INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

Washington DC
20436

August 1989

In This Issue:

International Economic Comparisons

U.S. Trade Developments

International Trade Developments:

Calls for Asian-Pacific unity are getting louder

Mexico extends wage and price controls

Draft agreement tabled in Uruguay Round safeguards group

United States and EC settle dispute on EC subsidies to processors of canned fruit

Soviets push "Free Economic Zones" to attract Western capital

Statistical Tables

UNITED STATES
INTERNATIONAL
TRADE COMMISSION

OFFICE OF ECONOMICS

John W. Suomela, *Director*

The *International Economic Review* is a monthly staff publication of the Office of Economics, U.S. International Trade Commission. The opinions and conclusions it contains are those of the authors and do not necessarily reflect the views of the Commission or of any individual Commissioner. The *Review* is produced as part of the Commission's international trade monitoring program. Its purpose is to keep the Commission informed about significant developments in international economics and trade, and to maintain the Commission's readiness to carry out its responsibility to provide technical information and advice on international trade matters to policymakers in the Congress and the Executive branch. The *Review* is available to Government officials outside the Commission on a request basis. Inquiries or comment on items appearing in the *Review* may be made directly to the author, or to:

Editor, *International Economic Review*
Trade Reports Division/OE, Room 602
U.S. International Trade Commission
500 E Street SW., Washington, DC 20436
Telephone (202) 252-1255

CONTENTS

INTERNATIONAL ECONOMIC COMPARISONS

The Organization for Economic Cooperation and Development (OECD) forecasts a slowdown in the economic expansion of industrialized countries during the rest of 1989. According to the OECD's recently released report, the raising of short-term interest rates by the central banks of the major industrialized countries (the United States, West Germany, and Japan) to keep inflation under control is the principal cause of the slowdown. Inflation is being fueled by relatively high industrial capacity utilization in the OECD countries.

The report predicts a 6.0-percent average rate of inflation in the OECD countries for 1989. It projects a decline in the U.S. current account deficit from $123.0 billion in 1989 to $116.0 billion in 1990.

According to the U.S. Department of Commerce, stagnating business sales and a 0.7-percent increase in business inventories in May point to a slowdown in the U.S. economy during July–September 1989. (Business inventories include stock held by manufacturers, retailers, and wholesalers.)

Commerce data show the U.S. merchandise trade deficit widening by 22.9 percent in May compared with that in April. In this context, increased imports of capital goods and industrial supplies and materials accounted for the major part of the deficit's increment. The surge of imports for purposes of investment rather than consumption suggests business confidence in the continuation of the 7-year-old economic recovery in the United States.

Economic Growth

The annualized rate of real economic growth during the first quarter of 1989 was 4.4 percent in the United States, 1.4 percent in the United Kingdom, 3.9 percent in Canada, 4.8 percent in France, and 12.0 percent in West Germany.

According to the latest available data, growth during the third quarter of 1988 was 6.1 percent in Italy, and 3.0 percent during the fourth quarter in Japan.

Industrial Production

U.S. industrial production declined 0.2 percent in June following a decline of 0.1 percent in May, but it was 3.4 percent higher than that in June of 1988. A decline in the production of cars and trucks caused production of consumer goods overall to decrease 0.3 percent in June compared with that in May. Although the output in the automobile and energy sectors fell, in most other major sectors it remained unchanged. Nonetheless, U.S. industrial production in June 1989 was 3.4 percent higher than in June 1988.

Capacity utilization in manufacturing, mining, and utilities declined by 0.3 percent in June to 83.5 percent. Utilization declined in iron and steel, fabricated metal, paper, and industrial chemicals production. In addition, capacity utilization in motor vehicles and parts production has also fallen significantly. By contrast, nonferrous metals, textiles, nonelectrical machinery, aerospace, and miscellaneous transportation equipment have experienced continuing strength.

Other major industrial countries reported the following annual growth rates of industrial production: during the year ending February 1989, Italy reported an increase of 5.9 percent; during the year ending April 1989, Canada reported an increase of 2.3 percent, France reported an increase of 7.6 percent, the United Kingdom, an increase of 1.2 percent, and West Germany, an increase of 6.5 percent. During the year ending May 1989, Japan reported an increase of 9.8 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index increased 0.2 percent from June to July 1989, and 5.2 percent for the year ending June 1989. The index has increased at an annual rate of 5.9 percent over the past 6 months. During the year ending in May 1989, consumer prices rose 2.9 percent in Japan, 5.0 percent in Canada, 8.3 percent in the United Kingdom, and 3.7 percent in France. During the year ending June 1989, consumer prices increased 2.7 percent in West Germany and 6.9 percent in Italy.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor-force basis, including military personnel) rose to 5.2 percent in June 1989 from 5.1 percent in May. The national statistical offices of other countries reported the following unemployment rates in May 1989: Japan, 2.4 percent; France, 9.9 percent; Canada, 7.7 percent; West Germany, 7.9 percent; Italy, 16.6 percent; and the United Kingdom, 6.4 percent. For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.

