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INTERNATIONAL ECONOMIC COMPARISONS

Many observers have concluded that there is little basis for distinguishing between the likely economic policies of the two major U.S. Presidential candidates. The Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 represents an effective national consensus over fiscal policy, and neither of the candidates seems eager to deviate from the law's carefully weighed targets and contingencies. Any further changes in fiscal policy are likely to be contained in the forthcoming recommendations of the bipartisan National Economic Commission. Monetary policy, on the other hand, rests largely with the politically independent Federal Reserve, whose actions are heavily influenced by the short-term exigencies of ensuring economic growth without inflation.

Against this backdrop of limited space for economic maneuvering appears an unbroken stream of exhortations both from home and abroad to quicken the pace of Federal deficit reduction. Some of these exhortations assume that political obstacles against tax increases should not be strong in the United States because total U.S. taxes represent a comparatively small portion of the country's gross income. Total government receipts—combining all levels of government—account for about 31 percent of the Gross Domestic Product (GDP) in the United States, 39 percent in Canada, 49 percent in France, 39 percent in Italy, 31 percent in Japan, 42 percent in the United Kingdom, and 45 percent in West Germany. However, given that tax increases are known to slow investment and consumption, and that forecasters call for a decline in U.S. and industrialized country economic growth from 1988 to 1989 (table 1), many economists find recommendations for tax increases inappropriate at present.

Economic Growth

The rate of economic growth (latest available quarterly change in GNP or GDP growth, adjusted for inflation and annualized) was 4.9 percent in Canada, 4.0 percent in France, 2.8 percent in Italy, -3.9 percent in Japan, 5.1 percent in the United Kingdom, 4.3 percent in the United States, and 3.4 percent in West Germany. The average growth rate for the "Group of 7" (using 1986 GDP's as weights) was 2.5 percent.

Industrial Production

U.S. industrial production rose by 0.2 percent in August following a 1.0-percent increase in July. U.S. factories, utilities, and mines operated at 83.7 percent capacity in August, up slightly from the July rate that has been the highest since March 1980.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with output in the corresponding month of the previous year, were as follows: Canada, 7.3 percent; France, 2.9 percent; Italy, 5.4 percent; Japan, 7.9 percent; the United Kingdom, 4.7 percent; the United States, 5.4 percent; and West Germany, 3.1 percent.

Investment

In the United States, the ratio of investment to total output has been relatively low among the "Group of 7" countries so far in this decade. During 1980–87, the rate of gross fixed capital formation represented 18.1 percent of GNP in the United States, 29.0 percent in Japan, 21.7 percent in Italy, 21.0 percent in Canada, 20.5 percent in France and West Germany, and 16.7 percent in the United Kingdom. But when investment productivity (growth in real GNP to the proportion of fixed capital formation in GNP) is compared, the U.S. performance is much more favorable. The period's 13.1 investment productivity ratio in the United States is exceeded only by that of Canada (13.7) and Japan (13.3). This indicates that the same amount of investment resources generated more economic growth in the United States than in most leading industrialized countries.

Trade

United Nations data indicate that the volume of world trade increased from an annual average of 2.0 percent in 1980–84 to 3.0 percent in 1985, to 4.0 percent in 1986, and to 5.0 percent in 1987. Based on year-to-date data, the growth in 1988 is approximating the 1987 pace.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor-force basis, including military personnel) increased slightly from 5.4 percent in July to 5.5 percent in August.

The West German Government reported that the country's rate of unemployment was 8.8 percent in August. The national statistical offices of other countries reported the following unemployment rates in July: 7.9 percent in Canada, 16.4 percent in Italy, 2.5 percent in Japan, and 8.2 percent in the United Kingdom. The June unemployment rate was 10.5 percent in France. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

The following tabulation shows that with the exception of the United States the average rate of unemployment was higher in all the key industrialized countries during 1983–88 than during the decade 1973–82. (in percent):

	1973-82	*1983-88*[1]
United States	6.9	6.9
France	5.2	9.9
Japan	2.0	2.7
United Kingdom	6.3	10.5
West Germany	3.1	7.0

[1] The 1988 rate is represented by year-to-date data.

Among these countries, unemployment declined only in the United States in every year since 1983. From 1987 to 1988 (year-to-date), unemployment decreased also in Japan, France, the United Kingdom, but edged up in West Germany.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.4 percent in August, the same as it did in July.

The average rate of inflation during the 1-year period ending in August 1988 was 5.0 percent in Italy and 1.1 percent in West Germany. The average rate of inflation during the 1-year period ending in July 1988 was 3.8 percent in Canada, 0.5 percent in Japan, 4.8 percent in the United Kingdom, and 4.1 percent in the United States. The average rate of inflation during the 1-year period ending in June 1988 was 2.6 percent in France. The Organization for Economic Cooperation and Development (OECD) reported that the average annual rate of inflation in July was 3.8 percent in the 24 member countries.

