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INTERNATIONAL ECONOMIC COMPARISONS

On the whole, current U.S. economic conditions remain vigorous after more than 6 straight years of economic expansion. The broad picture of the economy is reflected in the 1988 annual economic accounts. Moderate expansion was realized from a year earlier in the Gross National Product (GNP) and its components. Nominal GNP grew by 7.4 percent and real GNP grew by 3.8 percent. In 1987, real GNP grew by 3.4 percent. Personal consumption expenditures, the largest component of GNP, increased by 7.1 percent in nominal terms and by 2.8 percent in real terms. Nominal gross private domestic investment grew by 7.4 percent and real gross investment grew by 6.9 percent. Exports of goods and services increased by 21.5 percent in nominal terms and by 18.1 percent in real terms, and imports increased by 11.5 percent in nominal terms and by 8.7 percent in real terms. Export prices, however, rose by 4.7 percent, and import prices rose by 4.5 percent. Those price increases seem to be a result of the recent strengthening of the U.S. dollar.

Recent Federal Reserve actions appear to be aimed at slowing down the inflation rate. Because the economy is running at a relatively high rate of capacity utilization and any monetary expansion would tend to raise prices, emphasis is expected to be on monetary restraint.

The central tendency of U.S. economic forecasts is for a slightly higher inflation rate in the remainder of 1989. Real GNP is expected to grow from 2.5 to 3.0 percent. A continuation of net export growth and an improvement in the trade deficit (in spite of the worsening of the trade deficit in February) are anticipated, as is a slight increase in unemployment, and a cooling off of consumer spending.

The OECD countries as a group are currently experiencing an economic boom greater than at any other time since the late 1970s. Real GNP among OECD countries increased at an average rate of 4.0 percent in 1988. Both business spending and consumer confidence markedly improved as well. Nevertheless, to some observers the imbalances in the external accounts of some OECD countries mar these bright prospects. The observers argue that more trade liberalization and cooperation is needed to eliminate trade imbalances and to strengthen world monetary and economic systems. The economic expansion in OECD Europe is expected to have favorable effects on the U.S. trade deficit by further increasing demand for U.S. exports.

Economic Growth

The annualized rate of real economic growth during the fourth quarter of 1988 was 2.8 percent in the United States, 3.0 percent in the United Kingdom, 3.4. percent in Canada, and 2.7 percent in West Germany. The latest available data indicate that the rate of real economic growth (annualized) during the third quarter of 1988 was 3.0 percent in France, 3.9 percent in Italy, and 5.6 percent in Japan.

Industrial Production

Total U.S. industrial production remained unchanged in March, for the second month in a row, after rising 0.4 percent in January. Output increased in some sectors such as business equipment (excluding cars and trucks), construction supplies, and nondurable material, but automobile output declined sharply. Within the manufacturing sector, production of all major industries remained unchanged during the last two months. U.S. industrial production in March 1989 was 4.6 percent higher than it was in March 1988.

Average overall capacity utilization in U.S. factories, mines, and utilities declined by 0.2 percent in March to 84.0 percent. In manufacturing, capacity utilization in March stood at 84.4 percent compared with 84.7 percent in February 1989, and 82.4 percent in February 1988.

Other major industrial countries reported the following annual growth rates of industrial production: during the year ending December 1988, Italy reported an increase of 7.1 percent; during the year ending January 1989, Canada reported an increase of 1.6 percent, France reported an increase of 4.2 percent, and the United Kingdom reported an increase of 0.8 percent; during the year ending February 1989, West Germany and Japan both reported increases of 5.2 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index increased 0.5 percent from February to March 1989, and increased by 5.0 percent for the year ending in March. During the 1-year period ending in February 1989, consumer prices increased 4.6 percent in Canada, 7.8 percent in the United Kingdom, 3.4 percent in France, 1.0 percent in Japan, and 6.1 percent in Italy. During the 1-year period ending in March 1989, consumer prices increased 2.7 percent in West Germany.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor force basis, including military personnel) declined to 4.9 percent in March from 5.1 percent in February 1989. The national statistical offices of other countries reported the following unemployment rates in February: Canada, 7.6 percent; France, 10.0 percent; West Germany, 7.9 percent; Italy, 16.4 percent; Japan, 2.3 percent; and the United Kingdom, 6.8 percent. For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.

