
INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
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International Trade Developments

Energy Use in China: Trends in Oil Demand and Imports

The Expanded Andean Trade Preferences Act and a U.S. Free Trade Agreement With its Beneficiaries

U.S. Trade Developments

Recent Developments

International Economic Comparisons

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



OFFICE OF ECONOMICS

Robert B. Koopman, *Director*

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(Joanne Guth and Melissa Ginsberg, 202-205-3264) 1

The Expanded Andean Trade Preferences Act and a U.S. Free Trade Agreement with its Beneficiaries

As the United States begins negotiations with Colombia, Peru, Ecuador, and Bolivia for a United States-Andean free trade agreement, 86 percent of combined U.S. imports from these countries are already free of duty. For these Andean countries, the principal reason for desiring this trade agreement is to ensure that their preferential access to the U.S. market becomes permanent, thus it will contribute to more stable economic conditions and foreign investment inflows.

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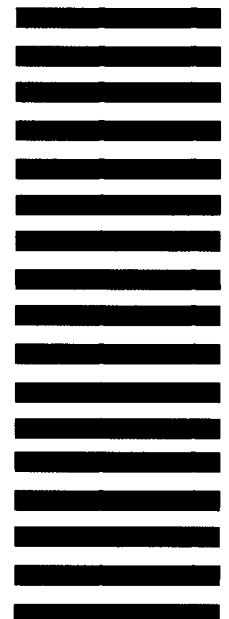
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INTERNATIONAL TRADE DEVELOPMENTS

Energy Use in China: Trends in Oil Demand and Imports

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202-205-3264

Since 1994 China has been the second largest consumer of energy, lagging behind only the United States. In 2002 it surpassed Japan to also become the second largest consumer of oil, and by 2003 accounted for 7.6 percent of total world oil use and 12.1 percent of world energy use. As China becomes an increasingly important player in world energy markets, its behavior has the potential to impact world energy prices. This article provides an overview of energy use in China, with specific attention to trends in Chinese oil production and consumption.

Overview of the Chinese Economy and Energy Sector

In 2003, China was the second largest economy in the world, after the United States, on a purchasing power parity basis.² China has experienced real GDP growth of over 7 percent for each of the last 5 years,³ growing an impressive 9.1 percent in 2003 and 9.7 percent at an annualized rate in the first quarter of 2004.⁴ Figure 1 demonstrates the growing share of GDP that has been accounted for by the energy-intensive industry sector, reaching 51.1 percent of GDP in 2002, while services have remained stable at roughly 33 percent and agriculture has seen its share decline to 15.4 percent, from over 25 percent in 1990.

¹ Joanne Guth is an international economist and Melissa Ginsburg is an intern in the Office of Economics at the U.S. International Trade Commission. Office of Economics. The views expressed in this article are those of the authors. They are not the views of the U.S. International Trade Commission (USITC) as a whole or of any individual Commissioner.

² Central Intelligence Agency, "China," *CIA World Factbook*, found at Internet address <http://www.cia.gov/cia/publications/factbook/geos/ch.html>, retrieved on July 2, 2004.

³ World Bank, "World Development Indicators Online," found at Internet address <http://devdata.worldbank.org/dataonline>, retrieved on July 7, 2004.

⁴ National Bureau of Statistics of China, "Statistical Communiqué of the People's Republic of China on National Economic and Social Development in 2003," Feb. 26, 2004, *China Economic News*, Supplement No. 3, Apr. 5, 2004; and External Services Division, Economic Daily, "Major Index of China's National Economy for the First Quarter 2004," *China Economic News*, No. 18, series 1218, May 17, 2004.

These trends are expected to continue, as the agricultural sector grew only 2.5 percent in 2003, while industry grew 17.7 percent.⁵ Industrial production is concentrated along the coastal regions, with urban areas in Southeast China experiencing more rapid development than other areas of the country.

In 2003, China consumed 1178.3 million tons of oil equivalent (t.o.e.),⁶ a 13.8 percent increase from 2002 and accounting for 12.1 percent of the world total, whereas the United States, the largest energy consumer in the world, used 2297.8 million t.o.e., accounting for 23.6 percent of total world energy consumption. The Russian Federation, the third largest energy consumer, used 670.8 million tons in the same year. Whereas China's energy consumption increased steadily in the early 1990s, it decreased from 1998 to 2000, rose again in 2001 and surpassed its 1997 value in 2002.⁷

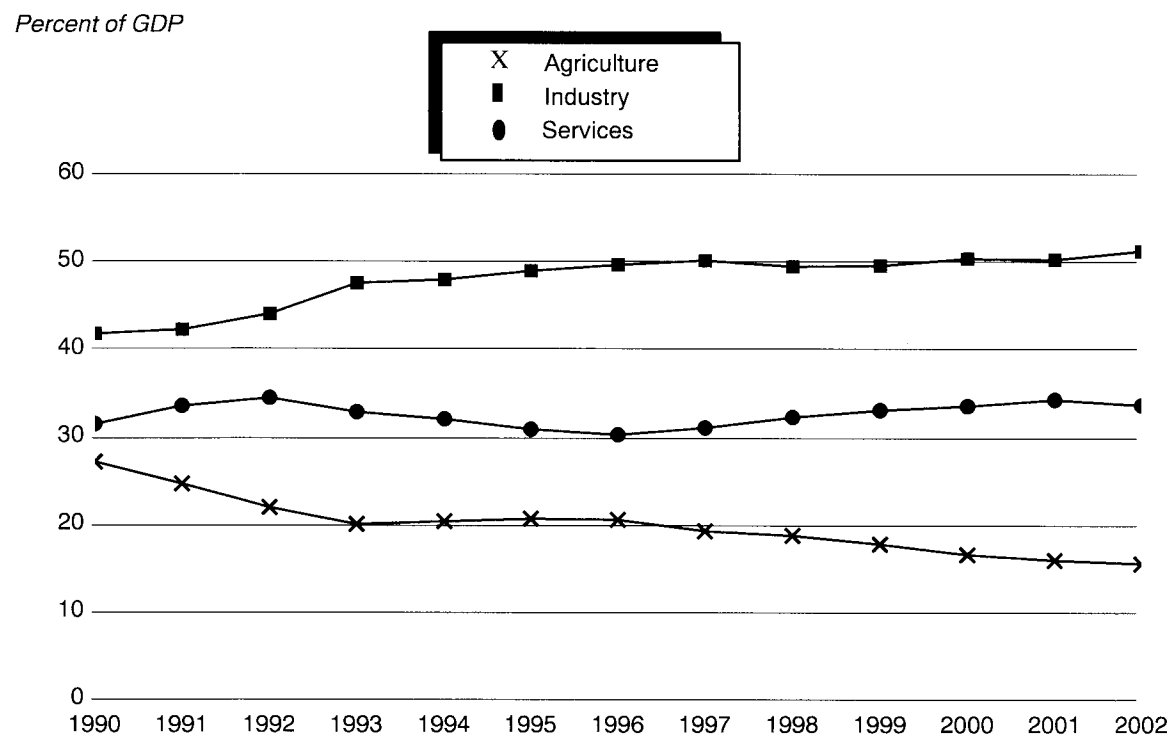
After climbing during the first half of the 1990s, per capita energy consumption in China has remained relatively stable since 1996, at around 900 kilograms

⁵ U.S. Department of State telegram, "China 2003 Macro Overview and 2004 Forecast," message reference No. 461, prepared by U.S. Embassy, Beijing, Mar. 22, 2004.

⁶ The Statistics Division of the United Nations Secretariat defines one ton of oil as equivalent to 1.0 x 10 to the power of 7 kcal, that is, 10 million kilocalories.

⁷ British Petroleum (BP), "Statistical Review of World Energy 2004," found at Internet address <http://www.bp.com/sectiongenericarticle.do?categoryId=2012411&contentId=2018340>, retrieved on July 7, 2004.

Figure 1
Components of China's GDP



Source: World Bank, "World Development Indicators data online," found at <http://devdata.worldbank.org/dataonline>, retrieved July 7, 2004.

(kg) of oil equivalent per year. In 2001 (the latest year data are available), the United States consumed 7,996 kg of oil equivalent per capita.⁸ Growing GDP and rising development standards could contribute to increased per capita energy consumption in China.

Chinese demand for energy has been increasing rapidly, but obstacles such as a limited rate of exploration for new discoveries, inadequate infrastructure, and government control of the sector, including price setting, have led to widespread energy shortages. Blackouts have become increasingly common and hold the potential to limit expansion of industrial output.⁹ The Chinese State Council has demanded increased spending to address blackouts, but until June 2004 kept a tight grip on prices.¹⁰ Artificially low prices set by

the government kept energy demand high, but government officials were concerned that raising prices could interfere with farming and capital construction.¹¹ Chinese officials estimate an 11-percent increase in electricity consumption in 2004 over 2003, and indicated that areas will continue to be subject to staggered blackouts and electricity rationing.¹²

Coal is China's primary energy source, providing over 70 percent of the total energy used throughout the 1990s and, with 799.7 million t.o.e., accounted for 68 percent of energy consumption in 2003. Oil ranked second, accounting for 23 percent of energy consumption. Hydroelectricity made up 5.5 percent of energy consumption and natural gas comprised 2.5 percent. Nuclear power accounted for less than 1 percent of total energy consumed within China.¹³

⁸ World Bank, "World Development Indicators Online," found at Internet address <http://devdata.worldbank.org/dataonline>, retrieved on July 7, 2004.

⁹ Central Intelligence Agency, "China," *CIA World Factbook*, found at Internet address <http://www.cia.gov/cia/publications/factbook/geos/ch.html>, retrieved on July 2, 2004.

¹⁰ *China Watch*, "Economic Summary," vol. 7, No. 4. April 2004.

¹¹ Xin, Li, "Shortage of diesel oil unlikely to be alleviated in the short term," *China Economic News*, No. 24, series 1224, June 28, 2004, p. 3.

¹² Wen, Yi, "Most serious electricity shortage in years," *China Economic News*, No. 24, series 1224, June 28, 2004, p. 2.

¹³ BP, "World Energy 2004."

Although absolute levels of coal use have been increasing (with the exception of the 1998-2000 period), coal's contribution to the total amount of energy used has been declining, while consumption of energy derived from oil and hydro-power has increased.¹⁴ Coal will likely continue to be important in China, as the International Energy Agency projects that 34.4 percent of the world's coal mining investment over the next 20 years will be in China.¹⁵ However, investment in other forms of energy is expected to grow as well. Government concerns regarding the environmental consequences of extensive coal use may accelerate this transition.¹⁶

China has placed an increased emphasis on hydro-power; when the Three Gorges project on the Yangtze River is completed in 2009 it will be the world's largest capacity power plant, at more than 18,000 megawatt-electric (MWe), which is 18 gigawatts (GW). Already, with just 7 of its 26 turbines operating, it is the largest hydroelectric power plant in China, with a capacity of 4,970 MWe.¹⁷ Planning for other hydro-power projects is underway.

Production capacity for other types of energy is also likely to increase, with plans to build four new nuclear-power stations by 2020.¹⁸ Nuclear power currently accounts for 1.6 percent of energy capacity, but the government hopes to expand this figure to 4 percent.¹⁹ Plans are also underway to construct a pipeline to transport natural gas from the Tarim gasfield in the northwest to Shanghai on the eastern coast.²⁰ Additionally, continued infrastructure improvements may allow the southern inland areas to use forms of energy other than the nearby coal, increasing demand for a wider variety of energy sources. With

oilfields throughout Northeast China, the Tarim basin in the northwest, and extensive offshore drilling, there is also significant potential for an increase in oil production to help meet the rising demand for energy.

Domestic Oil Production and Import Sources

In 1998 the Chinese government reorganized a variety of state owned oil assets into two vertically organized, regional firms: The China National Petroleum Corporation (CNPC) in the north and west and the China Petrochemical Corporation (Sinopec) in the south. Oil production in China is dominated by these firms on land and by the China National Offshore Oil Corporation (CNOOC) for all offshore exploration and production. Offshore energy sources account for more than 10 percent of China's domestic crude oil production.²¹

China produced 3396 barrels²² daily (b/d) in 2003, making it the sixth largest producer of oil worldwide. Oil consumption in 2003 registered at 5379 thousand b/d.²³ As shown in Figure 2, oil consumption in China has outpaced production since 1993, causing China to become a net importer of oil. Over the last 10 years, consumption has grown more rapidly than production, and the amount of oil imported has increased every year. China imported 91.1 million tons of crude oil in 2003 and 47.8 million tons in the first 4 months of 2004, representing a 58 percent year-on-year increase in oil imports.²⁴ In 2003, 36 percent of China's oil consumption was imported.²⁵

Oil imports come primarily from the Middle East (40 percent) and the Asia-Pacific region (30 percent). Other significant sources of oil include West Africa (12 percent), the Former Soviet Union (9 percent), and East and Southern Africa (5 percent).²⁶ Although a net importer, China exports 424 of the 3396 thousand b/d that it produces, roughly 12 percent of production; 21 percent of those exports go to Japan.²⁷ China has made efforts to diversify its suppliers of oil and its corpora-

¹⁴ BP, "World Energy 2004."

¹⁵ International Energy Agency, "World Energy Investment Outlook 2003," found at Internet address <http://www.worldenergyoutlook.org/pubs/gio2003.asp>, retrieved on July 8, 2004.

¹⁶ Economist Intelligence Unit, "China: Industry Wire: Forecast, Energy and Electricity forecast," *EIU Viewswire*, Apr. 1, 2004, found at Internet address <http://www.viewswire.com>, retrieved on June 16, 2004.

¹⁷ Fossil Energy International, "An Energy Overview of the People's Republic of China," found at Internet address <http://www.fe.doe.gov/international/chinover.html>, retrieved on June 7, 2004.

¹⁸ Economist Intelligence Unit, "China: Industry Wire: Forecast, Energy and Electricity forecast," *EIU Viewswire*, Apr. 1, 2004, found at Internet address <http://www.viewswire.com>, retrieved on June 16, 2004.

¹⁹ U.S. Department of State telegram, "McMonigle - Zhang Bilateral Meeting," message reference No. 124, prepared by U.S. Embassy, Beijing, June 21, 2004.

²⁰ Energy Information Administration, "China Country Analysis Brief," found at Internet address <http://www.eia.doe.gov/emeu/cabs/china.html>, retrieved on June 7, 2004.

²¹ Energy Information Administration, "China Country Analysis Brief," found at Internet address <http://www.eia.doe.gov/emeu/cabs/china.html>, retrieved on June 7, 2004.

²² A barrel of crude oil is roughly 42 gallons of oil. Once refined, it expands to just over 44 gallons.

²³ BP, "World Energy 2004."