The following tabulation shows annual percentage changes in consumer prices in the key industrialized countries:

	1986	*1987*	*1988*[1]
United States	1.9	3.6	3.9
France	2.7	3.1	2.5
Japan	0.6	0.1	0.6
United Kingdom	3.4	4.1	3.8
West Germany	-0.2	0.3	1.0

[1] 1988 rates represent year-to-date data.

According to the estimates of the Hamburg Institute of World Economics, a 12.7-percent decline in energy raw material prices from June 1987 to June 1988 has just offset the sharp, 30.2-percent increase in nonenergy raw material prices, leaving the overall price index of raw materials on world markets unchanged. Nevertheless, the 65.2-percent increase in the average price of nonferrous metals and the 29.0-percent rise in food-stuff prices is unsettling.

Forecasts

Economic growth and prices

Economists believe that the acceleration in inflation rates will not go far, because the pace of economic growth is slowing as we enter the seventh year of Western recovery (table 1.)

Table 1

Forecasts of Real GNP, Domestic Demand,[1] and Prices in the United States, Japan, and Western Europe

(in percent)

	Real GNP		*Domestic Demand*		*Prices*	
	1988	*1989*	*1988*	*1989*	*1988*	*1989*
United States .	3.2	2.0	2.5	1.5	4.0	5.5
Japan	5.2	3.5	6.0	4.0	0.5	1.5
Western Europe	2.6	2.0	3.5	2.5	3.0	3.8
All industrialized countries ...	3.3	2.2	3.4	2.3	3.2	4.2

[1] Domestic demand equals GNP less exports.
Source: OECD, national statistics and forecasts by *Intereconomics*.

U.S. trade and budget deficits

Data Resources Inc. (DRI) forecasts a decline in the U.S. merchandise trade deficit from $170.3 billion in 1987 to $133.9 billion in 1988, and to $124.7 billion in 1989. U.S. Government economists project a $143.0 billion deficit in 1988 and $123.0 billion in 1989. If the pace of deficit accumulation during the first 7 months of 1988 were to prevail for the rest of the year, the 1988 deficit would be $137.5 billion in 1988.

Since the Nation's economic growth so far in 1988 has held up much better than earlier projected, the Congressional Budget Office (CBO) now forecasts a reduction rather than an increase in the U.S. Federal deficit in fiscal year 1989. According to CBO's latest forecast, the Federal budget deficit will increase from $150 billion in fiscal year 1987 to $155 billion in fiscal year 1988, but then it will decline to $148 billion in fiscal year 1989, to $136 billion in fiscal year 1990, to $131 billion in fiscal year 1991, to $126 billion in fiscal year 1992, and to $121 billion in fiscal years 1993 and 1994. CBO's projections assume no change in current budgetary policies, nor an economic downturn.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit dropped from $13.2 billion in June to $9.5 billion in July. The July deficit was 27.0 percent below the $13.0 billion average monthly deficit registered during the previous 12-month period, and 31.4 percent below the $13.9 billion deficit of July 1987. The non-seasonally adjusted deficit in July was $12.0 billion, 7.4 percent below its $13.0 billion monthly average during the previous 12-month period and 25.1 percent below the $16.1 billion deficit of July 1987. Seasonally adjusted data reflect trends and cycles better than seasonally unadjusted data, but the conclusions suggested by them cannot be accepted uncritically. One particular feature of the Government's deseasonalization technique (the ratio-to-moving average method) is that the worse a given month's deficit was last year the more that will help the deficit look better for the same month next year. Since the monthly deficit was the highest in July and October in 1987, the difference between the seasonally adjusted and unadjusted numbers is logically expected to be greatest for July and October this year. By imposing past patterns on current data, the seasonal adjustment of monthly data might also obscure gradual shifts in seasonal patterns or sharp turning points in underlying cycles.

On a seasonally adjusted basis, U.S. exports amounted to $182.1 billion during the first 7 months of 1988, up by 28.2 percent from the $142.1 billion during the corresponding period of 1987. Imports increased by only 9.1 percent over the same period, from $240.4 billion to $262.3 billion. The deficit declined from $98.3 billion during January- July 1987 to $80.2 billion during January-July 1988.