Forecasts

Table 1 shows newly revised macroeconomic projections for the U.S. economy in 1989 by four major forecasters, and the simple average of these forecasts. The forecasts represent percentage changes over the preceding quarterly period at annual rates, except for unemployment where simply the average rates for the period are indicated. The average forecast is for a decline in nominal and real GNP growth rates starting with the second quarter of 1989, and a slight increase in the unemployment rate. The causes of the predicted economic downturn are a projected moderation in the pace of consumer spending because of slower income growth, and a decline in export growth as the dollar appreciates in response to higher interest rates. Inflation (measured by the GNP deflator index) is expected to rise in the second and third quarters and moderate in the fourth quarter of 1989.

The OECD projected a 3.0 percent growth rate in U.S. real GNP for 1989, (matching the average growth rate of OECD-Europe), and 2.5 percent growth in total demand (a half percentage point below the OECD-Europe average.) They projected that the U.S. inflation rate will reach 4.5 percent, a quarter percentage point lower than the OECD-Europe average inflation rate, and that U.S. unemployment will be at 5.5 percent, compared with 10.25 for OECD-Europe. The U.S. deficit on current account is projected to reach $116 billion in 1989.

Investment

The U.S. Department of Commerce estimates that U.S. current-dollar spending for new plant and equipment will reach $469 billion in 1989. This planned spending is 9.1 percent more than the $430 billion investment spending realized in 1988. Capital spending in 1988 was 10.3 percent higher than in 1987. In constant dollars capital spending is expected to increase by 6.3 percent in 1989 compared with an increase of 10.1 percent in 1988.

Table 1
Projected quarterly percentage changes of selected U.S. economic indicators, 1989

Indicator and quarter	Data Resources Inc.	Merrill Lynch Economics Inc.	Wharton E.F.A. Inc.	UCLA Business Forecasting Project	Mean of 4 forecasts
GNP:[1]					
January-March	7.6	9.5	9.2	9.2	8.9
April-June	5.2	6.7	7.3	5.9	6.3
July-September	4.9	4.2	6.4	4.5	5.0
October-December	5.0	3.7	6.1	4.7	5.0
GNP:[2]					
January-March	5.0	5.1	5.3	6.8	5.5
April-June	1.5	2.2	2.7	1.7	2.0
July-September	0.9	-0.3	1.5	-0.2	0.5
October-December	1.4	-0.6	0.7	0.6	0.5
GNP deflator index:					
January-March	2.5	4.2	3.6	2.3	3.1
April-June	3.7	4.4	4.6	4.2	4.2
July-September	4.0	4.5	4.8	4.6	4.5
October-December	3.5	4.3	5.4	4.1	4.3
Unemployment, average rate:[3]					
January-March	5.4	5.3	5.4	5.2	5.3
April-June	5.5	5.3	5.3	5.1	5.3
July-September	5.5	5.4	5.5	5.1	5.4
October-December	5.6	5.8	5.8	5.2	5.6

[1] Current dollars.
[2] Constant (1982) dollars.

Note.—Percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted.

Source: Compiled from data presented in The Conference Board, *Statistical Bulletin*, vol.21, No.11, November 1988. Used with permission.

Current dollar capital spending in the manufacturing sector is expected to increase by 7.8 percent. Within manufacturing, durable goods producers plan a 5.8-percent increase in 1989. The largest increases within the durable goods sector are planned for nonferrous metals and aircraft. Increases of 9.0 percent or more are planned for fabricated metals and motor vehicles. In nondurable goods, capital spending is expected to increase by 9.6 percent in 1989. The largest increases are planned for paper and chemicals, rubber, food, and beverages. The nonmanufacturing sector plans a 9.9-percent increase in capital spending in 1989 in current dollars.

International Reserves

A country's international reserves consist of official holdings of gold, foreign exchange, Special Drawing Rights (SDRs), and its reserve position in the International Monetary Fund (IMF). Foreign-exchange reserves include monetary authorities' claims on nonresidents in the form of bank deposits, treasury bills, short-term and long-term government securities, European Currency Units (ECUs), and other claims usable for balance-of-payments needs. Foreign reserves and access to international credit markets constitute international liquidity. The buildup of foreign reserves boosts international liquidity and trade. However, excessive buildup of reserves generates inflationary pressures or currency appreciation in countries with high accumulation rates, depending on their monetary policies and the degree of success of sterilization (keeping these reserves out of circulation) by central banks. An excessive buildup or rundown of a country's foreign reserves are signs of a fundamental disequilibrium in its balance of payments that needs to be corrected. Economists' opinions on the optimal size of a country's foreign reserves differ, but it is generally accepted that in concept the optimal level of reserves is one that prevents international payments imbalances from dictating the domestic economic policies of the country or from restricting its foreign trade.