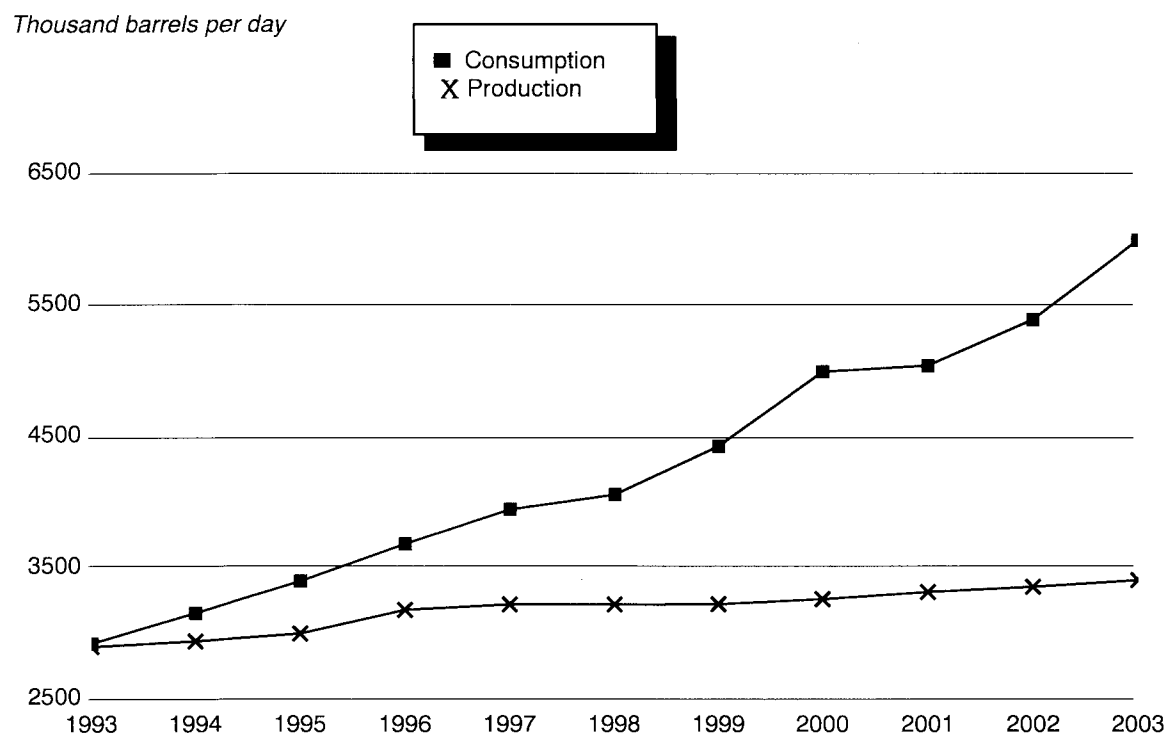
²⁴ Lan, Luo, "Chinese official explains measures to tackle energy tension," *China Economic News*, No. 23, Series 1223, June 21, 2004.

²⁵ Gang, Huang, "Intense coal-power-oil-transportation situation becomes issue," *China Economic News*, No. 20, Series 1220, May 31, 2004.

²⁶ BP, "World Energy 2004."

²⁷ BP, "World Energy 2004."

Figure 2
Trends in oil production and consumption in China



Source: British Petroleum, "Statistical Review of World Energy 2004," found at <http://bp.com/sectiongenericarticle.do?/>, and U.S. Department of Energy, retrieved July 23, 2004.

tions are investing in oil fields both domestically and abroad. Together, the three largest firms (CNPC, Sinopec, and CNOOC) have invested in fourteen countries.²⁸ China is expected to account for nearly 15 percent of global energy investment for the 2001-2030 period, with oil receiving a significant portion of those funds.²⁹

There are four state-backed crude oil importers, of which the China National Chemical Import and Export Corporation (Sinochem) is the largest. Sinochem has worked closely with the other three licensed importers,

the China International United Petroleum and Chemical Corporation (Unipec, owned largely by Sinopec³⁰), CNPC, and Zhuhai Zhenrong, to implement domestic refining and distribution. Although Sinochem typically imports and exports quantities determined by State planners, CNOOC has some agreements that allow for direct exports from offshore fields.³¹

In an effort to facilitate oil imports, the main corporations have signed agreements to build pipelines and expand shipping capacity. CNPC is financing pipelines from Kazakhstan and from Russia that, when completed in 2008 and 2010 respectively, could allow

²⁸ Economist Intelligence Unit, "Business China: Efforts to diversify oil supplies," *EIU Viewswire*, Feb. 16, 2004, found at Internet address <http://www.viewswire.com>, retrieved on June 7, 2004; and Economist Intelligence Unit, "Energy and electricity forecast," *EIU Viewswire*, Apr. 1, 2004, found at Internet address <http://www.viewswire.com>, retrieved on June 7, 2004. Included in the 14 are Kazakhstan, Yemen, Sudan, and Burma/Myanmar.

²⁹ International Energy Agency, "World Energy Investment Outlook 2003," found at Internet address <http://www.worldenergyoutlook.org/pubs/gio2003.asp>, retrieved on July 8, 2004.

³⁰ Sinopec and Sinochem jointly acquired Unipec in February 1993. In July 1998, this arrangement was restructured such that Sinopec owned 70 percent of the shares in the company and Sinochem owned the remaining 30 percent. Sinopec Corporation, "About Sinopec," found at Internet address <http://english.sinopec.com/en-company/en-subsidiaries/en-holdingsub/en-unipec/1318.shtml>, retrieved on July 8, 2004.

³¹ Energy Information Administration, "The Key Decision-Makers Affecting China's Energy Sector," found at Internet address <http://www.eia.doe.gov/emeu/cabs/archives/china/part3.html>, retrieved on July 8, 2004.

additional imports of up to 50 million tons per year.³² Sinopec has signed an agreement with the China Ocean Shipping Company (Cosco) to double the capacity of Cosco's fleet to carry crude oil.³³ As growth in demand outpaces growth in crude oil production, China's oil giants have become more involved in investing overseas and developing efficient import solutions.

Oil Consumption

Oil consumption has been steadily increasing in China, nearly doubling in the 10 years from 1993 to 2003 (from just less than 3 million b/d to roughly 6 million b/d), accounting for 7.6 percent of world oil consumption. In 2002, China surpassed Japan to become the second largest oil consumer in the world,

³² Platts, "Kazakhstan and China start second phase of pipeline construction," found at Internet address <http://www.platts.com>, retrieved on June 22, 2004, and Economist Intelligence Unit, "Russia-China oil agreement detailed," *EIU Viewswire*, May 29, 2003, found at Internet address <http://www.viewswire.com>, retrieved on June 22, 2004.

³³ "Cosco to double crude fleet," *Business Times*, June 21, 2004, found at Internet address <http://www.business-times.asia1.com>, retrieved on June 7, 2004.

following the United States.³⁴ Figure 3 shows the rise in China's oil use along with the rise in world oil prices for the period. China is projected to account for 16 percent of the increase in world oil demand between 2000 and 2030.³⁵ In 2003, oil consumption was 11 percent higher than a year earlier, and accounted for 41 percent of the growth in world oil demand.³⁶

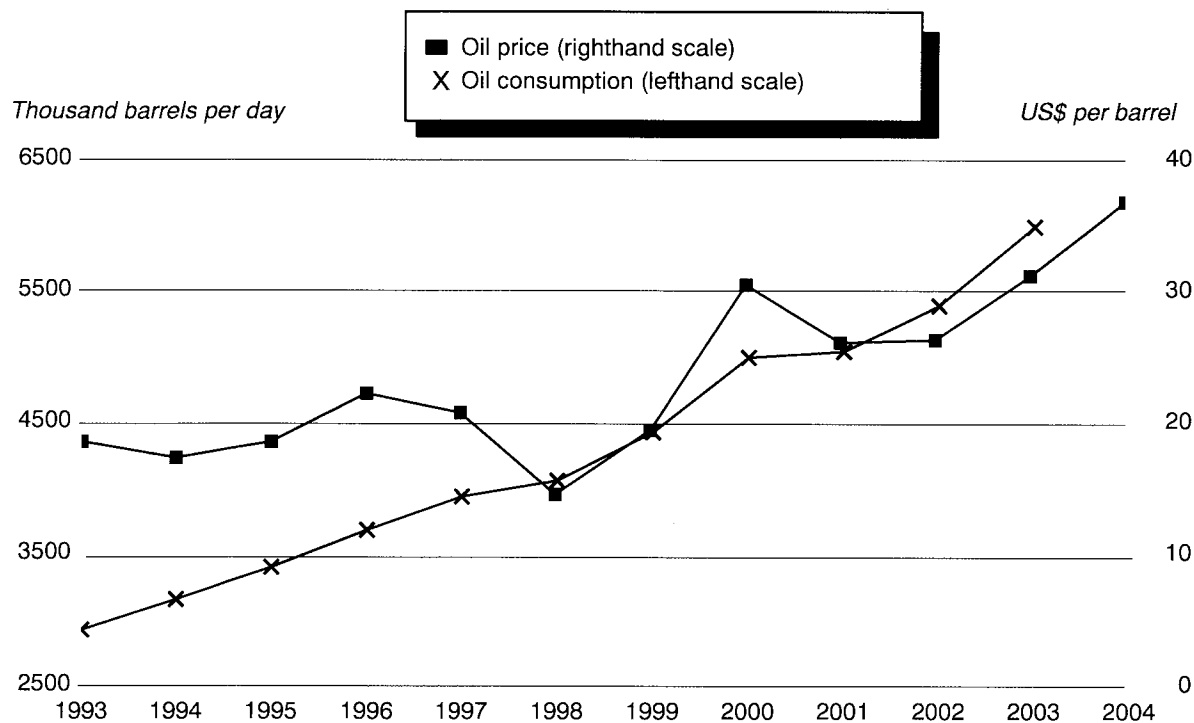
Figure 4 details how much oil is used by each sector, with transport (42 percent of China's oil use) and industry (32 percent) leading the list in 2001. Each sector shows room for growth and is expected to con-

³⁴ BP, "World Energy 2004."

³⁵ International Energy Agency, "World Energy Investment Outlook 2003," found at Internet address <http://www.worldenergyoutlook.org/pubs/gio2003.asp>, retrieved on July 8, 2004.

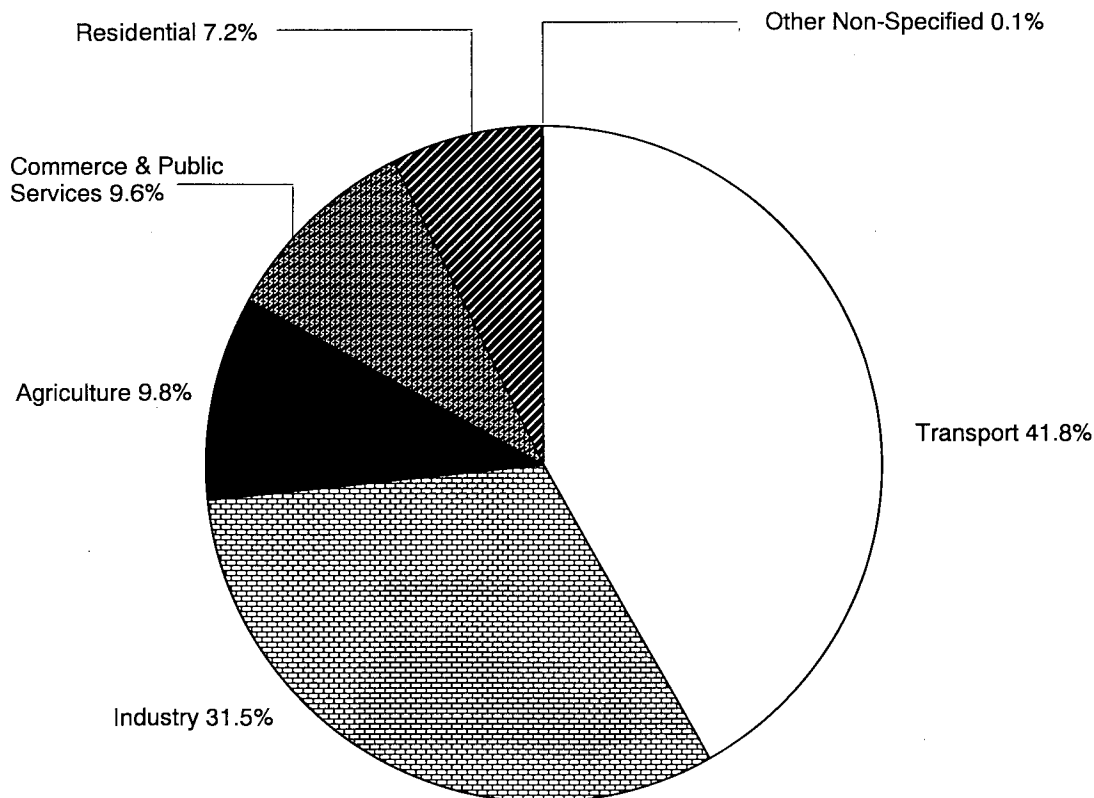
³⁶ Lorenzetti, Maureen, "BP: World oil and gas reserves still growing at healthy pace," *Oil and Gas Journal Online*, June 21, 2004, found at Internet address <http://ogj.pennnet.com/home.cfm>, retrieved on June 22, 2004.

Figure 3
Consumption of oil in China and world oil price



Source: British Petroleum, "Statistical Review of World Energy 2004," found at <http://bp.com/sectiongenericarticle.do?/>, and U.S. Department of Energy, retrieved July 23, 2004. Oil price is the average yearly spot price, Cushing, Oklahoma, f.o.b., US dollars per barrel (right scale).

Figure 4
Oil use by sector, 2001



Source: International Energy Agency, "Energy Statistics of Non-OECD Countries, 2002."

tribute to the overall increase in demand for oil. Oil use is expected to rise 3.3 to 4.6 percent each year.³⁷

Transportation

Transportation was the largest user of oil in 2001, at 42 percent of the total. As private ownership of automobiles becomes more prevalent, oil use in transportation is likely to increase. Automobile sales rose 34.2 percent in 2003, bringing total vehicles purchased to 4.39 million.³⁸ The Development Research Center of the State Council, a part of China's cabinet, believes there will be more than 156 million vehicles in China by 2020, a sharp increase from the

1998 automobile stock of 13 million.³⁹ Road transport is expected to be the primary contributor to increased demand of transportation fuels.⁴⁰ Consumption of oil in the transportation sector has been growing rapidly, having more than doubled from 26 million tons in 1990 to more than 65 million tons in 2000.⁴¹ This growth is anticipated to continue as rising incomes and a growing managerial class enable more people to afford automobiles.⁴²

Although cars typically consume gasoline, manufacturers have made an effort to introduce diesel

³⁷ Dadi and Levine, "China's Sustainable Energy Future: Scenarios of Energy and Carbon Emissions," Energy Research Institute of the National Development and Reform Commission, People's Republic of China, October 2003, p. 21.

³⁸ Lanfranco, Ed, "Cars becoming 'Irresistible' in China," United Press International, Jan. 22, 2004.

³⁹ Dadi and Levine, "China's Sustainable Energy Future: Scenarios of Energy and Carbon Emissions," Energy Research Institute of the National Development and Reform Commission, People's Republic of China, October 2003.

⁴⁰ Energy Information Administration, "International Energy Outlook 2004," found at Internet address <http://www.eia.doe.gov/oiaf/ieo/>, retrieved on July 8, 2004.

⁴¹ International Energy Agency, *Energy Statistics of Non-OECD Countries, 2002*, OECD, Paris.