U.S. crude petroleum imports increased from $16.4 billion (956.8 million barrels) during January-July 1987 to $16.9 billion (1,076.1 million barrels) during January-July 1988. The unit price of crude petroleum declined from $17.2 to $15.7 per barrel over the period. The U.S. surplus in agricultural trade increased from $2.5 billion during the first 7 months of 1987 to $7.5 million during the corresponding period of 1988.

During the first 7 months of 1988, the annualized deficit in trade with Japan was $52.1 billion compared with 1987's record $59.8 billion. The U.S. deficit in trade with the EC showed an annualized deficit of $13.4 billion, considerably lower than the $24.3 billion deficit recorded in 1987. In a similar comparison, the U.S. deficit declined in trade with the newly industrialized countries of Asia and with Mexico, but increased in trade with Canada.

The following tabulation shows U.S. exports, imports (customs basis), and deficits, including services, at seasonally adjusted annual rates, 1986, 1987, and quarterly January-June 1988:

(in billions of 1982 dollars)

			1988	
	1986	1987	I	II
Exports	378.3	427.7	486.2	496.9
Imports	515.8	556.6	595.1	589.5
Deficit	137.5	128.9	108.9	92.6

At $92.6 billion, the annual rate of the quarterly deficit during the second quarter of 1988 was the lowest since the first quarter of 1985. It also represents a 30.1 percent decline in the volume of the deficit from 1987. The $1.0-percent decline in the volume of imports from the first to the second quarter of 1988 is the most significant quarterly decline since 1985. The quarterly volume of U.S. exports has shown an unbroken growth since mid-1986.

The commodity structure of the $37.9 billion increment in U.S. exports (domestic exports, f.a.s.) from the first 7 months of 1987 to the corresponding period of 1988 was as follows by 1-digit SITC (Standard International Trade Classification) categories (in percent):

Food and live animals	9.6
Beverages and tobacco	1.6
Crude materials	9.4
Mineral fuels and lubricants	0.8
Animal and vegetable oils	1.1
Chemicals	8.8
Manufactured goods classified chiefly by material	8.0
Machinery and transport equipment	42.6
Miscellaneous manufactured articles	7.2
Commodities not elsewhere classified	10.9
Total	100.0

INTERNATIONAL TRADE DEVELOPMENTS

Major Strides Toward Agriculture Liberalization in Japan

Until recently, the prospects for liberalization of Japanese import restrictions on certain agricultural products such as beef and citrus appeared dim because of the high political stakes associated with these issues from the Japanese viewpoint. However, during the past two months, unprecedented moves have been taken by Japan to resolve long-standing, bilateral agricultural issues, including an agreement to liberalize beef and citrus imports, and a schedule for complying with the 1987 GATT-12 ruling.[1] These actions are expected to help alleviate tensions that have strained relations over agricultural issues in the past.

Beef and Citrus

Following several months of negotiations (*IER*, June 1988), on June 20 the United States and Japan reached an agreement by which Japan will liberalize its imports of beef, oranges, and orange juice by the mid-1990's. The potential for increased U.S. exports of these products has been estimated at between $1 and $1.5 billion.

Under the June agreement, Japan will lift its quotas on beef imports as of April 1, 1991. During a three-year phaseout period, the import ceiling for beef will be raised from the current level for fiscal year (FY) 1988 of 274,000 metric tons, to 334,000 metric tons metric tons during FY 1989 and 394,000 metric tons in FY 1990. The role of Japan's Livestock Industry Promotion Corp. (LIPC) in setting prices of foreign beef will be reduced after the quota is lifted in April 1991, but it will still continue to administer the price stabilization program for domestic beef. The United States has maintained that the LIPC is a state-trading agency and has sought decreased involvement of this agency in controlling the price of imported beef. LIPC surcharges, including a 25 percent tariff rate, are currently equal to a 96 percent ad valorem tariff rate. These surcharges will decrease during fiscal years 1988–90, and the 25 percent tariff will remain in effect. Once the surcharges are reduced, temporary tariffs on imported beef will be set (70 percent in FY 1991, 60 percent in FY 1992, and 50 percent in FY 1993).

During negotiations in May and June, the Japanese had pushed for some type of permanent safeguard authority to protect their farmers from the effects of a surge in imports after 1991. A compromise was reached whereby Japan could take emergency actions for up to two years following liberalization to restrict imports. For the period April 1, 1991, through March 31, 1993, if it appears that imports will exceed the volume for the previous 12 months by 120 percent, the Government of Japan can impose an additional 25 percent tariff for the remainder of that fiscal year. After April 1, 1994, safeguard actions must conform to GATT rules.