Forecasts

Table 1 shows four major forecasters' newly revised macroeconomic projections for the U.S. economy over the next several quarters, and the simple average of these forecasts. The figures represent annualized percentage changes over the preceding quarterly period except for unemployment, for which the annual rates themselves are projected. On the average, these sources forecast a slowdown in nominal and real GNP growth rates in the third and fourth quarters of 1989, followed by an acceleration in the first half of 1990. They also forecast a steady increase in the unemployment rate in all four quarters from mid year 1989 through mid year 1990.

This prediction of an economic slowdown in the near term is based, in part, on expectations of moderation in the pace of consumer spending because of slower income growth. It is also based on an expected decline in the rate of export growth in response to a stronger dollar. Inflation (measured by the GNP deflator index) is expected to slow down in the third and fourth quarters of 1989, then rise in the first quarter of 1990, and drop again in the second quarter.

Table 1
Projected quarterly percentage changes in selected U.S. economic indicators, 1989-90

Indicators and quarter	*Data Resources Inc.*	*Merrill Lynch Economics Inc.*	*Wharton F.A. Inc.*	*UCLA Business Forecasting Project*	*Mean of 4 indicators and forecasts*
GNP current dollars:					
1989:					
April-June	7.3	7.7	7.0	8.0	7.5
July-September	5.1	5.2	6.5	2.1	4.7
October-December	4.5	4.6	6.3	2.3	4.4
1990:					
January-March	5.1	6.1	6.9	3.2	5.3
April-June	5.8	7.2	7.6	6.3	6.7
GNP constant dollars:					
1989:					
April-June	1.9	2.4	2.1	1.5	2.0
July-September	1.2	-0.3	1.5	-2.3	0.1
October-December	0.9	-0.6	1.9	-1.3	0.2
1990:					
January-March	0.3	1.3	1.8	-1.7	0.4
April-June	1.8	2.4	3.2	2.3	2.4
GNP deflator index:					
1989:					
April-June	5.3	5.2	4.9	6.4	5.5
July-September	3.9	5.5	4.9	4.5	4.7
October-December	3.5	5.2	4.3	3.6	4.1
1990:					
January-March	4.8	4.7	5.0	5.0	4.9
April-June	3.9	4.7	4.2	3.9	4.2
Unemployment, average rate:					
1989:					
April-June	5.3	5.3	5.3	5.2	5.3
July-September	5.3	5.4	5.4	5.4	5.4
October-December	5.5	5.9	5.6	5.7	5.7
1990:					
January-March	5.7	6.1	5.7	6.1	5.9
April-June	5.8	6.0	5.7	6.3	6.9

Note.—Percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Month of forecast, June 1989.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit increased in May to $10.2 billion, or by 22.9 percent, from $8.3 billion in April. The May deficit was 7.4 percent higher than the $9.5 billion average monthly deficit registered during the previous 12-month period, and was 17.2 percent higher than the $8.7 billion deficit registered in May 1988. During the year from June 1988 through May 1989, the deficit was highest in December 1988 ($10.8 billion) and lowest in July 1988 ($8.5 billion).

U.S. imports grew in May to $40.7 billion compared with those in April, or by 4.4 percent, whereas exports declined to $30.5 billion, or by 0.9 percent. Measured by end-use categories, import growth concentrated in capital goods (up 9.3 percent), and industrial supplies and materials (up 4.3 percent). The decline of exports in May was most pronounced in nonautomotive consumer goods (down 5.7 percent), followed by automotive products (down 3.1 percent), and capital goods (down 3.1 percent.)

Viewed in terms of industrial classification, the U.S. trade deficit of manufactured goods expanded in May to $7.4 billion from $5.4 billion in April. Rising U.S. imports and lagging U.S. exports of automotive parts were a major factor. Meanwhile, the U.S. agricultural trade surplus contracted in May to $1.3 billion from $1.6 billion in April. In addition, the U.S. oil import bill increased to $4.8 billion in May from $4.1 billion in April, partly because of the rise in average oil prices from $17.83 to $18.40.

