 1986 fall issue of *Foreign Affairs* ("A President's Story").

Mr. Sarney's words in Washington were directed not only at the United States—Brazil's largest creditor—but at all his country's creditors. In making an appeal for easier debt-servicing terms, he staunchly defended economic growth as his country's top priority. Since taking office in March 1985, Mr. Sarney has insisted on a growth policy (*IER*, Dec. 1985), which he claims is imperative to relieve social tensions in Brazil. (Brazil's per capita GNP is less than $2,000, and a quarter of its population is impoverished.) The Brazilian President has never compromised in his emphasis on growth, despite Brazil's notoriety for being the Third World's leading debtor country and for enduring a rapid inflationary spiral—both conditions that tended to conflict with such a priority.

To date, refusal to accept conditions that the IMF wants to impose on the Sarney Government's economic policy has cost Brazil IMF support. Armed with a good record of economic performance, a large trade surplus, and fulfillment of international commitments, the Sarney Government appears confident to face foreign creditors even without IMF assistance. Mr. Sarney's Washington visit was part of his Administration's efforts to justify Brazil's growth policy to creditors while seeking major concessions from them.

In Washington, Mr. Sarney suggested that foreign creditors lower their repayment demands to a level that is consistent with a growing economy. Creditors should agree, he proposed, to reschedule debt payments and to reduce interest rates so that debt servicing should not exceed 2.5 percent of Brazil's GNP. (In 1985, the comparable ratio was 5 percent.) Echoing other Latin American leaders, the President emphasized that there was a strong link between the indebtedness of debtor countries and their trade policies. He repeated the familiar argument that these countries needed to resort to controversial trade-surplus-generating measures to keep up with their payment obligations on foreign debt.

Mr. Sarney apparently counted on touching a sensitive chord in Washington when he stressed that easier debt-repayment terms would leave his country with more funds to import from the United States. Brazil's large trade surplus vis-a-vis the United States ($4.6 billion and $4.5 billion in 1984 and 1985, respectively) has caused considerable tension between the two countries in recent years.

The United States complains, in particular, that certain markets in Brazil are reserved for domestic producers (notably in the area of small and medium computers), or are slated to be reserved soon (such as pharmaceuticals and other chemicals). According to U.S. officials, keeping out strongly competitive U.S. export items from Brazil in this fashion is a major cause of the trade imbalance between the two countries. In the words of President Reagan in his welcoming address to Mr. Sarney ". . . no nation can expect to continue freely exporting to others if its domestic markets are closed." Brazil argues that a "temporary" protection for the industries in question is necessary for attaining the needed trade surplus. During their private session, Mr. Sarney reportedly asked Mr. Reagan to show an understanding of Brazil's trade barriers.

In addition to his other accomplishments, Mr. Sarney expressed pride in his recent move to halt his country's chronic inflation while simultaneously maintaining economic growth. In February 1986, the Sarney administration launched the "Cruzado Plan," replacing the cruzeiro with a new monetary unit that gave the plan its name. To defend the cruzado, officials instituted a wage and price freeze and put an end to Brazil's inflation-reinforcing indexation system. When the price freeze (predictably) triggered widesperad shortages in consumer goods and industrial inputs, the Government responded in July with new measures designed to restrain consumption.

For the time being, the 6-month-old Cruzado plan appears to be working. Inflation slowed to one-digit levels, yet Brazil's economy is projected to grow 7 percent this year (following an 8.2-percent growth in 1985). Nevertheless, in view of the prevailing uncertainties, economists are divided about longer term prospects. With much of the price freeze still in effect, shortages continue. Meanwhile, it is feared that the removal of price controls will cause an eruption of new inflationary pressures. Also, although there are signs of renewed business confidence, many entrepreneurs—both foreign and domestic—seem to be adopting a wait-and-see attitude on major investment decisions. ■

APPENDICES

Appendix A.—The General Agreement in Brief

The General Agreement is broken down into four parts. Part I sets out the basic principle of nondiscrimination and affirms that members are legally bound to observe their tariff concessions. Part II addresses various nontariff measures and establishes that they should not be discriminatory, or be used to circumvent tariff concessions, or otherwise advance protectionism. Part III contains administrative and procedural rules. Part IV, added in 1965, addresses the special needs of the developing countries.

Part I

MFN

Article I invokes general most favored nation treatment. It sets forth the basis for nondiscrimination in commercial relations among nations. It provides that a tariff on an imported product should be applied equally to all members.