Table 2 shows the dollar value of international reserves (minus gold) of the Group of Seven (G-7) countries, and the total reserves of 20 industrial countries, and the world. World reserves grew by $322.5 billion, or 80.8 percent, a yearly average of 16.0 percent from 1984 to 1988. This growth rate in the dollar value of world trade surpassed the approximate 14.0 percent average annual growth rate during this period. Industrial countries' reserves grew by 109.5 percent to $461.0 billion over the same period. The distribution of growth in reserves was skewed towards industrial countries, with Japan, West Germany, the United Kingdom, and Italy experiencing the biggest increases.

The United States lost $2.6 billion of reserves between 1986 and 1987, because of the official intervention to support the dollar; however, the loss was reduced in 1988. Aside from the loss in foreign reserves to support the dollar, the United States seems not to have incurred any substantial loss in foreign reserves as a result of the current account deficit, although the deficit increased U.S. liabilities to foreigners. The deficit was financed by an influx of private capital from 1983 to 1985, and partly by an influx of official capital (central bank purchases of dollar assets) thereafter. Central banks, particularly in Japan and West Germany, financed the U.S. current account deficit to check the decline of the dollar against their currencies.

Table 2

International reserves (minus gold), for the G-7, 20 industrial countries, and the world, 1984-88.

(In billions of dollars)

Country	1984	1985	1986	1987[1]	1988[2]
United States	23.8	32.1	37.4	34.8	37.3
Japan	26.5	26.7	42.2	81.0	96.8
West Germany	40.1	44.4	51.7	78.2	58.5
United Kingdom	9.4	12.9	18.5	41.7	44.1
Italy	20.8	15.6	19.9	30.2	34.7
France	21.0	26.6	31.4	33.0	[3]26.2
Canada	2.4	2.5	3.3	7.3	15.4
Total reserves of— Industrial countries	220.1	249.8	304.4	454.1	[4]461.1
World	398.9	445.1	512.1	718.4	[4]721.4

[1] End of fourth quarter.
[2] December 1988.
[3] October 1988.
[4] November 1988.

Note— Converted from SDR at end of period exchange value of the dollar. Author's calculations.

Source: *International Financial Statistics*, February 1989.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit rose by 20.7 percent, from $8.7 billion in January to $10.5 billion in February 1989. The February deficit was 6.1 percent higher than the $9.9 billion average monthly deficit registered during the previous 12-month period, but was 20.5 percent lower than the $13.2 billion deficit registered in February 1988. During the period from March 1988 to February 1989, the deficit was highest in June 1988 ($11.7 billion) and lowest in July 1988 ($8.0 billion).

Seasonally adjusted exports increased by $158 million, from $28.7 billion in January to $28.9 billion in February 1989. Imports, however, increased more than exports, going from $37.4 billion in January to $39.4 billion in February 1989. The oil import bill declined from $3.6 billion to $3.3 billion. The agricultural trade surplus increased from $1.4 billion to $1.5 billion. In manufactured goods, the trade deficit rose from $8.6 billion in January to $9.5 billion in February. While both exports and imports rose in the following commodity groups, imports rose significantly faster—automatic data processing office machinery, airplanes and airplane parts, inorganic chemicals, electrical machinery, general industrial machinery, and iron and steel mill products.

On a regional basis, the United States experienced improvements in its deficits with Canada, West Germany, the Organization of Petroleum Exporting Countries (OPEC), Eastern Europe and selected areas, the Newly Industrialized Countries (NICs), and developing countries; there was a worsening in deficits with Japan and other countries of Western Europe. The trade deficit with Canada declined from $1.8 billion to $824 million; the trade deficit with West Germany declined from $716 million to $543 million; the trade deficit with the NICs declined from $2.4 billion to $1.8 billion; and the trade deficit with OPEC declined from $1.1 billion to $843 million. The trade balance with other countries of Western Europe turned from a surplus of $46 million to a deficit of $624 million; and the trade deficit with Japan worsened from $3.5 billion to $4.6 billion. The trade balance with Eastern Europe and selected Asian countries turned from a deficit of $145 million to a surplus of $40 million. The surplus with the U.S.S.R. increased from $300 million in January to $419 million in February, and the deficit with China declined from $402 million to $324 million.

INTERNATIONAL TRADE DEVELOPMENTS

GATT Breaks Deadlock and Charts Plan for Future Negotiations

In an April meeting of the Uruguay Round Trade Negotiations Committee (TNC), senior officials of participating countries ironed out their differences on the few key issues left unresolved at the close of the Mid-term Review in December in Montreal.

