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INTERNATIONAL ECONOMIC COMPARISONS

Economists are now cautioning that the measures needed to pare the U.S. budget and trade deficits will adversely affect the American standard of living for years to come. The 46.0-percent growth in real personal consumption expenditures on durable goods (including imports) in the United States from 1982 through 1986 far exceeded the 16.1-percent growth in the Nation's real Gross National Product (GNP) over that period. Now production will have to grow faster than consumption. In 1987, for example, Wharton/Chase Econometric Forecasters expect U.S. real GNP to increase by 2.3 percent and real expenditures on durables to rise by only 0.9 percent. As the United States regains its competitiveness and curbs its appetite for foreign goods, Japan and, to a lesser extent, West Germany will increase their level of consumption by reallocating resources from the export sector to domestic use and by importing more. The sluggishness of the world economy is attributed largely to the growth-reducing effects of this fundamental change in national economic policies and international trade patterns and to the festering problem of Third World debt. The Organization for Economic Cooperation and Development (OECD) warns that the actual and projected growth of industrialized countries is "unsatisfactory" to solve global economic problems.

A continuous process of scientific and technological development, which has historically been the key to the rising output of goods and services, is the industrialized world's best hope for a big boost to economic growth and living standards in the foreseeable future. Experts agree that a host of new products will result from research in the fields of superconductivity, advanced materials, electronics, automation, biotechnology, computing, medical technology, and thin-layer technology. (See report by U.S. Department of Commerce, *The Status of Emerging Technologies: An Economic/Technological Assessment to the Year 2000*, June 9, 1987.) According to the National Science Board's quantitative indicators, the United States still leads Western industrial nations in scientific research. However, it often lags behind Japan and other foreign competitors in commercializing scientific breakthroughs. The largest European nations—France, the United Kingdom, and West Germany—also have vast scientific research bases, but their ability to commercialize the results of basic research varies greatly from industry to industry.

Industrial Production

U.S. industrial production edged up by 0.2 percent in June following a 0.5-percent rise in May. Industrial production during January–June 1987 expanded at an encouraging 2.4-percent annual rate. Expansion was only 1.0 percent in all of 1986. After dropping from 818 million tons in 1985 to 804 million tons in 1986, U.S. coal production is expected to regain some ground in 1987. The projected output is 815 million tons.

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, are as follows: Canada, 3.9 percent; France, -1.9 percent; Italy, 4.1 percent; Japan, -0.7 percent; the United Kingdom, 1.5 percent; the United States, 2.2 percent; and West Germany, -1.3 percent.

Manufacturing labor productivity in 1986 increased by 3.5 percent in the United States, 2.9 percent in the United Kingdom, 2.8 percent in Japan, and 1.9 percent in France and West Germany. This was the first year since 1950 that the United States outpaced other major industrial countries in improving manufacturing labor productivity.

Investment

New surveys indicate that growth in capital outlays in 1987 may exceed the U.S. Department of Commerce's earlier estimate of 2.8 percent (*IER*, June 1987). A survey by McGraw-Hill Inc. indicates that capital spending may grow by 3.3 percent in 1987, and a Conference Board survey found that the Nation's largest manufacturers increased their new appropriations for capital spending by 4.0 percent during January–March 1987.

Commercial banks in the United States have by far the largest exposure to Latin American debt among the private banks of the industrialized countries. U.S. banks have 36 percent of the combined debt of the five biggest Latin American debtor countries; Japanese banks, 13 percent; British banks, 9 percent; Canadian and French banks, 7 percent each; West German banks, 6 percent; and all others, 22 percent.

Trade

At $6.6 billion, Japan's merchandise trade surplus in June 1987 was slightly higher than the $6.4 billion surplus registered in May 1987, but considerably lower than the $7.4 billion registered in June 1986. Its current account surplus narrowed from $8.0 billion in April to $7.1 billion in May. (The current account includes trade in goods and services and the flow of earnings from investments and transfer payments.)

Although Soviet-Japanese efforts to expand bilateral trade have not been derailed by U.S. protests against the sale of strategic machinery to the Soviet Union by Toshiba Machine of Japan, the Soviet Union is unlikely to become a major market for Japan's vast export surplus. Japan's exports to the Soviet Union amounted to $3.1 billion in 1986, while its imports from the Soviet Union were only $1.9 billion. Like most of Japan's trading partners, the Soviets are trying to reduce their trade deficit with Japan. (U.S. exports to the Soviet Union amounted to $1.2 billion in 1986, and its imports from the Soviet Union were $0.6 billion.) China, already a vitally important market for Japan, is also trying to curb its trade deficit. Japan's exports to China amounted to $9.9 billion in 1986, and its imports from China amounted to $5.7 billion. (U.S. exports to China were $3.1 billion in 1986, and U.S. imports from China, $4.7 billion.)

Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) fell to 6.0 percent in June from 6.2 percent in both April and May. The national statistical offices of other countries reported the following unemployment rates: the May rate was 9.1 percent in Canada, 13.7 percent in Italy, 3.2 percent in Japan, 10.6 percent in the United Kingdom, and 8.8 percent in West Germany. The April rate was 11.1 percent in France. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

Prices

The U.S. Consumer Price Index rose at a seasonally unadjusted 0.3-percent rate in May, the smallest monthly increase this year. A slowdown in energy price rises partially offset higher food prices. During the first 5 months of 1987, inflation ran at an annual rate of 5.6 percent. Many analysts estimate that the rate of inflation will be between 5 and 6 percent for the entire year.

The rate of inflation over the 1-year period ending in June 1987 was 4.1 percent in Italy. The rate of inflation over the 1-year period ending in May 1987 was 4.6 percent in Canada, 3.4 percent in France, 4.1 percent in the United Kingdom, 3.8 percent in the United States, and 0.2 percent in West Germany. The rate of inflation over the 1-year period ending in April 1987 was 0.1 percent in Japan.

The combined price level of the 12-nation European Community (EC) rose 0.2 percent in May 1987. It increased 3.2 percent in the 12-month period ending in May 1987.

Forecasts

Economic growth

According to the *Blue Chip Economic Indicators*, the U.S. economy grew by 1.5 percent in the second quarter of 1987, and it will grow by 2.7 percent in the second half of 1987 and by 2.9 percent in 1988. The OECD forecasts 2.5-percent growth for the U.S. economy in 1987 and 2.75-percent growth in 1988. U.S. real domestic demand is projected to grow slower than the GNP in 1987 and 1988.

The OECD revised its forecast for the average real economic growth of its 24 member nations from 2.75 percent in 1987 and 1988 to 2.25 percent in both years. It considers the revised rate "unsatisfactory" to achieve the various goals of global economic adjustment policies.

The Japanese Government has announced plans to adopt a $41.6 billion economic stimulus package for fiscal year 1988, which ends in March 1988. This package, now pending before the Diet, would reportedly raise total spending to $398.4 billion, or 4.4 percent above the previous fiscal year spending, and has rekindled expectations that the country's economy will attain the Government's 3.5-percent real growth target in 1987. Private economists predict that Japanese economic growth will be between 2 and 3 percent in 1987. Although the OECD forecasts only a 2-percent economic growth for Japan in both 1987 and 1988, it concedes that stimulative policies could have a significant impact on the country's economic performance during this year and the next.

Major West German economic forecasters believe that a stabilization of the mark-dollar exchange rate will lead to a recovery in West Germany's export sector that will bolster the country's economy. Predictions of growth vary greatly. The Kiel Institute for World Economics says that the West German economy will expand by 2.5 percent in both 1987 and 1988, whereas another equally prestigious forecaster, the DIW Economic Research Institute in West Berlin, predicts only 1-percent growth in 1987 and 2 percent in 1988. The West German Government's official forecast for growth in 1987 is 1.9 percent, and the OECD's forecast is 1.5 percent for 1987 and 2.0 percent for 1988.

U.S. debts

With a net debt of $220 billion at yearend 1986, the United States became the world's largest debtor nation. Current account deficits continue to increase the U.S. net debt and, according to some analysts, it could reach $1 trillion in the early 1990's. (The U.S. current account deficit is expected to increase from $140.6 billion in 1986 to $147.0 billion in 1987 and to fall to $126.0 billion in 1988.) Although U.S. and developing country debts defy comparison, most economists agree that an external debt of this magnitude will have an adverse effect on the Nation's standard of living. Projections place annual interest payments on the debt between $30 billion and $50 billion by 1990. Sooner or later, outstanding net debt and the interest payable on it reappear as foreign claims on U.S. goods and services.