Tariff schedules

Article II preserves the integrity of tariff concessions, legally binding members to their commitments by making their schedules of concessions an integral part of the General Agreement. It states that ordinary customs duties should not be raised above those listed for products "bound" in the schedules. (Concessions or "bindings" are made on specific, not necessarily all, products.)

Part II

National treatment

Article III contains the principle of national treatment, another cornerstone of the GATT. It aims to avoid the offsetting of tariff concessions by the manipulation of internal measures to frustrate the sale of imported products. In brief, it requires that internal taxes apply equally to domestic and imported products and that regulations treat imported goods "no less favorably" than domestic goods.

Customs regulations

Articles V through X relate to customs and other administrative border procedures affecting imports. Generally, the purpose of these provisions is that administrative activities not be employed to impede or restrict trade. Such activities include rules of transit (article V); antidumping and counter- vailing duties (article VI); customs valuation (article VII); customs formalities (article VIII); and marks of origin (article IX). Article X requires that all laws and regulations regarding trade should be made public and administered fairly. The concept of public disclosure is known as "transparency."

Quantitative restrictions

Articles XI through XV govern the use of quotas in trade. Although article XI calls for the general elimination of quantitative restrictions, it is followed by articles spelling out exceptions to the rule. The exceptions allow for use of quotas in the case of balance of payment difficulties (article XII) but these are to be applied without discrimination (article XIII). Balance of payments related quotas that do discriminate are allowed in special circumstances (article XIV) such as the holding of some foreign exchange reserves in incontrovertable currencies that can only be spent on imports from a particular country. Finally, article XV guards against evasion of rules against quotas by the use of currency controls to achieve similar ends. GATT members are required by this article to join the IMF or enter into an agreement with the GATT parties that contains commitments similar to those made to the IMF.

Subsidies

Article XVI calls for the elimination of export subsidies, including any form of income or price support that increases exports. It provides that any subsidy currently in effect must be reported to the GATT along with the reasons and effects of that subsidy. Subsidies on primary products are allowed as long as they do not cause a country to dominate a "more than equitable share" of world export trade.

State trading

Article XVII states that state-owned enterprises should buy and sell according to normal commercial considerations and that enterprises of other contracting parties be allowed to compete.

Government assistance

Under article XVIII, developing countries may apply for exemptions to the rules against nondiscriminatory measures, recognizing special difficulties developing countries might have in conserving foreign exchange and developing infant industries. Its standards are so rigorous that the provision has not been used formally in many years.

"Escape clause" and other exceptions

Articles XIX through XXI outline the circumstances for deviations from the rules. The best known of these, article XIX, is also known as the escape clause. This article allows a concession to be withdrawn when it is determined that the concession has led to an increase in imports that causes or threatens serious injury to a domestic industry. Articles XX and XXI, known as the general exceptions and the security exceptions clauses, identify certain specific cases for trade restrictions related to public health protection, national treasures preservation, and the protection of national security.

Consultation and dispute settlement

Articles XXII and XXIII comprise what are commonly regarded as the dispute settlement process of the GATT. Article XXII provides for consultations that do not, however, need necessarily address a contentious issue. Under article XXIII, a member may refer a complaint first to the party concerned and then to the Contracting Parties, who usually set up a panel.

Part III

Procedural matters

Procedural and other administrative matters are taken up in articles XXIV through XXXV. The most notable of these are the ones addressing customs unions and free trade areas (article XXIV), joint action by the Contracting Parties (article XXV), modification of schedules (article XXVIII), and accession (article XXXIII).