On a regional basis, the United States experienced improvements from April to May in its merchandise trade deficits with West Germany (from $718 million to $531 million) and with France (from $174 million to $19 million). The surplus with Egypt grew from $151 million to $204 million.

However, U.S. deficits either widened or U.S. surpluses narrowed with most other areas. The deficit with Japan grew from $3.9 billion in April to $4.3 billion in May, and the deficit with Canada widened from $175 million to $739 million. The surplus with the EC decreased from $437 million to $109 million, and the surplus of $231 million with all of Western Europe turned into a deficit of $78 million.

The U.S. deficit with all developing countries (including OPEC) increased from $3.6 billion to $5.0 billion. The deficit with the East Asian NIEs grew from $1.5 billion to $2.0 billion, and the deficit with OPEC grew from $1.3 billion to $1.8 billion. The April U.S. trade surplus with Eastern Europe and Asian nonmarket economies of $153 million turned into a deficit of $29 million in May. A major cause was the widening U.S. deficit with China from $323 million to $462 million.

INTERNATIONAL TRADE DEVELOPMENTS

Calls for Asian-Pacific Unity Are Getting Louder

The idea of an institutional vehicle to promote Pacific regional cooperation and economic coordination is not new. The notion of an Asian-Pacific community has been debated by academicians, economists, businessmen, and Government officials since the late 1960s when the Japanese first expressed interest in greater Pacific cooperation. Last year, former Japanese Prime Minister Nakasone suggested a Pacific coalition for economic and cultural cooperation. In July 1988, then Secretary of State Schultz proposed a plan to set up a governmental pan-Pacific forum to promote cooperation in specific sectors including transportation, telecommunications, education, and natural resources. In December 1988, U.S. Senator Bill Bradley proposed the formation of a select Pacific group to reinforce the Uruguay Round and remove barriers to economic growth in the region.

A frequently discussed initiative is the January 1989 proposal of Australian Prime Minister Bob Hawke, urging the countries of Asia and the Pacific to form a new regional institution, an Asian-Pacific version of the Organization for Economic Cooperation and Development to analyze and consult on economic issues and to counter protectionism in international trade. The core countries considered for the organization are Australia, New Zealand, the six ASEAN nations, South Korea, and Japan, with the United States, and Canada also participating. In a speech outlining his proposal, Prime Minister Hawke said that the Asian-Pacific region generates more than one-third of the world's trade and is likely in the next decade to create more than one-half of the world's economic output.

Japan has also made proposals. Expanded government-level cooperation in the region was recently called for in a report by Japan's cabinet-level Economic Planning Agency (EPA). The Ministry of International Trade and Industry has also developed an initiative similar to the Hawke proposal. The EPA report notes that a framework is needed to address the scores of economic and political problems that are arising from the region's rapid development in recent years. Moreover, the report says regional cooperation is now particularly important as increasing interdependence among the economies in the region includes investment, technology, finance, and other fields, as well as trade. Like the Hawke proposal, the Japanese do not advocate creating an exclusive trading bloc but instead want to help the region reach its potential through an institution that will coordinate macroeconomic policies among the countries in the area.

Although the ASEAN nations have not formed a joint position on the Australian or Japanese proposals, they appear skeptical about any new regional organization. Concern about domination by the United States and Japan, the world's largest economies, is one consideration. There is also concern that a new organization could undermine ASEAN cohesiveness and could downgrade the level of cooperation already achieved between ASEAN and its partners, with whom ASEAN now conducts formal annual dialogues on economic issues. Malaysia, Singapore, and Indonesia have expressed support for the goal of increasing Pacific cooperation but, like the other ASEAN members, have been reluctant to support the creation of a formal institution. The Malaysian Trade Minister recently outlined four points that should be considered regarding Hawke's proposal: (1) it must not compromise ASEAN's dialogue with its main trading partners; (2) the framework must not hinder intra-ASEAN trade liberalization; (3) it must not "send the wrong signals" to Europe that a trade bloc is being formed; and (4) undue haste must be avoided in setting up any institutions, such as a permanent secretariat. Since ASEAN already consults annually with each of its major trading partners, an upgraded version of these meetings has been proposed by several of its members as an alternative to any formalized or separate institution.