Ms. Eickhoff, former chief economist of the Office of Management and Budget, estimates that the Federal budget deficit could easily reach $300 billion in the event of a new recession. The Administration projects a decline in the deficit from $220.7 billion in fiscal year 1986 to the range of $175 billion to $180 billion in fiscal year 1987, which ends on September 30. ■

U.S. TRADE DEVELOPMENTS

After two consecutive monthly declines, the U.S. merchandise trade deficit rose from $13.3 billion in April to $14.4 billion in May. The May deficit exceeded the average deficit of $13.6 billion for the first 4 months of 1987 and the average monthly deficit of $13.9 billion for 1986. The cumulative deficit during January–May 1987 was $68.7 billion compared with $65.4 billion during the corresponding period of 1986. The 4.1-percent rise in imports since April to a monthly record of $34.8 billion in May more than offset the 1-month increase in exports of 1.4-percent to $20.4 billion in May.

Exports were above $20 billion for the third month in a row. Their growth was led by manufactured goods, particularly chemicals, office equipment, electrical machinery, and motor-vehicle parts. The rise in imports was led by manufactures and petroleum products. Some of the increase can be attributed to higher prices, notably for items such as footwear, passenger cars, oil, and clothing. But in the case of automobiles and oil, the increase also resulted from growth in volume.

The increase in the trade deficit, after 2 months of improvement, serves as a reminder of just how difficult it is to reduce the deficit through export growth. This is partly the result of the current disproportion between imports and exports. During the first 5 months of this year, the United States imported 1.70 dollars' worth of goods for every $1 of exports. This means that during this period, a 1.7-percent increase in exports was required to offset a 1-percent increase in imports just to keep the deficit from growing. Thus, U.S. exports would have had to expand by 6.8 percent to offset the 4.1-percent increase in imports from April to May and prevent a rise in the deficit.

The failure of imports to decline in value can be attributed to several factors. First, the so-called J-curve effect postulates that the dollar value of imports will decline with a currency depreciation, but only after an initial increase. This initial increase occurs because substitution away from relatively more expensive imports is slow and does not initially offset the increase in their price. Thus, the value of imports continues to rise at first, even as the volume declines. (See *IER*, June 1986.) Second, the U.S. economy has expanded at a faster pace than the economies of other industrialized countries. This is often cited as a major reason for the buildup of the trade deficit in the first place, and U.S. growth is continuing to outstrip the growth of our trading partners again this year. Faster growth translates into higher personal income and subsequently raises the demand for imports. Even the recent expansion of exports contributes to the growth of U.S. income and to higher U.S. import demand. ■

INTERNATIONAL TRADE DEVELOPMENTS

EC Leaders Shelve Proposal to Tax Fats and Oils

EC leaders recently agreed to postpone the adoption of a controversial tax on oils and fats that could have triggered retaliatory trade measures by the United States. U.S. concern that the proposed consumption tax on vegetable and marine fats and oils would severely affect U.S. exports of soybeans had prompted strong warnings of possible U.S. countermeasures should the tax be implemented.

The Common Agricultural Policy (CAP), the EC's farm support program that accounts for approximately two-thirds of the EC's budget, has been a major and growing financial drain on member states. In order to offset the soaring costs of supporting the domestic oils and fats sector, the EC Commission proposed establishing the tax as part of the 1987–88 farm price package presented in February. The tax was designed to collect 2 billion European Currency Units (ECU's), or about $2.3 billion, and would have been imposed on the consumption of vegetable and marine fats and oils from both foreign and domestic sources. The tax for the 1987 to 1988 fiscal year was set at a maximum of 330 ECU's (about $375) per metric ton. Animal fats, such as butter, lard, and tallow, were to be exempted from the consumption tax.

The U.S. Administration and U.S. soybean industry reacted angrily to the proposed tax, charging that the tax would sharply reduce EC imports of U.S. soybeans, which are crushed in European mills into vegetable oil and oilseed meal. In 1986, U.S. soybean exports to the EC totaled about $2 billion and were the fourth leading U.S. export to the EC. Moreover, the EC purchases accounted for nearly one-half of all U.S. exports of soybeans last year. In March, United States Trade Representative Yeutter said "I am astonished that the EC Commission would propose such a provocative measure so soon after we successfully resolved the agricultural dispute over the enlargement of the Community to include Spain and Portugal." The Administration's persistent warnings of possible U.S. retaliation underlined the fact that the value of trade affected by the tax would far outweigh the 400 million dollars' worth of agricultural trade at stake in the enlargement-related farm trade dispute that dominated the U.S.-EC trade agenda in 1986.