Part IV

Treatment of developing countries

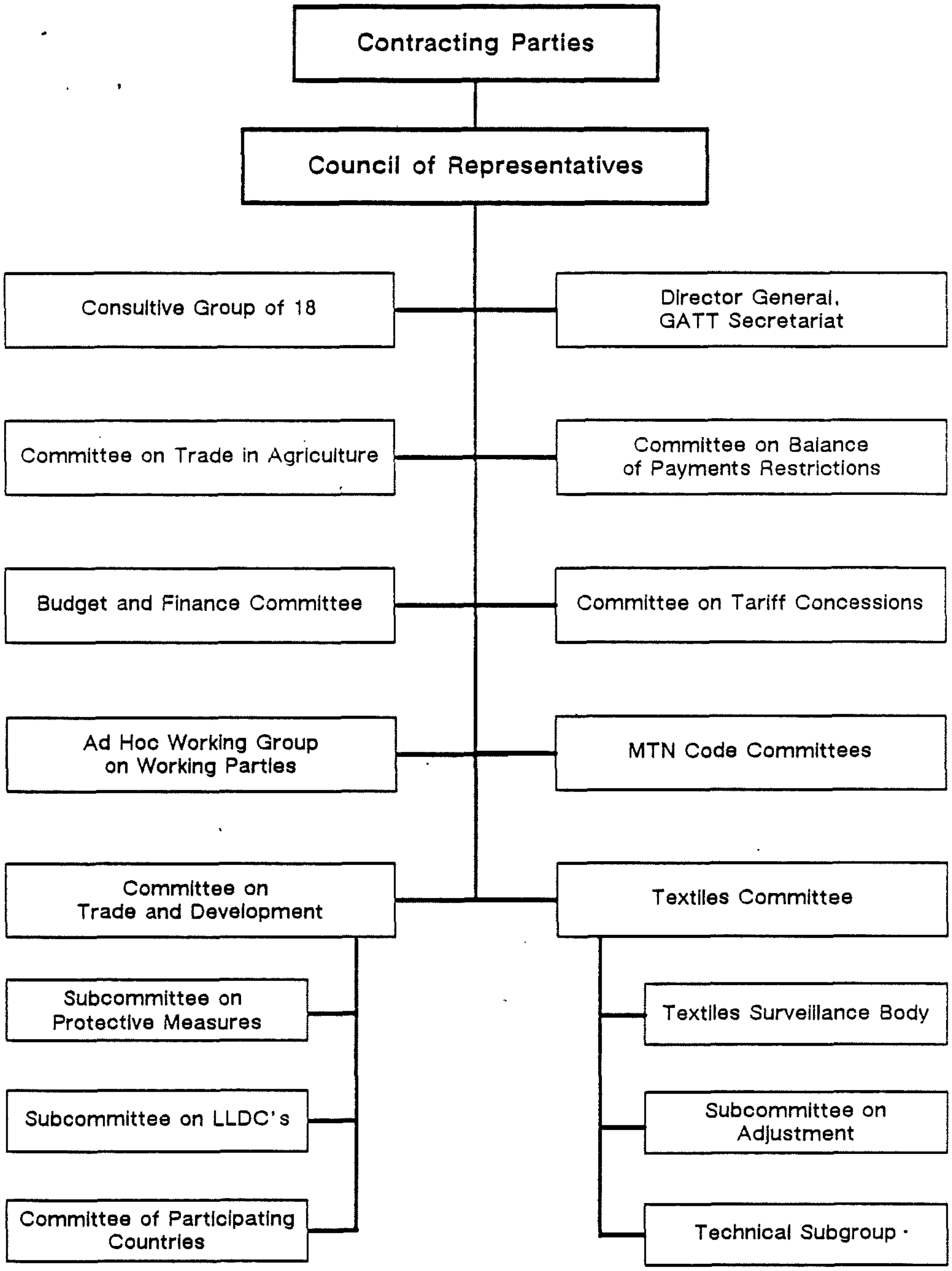
Added in 1965, part IV concerns the special needs of developing countries. Article XXXVI sets out the principles and objectives that include, among other things, that contracting parties should not expect reciprocity from developing countries. Article XXXVII contains commitments to this end and article XXXVIII provides for joint action.

Appendix B.— Contracting Parties to the GATT

Argentina	Egypt	Luxembourg	Singapore
Australia	Finland	Madagascar	South Africa
Austria	France	Malawi	Spain
Bangladesh	Gabon	Malaysia	Sri Lanka
Barbados	Gambia	Maldives	Suriname
Belgium	Germany, Federal Republic of	Malta	Sweden
Belize	Ghana	Mauritania	Switzerland
Benin	Greece	Mauritius	Tanzania
Brazil	Guyana	Mexico[1]	Thailand
Burma	Haiti	Morocco[1]	Togo
Burundi	Hong Kong[1]	Netherlands	Trinidad and Tobago
Cameroon	Hungary	New Zealand	Tunisia[2]
Canada	Iceland	Nicaragua	Turkey
Central African Republic	India	Niger	Uganda
Chad	Indonesia	Nigeria	United Kingdom
Chile	Ireland	Norway	United States of America
Colombia	Italy	Pakistan	Upper Volta
Congo	Israel	Peru	Uruguay
Cuba	Ivory Coast	Philippines	Yugoslavia
Cyprus	Jamaica	Poland	Zaire
Czechoslovakia	Japan	Portugal	Zambia
Denmark	Kenya	Romania	Zimbabwe
Dominican Republic	Korea, Republic of	Rwanda	
	Kuwait	Senegal	
		Sierra Leone	

[1] New members in 1986. [2] Provisional accession.