Under the June 20 agreement, the Japanese quota on oranges will be increased by 22,000 metric tons each year after April 1, 1991. The FY 1987 quota of 126,000 metric tons will be expanded to 192,000 metric tons during FY 1990. The United States was unable to obtain concessions on import tariffs for oranges. Current tariffs of 20 percent during the off-season (June 1 through November 30) and 40 percent in season will remain in effect.[2]

After April 1, 1992, the only restrictions on imports of orange juice will be the current tariff of between 25 percent and 35 percent, depending on sugar content. Blending requirements for foreign orange juice, which have served to restrict imports in the past, will be gradually phased out. For FY 1988, blending requirements will be dropped on 40 percent of concentrated orange juice imports. In 1989, the requirements will be removed from 60 percent of foreign imports and as of April 1, 1990, the requirement will be eliminated totally.[3]

GATT-12

Another important agricultural issue was resolved on July 20 when Japan agreed to eliminate quotas by April 1, 1990, on 7 out of 10 categories of processed food that had been found to be inconsistent with the GATT in a 1987 ruling. It also agreed to partially remove quotas and to provide increased access or compensation in four other agricultural product categories. One category (prepared beef and preserved beef) was covered by the beef and citrus agreement that lowered tariffs on beef jerky and sausage.

The decision resolved a dispute that had been ongoing since February 1988 when Japan origi-

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[1] A GATT panel in 1987 found that import restrictions on 10 out of 12 categories of agricultural products (mostly processed foods) named in a 1968 U.S. complaint were inconsistent with GATT rules. (*IER*. December 1987)

[2] For orange juice concentrate, the quota on imports will increase as follows:

FY 1987	8,500 metric tons
FY 1988	15,000 metric tons
FY 1989	19,000 metric tons
FY 1990	23,000 metric tons
FY 1991	40,000 metric tons

[3] Tariffs on other products will also be reduced. The duty on grapefruit will be lowered from 12 percent to10 percent during the off-season and from 25 percent during the other months to 15 percent in FY 1989. As of Apr. 1, 1990, the duty will be 10 percent all year round. Duties on the following other agriculture products will also be eliminated after April 1, 1989: frozen peaches and pears, pistachios, macadamias, pecans, walnuts, bulk pet food, pet food for retail sale, beef jerky and sausage, and pork and beans.

nally agreed to accept the GATT's ruling, but then failed to implement the GATT panel's recommendations for eliminating its quotas. With no progress to report following negotiations on compliance, in July, the United States threatened to renew its GATT complaint if there were no movement by a GATT Council meeting which was to be held on July 19.

According to a staggered schedule, between October 1, 1988, and April 1, 1990, Japan will eliminate import quotas on the following categories of processed food products: ice cream and frozen yogurt, processed cheese; sugar and syrups, fruit puree and paste; non-citrus fruit juices; tomato juice, ketchup and sauce, and food preparations. Import quotas on four other categories of products (non-fat dried milk, starch, peanuts, and dried peas and beans) will remain in effect temporarily. In return for maintaining these restrictions, tariffs on other agricultural products such as popcorn, breakfast cereals, and soups will be reduced on April 1, 1989.[1]

Brazil Shifts to a More Liberal Trade Policy

After four decades of following a trade policy of import substitution, Brazilian officials are urging business to import more. This unusual development was triggered by a $10.5 billion trade surplus for the seven months of January–July 1988-up by 113.5 percent compared with that of the corresponding period last year. Exports were up 36.1 percent, aided by firm commodity prices and brisk sales of manufactures. Imports, meanwhile, were down 25.3 percent, after excluding petroleum and wheat. Notably, Brazil has not run a trade deficit since 1980 and currently has deficits with oil exporting countries only.

Brazil maintains a wide range of import restrictions, including a prior licensing system, a general restriction on imports of products that can also be produced in Brazil (the so-called law of similars), a list of import products barred from importation under any conditions; and a variety of restrictive administrative techniques. Tariffs are also high, although relatively unimportant compared with other protective measures. Brazil has export incentive programs and certain export restrictions in effect too.

Emergence from a single-crop plantation country (coffee) to one of the world's leading industrial and export economies is frequently attributed to the economic strategy of self-reliance Brazil adopted since World War II. However, the current signals from Brazil suggest that the country's long-standing import substitution policy is now widely believed to be counterproductive. Phasing out Brazil's stringent import controls has many advocates who argue that long-term protection has made the domestic industry noncompetitive and that imports of capital goods and of foreign technology are necessary to supply the home market and to maintain export performance. Those in favor of a more liberal import policy also stress that, although exports are the major source of dollars needed for paying Brazil's massive foreign debt, exports are also fueling the country's runaway inflation (some 600 percent per year). The argument goes that monetized trade surpluses increase the cruzados in circulation and, at the same time, exports deprive domestic markets of adequate supplies.