U.S. officials charged that the tax was inconsistent with the General Agreement on Tariffs and Trade (GATT) because it discriminated against imported oils and oils made from imported soybeans through the use of a flat tax. The American Soybean Association estimated that the tax would have increased the price of relatively inexpensive imported oils like soybean oil by 90 percent, whereas the price of European olive oil, which is relatively more expensive, would have risen by only 37.5 percent. In addition, opponents of the tax claimed that the tax violated the GATT because it would have exempted animal fats and therefore would have protected the domestic production of butter. The U.S. Government claimed that the relatively large increase in the price of imported oils and oils made from imported soybeans would have encouraged the purchase of olive oil and the expansion of EC oilseed (which includes soybeans) and butter production at the expense of U.S. soybean sales. Consequently and most importantly, U.S. officials argued that the tax would have impaired the duty-free bindings the United States received on oilseeds during the Dillon Round of trade negotiations in 1962.

Several other nations joined the United States in opposing the tax. Vegetable oil producers from Asia, Africa, and Latin America complained that the tax would adversely affect their exports to the EC. In addition, opposition within the EC prevented progress on the oils and fats tax proposal throughout the spring. West Germany, the United Kingdom, the Netherlands, and Denmark continually denounced the plan. Some of the objections raised by EC member states were the risk of violating trade commitments and the additional burden placed on EC consumers of supporting the fats and oils sector.

The remaining member states continued to favor the tax as a necessary revenue-raising measure. Financial support for the oils and fats sector is expected to become even more burdensome since the two major olive oil producing countries—Spain and Portugal—will be fully integrated into the CAP by the early 1990's. EC supporters of the tax also claimed that the tax would have a minimal effect on the exports of its trading partners for two reasons: past experience indicated that fluctuations in the price of vegetable oils had little effect on its consumption, and the tax proposal incorporated measures to limit EC production of oilseeds. Further, the EC Commission argued that the tax was legal under international trade laws since it would be imposed on vegetable and marine oils regardless of their source.

The EC has considered proposals for a tax on fats and oils at various times over the past 20 years, but the tax has never been implemented because of the consistent opposition from the United States, as well as from several EC members. Continued internal opposition throughout the spring placed the issue on the agenda of the EC's semiannual summit on June 29–30. However, summit leaders failed to reach a consensus and called for a study of the issue and consultations with the EC's trading partners. Community officials are scheduled to discuss the findings at the next EC summit in December. ■

Brazil's Recent Economic and Trade Measures Could Improve Relations With the United States

On June 12, President Jose Sarney announced new, tough austerity measures for Brazil's economy. The package was prompted by sharp criticism, both domestic and foreign, of the Sarney Administration's previous economic policies and marked the end of Brazil's efforts to persuade foreign creditors to accept its aggressive growth policy. Measures stimulating fast economic growth have been widely regarded abroad as inconsistent with the country's position as the Third World's leading debtor (*IER*, October 1986). Brazil presently owes approximately $111 billion to foreign lenders, commercial banks, and governments combined.

The June economic reform was preceded by an announcement, on February 20, 1987, that the Government of Brazil was suspending payments on its commercial foreign debt, which amounted to $69 billion (*IER*, March 1987). In June, this moratorium was broadened to include debt owed to government institutions. These moves stunned the world's financial community and prompted leading U.S. banks (including Citicorp, the Chase Manhattan Corp., and Morgan Guarantee Trust) to reclassify many of their loans to Brazil as "nonperforming."

Even as he announced the suspension of payments, President Sarney warned that he would not accept recession as the price for ending the moratorium. However, Brazil was already headed towards recession as the Administration's 1-year-old "Cruzado Plan" showed signs of collapsing. The Cruzado Plan—a broad currency and economic reform package named after Brazil's new currency—was inaugurated in February 1986. The plan was initially heralded as a major success until, a few months into implementation, its weaknesses began to surface (*IER*, March 1987).

The austerity measures announced in June included the devaluation of the cruzado by 10 percent relative to the U.S. dollar (which followed a 7-percent devaluation on April 30); the halting of major public construction projects to reduce Government spending; and a wage-and-price freeze. The freeze, the second in 16 months, was preceded by sharp price hikes designed to dampen demand. The price increases affected key items such as gasoline, electricity, steel, bread, and milk. Excess demand was the single factor most responsible for undermining the Cruzado Plan.

In its final months, the Cruzado Plan was drowning in runaway inflation and soaring interest rates. In May, Brazil's inflation was running at an annual rate of more than 1,000 percent. Surging and unpredictable interest rates resulted in mass bankruptcies and capital flight from the country.

The new measures are expected to slow inflation, improve the investment climate, and reverse capital flight. They are also regarded as a concession the Sarney Administration was compelled to make to foreign creditors. U.S. Treasury Secretary James A. Baker III welcomed the reforms in his discussions with Brazilian senators who came to Washington to explain the package shortly after it was announced.

