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INTERNATIONAL TRADE DEVELOPMENTS

Trade Under AGOA Continues to Expand

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On May 18, 2000, President Bill Clinton signed the African Growth and Opportunity Act (AGOA) into law. Subsequently, on August 6, 2002, President George W. Bush signed the Trade Act of 2002, modifying the AGOA legislation and providing expanded preferential access for imports from Sub-Saharan Africa (SSA) beneficiary countries. These modifications are collectively referred to as AGOA II. This article discusses AGOA, its subsequent modifications, and U.S. trade with SSA beneficiary countries.

AGOA and U.S.-Sub-Saharan Africa Trade

While the Generalized System of Preferences (GSP) offers duty-free treatment for approximately 4,600 items from developing countries, the African Growth and Opportunity Act (AGOA) expands the number of eligible duty-free items to 6,400 items for eligible Sub-Saharan Africa (SSA) countries. Moreover, while the GSP program expires in 2006, AGOA does not expire until 2008, thereby extending duty-free treatment for SSA beneficiary countries.[2] AGOA provides both tangible and intangible benefits–in particular, increasing direct trade between the United States and Sub-Saharan Africa. Further, the Act encourages interregional trade among the African countries,[3] provides incentives for accelerated trade reforms,[4] and facilitates economic dialogue between U.S. and African government officials.[5]

In 2003, U.S. exports to SSA reached $6.7 billion. This represented a 13.1 percent increase from 2002 and approximately 1 percent of U.S. merchandise exports worldwide. The leading U.S. export markets in SSA were South Africa (40 percent of U.S. exports to SSA), Nigeria (15 percent), Angola (7 percent), Ethiopia (6 percent), Equatorial Guinea (5 percent), and Ghana (5 percent). Major export items included oil and gas exploration machinery, wheat and meslin, aircraft and

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[2] Specific details on AGOA and subsequent modifications to the Act are available at the official website on AGOA, maintained by the U.S. Department of Commerce at *http://www.agoa.gov.*

[3] AGOA promotes trade between countries in SSA by allowing cumulation among AGOA beneficiaries. That is, AGOA beneficiary countries may include inputs from other AGOA eligible countries in meeting the GSP requirement of 35% value-added.

[4] The benefits of AGOA are potentially available to the 48 countries of Sub-Saharan Africa. However, the benefits are not automatic. AGOA benefits are extended only to countries that meet specific eligibility criteria. These criteria include whether these countries have established or are making continual progress toward establishing a market-based economy, the rule of law, the elimination of barriers to U.S. trade and investment, economic policies to reduce poverty, the protection of internationally recognized worker rights, and a system to combat corruption.

[5] Section 105 of the AGOA legislation requires the President to establish a U.S.-Africa Trade and Economic Forum. In creating the Forum, AGOA requires the President to direct the Secretaries of Commerce, State, Treasury, and the United States Trade Representative to host the annual meeting with their counterparts from Sub-Saharan Africa beneficiary countries to discuss expanding trade and investment relations between the United States and Sub-Saharan African countries, and the implementation of AGOA, including encouraging joint ventures between small and large businesses. Civil society organizations are encouraged by the Act to host a meeting with their counterparts in Sub-Saharan Africa in conjunction with the Forum meetings.

parts, motor vehicles, computer parts and accessories, and worn clothing. U.S. exports to Ethiopia, Equatorial Guinea, and Eritrea increased by 578 percent, 212 percent, and 203 percent, respectively. U.S. imports from SSA during 2003 reached $25.5 billion, about 2 percent of U.S. merchandise imports worldwide, an increase of 40 percent from the $18.2 billion reached during 2002. The leading SSA import sources were Nigeria (40 percent), South Africa (20 percent), Angola (17 percent), and Gabon (8 percent).

AGOA helped spur increases in imports from Sub-Saharan Africa. In 2003, AGOA imports (including GSP) totaled more than $14 billion, accounting for more than half of total U.S. imports from the region. The top four import items from the SSA region under AGOA were petroleum oil, passenger motor vehicles, sweaters, and suits. Although energy-related products continued to dominate U.S. imports from SSA, imports of textiles and apparel items, as well as transportation equipment have increased significantly due to AGOA (table 1). Nonoil AGOA imports totaled $2.9 billion, an increase of 32 percent from 2002. Leading non-oil import items under AGOA are presented in table 2.[6] The top six AGOA beneficiaries were Nigeria, South Africa, Gabon, Côte d'Ivoire, Congo (ROC), and Lesotho. AGOA imports from Namibia, Congo (ROC), and Nigeria increased by 2,623 percent; 220 percent; and 73 percent. Figure 1 shows the growth in U.S.-SSA trade during the 1999-2003 period.

Beyond increasing trade between the United States and Sub-Saharan Africa, AGOA also facilitates annual contact between senior-level officials of the United States and Sub-Saharan Africa governments. A yearly United States-Sub-Saharan Africa Trade and Economic Cooperation Forum (known as the AGOA Forum) is mandated by both the AGOA and AGOA II legislation.[7] The Act requires the United States Trade Representative, Secretary of State, Secretary of Commerce, and Secretary of the Treasury to host meetings with senior-level officials from governments whose countries are eligible for AGOA. The President is required, if possible, to attend the Forum every other year. Thus, AGOA establishes an institutionalized economic dialogue between U.S. and African officials, similar to the dialogue that the U.S. maintains with other regions of the world, for example, the Summit of Americas and the Asia-Pacific Economic Cooperation forum. The first AGOA Forum took place in Washington DC October 29-30, 2001. The second Forum was held in Mauritius from January 15 to 17, 2003, and the third Forum was hosted in Washington DC December 9-10, 2003. Two additional Forums–one for business and the other for nongovernmental organizations (NGOs)–have convened separately but in parallel with the government-to-government U.S.-SSA Trade and Economic Cooperation Forum.

On December 9, 2003, the U.S. Secretary of State and the Mauritian Minister of Industry and International Trade jointly opened the third AGOA Forum. In his opening remarks, Secretary of State Colin Powell indicated that President Bush had requested that the Congress extend AGOA beyond 2008 to give business the confidence to make long-term investments in African countries. Secretary Powell estimated that in the three years since AGOA came into effect, the direct benefits of AGOA included the creation of 190,000 jobs and the attraction of $340 million in new investment to the African continent. Secretary Powell emphasized that behind these numbers lie hundreds of individual success stories directly and indirectly related to AGOA. He cited a number of examples such as two American companies that have invested in plants that currently employ 400 workers in Ghana to produce socks for export to the United States; a company in Tanzania that has hired 100 new employees, mostly women, and has increased its exports to the United States tenfold since AGOA was passed; plants in Namibia that now produce parts to install in cars manufactured in South Africa, that are in turn are exported to the United States; and Zambia, where cotton exports to South Africa more than doubled in 2002 because of the increased demand generated by AGOA.[8]

AGOA has also acted as an incentive for accelerated trade reform efforts in some Sub-Saharan Africa countries. AGOA authorizes the President to determine a country's eligibility under the Act based on the country's attempts to progress toward a market-based economy, the rule of law, free trade, economic policies that reduce poverty, investment in health care and education, efforts to combat corruption, and protection of workers' rights. Sub-Saharan African countries designated as beneficiary countries must undergo an annual review of their status. During this annual review, countries may be added or withdrawn from the list of beneficiary countries. The President must terminate the designation of a country as a beneficiary country if he determines that the country is not making continued progress toward meeting the

[6] For more information about U.S. trade and investment with Sub-Saharan Africa, see USITC, *U.S. Trade and Investment with Sub-Saharan Africa,* Inv. No. 332-415, Publication 3650, December 2003.

[7] Proposed AGOA legislation (AGOA III) also aims to maintain provisions for the AGOA Forum.

[8] U.S. Department of State, U.S. Secretary of State Powell and Foreign Minister of Mauritius Cuttaree , "Open Third AGOA Forum," found at *http://usinfo.state.gov/xarchives/display.html*.

Table 1
U.S. imports under AGOA[1] by sector, 2002-03

Sector	2002	2003	Difference in imports, 2003 less 2002	Difference in imports, 2003 over 2002
	Thousand dollars			*Percent*
Energy-related products	6,968,759	11,223,684	4,254,925	61.1
Textiles and apparel	803,333	1,202,077	398,744	49.6
Transportation equipment	544,711	731,636	186,925	34.3
Minerals and metals	373,163	412,519	39,356	10.5
Agricultural products	213,107	240,931	27,824	13.1
Chemicals and related products	136,153	176,786	40,633	29.8
Miscellaneous manufactures	40,424	59,144	18,720	46.3
Forest products	29,806	33,370	3,564	12.0
Electronic products	8,839	12,943	4,104	46.4
Machinery	17,828	11,157	-6,671	-37.4
Footwear	300	800	500	166.7
Total	9,136,423	14,105,047	4,968,624	54.4

[1] Includes GSP.

Source: USITC Trade and Tariff Data Web, found at *http://www.dataweb.usitc.gov*.

Table 2
Leading U.S. non-oil imports under AGOA,[1] 2002-03

HTS No.	Item	2002	2003	Difference in imports, 2003 less 2002	Difference in imports, 2003 over 2002
		Thousand dollars			*Percent*
870323	Passenger motor vehicles with spark-ignition internal combustion reciprocating piston engine, cylinder capacity over 1,500 cc but not over 3,000 cc	338,959	319,362	-19,597	-5.8
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, not knitted or crocheted	161,721	214,197	52,476	32.4
611020	Sweaters, pullovers, sweatshirts, vests and similar articles of cotton, knitted or crocheted	160,695	233,464	72,769	45.3
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, not knitted or crocheted	153,938	254,654	100,716	65.4
870324	Passenger motor vehicles with spark-ignition internal combustion reciprocating piston engine, cylinder capacity over 3,000 cc	132,784	303,862	171,078	128.8
760612	Aluminium alloy rectangular (including square) plates, sheets and strip, over 0.2 mm thick	70,519	79,790	9,271	13.1
720230	Ferrosilicon manganes	50,749	49,910	-839	-1.7
170111	Cane sugar, raw, in solid form, not containing added flavoring or coloring matter	43,774	30,211	-13,563	-31.0
720211	Ferromanganese, containing more than 2% (wt.) carbon	43,305	39,394	-3,911	-9.0
611030	Sweaters, pullovers, sweatshirts, vests and similar articles of manmade fibers, knitted or crocheted	39,547	60,677	21,130	53.4
720241	Ferrochromium, containing more than 4% (wt.) carbon	36,531	72,549	36,018	98.6
240120	Tobacco, partly or wholly stemmed/stripped	31,193	30,482	-711	-2.3
711319	Jewelry and parts thereof, of precious metal other than silver	30,420	43,276	12,856	42.3
610910	T-shirts, singlets, tank tops and similar garments of cotton, knitted or crocheted	30,350	46,343	15,993	52.7
620520	Men's or boys' shirts of coton, not knitted or crocheted	29,657	45,845	16,188	54.6
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted	25,209	43,026	17,817	70.7
610610	Women's or girls' blouses and shirts of cotton, knitted or crocheted	24,483	22,174	-2,309	-9.4
610510	Men's or boys' shirts of cotton, knitted or crocheted	24,146	22,410	-1,736	-7.2
280469	Silicon, containing by weight less than 99.99% silicon	22,753	32,314	9,561	42.0
721049	Flat-rolled iron or nonalloy steel products, not corrugated, 600 mm or more wide, plated or coated with zinc other than electrolytically	21,775	16,515	-5,260	-24.2
720219	Ferromanganese, containing 2% (wt.) or less carbon	18,789	19,722	933	5.0

Table 2—Continued
Leading U.S. non-oil imports under AGOA,[1] 2002-03

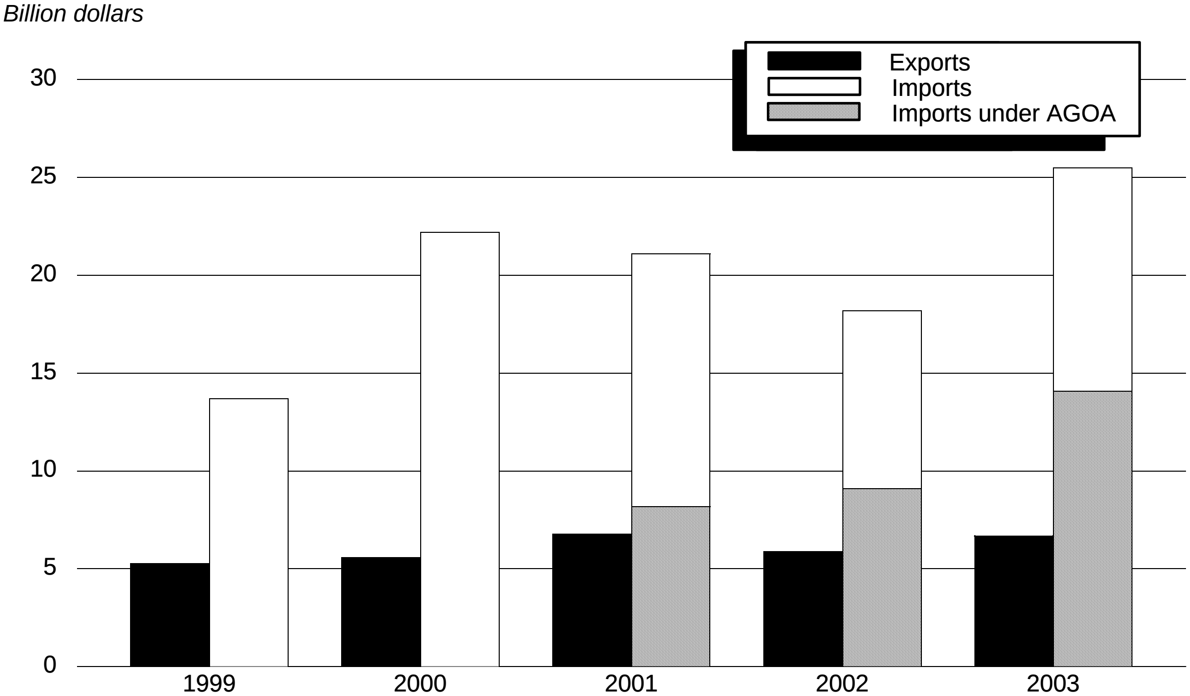
HTS No.	Item	2002	2003	Difference in imports, 2003 less 2002	Difference in imports, 2003 over 2002
		Thousand dollars			*Percent*
870870	Road wheels and parts and accessories thereof for motor vehicles	18,423	35,527	17,104	92.8
411390	Leather of animals nesoi, without hair on, further prepared after tanning or crusting, other than leather of heading 4114	17,412	10,216	-7,196	-41.3
720839	Flat-rolled products of iron or nonalloy steel, width 600 mm or more, in coils, hot-rolled worked only, of a thickness of less than 3 mm, nesoi	16,776	3,931	-12,845	-76.6
80510	Oranges, fresh	15,335	23,612	8,277	54.0
320611	Pigments and preparations containing 80% or more by weight of titanium dioxide calculated on the dry weight	13,983	13,951	-32	-0.2

[1] Includes GSP.

Note.—“Nesoi” indicates not elsewhere specified or included.

Source: USITC Trade and Tariff Data Web, found at *http://www.dataweb.usitc.gov*.

Figure 1
U.S. trade with sub-Saharan Africa, in billion dollars, 1999-2003



Note:—Trade data repesents exports and imports from 48 SSA countries, and AGOA (including its GSP provisions) imports from 38 SSA countries eligible for AGOA benefits in 2003.

Source: USITC Trade and Tariff Data Web, found at *http://www.dataweb.usitc.gov.*

eligibility criteria.[9] On December 30, 2003, President Bush approved the continued designation of 36 Sub-Saharan countries as eligible for tariff preferences under AGOA.[10] The President further determined that Angola should be designated as an AGOA beneficiary country. Two countries, Eritrea and the Central African Republic, did not meet the AGOA eligibility requirements and were removed from the list of eligible countries.[11] Twenty-three beneficiary countries were further designated to be eligible for the apparel benefits under AGOA, benefits that are not automatic.[12] To qualify for these apparel benefits, the United States must first determine that an AGOA beneficiary country has in place an effective visa system to prevent transshipment of apparel articles and the use of counterfeit documents relating to the importation of the articles into the United States. This apparel provision permits designated lesser developed beneficiary countries[13] to utilize third-country fabric (that is, fabric from neither the United States nor from AGOA beneficiaries) to produce apparel products that receive duty-free treatment under AGOA provisions.[14]

The AGOA acts as a catalyst to other government, private, and NGO activities that promote trade and investment between the United States and Sub-Saharan Africa countries as well. In September 2003, for example, the United States Trade and Development Agency co-sponsored an event with the Ethio-American Trade Council to provide a group of more than 20 textile, apparel, and leather manufacturers from Ethiopia with exposure to the United States market. The AGOA Civil Society Network, whose stated goal

[9] For more details about the country eligibility process, see "Country Eligibility," found at *http://www.agoa.gov.*

[10] The 36 countries are Benin, Botswana, Cameroon, Cape Verde, Chad, Republic of the Congo, Côte d'Ivoire, Democratic Republic of the Congo, Djibouti, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, and Zambia.