Proponents of trade reforms also warn that the dissatisfaction of trading partners with Brazil's unyielding protectionism cannot be ignored any longer. This applies especially to the United States, Brazil's principal trading partner. In 1985, Brazil's drive to establish technological independence led to a serious bilateral dispute with the United States over the protected Brazilian computer industry. This was followed in 1987 by a similar dispute concerning pharmaceuticals. Both cases triggered investigations by the U.S. Government of Brazil's trade and investment practices, based on section 301 of the U.S. Trade Act of 1974. Both cases remain unresolved to date (*IER*, January 1987, March and May 1988).

Those who are apparently in favor of opening up the economy include some high-level officials in Brazil's current administration, such as Jose Sarney, the President; Mailson da Nobrega, Finance Minister; and Namir Salek, director of CACEX (the foreign trade department of the Banco de Brazil). Since 1985, the administration has been considering a trade reform program that would supplant the multitude of Brazil's nontariff barriers by tariffs. However, progress had been minimal until this year, when it apparently gathered speed.

In April and May, Brazilian authorities lowered import and export barriers for specific agricultural products (including soybeans, rice, corn, and cotton) and metals, freeing companies to import or export these commodities in keeping with local needs and world prices. Officials also dropped the requirement of prior authorization on imports of 3,000 products and loosened import financing regulations to facilitate the purchase of capital goods. On July 1, a comprehensive import tariff schedule went into

[1] There were also provisions for the two categories of products that were found to be GATT consistent, on the condition that Japan expand its quotas for these two product categories. The quota on peanuts will be expanded from 55,000 metric tons to 75,000 metric tons by April 1, 1990. The quota on dried peas and beans will no longer include lentils and chick peas.

effect. On the average, the new tariffs are somewhat lower than their predecessors. More important, a gradual phasing out of bureaucratic import controls is expected now that the new tariff system is in place. This would include a further cut of the prohibited list of imports that had already been drastically shortened earlier this year.

Adopting more liberal trade must also be viewed in the broader context of Brazil's new industrial policy that was announced last May. This policy intends to free private initiative ("privatization") and promote technological development by reducing state participation in the economy and cumbersome red tape across the board.

However, a politically powerful constituency (referred to frequently as the "nationalists") continues vehemently to oppose trade liberalization (as well as foreign investment). The main arguments of those against phasing out import controls are that (1) an unprotected Brazilian economy could not survive the competition of foreign goods, and that (2) relieving import controls would seriously jeopardize Brazil's ability to service its massive debt.

Liberalizing export controls and increasing exports through market forces also has its opponents. They contend that Brazil should, instead, step up export controls to the point of making sure that domestic demand is met first. This should be done even at the risk of ignoring Brazil's hard-currency needs for servicing its foreign debt. (Notably, the advocates of making debt-servicing a low priority already led Brazil to halt interest payments on February 1987. This March, however, the Government ended the payments' moratorium, preferring to reestablish good relations with its foreign creditors.)

USTR to Review GSP Status of Several Countries

The usual method of removing a beneficiary country from the U.S. Generalized System of Preferences (GSP) program is through graduation, when the President, based on one of several economic indicators, determines that the country has become competitive. However, if the President determines that a country has violated internationally accepted worker rights or intellectual property laws, or if its exports pose a hardship to a U.S. industry, that country may be removed from the program as well.

On August 25, United States Trade Representative Yeutter announced that the United States has accepted petitions alleging worker rights abuses and will review the GSP duty-free status of six countries. The announcement does not mean that the countries—Burma, Haiti, Liberia, Malaysia, and Syria (petitioned against by the AFL-CIO) and Israel (petitioned against by the American-Arab Anti-Discrimination Committee)-will summarily be removed from the program, but the review is the first step in determining whether or not they should be denied special access to the U.S. market on the basis of their labor practices. In addition, USTR will review Venezuela's status in the program based on a petition alleging that the Government of Venezuela confiscated heavy equipment from Occidental Petroleum. USTR's determinations are due by April 1, 1989.

The August announcement also noted that the USTR rejected AFL-CIO petitions against Indonesia, Thailand, and Turkey; an Institute for Policy Studies petition against the Phillipines; an America's Watch petition against El Salvador; and a petition by the International Labor Rights Education and Research Fund against Guatemala. Reportedly, the AFL-CIO is considering challenging USTR's rejection of its petitions but will most likely await the outcome of the November presidential elections before pursuing the matter.

Puerto Rico's Twin Plant Initiative Encourages Investment in the Caribbean Basin.