⁴² International Energy Agency, "Monthly Oil Market Report," November 2002, found at Internet address <http://omrpublic.iea.org/>, retrieved on June 22, 2004.

cars in China. Diesel motors save 15-30 percent of oil use compared to gasoline engines. Some estimates indicate that if all 18.8 million sedans in China switched to diesel motors, it would save 75 million liters of oil per day. This shift is expected to take place slowly, as the quality of diesel in China is still relatively low.⁴³

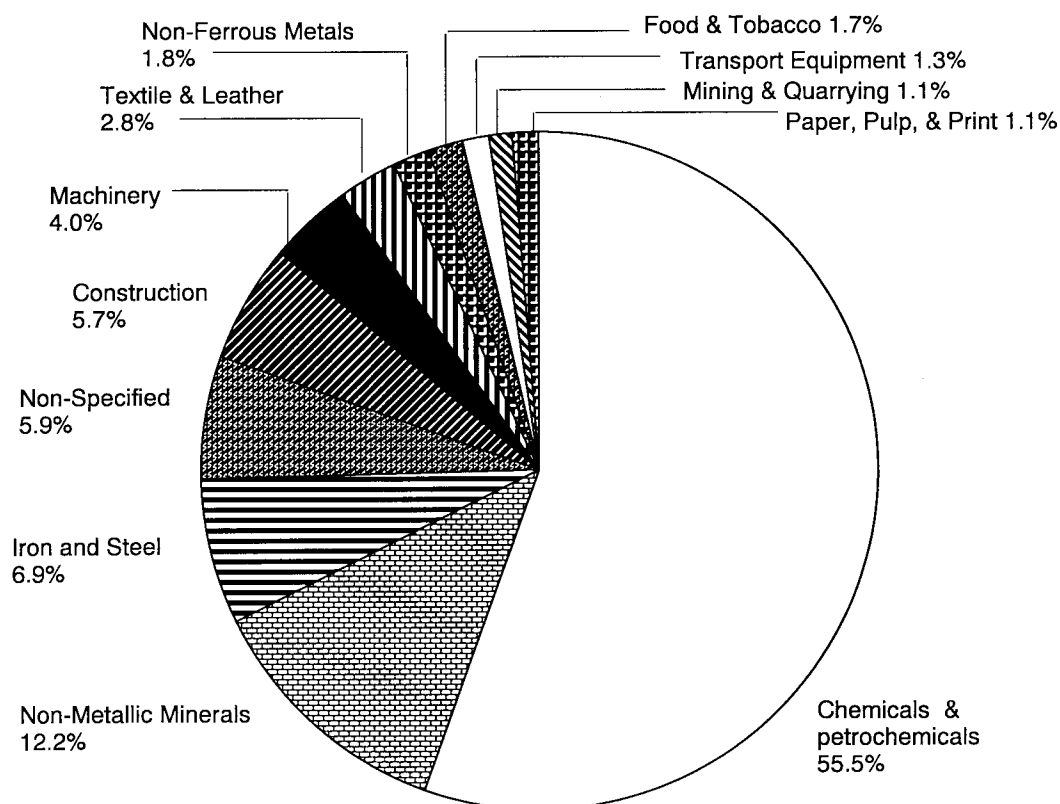
Oil use in transportation may also increase as the government implements extensive infrastructure reforms, including more than \$42 billion to build 4,375 miles of new railroad track, leading to greater capacity on the railway systems.⁴⁴ The new Guangzhou international airport, which opened in August 2004, may boost jet fuel demand.⁴⁵ More efficient airports and diminishing wariness regarding the impact on public health of outbreaks of Severe Acute Respiratory Syndrome (SARS) could encourage increased air travel to China.

⁴³ "The rise of oil price and diesel cars in China," China Economic Net, June 23, 2004, found at Internet address <http://www.en.ce.cn>, retrieved on June 24, 2004.

⁴⁴ Energy Information Administration, "International Energy Outlook 2004," found at Internet address <http://www.eia.doe.gov/oia/ieo/>, retrieved on July 8, 2004.

⁴⁵ International Energy Agency, "Monthly Oil Market Report," March 2004, found at Internet address <http://omr-public.iaea.org/>, retrieved on June 22, 2004.

Figure 5
Oil consumption by industry sector, 2000



Source: International Energy Agency, "Energy Statistics of Non-OECD Countries, 2002."

Industry

China's industrial energy requirements are high in part because of high energy intensity in heavy industry. Although China has made significant gains towards improving its energy efficiency, particularly in aluminum and petroleum refining where its values are well within the OECD range, there is still room for progress. While it takes China 36 gigajoules (GJ) to produce a ton of crude steel, OECD countries range from 18-26 GJ/ton. Similarly, where China needs 73-90 GJ/ton to produce ethylene, OECD countries produce it for 58-68 GJ/ton.⁴⁶ If China continues to develop an efficient energy system it may somewhat mitigate the effect of sectoral growth on overall energy demand.

As figure 5 indicates, chemicals and petrochemicals account for a majority of oil consumption in industry. China is the world's largest producer of

⁴⁶ Price, et al., "China's Industrial Sector in an International Context," Ernest Orlando Lawrence Berkely National Laboratory, Environmental Energy Technologies Division, May 2000, found at Internet address <http://eetd.lbl.gov/ea/IES/iespubs/46273.pdf>, retrieved on July 8, 2004.

ammonia, an intermediate product in the fertilizer industry.⁴⁷ Although ammonia production is expected to increase, the energy intensity used to produce ammonia has the potential to decrease from a 1998 value of roughly 1.75 tons of coal equivalent (tce)/ton to projections for 2020 ranging from 1.35 to 1.5 tce/ton.⁴⁸ Strong growth in China's ethylene production capacity has boosted oil demand.⁴⁹ Such growth—first quarter production of ethylene in 2004 was 7.4 percent higher than its first quarter 2003 value⁵⁰—is likely to continue due to current investments aimed at expanding ethylene cracking capacity.⁵¹

Although steel and iron production represented only 7 percent of China's oil use in industry in 2001, steel grew to become the largest single consumer of energy in China in 2003, representing over 15 percent of industrial energy consumption in the first quarter of 2004.⁵² Steel production has grown rapidly over the last 30 years (from 21 million metric tons (mmt) in 1971 to 124 mmt in 1999), making China the largest steel producer in 2000.⁵³ Steel production is projected to increase, but there is potential for the energy intensity in producing steel to decrease from 1.4 tce/ton to just under 1 tce/ton.⁵⁴ For January-March 2004 steel production in China was up 26.4 percent from the same period in 2003.⁵⁵

China has dominated world cement production since the 1980s, and produced 36 percent of the world

total in 2000.⁵⁶ During the first quarter of 2004, cement production was 23.8 percent higher than in the first quarter of 2003.⁵⁷ Automobile production has also grown tremendously, up 24.0 percent in the first quarter of 2004 compared to the same period a year earlier,⁵⁸ and China is now the fourth largest global automobile producer.

Residential Use and Power Generation

Aside from low levels of direct residential oil use, primarily stemming from kerosene consumption used for household heating, most residential energy use is in the form of electricity. Household electricity demand has been growing rapidly in conjunction with growing appliance ownership. Rapid growth in electricity consumption has stretched power generation capacity, forcing plants to use oil-fired units to meet electricity demand.⁵⁹ Factories and shopping malls have increased use of diesel generators to compensate for power shortages on the national power grids.⁶⁰ Both of these changes are expected to be short run trends, with power plants investing in other energy sources (coal, hydropower, natural gas) to meet electricity needs, which may ease demand for oil. Middle distillates, which include kerosene and diesel, have grown rapidly over the last 10 years, doubling from under 1 million b/d in 1993 to nearly 2 million b/d in 2003.⁶¹

China vs. the United States

Figure 6 compares Chinese production and consumption of oil with U.S. oil production and consumption. To fuel its growing economy, China is now the second largest global consumer of energy as well as of oil, following the United States. In 2003, the United States accounted for 25.1 percent of world oil consumption and China accounted for 7.6 percent. Together, they consumed one-third of the global oil supply. On the production side, China is the sixth largest producer of oil in the world, and the United States ranks third, following Saudi Arabia and the

⁴⁷ Price, et al., "China's Industrial Sector in an International Context," Ernest Orlando Lawrence Berkeley National Laboratory, Environmental Energy Technologies Division, May 2000, found at Internet address <http://eetd.lbl.gov/ea/IES/iespubs/46273.pdf>, retrieved on July 8, 2004.

⁴⁸ Dadi and Levine, "China's Sustainable Energy Future: Scenarios of Energy and Carbon Emissions," Energy Research Institute of the National Development and Reform Commission, People's Republic of China, October 2003.

⁴⁹ International Energy Agency, "Monthly Oil Market Report," November 2002, found at Internet address <http://omrpublic.iea.org/>, retrieved on June 22, 2004.

⁵⁰ National Bureau of Statistics of China, "China's Industrial Production Figures for January-March 2004," *China Economic News*, No. 17, series 1217, May 10, 2004.

⁵¹ International Energy Agency, "Monthly Oil Market Report," November 2002, found at Internet address <http://omrpublic.iea.org/>, retrieved on June 22, 2004.

⁵² Jian, Zhang, "Potential risks for the steel industry," *China Economic News*, No. 21, series 1221, June 7, 2004.

⁵³ Price, et al., "China's Industrial Sector in an International Context," Ernest Orlando Lawrence Berkeley National Laboratory, Environmental Energy Technologies Division, May 2000, found at Internet address <http://eetd.lbl.gov/ea/IES/iespubs/46273.pdf>, retrieved on July 8, 2004.

⁵⁴ Dadi and Levine, "China's Sustainable Energy Future: Scenarios of Energy and Carbon Emissions," Energy Research Institute of the National Development and Reform Commission, People's Republic of China, October 2003.

⁵⁵ National Bureau of Statistics of China, "China's Industrial Production Figures for January-March 2004," *China Economic News*, No. 17, series 1217, May 10, 2004.

⁵⁶ InterChina Consulting, "China Cement Industry," February 2003, p.2.

⁵⁷ National Bureau of Statistics, "China's Industrial Production Figures for January-March 2004," *China Economic News*, No. 17, series 1217, May 10, 2004.

⁵⁸ National Bureau of Statistics of China, "China's Industrial Production Figures for January-March 2004," *China Economic News*, No. 17, series 1217, May 10, 2004.

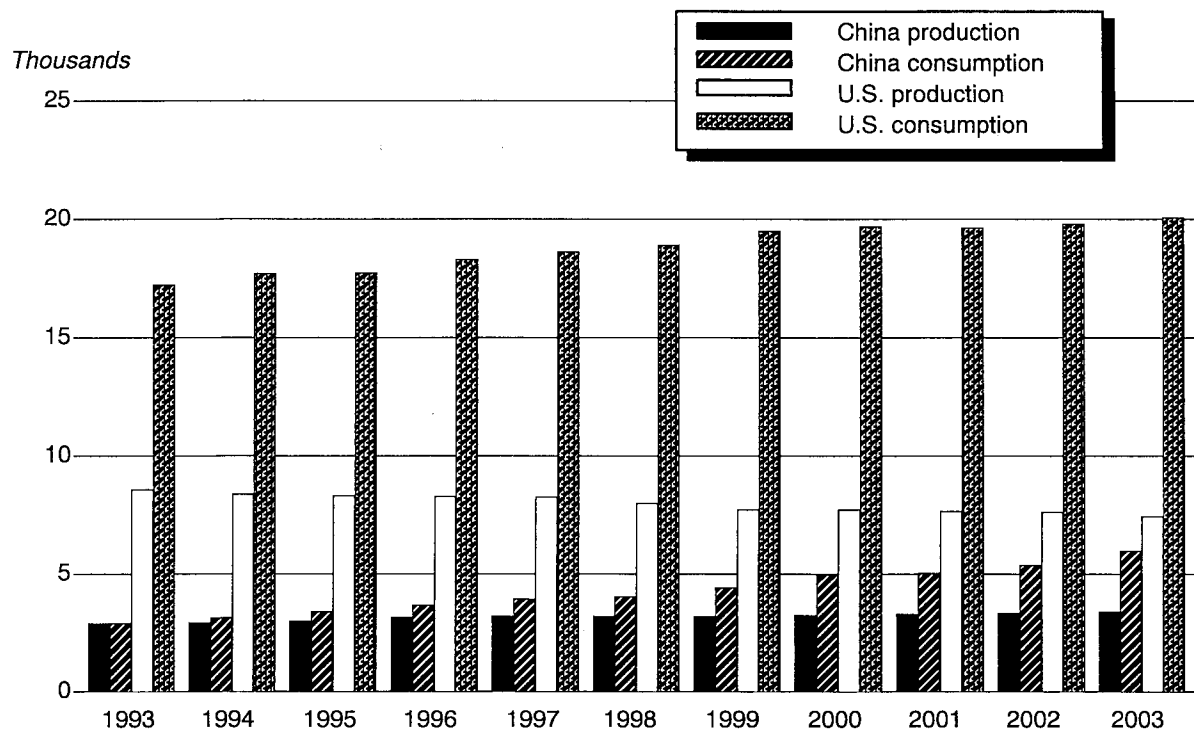
⁵⁹ International Energy Agency, "Monthly Oil Market Report," May 2002, found at Internet address <http://omrpublic.iea.org/>, retrieved on June 22, 2004.

⁶⁰ "China May Oil Imports Stay High," Reuters, June 21, 2004, found at Internet address <http://news.moneycentral.msn.com>, retrieved on June 22, 2004.

⁶¹ BP, "World Energy 2004."

Figure 6
Oil production and consumption in China and the United States

Thousand barrels per day



Source: British Petroleum, "Statistical Review of World Energy 2004," found at [http://bp.com/sectiongeneric-article.do/?/](http://bp.com/sectiongeneric-article.do?/), and U.S. Department of Energy, retrieved July 23, 2004.

Russian Federation. In 2003, U.S. oil production accounted for 9.2 percent of world production and Chinese production accounted for 4.6 percent. For both countries, oil imports continue to grow as the gap between domestic production and consumption continues to widen.⁶²

Conclusion

In 2003, China accounted for 41 percent of the growth in world oil demand and its oil imports rose 32 percent,⁶³ part of an ongoing trend. In the 1993-2003 period, U.S. oil consumption grew 16 percent, while

China's oil consumption grew 105 percent. Unlike the United States, where petroleum production has declined, oil production in China has climbed over the last 10 years. Nonetheless, this increase in production has not kept pace with the growth in oil consumption; thus, China's reliance on imported oil is likely to continue to grow.

As China continues the development process, it will likely maintain its shift away from the production of agricultural goods, deriving a greater share of its GDP from the energy intensive industrial sector. Increased focus on industry, higher levels of automotive transportation, and an increase in overall energy use may continue to increase demand for oil. Continuing growth in its level of oil imports could have an important impact on world prices.

⁶² BP, "World Energy 2004."

⁶³ Lorenzetti, Maureen, "BP: World oil and gas reserves still growing at healthy pace," *Oil and Gas Journal Online*, June 21, 2004, found at Internet address <http://ogj.pennnet.com/home.cfm>, retrieved on June 22, 2004.

Abbreviations and Conversions

b/d	barrels per day	T.o.e.	tons of oil equivalent (metric)
EJ	exajoule (10 ¹⁸ joules)	MWe	megawatt-electric
GJ	gigajoule (10 ⁹ joules)	MWh	megawatt-hour
LPG	liquid petroleum gas	tce	ton of coal equivalent (metric)
Mt	metric ton		

The Expanded Andean Trade Preferences Act and a U.S. Free Trade Agreement With its Beneficiaries

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As the United States begins negotiations with Colombia, Peru, Ecuador, and Bolivia for a United States-Andean free trade agreement, 86 percent of combined U.S. imports from these countries are already free of duty. For these Andean countries, the principal reason for desiring this trade agreement is to ensure that their preferential access to the U.S. market becomes permanent, thus it will contribute to more stable economic conditions and foreign investment inflows.