[11] The White House, "To Take Certain Actions Under the African Growth and Opportunity Act, and for Other Purposes," found at *http://www.agoa.gov.*

[12] The 23 SSA countries are Benin, Botswana, Cameroon, Cape Verde, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Rwanda, Senegal, South Africa, Swaziland, Tanzania, Uganda, and Zambia.

[13] A country is designated a lesser developed beneficiary country for AGOA purposes if it had a per capita gross national product of less than $1,500 a year in 1998.

[14] All 23 countries designated as eligible for the AGOA apparel benefits–except for Mauritius and South Africa–are designated as lesser developed beneficiary countries eligible to use the third-country fabric provision under AGOA.

is to sustain the momentum of AGOA, convened December 8-10, 2003 in Washington DC for its second AGOA Civil Society session. The session–co-chaired by the Foundation for Democracy in Africa and the Mauritius Council for Social Service–developed an AGOA action plan to improve the efficiency and effectiveness of AGOA.

Other private and public organizations have contributed to sustaining and expanding the momentum of AGOA, such as the Corporate Council of Africa. This nonprofit organization held its fourth U.S.-Africa Business Summit with the theme of "Building Partnerships" from June 24 to 27, 2003 in Washington DC. The AGOA 3 Action Coalition, another nonprofit organization led by the former Assistant USTR for Africa, Rosa Whitaker, made a successful effort to enhance AGOA by providing proposed terms for the new AGOA III legislation.[15]

The current AGOA program is set to expire on September 30, 2008, although the apparel provision is to expire on September 30, 2004. A proposal to extend and expand AGOA was introduced in the Senate and House of Representatives on November 20 and 21, 2003, respectively. The bills–S. 1900 and HR 3572–are collectively known as AGOA III and have bipartisan support. Both bills aim to extend AGOA until at least 2015. Both bills also look to extend the third-country apparel provision for 4 more years, until 2008 when AGOA II expires, so that the lesser developed beneficiary countries will remain eligible to use third-country fabric in the production of duty-free apparel exports to the United States.

AGOA III also aims to diversify imports from SSA by offering technical assistance to the nonapparel sectors. The proposed legislation looks to provide a significant amount of technical assistance to African farmers to help them meet strict U.S. sanitary and phytosanitary requirements and overcome other obstacles to marketing agricultural goods in the United States. The bills also seek to promote the development of infrastructure–notably transportation, energy, telecommunications, and water–necessary to increase trade between the United States and SSA. The legislation would encourage the U.S. Overseas Private Investment Corporation, Export-Import Bank, and Foreign Agricultural Service of the U.S. Department of Agriculture, to facilitate investment in AGOA beneficiary countries and to increase cooperation between U.S. and African transportation entities to reduce transit times and costs, considered major obstacles to increased trade.[16]

Conclusion

Total trade between the United States and the SSA countries increased between 1999 and 2003. AGOA has also encouraged interregional trade among African countries. In addition, AGOA created the U.S.-Africa Trade and Economic Cooperation Forum, an institutionalized mechanism to increase direct contact between the United States and SSA countries. The Act provides incentives for accelerated trade reforms, as well as the renovation and building of infrastructure important to U.S.-SSA trade. Many public, private, and nongovernmental organizations are involved in utilizing and expanding AGOA.

A proposal to extend and expand AGOA–AGOA III–was recently introduced in the United States Senate and House of Representatives. AGOA III proposes to extend AGOA until at least 2015, as well as extend for 4 more years the special apparel provision that allows lesser developed beneficiary countries to use third-country fabric and still remain eligible for AGOA's duty-free treatment for apparel exports to the United States. Thus, AGOA has strengthened U.S.-Sub-Saharan Africa trade and economic relations.

[15] U.S. Department of State, "AGOA Boosters Urge Wider U.S. Market Access," *U.S.-Africa Farm Trade*, found at *http://usinfo.state.gov/xarchives/display.html*.

[16] U.S. Department of State, "AGOA III Trade Bill Is Introduced in Congress," found at *http://usinfo.state.gov/xarchives/display.html*, retrieved Feb. 4, 2004.

WTO Trade Negotiations Pause after Cancun

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Members of the World Trade Organization could not reach agreement at their September 2003 ministerial meeting in Cancun, Mexico, on how to move forward with the Doha multilateral trade negotiations. Ministers were to set the terms, or "modalities," for the specific negotiations that were scheduled to conclude the Doha trade talks by January 2005. Instead, negotiators reached an impasse largely over agricultural subsidies and whether to open negotiations on new issues such as investment, competition policy, government procurement, and trade facilitation of customs matters. Consultations in subsequent months were to develop plans to renew the multilateral trade negotiations, but as the year 2004 began many of the original disagreements from the Cancun conference remained unresolved.

Introduction

Members of the World Trade Organization (WTO) held their Fifth Ministerial Conference from September 10 to 14, 2003, in Cancun, Mexico, where they could not reach agreement on how to move forward with the multilateral trade negotiations that opened in November 2001 in Doha, Qatar–known as the Doha Development Agenda. Ministers expected to conduct a midterm review-of-progress in the negotiations, followed by setting terms and structure (so-called negotiating modalities) for the specific individual negotiations that were to follow in 2004, with an eye to concluding the Doha trade talks by January 1, 2005.

Instead, negotiators found themselves early in the conference unable to reach agreement in the critical area of agriculture over the issue of agricultural subsidy reductions. The impasse arose largely due to an uncompromising stance taken by a recent grouping of approximately 20 developing countries–generally called the "G-20" although membership has varied.[2] The inability later in the conference to reach agreement in another significant area–the so-called Singapore issues of investment, competition policy, government procurement, and trade facilitation–led the conference chairman to close the ministerial meeting following consultations that indicated entrenched negotiating positions held by many delegations were not likely to allow a consensus to emerge in the time remaining at the conference.

The ministerial statement concluding the Cancun conference directed the officials of WTO members to continue work on outstanding issues, in coordination with the WTO Director-General and the chairman of the WTO General Council. The statement called for a WTO General Council meeting to be convened at the senior officials level no later than December 15, 2003 to take the necessary action to move toward a "successful and timely conclusion of the negotiations."[3]

Modality and Other Deadlines Slipping by 2003

During 2002 and 2003, Doha negotiators were working to reach agreement on negotiating modalities in their respective groups, although largely without success. Negotiators on agriculture were to reach agreement on a first draft of their modalities by March 31, 2003, but at that time the chairman confirmed that the group had failed to reach a set of common modalities and that–without guidance from participants

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[2] The G-20 membership consists variously of Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Venezuela. El Salvador withdrew before the end of the Cancun meeting, whereas Indonesia and Nigeria were not counted among the early members. Turkey was reported to have considered being a member.

[3] WTO, "Ministerial Statement," taken from WTO, "Day 5: Conference ends without consensus," WTO Summary of 14 September 2003, found at Internet address *http://www.wto.org/*, retrieved Sept. 17, 2003.

on possible areas of convergence–there was no scope to attempt another draft.[4] The group was to prepare a comprehensive draft of commitments in time for the Cancun meeting, once negotiating modalities were agreed. The nonagricultural market-access group was to agree on modalities to conduct negotiations on tariff and nontariff barriers by May 31, 2003, but this deadline also passed with developed and developing country participants unable to agree over the scope set in the chairman's draft text on modalities.[5]

In the services negotiations, progress appeared more forthcoming. Initial requests for market access in services began to be tabled by July 2002 and initial offers for services market access by April 2003. Services negotiators also managed to adopt a draft text of "Modalities for the Treatment of Autonomous Liberalization" in March 2003, a portion of their negotiating agenda.[6]

Although talks on intellectual property are circumscribed to negotiating a multilateral system of notification and registration of geographical indications for wines and spirits–as set out under the "built-in" agenda of the 1994 Uruguay Round Agreements–the chairman noted at the start of 2003 that delegations' positions remained quite divided.[7] Elsewhere, however, negotiators did reach an agreement concerning the "Agreement on Trade-Related Intellectual Property Rights (TRIPs Agreement) and Public Health," a separate mandate from the 2001 Doha declaration.

Negotiators developing recommendations to make special and differential treatment more effective for developing country members finally reached an impasse in their deliberations by February 2003, despite several deadline extensions in 2002.

Finally, disagreement continued throughout 2002 and 2003 about whether or not the Doha declaration explicitly mandated negotiations to begin on a new set of topics known collectively as the "Singapore issues." These issues–involving the trade-related aspects of investment, competition policy, transparency in government procurement, and facilitation of trade customs issues–have proved difficult ever since they were raised at the WTO First Ministerial Conference held in Singapore in 1996. WTO members were scheduled to decide whether or not to start these negotiations at the Fifth Ministerial Conference in 2003, but instead the impasse reached over opening negotiations on even some portion of them triggered the conference chairman to close the Cancun conference upon seeing a broad consensus as increasingly unlikely due to such entrenched positions.

TRIPs Decision on Pharmaceutical Imports

WTO members did achieve notable progress in advance of the Cancun ministerial meeting when they adopted a decision in the area of public health related to the TRIPs Agreement. The "Declaration on the TRIPs Agreement and Public Health"[8] from the 2001 Doha ministerial conference tasked negotiators to find an expeditious solution to the difficulties faced by WTO Members possessing insufficient or no manufacturing capacity in the pharmaceutical sector when confronted with public health crises that constitute a national emergency. Foremost among such public health emergencies is that of human immunovirus/acquired immune deficiency syndrome (HIV/AIDS), found in particular in Southern Africa, but includes as well tuberculosis, malaria, or similar epidemics of extreme urgency. Negotiators succeeded, adopting the "Decision on the TRIPs Agreement and Public Health"[9] on August 30, 2003 which allows developing countries–in particular the least developed countries–greater access to needed vital medicines when their governments were faced with widespread public health outbreaks.

The 2003 decision sets up a system that allows an eligible importing WTO member to obtain from an eligible exporting WTO member the needed pharmaceutical supplies to address public health problems that constitute an urgent national situation. Least developed country WTO members may automatically avail themselves of this pharmaceutical import system, whereas developing country WTO members must notify the TRIPs Council of a national emergency or circumstances of extreme urgency that

[4] WTO, Committee on Agriculture, Special Session, *Eighteenth Special Session of the Committee on Agriculture—Report by the Chairman, Stuart Harbinson, to the Trade Negotiations Committee*, TN/AG/9, Apr. 8, 2003.

[5] Trade Reports International Group, "Missing Yet Another Doha Deadline," *Washington Trade Daily*, vol. 12, No. 105, May 27, 2003.

[6] WTO, Council for Trade in Services, Special Session, *Modalities for the Treatment of Autonomous Liberalization—Adopted by the Special Session of the Council for Trade in Services on 6 March 2003*, TN/S/6, Mar. 10, 2003.

[7] WTO, Council for Trade-Related Aspects of Intellectual Property Rights, Special Session, *Fifth special session of the Council for TRIPS—Report by the Chairman, Ambassador Eui-Yong Chung, to the Trade Negotiations Committee,* TN/IP/5, Feb. 28, 2003.

[8] WTO Ministerial Conference – Fourth Session, *Declaration on the Trips Agreement and Public Health – Adopted on 14 November 2001*, WT/MIN(01)/DEC/2, Nov. 20, 2001.

[9] World Trade Organization, Implementation of Paragraph 6 of the Doha Declaration on the TRIPs Agreement and Public Health — Decision of 30 August 2003*, WT/L/540, Sept. 1, 2003.

require a patented medicine for public, noncommercial use. The importer must notify (1) the specific product names and expected quantities needed; (2) must confirm that it has insufficient manufacturing capacity in its pharmaceutical sector to produce this product; and (3) must grant a compulsory license under TRIPs Art. 31[10] for a patented pharmaceutical product within its territory.

The exporter must also issue a compulsory license that confirms that only the amount necessary to meet the importer's need will be manufactured under that license, and that the entirety of the production will be exported to eligible importers that have notified their needs to the TRIPs Council. The exporter must confirm that the products manufactured under compulsory license will be marked or labeled specifically through special packaging, coloring, or shape. The exporter must also establish an Internet website that posts the quantities supplied to each importer and the distinguishing product features. The exporter must notify the TRIPs Council of the award of the compulsory license, giving the name and address of the licensed firm, products and quantities covered by the license, duration of the license, and the countries to be supplied with the product. The exporter must pay adequate remuneration, although the importer's obligation to pay remuneration will be waived under the decision. However, the importer is expected to take reasonable measures within its means to prevent the re-export of these pharmaceutical products manufactured under compulsory license.

The decision includes provisions for developing country WTO members that belong to a regional trade agreement, intended to take advantage of possible economies of scale and their subsequent enhanced purchasing power. WTO members agree not to challenge any measures taken in line with this decision through WTO dispute-settlement procedures. The TRIPs Council is to prepare an amendment to the TRIPs Agreement that, once adopted, would incorporate this decision into the TRIPs Agreement.

Castillo Draft Ministerial Text

In the broader negotiations, however, progress was not forthcoming at the same pace as the August 2003 adoption of the decision on the TRIPs Agreement and Public Health. Earlier in the summer, the 2003 chairman of the WTO General Council, Carlos Perez del Castillo, had issued his draft Cancun ministerial text in preparation for the Fifth WTO Ministerial Conference. In circulating his draft in July 2003, the chairman explicitly recognized that "The somewhat skeletal nature of this first draft is a reflection of the reality of our present situation. It reflects how far we still have to go in a number of key areas to fulfil the Doha mandates."[11] Although the Castillo draft text listed all the necessary categories where ministers needed to make decisions before and during the Cancun conference, it could provide only a framework and left as unresolved, bracketed text all the substantive information and document references that negotiators and ministers needed to provide once they reached agreement.

Cancun Ministerial Conference[12]

The Cancun ministerial conference took place in Cancun, Mexico, September 10-14, 2003. The conference chairman–Luis Ernesto Derbez, Mexico's minister of trade–selected five facilitators on the opening day to oversee discussions on the major subjects of (1) agriculture, (2) nonagricultural market access, (3) development issues, (4) the "Singapore" issues, and (5) other issues, which included notably the issue of a geographical indications register for wines and spirits called for under the TRIPs Agreement.

On the opening day, a proposal[13] was submitted by Benin, Burkina Faso, Chad, and Mali for the consideration by the ministers at the conference that would presage the forthcoming difficulties in the agriculture negotiations at Cancun. Presented earlier in 2003 to the WTO Agriculture Committee and General Council, the cotton initiative at Cancun highlighted the damage done to the economies of these four least developed countries by the cotton subsidies paid to producers in the developed countries. The initiative called for the elimination of the developed country subsidies, as well as compensation to cover economic losses caused by these subsidies until their phaseout, in view of the heavy dependence of these four sub-Sahara African countries on cotton production and exports. A

[10] TRIPs Art. 31 is entitled "Other Use Without Authorization of the Right Holder."

[11] World Trade Organization, *Preparation for the Fifth Session of the Ministerial Conference — Draft Cancun Ministerial Text*, JOB(03)/150, July 18, 2003.

[12] Reporting based largely on WTO daily summaries of the Cancun ministerial conference — "Summary of 10 September 2003 — Conference kicks off with 'facilitators' named and cotton debated;" "Summary of 11 September 2003 — Cambodia and Nepal membership sealed as ministers start negotiations;" "Summary of 12 September 2003 — Day 3: 'Facilitators' start work on new draft declaration;" "Summary of 13 September 2003 — Day 4: As ministers comment on new draft, chairperson warns of dangers of failure;" and "Summary of 14 September 2003 — Day 5: Conference ends without consensus," found at *http://www.wto.org*, retrieved Sept. 15, 2003.

[13] WT/MIN(03)/W/2+Add.1.

number of delegations at the conference supported the initiative in large part because the proposal sought a competitive solution within the framework of the multilateral trading system rather than through preferences or special and differential treatment. The United States responded that all trade distortions in the cotton production chain should be discussed–including subsidies–but also encompassing tariff and nontariff barriers to trade in cotton, government policies that support synthetic fiber production, and the like.

On the second day, Cambodia and Nepal were invited to accede to the WTO as the first two least developed countries to join the WTO through the full accession process. The five facilitators briefed the heads of delegation at the conference that progress in the other groups seemed to be strongly linked to progress in the agriculture group. In the agriculture group, exchanges centered on three groups: (1) the United States, (2) the European Union (EU), and (3) the Group of 20. The uncompromising stance taken by the G-20 regarding agricultural subsidy reductions was a major contributor to the impasse reached in negotiations in the critical area of agriculture.

On the third day, the facilitators reported unyielding results similar to the second day, prompting the conference chairman to stress to the participants that the conference was only a mid-term review intended to provide political guidance to negotiators working in Geneva, not the conclusion of major multilateral trade negotiations.