The Caribbean Basin Economic Recovery Act (CBERA) entered into effect on January 1, 1984, to promote economic development in the 22 Caribbean and Central American nations that are designated beneficiaries of the act. Because of similarities in climate, culture, and industry, the Government of the Commonwealth of Puerto Rico grew concerned that the CBERA could adversely affect its economy. However, despite its concerns about Caribbean competition, Puerto Rico launched a program that supports the aims of the CBERA by stimulating regional economic activity as well as development in Puerto Rico. This program, Puerto Rico's twin plant initiative, promotes complementary production projects between Puerto Rico and CBERA beneficiary countries. Twin plant operations enable producers to take advantage of low wage rates offered in Caribbean countries and the developed infrastructure and skills available in Puerto Rico. In general, components manufactured in Puerto Rico (or perhaps the United States) are sent to CBERA beneficiary nations for labor-intensive assembly work and returned to Puerto Rico for finishing, quality control, packaging, and shipping.

Close to 20 twin plants were in operation prior to the enactment of the CBERA. However, over the period 1985 through June 30, 1988, Puerto

Rico's Economic Development Administration (Fomento) has promoted a total of 51 additional production sharing projects in the region. The most recent Fomento data indicate that 2 of these projects were established in 1985, 10 were set up in 1986, 18 were established in 1987, and the remainder are scheduled to start up in 1988. Fomento is involved in promoting an additional 21 projects that should become operational in fiscal years 1988 and 1989.

In addition to Puerto Rico's promotional efforts, several other factors have contributed to the growth in complementary production operations. The CBERA has indirectly encouraged twin plants since, unlike the U.S. Generalized System of Preferences, the act permits the value of materials and processing operations added in Puerto Rico to contribute to the 35-percent value-added requirement for duty-free entry into the United States.

Further incentives were enacted in the Tax Reform Act of 1986 under section 936 of the Internal Revenue Code. Section 936 permits domestic U.S. corporations that meet specified requirements to elect to take a Federal tax credit on active income derived from operations in Puerto Rico and from qualified possessions source investment income. In addition, earnings repatriated to the mainland United States by the section 936 company to its parent are subject to a Puerto Rican "toll gate tax," which declines from a rate of 10 percent the longer the funds remain in Puerto Rico. Because of these tax preferences, large deposits of "936 funds," currently averaging between $10 and $14 billion, have accumulated in Puerto Rican banks. Under the new 1986 act, 936 funds can be lent to finance projects at below-market rates in CBERA beneficiary countries that have signed Tax Information Exchange Agreements (TIEA's) with the United States. Currently, TIEA's are in force with Barbados, Jamaica, Grenada, and Dominica. Costa Rica and St. Lucia have signed but not ratified TIEA's.

Access to 936 funds should further stimulate the expansion of twin plant operations throughout the Caribbean. However, although the Tax Reform Act of 1986 became effective on January 1, 1987, no 936 funds have yet been distributed to qualifying CBERA nations to finance twin plant projects with the exception of government-to-government projects. Several factors may contribute to this situation. Although Puerto Rico has finalized its implementing regulations, the U.S. Treasury Department has not yet done so. Some officials suggest that appropriate projects are not available and lending institutions are unwilling to take the risk. Moreover, 936 financing is limited to those CBERA beneficiary countries that have signed a TIEA, and many of these nations are reluctant to ratify such an agreement because of concerns over the possible violation of privacy and sovereignty. When the lending of 936 funds will grow is uncertain. The specific role 936 financing will play in fostering the growth of production-sharing operations is also unclear, since many factors are important, including wage rates, location, and language.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1985–August 1988

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

Country	1985	1986	1987	1987 II	1987 III	1987 IV	1988 I	1988 II	1988 Mar.	1988 Apr.	1988 May	1988 June	1988 July	1988 Aug.
United States	1.9	1.1	3.8	4.3	8.7	7.1	4.0	4.6	2.7	7.4	6.4	4.5	10.1	2.6
Canada	2.8	.8	2.7	5.3	5.8	4.4	4.2	3.1	2.9	5.9	4.8	1.9	1.9	(1)
Japan	3.7	-.3	3.4	-.8	15.2	15.7	13.5	-1.9	6.6	-10.2	-24.7	35.7	(1)	(1)
West Germany	3.8	2.2	.1	-1.3	2.2	2.9	5.8	-2.8	21.3	-18.5	-2.3	9.6	(1)	(1)
United Kingdom	4.7	1.4	3.1	3.5	6.3	3.8	.65	.22	3.5	19.3	11.9	-9.7	(1)	(1)
France	.6	.9	2.1	6.7	2.6	3.9	2.6	1.3	0	-10.8	12.0	25.1	(1)	(1)
Italy	1.2	2.7	4.0	8.1	-10.8	14.0	11.1	(1)	12.8	34.2	-25.3	(1)	(1)	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Sept. 9, 1988, and *Federal Reserve statistical release*, Industrial Production, Board of Governors of the Federal Reserve System, Sept. 14, 1988.