In May, 2004, the United States launched negotiations in Cartagena, Colombia, towards a possible free trade agreement (FTA) with Colombia, Peru, and Ecuador, hoping to include Bolivia at a later stage.² These four Andean countries already enjoy duty-free treatment for 86 percent of their combined export value to the United States, including the duty-free privileges they have been granted by the expanded Andean Trade Preference Act (ATPA) in 2002.³

The original ATPA had been in effect since the early 1990s. The program expired on December 4, 2001, and was renewed and expanded by the Andean Trade Promotion and Drug Eradication Act (ATPDEA) on August 6, 2002. ATPDEA, which extended duty-free treatment to petroleum and petroleum derivatives, certain apparel, footwear, luggage, handbags, and some other imports from the beneficiaries that had been excluded under the original

ATPA, was implemented on October 31, 2002. The expanded ATPA is scheduled to expire on December 6, 2006.⁴

Although this article will profile the major characteristics of U.S.-Andean trade, it focuses predominantly on the duty treatment of the Andean trade flow to the United States.

Principal Characteristics of U.S. Trade With ATPA Countries

U.S. trade with ATPA countries is relatively small. ATPA countries combined received 1 percent of total U.S. exports and provided 0.9 percent of total U.S. imports in 2003 (table 1); nonetheless, they were major U.S. suppliers of certain products, including copper, asparagus, and flowers.

Since 1999, U.S. data have shown a collective U.S. deficit in merchandise trade with ATPA countries.⁵ In

¹ Magda Kornis is an international economist in the Country and Regional Analysis Division at 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 USTR, "Zoellick to Visit Peru and Ecuador June 7-9," *Press Release* 2004-50, June 4, 2004. Allan Wagner Tizon, the General Secretary of the Andean Community said on August 18, 2004, that he "considered Bolivia's immediate and full incorporation into the negotiations for a Free Trade Agreement between the Andean Community and the United States as fundamental." Found at Internet address <http://www.comunidadandina.org>, retrieved on Aug. 27, 2004.

³ The four Andean countries will be referred to henceforth as ATPA countries.

⁴ For more detail about ATPA and ATPDEA, see previous articles on the subject including Magda Kornis, "U.S. Trade with the Beneficiaries of the Andean Trade Preference Act," *International Economic Review*, Oct./Nov. 2000, United States International Trade Commission, USITC Publication 3379; Walker Pollard, "Renewal and Expansion of ATPA Could Enhance Effectiveness of the Program," *International Economic Review*, July/August 2001; Joanne Guth and Magda Kornis, "The Andean Trade Preference Act: An Update," *International Economic Review*, Nov./Dec. 2002, United States International Trade Commission, USITC Publication 3571; Magda Kornis, "An Atypical Year in the History of U.S. Imports under the Andean Trade Preference Act," *International Economic Review*, Sept./Oct. 2003, United States International Trade Commission, USITC Publication 3638; and Joanne Guth, "Implementation of ATPDEA Changes Composition of Imports under ATPA in 2003," *International Economic Review*, Nov./Dec. 2003, United States International Trade Commission, USITC Publication 3659.

⁵ References in this report to exports, imports, and trade balances refer to merchandise trade and exclude trade in services.

Table 1
U.S. trade with ATPA countries

Year	U.S. exports	Share of U.S. exports to the world	U.S. imports	Share of U.S. imports from the world	U.S. trade balance
	Million dollars	Percent	Million dollars	Percent	Million dollars
1991	3,798.2	0.9	4,969.5	1.0	-1171.3
1992	5,319.7	1.3	5,058.7	0.9	261.0
1993	5,359.1	1.2	5,282.3	0.9	76.7
1994	6,445.0	1.3	5,879.5	0.9	565.5
1995	7,820.2	1.4	6,968.7	0.9	851.4
1996	7,718.7	1.3	7,867.6	1.0	-148.9
1997	8,681.8	1.3	8,673.6	1.0	8.2
1998	8,670.1	1.4	8,361.0	0.9	309.1
1999	6,263.2	1.0	9,830.2	1.0	-3,567.0
2000	6,295.1	0.9	11,117.2	0.9	-4,822.1
2001	6,363.3	1.0	9,568.7	0.8	-3,205.3
2002	6,463.8	1.0	9,611.5	0.8	-3,147.7
2003	6,525.7	1.0	11,639.5	0.9	-5,113.8

¹ Domestic exports, f.a.s.

² Imports for consumption, customs value.

Source: Compiled from official statistics of the U.S. Department of Commerce.

2003, this deficit was the largest on record, amounting to \$5.1 billion (table 1, figure 1). The United States registered a trade deficit vis-à-vis each ATPA country, except Peru. U.S. imports from the region also reached record amounts in 2003, at \$11.6 billion. In contrast, U.S. exports to ATPA countries, at \$6.5 billion, remained largely unchanged since 1999, the year in which they dropped 28 percent from their 1998 value. In recent years, a continued volatile political environment, poor economic performance, and the weakness of exchange rates for several ATPA-country currencies depressed the region's demand for U.S. exports.

A major portion of U.S. trade with ATPA countries is related to petroleum and natural gas. On the U.S. export side, even though machinery, equipment, and parts account for some two-thirds of total U.S. exports to ATPA countries, a large portion of such exports is destined for use in the region's petroleum and natural gas sectors. In addition, two leading U.S. export products to the region are refined petroleum products — fuel oils and lubricating oils.

Petroleum and its derivatives accounted for over 40 percent of U.S. imports from ATPA countries in the last four years. In 2003, as petroleum and derivatives had become free of duty under ATPDEA for the entire

year, their imports were responsible for over ninety percent of the 2003 U. S. trade deficit with ATPA countries, and came to constitute almost 60 percent of U.S. imports under the expanded ATPA.⁶ The newly duty-free status of petroleum and derivatives from ATPA countries under ATPDEA was also responsible for most of the contraction in the dutiable value of U.S. imports and U.S. duty revenues from ATPA countries, as shown in table 1.

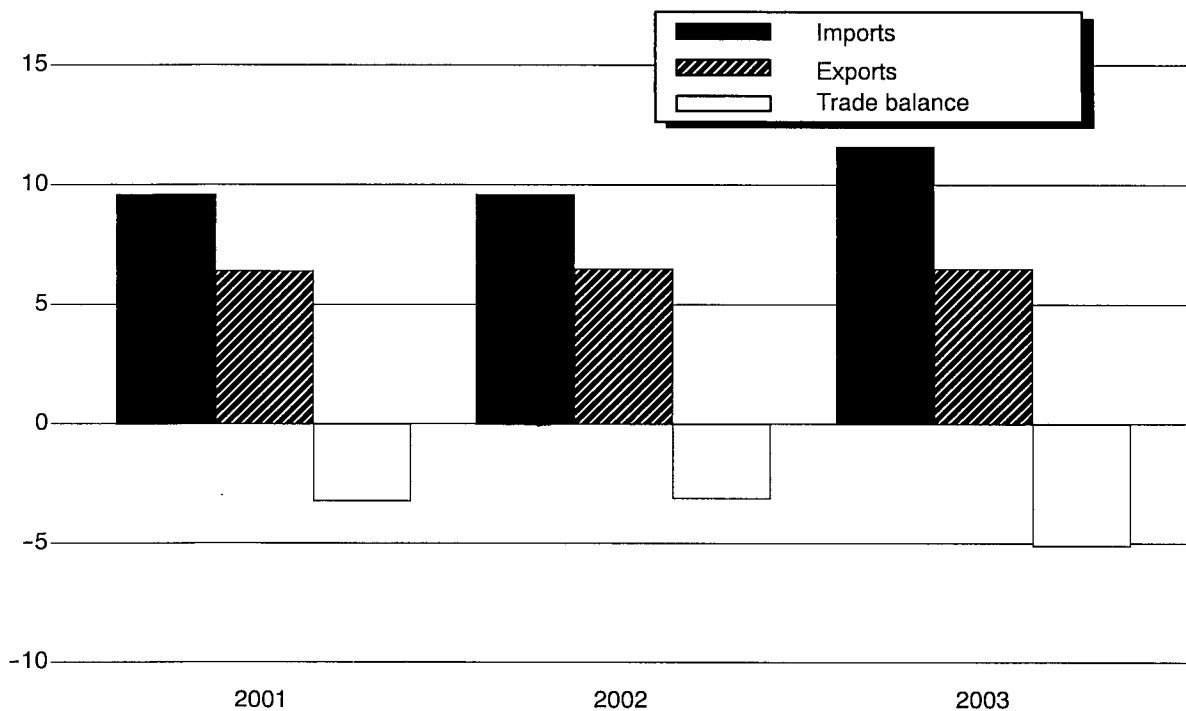
Duty Treatment of U.S. Imports from ATPA Countries

Record U.S. imports from ATPA countries in 2003 resulted from a stronger U.S. economy than in the previous two years, the strength of the U.S. dollar in terms of most ATPA-country currencies, and higher oil prices. Most important, U.S. demand for the products of ATPA countries was boosted by the steep decline in the dutiable portion of U.S. imports from ATPA

⁶ A report released in September 2004, *The Impact of the Andean Trade Preference Act*, Tenth Report, 2003, covering developments during the year 2003 in an annual series of reports of the United States International Trade Commission, will contain tables that include some data cited, but not shown, in this article.

Figure 1
U.S. imports, exports, trade balance with ATPA countries

Billion dollars



Source: Compiled from official statistics of the U.S. Department of Commerce.

countries. This decline of the dutiable portion was caused, in turn, by the reinstatement of ATPA and of the General System of Preferences (GSP) as well as by the implementation of extended ATPA preferences at

the end of 2002. During 2002, both GSP and ATPA lapsed for several months.

Table 2 shows the dutiable portion of U.S. imports from ATPA countries, U.S. calculated duty revenues,

Table 2
U.S. imports for consumption from ATPA countries: Dutiable value, calculated duties, and average duty, 1999-2003

Item	1999	2000	2001	2002	2003
Dutiable imports (thousand dollars) ¹	3,459,748.0	4,517,161.0	3,798,848.0	4,598,474.0	1,612,727.0
Dutiable as a share of total (percent)	35.2	40.6	39.7	47.8	14.0
Calculated duties (thousand dollars)	123,263.0	142,367.0	144,098.0	169,498.0	63,209.0
Average duty (percent) ²	3.6	3.2	3.8	3.7	3.9

¹ Dutiable value and calculated duty exclude the U.S. content entering under HTS heading 9802.00.80 and subheading 9802.00.60 and misreported imports. Data based on product eligibility corresponding to each year.

² Average duty = (calculated duty/dutiable value) x 100.

Note.—Commission staff adjusted official Census data to reflect trade believed to have been eligible for duty-free entry under ATPDEA. The adjustment was necessary because, when the original ATPA expired, no provision was made to allow duty-free entry to continue for eligible goods under appropriate bond while renewal was debated in the Congress. As a result, significant quantities of imports that would likely have entered free of duty under ATPDEA were in fact assessed duties.

Source: Compiled from official statistics of the U.S. Department of Commerce.

and the average rates of duty on such imports in 1999-2003. Duty revenues from ATPA countries, as calculated, dropped from \$169 million in 2002 to only \$63 million in 2003, or by 63 percent; they amounted to significantly less than half the U.S. duty revenues collected from ATPA countries in each of the previous 3 years.

In 2002, due to the long lapse of GSP and ATPA duty-free preferences, the dutiable share of imports from ATPA countries increased to 47.8 percent from some 40 percent in the two prior years. In contrast, the renewal and the expansion of preferences resulted in a sharp decline of the dutiable share of U.S. imports from ATPA countries to 14 percent in 2003 (see figure 2).

In 2003, the 14-percent dutiable portion of imports included tuna in metal cans,⁷ rum and tafia, and above-quota imports of certain agricultural products subject to tariff-rate quotas that are not eligible for

⁷ Pouched tuna, tuna packed in flexible pouches as an alternative to tuna packed in metal cans, became duty-free under ATPDEA; "loins," a semi-finished tuna product, had been duty-free under the original ATPA already.

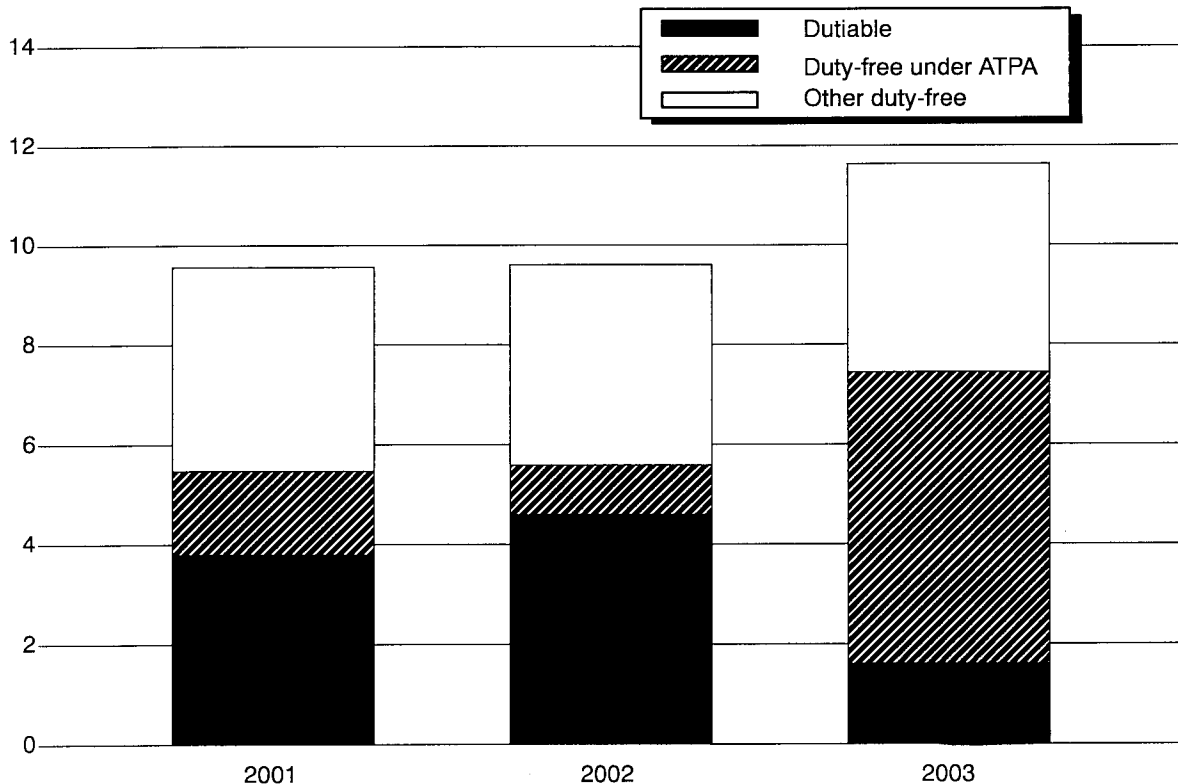
ATPDEA preferences. Notably, only one product—canned tuna—was dutiable among the twenty leading U.S. imports from ATPA countries. All the other products on the list were free of duty under ATPA or other U.S. provisions for duty-free entry.

Imports from ATPA countries entered free of duty in 2003 in one of the following ways: (1) unconditionally free under normal tariff rates (NTR) (32 percent of all imports); (2) conditionally free under GSP (3 percent); (3) conditionally free under the original ATPA (14 percent); and (4) conditionally free under ATPDEA (37 percent).⁸ The 51 percent duty-free portion of imports under the expanded ATPA (original ATPA and ATPDEA combined) was the

⁸ A report released in September 2004, *The Impact of the Andean Trade Preference Act*, Tenth Report, 2003, covering developments during the year 2003 as part of an annual series of reports of the United States International Trade Commission, will contain tables that include some data cited, but not shown, in this article.