On the fourth day, the conference chairman distributed a new draft ministerial declaration–the Derbez draft ministerial statement–incorporating material rendered by the facilitators from their group discussions. Differences remained in most areas. In agriculture, some delegations thought the new draft text was not ambitious enough, while others considered it too ambitious. In market access negotiations, disagreements remained on the tariff cutting formula to be used, and on whether sectoral tariff eliminations should be voluntary or mandatory. On the Singapore issues, delegations remained divided with some insisting that there was no explicit consensus to open these negotiations as required by the Doha declaration while others insisted that these negotiations be opened. Regarding development issues, a number of African and Caribbean countries in particular said that the new draft did too little to promote special and differential treatment for developing countries. Concerning the cotton initiative, several countries pointed out that the new draft did not reflect the provisions to phase out cotton subsidies nor to compensate producers in the interim period. The conference chairman warned the participants at the end of the fourth day that if the Cancun meeting failed because ministers were willing to let the process fail, then the negotiations may take a long time to recover.

On the final day, the conference chairman consulted with the heads of delegation to find that the Singapore issues had become the most difficult negotiating barrier to overcome. Conference chairman Derbez found that there had been little success in filling in the substantive decisions on modalities in agriculture and nonagricultural market access, in addition to decisions needed in other areas. After making several attempts to narrow differences through consultations, it was clear that there was no consensus, and the conference chairman decided to close the meeting. A six-paragraph ministerial statement was approved and issued that instructed members' officials to "continue working on outstanding issues ... taking ... into account the views expressed at the conference."[14] The ministerial statement asked the WTO Director-General and the WTO General Council chairman to coordinate this work, and to convene a WTO General Council meeting at senior officials level no later than December 15, 2003 intended to permit WTO members "to take the action ... necessary ... to enable us to move towards a successful and timely conclusion of the negotiations."[15]

Derbez Draft Ministerial Text

The second version of the Cancun ministerial text,[16] the draft prepared by the conference chairman Luis Ernesto Derbez, remained incomplete and unofficial at the close of the conference on September 14, 2003. As a consequence, it is not the agreed point of departure for subsequent negotiations. Nonetheless, as the conference chairman's best understanding of the status of negotiations at the time, a brief summary of the Derbez draft ministerial text follows. (See the addendum for summaries of the Derbez text annexes.)

The Derbez text welcomed the decision of the TRIPs Agreement and Public Health. It directed the *Special Session of the Committee on Agriculture* to conclude its work on establishing modalities for further

[14] WTO, "Ministerial Statement," taken from WTO, "Day 5: Conference ends without consensus," WTO Summary of 14 September 2003, found at Internet address *http://www.wto.org/*, retrieved Sept. 17, 2003.

[15] WTO, "Ministerial Statement," taken from WTO, "Day 5: Conference ends without consensus," WTO Summary of 14 September 2003, found at Internet address *http://www.wto.org/*, retrieved Sept. 17, 2003.

[16] WTO, *Preparations for the Fifth Session of the Ministerial Conference — Draft Cancún Ministerial Text — Second Revision*, JOB(03)/150/Rev.2, Sept. 13, 2003.

commitments in agriculture. It also set out in Annex A what the conference chairman understood were the unresolved framework questions under discussion inthe agriculture negotiations. The conference chairman set out in Annex B his understanding of the unresolved framework questions under discussion in the *Negotiating Group on Nonagricultural Market Access*. In services, the Derbez draft stressed that more offers were needed, as well as more work on rulemaking aspects affecting trade in services–in particular, GATS Art. VI, X, XIII, and XV. The text recognizes the developing countries' particular interest in the supply of services through the movement of persons (GATS service supply "mode 4"). The text set the *Special Session of the Council for Trade in Services* to review progress in the negotiations by March 31, 2004.

The Derbez text points out the need to accelerate work on antidumping and antisubsidy measures in the *Negotiating Group on Rules*, although it recognizes the group's progress made in improving transparency regarding regional trade agreements. The Derbez text called on the *Special Session of the Council for TRIPs* to continue its negotiations on a register for geographical indications for wines and spirits. It also encouraged the *Special Session of the Committee on Trade and Environment* to continue its work, inviting the secretariats of major multilateral environmental agreements to its meetings.[17] The Derbez draft text slated negotiations concerning the Dispute Settlement Understanding to conclude by May 31, 2004, based on the chairman's text of May 28, 2003 for the *Special Session of the Dispute Settlement Body.*

The Derbez text recommended that the WTO General Council continue monitoring special and differential treatment provisions highlighted during the negotiations. It proposed that ministers adopt a number of revisions to several of the Uruguay Round Agreements that would affect how special and differential treatment is applied to developing country members. The Derbez text also recommended consultations aimed at extending the negotiations on geographical indications beyond wines and spirits. Nonetheless, the Derbez text pointed out that most implementation issues remain unresolved.

Regarding the Singapore issues, the Derbez text would have negotiations begin on transparency on government procurement (set out in Annex D) and on trade facilitation (set out in Annex E). The draft text suggests further study of the issues of trade and investment, and trade and competition policy, convening their respective working groups to develop procedural and substantive modalities for possible negotiations in the future.

Negotiating Developments after Cancun

Following Cancun, the WTO Director-General and General Council chairman held initial consultations with member governments, followed by two rounds of intensive consultations on the four key issues considered the lynchpin issues emerging from the Cancun meeting: (1) agriculture, (2) nonagricultural market access, (3) the Singapore issues, and (4) the cotton initiative. The General Council chairman Perez reported informally to heads of delegations in Geneva, giving his overall assessment of his consultations and his view of the way forward on December 15, 2003, as called for in the ministerial statement at the end of the Cancun conference.[18] The chairman said that during his consultations that members were constructive and affirmed their commitment to enter into substance. Nonetheless, he pointed out that no concrete sign of this commitment was as yet forthcoming, such as more flexible negotiating positions.

Agriculture

On agriculture, the chairman concluded that members would like to see domestic support, market access, and export competition–the "three pillars" of the agriculture talks–addressed in parallel. His suggestion on the way forward was to substantially reduce or phaseout total support over an agreed timeframe, based on the agricultural measurement of support (AMS) index. He suggested that the so-called blue box–support payments to farmers to take land out of agricultural production–should be first capped, and later reduced in subsequent negotiations. The so-called green box–support payments to farmers for nontrade distorting activities, such as research and development–might remain as set out in the Derbez text emerging from Cancun. On market access, he pointed out the main difficulty that remained was the "blended formula" for reducing agricultural tariff rates and liberalizing nontariff barriers, although he noted that most members agreed to a common approach to market access for both developed and developing countries provided that clear special and differential provisions

[17] These include the secretariats of organizations such as the United Nations Environment Programme and the United Nations Conference on Trade and Development.

[18] WTO, "Statement by the Chairperson of the General Council December 15-18, 2003," found at *http://www.wto.org/*. The initial consultations were reported October 14 referencing JOB(03)/199, with the reports on the major rounds of consultations held on November 18 under JOB(03)/212 and finally on December 9, 2003 under JOB(03)/221.

were in place to account for development, food security, and similar needs in developing countries. On export competition, members largely agreed that all unfair export competition should be subject to reduction or elimination, with the key disagreement being the end-date for the phaseout of agricultural export subsidies. His consultations showed that preferential treatment for special products, as well as special safeguards for agricultural products, have grown to become important elements of the special and differential treatment discussions.

Nonagricultural Market Access

Members largely agreed that the Derbez text on nonagricultural market access was carefully drafted and could be used as a starting point. Members largely agreed that a formula approach was key to these negotiations, but that there was no agreement yet on the specific formula to be used. Members did not agree on the sectoral component for tariff liberalization, whether this component was voluntary or mandatory, or whether it was a core or a supplementary modality of the negotiations. Many members viewed the Derbez text as balancing the two elements, thereby linking the outcome of one with the other.

Singapore Issues

The chairman found no consensus in his consultations concerning the Singapore issues, other than possibly to allow each subject to advance on its merits, i.e. to "unbundle" the four issues from being a single subject. His suggestion to members was to continue to explore possible negotiating modalities for trade facilitation and for transparency in government procurement, and leave investment and competition policy for further reflection.

Cotton Initiative

The chairman noted that his focus in consultations was on the substance of the trade and development aspects of the cotton proposal, leaving aside the procedural issue of whether to discuss the cotton initiative under the agriculture negotiations or as a standalone issue. For trade matters, his discussions concluded that the role of domestic support policies was the principal instrument affecting the cotton sector, followed by the role of market access policies. The role of direct export subsidies appeared to present minimal impact on the world market for cotton. Discussions of the development aspect of the cotton initiative coalesced around but did not resolve three broad elements that emerged from the chairman's consultations: (1) the extent to which WTO competence extended to the areas of financial and technical assistance, (2) various providers of financial and technical assistance beyond the WTO, and (3) development projects and programs specific to cotton.

Procedures

The chairman suggested that arrangements be made to resume negotiations under the Doha Development Agenda by reactivating the Trade Negotiating Committee and the negotiating groups early in 2004, following the February 2004 WTO General Council meeting held to elect new officers for the year.

Conclusion

The extensive consultations held by the WTO General Council chairman with WTO members following Cancun indicated that a number of core issues from the meeting remained unresolved by the end of 2003. Although members agreed in principle to resume negotiations, there appears little readiness among participants to alter negotiating stances that could resolve the current stalemate over how to restart negotiations.

USTR Proposal on Resuming Negotiations

In an effort to avoid a hesitant resumption of negotiations in 2004, the United States Trade Representative (USTR) sent an open letter in January 2004 to trade ministers participating in the Doha Development Agenda, suggesting that negotiations concentrate on several core areas so as to maintain focus during 2004.[19] The areas mentioned were (1) agriculture, (2) nonagricultural market access, (3) services, (4) special and differential treatment, and (5) the issue of trade facilitation, from among the Singapore issues. Other issues mandated by the Uruguay Round Agreements and Doha declaration–such as dispute settlement improvements, and trade and environment matters–would be included in the Doha Round as well, but not part of the core subjects.

[19] Office of the United States Trade Representative, "A Common-sense Approach to Advance the Doha Development Agenda," *Trade Facts*, Jan. 12, 2004, found at Internet address *http://www.ustr.gov*, retrieved Jan. 15, 2004; Inside Trade Publications, "Zoellick Calls For WTO Mid-Year Frameworks, Ministerial By End Of 2004 — Letter From USTR Robert Zoellick To Trade Ministers," *Inside U.S. Trade*, found at Intranet address *http://www.insidetrade.com*, retrieved Jan. 15, 2004.

The USTR, Robert Zoellick, proposed that negotiating frameworks might be developed by mid-2004, if senior officials in capitals were actively engaged in prodding negotiators forward in their work in Geneva. To help focus on this timetable, the USTR proposed that participants meet in Hong Kong–the agreed host for the WTO Sixth Ministerial Conference–at the end of 2004 rather than the previously scheduled end of 2005.

February 2004 WTO General Council Actions

Discussion of these issues was raised at the first WTO General Council meeting held February 11-12, 2004. WTO members agreed on a slate of chairpersons for 2004 for both WTO committees as well as bodies established under the Trade Negotiations Committee for the Doha Development Agenda. For WTO bodies, the 2004 officers include: General Council, Amb. Shotaro Oshima (Japan); Council for Trade in Goods, Amb. Alfredo Chiaradia (Argentina); Council for Trade in Services, Amb. Peter Brno (Slovak Republic); and the TRIPS Council, Mr. Joshua Law (Hong Kong China).[20] For the negotiating groups under the Doha Development Agenda, chairpersons include: Agriculture, Amb. Timothy Groser (New Zealand); Non-Agricultural Market Access, Amb. Stefan Johannesson (Iceland); Services, Amb. Alejandro Jara (Chile); Trade-Related Intellectual Property Rights Special Session, Amb. Manzoor Ahmad (Pakistan); Rules, Amb. Eduardo Perez-Motta (Mexico); Trade and Environment Special Session, Amb. Toufiq Ali (Bangladesh); Review of Dispute Settlement Understanding, Amb. David Spencer (Australia); and Committee on Trade and Development Special Session, Mr. Faizel Ismail (South Africa).[21]

The Doha Round chairpersons are to serve until the Sixth Session of the WTO Ministerial Conference, to be held in Hong Kong, China. However, many argued at the General Council meeting that there should first be some progress in the negotiations in Geneva before setting a date for the Sixth Ministerial Conference, rather than risk pressing forward with a ministerial conference date before results were evident.[22] Although other members expressed a need for deadlines to spur negotiations forward, to date the participants in the Round have declined to take up the USTR proposal of a ministerial conference on an advanced schedule at the end of 2004. The next WTO General Council meeting is scheduled for May 17-18, 2004.

[20] Chairpersons for other WTO bodies include: Dispute Settlement Body, Amb. Amina Mohamed (Kenya); Trade Policy Review Body, Amb. Asavapisit Puangrat (Thailand); Committee on Trade and Development, Amb. Coulon Trevor Clarke (Barbados); Committee on Balance of Payments, Mr. Giulio Tonini (Italy); Committee on Trade and Environment, Amb. Naela Gabr (Egypt); Committee on Budget and Administration, Amb. Ronald Saborio Soto (Costa Rica); Working Group on Trade, Debt and Finance, Amb. Peter Balas (Hungary); and Working Group on Technology Transfer, Amb. Jaynarain Meetoo (Mauritius).

[21] No chairpersons were appointed for the Singapore Issue Working Groups (Transparency in Government Procurement, Interaction between Trade and Investment, and Interaction between Trade and Competition). Discussions on trade facilitation continue to be held under the aegis of the General Council. Consultations continue in the General Council regarding trade facilitation and transparency in government procurement, whereas future consultations will address how the issues of investment and competition policy might be treated at some later point.

[22] U.S. Department of State, "11 February 2004 Meeting of WTO General Council Meeting," prepared by U.S. Mission, Geneva, message reference No. [none], Feb. 19, 2004.

Addendum

Summaries of Derbez Text Annexes

Note.–In the summaries, [tbd] means "to be determined."

Annex A–Framework for Establishing Modalities in Agriculture

The members would reaffirm their commitment from the 2001 Doha declaration to establish a fair and market-oriented trading system for agriculture through fundamental reform that strengthened rules and specific commitments on support and protection directed at correcting and reducing distortions in world agricultural markets. The draft ministerial text set out decisions to be taken at Cancun in the principal categories under negotiation that involved (1) domestic support, (2) market access, (3) export competition, (4) least developed countries, and (5) newly acceded members. These decisions, set out largely in the detailed form of numerical answers to draft provisions involving 'some percent' range in support reduction or reduction over 'some number' of years, were left incomplete at the end of the Cancun ministerial conference due to the lack of consensus.

Domestic support

— Reduction in the final bound Aggregate Measure of Support (AMS) of percent to [tbd] percent
— Product-specific AMS to be capped during the period [tbd]
— De minimis domestic support reductions of [tbd] percent
— Direct payment support shall not exceed 5 percent of the total value of agricultural production in the 2000-2002 period by [tbd] percent, and subsequent support shall be reduced linearly by [tbd] percent for a further [tbd] years.
— Allowed total AMS support will be reduced by at least [tbd] percent.

Market access

Under the blended tariff reduction formula:

— [tbd] percent of import-sensitive tariff lines shall be reduced [tbd] percent on average, with a minimum [tbd] percent cut;
— [tbd] percent of tariff lines of import-sensitive tariff lines shall result from the combination of tariff cuts and expansion of tariff-rate quotas (TRQs);
— [tbd] percent of standard tariff lines will be reduced by a "Swiss" formula[1] reduction;
— [tbd] percent of tariff lines shall be duty free;
— The resulting simple average tariff reduction for all agricultural products shall be no less than [tbd] percent;
— For tariffs above a maximum of [tbd] percent, developed country participants shall reduce these tariffs to at least the maximum or offer effective market access in these or other areas through a request-offer process.
— Tariff escalation will be addressed by applying a factor of [tbd] to the tariff reduction of the processed product in cases where the tariff for the processed product is higher than that for the product in its primary form.
— In-quota tariffs shall be reduced by [tbd] percent.
— The use and duration of the special agricultural safeguard (SSG) remains under negotiation.

Export competition

— Members commit to eliminate export subsidies for products listed as of particular interest to developing countries, to be implemented over [tbd] years.
— Members commit to reduce export subsidies, on a budget and quantity basis, with a view to phasing them out.
— Members commit to eliminate the trade-distorting element in export credits by reducing repayment terms to that in commercial practice, such as a term of [tbd] months.

Least developed countries

— Least developed countries shall be exempt from reduction commitments. Whether developed countries will provide duty- and quota-free market access for agricultural products from least developed countries is under negotiation.

[1] A "Swiss" formula reduction is a nonlinear–or exponential–reduction formula that lowers higher tariff rates proportionally more than lower tariff rates, thereby "harmonizing" resulting tariff profiles more than would result using a linear reduction formula.

Recently acceded members

- — Recently acceded members may enjoy longer timeframes and/or lesser tariff reduction commitments.

Other matters

- — The so-called peace clause is to be extended by [tbd] months.
- — Further work on modalities is to consider a number of issues of interest but not yet agreed, including the continuation clause, export taxes, geographical indications, implementation periods, linkages between the three main agricultural categories under discussion (that is, import access, export competition, and domestic support), nontrade concerns, proposals for flexibility for certain groupings, sectoral initiatives, single disk export privileges, as well as other detailed rules.