Appendix C.—Organizational Structure of the GATT



STATISTICAL TABLES

Industrial production

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

Country	1983	1984	1985	1985 II	1985 III	1985 IV	1986 I	1986 II	1986 Mar.	Apr.	May	June	July	Aug.
United States	5.9	11.2	2.3	1.3	2.1	1.9	1.2	-2.1	-10.9	8.0	-6.5	-0.0	3.9	1.9
Canada	5.3	8.8	4.3	4.5	9.4	6.1	-0.9		-31.9	4.6	-21.9			
Japan	3.5	11.1	4.6	11.2	-0.4	-2.9	0.7	0.9	-2.9	0.0	4.0	4.0	-1.9	-25.0
West Germany	0.3	3.3	3.9	12.2	0.1	0.8	-0.1	11.3	-23.7	72.6	-32.8	41.0	-23.9	
United Kingdom	3.9	1.3	4.7	7.6	0.4	0.7	3.1	-3.0	-1.1	6.8	-19.7	-14.5	48.9	
France	1.1	2.5	0.5	4.1	7.3	0.0	-4.9	5.1	0.0	55.7	-46.5	31.2		
Italy	-3.2	3.3	1.2	1.1	-2.5	-1.8	11.7	6.1	44.9	16.4	-43.5	89.8	-27.7	

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Oct. 10, 1986.

Consumer prices

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

Country	1983	1984	1985	1985 II	1985 III	1985 IV	1986 I	1986 II	1986 Mar.	Apr.	May	June	July	Aug.
United States	3.2	4.3	3.5	4.2	2.6	4.3	1.4	-1.7	-5.0	-3.3	2.2	5.7	0.4	2.2
Canada	5.8	4.3	4.0	3.8	3.4	4.4	4.7	3.0	2.9	2.7	5.0	0.3	7.8	5.4
Japan	1.8	2.3	2.0	1.3	2.1	2.1	0.4	1.0	-6.3	0.3	1.5	0.6	-3.5	-2.4
West Germany	3.3	2.4	2.2	2.5	0.2	1.0	-0.9	-1.1	-2.1	-1.2	0.2	0.4	-2.5	0.8
United Kingdom	4.6	5.0	6.1	9.1	3.0	3.2	4.4	0.6	0.7	-1.3	1.0	1.2	1.0	2.4
France	9.5	7.7	5.8	6.0	4.3	3.2	0.9	1.6	0.7	1.6	2.6	4.5	1.1	2.7
Italy	14.9	10.6	8.6	10.2	7.2	6.9	6.2	5.0	5.3	3.5	5.8	6.6	3.8	6.8

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Oct. 10, 1986.

Unemployment rates

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

Country	1983	1984	1985	1985 II	1985 III	1985 IV	1986 I	1986 II	1986 Apr.	May	June	July	Aug.	Sept.
United States	9.6	7.5	7.2	7.3	7.2	7.0	7.1	7.2	7.1	7.3	7.1	6.9	6.8	7.0
Canada	11.9	11.3	10.5	10.6	10.2	10.1	9.7	9.6	9.6	9.6	9.5	9.9	9.7	
Japan	2.7	2.8	2.6	2.6	2.7	2.9	2.7	2.8	2.9	2.7	2.8	3.0		
West Germany	7.4	7.8	7.9	7.9	7.9	7.8	7.8	7.6	7.7	7.6	7.6	7.5	7.5	
United Kingdom	12.8	12.9	13.1	13.2	13.4	13.0	11.5	11.7	13.3	13.1	11.7	11.7	11.5	
France	8.6	9.9	10.3	10.4	10.4	10.1	10.3	10.5	10.5	10.6	10.5	10.7	10.7	
Italy	5.3	5.9	6.0	5.8	6.0	6.3	6.3	6.5						

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, Oct. 1986.

Trade balances

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

Country	1983	1984	1985	1985 II	1985 III	1985 IV	1986 I	1986 II	1986 Mar.	Apr.	May	June	July	Aug.
United States[1]	-57.8	-108.1	-132.9	-135.2	-128.0	-147.2	-155.2	-140.8	-157.2	-129.6	-153.6	-140.4	-183.6	-142.8
Canada	14.4	15.9	12.3	12.8	8.8	11.6	6.4	8.4	12.0	9.6	8.4	3.6	2.4	
Japan	31.5	44.0	55.9	52.4	57.2	67.6	71.6	88.8	76.8	84.0	100.8	80.8	96.0	105.6
West Germany	16.6	18.8	25.3	25.6	27.6	29.6	40.4	53.8	38.4	56.4	38.4	63.6	62.4	60.0
United Kingdom	-1.3	-5.7	-2.6	-1.2	-2.4	-1.2	-8.4	-9.6	-21.6	-4.8	-13.2	-10.8	-10.8	-26.4
France	-5.9	-2.8	-2.6	-1.6	-3.2	-1.6	0.4	-4.4	-4.8	-8.4	-3.6	-2.4	-2.4	6.0
Italy	-7.9	-10.9	-11.9	-14.8	-4.4	-14.4	-11.2	0.8	-9.6	0.0	1.2	1.2	-7.2	20.4

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

Note.—The U.S. Department of Commerce reports monthly exports and imports without seasonal adjustment beginning with January 1986. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Oct. 10, 1986.