Delegates from more than 100 GATT members reached consensus in Geneva on negotiating plans for concluding the Uruguay Round of Multilateral Trade Negotiations. They agreed on specific texts that will guide negotiators through the final phase of the talks, scheduled to conclude in December 1990. The April talks centered on how to continue negotiations on agriculture, intellectual property, safeguards, and textiles and clothing. At a Montreal GATT meeting last December, members agreed on how to conduct the final phase of negotiations on 11 other negotiating topics, but failed to agree on negotiating plans for these 4 topics.

* * *

Agriculture

The agreement reached on agriculture set out the process for the negotiations to take place over the next 18 months. In the long term, the objective of the negotiations will be "substantial progressive reductions" in agricultural support and protection. Ministers agreed that implementation of the long-term reform measures would begin in 1991. The U.S. Government expects this commitment to lead to the correction and prevention of restrictions and distortions in global agricultural trade. Negotiators agreed that all agricultural measures, with either direct or indirect effects on trade, will be put on the table for final bargaining. They also agreed to submit all proposals on how to arrive at a market-oriented agricultural trading system and on possible changes in agriculture-related GATT rules and disciplines by the end of 1989. Proposals to harmonize sanitary and phytosanitary regulations also will be submitted and considered. As short-term measures, participants agreed to hold domestic and export support and protection at or below current levels during 1989. By October 1989, negotiators plan to reveal specifics regarding intended reductions in support and protection levels during 1990.

At the Mid-term Review in Montreal, overall success was stalled by the inability of the United

States and European Community (EC) to agree on a negotiating plan for agriculture. The impasse resulted from U.S. and EC differences on the scale and timing of reform—how far and how fast to go in eliminating farm subsidies and other trade-distorting measures. The United States argued that negotiators should agree to eliminate all measures that distort trade in agriculture within a definite time frame. The EC was willing only to agree to "substantial reduction," rather than elimination, of farm supports. The United States' firm stand on agriculture was an indication of the high priority the U.S. administration placed on agricultural trade liberalization. Throughout the 1980s, disputes on agricultural trade have on several occasions come close to precipitating all-out trade wars between the United States and the EC and posed problems with other U.S. trading partners as well.

As a result of the discord in agriculture, several other GATT members (particularly some Latin American countries) refused to go forward on other approved texts on which they had made compromises in hopes of gains in agriculture. Their stance was that the concessions agreed upon in other areas must be balanced with agreement within the agricultural area. As a result, final approval of texts on all issues under negotiations was postponed until the April TNC meeting at which the U.S./EC agriculture compromise was forged.

However, at a working level, the negotiating group on agriculture had made headway on a number of issues leading up to the December 1988 and April 1989 meetings. Over the last year, the group considered numerous negotiating proposals. Leading issues included short-term action, strengthening GATT rules for long-term changes, sanitary and phytosanitary regulations, aggregate measurement of government support programs, food security, and special and differential treatment for less developed countries. A technical sub-group was set up to aid negotiations by examining issues related to the development of an aggregate measure of government support programs for agriculture. Work of the technical group was authorized even though negotiators had reached no decision on whether or how any aggregate measures of support would be used in negotiations. Also, a working group on sanitary and phytosanitary regulations was formed to examine technical issues regarding possible harmonization of such measures. The working group invited experts from related international organizations to attend meetings and provide assistance.

Intellectual property

Negotiations on trade-related aspects of intellectual property rights (TRIPs), including trade in counterfeit goods, have two basic aims: (1) to clarify GATT provisions and create new rules and disciplines on protection of intellectual property rights, and (2) to develop a multilateral framework of principles, rules and disciplines regarding international trade in counterfeit goods. At the April meeting in Geneva, negotiators were able to overcome resistance by some developing countries to defining a role for the GATT on this issue—while acknowledging the work of the World Intellectual Property Organization (WIPO) in this area. Members agreed that future GATT negotiations on TRIPs should include: the applicability of the basic principles of the GATT and of relevant international intellectual property agreements or conventions; the provision of adequate standards and principles concerning the availability, scope, and use of TRIPs; the provision of "effective and appropriate" means to enforce TRIPs; and the provision of "effective and expeditious" procedures to prevent and settle disputes. Representatives also agreed that negotiations should include development of a "multilateral framework of principles, rules, and disciplines" dealing with trade in counterfeit goods, and that the negotiations "should be conducive to a mutually supportive relationship between GATT and WIPO."