Consumer prices, by selected countries and by specified periods, January 1985–August 1988

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

Country	1985	1986	1987	1987 II	1987 III	1987 IV	1988 I	1988 II	1988 Mar.	1988 Apr.	1988 May	1988 June	1988 July	1988 Aug.
United States	3.5	1.9	3.7	4.9	3.9	3.6	3.4	4.8	6.4	5.3	4.2	4.2	5.2	4.8
Canada	4.0	4.2	4.4	5.4	4.4	3.5	3.2	4.9	6.0	4.9	6.1	3.0	3.8	(1)
Japan	2.0	.6	.1	5.0	-.8	1.1	-2.1	2.8	4.9	6.1	1.2	-2.3	-2.3	(1)
West Germany	2.2	-.2	.3	1.4	1.5	0	.7	1.8	2.0	2.1	1.8	.9	2.0	2.3
United Kingdom	6.1	3.4	4.1	2.3	3.9	4.9	2.4	6.1	4.5	7.2	5.9	8.1	7.5	(1)
France	5.8	2.5	3.3	2.3	2.7	2.4	2.3	2.8	2.8	2.7	2.7	3.3	4.2	(1)
Italy	8.6	6.1	4.6	4.5	6.5	5.7	3.2	4.5	5.4	5.1	4.1	5.0	6.3	9.2

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Sept. 9, 1988, and statistics provided by the Bureau of Labor Statistics, U. S. Department of Labor, Sept. 1988.

Unemployment rates, [1] by selected countries and by specified periods, January 1985–August 1988

(In percent)

Country	1985	1986	1987	1987 II	1987 III	1987 IV	1988 I	1988 II	1988 Mar.	1988 Apr.	1988 May	1988 June	1988 July	1988 Aug.
United States	7.2	7.0	6.2	6.3	6.0	5.9	5.7	5.5	5.6	5.4	5.6	5.3	5.4	5.6
Canada	10.5	9.6	8.9	9.1	8.8	8.2	7.9	7.7	7.8	7.7	7.8	7.6	7.9	(2)
Japan	2.6	2.8	2.9	3.1	2.8	2.7	2.7	(2)	2.7	2.6	2.6	(2)	(2)	(2)
West Germany	7.5	7.0	6.9	6.9	7.0	7.0	6.9	7.0	6.9	7.0	7.0	7.0	7.0	(2)
United Kingdom	11.2	11.2	10.3	10.6	10.0	9.5	9.0	8.6	8.9	8.8	8.6	8.4	8.2	(2)
France	10.4	10.6	10.8	10.9	10.8	10.6	10.6	10.6	10.5	10.5	10.6	10.7	(2)	(2)
Italy	6.0	7.5	7.9	7.8	8.1	8.0	8.0	8.0	(2)	(2)	(2)	(2)	(2)	(2)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.
[2] Not available.

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, September 1988.

Trade balances, by selected countries and by specified periods, January 1985–July 1988

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

				1987			1988		1988					
Country	1985	1986	1987	II	III	IV	I	II	Feb.	Mar.	Apr.	May	June	July
United States[1] ...	-132.8	-155.1	-170.3	-169.6	-171.6	-172.0	-149.6	-133.1	-173.0	-140.4	-123.7	-117.1	-158.6	-114.3
Canada	12.0	7.1	8.3	9.2	8.4	4.4	8.0	9.6	9.6	7.2	6.0	6.0	15.6	(2)
Japan	55.9	92.5	96.2	94.8	89.2	91.6	101.2	85.2	103.2	99.6	93.6	76.8	85.2	(2)
West Germany ...	25.3	52.6	65.7	61.2	62.8	74.0	64.4	77.6	62.4	62.4	72.0	63.6	97.2	(2)
United Kingdom ..	-2.6	-12.4	-16.4	-15.6	-20.0	-21.2	-28.4	-32.4	-28.8	-19.2	-27.6	-37.2	-32.4	-54.0
France	-2.6	.1	-5.2	-8.8	-4.4	-4.4	-2.8	-3.2	-10.8	-3.6	-4.8	-3.6	-2.4	(2)
Italy	-12.0	-2.0	-8.8	-12.0	-6.4	-10.8	-12.8	(2)	-4.8	-22.8	-6.0	(2)	(2)	(2)

[1] Exports, f.a.s. value, adjusted; imports, c.i.f., adjusted. Beginning with 1986, figures include previously undocumented exports to Canada. Data for individual quarters do not reflect similar adjustments.