During a visit to Brunei in early July, Secretary of State Baker, who has shown strong interest in the proposal, sought to allay ASEAN's concerns and win support for an Asia-Pacific group. Australia has also sought to reassure ASEAN that they would not be dominated by the United States and Japan if they decided to participate in the regional organization. However, despite the cautious attitude of most countries in the region, the Hawke initiative has gained enough momentum that an exploratory ministerial meeting with representatives of the countries under consideration will be hosted by Australia in November of this year. On June 30th, a representative of the Soviet Union reportedly said that his country is also interested in attending the November conference. He cited as reasons the fact that the Soviet Union is also part of the Pacific region and is interested in furthering its economic relations with the Far East.

Mexico Extends Wage and Price Controls

On June 18, Mexican President Carlos Salinas de Gortari extended Mexico's "Pact for Economic Growth and Stability," a package of wage, price, and currency controls that was due to expire on July 31. The 8-months extension through March 1990 inaugurates the newest phase of the prolonged anti-inflationary regime launched by Mexico's previous administration in December 1987.

The original "Pact of Economic Solidarity"—an accord of Government, business, and labor—contained a freeze on prices of critical commodities and services, a freeze on wages, slashing the Federal budget deficit, and a mixture of other measures aimed primarily at fighting inflation. In March 1988, Mexico's previous Government followed up with a second round of anti-inflationary measures, that included a fixed exchange rate for the peso. Next came the "Pact for Economic Growth and Stability"—the first comprehensive economic program of the present administration of President Salinas de Gortari. This package, although equally dedicated to a continued fight against inflation, relieved some of the rigidities of the previous two phases.

All three phases contributed to sharply reducing Mexico's inflation rate—from a historic peak of 159 percent in 1987 to an annual rate of 52 percent in 1988 and the present annual rate of about 20 percent. Nonetheless, the controls these programs imposed were also widely criticized for their undesirable but predictable consequences. These included shortages in products that were withheld from the market due to price controls, a continued fall in workers' purchasing power due to wage controls, and an impairment of Mexican export-competitiveness by the "frozen" peso that soon became overvalued.

Growing labor unrest, sparked by the steady decline of real wages in Mexico through most of this decade, especially threatened to undermine the Government's intentions to prolong austerity. The fact that the Salinas de Gortari Government still managed to obtain labor's consent (in addition to that of business) for the most recent extension of austerity measures can be attributed to the Government's ongoing foreign debt-relief negotiations with commercial banks (*IER*, June 1989).

The outcome of these talks is the wild card in Mexico's economic expectations. Labor, as well as business, hopes for a meaningful reduction of Mexico's debt-service burden. Effective debt relief, they believe, would vastly improve the country's economic outlook. Both groups have realized that a continuation of the austerity regime will strengthen creditor expectations that Mexico will remain a "model debtor." Therefore, to strengthen Mexico's negotiating position in these critical talks with foreign banks, labor reluctantly joined business in supporting the Government's extended austerity program.

Mexico's most recent anti-inflation program introduces more flexibility into prevailing controls than its predecessors. The package also sets out to deregulate some critical areas of Mexican business in the hope of cutting costs, and thereby dampening inflation. The program further provides for a continued gradual devaluation of the peso instead of a massive devaluation as was widely expected. Reportedly, a series of new economic reforms in agriculture and financial services will also enter into force by August 1. Officials hope that these measures will help to restore business confidence, and trigger the repatriation of flight capital. They further hope that the new measures, coupled with the recent liberalization of Mexico's foreign investment rules (*IER*, July 1989), will attract foreign capital into Mexico.

Draft Agreement Tabled in Uruguay Round Safeguards Group

The chairman of the Uruguay Round negotiating group on safeguards tabled the draft of an agreement to strengthen GATT rules on safeguard actions. When implemented under GATT rules, safeguard actions are temporary emergency restrictions on imports to protect a domestic industry threatened by an influx of imports. The draft agreement would also extend GATT rules to bilateral arrangements, such as voluntary restraint agreements (VRAs). VRAs are safeguard-actions taken outside GATT rules. They have been used more frequently in recent years. By concluding VRAs, a country can evade, for example, the GATT requirement that it must negotiate compensation with the parties adversely affected by GATT safeguard actions.

Article XIX of the General Agreement, also known as the "escape clause," allows GATT members to escape temporarily from their negotiated GATT commitments and impose restrictive trade measures when actual or threatened serious injury to a domestic industry is demonstrated. Under article XIX, GATT contracting parties are required to determine proof of injury, to engage in consultations with affected GATT members, and to negotiate compensation for the measures. The measures are intended to be temporary, giving the industry some breathing room to adjust to import competition. Section 201 of Trade Act of 1974 is the vehicle under U.S. law through which determinations regarding injury to U.S. industries are made that can lead to the exercise of GATT article XIX.