Annex B–Framework for Establish Modalities in Market Access for Nonagricultural Products

Items largely agreed

The ministers would reaffirm their aim to reduce or eliminate tariff barriers–including tariff peaks, high tariffs, and tariff escalation–and nontariff barriers on nonagricultural goods. In this endeavor, the ministers also would reaffirm that they would pay special attention to products of particular export interest to developing countries, special and differential treatment for developing countries, and less-than-full reciprocity on the part of developing countries in the reduction of these market access barriers.

The ministers agree to reducing tariff barriers by a nonlinear formula, applied on a line-by-line basis, allowing for less-than-full reciprocity on the part of less and least developed country participants. They agree on comprehensive product coverage, with no prior exclusions. They agree on reductions from bound tariff rates after full implementation of current concessions. They agree on a 2001 base year for MFN applied tariff rates (rates applicable on November 14, 2001). They agree on credit for autonomous liberation for developing countries if the tariff lines were bound on an MFN basis subsequent to the conclusion of the Uruguay Round. They agree that all specific duties shall be converted to and bound at ad valorem equivalent duties, on a basis yet to be determined. They agree to hold negotiations on the basis of HS1996 or HS2002 nomenclature, with results finalized into HS2002 nomenclature. They agree that the import data reference period shall be 1999-2001.

Items to be decided

Participants with binding coverage less than [35] percent of their nonagricultural tariffs will bind [100] percent of these tariffs, instead of participating in the formula tariff reduction. These bindings are not to exceed the overall average of bound tariffs for all developing countries after full implementation of current concessions. The ministers direct the negotiating group to pursue possible tariff harmonization or elimination on a sectoral basis as well. The ministers agree that developing countries participants are to have longer implementation periods for tariff reductions, plus additional flexibility in implementing reductions through provisions not as yet finalized that would reserve some percent of these tariff lines from the reduction formula. The ministers agree that least developed countries are to be exempt from the formula as well as any sectoral tariff reductions or eliminations. Ministers are called upon to agree to duty- and quota-free market access for least developed countries for nonagricultural products by the year [tbd]. Developed countries are asked to consider elimination of low duty tariffs. The ministers agree on the importance of reducing nontariff barriers (NTBs), instruct participants to intensify their work on this matter, and encourage further notifications of NTBs, so as to facilitate request/offer, horizontal, and vertical negotiating approaches.

Annex C–Special and Differential Treatment

Annex C set out draft text regarding special and differential treatment for developing and least developed countries covering 27 separate items in the Uruguay Round Agreements and related decisions and rulings. The provisions addressed are found largely in the understandings on various GATT 1994 Articles (e.g. GATT Art. XVII, XVIII, XXXVI, XXXVII, and XXXVIII), several in the General Agreement on Trade in Services (GATS Art. IV, XXV, and the telecommunications annex), several in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs Art. 66.2, 67, and 70.9), and a number concerning the Ministerial Decision on measure in favor of least developed countries (par. 2 and 3).

Annex D–Transparency in Government Procurement

Members would agree that the first meeting of the Trade Negotiating Committee after the Cancun ministerial meeting would establish a Negotiating Group on Transparency in Government Procurement and appoint a chairman. Negotiations on a multilateral agreement on transparency in government procurement would be based the Doha declaration, paragraph 26,[2] and would build on the progress attained in the Working Group on Transparency in Government Procurement. Members would reaffirm that any negotiations would not restrict the scope of countries to give preferences to domestic supplies and suppliers, but would be limited merely to the transparency of awards in government procurement matters. No prior judgment would be assumed regarding coverage of transactions beyond goods (such as services) or central government procurement (such as subcentral or municipal government procurement); applicability of the WTO Dispute Settlement Understanding; and only procurement above certain value thresholds would be negotiated. Developing and least developed countries would receive special consideration concerning their development priorities.

[2] Paragraph 26 of the Doha declaration reads:
"26. Recognizing the case for a multilateral agreement on transparency in government procurement and the need for enhanced technical assistance and capacity building in this area, we agree that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations. These negotiations will build on the progress made in the Working Group on Transparency in Government Procurement by that time and take into account participants' development priorities, especially those of least-developed country participants. Negotiations shall be limited to the transparency aspects and therefore will not restrict the scope for countries to give preferences to domestic supplies and suppliers. We commit ourselves to ensuring adequate technical assistance and support for capacity building both during the negotiations and after their conclusion."

Annex E–Trade Facilitation

Members would agree that the first meeting of the Trade Negotiating Committee after the Cancun ministerial meeting would establish a Negotiating Group on Trade Facilitation and appoint a chairman. Negotiations would aim to clarify and improve relevant aspects of GATT Articles V, VIII, and X so as to improve the movement, release, and clearance of goods including goods in transit. Developing and least developed countries would receive special consideration concerning their implementation capacities, and could receive technical assistance in this area.

Mexican Farmers Against U.S. Imports: An Update

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202-205-3261

A December 2003 World Bank report[2] *concluded that the North American Free Trade Agreement (NAFTA) had a positive impact on Mexican agriculture–a conclusion reached by some other analysts, including Mexican ones. Yet, the Mexican Government continues to erect barriers against agricultural imports to appease farmers, who blame NAFTA for widespread rural poverty.*

For quite some time, issues of agricultural trade have dominated U.S.-Mexican trade relations.[3] During the first decade of the North American Free Trade Agreement (NAFTA), tariffs in mutual trade have been gradually reduced for agricultural products, as they have for products of other sectors. All tariffs, including those on most agricultural products, were eliminated on January 1, 2003.[4] Angered by the disappearance of tariff protection, and by the U.S. farm bill[5] signed into law in May 2002, which granted new subsidies to U.S. farmers, Mexican growers and ranchers have been pressuring their government to renegotiate the agricultural portion of NAFTA. Mexico also emerged as a major actor in the worldwide debate about the agricultural exports of rich countries and their adverse impact on the exports of poorer countries.

Although Mexican farmers benefit from government subsidies, they argue that they have been devastated by competition from imports from the United States because they consider U.S. farmers to enjoy greater subsidies than they do. The Mexican farmers' perception of NAFTA's negative effect on Mexican agriculture has been quickly adopted by other anti-NAFTA groups, causing an estimated 32 percent of the Mexican public to share this anti-NAFTA belief.[6]

Several analysts however, some in Mexico, disagree with this view. These detractors argue that NAFTA is not to blame for the country's widespread rural poverty, which has other deep-seated historical causes–most significantly small farm size, and a tenuous land ownership system (both known generally as characteristics of Mexico's *ejido* system).[7] These analysts further cite statistics, which show that Mexican agricultural production and trade has actually benefitted from NAFTA, as has agricultural production and trade of the other partners–the United States and Canada.[8] Notably, the World Bank's December 2003 report says:

"Our main conclusion is that liberalization of agricultural trade under NAFTA has already been substantial. However, this liberalization has not had the devastating effects on Mexican agriculture as a whole and has not had the negative effects on poor subsistence farmers in particular."[9]

[1] The author is an international economist in the Country and Regional Analysis Division of the U.S. International Trade Commission, Office of Economics. The views expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission (USITC) as a whole or of any individual Commissioner.

[2] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin American and Caribbean (LAC) Countries: A Summary of Research Findings*, Office of the Chief Economist for Latin America and Caribbean, the World Bank, December 2003, advance edition, found at Internet address *http://lnweb18.worldbank.org/LAC/LAC.nsf/*, retrieved Dec. 17, 2003.

[3] See also Magdolna Kornis, "Mexican Farmers Demand Protection Against Imports of U.S. Agricultural Products," U.S. International Trade Commission, *International Economic Review*, May/June 2003.

[4] The few remaining tariffs are scheduled to be phased out by Jan. 1, 2008.

[5] The Farm Security and Rural Investment Act, Pub. L. 107-171.

[6] Results of a public opinion poll published in *Reforma*, Feb. 1, 2003.

[7] Kornis, *op. cit.*

[8] Abel Perez Zamorano, *Reforma*, Dec. 30, 2002, and Sergio Sarmiento, "Mexico Alert," Center for Strategic and International Studies, *Hemispheric Focus*, Mar. 4, 2003, and testimony of Sergio Sarmiento before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

[9] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin American and Caribbean (LAC) Countries: A Summary of Research Findings*, Office of the Chief Economist for Latin America and Caribbean, the World Bank, December 2003, advance edition, found at Internet address *http://lnweb18.worldbank.org/LAC/LAC.nsf/*, retrieved Dec. 17, 2003, p. 95.

The report states that, overall, NAFTA had a positive impact on Mexican agriculture for three principal reasons: (1) growth of demand allowed Mexican agricultural production and imports to rise simultaneously during the NAFTA years of the 1990s; (2) land-productivity of Mexican farm lands increased in some segments of farming, and (3) the effectiveness of Mexican agricultural subsidies and income supports also increased in some segments of farming, due to the reforms implemented during the NAFTA years.[10]

Some other analysts contend that subsistence farmers dedicated to traditional crops–including corn, barley, and beans–did experience disruptions during the NAFTA period, but these resulted largely from the failure of Mexican institutions and individuals to make the necessary adjustments over the transition period provided by NAFTA.[11]

Yet, the strong and sometimes violent protests of Mexican farmers and their allies attacking NAFTA, and the persistent widespread poverty of rural communities in the country forced the Government of Mexico to respond positively to the farmers' demands. Although rejecting the call for renegotiating NAFTA, the Mexican Government accelerated instituting an array of measures designed to protect domestic agriculture, including a sometimes questionable use of antidumping measures, sometimes inconsistent enforcement of sanitary and phytosanitary standards, and irregular compliance with customs procedures. During 2003, significant quantities of imports from the United States had been rejected by the Mexican Secretariat of Agriculture at the border.[12]

Early in 2003, the government amended Mexico's foreign trade law, which now contains modifications of the country's antidumping and countervailing duty laws.[13] Still other measures that have the effect of restricting agricultural imports are under consideration. In addition to stepped-up trade protection, the government provided new subsidies to Mexican farmers and rural communities.[14]

[10] Ibid., pp. XIV and XV.
[11] Abel Perez Zamorano, *Reforma*, Dec. 30, 2002, and Sergio Sarmiento, "Mexico Alert," Center for Strategic and International Studies, *Hemispheric Focus*, Mar. 4, 2003, and testimony of Sergio Sarmiento before the U.S. Senate, Committee on Finance on Sept. 23, 2003. See also Kornis, *op. cit.*
[12] USTR, "Input for 2004 National Trade Estimate: Mexico," Dec. 3, 2003.
[13] Ibid.
[14] Ibid.

Mexico's "National Agreement on Agriculture"

On April 28, 2003, Mexican President Vicente Fox signed a "National Agreement on Agriculture (NAA)."[15] This accord was a follow-up to the "Agricultural Armor Package" announced in November 2002. NAA was the first framework accord between the government and farmers in the NAFTA era that contained various programs in support of farmers and rural communities. In the area of international trade, major provisions of the NAA included the following:

- The Government of Mexico (GOM) and agricultural producer groups will conduct a joint evaluation of the NAFTA agricultural chapter and its effect on Mexico's rural sector.
- The GOM and agricultural producer groups will conduct a joint study of the U.S. farm bill.
- The GOM will address the continued use of agricultural subsidies by the United States and Canada since the implementation of the NAFTA; the GOM will consider applying all available defense mechanisms as provided for in the NAFTA. In addition, the GOM will seek consultations with the United States and Canada to consider the addition of new articles and annexes to NAFTA to address existing agricultural asymmetries.
- The GOM will create an office of trade investigations that will work with producer groups to monitor imports for unfair trade practices.
- The GOM will put Mexico forward as a developing country under the provisions of the World Trade Organization (WTO) and propose the immediate elimination of export and internal subsidies that distort international trade. In addition, the GOM will reserve the right to reintroduce tariffs and quantitative restrictions for reasons of national sovereignty and security.[16]

[15] *Acuerdo Nacional Para El Campo (ANC)*, Apr. 28, 2003.
[16] U.S. Department of Agriculture, Foreign Agricultural Service, "Government of Mexico Signs National Agreement on Agriculture," Global Agriculture Information Network (GAIN) Report, GAIN Report no. MX3067, May 9, 2003, found at Internet address, *http://www.fas.usda.gov/gain-files/200305/145885555.pdf*, retrieved Nov. 29, 2003.

Antidumping Probes, Orders, and Related Taxes

Still-unresolved agricultural issues that began as notable antidumping cases include high fructose corn syrup (HFCS), a U.S. sweetener on which antidumping duties were first imposed by Mexico in 1998. These duties were ruled illegal by both the WTO and NAFTA.[17] Although the Mexican Government ultimately removed the duties, as directed, it levied a 20-percent consumer tax on soft drinks sweetened with HFCS (commonly known as the "soda tax") in December 2001, thereby effectively banning imports of soft drinks from the United States.[18] The Fox Administration proposed the elimination of this tax in its economic package submitted to Mexico's Congress on November 6, 2003. However, at the time of this writing, the tax is still in effect.

Other antidumping orders that affect or threaten to affect U.S. agricultural exports to Mexico involve pork, certain beef, long grain white rice, and apples. Mexico initiated an antidumping investigation on U.S. pork on January 7, 2003–an action that, according to some U.S. leaders, is in violation of WTO rules.[19] In the words of Mexican economist Sergio Sarmiento: "My impression is that Mexico does not stand on solid grounds in this legal action, but the government seems to be buying time for Mexican pork producers."[20]

In April 2002, the Mexican Government imposed definitive duties on U.S. beef and, in June 2002, on U.S. long grain white rice.[21] In June 2003, the United States requested joint WTO consultations with respect to the antidumping duties on beef and rice.[22] Because these consultations which were held in July and August 2003 failed, the United States requested the formation of a WTO dispute settlement panel on rice in September.[23] In November 2003, the World Trade Organization established a dispute settlement panel to review the U.S. challenge to Mexico's antidumping order on rice.[24] A U.S. request of a WTO dispute panel may follow on beef too.[25] Mexico's antidumping duties on beef had been challenged by several U.S. beef exporters under NAFTA as well.[26] A safeguard action was reportedly also under consideration by the GOM against beef imports from the United States at the request of the Mexican beef industry.

During 2002, Mexico's Secretary of the Economy reactivated a 1997 preliminary antidumping order on imports of golden delicious and red delicious apples from the United States.[27] By ordering antidumping duties once again, the Mexican Government revoked a suspension agreement that was in effect,[28] reinstating actions based on investigations that may not have been carried out in accordance with WTO rules.[29] The U.S. industry has been engaged since 2002 with negotiating a new suspension agreement.

Protective Action on Other Sensitive Products

Imports of corn and beans, both staples in the country's diet and the principal products of subsistence farmers, have been especially responsible for the Mexican public's anti-NAFTA sentiment. Yet, according to the World Bank, even poor subsistence farmers have not suffered from NAFTA. The World Bank's previously cited report bases this conclusion on comparing Mexico's production and imports of traditional crops (including corn and beans) before and during the NAFTA years. Their data show that

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[17] See USITC, *The Year in Trade, 2000: OTAP,* Publication 3428, June 2001, pp. 4-17 to 4-18; USITC, *The Year in Trade, 2001: OTAP,* Publication 3510, May 2002, pp. 5-16 to 5-17; USITC, *The Year in Trade, 2002: OTAP,* Publication 3630, August 2003, pp. 5-15 to 5-17.

[18] USITC, *The Year in Trade, 2002: OTAP,* Publication 3630, August 2003, pp. 5-15 to 5-17.

[19] Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003. Conversely, on May 23, 2003, Mexico eliminated compensatory duties on the imports of live hogs for slaughter from the United States. *Diario Oficial*, May 23, 2003.

[20] Testimony of Sergio Sarmiento before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

[21] *Diario Oficial*, June 5, 2002.

[22] World Trade Organization, "Mexico—Definitive Anti-dumping Measures on Beef and Rice, Request for Consultations by the United States," June 23, 2003 (WT/DS295/1).

[23] World Trade Organization, "Mexico – Definitive Anti-dumping Measures on Beef and Rice, Request for the Establishment of a Panel," Sept. 22, 2003 (WT/DS295/2).

[24] USTR, "WTO Establishes Dispute Panel in U.S. Challenge to Mexican Antidumping Order on Rice," press release 2003-71, Nov. 7, 2003.

[25] Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

[26] Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

[27] U.S. Department of Agriculture, Foreign Agricultural Service, "Mexico Reimposes Antidumping Duty on U.S. Apples," *FAS Online*, Aug. 16, 2002, found at Internet address *http://www.fas.usda.gov/*, retrieved Nov. 14, 2002; "Mexico Sets Antidumping Duties of 46.58 Percent on U.S. Apple Imports," *BNA-International Trade Daily*, Aug. 13, 2002.

[28] See USITC, *The Year in Trade, 2002: OTAP,* Publication 3630, August 2003, p. 5-14.

[29] See more detail in USITC, *The Year in Trade, 1999: OTAP,* Publication 3336, August 2000, p. 5-14.