Figure 2
U.S. imports from ATPA countries by duty treatment, 2001-03

Billion dollars



Source: Compiled from official statistics of the U.S. Department of Commerce.

largest duty-free category of U.S. imports from ATPA countries, as shown in figure 2. This compares with an only 10 percent share of ATPA (which already included some year-end imports under ATPDEA) of the total during the atypical U.S. duty treatment of Andean products in 2002,⁹ and a 17 percent share of the total of the original ATPA in 2001. Leading imports from ATPA countries in 2003 entering under the expanded ATPA included original ATPA product categories, such as copper cathodes and flowers, and new (ATPDEA) product categories, such as oil derivatives and apparel products.

Next to the expanded ATPA, the largest duty-free category from ATPA countries in 2003 comprised those products that entered free of duty under NTR rates. This category contained mostly the traditional exports of the region: gold and silver bullion, bituminous coal, coffee, and bananas.

Table 3 shows the dutiable value of U.S. imports from ATPA countries in 2001-2003 in those leading ATPDEA product categories that contain significant portions of newly duty-free imports under the expanded ATPA. The contraction of dutiable import

⁹ See Magda Kornis, "An Atypical Year in the History of U.S. Imports under the Andean Trade Preference Act," *International Economic Review*, Sept./Oct. 2003, United States International Trade Commission, USITC Publication 3638.

values of petroleum and derivatives, apparel, pouched tuna, footwear, and leather articles – all product groups containing significant portions of newly duty-free ATPDEA imports – averaged close to 70 percent in 2003, compared with 2002. In dollar terms, the total dutiable value of U.S. imports from ATPA countries dropped by some \$3 billion in the same period, of which \$2.5 billion was accounted for by these six leading ATPA product groups shown in table 3, and by a \$2.1 billion (70 percent) decline in imports of petroleum and petroleum derivatives alone.

Free Trade Negotiations with ATPA Countries

As the United States and the ATPA countries begin negotiations for an FTA, only 14 percent of U.S. imports from ATPA countries are dutiable, as mentioned earlier — a *status quo* which would not change much at least through the end of 2006.¹⁰ Thus, ATPA countries will likely center their negotiating positions on the small portion of their exports that are still dutiable or subject to U.S. tariff-rate quotas.¹¹ In

¹⁰ USTR, "Peru and Ecuador to Join with Colombia in May 18-19 launch of FTA Negotiations with the United States," *Press Release* 2004-35, May 3, 2004.

¹¹ U.S. tariff-rate quotas apply, for example, to imports of cane sugar, dairy products, and certain tuna from ATPA countries.

Table 3
Dutiable values of leading imports from ATPA countries by major product categories that benefited from ATPDEA, by 2-digit HTS sectors, 2001, 2002, 2003

HTS Chapter	Dutiable Value of Imports			Decline of Dutiable Value	
	2001	2002	2003*	2003/2002	2003/2002
	Thousand dollars	Thousand dollars	Thousand dollars	Thousand dollars	Percent
HTS27 Petroleum and derivatives . . .	2,599,933	2,891,713	816,663	2,075,050	71.8
HTS61 Articles of Apparel, Knitted . .	447,644	464,967	104,781	360,186	77.5
HTS62 Articles of Apparel, Not Knitted	217,347	230,411	164,557	65,854	28.6
HTS16 Prepared Fish [mostly pouched tuna]	51,382	130,186	101,625	28,561	21.9
HTS42 Articles of Leather	24,913	21,244	4,678	16,566	78.0
HTS64 Footwear	3,362	3,679	958	2,721	74.0
Subtotal	3,346,582	3,744,202	1,193,262	2,548,938	68.1
Other	452,266	854,272	419,465	434,807	50.9
Total	3,798,848	4,598,474	1,612,727	2,983,745	64.9

*Commission staff adjusted official Census data to reflect trade believed to have been eligible for duty-free entry under ATPDEA. The adjustment was necessary because, when the original ATPA expired, no provision was made to allow duty-free entry to continue for eligible goods under appropriate bond while renewal was debated in the Congress. As a result, significant quantities of imports that would likely have entered free of duty under ATPDEA were in fact assessed duties.

Source: Compiled from official statistics of the U.S. Department of Commerce.

addition, several officials in the region stressed that the key reason for negotiating this trade agreement is to ensure that the market-access provisions of the expanded ATPA extend beyond the program's December 2006 expiration date.

In his testimony before the United States International Trade Commission on February 10, 2004, Luis Alberto Moreno, Ambassador of Colombia, stated that a U.S.-Andean FTA should expand and make permanent the preferential access Colombia currently enjoys to the U.S. market; moreover, the FTA should boost foreign investment by improving the risk profile of doing business in Colombia. At the International Summit of the Americas in Quito, Ecuador, on June 8th, 2004,¹² the General Secretary of the Andean Community also named "attracting investment through long-term stability" as one of the Andean challenges, next to "access to markets under differential conditions."

For its part, the United States will examine the sensitivity of removing remaining U.S. duties and quotas applicable to Andean products, i.e. it will estimate the probable economic effect on U.S. interests of doing so. The United States will also seek that ATPA countries dismantle their own barriers to U.S. exports. At the third round of FTA talks in Lima Peru, in July 26 through July 30, Peru already offered a list of products on which it would eliminate tariffs for U.S. products immediately, or within 10 years after the trade pact is signed.¹³

ATPA countries, which are important markets for U.S. cereals and U.S. cotton, are most sensitive about access to their markets for U.S. agricultural products. Christian Espinosa, Ecuador's chief negotiator, had reportedly said that "The Andean countries will not

¹² Allan Wagner Tizon, General Secretary of the Andean Community, "Free Trade Agreements and the Andean Integration Process," Quito, June 8, 2004, found at Internet address <http://www.comunidadandina.org>, retrieved on June 18, 2004.

¹³ Lucien O. Chauvin, op. cit.

cede ground on the agricultural front. We will defend our mechanisms to neutralize the effects of U.S. subsidies."¹⁴ Currently, under the Andean Community's "price band" system, variable tariffs of up to 100 percent can be applied to agricultural imports to restore prices once they drop below specified levels.¹⁵

Peru's Agriculture Minister, Alvaro Quijandria commented that "The free trade agreement will be beneficial for Peru and Peruvian agriculture, but we need to ensure that sensitive products are not affected by subsidies granted by other countries."¹⁶ Quijandria's office maintains a list of "sensitive products" that, according to him, need to be negotiated on a case-by-case basis. In any event, a phase-out period for duties by ATPA countries on agricultural imports from the United States with different duty staging periods is under consideration.¹⁷ Peru's "Agricultural and Communities Front," which includes associations of small farmers, goes even further in asserting concern about expanded U.S. access, arguing that Peru should not offer any duty reductions until the United States agrees to eliminate agricultural subsidies.¹⁸

In addition to U.S. access for agricultural exports, rules and regulations affecting trade and investment in the area of intellectual property rights, labor, and the environment were the most important issues discussed at the third round of preparatory talks in Lima.¹⁹

¹⁴ Karen Hansen-Kuhn, "Andean FTA: Threats to Development," *The Development Gap*, July, 2004, found at Internet address <http://www.developmentgap.org>, retrieved on Sept. 15, 2004.

¹⁵ Lucien O. Chauvin, "Farm tariffs, Intellectual Property Rights Seen as Main Obstacles to U.S.-Andean FTA," *International Trade Daily*, Bureau of National Affairs, July 30, 2004.

¹⁶ Dow Jones New Service Report from Quito, Ecuador, June 9, 2004.

¹⁷ "U.S.-Andean FTA Talks Progressing Well," *International Trade Daily*, July 30, 2004.

¹⁸ Lucien O. Chauvin, op.cit.

¹⁹ Negotiators at the Lima meeting once again included the United States, Colombia, Ecuador, and Peru. Bolivia sent observers.

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 \$97.5 billion, and imports of \$149.0 billion in September 2004, resulted in a goods and services deficit of \$51.6 billion, about \$2.0 billion less than the \$53.5 billion deficit in August 2004. September 2004 exports of \$97.5 billion were about \$0.8 billion more than August 2004 exports of \$96.7 billion.² September 2004 imports of \$149.0 billion were \$1.2 billion less than August imports of \$150.2 billion.

September 2004 merchandise exports increased by about \$0.9 billion to \$68.9 billion from August 2004 exports of \$68.0 billion. Merchandise imports decreased by about \$0.5 billion to \$124.5 billion from August 2004 imports of \$125.0 billion. The merchandise trade deficit decreased by about \$1.4 billion in September 2004 to about \$55.6 billion from about \$57.0 billion in August 2004.

For services, exports decreased by about \$0.2 billion to \$28.5 billion in September 2004 from August 2004 exports of \$28.7 billion. Imports of services decreased by about \$0.7 billion to \$24.5 billion in September. The services trade surplus in September increased by \$0.6 billion to \$4.0 billion from \$3.4 billion in August 2004. Services exports decrease of about \$0.2 billion from August to September was due

to decreases in travel and other transportation (which includes freight and port services), which was partly offset by an increase in other private services (which includes items such as business, professional, and technical services, insurance services and financial services). Changes in other categories of services exports were small. Services imports decrease of \$0.7 billion from August to September was accounted for by a decrease in royalties and license fees which had been boosted in August by payments for broadcast rights for the 2004 Summer Olympic Games. Changes in other categories of services imports were small.

Changes in merchandise exports from August to September 2004 reflected increases in food, feeds, and beverages (\$0.6 billion); industrial supplies and materials (\$0.5 billion); capital goods (\$0.3 billion); and consumer goods (\$0.3 billion). Decreases occurred in automotive vehicles, parts, and engines (\$0.1 billion). The August to September 2004 changes in imports of goods reflected decreases in industrial supplies and materials (\$0.7 billion); "other goods" statistical category (\$0.3 billion); and in foods, feeds and beverages (\$0.1 billion). Increases occurred in capital goods (\$0.4 billion); and automotive vehicles, parts, and engines (\$0.2 billion). Consumer goods were virtually unchanged.

In September 2004, exports of advanced technology products were around \$17.3 billion and imports of the same were about \$20.4 billion, resulting in a deficit of about \$3.2 billion, about \$1.3 billion less than the August 2004 deficit of \$4.5 billion. Exports of these products in September 2004 of \$17.3 billion were more than those recorded in August of \$16.0 billion. But imports of advanced technology products of \$20.4 billion in September 2004 were about the same as those of August 2004 imports.

The September 2004 trade data showed U.S. surpluses with the following countries (preceding month in parentheses): Australia, \$0.6 billion (\$0.6

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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," September 2004, BEA-04-50, FT-900 (04-09), Nov. 11, 2004, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad-newsrelease.htm>, retrieved on Nov. 11, 2004.

billion in August); Hong Kong, \$0.5 billion (\$0.4 billion); Singapore, \$0.3 billion (\$0.6 billion); and Egypt, \$0.1 billion (\$0.1 billion). Deficits were recorded in September 2004 with China, \$15.5 billion (\$15.4 billion); Western Europe, \$7.9 billion (\$10.0 billion); the European Union (EU 25), \$7.7 billion (\$9.6 billion); OPEC member countries, \$6.7 billion (\$7.0 billion); Japan, \$6.1 billion (\$6.4 billion); Canada, \$5.3 billion (\$6.0 billion); Mexico, \$3.8 billion (\$3.7 billion); Korea, \$2.1 billion (\$1.5 billion); Taiwan, \$1.1 billion (\$1.5 billion); and Brazil, \$0.9 billion (\$0.6 billion).

During September 2003-September 2004, the change in exports of goods reflected increases in industrial supplies and materials (\$3.3 billion); capital goods (\$3.2 billion); consumer goods (\$1.1 billion); automotive vehicles, parts, and engines (\$0.9 billion); "other goods" statistical category (\$0.4 billion); and foods, feeds, and beverages (\$0.2 billion). The September 2003-September 2004 changes in imports of goods reflected increases in industrial supplies and materials (\$9.8 billion); capital goods (\$4.4 billion); consumer goods (\$2.6 billion); automotive vehicles, parts, and engines (\$1.9 billion); other goods statistical category (\$0.2 billion); and foods, feeds, and beverages (\$0.2 billion).

From September 2003 to September 2004, services exports increased by \$2.5 billion. The largest increases were in travel (\$0.8 billion); other private services which includes items such as business, professional, and technical services; insurance and financial services (\$0.8 billion); and other transportation (\$0.5 billion). From September 2003 to September 2004, services imports increased \$2.8 billion, with the largest increases in other private services (\$0.8 billion); other transportation (\$0.8 billion); and travel (\$0.7 billion).

The January-September 2004 trade data show surpluses with Belgium, \$3.3 billion (for January-September 2003, \$3.9 billion); the Netherlands, \$8.9 billion (\$6.6 billion); Hong Kong, \$4.9 billion (\$3.2 billion); Australia, \$5.0 billion (\$5.1 billion); Singapore, \$3.8 billion (\$1.2 billion); and Egypt, \$1.4 billion (\$1.0 billion). Deficits were recorded with Canada, \$49.3 billion (\$38.5 billion); Mexico, \$33.4 billion (\$31.0 billion); Western Europe, \$82.7 billion (\$72.1 billion); the euro area, \$60.5 billion (\$53.8 billion); European Union (EU 25), \$79.9 billion (\$70.6 billion); European Union (EU 15), \$75.6 billion (\$67.0 billion); France, \$7.4 billion (\$8.4 billion); Germany, \$33.1 billion (\$28.2 billion); Italy, \$13.0 billion (\$11.3 billion); United Kingdom, \$7.0 billion (\$5.9 billion); EFTA, \$5.5 billion (\$4.3 billion); Pacific Rim countries, \$202.1 billion (\$167.9 billion); China, \$114.3

billion (\$89.7 billion); Japan, \$55.2 billion (\$48.2 billion); Korea, \$14.2 billion (\$9.0 billion); Taiwan, \$9.7 billion (\$11.1 billion); and OPEC, \$51.9 billion (\$38.2 billion).

Additional information on U.S. trade developments in agriculture and specified manufacturing sectors during August 2004 is highlighted in table 1 and table 2, and figure 1 and figure 2. Services trade developments are highlighted in table 3. It should be noted that individual European countries shown here are also included in the euro area and in the European Union groupings. 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.

World Trade Developments in 2003

In April 2004, the World Trade Organization (WTO) announced that stronger-than-expected global economic growth, particularly in the United States and Asia, spurred a recovery in world trade during 2003. The following are highlights of the WTO press release:³

Improved economic conditions in the United States and Asia boosted world trade in 2003, with Asia and the transition economies recording the most dynamic trade expansion in 2003. The value of world merchandise trade rose by 16.0 percent to \$7.3 trillion in 2003. World trade in services rose by 12.0 percent to \$1.8 trillion. However, WTO estimated that more than two thirds of the rise in the nominal value of world merchandise trade was attributable to changes in the dollar price in terms of other major currencies.

According to the WTO, U.S. import growth exceeded the world average thus mitigating sluggish world trade growth over the last few years in the rest of the world. However, imports exceeding exports widened the U.S. trade deficit. U.S. merchandise imports rose by 9.0 percent while exports rose by 4.0 percent. In other countries and areas, imports in Western Europe rose by 18.0 percent, and exports rose by 17.0 percent. Asian merchandise exports and imports expanded by 17.0 percent and 19.0 percent respectively. China's imports expanded by 40.0 percent and exports expanded by 35.0 percent, showing unprecedented strength in Chinese economic expansion. Latin America's exports rose by 9.0 percent, sustained by a recovery in demand for primary products, particularly from Asia. Developing countries'

³ WTO, "World Trade 2003, Prospects for 2004 — Stronger than expected growth spurs modest trade recovery," press release 373, Apr. 5, 2004.