Safeguards

The goal to strengthen GATT safeguards provisions has remained elusive for years despite efforts in the Tokyo Round of the 1970s and at the 1982 GATT Ministerial. "Safeguards" are rules that allow GATT members to provide temporary import relief to domestic industries seriously injured by imports, with specific procedures for notification and compensation of trade partners. Safeguard rules are in GATT article XIX and are incorporated into U.S. law in a provision known as the "escape clause." There is widespread recognition that existing rules are not being observed, and that article XIX needs to be amended.

As one of the critical areas of disagreement at the Montreal Mid-term Review, safeguards discussions continued at the April meetings in Geneva. At the Mid-term Review, the safeguards negotiating group presented a text that the trade ministers could not agree to approve. The text consisted of a work plan and a timetable for further negotiations. Although many elements of the text were not controversial, a few points of disagreement remained. India, with support from a few other developing countries, was un-

able to persuade other countries to agree to its position that safeguard actions should have time limits, that they should be nondiscriminatory rather than selective, and that "grey area" measures should be eliminated.

Although no consensus emerged in April on specific means to strengthen article XIX, negotiators reached a compromise that enables the work of this negotiating group to go forward. They set a June deadline for the preparation of a draft text that will serve as the basis for negotiations in the remainder of the Round. Participants were encouraged to submit their proposals by the end of April. The April Ministerial text stresses the importance of reaching a comprehensive agreement which establishes multilateral control over safeguard measures. Negotiators envision an agreement that will reinforce the disciplines of the General Agreement and elaborate on transparency, criteria for action such as serious injury, digressivity (or the progressive reduction of measures), structural adjustment, compensation and retaliation, and procedures for notification, consultation, surveillance, and dispute settlement.

The United States would like to see a safeguards agreement deal with so-called grey area measures, or safeguard-type actions that are implemented without using GATT procedures and that are currently outside of multilateral control. Negotiators differ in their aims in this regard. Some would like to see the negotiations allow grey area measures to be subject to multilateral scrutiny, and others would like to see them eliminated. Because of the remaining differences, approval for the plan for safeguard negotiations was gained only with the understanding that it did not bind participants to any specific positions regarding the final outcome on major negotiating issues.

Textiles and clothing

World trade in textiles and apparel is largely subject to some form of control under the Multifiber Arrangement. The MFA is an exception to the most-favored-nation principle of the GATT, and allows signatories to restrict imports of textiles and apparel without having to provide compensation to affected exporting countries.

Textiles and clothing negotiations in the Uruguay Round are intended to develop a means to eventually integrate this sector into the framework of normal GATT rules. In 1988, the Negotiating Group on Textiles and Clothing began to consider proposals to establish "techniques and modalities," which would permit such integration to take place. On the question of modalities, the group discussed the merits of a transitional phase for switching from the multifiber arrangement (MFA) to standard GATT rules for textiles and clothing trade. Prior to the Montreal meeting, however, the negotiating group was unable to decide upon a negotiating plan.

The text agreed to in Geneva in April contains several points. First, GATT members agreed on the importance of the textiles and clothing sector for the economies of many countries, notably many developing countries. Second, they agreed that textiles and clothing negotiations are "one of the key elements" of the Uruguay Round negotiations, and that negotiations in this sector should contribute to further trade liberalization. Third, the GATT representatives agreed on certain points for achieving "substantive results" in textiles and clothing, including (1) agreement to begin "substantive negotiations" in April 1989 to allow parties to reach agreement by December 1990 on how to integrate the sector into the GATT; (2) agreement that such integration of the sector into the GATT should include phasing out current restrictions on textiles and clothing under the MFA and other forms of restriction; (3) agreement to invite participants to table proposals by June 30 on how to meet these goals; and (4) agreement that the least developed countries should be accorded special treatment.

* * *

The United States hailed the four agreements as potentially a major step for improvement in the world trading system. After the meeting, USTR Carla Hills declared that "If we can achieve final agreement in each of the 15 negotiating groups, the world trading system will be greatly strengthened." Guy Legras, chief agriculture negotiator for the EC, described the outcome of the Geneva meeting as "a balanced agreement, and if you were to ask me who was the winner . . . the winner was realism and the multilateral trading system."