Mexican production of these crops has grown during the NAFTA period recorded (1994-2000) and, despite simultaneously rising imports, has reached higher levels than attained before NAFTA. Notably, the World Bank reached this conclusion especially with respect to the production of nonirrigated corn farms, the type which encompasses the poor "*ejidatario*"[30] subsistence farms.[31]

During the NAFTA years of 1994-2002, the Mexican Government applied tariff-rate quotas (TRQs), as authorized under NAFTA, for sensitive products including corn, barley, and dry beans. The use of TRQs meant that Mexico had not levied any tariffs on imports within these quotas, but levied high rates of tariffs on over-quota imports. However, because the amounts of domestic crops had been insufficient in Mexico due to drought and other causes, the GOM responded to unmet demand by gradually enlarging the TRQs.

Yet, the argument of insufficient domestic supply has not reconciled Mexican farmers with rising imports. They continue to object to low-priced imports from the United States and Canada on grounds that such imports drive down prices, sometimes reportedly below their cost, making their farms unprofitable.[32] The farmers' anger was fueled especially following the enactment of the U.S. farm bill in May 2002–the Farm Security and Rural Investment Act. After this date Mexican farmers began to attribute the low prices of U.S. exports primarily to the subsidies enjoyed by U.S. farmers.

This view of Mexican farmers is shared to some extent by notable U.S. economists. For example, Joseph Stiglitz, former chairman of the U.S. President's Council of Economic Advisors as well as one-time chief economist for the World Bank, said: "...poor Mexican farmers face an uphill battle competing with highly subsidized American corn, while relatively better-off Mexican city dwellers benefit from lower corn prices."[33] The Government of Mexico began to respond to the farmers' complaints in 2002, for example, by blocking imports of dry beans through the country's sometimes unpredictable import permit system.[34] In 2003, the NAA promised the suspension of import permits for white corn, except in times of short supply, which was to be defined in consultation with producer groups based on prevailing supply and demand conditions. The NAA further called for consultations by the Government of Mexico with the United States and Canada to establish a permanent import control mechanism for white corn and beans.[35]

Mexican Support Measures

The farmers' objection to U.S. farm subsidies prompted the Mexican Government to provide for new support measures in Mexico as well. On September 15, 2003, the Secretariat of Agriculture (*SAGARPA*) announced specific guidelines establishing mechanisms to provide support for producers of corn, wheat, sorghum, barley, beans, cotton, and some other products.[36] These were based on the general "Operational Regulations" that *SAGARPA* published on June 17, 2003, designed to provide price certainty to farmers. However, since a much larger part of the Mexican population is involved in farming than in the United States, Mexico cannot begin to match the size of U.S. subsidies per farmer.

United States Actions

The United States Government has been proactive in trying to dispel the myths on the negative impact on Mexico of NAFTA's agricultural portion and of the 2002 U.S. farm bill. Already during 2002, as tensions began to build in the Mexican farming community before the elimination of most tariffs on January 1, 2003, Robert Zoellick, the United States Trade Representative, and Ann Veneman, Secretary of the U.S. Department of Agriculture, created a Consultative

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[30] *Ejidatarios* are farmers on *ejidos*, which are semicollective plots of farm land that were distributed by the Mexican government as part of the agrarian reform of 1917. These farms are very small, and lack full property rights. They are characterized by low-level improvement of land and investment in farm equipment, with resulting low productivity.

[31] Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin American and Caribbean (LAC) Countries: A Summary of Research Findings*, Office of the Chief Economist for Latin America and Caribbean, the World Bank, December 2003, advance edition, found at Internet address *http://lnweb18.worldbank.org/LAC/LAC.nsf/*, retrieved Dec. 17, 2003, pp. 103-104, figure 5.

[32] "Corn Growers Demand Fair Prices," *El Financiero*, Nov. 17, 2003, referred to by U.S. Department of Agriculture, Foreign Agricultural Service, *Gain Report, #MX* 3160, Nov. 25, 2003.

[33] Joseph E. Stiglitz, "The Broken Promise of NAFTA," *The New York Times*, Jan. 6, 2004.

[34] Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

[35] *Acuerdo Nacional Para El Campo (ANC)*, Apr. 28, 2003.

[36] U.S. Department of Agriculture, Foreign Agricultural Service, "Weekly Highlights & Hot Bites, Issue #46," Global Agriculture Information Network (GAIN) Report no. MX3134, Oct. 9, 2003, found at Internet address *http://www.fas.usda.gov/gainfiles/200310/145986346.pdf*, retrieved Oct. 10, 2003.

Committee with their Mexican counterparts to "resolve trade irritants, especially during Mexico's transition to duty-free trade."[37]

Despite U.S. efforts to help in resolving the problems, and despite some progress made in bilateral consultations, concerns in the U.S. Government about Mexican unilateral trade restrictions have mounted. On September 23, 2003, the U.S. Senate Committee on Finance held a hearing on Mexican barriers imposed on U.S. agricultural exports and the harm they have caused to U.S. interests. On October 6, several members of the committee, led by Chairman Sen. Chuck Grassley, sent a letter to Mexican officials[38] which, in referring to testimony obtained during the hearing, says:

> "While each of these industries is unique, they all share a common complaint–the Government of Mexico appears to be engaging in a systematic practice designed to stop their exports from entering the Mexican market. The persistent pattern not only hurts U.S. agriculture, but also undermines our strong trade relationship, harms Mexican consumers, and could have a chilling effect on investment in Mexico."[39]

[37] Testimony of Amb. Allen Johnson, Chief Agricultural Negotiator of the U.S. Trade Representative, before the U.S. Senate, Committee on Finance on Sept. 23, 2003.

[38] U.S. Senate, Committee on Finance, Sen. Chuck Grassley of Iowa, Chairman, *Press Release*, Oct. 6, 2003. The letter went to Ernesto Derbez, Foreign Minister; Fernando Canales, Secretary of the Economy; and Javier Bernardo Usabiaga Arroyo, Secretary of Agriculture.

[39] Letter of Sen. Chuck Grassley of Iowa, Chairman, U.S. Senate, Committee on Finance, of Oct. 6, 2003.

U.S. TRADE DEVELOPMENTS

Recent Developments

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U.S. International Trade in Goods and Services

The U.S. Department of Commerce reported that seasonally adjusted exports of $90.4 billion and imports of $132.8 billion in December 2003 resulted in a goods and services deficit of $42.5 billion, $4.1 billion more than the $38.4 billion deficit in November 2003. December 2003 exports of $90.4 billion were $0.2 billion less than November exports of $90.6 billion.[2] December 2003 imports of about $132.9 billion were $3.9 billion more than November imports of $128.9 billion.

December 2003 merchandise exports decreased by about $0.8 billion to $62.9 billion, from November exports of $63.7 billion. Merchandise imports increased by about $3.4 billion to $111.1 billion from November 2003 imports of $107.7 billion. The merchandise trade deficit increased by about $4.2 billion in December 2003 to $48.2 billion from $43.9 billion in November.

For services, exports increased by about $0.6 billion to $27.4 billion in December 2003 from $26.8 billion in November. Imports of services increased to $21.7 billion in December 2003 from $21.3 billion in November. The services trade surplus in December 2003 rose to $5.9 billion from $5.6 billion in November 2003.

Changes in merchandise exports from November to December 2003 reflected increases in industrial supplies and materials ($0.6 billion); and automotive vehicles, parts and engines ($0.3 billion). Decreases occurred in capital goods ($1.2 billion); foods, feeds, and beverages ($0.3 billion); and consumer goods ($0.2 billion). The statistical category "other goods" was virtually unchanged. The November to December 2003 change in imports of goods reflected increases in industrial supplies and materials ($1.3 billion); capital goods ($1.2 billion); automotive vehicles, parts, and engines ($0.5 billion); consumer goods ($0.4 billion); and foods, feeds, and beverages ($0.1 billion). The "other goods" statistical category was virtually unchanged. Additional information on U.S. trade developments in agriculture and specified manufacturing sectors during January-December 2003 is highlighted in tables 1 and 2, and figures 1 and 2. Services trade developments are highlighted in table 3.

In December 2003, exports of advanced technology products were around $16.7 billion and imports of the same were about $20.1 billion, resulting in a deficit of $3.4 billion, about $1.5 billion more than the November deficit of $1.9 billion. Exports of these products in December 2003 of $16.7 billion were virtually the same as those recorded in November. But imports of advanced technology products of $20.1 billion in December 2003 were about $1.6 billion more than the $18.6 billion imports in November.

The December 2003 trade data showed U.S. surpluses with the following countries (preceding month in parentheses): Australia, $0.5 billion ($0.5 billion in November 2003); Hong Kong, $0.7 billion ($0.5 billion); Egypt, $0.1 billion ($0.1 billion). Deficits were recorded in December 2003 with China, $9.9 billion ($10.8 billion); Western Europe, $11.1 billion ($7.8 billion); Canada, $4.4 billion ($4.3 billion); Japan, $5.7 billion ($5.7 billion); OPEC member countries, $4.6 billion ($3.9 billion); Mexico

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[2] Data for this article were taken largely from the U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Trade in Goods and Services," October 2003, BEA-04-02, FT-900 (03-11), Jan. 14, 2004, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*, retrieved on Jan. 14, 2004.

Table 1
U.S. trade in goods and services, seasonally adjusted, November 2003 to December 2003

Item	Exports December 2003	Exports November 2003	Imports December 2003	Imports November 2003	Trade balance December 2003	Trade balance November 2003
			Billion dollars			
Trade in goods[1] (see note)						
Including oil	62.9	63.7	111.1	107.7	-48.2	-43.9
Excluding oil	62.6	63.5	99.8	97.1	-37.2	-33.5
Trade in services[1]	27.4	26.8	21.7	21.3	5.7	5.6
Trade in goods and services[1] . . .	90.4	90.6	132.8	128.9	-42.5	-38.4
Trade in goods[2]	62.2	63.0	113.0	109.9	-50.8	-46.8
Advanced technology products[3]	16.7	16.7	20.1	18.6	-3.4	-1.9

[1] Current dollars (balance-of-payments basis).
[2] Constant 1996 dollars (Census Bureau basis).
[3] Not seasonally adjusted.

Note.—Data on trade in goods in current dollars are presented on a balance-of-payments (BOP) basis that reflects adjustments for timing, coverage, and valuation of data compiled by the U.S. Treasury Department, Census Bureau. The major adjustments on a BOP basis exclude military trade, but include nonmonetary gold transactions and estimates of inland freight in Canada and Mexico that are not included in the Census Bureau data. Data may not add to totals due to rounding.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 1, 9, 10, and 16, FT-900 release of Feb. 13, 2004, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*.

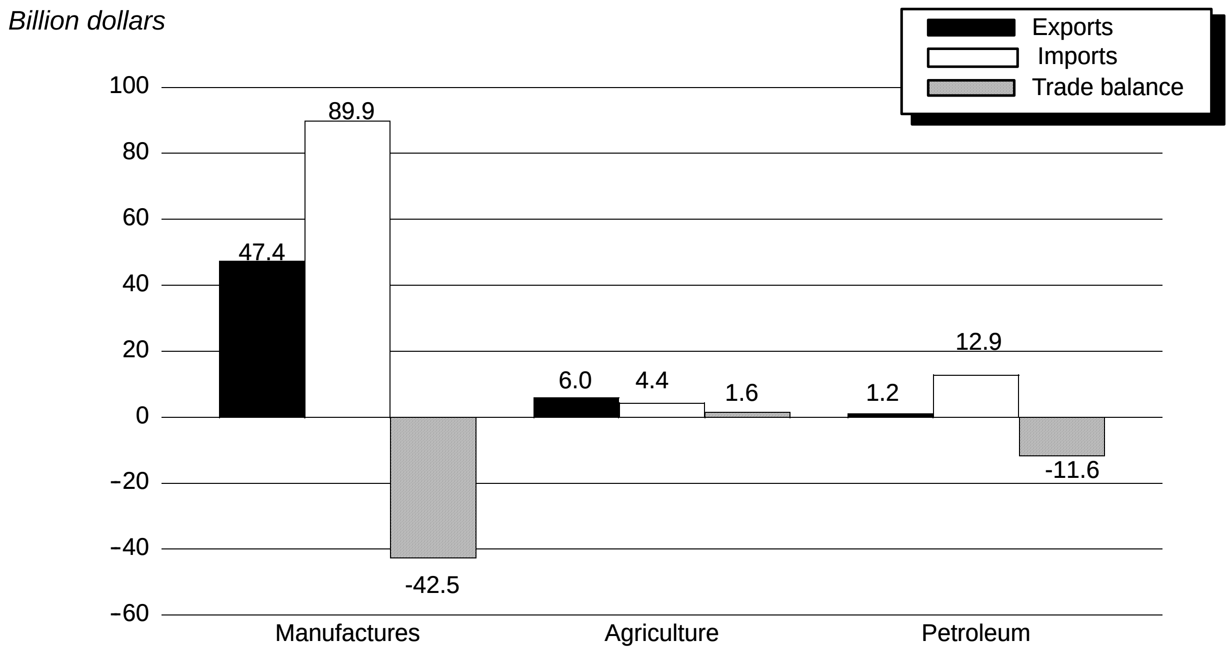
Table 2
Nominal U.S. exports, imports, and trade balances, agriculture and specified manufacturing sectors, January 2002 to December 2003

Manufacture sector	Exports			Imports			Trade balance		Change in exports, Jan.-Dec. 2003 over Jan.-Dec. 2002	Change in trade balance, Jan.-Dec. 2003 over Jan.-Dec. 2002
	Dec. 2003	Jan.-Dec. 2003	Jan.-Dec. 2002	Dec. 2003	Jan.-Dec. 2003	Jan.-Dec. 2002	Jan.-Dec. 2003	Jan.-Dec. 2002		
	Billion dollars								*Percent*	
ADP equipment & office machinery	3.0	28.9	30.4	7.7	80.8	76.9	-52.0	-46.5	-5.0	11.8
Airplane parts	1.2	14.5	14.3	0.4	4.5	5.0	10.0	9.3	1.5	7.8
Airplanes	2.0	23.4	27.1	1.5	12.3	12.3	11.1	14.8	-13.6	-25.0
Chemicals - inorganic	0.4	5.6	5.5	0.7	7.4	6.0	-1.8	-0.6	2.1	232.5
Chemicals - organic	1.9	20.1	16.4	3.1	32.9	30.4	-12.8	-14.0	22.5	-8.5
Electrical machinery	6.0	69.8	66.9	7.1	82.4	81.2	-12.7	-14.2	4.2	-10.9
General industrial machinery	2.5	30.1	30.1	3.3	38.5	35.2	-8.4	-5.1	0.1	63.0
Iron & steel mill products	0.5	6.3	5.3	0.9	11.1	13.0	-4.8	-7.7	19.3	-37.1
Power-generating machinery	2.8	31.5	32.4	2.7	32.5	33.9	-1.0	-1.5	-2.9	-33.6
Scientific instruments	2.6	28.0	27.1	2.1	23.7	20.9	4.3	6.2	3.4	-30.1
Specialized industrial machinery	2.0	23.4	23.5	2.0	20.8	18.4	2.5	5.1	-0.7	-50.7
Televisions, VCRs, etc.	1.6	16.9	19.4	6.9	71.1	66.2	-54.3	-46.8	-13.0	15.9
Textile yarn and fabric	0.8	10.5	10.3	1.5	17.3	16.1	-6.8	-5.8	1.9	16.6
Vehicles	4.9	60.5	57.7	15.5	172.6	168.1	-112.1	-110.4	4.9	1.5
Other manufactures, not included above	15.4	187.5	178.6	34.5	419.5	391.1	-232.0	-212.5	-22.6	-143.6
Manufactures	47.4	556.8	544.9	89.9	1027.4	974.6	-470.6	-429.7	2.2	9.5
Agriculture	6.0	59.5	53.1	4.4	47.4	42.0	12.1	11.1	12.0	8.8
Other goods, not included above	9.7	107.7	95.1	15.2	184.9	144.8	-77.2	-49.7	13.3	55.4
Total (Census basis)	63.1	724.0	693.1	109.5	1259.7	1161.4	-535.7	-468.3	4.5	14.4

Note.—Data on trade in manufactures are presented on a Census Bureau basis. Data may not add to totals due to rounding.