Table 1
U.S. trade in goods and services, seasonally adjusted, August 2004 to September 2004

Item	Exports		Imports		Trade balance	
	September 2004	August 2004	September 2004	August 2004	September 2004	August 2004
	<i>Billion dollars</i>					
Trade in goods ¹ (see note)						
Including oil	68.9	68.0	124.5	125.0	-55.6	-57.0
Excluding oil	68.8	67.2	109.0	108.7	-40.1	-41.5
Trade in services ¹	28.5	28.7	24.5	25.3	4.0	3.4
Trade in goods and services ¹	97.5	96.3	149.0	150.2	-51.6	-53.5
Trade in goods ²	69.2	68.1	122.4	123.6	-53.2	-55.5
Advanced technology products ³	17.3	16.0	20.4	20.4	-3.2	-4.5

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 Nov. 10, 2004, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

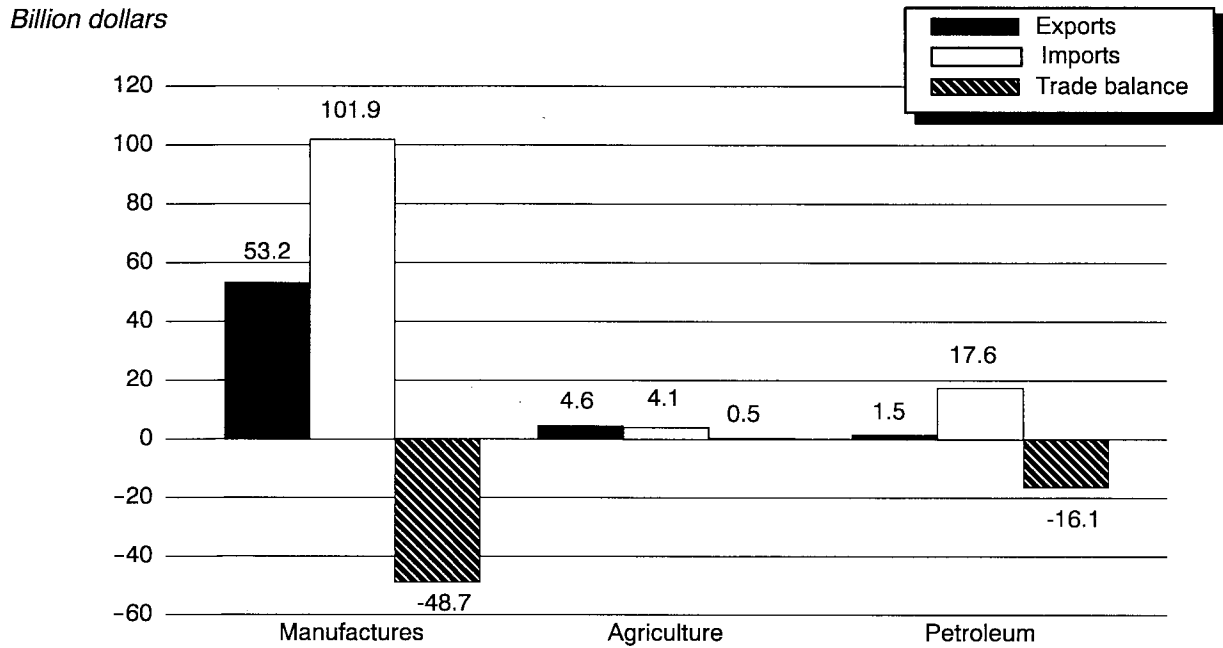
Table 2
Nominal U.S. exports, imports, and trade balances, agriculture and specified manufacturing sectors, January 2003 to September 2004

Manufacture sector	Exports			Imports			Trade balance		Change in exports, Jan.-Sept. 2004 over Jan.-Sept. 2003	Change in trade balance, Jan.-Sept. 2004 over Jan.-Sept. 2003
	Sept. 2004	Jan.-Sept. 2004	Jan.-Sept. 2003	Sept. 2004	Jan.-Sept. 2004	Jan.-Sept. 2003	Jan.-Sept. 2004	Jan.-Sept. 2003		
	<i>Billion dollars</i>								<i>Percent</i>	
ADP equipment & office machinery	2.4	20.6	21.0	8.2	68.0	58.2	47.4	-37.3	-1.8	27.2
Airplane parts	1.3	11.2	10.9	0.4	3.6	3.4	7.6	7.5	2.7	0.9
Airplanes	2.0	18.6	17.7	1.0	8.1	8.7	10.5	9.0	5.5	17.1
Chemicals - inorganic	0.5	4.5	4.3	0.7	5.8	5.5	-1.3	-1.2	4.1	13.4
Chemicals - organic	2.4	18.4	14.8	2.5	27.0	24.6	-8.6	-9.9	24.7	-13.2
Electrical machinery	6.1	55.0	51.4	8.3	69.1	60.3	-14.1	-8.9	7.2	57.2
General industrial machinery	3.0	25.8	22.4	3.6	34.0	28.9	-8.3	-6.9	14.9	28.2
Iron & steel mill products	0.7	5.7	4.7	2.4	15.5	8.4	-9.7	-3.7	21.3	165.8
Power-generating machinery	3.2	26.3	23.2	3.0	26.5	24.0	-0.2	-0.8	13.1	-75.9
Scientific instruments	2.8	24.5	20.5	2.4	20.9	17.2	3.7	3.8	19.8	13.0
Specialized industrial machinery	2.3	21.3	17.5	2.0	19.4	15.4	1.8	2.1	21.3	-12.8
Televisions, VCRs, etc.	1.7	14.6	12.1	7.9	61.6	49.0	-47.1	-36.8	20.0	27.8
Textile yarn and fabric	1.0	8.6	7.9	1.6	14.6	12.9	-6.0	-5.0	10.0	19.1
Vehicles	5.5	48.1	44.9	15.4	138.2	125.1	-90.1	-80.2	71.8	12.3
Other manufactures, not included above	18.3	158.1	138.3	42.5	349.4	310.9	-191.2	-172.6	14.3	10.8
Manufactures	53.2	461.4	411.6	101.9	861.7	752.5	-400.3	-340.9	12.1	17.4
Agriculture	4.6	44.0	41.2	4.1	40.2	34.8	3.7	6.4	6.6	-41.4
Other goods, not included above	12.0	98.6	78.1	20.7	171.5	137.3	-72.9	-59.2	26.1	23.2
Total (Census basis)	69.7	603.9	530.9	126.7	1,073.4	924.6	-469.5	-393.7	13.7	19.3

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

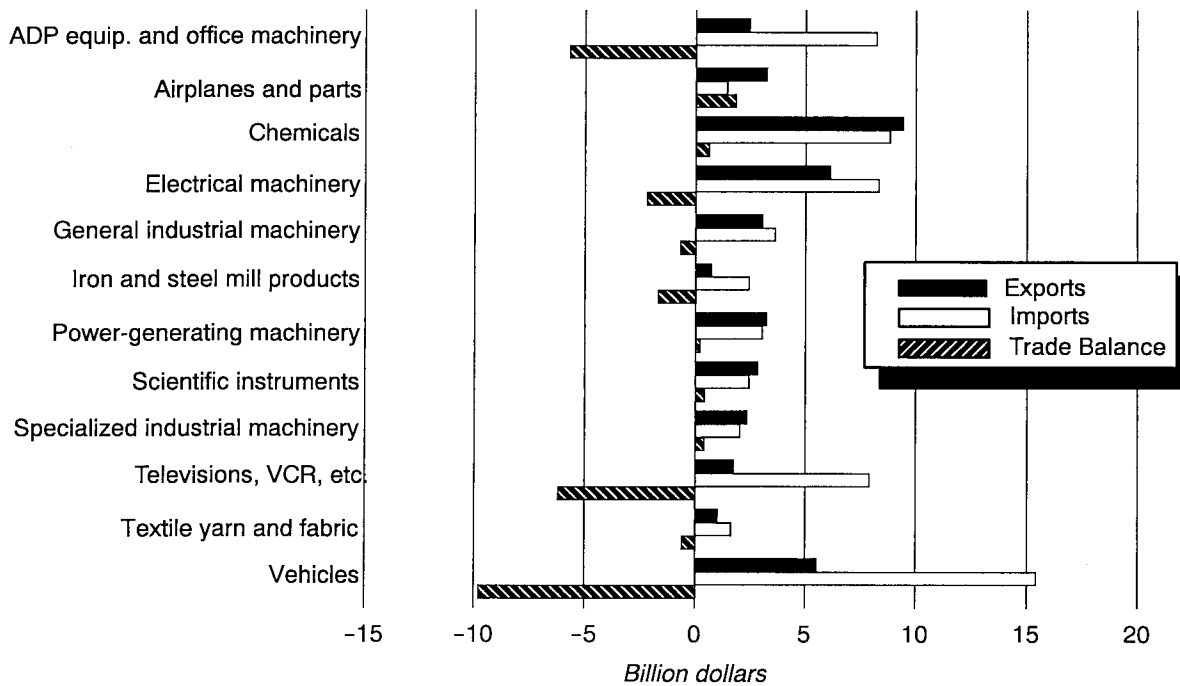
Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Nov. 10, 2004, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

Figure 1
U.S. trade by major commodity, September 2004



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Nov. 10, 2004.

Figure 2
U.S. trade in principal goods, September 2004



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Nov. 10, 2004.

Table 3
Nominal U.S. exports, imports, and trade balances of services, by sectors, January 2003 to September 2004, seasonally adjusted

Service sector	Exports		Imports		Trade balance		Change in exports	Change in imports
	Jan.-Sept. 2004	Jan.-Sept. 2003	Jan.-Sept. 2004	Jan.-Sept. 2003	Jan.-Sept. 2004	Jan.-Sept. 2003	Jan.-Sept. 2004 over Jan.-Sept. 2003	Jan.-Sept. 2004 over Jan.-Sept. 2003
	<i>Billion dollars</i>						<i>Percent</i>	
Travel	56.1	46.4	48.3	41.5	7.8	4.9	20.8	16.3
Passenger fares	13.8	11.4	17.3	15.4	-3.5	-4.0	21.0	12.3
Other transportation services	27.9	23.3	39.4	33.2	-11.6	-9.9	19.6	18.7
Royalties and license fees	37.6	35.7	17.1	14.7	20.6	21.0	5.3	15.7
Other private sales	106.2	99.3	70.5	63.4	35.7	35.9	6.9	11.2
Transfers under U.S. military sales contracts	10.7	9.1	20.8	18.3	-10.1	-9.2	17.1	13.4
U.S. Government miscellaneous services	0.6	0.6	2.4	2.2	-1.8	-1.6	-7.1	5.6
Total	252.8	225.9	215.7	188.8	37.1	37.1	11.9	14.2

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 Nov. 10, 2004, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

Table 4
U.S. exports and imports of goods with major trading partners, January 2003-September 2004

Country/areas	Exports			Imports			Trade balance		Change in exports, Jan.-Sept. 2004 over Jan.-Sept. 2003	Change in imports, Jan.-Sept. 2004 over Jan.-Sept. 2003
	Sept. 2004	Jan.-Sept. 2004	Jan.-Sept. 2003	Sept. 2004	Jan.-Sept. 2004	Jan.-Sept. 2003	Jan.-July 2004	Jan.-Sept. 2003		
	<i>Billion dollars</i>								<i>Percent</i>	
Total (Census basis)	69.7	603.9	530.9	126.7	1073.4	924.6	-469.5	-393.7	13.7	16.1
North America	26.3	221.8	196.9	35.4	304.5	266.4	-82.7	-69.5	12.6	14.3
Canada	16.6	140.4	125.9	21.9	189.7	164.5	-49.3	-38.5	11.5	15.3
Mexico	9.7	81.4	71.0	13.5	114.8	102.0	-33.4	-31.0	14.8	12.6
European Union (EU-25)	14.2	127.3	114.2	21.9	207.2	184.8	-79.9	-70.5	11.4	12.1
Western Europe	15.2	135.4	122.5	23.0	218.1	194.6	-82.7	-72.1	10.6	12.1
Euro Area	10.6	93.3	82.9	16.4	158.3	136.7	-60.5	-53.8	12.6	12.5
European Union (EU-15)	14.0	124.2	111.8	21.2	199.9	178.8	-75.6	-67.0	11.1	11.8
France	1.8	15.3	12.7	2.7	22.7	21.2	-7.4	-8.4	19.8	7.2
Germany	2.8	23.2	21.3	6.0	56.3	49.5	-33.1	-28.2	8.8	13.7
Italy	0.9	7.8	7.5	2.2	20.8	18.8	-13.0	-11.3	3.9	10.4
Netherlands	2.1	17.8	14.7	1.0	8.9	8.2	8.9	6.2	20.6	9.4
United Kingdom	2.9	26.8	25.4	3.5	33.8	31.4	-7.0	-5.9	5.5	7.7
Other EU	1.0	10.7	9.5	2.5	26.4	23.6	-15.7	-14.1	12.9	11.9
EFTA ¹	0.9	8.1	7.8	1.3	13.6	12.0	-5.5	-4.3	3.9	13.0
Eastern Europe/FSR ²	0.7	6.5	4.8	2.0	17.0	14.2	-10.5	-9.3	33.3	19.9
Russia	0.3	2.1	1.8	1.0	7.9	7.0	-5.8	-5.3	20.7	12.0
Pacific Rim Countries	17.7	156.2	136.8	44.2	358.3	304.7	-202.1	-167.9	14.2	17.6
Australia	1.2	10.4	9.8	0.6	5.4	4.7	5.0	5.1	6.8	14.5
China	2.9	25.5	19.0	18.4	139.9	108.6	-114.3	-89.7	34.7	28.7
Japan	4.5	40.4	38.7	10.6	95.6	86.8	-55.2	-48.2	4.5	10.1
NICs ³	7.3	62.6	52.3	9.8	77.9	67.9	-15.3	-15.7	19.8	14.7
Latin America	5.0	45.0	38.0	8.9	71.3	58.0	-26.3	-20.0	18.3	22.8
Argentina	0.3	2.5	1.7	0.3	2.8	2.4	-0.1	-0.6	46.1	10.1
Brazil	1.1	10.4	8.1	2.1	15.2	13.3	-4.8	-5.2	28.3	14.2
OPEC	2.0	15.6	12.7	8.7	67.5	50.8	-51.9	-38.2	23.3	32.9
Other Countries	3.5	28.5	22.9	7.7	62.8	55.2	-34.2	-32.3	24.8	13.7
Egypt	0.3	2.3	1.9	0.1	0.9	0.9	4.1	1.0	22.5	0.0
South Africa	0.3	2.2	1.9	0.4	4.3	3.3	-2.1	-1.4	14.6	30.7

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 Nov. 10, 2004, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

merchandise exports expanded by 17.0 percent in 2003, slightly faster than their imports and the world average, which consequently widened their trade surpluses. Oil exporting countries recorded nominal export growth in excess of 20.0 percent (table 5).

The WTO estimated that commodity prices and exchange rate changes led to a 10.5 percent strengthening of world merchandise trade prices in 2003. For the first time since 1995, dollar prices increased for both agricultural and manufactured products. However the impact of price and exchange rate developments on nominal trade flows differed by region. As West European currencies appreciated against the dollar, the dollar merchandise export value of Western Europe expanded at a rate faster than world trade despite a near stagnation in volume terms.