Although forced to resort to austerity policies similar to those adopted by other Latin American debtor nations (such as Argentina and Mexico), the Sarney Administration has not entirely given up on its growth objectives. The Administration plans to promote economic growth, however, by relying more on Brazil's private sector and on foreign investment. A foreign capital investment program under preparation by Government officials is reportedly nearing completion, as are specific measures for converting a portion of international debt to investment equity.

The shift in the Sarney Government's economic policies was accompanied by trade-related developments promising better relations with the United States. In June, the Brazilian Chamber of Deputies passed a bill that, according to the White House, adequately addresses U.S. concerns about software copyright protection in Brazil. A bilateral dispute over Brazil's reserved computer market and lack of protection for computer software reached critical proportions in September 1985 (*IER*, January 1987) when the United States opened an investigation of these issues under section 301 of the Trade Act of 1974. Since then, Brazil has been under the threat of retaliatory U.S. measures.

June 30, 1987, was the third deadline set by the United States for some action to be taken by Brazil in the computer dispute. Brazil has escaped U.S. retaliation on both previous occasions. Encouraged by the new Brazilian software protection bill, U.S. officials let the third deadline pass without imposing sanctions. On June 30, President Reagan decided to suspend the software part of the section 301 investigation and to continue discussions on the remaining part, which relates to Brazil's investment policies. In addition, the United States will continue to monitor the administrative procedures that implement Brazil's computer law and the scope of Brazil's market reserve in the computer area. Formal U.S. investigation of these latter issues was suspended by President Reagan on December 30, 1986. ▪

U.S. and Canadian Experience With Statutory Trade Cases: A Clue to the Outcome of the Current Free-Trade Negotiations?

For the United States and Canada, currently embarked on a rocky journey toward a free-trade agreement, prior experience with unfair trade cases is likely to shape efforts to arrive at a mechanism for reaching mutually agreeable resolutions of such bilateral disputes. Canada has made no secret from the onset of negotiations that it regards the establishment of a binding, bilateral dispute-settlement mechanism to handle complaints of unfair trade practices as a *sine qua non* for any agreement. The United States, on the other hand, maintains that any exemption for Canada from U.S. trade law is out of the question, since whatever agreement ultimately results must be approved by Congress. Thus, the question of dispute settlement, particularly in the area of countervailing duty (CVD) cases, is central to the conclusion of any bilateral negotiated agreement by the October Congressional deadline.

Both Canada and the United States have specific mechanisms in place for handling antidumping and CVD investigations. Title VII of the Tariff Act of 1930 in the United States and the Special Import Measures Act in Canada govern the resolution of these disputes. Each statute gives authority for final determinations to the U.S. International Trade Commission (Commission) and the Canadian Import Tribunal (Tribunal). Since the United States and Canada are each other's main trading partner, an examination of recent Commission and Tribunal decisions involving imports from each other provides a background to the efforts to arrive at a bilateral dispute-settlement mechanism. Moreover, this review of findings indicates a low incidence of trade dispute cases that bodes well for a successful outcome to the negotiations.

In 1985, the Tribunal completed 31 investigations into alleged dumping of imported goods into Canada. Six of these investigations involved products from the United States. The 31 investigations resulted in 24 injury determinations, 3 of these being against U.S. products. These products were porcelain insulators, abrasion-resistant steel pipe, and photo albums with self-adhesive leaves. In the same year, the Tribunal conducted two investigations into subsidized imports, both resulting in CVD's being imposed, but in neither case was the United States the source of the subsidized imports.

In 1986, 21 dumping cases were completed by the Tribunal, and 3 of these involved products from the United States. Eighteen of the investigations resulted in findings of injury, or likelihood of injury, and the imposition of antidumping duties. All three cases in which U.S. exports were the subject of investigation resulted in such charges being imposed. The products were certain oil- and gas-well casings, whole potatoes, and finished artificial graphite electrodes and connecting pins. In 1986, the Tribunal completed only one investigation into alleged subsidized products entering Canada, but that case did not involve a U.S. product. (The Tribunal did initiate action into grain corn from the United States in 1986. In March 1987, it found that such subsidized corn from the United States was injuring Canadian corn growers, and a CVD equal to approximately 55 percent of the price was imposed.)

Comparable figures from the United States on trade disputes for 1985–86 show that the Commission completed 48 antidumping investigations in 1985 and 45 in 1986. Of the 48 concluded in 1985, 3 cases involved products from Canada. Two of these investigations—those on red raspberries and dried salted codfish—were among 11 that resulted in injury determinations. Of the 45 cases in 1986, 5 involved Canadian exports. Thirty of the 45 cases resulted in injury determinations, 3 on Canadian products—iron construction castings, oil country tubular goods, and brass sheet and strip.