Update on Foreign Investment in China

Foreign investment in China increased significantly in 1988, and Government authorities have continued to promote new foreign-funded enterprises even after canceling numerous other investment projects in an effort to combat record inflation and stabilize the economy. According to preliminary 1988 data compiled by China's Ministry of Foreign Economic Relations and Trade, applications to establish 5,890 foreign-funded enterprises were approved, up 164 percent from the number approved in 1987. These contracts involved a foreign commitment of $5.18 billion, representing an annual increase of 42.4 percent, of which $2.4 billion was actually spent last year. Foreign investment was explicitly exempt from the austerity measures that called for a sharp reduction in capital construction and other investment spending (*IER*, December 1988). Moreover, although planning to maintain

a tight rein on the economy for 2 to 3 years, China's leaders continue to emphasize that they will strictly uphold and protect contracts for foreign-funded projects, including those already in operation. Yet despite these assurances, the retrenchment is having an effect on the foreign investment sector.

Many existing Sino-foreign equity joint ventures are experiencing difficulty because of the credit squeeze imposed by the People's Bank of China (the central bank). Recognizing that excessive investment funded by the unrestrained lending policies of provincial and local banks was one of the factors fueling China's high rate of inflation, the People's Bank has in recent months succeeded in reducing this source of credit. A 30-percent construction tax has been imposed on projects using bank loans and privately raised funds. Moreover, the Chinese partners in joint ventures are finding that it is nearly impossible to borrow from State banks to meet their share of capital commitments even though credit lines had been promised. Many are forced to seek funding from alternative sources, such as cash-rich State trading companies and private money lenders, generally at exorbitant interest rates. Some foreign partners reportedly have been asked to increase their equity share but without the possibility of extending the contract period.

Foreign companies seeking new investment in China may find it difficult, perhaps impossible, to get approval for enterprises involving certain products or services, whereas projects in other areas are being actively encouraged. The new policy, according to central Government authorities, is not to curb foreign investment but to redirect it. The authority to approve most foreign-funded enterprises was delegated to provincial and municipal officials as the economy was decentralized, but local autonomy has now been reduced to some extent and the approval process is gradually being recentralized.

New regulations require State approval of foreign investment in certain sectors, regardless of the size, location, or type of the proposed enterprise. These sectors include the maintenance of taxis, long-distance passenger coaches, cars, and motorcycles; film development and enlargement; shopping arcade development; the production of cigarettes, alcohol, and other beverages for domestic sale; cotton spinning and knitting; assembly lines for TV sets, cassette recorders, radios, and video recorders; assembly lines for calculators, refrigerators, washing machines, bicycles, wrist watches, and sewing machines; cars and motorcycles for sale on the domestic market; and elevators. Foreign companies will also now find it difficult to obtain approval for investment in hotels, guesthouses, and residential or office buildings in major tourist cities, since this sector is a primary target in the Government's overall effort to reduce capital construction. On the other hand, many consumer goods industries on this list are targeted for expansion over the next few years, to satisfy soaring domestic demand and curb inflation. Foreign investment, however, is being discouraged if the use of advanced technology is not required and production will be mainly for the domestic rather than the export market.

As in the past, foreign investment will be encouraged in those sectors that are the weak links in the Chinese economy—energy, transport, and communications. Priority will also be given to foreign-funded projects in the iron and steel, chemical, machine-building, and electronics industries dependent on imported raw materials. Even in these industries, foreign investment is more likely to be approved if it involves technological transformation—the modernization of production methods and the development of new products—rather than capital construction.

Another recent development is China's increasing interest in the establishment of wholly foreign-owned enterprises, which do not require funds from the Chinese but provide employment opportunities as well as foreign technology. A total of 410 wholly foreign-owned investments were approved in 1988, compared with only 45 in 1987 and 18 in 1986. There is also growing interest in the establishment of equity joint ventures in which the foreign investor contracts to take more than a 50-percent stake in the enterprise.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1986–February 1989

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

				1987	1988				1988				1989	
Country	1986	1987	1988	IV	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	1.1	3.8	5.7	7.1	4.0	4.5	7.1	4.6	0.9	6.2	4.4	5.3	5.2	0
Canada	.8	2.7	4.2	4.4	4.1	3.7	4.4	2.6	1.9	0	6.7	0	5.7	0
Japan	-.3	3.4	9.4	15.7	13.5	-1.0	10.2	9.9	6.5	-11.8	39.5	11.9	15.2	-18.3
West Germany	2.2	.2	3.1	2.9	9.9	-.8	6.4	3.0	4.6	-22.8	9.5	32.0	12.8	(1)
United Kingdom	2.3	3.4	3.8	3.8	-1.3	6.7	5.5	-0.1	4.4	-6.3	7.8	-9.3	-13.3	(1)
France	.9	2.2	4.3	3.9	2.6	3.8	9.0	-3.0	11.6	-35.6	55.3	0	0	(1)
Italy	3.8	2.6	5.5	14.0	10.0	-2.1	15.6	5.4	-17.8	1.1	11.5	40.8	(1)	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Apr. 7, 1989.