During the 1980s, VRAs have been increasingly used by many countries, but principally by the United States and the European Community (EC,) in lieu of actions under GATT article XIX to protect threatened domestic industries. At present, the United States has VRAs in effect on three products; semiconductors and autos from Japan and steel from a number of countries. A variety of criticisms of article XIX provisions have been cited as reasons countries have have moved away from following GATT rules. Some argue that the article XIX compensation requirements are too onerous when major industries are involved. Others argue that VRAs could address problems with imports from a particular country in a way that the global actions required under article XIX could not. Countries using VRAs rather than GATT article XIX safeguard procedures to impose import restrictions have depended on the "voluntary" nature of the agreements to avert multilateral challenges to the action.

At the 1986 Ministerial Meeting that launched the Uruguay Round, trade ministers agreed that the aim of safeguards negotiations would be to forge a comprehensive agreement to reinforce GATT disciplines and resolve procedural issues. Over the past two years of the Uruguay Round, the safeguards negotiating group has considered papers and proposals submitted by Australia, Hong Kong, Korea, New Zealand, Singapore, Egypt, Switzerland, Japan, India, the Nordic countries, Mexico, Yugoslavia, the United States, China, and Argentina. In September 1988, the group authorized its chairman to begin drafting a comprehensive agreement and agreed to begin negotiations of the draft text at mid year 1989. George Maciel, chairman of the group, presented his draft safeguards agreement to a meeting held in late June this year. Maciel's text combined ideas from the earlier proposals made by the various country delegations.

The draft provides ways that countries can safeguard their industries with measures taken under GATT auspices rather than with bilateral arrangements concluded outside the GATT. The proposal calls for strict rules governing the use of safeguards and for specific time limits on their duration. The exact time limits were not listed but are to be negotiated in upcoming meetings of the group. The proposal also favors the use of tariffs rather than quotas on imports subject to safeguards action. It calls for countries to make efforts at structural adjustment measures to help threatened industries and sets up a surveillance mechanism.

One of the key procedural issues the negotiating group will finalize in autumn meetings regards the issue of selectivity, or whether a safeguard action can be applied selectively to a particular country or countries. Under existing GATT rules, the measures must be applied equally (on a most-favored-nation basis) to all contracting parties supplying the products. Some Uruguay Round participants, including the United States, want to be able to apply safeguard measures selectively to the main sources of the imported products.

Debate over selective application of safeguards has been subject to controversy for many years. It was a sticking point in inconclusive safeguards discussions in the Tokyo Round and at the 1982 Ministerial Session. At that time, the United States opposed selectivity. The chairman's proposed text now suggests that the measures be applied to all countries supplying the product concerned, but leaves room for examining the use of selectivity in exceptional cases. Most negotiators have indicated that Maciel's text is an adequate basis from which to begin serious substantive negotiations in the fall on a final agreement. Negotiators will also finalize safeguards rules related to notification, consultation, surveillance, and dispute settlement.

United States and EC Settle Dispute on EC Subsidies to Processors of Canned Fruit

EC officials recently agreed to lower subsidies to processors of canned fruit that had exceeded the levels allowed by the 1985 U.S.-EC Canned Fruit Agreement. As a result, the U.S. Government suspended consideration of retaliatory measures until October 1, pending formal adoption of the settlement by EC member states.

The U.S.-EC Canned Fruit Agreement, signed in December 1985, ended a long-running dispute that began in 1981 over EC subsidies to processors of certain fruits. These subsidies were intended to compensate processors for high costs resulting primarily from high minimum grower prices paid to the growers for their fruits. However, a GATT panel report issued in July 1984 found that the production aids granted to processors of canned peaches, canned pears, and canned fruit mixtures (fruit cocktail) nullified and impaired tariff concessions granted by the EC on those products and suggested that the EC restore the competitive relationship between imported U.S. and domestic EC canned fruit. The panel report was never adopted, but warnings of possible U.S. retaliation led to a settlement. Under the Canned Fruit Agreement, the EC agreed to cut its processing aids to peach canners by 25 percent in the 1986-87 farm year, and to phase out processing aids for peaches, either canned or as part of fruit mixtures, in subsequent years. The United States agreed to accept previous reductions in the processing subsidies for canned pears.