Insofar as CVD investigations are concerned, the Commission completed 20 such cases in 1985. Seven of these cases resulted in findings of material injury and the imposition of a duty. The only CVD case involving Canada, that on live swine and pork, was among the seven affirmative determinations in 1985. In 1986, 12 CVD cases were completed. Seven of these ultimately resulted in the imposition of additional duties. Three products of Canada were part of the Commission's 1986 CVD activity, and two of these—oil country tubular goods and fresh Atlantic groundfish—were among the seven on which affirmative determinations were made. (The celebrated softwood lumber case is not included in these totals since it was officially settled before being sent to the Commission for a final injury determination.)

U.S. merchandise exports to Canada are 25 percent of total U.S. exports and 81 percent of total Canadian imports. Canadian merchandise exports to the United States are 78 percent of total Canadian exports and 19 percent of total U.S. imports. Given this considerable volume of trade, one might expect an even higher incidence of products from one country appearing in the trade actions of the other. It has been estimated that less than 2 percent of all imports from Canada in 1985 were subject to investigations by the Commission (*IER*, December 1986).

As the above numbers indicate, Canadian and U.S. trade actions against one another are not numerically significant. The low number of such formal trade cases suggests that a favorable climate exists within which to attempt reconciliation of developing bilateral trade disputes prior to recourse to the formal trade remedy mechanism of either country.

The United States recently acknowledged that it was willing to consider the possibility of some sort of joint dispute-settlement mechanism. Without knowing the specifics of a bilateral agreement, it would be premature to discuss details of any institutional mechanism that may be set in place. However, the operational principles that could undergird the functioning of a bilateral mechanism are open to review. Such a mechanism could be a standing body, separate from existing institutions, whose responsibilities would include providing independent, objective analysis and joint factfinding. A joint trade commission could offer advisory opinions and recommendations on matters of bilateral dispute. The strength of the commission would come from the recognition of its advice by each Government. This presumes that appointees to the body would be recognized for objectivity and political sensitivity. Such a mechanism, whose recommendations would have a high degree of acceptability by both Governments, would be a major advance in the bilateral relationship and a significant example to other trading partners in the unfolding round of trade negotiations.

The statutory deadline for submission of a free-trade agreement to Congress is October 5, 1987. Given Canada's desire for an accommodation in the area of dispute settlement and the U.S. wish for a phasing out of a number of Canadian subsidies on exported products, it appears that only political will on both sides is needed to successfully achieve the mutually beneficial goal of free trade. ■

The Republic of Korea Accepts IMF Recommendation to Revalue its Currency

Since registering a $7.4 billion trade surplus with the United States in 1986, Korea has been under increasing pressure from the U.S. Government to revalue the won at a more rapid rate than has occurred thus far. In response, the Korean Government announced in late April that it would allow the International Monetary Fund (IMF) to arbitrate the currency dispute during Korea's upcoming annual consultations with the IMF. After visiting Seoul in June, the six-member IMF panel advised the Government to speed up the appreciation of the won, but gave no "magic number" for its value, according to Hubert Neiss, the IMF's deputy director for Asian affairs and leader of the delegation. The Korean Government and the IMF team agreed, however, that exchange-rate appreciation is necessary to prevent Korea's current-account surplus for 1987 from exceeding the $5 billion target set by the Government. The IMF projected that if no action were taken, the surplus could reach $8 billion. The delegation also urged that Korea attempt to narrow its surplus by reducing tariff barriers and relaxing foreign-exchange controls that Neiss believes "the economy has long outgrown."

Acceptance of the IMF recommendations has become a politically sensitive issue in Korea. Although the Government's decision to consult with the IMF was reportedly prompted in part by the desire to avoid appearing to capitulate to U.S. pressure, the Korean press has recently described the IMF as "a typical organization in which U.S. influence is absolutely dominant." Strong criticism has also been voiced by Korean exporters, who claim that any further appreciation of the won (which has risen by more than 6 percent in 1987) would eliminate profit margins and thereby harm the price competitiveness of their products compared with goods from Japan and Taiwan. In fact, however, Korean exports for the first 5 months of 1987 were up 40 percent compared with those of last year, partly because of large increases in the values of the yen and the New Taiwan dollar.