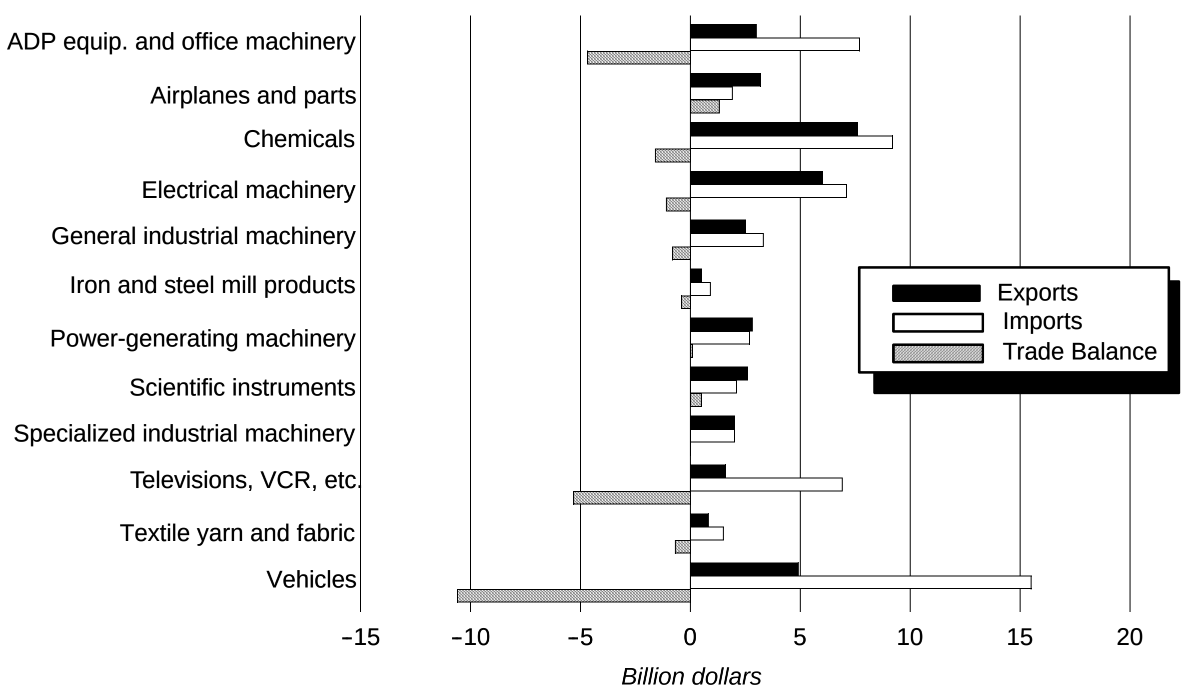
Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Feb. 13, 2004, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*.

Figure 1
U.S. trade by major commodity, December 2003



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Feb. 13, 2004.

Figure 2
U.S. trade in principal goods, December 2003



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Feb. 13, 2004.

Table 3
Nominal U.S. exports, imports, and trade balances of services, by sectors, January 2002 to December 2003, seasonally adjusted

Service sector	Exports		Imports		Trade balance		Change in exports Jan.-Dec. 2003 over Jan.-Dec. 2002	Change in imports Jan.-Dec. 2003 over Jan.-Dec. 2002
	Jan.-Dec. 2003	Jan.-Dec. 2002	Jan.-Dec. 2003	Jan.-Dec. 2002	Jan.-Dec. 2003	Jan.-Dec. 2002		
	Billion dollars						*Percent*	
Travel	65.8	66.5	57.0	58.0	8.8	8.5	-1.2	-1.8
Passenger fares	15.7	17.0	20.6	20.0	-4.9	-2.9	-8.0	3.0
Other transportation services	31.7	29.2	44.9	38.5	-13.2	-9.4	8.7	16.5
Royalties and license fees	48.1	44.1	19.2	19.3	28.9	24.9	8.9	-0.3
Other private sales	130.0	122.6	76.4	69.4	53.6	53.2	6.1	10.1
Transfers under U.S. military sales contracts	12.7	11.9	23.7	19.2	-11.0	-7.3	6.4	23.1
U.S. Government miscellaneous services	0.8	0.8	3.0	2.9	-2.2	-2.1	2.0	2.9
Total	304.8	292.2	244.8	227.4	60.0	64.8	4.3	7.6

Note.—Data on trade in services are presented on a balance-of-payments basis. Data may not add to totals due to rounding and seasonal adjustments.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 3 and 4, FT-900 release of Feb. 13, 2004, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*.

$3.1 billion ($3.0 billion); Taiwan, $0.8 billion ($1.1 billion); Korea, $1.4 billion ($1.2 billion); and Brazil, $0.5 billion ($0.4 billion).

In January-December 2003, exports of goods and services were $1,018.6 billion, about $44.5 billion higher than January-December 2002 exports of $974.1 billion. Imports of goods and services were $1,507.9 billion, about $115.8 billion higher than January-December 2002 imports of $1,392.1 billion. The trade deficit was about $489.4 billion, $74.1 billion higher than the January-December 2002 deficit of $418.0 billion.

The December 2002 to December 2003 change in exports of goods reflected increases in industrial supplies and materials ($1.6 billion); capital goods ($3.5 billion); foods, feeds, and beverages ($0.6 billion); consumer goods ($0.9 billion); and automotive vehicles, parts, and engines ($0.5 billion). A decrease of $0.1 billion occurred in the statistical category "other goods."

The December 2002 to December 2003 changes in imports of goods reflected increases in consumer goods ($1.7 billion); capital goods ($2.2 billion); industrial supplies and materials ($2.7 billion); automotive vehicles, parts, and engines ($1.0 billion); and foods, feeds and beverages ($0.4 billion). A decrease occurred in the "other goods" statistical category ($0.1 billion).

The January-December 2003 trade data show surpluses with Belgium, $5.1 billion (for January-December 2002, $3.3 billion); the Netherlands, $9.7 billion ($8.5 billion); Hong Kong, $4.7 billion ($3.3 billion); Australia, $6.7 billion ($6.6 billion); Singapore, $1.4 billion ($1.4 billion); and Egypt, $1.5 billion ($1.5 billion). Deficits were recorded with Canada, $54.4 billion ($48.2 billion); Mexico, $40.6 billion ($37.2 billion); Western Europe, $101.3 billion ($88.9 billion); the euro area, $75.4 billion ($66.7 billion); European Union, $94.3 billion ($82.1 billion); France, $12.2 billion ($9.2 billion); Germany, $39.2 billion ($35.9 billion); Italy, $14.9 billion ($14.2 billion); United Kingdom, $8.8 billion ($7.5 billion); EFTA, $6.0 billion ($6.3 billion); Pacific Rim countries, $230.0 billion ($214.9 billion); China, $124.0 billion ($103.1 billion); Japan, $66.0 billion ($70.0 billion); Korea, $12.9 billion ($13.0 billion); Taiwan, $14.1 billion ($13.8 billion); and OPEC, $51.0 billion ($34.4 billion). It should be noted that individual European countries shown here are also included in the euro area and in the European Union grouping. Likewise, individual Asian countries mentioned are also included in the Pacific Rim countries grouping. U.S. trade developments with major trading partners are highlighted in table 4.

U.S. International Transactions: Third Quarter 2003

Current Account

The U.S. current-account deficit–the combined balances on trade in goods and services, income, and net unilateral current transfers–decreased by $4.4 billion to $135.0 billion in the third quarter of 2003 from $139.4 billion in the second. A decrease in the deficit on goods, increases in the surpluses on services and on income, and a decrease in net outflows for unilateral current transfers all contributed to the decline in the current-account deficit, according to preliminary estimates of the Bureau of Economic Analysis of the U.S. Department of Commerce, table 5.

Goods and services

The deficit on goods and services decreased by about $2.9 billion to $121.3 billion in the third quarter from $124.2 billion in the second. The deficit on goods and services accounted for 90.0 percent of the current-account total deficit.

Goods. The deficit on goods decreased to $136.2 billion in the third quarter from $138.1 billion in the second. Goods exports increased to $177.9 billion from $174.2 billion. Agricultural and nonagricultural products both increased. Among nonagricultural products, the largest increase was in capital goods; consumer goods also increased. Goods imports increased to $314.1 billion from $312.3 billion. The increase was almost completely accounted for by an increase in petroleum and petroleum products, which was mainly due to the increase in petroleum prices. Among nonpetroleum products, increases in nonpetroleum industrial supplies and materials and in capital goods were largely offset by a decrease in automotive vehicles, engines, and parts.

Services. The surplus on services increased to $14.9 billion in the third quarter from $13.9 billion in the second. Services receipts increased to $76.8 billion from $73.2 billion. The increase was largely accounted for by increases in travel and passenger fare receipts; most other services categories also increased. Services payments increased to $61.9 billion from $59.3 billion. The increase was largely accounted for by increases in travel and passenger fare payments; most other services categories also increased.

Table 4
U.S. exports and imports of goods with major trading partners, January 2002-December 2003

Country/areas	Exports: Dec. 2003	Exports: Jan.-Dec. 2003	Exports: Jan.-Dec. 2002	Imports: Dec. 2003	Imports: Jan.-Dec. 2003	Imports: Jan.-Dec. 2002	Trade balance: Jan.-Dec. 2003	Trade balance: Jan.-Dec. 2002	Change in exports, Jan.-Dec. 2003 over Jan.-Dec. 2002	Change in imports, Jan.-Dec. 2003 over Jan.-Dec. 2002
	Billion dollars								*Percent*	
Total (Census basis)	63.1	724.0	693.1	109.5	1259.7	1161.4	-535.7	-468.3	4.5	8.5
North America	22.0	267.2	258.4	29.6	362.2	343.7	-95.0	-85.3	3.4	5.4
Canada	13.7	169.8	160.9	18.2	224.2	209.1	-54.4	-48.2	5.5	7.2
Mexico	8.3	97.5	97.5	11.4	138.1	134.6	-40.6	-37.1	0.0	2.6
Western Europe	13.9	164.9	157.0	25.0	266.2	246.0	-101.3	-88.9	5.0	8.2
Euro Area	9.6	111.9	105.8	17.8	187.3	172.6	-75.4	-66.7	5.7	8.5
European Union (EU-15)	12.8	150.5	143.7	23.1	244.8	225.8	-94.3	-82.1	4.8	8.4
France	1.5	17.1	19.0	2.9	29.2	28.2	-12.2	-9.2	-10.2	3.5
Germany	2.4	28.8	26.6	6.5	68.0	62.5	-39.2	-35.9	8.3	8.9
Italy	1.0	10.6	10.1	2.4	25.4	24.2	-14.9	-14.2	5.1	5.0
Netherlands	1.9	20.7	18.3	0.9	11.0	9.8	9.7	8.5	13.1	11.4
United Kingdom	2.8	33.9	33.2	3.8	42.7	40.7	-8.8	-7.5	2.1	4.7
Other EU	0.9	11.6	10.7	3.2	32.4	28.2	-20.8	-17.5	7.9	14.9
EFTA[1]	0.8	10.4	0.2	1.5	16.4	0.5	-6.0	-0.3	n.m.	n.m.
Eastern Europe/FSR[2]	0.7	7.1	6.6	1.5	18.3	14.9	-11.2	-8.3	7.8	23.0
Russia	0.2	2.4	2.4	0.7	8.6	6.9	-6.1	-4.5	2.2	25.2
Pacific Rim Countries	17.9	188.7	178.6	36.4	418.7	393.5	-230.0	-214.9	5.7	6.4
Australia	1.1	13.1	13.1	0.6	6.4	6.5	6.7	6.6	0.1	-1.0
China	3.3	28.4	22.1	13.2	152.4	125.2	-124.0	-103.1	28.4	21.7
Japan	4.5	52.1	51.4	10.2	118.0	121.4	-66.0	-70.0	1.2	-2.8
NICs[3]	6.8	71.7	69.8	8.4	92.6	91.8	-20.9	-22.1	2.8	0.8
Latin America	4.5	52.0	51.6	7.4	78.9	69.5	-26.8	-18.0	0.9	13.5
Argentina	0.3	2.4	1.6	0.3	3.2	3.2	-0.7	-1.6	53.6	-0.6
Brazil	1.1	11.2	12.4	1.6	17.9	15.8	-6.7	-3.4	-9.4	13.3
OPEC	1.6	17.3	18.8	6.2	68.4	53.2	-51.0	-34.4	-8.0	28.4
Other Countries	3.0	31.9	29.0	5.9	73.4	65.3	-41.5	-36.4	10.3	12.4
Egypt	0.2	2.7	2.9	0.1	1.1	1.4	1.5	1.5	-7.3	-15.6
South Africa	0.3	2.8	2.5	0.4	4.6	4.0	-1.8	-1.5	11.7	15.0

[1] The European Free Trade Area (EFTA) includes Iceland, Liechtenstein, Norway, and Switzerland.

[2] Former Soviet Republics (FSR).

[3] The newly industrializing countries (NICs) include Hong Kong, Korea, Singapore, and Taiwan.

Note.—Country/area figures may not add to totals due to rounding. Exports of certain grains, oilseeds, and satellites are excluded from country/area exports but included in total export table. Also, some countries are included in more than one area. Data are presented on a Census Bureau basis. “N.m.”=Not meaningful as a percentage change.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 14 and 14a, FT-900 release of Feb. 13, 2004, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*.

Table 5
U.S. International transactions, quarters seasonally adjusted

Account	2002	2003:Q1	2003:Q2	2003:Q3	2003:Q4	2004:Q1	2004:Q2	2004:Q3	Difference 2003:Q2 less :Q3
					Million dollars				
Current account									
Exports of goods and services and income receipts	1,229,649	297,074	307,616	313,939	311,015	310,278	311,794	322,014	10,220
Exports of goods and services	974,107	236,442	243,696	247,815	246,151	247,377	247,484	254,670	7,186
Goods, balance of payments basis	681,874	165,298	171,421	174,315	170,840	173,346	174,247	177,858	3,611
Services	292,233	71,144	72,275	73,500	75,311	74,031	73,237	76,812	3,575
Transfers under U.S. military agency sales contracts	11,943	2,785	2,751	3,418	2,989	2,827	3,014	3,381	367
Travel	66,547	16,295	16,030	16,217	18,005	16,089	14,543	16,569	2,026
Passenger fares	17,046	4,224	4,279	4,288	4,255	3,736	3,456	4,059	603
Other transportation	29,166	7,102	7,075	7,307	7,682	7,837	7,853	7,789	-64
Royalties and license fees	44,142	10,373	11,221	11,389	11,157	11,630	11,944	12,155	211
Other private services	122,594	30,170	30,720	30,681	31,022	31,710	32,225	32,656	431
U.S. Government miscellaneous services	795	195	199	200	201	202	202	203	1
Income receipts	255,542	60,632	63,920	66,124	64,864	62,901	64,310	67,344	3,034
Income receipts on U.S.-owned assets abroad	252,379	59,821	63,140	65,339	64,077	62,094	63,496	66,524	3,028
Direct investment receipts	142,933	32,058	34,874	37,264	38,735	37,508	39,635	42,400	2,765
Other private receipts	106,143	26,950	27,560	27,225	24,408	23,700	22,620	22,882	262
U.S. Government receipts	3,303	813	706	850	934	886	1,241	1,242	1
Compensation of employees	3,163	811	780	785	787	807	814	820	6
Imports of goods and services and income payments	-1,651,657	-387,864	-416,962	-422,666	-424,165	-431,716	-434,248	-440,736	-6,488
Imports of goods and services	-1,392,145	-326,499	-348,584	-354,795	-362,267	-369,006	-371,668	-375,987	-4,319
Goods, balance of payments basis	-1,164,746	-271,331	-292,707	-297,627	-303,081	-309,364	-312,335	-314,090	-1,755
Services	-227,399	-55,168	-55,877	-57,168	-59,186	-59,642	-59,333	-61,897	-2,564
Direct defense expenditures	-19,245	-4,394	-4,668	-4,990	-5,193	-5,674	-6,121	-5,900	221
Travel	-58,044	-14,453	-14,252	-14,314	-15,025	-14,168	-12,895	-14,464	-1,569
Passenger fares	-19,969	-4,874	-4,874	-4,829	-5,392	-4,960	-4,720	-5,335	-615
Other transportation	-38,527	-8,891	-9,580	-9,787	-10,271	-10,873	-11,249	-11,282	-33
Royalties and license fees	-19,258	-4,728	-4,902	-5,036	-4,592	-4,698	-4,697	-4,874	-177
Other private services	-69,436	-17,087	-16,876	-17,487	-17,984	-18,524	-18,902	-19,289	-387
U.S. Government miscellaneous services	-2,920	-741	-725	-725	-729	-745	-749	-753	-4
Income payments	-259,512	-61,365	-68,378	-67,871	-61,898	-62,710	-62,580	-64,749	-2,169
Income payments on foreign-owned assets in the United States	-251,108	-59,271	-66,246	-65,820	-59,771	-60,527	-60,461	-62,705	-2,244
Direct investment payments	-49,458	-8,134	-13,464	-15,350	-12,510	-15,431	-17,426	-18,419	-993
Other private payments	-127,735	-32,512	-33,773	-31,802	-29,648	-28,245	-26,769	-27,960	-1,191