In August 1988, the U.S. Government informed the EC that the Community was violating the Agreement. European officials argued that the subsidies were in compliance with the accord. Disagreement over the new subsidy levels as well as the methodology used to calculate the allowable subsidy continued throughout 1988 and into 1989. In March 1989, U.S. officials warned the EC that domestic pressures could force the United States to retaliate against Community exports should the EC not reduce its subsidies. Soon after, on May 8, 1989, the U.S. Trade Representative (USTR) initiated an investigation under section 302 of the Trade Act of 1974, as amended. The objective was to determine whether the issue of these subsidies could be appropriately handled under section 301 procedures. A list of EC products targeted for potential restrictions under section 301 was drawn up, including primarily spices and preserved fruits and vegetables.

Greece, Spain, and Italy are the primary recipients of the subsidies to processors of canned fruit. The U.S. industry argues that these subsidies have blocked U.S. exports of canned fruit to the EC altogether, and threaten to hurt U.S. markets in Canada and Japan, as well as at home. Estimates of the cost to U.S. producers generally range between $6 and $10 million annually. U.S. Department of Commerce statistics indicate that U.S. imports from the EC of certain prepared or preserved (including canned) peaches increased from nearly $7 million in 1987 to close to $20 million in 1988.

On June 30, USTR Carla Hills announced that Community officials had agreed to lower EC subsidies to processors of canned fruits. The reduction will cover the 1989-90 farm marketing year that began on July 1. The two sides also clarified the interpretation of the 1985 agreement with regard to the methodology for determining allowable subsidy rates so as to forestall future disputes. The USTR will postpone its section 301 case until October 1, pending formal EC acceptance of the agreement. Member states are expected to approve the accord at a meeting of the EC Council of Ministers either later in July or in September.

Soviets Push "Free Economic Zones" to Attract Western Capital

To encourage the flow of foreign investment into the Soviet Union, the Soviets have speeded up the establishment of 15 "Free Economic Zones" throughout the country. Some large Western businesses—including half a dozen U.S. firms—have expressed interest in setting up shop in the zones, the first of which may become functional in late 1989 or in early 1990.

The zones, like extraterritorial arrangements in other parts of the world usually called free-trade zones, are supposed to create a physical and legal environment where foreign and domestic productive resources can combine with less restrictions than normal. But whereas free-trade zones in other parts of the world have only limited importance in the national economies of the countries involved, Moscow wants to see its zones play a major role in stimulating and reforming the Soviet economy.

Centers for future zones identified thus far include Vyborg on the Gulf of Finland, Nakhoda on the Sea of Japan, Odessa on the Black Sea, and Novgorod southeast of Leningrad. At least one zone will be located in the Baltic Republics of Estonia, Latvia or Lithuania, one in the environs of Vladivostok in the Far East, and another along the Sino-Soviet border, to be jointly operated with the Chinese. The size of the zones will vary; some—the one centered around Nakhoda—may be as large as 56,000 square miles (roughly the size of Iowa).

The Soviets promise that Western firms locating in the zones will enjoy tariff and tax advantages not available elsewhere in the Soviet Union. They also promise easier conditions for the entry and exit of capital. By and large, they promise to create an environment for Western businessmen that will resemble market conditions, including Western-style manpower policies in hiring and firing, and freedom to combine and reallocate capital brought into the zones.

Soviet planners envisage the zones to be run by a small body of Moscow-appointed administrators. They place great emphasis on financial autonomy, meaning that a zone's administrators and the firms located there—foreign, Soviet, and joint—will not be able to count on budget allocations from Moscow or from local governments. The Soviet firms operating in the zones will be on a longer leash from the state than their counterparts elsewhere in the country but about 50 percent of their capacity will still be tied down to fulfill State plans. The work force will be recruited primarily from the local population, but the firms will be permitted to bring in temporary labor from the rest of the country and even from abroad. Zones reportedly may be allowed to have their own currency, and access to the zones by Soviet citizens not living or working there may be limited.

Western analysts attribute the fast action by Soviet authorities on the zones issue to a growing need for Western capital. Based on recently released Soviet figures, the country's hard-currency foreign debt will increase from roughly $38 to $40 billion at yearend 1988 to well over $50 billion by yearend 1989. The Soviets know that they cannot continue building up foreign debt at this rate, so they intend to slow debt accumulation. This policy gives a greater role to Western capital brought into the country, and it increases the U.S. firms' bargaining power in negotiating the terms of their investment in the U.S.S.R. U.S. bargaining power should be further reinforced by the stiff competition offered for Western capital elsewhere in the Soviet bloc, particularly in Hungary and Poland.