[2] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Sept. 9, 1988, and *Advance Report on U. S. Merchandise Trade*, U.S. Department of Commerce, Sept. 14, 1988.

United State trade balance,[1] by major commodity categories, by selected countries, and by specified periods, January 1985–July 1988

(In billions of U.S. dollars, c.i.f. value basis for imports)

				1987			1988		1988					
Item	1985	1986	1987	II	III	IV	I	II	Feb.	Mar.	Apr.	May	June	July
Commodity categories:														
Agriculture	9.6	4.5	7.0	.7	2.1	3.2	3.0	3.3	1.0	1.2	1.2	1.2	.9	.9
Petroleum and selected products, unadj	-45.9	-31.8	-39.5	-9.6	-11.7	-10.1	-9.7	-9.9	-3.5	-2.9	-3.1	-3.6	-3.2	-3.1
Manufactured goods	-102.0	-134.3	-146.1	-38.1	-36.3	-36.2	-35.0	-35.5	-12.8	-10.5	-10.9	-11.0	-13.6	-12.8
Selected countries:														
Western Europe ..	-23.3	-28.2	-27.9	-7.8	-7.0	-6.9	-4.0	-3.9	-1.6	-.9	-.8	-1.2	-1.9	-2.3
Canada[2]	-21.7	-23.0	-11.5	-2.3	-2.8	-3.1	-3.8	-4.4	-1.5	-1.1	-1.9	-1.1	-1.1	-1.1
Japan	-46.5	-55.3	-58.0	-15.3	-13.8	-14.5	-13.1	-12.9	-4.5	-4.5	-4.1	-4.4	-4.4	-4.4
OPEC, unadj	-10.2	-8.9	-13.7	-3.1	-4.6	-3.3	-2.6	-3.1	-1.3	-.7	-.9	-1.1	-1.1	-.9
Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj ..	$26.59	$15.02	$18.12	$18.22	$18.99	$18.38	$16.35	$16.0	$16.42	$15.70	$15.69	$16.40	$16.19	$15.77

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

[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Sept. 14, 1988.

Money-market interest rates,[1] by selected countries and by specified periods, January 1985-August 1988

(Percentage, annual rate)

				1987			1988		1988					
Country	1985	1986	1987	II	III	IV	I	II	Mar.	Apr.	May	June	July	Aug.
United States	8.3	6.5	6.8	6.8	6.8	7.6	6.7	7.6	6.9	7.2	7.8	7.9	7.3	8.7
Canada	9.7	8.6	8.4	8.0	9.2	9.0	8.7	9.2	8.7	9.0	9.3	9.3	9.6	10.2
Japan	6.5	4.9	3.9	3.7	3.7	3.9	3.8	3.8	3.8	3.8	3.8	3.8	4.0	4.2
West Germany	5.5	4.6	4.0	3.7	4.2	4.1	3.3	3.9	3.4	3.6	3.6	4.4	5.2	5.4
United Kingdom	12.1	10.8	9.8	9.3	10.0	9.2	8.9	8.7	8.6	8.3	7.8	9.9	10.9	12.2
France	10.0	7.7	8.2	8.1	7.9	8.5	7.9	7.5	8.3	7.9	7.3	7.3	7.4	8.1
Italy	15.0	12.8	11.3	10.7	11.9	11.6	11.0	10.8	11.1	10.4	11.0	10.9	11.3	10.9

[1] 90-day certificate of deposit.

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

Source: *World Financial Markets*, Morgan Guaranty Trust Co. of New York, Sept. 9, 1988.

Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential, by specified periods, January 1985-August 1988

(Percentage change from previous period)

				1987			1988		1988					
Item	1985	1986	1987	II	III	IV	I	II	Mar.	Apr.	May	June	July	Aug.
Unadjusted:														
Index number[1] ...	127.0	106.0	94.1	94.1	95.2	90.3	87.5	86.5	86.8	85.8	86.1	87.6	90.1	91.7
Percentage change	3.8	-16.5	-11.2	-3.1	1.2	-5.1	-3.1	-1.1	-1.6	-1.2	.3	1.7	2.9	1.8
Adjusted:														
Index number[1] ...	121.7	100.9	90.2	90.5	87.0	87.4	84.9	84.1	84.1	83.3	83.7	85.3	88.1	89.8
Percentage change	1.8	-17.1	-10.6	-2.9	-3.9	.5	-2.9	-.9	-1.4	-1.0	.5	1.9	3.3	1.9

[1] 1980-82 average=100.

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 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, Sept. 9, 1988.

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