WTO also noted that commercial services developments by region differed from merchandise trade by region due to the predominant role played by exchange rate movements. In merchandise trade, all regions recorded stronger nominal export and import growth in 2003 compared to 2002. In services trade, Asia's exports are estimated to have expanded at 6.0 percent in 2003, a lower rate than the 8.0 percent expansion in 2002. Western Europe recorded gains of 17.0 percent in their services exports and of 16.0 percent in their imports. The transition economies recorded annual gains of 19.0 percent in their services exports, and 21.0 percent in services imports. Increases in services exports from Asia increased only 6.0 percent annually; and Latin America's increased export of services was also limited to 6.0 percent. North America's surplus in services trade was reduced as exports expanded by 4.0 percent while imports expanded by more than 7.0 percent. The WTO estimated that developing countries exports and imports of commercial services expanded at only half the rate of world services trade (table 6).

The WTO ranking of leading merchandise exporters put Germany in first place, replacing the United States as the world's leading exporter. The elevation of Germany to first place was due mainly to the appreciation of the euro against the dollar, which boosted the dollar value of German exports to \$748.4 billion—a share in total world merchandise exports of 10.0 percent and an increase of 22.0 percent over 2002. The United States ranked second with total exports of \$724.0 billion, a world share of 9.7 percent, and an annual percentage increase of 4.0 percent over 2002. Japan ranked third with total exports of \$471.9 billion, a world export share of 6.3 percent, and an increase of 13.0 percent over 2002. China, France, the United

Kingdom, the Netherlands, Italy, Canada, and Belgium followed, ranking from fourth to tenth respectively.

According to the WTO ranking of world merchandise importers, the United States remained the leading importer with total imports from the world of \$1305.6 billion, a share of 16.8 percent of total world imports, and a 9.0 percent increase over 2002. Germany ranked second with total imports of \$601.7 billion, a world import share of 7.7 percent, and a 23.0 percent increase over 2002. China ranked third with total imports of \$412.8 billion, a world import share of 5.3 percent, and an unprecedented rate of increase of 40.0 percent over 2002. France and the United Kingdom ranked fourth and fifth respectively, with total imports of about \$388.4 billion for each, a world import share of 5.0 percent each, and an increase of 18.0 percent for France, and 12.0 percent for the United Kingdom over their respective shares in 2002. Japan ranked sixth with total imports of \$383.0 billion, a world import share of 4.9 percent, and an increase of 14.0 percent over 2002 (table 7).

According to the WTO ranking of trade in commercial services in 2003, "gains were principally recorded by Western European countries and in countries with appreciating currencies, at the expense of American and Asian countries."⁴ Ranking services exports, the WTO stated that "Japan, Canada, Singapore, and Chinese Taipei lost two positions while Belgium, Sweden, and Greece gained two positions; whereas among the leading importers, Japan, and Canada, lost one position."⁵ The WTO also estimated that, "China has become the largest exporter of commercial services among the developing countries in 2003; and that China was already the largest developing country importer of services, and its imports of commercial services continued to exceed its exports in 2003."⁶

Table 8 shows the WTO ranking of leading exporters and importers in world trade in commercial services in 2003 in billion dollars, their share of world trade, and each's percentage change from 2002. The United States ranked first in exports of services with a value of \$282.5 billion, a share of 16.0 percent of total world services exports, and 4.0-percent increase over 2002. In imports of services, the United States also ranked first, with total imports of \$218.2 billion, a world share of 12.5 percent, and 6.0-percent increase

⁴ WTO, "World Trade 2003, Prospects for 2004 — Stronger than expected growth spurs modest trade recovery," press release 373, Apr. 5, 2004.

⁵ *Ibid.*

⁶ *Ibid.*

Table 5
Growth in the value of merchandise trade by region, 1990-2003

	Exports				Imports			
	2003	1990-2000	2002	2003	2003	1990-2000	2002	2003
	<i>Billion dollars</i>	<i>Annual percentage change</i>			<i>Billion dollars</i>	<i>Annual percentage change</i>		
World	7274	6	4	16	7557	6	4	16
North America	996	7	N/A	5	1552	9	2	9
United States	724	7	N/A	4	1306	9	2	9
Latin America	377	9	0	9	366	12	N/A	3
Mexico	165	15	1	3	179	15	0	1
Mercosur	106	6	1	19	69	12	N/A	10
Other Latin America	106	6	N/A	8	118	7	N/A	3
Western Europe	3141	4	6	17	3173	4	5	18
European Union (EU-15)	2894	4	6	17	2914	4	4	18
Extra EU-15 trade	1099	5	7	17	1114	5	2	19
Intra EU-15 trade	1795	4	6	18	1800	4	6	18
Transition economies	400	10	10	28	378	8	11	27
Central/Eastern Europe	191	10	15	29	225	12	11	27
Russia	135	N/A	4	26	74	N/A	12	24
Africa	173	3	2	22	165	3	4	17
South Africa	36	2	2	23	38	5	4	30
Oil exporters ¹	80	4		30	42	1	6	19
Other African countries	56	3	7	12	85	2	4	12
Middle East	290	7	1	16	188	5	3	9
Asia	1897	8	8	17	1734	8	6	19
Japan	472	5	3	13	383	5		14
Developing Asia	1338	11	10	19	1244	9	9	20
China	438	15	22	35	413	15	21	40
Six East Asian traders ²	686	9	6	14	615	8	3	12
India	55	9	14	11	70	8	12	23
Memorandum:								
Developing economies	2178	9	6	17	1963	8	4	15
LDCs	44	7	9	14	54	5	4	15

¹ Algeria, Angola, Congo, Equatorial Guinea, Gabon, Libya, Nigeria, and Sudan.

² Chinese Taipei, Hong Kong China, Rep. of Korea, Malaysia, Singapore, and Thailand.

NOTE.—N/A indicates not available

Source: WTO, "World Trade 2003, Prospects for 2004 — Stronger than expected growth spurs modest trade recovery," press release 373, Apr. 5, 2004.

Table 6
Growth in the value of commercial services trade by region, 1990-2003, billion dollars and percentages

	Exports				Imports			
	2003	1990-2000	2002	2003	2003	1990-2000	2002	2003
	Billion dollars	<i>Annual percentage change</i>			Billion dollars	<i>Annual percentage change</i>		
World	1763	7	6	12	1743	6	5	12
North America	322	8	1	4	266	7	1	7
United States	282	8	1	4	218	8	2	6
Latin America	60	7	-4	6	67	7	N/A	3
Mexico	12	7	-1	0	17	5	3	2
Mercosur	15	8	-11	12	20	9	N/A	8
Other Latin America	33	7	-1	5	29	7	N/A	0
Western Europe	895	5	10	17	839	5	8	16
European Union (EU-15)	802	5	10	16	782	5	8	16
Transition economies	72	9	11	19	82	8	15	21
Central/Eastern Europe	40	12	5	21	38	11	11	28
Russia	16	4	20	18	27	3	15	13
Africa	36	5	3	N/A	46	4	2	N/A
Middle East	33	9	-4	N/A	49	4	N/A	N/A
Asia	345	9	8	6	394	8	4	5
Japan ¹	70	5	2	8	110	3	0	3
Developing Asia	249	11	9	5	258	12	5	5
China	45	18	20	N/A	54	24	18	N/A
Hong Kong, China	43	8	10	0	24	8	1	-5
Korea	31	13	0	15	39	13	8	10
Singapore	30	9	3	3	27	12	2	0
India	25	14	12	N/A	20	13	-1	N/A
Memorandum:								
Developing economies	377	9	5	6	419	9	2	6
LDCs	7	7	6	9	17	4	2	12

¹ Provisional WTO Secretariat estimate for exports in 2003 is based on the methodology applied by the Bank of Japan up to 2002.

N/A indicates not available.

Source: WTO, "World Trade 2003, Prospects for 2004 — Stronger than expected growth spurs modest trade recovery," press release 373, Apr. 5, 2004.

Table 7
Leading exporters and importers in world merchandise trade 2003, billion dollars and percentage

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage change
1	Germany	748.4	10.0	22.0	1	United States	1305.6	16.8	9.0
2	United States	724.0	9.7	4.0	2	Germany	601.7	7.7	23.0
3	Japan	471.9	6.3	13.0	3	China	412.8	5.3	40.0
4	China	438.4	5.9	35.0	4	France	388.4	5.0	18.0
5	France	384.7	5.1	16.0	5	United Kingdom	388.3	5.0	12.0
6	United Kingdom	303.9	4.1	8.0	6	Japan	383.0	4.9	14.0
7	Netherlands	293.4	3.9	20.0	7	Italy	289.0	3.7	17.0
8	Italy	290.2	3.9	14.0	8	Netherlands	261.1	3.4	19.0
9	Canada	272.1	3.6	8.0	9	Canada	245.6	3.2	8.0
10	Belgium	254.6	3.4	18.0	10	Belgium	234.3	3.0	18.0
11	Hong Kong, China	224.0	3.0	11.0	11	Hong Kong, China	232.6	3.0	12.0
12	Korea	194.3	2.6	20.0	12	Spain	200.1	2.6	21.0
13	Mexico	165.3	2.2	3.0	13	Mexico	179.0	2.3	1.0
14	Spain	151.9	2.0	21.0	14	Korea	178.8	2.3	18.0
15	Chinese Taipei	150.6	2.0	12.0	15	Singapore	127.9	1.6	10.0
16	Singapore	144.1	1.9	15.0	16	Chinese Taipei	127.3	1.6	13.0
17	Russia	135.2	1.8	26.0	17	Austria	97.7	1.3	25.0
18	Sweden	100.9	1.3	24.0	18	Switzerland	96.3	1.2	15.0
19	Malaysia	100.7	1.3	8.0	19	Australia	88.6	1.1	22.0
20	Switzerland	100.6	1.3	14.0	20	Sweden	82.3	1.1	23.0
21	Austria	96.2	1.3	22.0	21	Malaysia	81.1	1.0	1.0
22	Ireland	92.7	1.2	5.0	22	Thailand	75.7	1.0	17.0
23	Saudi Arabia	88.5	1.2	23.0	23	Russia	74.5	1.0	24.0
24	Thailand	80.3	1.1	17.0	24	India	69.7	0.9	23.0
25	Brazil	73.1	1.0	21.0	25	Turkey	67.7	0.9	31.0
26	Australia	70.4	0.9	8.0	26	Poland	66.9	0.9	21.0
27	Norway	68.1	0.9	14.0	27	Denmark	58.7	0.8	17.0
28	Denmark	67.9	0.9	18.0	28	Ireland	52.8	0.7	1.0
29	Indonesia	60.7	0.8	6.0	29	Czech Rep.	51.3	0.7	26.0
30	United Arab Emirates	58.1	0.8	17.0	30	Brazil	50.7	0.7	2.0
Total above		6405.0	85.6		Total above		6570.0	84.6	
Total world		7482.0	100.0	16.0	Total world		7765.0	100.0	16.0

Source: WTO, "World Trade 2003, Prospects for 2004 — Stronger than expected growth spurs modest trade recovery," press release 373, Apr. 5, 2004.

Table 8
Leading exporters and importers in world trade in commercial services 2003, billion dollars and percentage

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage change
1	United States	282.5	16.0	4.0	1	United States	218.2	12.5	6.0
2	United Kingdom	129.5	7.3	5.0	2	Germany	167.0	9.6	12.0
3	Germany	111.7	6.3	12.0	3	United Kingdom	112.4	6.4	11.0
4	France	98.0	5.6	14.0	4	Japan	109.7	6.3	3.0
5	Spain	76.4	4.3	23.0	5	France	81.6	4.7	20.0
6	Italy	72.8	4.1	23.0	6	Italy	74.1	4.3	21.0
7	Japan	70.2	4.0	8.0	7	Netherlands	66.2	3.8	1.0
8	Netherlands	64.1	3.6	18.0	8	China	53.8	3.1	N/A
9	China	44.5	2.5	N/A	9	Ireland	48.5	2.8	20.0
10	Hong Kong, China	43.2	2.5	0.0	10	Canada	47.8	2.7	14.0
11	Belgium	41.7	2.4	17.0	11	Spain	46.1	2.6	22.0
12	Austria	41.4	2.3	19.0	12	Belgium	41.4	2.4	17.0
13	Canada	39.2	2.2	8.0	13	Austria	40.6	2.3	18.0
14	Ireland	35.3	2.0	26.0	14	Korea	38.7	2.2	10.0
15	Switzerland	32.7	1.9	17.0	15	Sweden	29.6	1.7	25.0
16	Denmark	32.6	1.9	20.0	16	Denmark	29.1	1.7	16.0
17	Korea	31.2	1.8	15.0	17	Singapore	27.2	1.6	0.0
18	Sweden	31.0	1.8	32.0	18	Russia	26.7	1.5	13.0
19	Singapore	30.4	1.7	3.0	19	Chinese Taipei	25.5	1.5	7.0
20	India	24.9	1.4	N/A	20	Hong Kong, China	23.5	1.3	-5.0
21	Greece	24.4	1.4	21.0	21	Australia	21.1	1.2	19.0
22	Luxembourg	23.8	1.4	18.0	22	Switzerland	19.9	1.1	17.0
23	Chinese Taipei	23.0	1.3	7.0	23	India	19.7	1.1	N/A
24	Norway	22.2	1.3	16.0	24	Norway	19.5	1.1	18.0
25	Australia	20.6	1.2	18.0	25	Thailand	18.1	1.0	9.0
26	Turkey	17.3	1.0	17.0	26	Indonesia	17.7	1.0	N/A
27	Russia	15.9	0.9	18.0	27	Mexico	17.4	1.0	2.0
28	Thailand	15.5	0.9	2.0	28	Malaysia	16.4	0.9	1.0
29	Malaysia	12.8	0.7	-13.0	29	Luxembourg	15.8	0.9	16.0
30	Mexico	12.5	0.7	0.0	30	Brazil	14.6	0.8	7.0
Total of above		1521.0	86.3		Total of above		1488.0	85.4	
Total world		1763.0	100.0	12.0	Total world		1743.0	100.0	12.0

N/A indicates not available.

Source: WTO, "World Trade 2003, Prospects for 2004 — Stronger than expected growth spurs modest trade recovery," press release 373, Apr. 5, 2004.

over 2002. As a result of exports exceeding imports further in 2003, the U.S. balance on commercial services showed an increase in its services trade surplus. The United Kingdom ranked second to the United States in total services exports of \$129.5 billion, a share of world services exports of 7.3 percent, and 5.0-percent increase over 2002, but ranked third after Germany, in total services imports of \$112.4 billion, a world share of 6.4 percent, and an 11.0-percent increase over 2002. Germany ranked third in exports of services worth \$111.7 billion, a world share of 6.3 percent—12.0 percent more than in 2002—but ranked second to the United States in terms of services imports of \$167.0 billion, a world share of 9.6 percent, and an increase of 12.0 percent over 2002. Japan ranked seventh in terms of exports of \$70.2 billion, a world share of 4.0 percent, and an 8.0-percent increase over 2002; but ranked fourth in terms of its imports of \$109.7 billion, with a share of 6.3 percent of world services imports, and a 3.0-percent increase over its 2002 figure. France ranked fourth, followed by Spain, Italy, and the Netherlands in terms of exports, but ranked fifth in terms of imports followed by Italy, and the Netherlands. Canada ranked thirteenth in terms of exports of \$39.2 billion, with a world share of 2.2 percent, and tenth in terms of imports of \$47.8 billion, with a world share of 2.7 percent. China ranked ninth in terms of exports of \$44.5 billion, a world share of 2.5 percent, but showed no change from 2002.