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)

Item	1983	1984	1985	1985 II	1985 III	1985 IV	1986 I	1986 II	1986 Mar.	Apr.	May	June	July	Aug.
Commodity categories:														
Agriculture	20.0	18.4	9.6	2.1	1.7	2.5	1.7	0.2	0.7	0.5	0.3	-0.2	-0.1	-0.1
Petroleum and selected products, unadj	-49.1	-52.5	-45.9	-12.8	-11.0	-12.6	-10.6	-6.7	-3.2	-2.8	-1.6	-2.3	-2.8	-2.6
Manufactured goods	-31.3	-78.9	-102.0	-24.2	-24.9	-29.7	-31.1	-32.0	-9.1	-10.9	-9.6	-10.7	-11.7	-14.9
Selected countries:														
Western Europe	1.2	-14.1	-23.3	-6.0	-5.7	-7.1	-6.6	-8.1	-1.6	-2.3	-2.4	-2.3	-3.4	-3.7
Canada	-12.1	-20.1	-21.7	-5.3	-4.7	-6.8	-5.9	-5.8	-1.9	-2.3	-1.8	-2.1	-1.9	-2.3
Japan	-19.6	-33.8	-46.5	-11.8	-12.0	-12.5	-14.3	-12.5	-4.0	-5.2	-4.4	-4.7	-3.4	-5.2
OPEC, unadj	-8.2	-12.3	-10.2	-2.8	-2.4	-3.7	-3.5	-1.5	-1.0	-0.7	-0.1	-0.6	-0.8	-0.7
Unit Value (per barrel) of U.S. imports of petroleum and selected products, unadj	$28.60	$28.11	$26.59	$27.09	$25.98	$26.35	$22.70	$13.40	$23.70	$18.39	$13.94	$13.29	$12.97	$11.75

Note.—The U.S. Department of Commerce reports monthly exports and imports without seasonal adjustment beginning with January 1986. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

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

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

(Percentage, annual rates)

				1985		1986			1986					
Country	*1983*	*1984*	*1985*	*III*	*IV*	*I*	*II*	*III*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*
United States	9.2	10.7	8.3	7.9	7.8	7.6	6.5	6.0	6.0	6.7	6.7	6.4	5.9	5.7
Canada	9.5	11.3	9.7	9.1	9.0	11.1	8.9		9.6	8.6	8.7	8.4	8.4	
Japan	6.8	6.7	6.5	6.3	7.0	6.0	4.7		4.9	4.6	4.5	4.9	4.5	
West Germany.....	5.7	6.0	5.5	4.9	4.8	4.5	4.6	4.5	4.5	4.6	4.6	4.4	4.3	4.4
United Kingdom	10.1	9.9	12.1	11.5	11.6	11.9	10.1	9.9	10.4	10.2	9.7	9.9	9.6	10.0
France	12.4	11.7	10.0	9.7	9.1	8.7	7.4	7.2	7.7	7.2	7.2	7.4	7.1	7.1
Italy	18.2	15.9	15.0	14.4	14.3	15.5	12.9	11.4	13.6	13.4	11.8	11.9	11.0	11.2

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)

				1985		1986			1986					
Item	*1983*	*1984*	*1985*	*III*	*IV*	*I*	*II*	*III*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*
Unadjusted:														
Index number	114.2	122.4	127.1	125.0	117.3	117.8	106.7	102.8	108.1	105.8	106.5	104.0	102.3	102.1
Percentage change	4.0	7.2	3.8	-4.8	-6.2	0.4	-4.6	-3.7	-0.8	-2.1	0.8	-1.5	-1.5	-0.2
Adjusted:														
Index number	112.8	118.0	120.9	119.4	112.0	106.3	99.1	96.9	101.2	100.1	101.0	98.0	96.6	96.2
Percentage change	2.7	4.6	2.5	-3.9	-6.2	-5.1	-6.8	-2.2	-0.9	-1.1	0.9	-3.0	-1.4	-0.3

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the U.S. and in these other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

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

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