Consumer prices, by selected countries and by specified periods, January 1986–March 1989

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

				1987	1988				1988				1989		
Country	1986	1987	1988	IV	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
United States	1.9	3.7	4.1	3.6	3.4	4.8	4.7	4.4	4.1	5.1	3.0	4.1	7.2	5.1	(1)
Canada	4.2	4.4	4.0	3.5	3.4	4.7	4.4	3.9	4.6	4.7	2.2	2.1	7.2	6.3	(1)
Japan	.6	.1	.7	1.1	-2.1	2.8	.7	3.1	9.9	6.0	-4.6	-3.5	-2.3	-3.5	7.3
West Germany	-.2	.3	1.2	0	.7	1.9	1.9	1.8	1.6	.6	2.9	1.3	9.0	4.7	3.2
United Kingdom	3.4	4.1	4.9	4.9	2.7	6.5	8.6	8.3	7.1	11.7	4.0	6.1	8.6	8.8	(1)
France	2.5	3.3	2.7	2.4	2.3	2.9	3.8	3.0	3.4	2.7	2.3	3.6	3.7	4.4	(1)
Italy	6.1	4.6	5.0	5.7	3.4	4.8	5.9	6.6	5.1	6.4	8.1	5.9	6.6	8.7	5.3

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Apr. 7, 1989.

Unemployment rates,[1] by selected countries and by specified periods, January 1986–February 1989

(In percent)

			1987		1988				1988			1989	
Country	1986	1987	1988	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.
United States	7.0	6.2	5.5	5.9	5.7	5.5	5.5	5.3	5.3	5.4	5.3	5.4	5.1
Canada	9.6	8.9	7.8	8.2	7.8	7.7	7.8	7.7	7.9	7.9	7.7	7.5	7.6
Japan	2.8	2.9	2.5	2.7	2.7	2.5	2.6	2.4	2.5	2.4	2.3	2.4	(2)
West Germany	7.0	6.9	7.1	7.0	7.1	7.2	7.1	7.0	6.9	7.0	6.8	6.5	6.4
United Kingdom	11.2	10.3	8.3	9.5	9.0	8.6	8.0	7.6	7.8	7.6	7.3	7.1	6.9
France	10.6	10.8	10.5	10.6	10.6	10.5	10.6	10.4	(2)	10.3	10.5	10.2	10.1
Italy	7.5	7.9	7.9	8.1	7.9	7.9	8.0	7.9	(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, April 1989.

Trade balances, by selected countries and by specified periods, January 1986–February 1989

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

				1987	1988				1988				1989	
Country	1986	1987	1988	IV	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States[1] ...	-155.1	-152.1	-119.7	-154.2	-131.0	-114.8	-111.4	-121.7	-110.3	-105.4	-127.9	-131.9	-104.1	-126.0
Canada	7.1	8.3	7.2	4.4	7.2	8.4	10.4	3.2	4.8	4.8	3.6	3.6	8.4	([2])
Japan	92.5	96.2	94.6	91.6	99.6	86.4	90.4	102.0	90.0	102.0	102.0	102.0	99.6	116.4
West Germany[3] ..	52.6	65.6	72.8	74.0	64.4	78.4	71.6	76.4	66.0	67.2	84.0	78.0	96.0	([2])
United Kingdom ..	-12.6	-16.9	-36.0	-21.2	-28.4	-32.0	-38.8	-44.8	-25.2	-56.4	-40.8	-38.4	-44.4	-45.6
France	.1	-5.2	-5.8	-4.4	-2.8	-4.0	-8.0	-8.4	1.2	-8.4	-7.2	-9.6	-4.8	-1.2
Italy	-2.0	-8.7	-10.0	-10.8	-12.4	-4.4	-10.4	-14.0	-19.2	-19.2	-10.8	-12.0	-24.0	-12.0

[1] 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1987, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.
[2] Not available.
[3] Imports, c.i.f. value, adjusted.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Apr. 7, 1989, and *Advance Report on U. S. Merchandise Trade*, U.S. Department of Commerce, Apr. 14, 1989.