Table 5—Continued
U.S. International transactions, quarters seasonally adjusted

Account	2002	2003:Q1	2003:Q2	2003:Q3	2003:Q4	2004:Q1	2004:Q2	2004:Q3	Difference 2003:Q2 less :Q3
					Million dollars				
U.S. Government payments	-73,915	-18,625	-19,009	-18,668	-17,613	-16,851	-16,266	-16,326	-60
Compensation of employees.	-8,404	-2,094	-2,132	-2,051	-2,127	-2,183	-2,119	-2,044	75
Unilateral current transfers, net	-58,853	-15,938	-13,481	-13,997	-15,436	-17,269	-16,940	-16,319	621
U.S. Government grants	-17,097	-6,397	-3,287	-3,075	-4,338	-5,813	-5,654	-5,309	345
U.S. Government pensions and other transfers	-5,125	-1,271	-1,279	-1,282	-1,292	-1,320	-1,335	-1,328	7
Private remittances and other transfers	-36,631	-8,270	-8,915	-9,640	-9,806	-10,136	-9,951	-9,682	269
Capital and financial account									
Capital account									
Capital account transactions, net	-1,285	-277	-286	-364	-358	-388	-1,553	-795	758
Financial account									
U.S.-owned assets abroad, net (increase/financial outflow (-))	-178,985	-35,227	-128,567	29,712	-44,902	-101,331	-112,818	-4,891	107,927
U.S. official reserve assets, net	-3,681	390	-1,843	-1,416	-812	83	-170	-611	-441
Gold	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Special drawing rights	-475	-109	-107	-132	-127	897	-102	-97	5
Reserve position in the International Monetary Fund	-2,632	652	-1,607	-1,136	-541	-644	86	-383	-469
Foreign currencies	-574	-153	-129	-148	-144	-170	-154	-131	23
U.S. Government assets, other than official reserve assets, net	-32	133	42	-27	-180	-70	427	530	103
U.S. credits and other long-term assets	-5,611	-853	-565	-1,375	-2,818	-2,578	-1,454	-1,515	-61
Repayments on U.S. credits and other long-term assets	5,684	994	566	1,452	2,672	2,472	1,955	2,027	72
U.S. foreign currency holdings and U.S. short-term assets, net	-105	-8	41	-104	-34	36	-74	18	92
U.S. private assets, net	-175,272	-35,750	-126,766	31,155	-43,910	-101,344	-113,075	-4,810	108,265
Direct investment	-137,836	-39,083	-35,459	-31,623	-31,670	-34,405	-29,863	-37,525	-7,662
Foreign securities	15,801	5,367	-5,843	21,641	-5,364	-27,146	8,654	-28,826	-37,480
U.S. claims on unaffiliated foreigners reported by:									
U.S. nonbanking concerns.	-31,880	-1,886	-16,210	-11,862	-1,922	-11,998	-19,101	22,206	41,307
U.S. claims reported by U.S. banks, not included elsewhere	-21,357	-148	-69,254	52,999	-4,954	-27,795	-72,765	39,335	112,100
Foreign-owned assets in the United States, net (increase/financial inflow (+))	706,983	146,813	221,242	141,478	197,448	242,004	262,819	128,200	-134,619
Foreign official assets in the United States, net	94,860	6,106	47,552	8,992	32,210	40,978	57,000	43,895	-13,105
U.S. Government securities	73,521	6,257	21,706	12,300	33,258	31,768	38,639	19,611	-19,028
U.S. Treasury securities	43,144	-1,039	15,138	1,415	27,630	22,288	35,349	16,271	-19,078
Other	30,377	7,296	6,568	10,885	5,628	9,480	3,290	3,340	50

Table 5—Continued
U.S. International transactions, quarters seasonally adjusted

Account	2002	2003:Q1	2003:Q2	2003:Q3	2003:Q4	2004:Q1	2004:Q2	2004:Q3	Difference 2003:Q2 less :Q3
					Million dollars				
Other U.S. Government liabilities	137	-597	365	464	-95	-437	-16	-41	-25
U.S. liabilities reported by U.S. banks, not included elsewhere	17,594	-280	24,575	-4,607	-2,094	8,321	17,628	22,879	5,251
Other foreign official assets	3,608	726	906	835	1,141	1,326	749	1,446	697
Other foreign assets in the United States, net	612,123	140,707	173,690	132,486	165,238	201,026	205,819	84,305	-121,514
Direct investment	39,633	10,607	-456	14,199	15,281	34,386	22,391	8,139	-14,252
U.S. Treasury securities	96,217	11,789	14,218	57,505	12,705	14,568	55,037	49,868	-5,169
U.S. securities other than U.S. Treasury securities	291,492	74,461	104,187	45,880	66,964	55,574	85,964	9,626	-76,338
U.S. currency	21,513	4,525	7,183	2,556	7,249	4,927	1,458	2,768	1,310
U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	72,142	46,771	24,610	-8,102	8,863	74,848	4,147	6,772	2,625
U.S. liabilities reported by U.S. banks, not included elsewhere	91,126	-7,446	23,948	20,448	54,176	16,723	36,822	7,132	-29,690
Statistical discrepancy (sum of above items with sign reversed)	-45,852	-4,581	30,438	-48,102	-23,602	-1,578	-9,054	12,527	21,581
Memoranda									
Balance on goods	-482,872	-106,033	-121,286	-123,312	-132,241	-136,018	-138,088	-136,232	1,856
Balance on services	64,834	15,976	16,398	16,332	16,125	14,389	13,904	14,915	1,011
Balance on goods and services	-418,038	-90,057	-104,888	-106,980	-116,116	-121,629	-124,184	-121,317	2,867
Balance on income	-3,970	-733	-4,458	-1,747	2,966	191	1,730	2,595	865
Unilateral current transfers, net	-58,853	-15,938	-13,481	-13,997	-15,436	-17,269	-16,940	-16,319	621
Balance on current account	-480,861	-106,728	-122,827	-122,724	-128,586	-138,707	-139,394	-135,041	4,353

Note.—"N.a." indicates not available.

Source: United States Department of Commerce, Bureau of Economic Analysis, U.S. International Transactions: Third Quarter 2003, BEA 03-51, Dec. 16, 2003, found at Internet address *http://www.bea.doc.gov/bea/newsrel/transnewsrelease.htm*, retrieved on Feb. 1, 2004.

Income

The surplus on income increased to $2.6 billion in the third quarter from $1.7 billion in the second due to the increase of income receipts on U.S. assets abroad over income payments on foreign assets in the United States.

Investment income

Income receipts on U.S.-owned assets abroad increased to $66.5 billion from $63.5 billion. The increase was mostly accounted for by an increase in direct investment receipts; "other" private receipts (which consist of interest and dividends) also increased. Income payments on foreign-owned assets in the United States increased to $62.7 billion from $60.5 billion. The increase was almost entirely accounted for by increases in "other" private payments (interest and dividends) and in direct investment payments.

Compensation of employees

Receipts for compensation of U.S. workers abroad were virtually unchanged at $0.8 billion. Payments for compensation of foreign workers in the United States decreased slightly to $2.0 billion from $2.1 billion.

Unilateral current transfers

Unilateral current transfers were net outflows of $16.3 billion in the third quarter, down from net outflows of $16.9 billion in the second.

Capital and Financial Account

Capital account

Capital account transactions were net outflows of $0.8 billion in the third quarter, down from net outflows of $1.6 billion in the second.

Financial account

Net recorded financial inflows–net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad–were $123.3 billion in the third quarter, down from $150.0 billion in the second. Financial inflows for foreign-owned assets in the United States declined more than financial outflows for U.S.-owned assets abroad.

U.S.-owned assets abroad

U.S.-owned assets abroad increased by $4.9 billion in the third quarter, compared with an increase of $112.8 billion in the second. U.S. claims on foreigners reported by U.S. banks decreased by $39.3 billion in the third quarter, in contrast to an increase of $72.8 billion in the second.

Transactions in foreign securities shifted to net U.S. purchases of $28.8 billion in the third quarter from net U.S. sales of $8.7 billion in the second. Net U.S. purchases of foreign stocks were $30.1 billion, up from $16.9 billion, and net U.S. sales of foreign bonds were $1.2 billion, down from $25.6 billion.

Net financial outflows for U.S. direct investment abroad were $37.5 billion in the third quarter, up from $29.9 billion in the second. A shift in inter-company debt to net outflows from net inflows and an increase in reinvested earnings more than offset a decrease in net equity capital outflows. U.S. official reserve assets increased by $0.6 billion in the third quarter, following an increase of $0.2 billion in the second.

Foreign-owned assets in the United States

Foreign-owned assets in the United States increased by $128.2 billion in the third quarter of 2003, compared with an increase of $262.8 billion in the second. U.S. liabilities to foreigners reported by U.S. banks increased by $7.1 billion in the third quarter, following an increase of $36.8 billion in the second.

Net foreign purchases of U.S. securities other than U.S. Treasury securities were $9.6 billion in the third quarter, down from $86.0 billion in the second. Transactions in U.S. stocks shifted to net foreign sales of $3.5 billion from net foreign purchases of $20.6 billion. Net foreign purchases of U.S. corporate bonds were $57.5 billion, down from $67.2 billion, and net foreign sales of federally sponsored agency bonds were $44.5 billion, up from $1.8 billion.

Net foreign purchases of U.S. Treasury securities were $49.9 billion in the third quarter, down from $55.0 billion in the second. Net financial inflows for foreign direct investment in the United States were $8.1 billion in the third quarter, down from $22.4 billion in the second. The decrease was more than accounted for by a shift in inter-company debt to net outflows from net inflows. In contrast, reinvested earnings and net equity capital inflows both increased.

Foreign official assets in the United States increased by $43.9 billion in the third quarter, following an increase of $57.0 billion in the second. Net U.S. currency shipments were $2.8 billion in the third quarter, up from $1.5 billion in the second.

The statistical discrepancy–errors and omissions in recorded transactions–was a positive $12.5 billion in the third quarter, compared with a negative $9.1 billion in the second. In the third quarter, the U.S. dollar was unchanged on a trade-weighted quarterly average basis against the Group of 7 (G-7) currencies.

INTERNATIONAL ECONOMIC COMPARISONS

U.S. Economic Performance Relative to Other Group of Seven (G-7) Members

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Economic Growth

The real gross domestic product (GDP) of the United States–the output of goods and services produced in the United States measured in 1996 prices–increased at an annual rate of 4.0 percent in the fourth quarter of 2003, compared with 8.2 percent growth in the third quarter, according to advance estimates by the U.S. Department of Commerce, Bureau of Economic Analysis.[2]

The deceleration in real GDP growth in the fourth quarter of 2004, primarily reflected decelerations in personal consumption expenditure, in equipment and software and in residential fixed investment that were partly offset by an upturn in inventory investment, and an acceleration in exports. Imports which are a subtraction in the calculation of GDP increased.

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[2] Data for this article were taken largely from the following sources: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product," BEA 04-04 series news release, found at Internet address *http://www.bea.gov/beahome.html*; Federal Reserve Board, "Industrial Production and Capacity Utilization," G.17 series news release, found at Internet address *http://www.federalreserve.gov/releases/G17/Current/*; U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Price Index," USDL-03 series news release, found at Internet address *http://www.bls.gov/news.release/cpi.nr0.htm*; U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," USDL-03 series news release, found at Internet address *http://www.bls.gov/news.release/empsit.nr0.htm.*

Real personal consumption expenditures, increased by 2.6 percent down from an increase of 6.9 percent in the third quarter. Of this expenditure category, durable goods purchases increased by only 0.9 percent, down from an increase of 28.0 percent in the third; and nondurable goods increased by 4.4 percent, down from an increase of 7.3 percent in the third quarter. Services expenditure increased by 2.1 percent compared with an increase of 2.8 percent in the third quarter. Real nonresidential fixed investment, increased by 6.9 percent in the fourth quarter down from an increase of 12.8 percent in the third quarter. Nonresidential structures decreased by 3.0 percent, compared with an increase of 1.8 percent in the third quarter; equipment and software, increased by 10.0 percent down from an increase of 17.6 percent in the third quarter; and real residential fixed investment increased by 10.6 percent down from an increase of 21.9 percent in the third quarter. In contrast, real exports of goods and services increased by 19.1 percent in the fourth quarter up from 9.9 percent increase in the third quarter; and real imports of goods and services, increased by 11.3 percent up from an increase of 0.8 percent in the third quarter.

Real federal government consumption expenditures and gross investment played a less pronounced role in the GDP rise in the fourth quarter of 2003, increasing by only 0.7 percent compared with an increase of 1.1 percent in the third quarter of 2003.

The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased by 1.0 percent in the fourth quarter of 2003 compared with an increase of 1.8 percent in the third quarter. Excluding food and energy prices, the price index for gross domestic purchases increased by 1.1 percent in the fourth quarter of 2003, compared with an increase of 1.8 percent in the third.

Gross Domestic Product for 2003

In 2003, real GDP increased by 3.1 percent following an increase of 2.2 percent in 2002, reflecting the impact of increases in its major contributors: personal consumption expenditures, federal government spending, equipment and software, residential fixed investment, and exports and imports. Personal consumption expenditure increased by 3.1 percent compared with an increase of 3.4 percent in 2002. Real nonresidential fixed investment increased by 2.8 percent following a decline of 7.2 percent in 2002. Equipment and software increased by 5.2 percent compared with a decline of 2.8 percent in 2002. Exports of goods and services increased by 1.9 percent compared with a decline of 2.4 percent. Imports of goods and services–a subtraction from GDP–increased by 3.7 percent following an increase of 3.3 percent in 2002. The price index for gross domestic purchases increased 1.9 percent in 2003, compared with an increase of 1.4 percent in 2002.

Measured from the fourth quarter of 2002 to the fourth quarter of 2003, real GDP increased by 4.3 percent in 2003, compared with an increase of 2.8 percent in 2002. The price index for gross domestic purchases increased by 1.6 percent during 2003, compared with an increase of 1.7 percent during 2002.

In other G-7 economies, the annualized rates of real GDP growth were as follows. In the United Kingdom, the economy grew by 3.8 percent in the fourth quarter of 2003, and it grew by 2.5 percent in the year through the fourth quarter of 2003. In Germany, the economy grew by 0.9 percent in the third quarter but grew by 0.2 percent in the year through the fourth quarter of 2003. In Japan, the economy grew at a brisk rate of 7.0 percent in the fourth quarter and by 3.6 percent in the year through the fourth quarter of 2003. In Italy, the economy grew by zero percent in the fourth quarter, but grew by 0.1 percent in the year through the fourth quarter of 2003. In France, the economy grew by 2.0 percent in the fourth quarter of 2003, but grew by 0.5 percent in the year through the fourth quarter of 2003. In Canada, the economy grew by 1.1 percent in the third quarter of 2003, but grew by 1.0 percent in the year through the third quarter of 2003. For EU members linked by the euro currency, the euro area (EU-12) GDP grew by 1.2 percent in the fourth quarter of 2003, but grew by 0.6 percent in the year through the fourth quarter of 2003.

U.S. Corporate Profits

The U.S. Department of Commerce in their GDP news release for the third quarter of 2003, reported that U.S. corporate profits increased substantially in 2003 compared with 2002, causing a substantial increase in corporate cash flows and the internal funds available for corporate investment.[3] Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) increased by $101.4 billion in the third quarter of 2003, following an increase of $95.7 billion in the second quarter. Current production cash flow–that is, internal funds available to corporations for investment–increased by $77.2 billion in the third quarter, compared with an increase of $86.1 billion in the second. Domestic profits of financial corporations increased by $19.6 billion in the third quarter of 2003, compared with an increase of $11.2 billion in the second. Domestic profits of nonfinancial corporations increased by $72.6 billion in the third quarter, compared with an increase of $84.7 billion in the second. In the third quarter of 2003, both real gross corporate product and profits per unit of real product increased. The increase in unit profits reflected an increase in the prices corporations received and a decrease in unit costs, both unit labor and nonlabor costs.

The foreign component of profits–rest-of-the-world component of profits–increased by $9.2 billion in the third quarter of 2003, in contrast to a decrease of $0.2 billion in the second. This measure is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates, including dividends received by U.S. residents from unaffiliated foreign corporations, minus (2) payments by U.S. affiliates of earnings to their foreign parents, including dividends paid by U.S. corporations to unaffiliated foreign residents. The third quarter 2003 increase was accounted for by a larger increase in receipts than in payments.

Profits before tax with inventory valuation adjustments is the best available measure of industry profits because estimates of the capital consumption adjustment by industry do not exist. This measure reflects the depreciation-accounting practices for inventory and depreciation used for federal income tax returns. According to this measure, profits before tax increased by $73.4 billion in the third quarter of 2003, in contrast to a decrease of $16.5 billion in the second.

Industrial Production

The Federal Reserve Board reported that U.S. industrial production rose 0.8 percent in January 2004,

[3] U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product: Third Quarter 2003 (Preliminary) and Corporate Profits: Third Quarter 2003 (Preliminary)," BEA 03-45, Nov. 25, 2003, found at Internet address *http://www.bea.gov/bea/newsrel/gdpnewsrelease.htm*, retrieved Nov. 25, 2003.

following a revised increase of zero percent in December 2003. Total output was 2.4 percent higher in January 2004 than its level in January 2003. Manufacturing output climbed 0.3 percent in January. Mining output increased by 0.1 percent, and output at utilities rose 5.2 percent. The index for the rate of capacity utilization for total industry increased in January 2004 to a level of 76.2 from 75.6 (0.8 percent) in December 2003, although it increased by 1.1 percent over January 2003.

By market group, the output of consumer goods rose by 0.8 percent in January, following a decrease of 0.4 percent in December 2003, and grew by 0.8 percent in the year from January 2004 to January 2003. The output of business equipment rose by 0.5 percent and rose by 3.3 percent in the year to January 2004. The output of information processing equipment rose by 0.5 percent, but showed a gain at an annual rate of 5.2 percent from its January 2003 level. The output of industrial materials rose 0.9 percent in January 2004. The output of durable materials advanced 0.8 percent, and that of nondurable materials was unchanged. The output of energy materials rose by 2.0 percent.