STATISTICAL TABLES

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

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

Country	1986	1987	1988	1988 III	1988 IV	1988 Dec.	1989 I	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.
United States	1.1	3.8	5.7	7.1	4.5	4.4	2.1	5.3	-2.5	0.9	7.0
Canada	.8	2.7	4.2	4.4	2.3	0	3.5	6.7	0	4.7	0
Japan	-.3	3.4	9.4	10.2	7.3	11.9	11.5	11.8	-19.3	88.0	-27.1
West Germany	2.2	.2	3.1	6.4	1.9	33.4	([1])	15.2	-4.3	-6.3	([1])
United Kingdom	2.3	3.4	3.8	5.5	-.8	-5.3	-5.4	-14.2	-3.2	4.5	6.8
France	.9	2.2	4.3	13.1	-1.2	0	3.7	11.4	-10.2	-10.3	53.5
Italy	3.8	2.6	5.9	15.6	2.9	16.5	-4.4	-27.3	19.2	-14.3	4.2

[1] Not available.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, July 14, 1989.

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

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

Country	1986	1987	1988	1988 II	1988 III	1988 IV	1989 I	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.	1989 May
United States	1.9	3.7	4.1	4.8	4.7	4.4	5.4	7.2	5.1	6.1	8.1	7.0
Canada	4.2	4.4	4.0	4.3	4.4	3.9	5.1	7.6	5.7	6.3	4.6	9.7
Japan	.6	.1	.7	2.8	.7	3.1	-2.2	-2.3	-3.5	7.3	23.4	3.5
West Germany	-.2	.3	1.2	1.9	1.9	1.8	4.9	9.0	4.7	3.2	4.8	2.7
United Kingdom	3.4	4.1	4.9	6.5	8.6	8.3	7.4	8.9	7.8	7.3	9.5	10.0
France	2.5	3.3	2.7	2.9	3.8	3.0	3.7	3.7	3.8	3.7	4.4	5.2
Italy	6.1	4.6	5.0	4.8	5.9	6.6	7.2	6.6	8.8	7.2	8.9	9.7

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, July 14, 1989.

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

(In percent)

Country	1986	1987	1988	1988 II	1988 III	1988 IV	1989 I	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.	1989 May
United States	7.0	6.2	5.5	5.5	5.5	5.3	5.1	5.4	5.1	5.0	5.3	5.2
Canada	9.6	8.9	7.8	7.7	7.8	7.7	7.6	7.5	7.6	7.5	7.8	7.7
Japan	2.8	2.9	2.5	2.5	2.6	2.4	2.3	2.4	([2])	2.4	2.4	([2])
West Germany	7.0	6.9	7.1	7.2	7.1	7.0	7.9	6.5	6.4	6.3	6.4	6.5
United Kingdom	11.2	10.3	8.3	8.6	8.0	7.6	6.9	7.1	6.9	6.9	6.6	6.6
France	10.6	10.8	10.5	10.5	10.6	10.4	10.3	10.5	10.4	10.4	10.4	10.3
Italy	7.5	7.9	7.9	7.9	8.0	7.9	12.4	7.7	([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, July 1989.

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

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

Country	1986	1987	1988	1987	1988				1988			1989				
				IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
United States[1] ...	-137.5	-152.2	-119.5	-154.2	-131.0	-114.8	-111.4	-121.7	-105.4	-127.9	-134.4	-105.6	-116.4	-114.0	-99.4	-123.0
Canada	7.1	8.3	7.2	4.4	7.2	8.4	10.4	3.2	4.8	3.6	6.0	12.0	4.8	3.6	1.2	([3])
Japan	92.5	96.2	94.6	91.6	99.6	86.4	90.4	102.0	102.0	102.0	104.4	99.6	120.0	79.2	90.0	67.2
West Germany[2] ..	52.6	65.6	72.8	74.0	64.4	78.4	71.6	76.4	67.2	84.0	78.0	91.2	81.6	75.6	72.0	55.2
United Kingdom ..	-12.6	-16.9	-36.0	-21.2	-28.4	-32.0	-38.8	-44.8	-56.4	-40.8	-38.4	-44.4	-45.6	-34.8	-44.4	-33.6
France	.1	-5.2	-5.8	-4.4	-2.8	-4.0	-8.0	-8.4	-8.4	-7.2	-9.6	-4.8	-1.2	0	-.7	-12.0
Italy	-2.0	-8.7	-10.0	-10.8	-12.4	-4.4	-10.4	-14.0	-19.2	-10.8	-10.8	-22.8	-12.0	-14.4	-15.6	-18.0

[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] Imports, c.i.f value, adjusted.

[3] Not available.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, July 1989, and *Advance Report on U.S.Merchandise Trade*, U.S.Department of Commerce, July 18, 1989.