U.S. trade balance,[1] by major commodity categories, by selected countries, and by specified periods, January 1986–February 1989

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

				1987	1988				1988				1989	
Country	1986	1987	1988	IV	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Commodity categories:														
Agriculture	4.5	7.0	13.9	3.2	3.0	3.3	3.1	4.5	1.4	1.4	1.4	1.7	1.4	1.5
Petroleum and selected products (unadjusted) ...	-31.8	-39.5	-38.1	-10.1	-9.7	-9.9	-9.5	-9.0	-3.0	-2.9	-2.9	-3.2	-3.2	-2.9
Manufactured goods	-134.3	-146.1	-146.7	-36.2	-35.0	-35.5	-36.8	-39.4	-11.4	-13.6	-13.8	-12.0	-8.6	-9.5
Selected countries:														
Western Europe ..	-28.2	-27.9	-17.2	-6.9	-4.0	-3.9	-4.6	-4.7	-.9	-1.1	-2.0	-1.6	.04	-.6
Canada[2]	-23.0	-11.5	-12.6	-3.1	-3.8	-4.1	-2.6	-2.1	-.9	-.9	-.8	-.4	-1.8	-.8
Japan	-55.3	-58.0	-55.5	-14.5	-13.1	-12.9	-13.3	-16.2	-4.1	-5.5	-5.3	-5.4	-3.5	-4.6
OPEC (unadjusted) ...	-8.9	-13.7	-10.7	-3.3	-2.6	-3.1	-2.8	-2.2	-.7	-.8	-.6	-.8	-1.1	-.8
Unit value of U.S. imports of petroleum and selected products (unadjusted)[4]	$15.02	$18.12	$14.19	$18.40	$15.10	$15.00	$14.07	$12.68	$13.52	$12.52	$12.42	$13.10	$14.46	$15.08

[1] Exports, f.a.s. value, unadjusted. 1986–88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.
[2] Beginning with February 1987, figures include previously undocumented exports to Canada.
[3] Less than $50,000,000.
[4] Beginning with 1988, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f. value.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Apr. 14, 1989.

Money-market interest rates,[1] by selected countries and by specified periods, January 1986–March 1989

(Percentage, annual rate)

				1987	1988				1988			1989		
Country	1986	1987	1988	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
United States	6.5	6.8	8.0	7.6	6.7	7.6	8.1	8.8	8.4	8.8	9.2	9.2	9.5	10.1
Canada	9.2	8.4	9.6	8.9	8.6	9.1	9.9	10.9	10.5	10.9	11.2	11.3	11.7	(2)
Japan	5.0	3.9	4.4	3.9	3.8	3.8	5.3	4.6	4.3	4.2	4.2	4.2	4.2	(2)
West Germany	4.6	4.0	4.3	4.1	3.4	3.6	5.0	5.1	5.0	4.9	5.3	5.6	6.4	(2)
United Kingdom	10.9	9.6	8.9	9.2	8.6	3.4	11.3	12.4	11.9	12.2	13.1	13.1	13.0	(2)
France	7.7	8.1	7.9	8.4	7.9	7.7	7.6	8.4	7.9	8.0	8.4	8.6	9.1	(2)
Italy	12.6	11.2	11.0	11.5	10.8	10.7	11.1	11.6	11.3	11.5	12.0	11.8	12.3	(2)

[1] 90-day certificate of deposit.
[2] Not available.

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

Source: *Federal Reserve Bulletin*, Board of Governors of the Federal Reserve System, April 1989, and *Federal Reserve Statistical Release*, Selected Interest Rates, Board of Governors of the Federal Reserve System, Apr. 3, 1989.

Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential, by specified periods, January 1986–March 1989

(Percentage change from previous period)

				1987	1988				1988			1989		
Item	1986	1987	1988	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Unadjusted:														
Index[1]	106.0	94.1	88.0	90.3	87.5	86.5	90.9	87.2	88.8	86.6	86.2	88.1	88.5	89.72
Percentage change	-16.5	-11.2	-6.5	-5.1	-3.1	-1.1	5.1	-4.1	-2.7	-2.5	-.5	2.2	.4	1.2
Adjusted:														
Index[1]	100.9	90.2	85.9	87.4	84.9	84.1	88.8	85.7	87.2	85.3	84.6	87.0	89.5	90.83
Percentage change	-17.1	-10.6	-4.8	.5	-2.9	-.9	5.6	-3.5	-2.4	-2.2	-.8	2.8	2.9	1.1

[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: Morgan Guaranty Trust Co. of New York, April 1989.