Appreciation of the won is opposed by some Korean economists, who point out that the country's overall trade surplus last year was the first in its history. According to Kim Chung-Soo of the Korea Institute for Economics and Technology, Korea has made outstanding progress in opening its markets. He notes that "imports in 1985 made up 36 percent of Korea's GNP, compared with just 9.7 percent in the case of Japan." Nam Duck-Woo, chairman of the Korean Traders Association, argues that "exchange rate policies should seriously take into account the heavy debt burden" (Korea's foreign debt is $41 billion) as well as the fact that Korea's trade surplus "is not a long-term structural phenomenon." ■

STATISTICAL TABLES

Industrial production

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

Country	1984	1985	1986	1985 IV	1986 I	1986 II	1986 III	1986 IV	1987 Jan.	1987 Feb.	1987 Mar.	1987 Apr.	1987 May	1987 June
United States	11.2	2.0	1.0	1.9	1.2	-2.1	1.9	3.3	-1.2	6.2	0	-1.2	6.2	2.4
Canada	8.8	4.3	–	6.1	-.9	–	–	–	–	–				
Japan	11.1	4.6	-0.3	-2.9	.7	.9	-2.1	-2.4	5.7	4.0				
West Germany ...	3.3	3.9	2.2	.8	-.1	10.2	-4.5	-.1	-30.2	–				
United Kingdom ..	1.3	4.7	1.8	.7	2.7	0.6	5.6	.5	3.3	21.3				
France	1.7	.8	.7	.0	-5.8	6.2	5.4	-5.1	-21.3	43.1				
Italy	3.3	1.2	2.7	-1.8	13.5	6.0	-12.8	7.3	25.7	-5.8				

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 19, 1987.

Consumer prices

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

Country	1984	1985	1986	1986 I	1986 II	1986 III	1986 IV	1987 I	1986 Dec.	1987 Jan.	1987 Feb.	1987 Mar.	1987 Apr.	1987 May
United States	4.3	3.6	1.9	1.4	-1.7	2.6	2.7	6.6	2.4	8.3	5.2	6.2	6.2	4.9
Canada	4.3	4.0	4.2	4.7	3.0	4.7	4.9	3.5	3.7	2.0	3.1	5.6		
Japan	2.3	2.0	.6	.4	.9	-2.0	-.1	.1	-2.4	-4.7	0	4.9		
West Germany ...	2.4	2.2	-.2	-1.0	-1.0	-.5	-1.5	1.0	1.4	1.6	.9	.6		
United Kingdom ..	5.0	6.1	3.4	4.0	.7	2.4	6.5	3.9	8.9	6.7	3.4	1.6		
France	7.7	5.8	2.5	1.0	1.7	2.6	3.2	4.5	5.2	9.8	3.0	.6		
Italy	10.6	8.6	6.1	5.9	5.0	5.0	3.2	4.0	4.3	5.0	2.2	4.7		

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 19, 1987.

Unemployment rates

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

Country	1984	1985	1986	1986 I	1986 II	1986 III	1986 IV	1987 I	1987 Jan.	1987 Feb.	1987 Mar.	1987 Apr.	1987 May	1987 June
United States	7.5	7.2	7.0	7.1	7.1	6.9	6.9	6.7	6.7	6.7	6.6	6.3	6.3	6.1
Canada	11.3	10.5	9.6	9.7	9.6	9.7	9.4	9.6	9.7	9.6	9.6	9.3	9.1	
Japan	2.8	2.6	2.8	2.7	2.8	2.9	2.9	2.9	3.0	2.9	2.9	3.0		
West Germany ...	7.8	7.9	7.6	7.8	7.7	7.5	7.4	7.4	7.4	7.4	7.5	7.5	7.5	
United Kingdom ..	11.7	11.3	11.1	11.2	11.2	11.2	10.9	11.1	11.2	11.1	10.6	10.5		
France	9.9	10.4	10.7	10.4	10.6	10.8	10.8	11.2	11.1	11.2	11.3	11.3		
Italy	5.9	6.0	6.3	6.1	6.1	6.0	6.6	6.7						

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, July 1987.