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

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

Country	1986	1987	1988	1987	1988				1988	1989				
				IV	I	II	III	IV	Dec.	Jan.	Feb.	Mar.	Apr.	May
Commodity categories:														
Agriculture	4.5	7.0	13.9	3.2	3.0	3.3	3.1	4.5	1.7	1.4	1.5	2.0	1.6	1.3
Petroleum and selected products (unadjusted)	-31.8	-39.5	-38.1	-10.1	-9.7	-9.9	-9.5	-9.0	-3.2	-3.2	-2.9	-3.4	-3.8	-4.4
Manufactured goods	-134.3	-146.1	-146.7	-36.2	35.0	-35.5	-36.8	-39.4	-12.0	-8.6	-9.5	-7.2	-6.7	-8.4
Selected countries:														
Western Europe	-28.2	-27.9	-17.2	-6.9	-4.0	-3.9	-4.6	-4.7	-1.6	([2])	-.6	.3	.2	-.08
Canada[3]	-23.0	-11.5	-12.6	-3.1	-3.8	-4.1	-2.6	-2.1	-.4	-1.8	-.8	-.2	-.4	-.7
Japan	-55.3	-58.0	-55.5	-14.5	-13.1	-12.9	-13.3	-16.2	-5.4	-3.5	-4.6	-4.2	-3.9	-4.3
OPEC (unadjusted)	-8.9	-13.7	-10.7	-3.3	-2.6	-3.1	-2.8	-2.2	-.8	-1.1	-.8	-1.0	-1.3	-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	$13.10	$14.46	$15.08	$15.97	$17.83	$18.40

[1] Exports, f.a.s.value, unadjusted.1986–88 imports, c.i.f.value, unadjusted; 1989 imports, customs value, unadjusted.

[2] Less than $50,000,000.

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

[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, July 18, 1989.

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

(Percentage, annual rates)

				1987	1988		1989						
Country	*1986*	*1987*	*1988*	*IV*	*II*	*III*	*IV*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*Jun.*
United States	6.5	6.8	8.0	7.6	7.6	8.1	8.8	9.2	9.5	10.1	9.9	9.6	9.2
Canada	9.2	8.4	9.6	8.9	9.1	9.9	10.9	11.3	11.7	12.2	12.4	12.3	12.3
Japan	5.0	3.9	4.4	3.9	3.8	5.3	4.6	4.2	4.2	4.2	4.2	4.3	4.5
West Germany	4.6	4.0	4.3	4.1	3.6	5.0	5.1	5.6	6.4	6.6	6.3	7.3	6.9
United Kingdom	10.9	9.6	8.9	9.2	3.4	11.3	12.4	13.1	13.0	13.0	13.2	13.3	14.1
France	7.7	8.1	7.9	8.4	7.7	7.6	8.4	8.6	9.1	9.1	8.5	8.9	8.8
Italy	12.6	11.2	11.0	11.5	10.7	11.1	11.6	11.8	12.3	12.9	12.5	12.5	12.6

[1] 90-day certificate of deposit.

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, July 1989, and *Federal Reserve Statistical Release*, Selected Interest Rates, Board of Governors of the Federal Reserve System, July l989.

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

(Percentage change from previous period)

				1987	1988				1989					
Item	*1986*	*1987*	*1988*	*IV*	*I*	*II*	*III*	*IV*	*Jan.*	*Feb.*	*Mar.*	*Apr.*	*May*	*Jun.*
Unadjusted:														
Index[1]	106.0	94.1	88.0	90.3	87.5	86.5	90.9	87.2	88.1	88.5	89.7	89.9	92.6	94.7
Percentage change	−16.5	−11.2	−6.5	−5.1	−3.1	−1.1	5.1	−4.1	1.9	.4	1.2	.2	2.7.	2.1
Adjusted:														
Index[1]	100.9	90.2	85.9	87.4	84.9	84.1	88.8	85.7	88.7	89.4	90.9	90.8	98.0	94.9
Percentage change	−17.1	−10.6	−4.8	.5	−2.9	−.9	5.6	−3.5	2.4	.7	1.5	−.1	7.2	−3.1

[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, July 26, 1989.

UNITED STATES
INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C. 20436

OFFICIAL BUSINESS

ADDRESS CORRECTION REQUESTED

Postage And Fees Paid
U.S. International Trade Commission

U.S. MAIL

ADDRESS CHANGE

☐ Remove from List
☐ Change as Shown
Please detach address label and mail to address shown above.