Other G-7 member countries reported the following growth rates of industrial production. For the year ended December 2003, the United Kingdom reported a 0.8-percent decrease, France reported a 2.0-percent increase; Germany reported a 3.5-percent increase, and Japan reported a 5.7-percent increase. For the year ended November 2003, Italy reported a 0.2-percent increase, and Canada reported nil increase. The euro area reported an increase of 1.2 percent for the year ending November 2003.

Prices

The seasonally adjusted U.S. Consumer Price Index increased by 0.2 percent in December 2003 following a decline of 0.2 percent in November, and was unchanged in October 2003 following increases of 0.3 percent in each of the preceding two months, according to the U.S. Department of Labor. For the year ended December 2003, consumer prices increased 1.9 percent. During the year ended in January 2004, prices increased by 1.2 percent in Germany, by 2.2 percent in Italy, and by 1.4 percent in the United Kingdom. During the year ended in December 2003, prices increased by 2.0 percent in Canada, by 2.2 percent in France, but prices decreased by 0.4 percent in Japan. Prices increased by 2.0 percent in the euro area in the year ended January 2004.

Employment

The U.S. Department of Labor, Bureau of Labor Statistics, reported that the U.S. unemployment rate trended down to 5.6 percent in January 2004, virtually unchanged from the previous months. Job losses have lessened in manufacturing, and unemployment has trended up in construction and several services industries. In other G-7 countries, the latest unemployment rates were reported to be 7.4 percent in Canada, 9.7 percent in France, 10.2 percent in Germany, 8.4 percent in Italy, 4.9 percent in Japan, and 4.9 percent in the United Kingdom. The unemployment rate in the euro area was 8.8 percent.

Productivity and Costs

U.S. labor productivity increased in the fourth quarter and the full year of 2003. Productivity growth has held down business costs and inflation and raised standards of living. The U.S. Department of Labor, Bureau of Labor Statistics, reported that preliminary U.S. labor productivity data–measured as output per hour of all persons–rose in the fourth quarter of 2003 by 1.8 percent in the business sector as output increased by 3.7 percent and hours worked increased by 1.9 percent. In the nonfarm business sector, productivity rose by 2.7 percent as output increased by 4.2 percent and hours worked rose by 1.5 percent. In the manufacturing sector, productivity rose in the fourth quarter of 2003 by 4.8 percent as output grew by 6.6 percent and hours worked grew by 1.7 percent. In the durable goods manufacturing sector, productivity soared–rising by 6.4 percent as output grew by 10.2 percent and hours worked grew by 3.6 percent–and in the nondurable goods manufacturing sector, productivity increased by 3.8 percent, output increased by 2.6 percent, but hours worked declined by 1.1 percent.

On an annual average basis, productivity rose 4.3 percent in the business sector and 4.2 percent in the nonfarm business sector in 2003. In manufacturing, productivity grew by 4.3 percent. Hours worked in manufacturing–which includes about 15 percent of U.S. business sector employment–tend to vary more from quarter to quarter than data for the aggregate business and nonfarm business sectors.

The data sources and methods used in the preparation of the manufacturing series differ from those used in preparing the business and nonfarm business series, and these measures are not directly comparable. Output measures for business and nonfarm business series are based on measures of gross domestic product prepared by the U.S. Department of Commerce, Bureau of Economic Analysis. Quarterly output measures for manufacturing reflect indexes of industrial production prepared by the Federal Reserve System, Board of Governors. Table 1 shows U.S. productivity and costs measures in the fourth quarter. Table 2 shows annual average changes of productivity growth during 1994-2003. It is worth noting that productivity almost doubled in 2002 and 2003 over previous years as number of hours worked declined in the business and nonfarm business sectors, as well as in manufacturing. In manufacturing, output declined in 2002 and rose slightly in 2003 despite the large decline in hours worked.

Forecasts

The U.S. economy has continued to grow at a remarkable rate, according to the Council of Economic Advisers (CEA), Federal Reserve Board, International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD), and major private forecasts. Despite such forces as the lengthy adjustment of capital spending following several years of decline in equity values, economic retrenchment triggered by revelations of corporate malfeasance, and the heightened political risks in areas such as the Middle East, U.S. real GDP grew by 2.4 percent in calendar 2002. In 2003, the U.S. economy continued growing at a strong rate of 8.2 percent in the third quarter, and 4.0 percent in the fourth quarter of 2003. In 2003, the U.S. economy grew at 3.1 percent. Forecasts point to a recovery taking hold across the OECD area following periods of fits and starts of world economic growth.

U.S. Administration Forecast for Long-Term Growth and Productivity

The economy continues to display supply-side characteristics favorable to long-term growth, according to the Administration's annual *Economic Report of the President* to the Congress produced by the President's Council of Economic Advisers.[4] The CEA report emphasized that productivity growth has been remarkable, and inflation remains low and stable. As a result of stimulative fiscal and monetary policies, real GDP is expected to grow faster than its 3.1 percent potential rate during the next four years.

The Administration forecasts that real GDP growth will average 3.7 percent at an annual rate during the four years from 2003 to 2007. The unemployment rate is projected to stay flat. In 2004, real GDP growth is projected to grow by 4.0 percent, then decelerate to 3.4 percent in 2005, to 3.3 percent in 2006 and 2007, and to 3.1 percent in 2008 and 2009. The GDP price deflator would slow to 1.2 percent in 2004, rise to 1.4 percent in 2005, 1.6 percent in 2006, 1.8 percent in 2007, and 2.0 percent in 2008 and 2009. Unemployment rate would decline to 5.6 percent in 2004, 5.4 percent in 2005, 5.2 percent in 2006, and 5.1 percent over 2007 to 2009.

OECD Forecast for the Industrialized Countries

Economic forecasts by the Organization of Economic Co-operation and Development (OECD) in its December 2003 *Economic Outlook*[5]show a strong momentum has finally taken hold across the OECD area following a drawn-out period of fits and starts. The turn for the better stems from a variety of factors such as the steadying of the geopolitical environment that has allowed oil prices to stabilize and business confidence to strengthen. In the United States, the economy has recovered benefitting from strong productivity gains, the stimulus provided by monetary and fiscal policies, and high-potential investment growth. Japan's economy has shown a marked and better-than-expected improvement due to better investment prospects in the manufacturing sector and fast growing markets in other Asian economies. The OECD forecast states that the most likely scenario for the next two years is one of sustained growth in the United States and progressive recovery in Europe and Japan, underpinned by a prolonged period of low inflation, monetary ease, and moderate long-term interest rates.

The OECD forecasts U.S. real GDP to grow by 4.2 percent in 2004, and by 3.8 percent in 2005. In contrast, Japan's real GDP is projected to grow by 1.8 percent both in 2004 and in 2005. In the euro area (EU-12), real GDP is projected to grow by 1.8 percent in 2004, and by 2.5 percent in 2005. In the larger area of the European Union (EU-15), real GDP is projected to grow by 1.9 percent in 2004, and by 2.5 percent in 2005. Real GDP for the whole OECD area–the world's industrialized economies as a group–is projected to grow by 3.0 percent in 2004, and by 3.1 percent in 2005.

Inflation is projected to remain subdued in the United States, rising by 1.2 percent in both 2004 and 2005. In Japan, deflationary price pressures are expected to remain throughout the 2-year forecast period, as prices are projected to decline by 1.3 percent

[4] Council of Economic Advisors, *Economic Report of the President*, February 2004 (GPO: Washington DC, 2004).

[5] OECD, *Economic Outlook No. 74*, Volume 2003/2, December 2003 (OECD: Paris, 2003).

Table 1
Productivity and costs: Preliminary fourth quarter 2003 measures, at seasonally adjusted annual rates

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
			Percent change from preceding quarter			
Business	1.8	3.7	1.9	0.9	0.1	-0.8
Nonfarm business . .	2,7	4.2	1.5	1.3	0.5	-1.3
Manufacturing	4.8	6.6	1.7	1.5	0.7	-3.1
Durable	6.4	10.2	3.6	0.6	-0.3	-5.5
Nondurable	3.8	2.6	-1.1	2.9	2.0	-0.9
			Percent change from same quarter a year ago			
Business	5.2	5.0	-0.2	3.3	1.4	-1.8
Nonfarm business . .	5.3	5.2	-0.2	3.3	1.3	-2.0
Manufacturing	5.2	1.8	-3.3	4.3	2.4	-0.9
Durable	7.2	3.9	-3.1	3.9	2.0	-3.1
Nondurable	3.1	-0.7	-3.6	5.0	3.1	1.9

Source: U.S. Department of Labor, Bureau of Labor Statistics, “Productivity and Costs - Fourth Quarter 2003,” release USDL 04-119, Feb. 5, 2004, found at Internet address *http://www.bls.gov/news.release/pdf/prod2.pdf*, retrieved on Feb. 9, 2004.

Table 2
Annual average percent changes in productivity and related measures, 1994-2003

Measure	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
					Annual percent change					
Business										
Productivity	1.2	0.3	2.8	1.9	2.6	2.9	2.9	2.2	4.8	4.3
Output	5.0	2.9	4.6	5.3	4.8	5.1	3.9	0.1	2.3	3.7
Hours	3.8	2.6	1.8	3.3	2.2	2.1	1.0	-2.1	-2.4	-0.6
Hourly compensation . . .	1.6	2.2	3.2	3.2	5.9	4.8	7.0	4.1	2.1	3.0
Real hourly compensation	-0.5	-0.3	0.5	1.1	4.4	2.7	3.5	1.3	0.5	0.7
Unit labor costs	0.4	1.9	0.5	1.3	3.2	1.8	4.0	1.8	-2.5	-1.2
Nonfarm Business										
Productivity	1.2	0.6	2.5	1.7	2.6	2.8	2.7	2.1	4.9	4.2
Output	4.8	3.2	4.5	5.2	5.0	5.2	3.8	0.1	2.3	3.7
Hours	3.5	2.6	1.9	3.4	2.3	2.3	1.1	-2.0	-2.5	-0.5
Hourly compensation . . .	1.7	2.2	3.2	3.1	5.8	4.7	7.0	3.9	2.2	2.9
Real hourly compensation	-0.4	-0.2	0.5	1.0	4.3	2.5	3.6	1.1	0.6	0.6
Unit labor costs	0.5	1.6	0.6	1.4	3.2	1.8	4.2	1.7	-2.5	-1.2
Manufacturing										
Productivity	3.3	3.9	3.4	3.5	4.7	3.8	4.6	2.2	6.8	4.3
Output	5.7	4.5	3.2	5.5	4.5	2.9	3.0	-4.6	-0.6	0.1
Hours	2.3	0.6	-0.2	1.9	-0.2	-0.9	-1.5	-6.6	-7.0	-4.0
Hourly compensation . . .	3.3	2.0	2.0	1.9	6.1	4.2	9.1	2.4	3.6	4.5
Real hourly compensation	1.1	-0.4	-0.6	-0.2	4.6	2.1	5.6	-0.4	2.0	2.2
Unit labor costs	0.0	-1.8	-1.3	-1.5	1.3	0.3	4.2	0.2	-3.0	0.3

Source: United States Department of Labor, Bureau of Labor Statistics, “Productivity and Costs — Preliminary Fourth Quarter and Annual Averages for 2003,” USDL 04-119, found at Internet address *http://www.bls.gov/news.release/pdf/prod2.pdf*, retrieved on Feb. 9, 2004.

in 2004, and by 0.8 percent in 2005. In the euro area, inflation is projected to slow from 1.7 percent in 2004 to 1.6 percent in 2005. In the European Union, inflation is projected to slow from 1.8 percent in 2004, to 1.7 percent in 2005. In the overall OECD area, inflation is projected to remain slow at 1.4 percent in 2004 and 2005.

Unemployment is projected to decline to 5.9 percent in 2004 and to 5.2 percent in 2005 in the United States. In Japan, unemployment is projected to stay at 5.2 percent in 2004, and 5.0 percent in 2005. In the euro area, unemployment is projected to remain high at 9.0 percent in 2004, and at 8.7 percent in 2005. In the European Union, unemployment is projected to hit 8.1 percent in 2004, declining slightly to 7.9 percent in 2005. In the total OECD area, unemployment is projected to remain around 7.0 percent, declining to 6.7 percent in 2004 and 2005, respectively.

The U.S. current-account deficit–as a percent of GDP–is projected to remain high over the two years, growing to 5.0 percent in 2004 and to 5.1 percent in 2005. In Japan, the current-account surplus is projected to grow from 3.6 percent of GDP in 2004 to 4.3 percent in 2005. In the euro area, the current-account surplus is projected to remain at its current 0.7 percent in 2004, and rise to 0.9 percent in 2005. The overall OECD current-account deficit, as a percent of GDP, is projected to remain at 1.3 percent in both years.

World trade volume–the average of world merchandise imports plus exports–is projected to increase by 7.8 percent in 2004, and by 9.1 percent in 2005, up from the much lower growth rate of 4.0 percent in 2003.

STATISTICAL TABLES

Unemployment rates in G-7 countries, by specified periods, 2002 to December 2003[1]

Country	2002 Q:I	2002 Q:II	2002 Q:III	2002 Q:IV	2003 Q:I	2003 Q:II	2003 Q:III	2003 Q:IV	2003 Oct.	2003 Nov.	2003 Dec.
	Percent										
United States	5.7	5.8	5.7	5.9	5.8	6.1	6.1	5.9	6.0	5.9	5.7
Canada	7.1	6.9	7.0	6.9	6.7	6.9	7.2	6.8	6.9	6.8	6.8
Japan	5.3	5.4	5.5	5.4	5.4	5.4	5.2	5.1	5.2	5.2	4.9
France	8.5	8.6	8.8	8.8	9.0	9.2	9.3	9.3	9.3	9.3	9.3
Germany	8.2	8.3	8.5	8.7	9.0	9.2	9.1	9.1	9.1	9.0	9.0
Italy	9.2	9.2	9.1	9.0	9.0	8.8	8.7	8.6	8.6	n.a.	n.a.
United Kingdom	5.1	5.2	5.3	5.1	5.1	5.0	5.0	n.a.	4.9	n.a.	n.a.

N.a.=Not available.

[1] Rates presented on a civilian labor force basis, seasonally adjusted. Rates for foreign countries adjusted to be comparable to the U.S. rate.

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Unemployment Rates in Nine Countries, Civilian Labor Force Basis, Approximating U.S. Concepts, Seasonally Adjusted, 1990-2002," release of Feb. 6, 2004, found at Internet address *ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flsjec.txt*.

Consumer prices of G-7 countries, by specified periods, 2002 to December 2003

Country	2002 Q:I	2002 Q:II	2002 Q:III	2002 Q:IV	2003 Q:I	2003 Q:II	2003 Q:III	2003 Q:IV	2003 Oct.	2003 Nov.	2003 Dec.
	Percent change from same period of previous year										
United States	1.3	1.3	1.6	2.2	2.9	2.1	2.2	1.9	2.0	1.8	1.9
Canada	1.5	1.3	2.3	3.8	4.5	2.8	2.1	1.7	1.6	1.6	2.0
Japan	-1.4	-0.9	-0.8	-0.5	-0.2	-0.2	-0.2	-0.3	0.0	-0.5	-0.4
France	2.1	1.6	1.8	2.1	2.4	1.9	1.9	2.2	2.2	2.3	2.2
Germany	1.9	1.2	1.1	1.2	1.2	0.9	1.0	1.2	1.2	1.3	1.1
Italy	2.4	2.3	2.4	2.8	2.7	2.7	2.7	2.5	2.6	2.5	2.5
United Kingdom	1.2	1.2	1.5	2.6	3.1	3.0	2.9	2.7	2.6	2.5	2.8

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Prices in Nine Countries, Percent Change from Same Period of Previous Year, 1990-2002," release of Feb. 6, 2004, found at Internet address *ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flscpim.txt*.

U.S. trade balances by major commodity categories and by specified periods, December 2002 to December 2003[1]

Sector	2002 Dec.	2003 Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	Billion dollars												
Manufactures	-40.5	-37.7	-32.6	-35.0	-38.2	-36.5	-37.0	-44.4	-37.2	-43.2	-47.3	-39.1	-42.5
Agriculture	1.2	1.0	1.2	0.7	0.2	0.3	0.6	1.1	0.7	0.6	1.9	2.2	1.6
Petroleum[2]	-10.0	-10.9	-11.1	-14.2	-11.6	-11.2	-11.5	-12.5	-12.5	-11.7	-11.9	-10.9	-11.6
Dollar unit price of U.S. petroleum imports[2]	24.2	27.7	30.5	30.3	26.0	24.1	25.5	26.7	27.6	26.5	26.2	26.5	27.2

[1] Exports, f.a.s. value, not seasonally adjusted. Imports, customs value, not seasonally adjusted.

[2] Petroleum and selected products, not seasonally adjusted.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 15 and 17, FT-900 release of Feb. 13, 2004, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*.