Trade balances

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

Country	1984	1985	1986	1985	1986				1986	1987				
				IV	I	II	III	IV	Dec.	Jan.	Feb.	Mar.	Apr.	May
United States[1]	-107.6	-133.5	-153.4	-147.2	-154.4	-139.6	-155.6	-166.8	-150.0	-108.0	-171.6	-145.2	-141.6	-154.8
Canada	16.0	12.8	7.3	11.6	6.8	7.6	6.4	8.0	8.4	6.0	10.8			
Japan	43.9	55.8	92.5	67.6	71.6	89.6	104.8	104.0	104.4	116.4	115.2			
West Germany	18.8	25.4	52.6	29.6	41.2	51.6	60.4	57.2	64.8	57.6	74.4			
United Kingdom	-5.7	-2.6	-12.1	-1.2	-8.4	-9.6	-17.2	-14.8	-13.2	-9.6	-3.6			
France	-2.8	-2.6	.1	-1.6	.4	-4.4	0	1.6	7.2	-4.8	-1.2			
Italy	-11.0	-12.1	-2.1	-14.4	-10.8	.0	1.6	-.8	3.6	-3.6	-9.6			

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

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

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 19, 1987.

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

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

Item	1984	1985	1986	1986				1987	1986	1987				
				I	II	III	IV	I	Dec.	Jan.	Feb.	Mar.	Apr.	May
Commodity categories:														
Agriculture	18.4	9.6	4.5	1.7	.0	.5	2.3	1.4	.9	.6	.4	.4	.5	.5
Petroleum and selected products, unadj	-52.5	-45.9	-31.8	-10.6	-7.2	-7.2	-6.8	-7.6	-2.1	-2.1	-2.8	-2.7	-2.5	-3.0
Manufactured goods	-78.9	-102.0	-134.3	-31.1	-32.4	-36.1	-34.7	-32.7	-8.9	-10.3	-11.7	-10.7	-10.9	-11.3
Selected countries:														
Western Europe	-14.1	-23.3	-28.2	-6.6	-8.0	-7.3	-6.3	-5.2	-1.9	-1.5	-1.6	-2.1	-1.9	-2.2
Canada	-20.1	-21.7	-23.0	-5.9	-5.8	-5.9	-5.4	-4.9	-1.1	-1.6	-1.9	-1.4	-1.2	-1.2
Japan	-33.8	-46.5	-55.3	-14.3	-12.5	-13.5	-15.0	-13.6	-3.6	-4.1	-4.8	-4.7	-4.7	-4.8
OPEC, unadj	-12.3	-10.2	-8.9	-3.5	-1.5	-2.1	-1.8	-2.4	-.5	-.6	-1.1	-.7	-.7	-.9
Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj	$28.11	$26.59	$15.02	$22.70	$13.40	$11.41	$12.60	$15.55	$12.94	$14.36	$16.07	$16.23	$16.76	$17.16

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

Source: *Summary of U.S. Export and Import Merchandise Trade*, U.S. Department of Commerce, May 1987.

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

(Percentage, annual rates)

Country	1984	1985	1986	1986 I	1986 II	1986 III	1986 IV	1987 I	1987 Jan.	Feb.	Mar.	Apr.	May	June
United States	10.7	8.3	6.5	7.6	6.5	6.0	5.8	6.1	5.9	6.1	6.2	6.5	7.0	6.9
Canada	11.3	9.7	8.6	11.1	8.9	6.1	8.3	7.4	7.6	7.5	7.1	7.1		
Japan	6.7	6.5	4.9	6.0	4.7	4.7	4.4	4.1	4.2	4.0	4.0	3.5		
West Germany ...	6.0	5.5	4.6	4.5	4.6	4.5	4.7	3.9	3.9	3.9	3.9	3.7		
United Kingdom ..	9.9	12.1	10.8	11.9	10.1	9.9	11.3	10.5	11.1	10.9	10.3	9.6		
France	11.7	10.0	7.7	8.7	7.4	7.2	7.6	8.2	8.5	8.3	7.9	8.0		
Italy	15.9	15.0	12.8	15.5	12.9	11.4	11.2	10.9	11.9	11.8	10.1	10.6		

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

Source: Statistics provided by Federal Reserve Board.

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

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

Item	1984	1985	1986	1986 II	1986 III	1986 IV	1987 I	1987 II	1987 Jan.	Feb.	Mar.	Apr.	May	June
Unadjusted:														
Index number	122.4	127.1	106.0	106.7	102.8	102.7	97.1	94.4	98.5	96.9	96.0	94.0	94.5	94.8
Percentage change	7.2	3.8	-16.6	-9.4	-3.7	-.1	-5.5	-2.8	-3.9	-1.6	-0.9	-2.1	.5	.3
Adjusted:														
Index number	119.6	122.5	101.6	99.1	96.9	98.3	93.4	90.0	94.3	93.2	92.5	90.5	90.9	91.5
Percentage change	6.1	2.4	-17.1	-6.8	-2.2	1.4	-5.0	-2.7	-3.8	-1.2	-1.0	-2.2	.4	.7

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

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

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