The WTO report also observed that major exchange rate developments in 2003 included the strengthening of the euro, other European currencies, and the yen against the U.S. dollar. These exchange rate changes might have been in the right direction but were of insufficient magnitude and scope to significantly reduce world trade imbalances. The WTO also noted that global foreign direct investment (FDI) flows remained almost flat at a 5-year low of around \$600 billion. FDI flows to emerging markets decreased, but other capital flows to developing countries increased in 2003.

U.S. International Transactions, Second Quarter 2004

Current Account

The Bureau of Economic Analysis of the U.S. Department of Commerce reported that the U.S. current-account deficit—the combined balances on trade in goods and services, income, and net unilateral current transfers—increased to \$166.2 billion in the

second quarter of 2004 (preliminary) from \$147.2 billion (revised) in the first quarter (table 9). The increase was more than accounted for by an increase in the deficit on goods and a decrease in the surplus on income. The surplus on services increased, and net outflows for unilateral current transfers decreased.

Goods and services

The deficit on goods and services increased to \$150.3 billion in the second quarter from \$138.6 billion in the first. The deficit on goods increased to \$163.6 billion in the second quarter from \$150.8 billion in the first quarter. Goods exports increased to \$199.3 billion from \$193.9 billion. The increase was mostly attributable to increases in industrial supplies and materials, in capital goods, and in consumer goods. Goods imports increased to \$362.9 billion from \$344.7 billion. The increase was mostly attributable to increases in industrial supplies and materials, in capital goods, and in consumer goods.

The surplus on services increased to \$13.3 billion in the second quarter from \$12.2 billion in the first. Services receipts increased to \$85.0 billion from \$82.2 billion. The largest increases were in travel and in “other” private services (such as business, professional, and technical services, insurance services, and financial services). Services payments increased to \$71.7 billion from \$70.0 billion. The largest increases were in travel and in “other” private services.

Income and investment income

The surplus on income decreased to \$2.6 billion in the second quarter from \$12.2 billion in the first. Income receipts on U.S.-owned assets abroad increased to \$86.1 billion from \$82.8 billion. The increase was more than accounted for by increases in “other” private receipts (which consists of interest and dividends) and in direct investment receipts. Income payments on foreign-owned assets in the United States increased to \$82.0 billion from \$69.2 billion. Direct investment payments, “other” private payments and U.S. Government payments all increased.

Compensation of employees

Receipts for compensation of U.S. workers abroad decreased slightly to \$0.7 billion from \$0.8 billion, and payments for compensation of foreign workers in the United States increased slightly to \$2.3 billion from \$2.2 billion.

Unilateral current transfers

Unilateral current transfers were net outflows of \$18.5 billion in the second quarter, down from net

Table 9
U.S. international transactions

Item	2003	2003:Q1	2003:Q2	2003:Q3	2003:Q4	2004:Q1	2004:Q2p*	Change 2004:Q1 less 2004:Q2
<i>Billion dollars, quarters seasonally adjusted (credits +); debits (-)</i>								
Current account								
1 Exports of goods and services and income receipts	1,314.9	315.7	317.4	329.5	352.3	359.6	371.2	11.6
2 Exports of goods and services	1,020.5	248.0	248.5	255.7	268.3	276.1	284.3	8.2
3 Goods, balance of payments basis	713.1	173.5	174.6	178.3	186.9	193.9	199.3	5.4
4 Services	307.4	74.5	73.9	77.5	81.4	82.2	85.0	2.8
5 Transfers under U.S. military agency sales contracts	12.5	2.8	3.0	3.3	3.4	3.3	3.7	0.4
6 Travel	64.5	15.9	14.4	16.2	18.1	17.9	18.9	1.1
7 Passenger fares	15.7	3.8	3.5	4.0	4.3	4.5	4.7	0.2
8 Other transportation	31.8	7.7	7.7	7.9	8.5	9.1	9.4	0.3
9 Royalties and license fees	48.2	11.6	11.9	12.2	12.5	12.5	12.5	0.0
10 Other private services	133.8	32.5	33.2	33.7	34.5	34.7	35.5	0.8
11 U.S. Government miscellaneous services	0.8	0.2	0.2	0.2	0.2	0.2	0.2	0.0
12 Income receipts	294.4	67.7	68.9	73.8	84.0	83.5	86.9	3.4
13 Income receipts on U.S.-owned assets abroad	291.4	66.9	68.2	73.0	83.2	82.8	86.1	3.4
14 Direct investment receipts	187.5	40.7	42.7	47.2	56.8	55.6	56.6	1.1
15 Other private receipts	99.1	25.3	24.2	24.5	25.1	26.4	28.9	2.4
16 U.S. Government receipts	4.7	0.8	1.2	1.3	1.3	0.8	0.6	-0.2
17 Compensation of employees	3.0	0.7	0.7	0.8	0.8	0.8	0.7	-0.0
18 Imports of goods and services and income payments	-1,778.1	-437.1	-434.9	-444.5	-461.7	-486.0	-518.8	-32.8
19 Imports of goods and services	-1,517.0	-373.4	-371.9	-378.0	-393.8	-414.7	-434.6	-19.9
20 Goods, balance of payments basis	-1,260.7	-311.4	-310.1	-312.9	-326.3	-344.7	-362.9	-18.2
21 Services	-256.3	-62.0	-61.8	-65.1	-67.5	-70.0	-71.7	-1.7
22 Direct defense expenditures	-25.1	-5.7	-6.2	-6.3	-6.8	-6.8	-6.9	-0.1
23 Travel	-56.6	-14.3	-12.8	-14.4	-15.1	-15.5	-16.2	-0.7
24 Passenger fares	-21.0	-5.0	-4.9	-5.5	-5.6	-5.6	-5.8	-0.2
25 Other transportation	-44.8	-10.8	-11.1	-11.3	-11.6	-13.1	-13.0	0.1
26 Royalties and license fees	-20.0	-4.6	-4.9	-5.2	-5.3	-5.2	-5.5	-0.3
27 Other private services	-85.8	-20.8	-21.1	-21.6	-22.4	-23.0	-23.5	-0.5
28 U.S. Government miscellaneous services	-3.0	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	-0.0
29 Income payments	-261.1	-63.7	-63.0	-66.5	-67.9	-71.4	-84.2	-12.9
30 Income payments on foreign-owned assets in the United States	-252.6	-61.6	-60.9	-64.4	-65.7	-69.2	-82.0	-12.8

Table 9—Continued
U.S. international transactions

Item	2003	2003:Q1	2003:Q2	2003:Q3	2003:Q4	2004:Q1	2004:Q2p*	Change 2004:Q1 less 2004:Q2
<i>Billion dollars, quarters seasonally adjusted (credits (+); debits (-))</i>								
Current account								
31 Direct investment payments	-68.7	-15.4	-16.4	-18.6	-18.3	-20.8	-27.6	-6.8
32 Other private payments	-111.9	-28.1	-26.8	-27.8	-29.1	-29.4	-33.9	-4.5
33 U.S. Government payments	-72.0	-18.0	-17.8	-18.0	-18.3	-19.1	-20.5	-1.4
34 Compensation of employees	-8.5	-2.1	-2.1	-2.1	-2.2	-2.2	-2.3	-0.1
35 Unilateral current transfers, net	-67.4	-16.8	-16.4	-16.6	-17.6	-20.7	-18.5	2.2
36 U.S. Government grants	-21.9	-5.8	-5.8	-5.4	-4.8	-7.7	-5.1	2.7
37 U.S. Government pensions and other transfers	-5.3	-1.3	-1.3	-1.3	-1.4	-1.6	-1.6	-0.0
38 Private remittances and other transfers	-40.2	-9.7	-9.2	-9.9	-11.5	-11.4	-11.9	-0.5
Capital and financial account								
Capital account								
39 Capital account transactions, net	-3.1	-0.4	-1.6	-0.8	-0.3	-0.4	-0.3	0.1
Financial account								
40 U.S.-owned assets abroad, net (increase/financial outflow (-))	-283.4	-102.7	-111.0	-8.1	-61.6	-306.7	-118.5	188.3
41 U.S. official reserve assets, net	1.5	0.1	-0.2	-0.6	2.2	0.6	1.1	0.6
42 Gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
43 Special drawing rights	0.6	0.9	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
44 Reserve position in the International Monetary Fund	1.5	-0.6	0.1	-0.4	2.4	0.8	1.3	0.5
45 Foreign currencies	-0.6	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	0.0
46 U.S. Government assets, other than official reserve assets, net	0.5	0.1	0.3	0.5	-0.3	0.7	-0.0	-0.8
47 U.S. credits and other long-term assets	-7.3	-2.4	-1.6	-1.5	-1.7	-0.6	-0.6	-0.0
48 Repayments on U.S. credits and other long-term assets	8.0	2.4	2.0	2.0	1.5	1.4	0.6	-0.8
49 U.S. foreign currency holdings and U.S. short-term assets, net	-0.2	0.0	-0.1	0.0	-0.1	-0.1	0.0	0.1
50 U.S. private assets, net	-285.5	-102.8	-111.1	-8.0	-63.6	-308.0	-119.5	188.5
51 Direct investment	-173.8	-40.8	-34.0	-45.2	-53.7	-47.6	-60.7	-13.1
52 Foreign securities	-72.3	-26.6	8.4	-28.3	-25.8	-16.5	-30.3	-13.8
53 U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	-28.9	-11.2	-22.5	35.8	-31.1	-56.8	2.4	59.2
54 U.S. claims reported by U.S. banks, not included elsewhere	-10.4	-24.1	-63.0	29.7	47.1	-187.1	-30.9	156.2

Table 9—Continued
U.S. international transactions

Item	2003	2003:Q1	2003:Q2	2003:Q3	2003:Q4	2004:Q1	2004:Q2p*	Change 2004:Q1 less 2004:Q2
<i>Billion dollars, quarters seasonally adjusted (credits +); debits (-)</i>								
Current account								
55 Foreign-owned assets in the United States, net (increase/financial inflow (+))	829.2	246.1	218.6	134.2	230.3	445.3	265.2	-180.1
56 Foreign official assets in the United States, net	248.6	49.0	65.2	50.7	83.7	127.9	73.9	-54.0
57 U.S. Government securities	194.6	39.8	46.0	27.3	81.5	114.7	65.8	-48.9
58 U.S. Treasury securities	169.685	30.277	42.668	23.953	72.787	101.692	63.027	-38.665
59 Other	24.883	9.568	3.29	3.34	8.685	13.016	2.767	-10.249
60 Other U.S. Government liabilities	-0.564	-0.437	-0.016	-0.041	-0.07	-0.14	-0.158	-0.018
61 U.S. liabilities reported by U.S. banks, not included elsewhere	49.42	8.325	18.552	22.019	0.524	11.854	6.237	-5.617
62 Other foreign official assets	5.149	1.253	0.751	1.392	1.753	1.442	2.004	0.562
63 Other foreign assets in the United States, net	580.6	197.119	153.308	83.539	146.632	317.484	191.369	-126.12
64 Direct investment	39.89	32.523	-0.544	-2.81	10.719	10.225	32.702	22.477
65 U.S. Treasury securities	113.432	8.974	53.254	46.49	4.714	65.438	35.56	-29.878
66 U.S. securities other than U.S. Treasury securities	250.981	56.723	92.407	18.09	83.761	62.064	88.617	26.553
67 U.S. currency	16.64	4.927	1.458	2.768	7.487	-1.8	8.754	10.554
68 U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	84.014	69.41	-2.257	12.721	4.14	40.723	-5.191	-45.914
69 U.S. liabilities reported by U.S. banks, not included elsewhere	75.643	24.562	8.99	6.28	35.811	140.834	30.927	-109.91
70 Statistical discrepancy (sum of above items with sign reversed)	-12.012	-4.828	27.836	6.385	-41.404	8.941	19.707	10.766
Memorandum:								
71 Balance on goods (lines 3 and 20)	-547.55	-137.94	-135.53	-134.64	-139.44	-150.77	-163.58	-12.812
72 Balance on services (lines 4 and 21)	51.044	12.557	12.153	12.385	13.947	12.166	13.294	1.128
73 Balance on goods and services (lines 2 and 19)	-496.51	-125.39	-123.38	-122.25	-125.49	-138.6	-150.29	-11.684
74 Balance on income (lines 12 and 29)	33.279	3.995	5.874	7.261	16.151	12.164	2.643	-9.521
75 Unilateral current transfers, net (line 35)	-67.439	-16.815	-16.369	-16.639	-17.617	-20.726	-18.534	2.192
76 Balance on current account (lines 1, 18, and 35 or lines 73, 74, and 75)	-530.67	-138.21	-133.88	-131.63	-126.96	-147.16	-166.18	-19.013

p*: Preliminary.

Note.—Details may not add to totals because of rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Transactions," BEA News, press release BEA 04-43, Sept. 14, 2004, found at Internet address <http://www.bea.doc.gov/bea/newsrel/transnewsrelease.htm>, retrieved Oct. 6, 2004.

outflows of \$20.7 billion in the first. The decrease was attributable to a decrease in U.S. Government grants.

Capital and Financial Account

Capital account transactions were net outflows of \$0.3 billion in the second quarter, down slightly from net outflows of \$0.4 billion in the first. 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 \$146.8 billion in the second quarter, up from \$138.6 billion in the first. Financial outflows for U.S.-owned assets abroad decreased more than financial inflows for foreign-owned assets in the United States.

U.S.-owned assets abroad

U.S.-owned assets abroad increased \$118.5 billion in the second quarter, following an increase of \$306.7 billion in the first. U.S. claims on foreigners reported by U.S. banks increased \$30.9 billion in the second quarter, following an increase of \$187.1 billion in the first. Net U.S. purchases of foreign securities were \$30.3 billion in the second quarter, up from \$16.5 billion in the first. Net U.S. purchases of foreign stocks were \$40.2 billion, up from \$21.4 billion. Net U.S. sales of foreign bonds were \$9.9 billion, up from \$4.9 billion. Net financial outflows for U.S. direct investment abroad were \$60.7 billion in the second quarter, up from \$47.6 billion in the first. The increase was more than accounted for by an increase in net equity capital outflows. Reinvested earnings also increased slightly. A small increase in net intercompany debt inflows was partly offsetting. U.S. official reserve assets decreased \$1.1 billion in the second quarter, following a decrease of \$0.6 billion in the first.

Foreign-owned assets in the United States

Foreign-owned assets in the United States increased \$265.2 billion in the second quarter, following an increase of \$445.3 billion in the first. U.S. liabilities to foreigners reported by U.S. banks increased \$30.9 billion in the second quarter, following an increase of \$140.8 billion in the first. Net foreign purchases of U.S. Treasury securities were \$35.6 billion in the second quarter, down from \$65.4 billion in the first. Net foreign purchases of U.S. securities other than U.S. Treasury securities were \$88.6 billion in the second quarter, up from \$62.1 billion in the first. Net foreign purchases of U.S. stocks were \$2.0 billion,

down from \$4.2 billion. Net foreign purchases of U.S. corporate bonds were \$51.5 billion, up slightly from \$51.2 billion. Net foreign purchases of federally sponsored agency bonds were \$35.1 billion, up from \$6.7 billion. Net financial inflows for foreign direct investment in the United States were \$32.7 billion in the second quarter, up from \$10.2 billion in the first. Increases in net equity capital inflows and in reinvested earnings more than offset a shift to net outflows on intercompany debt. Foreign official assets in the United States increased \$73.9 billion in the second quarter, following an increase of \$127.9 billion in the first. Net U.S. currency shipments to foreigners were \$8.8 billion in the second quarter, a shift from net shipments from foreigners to U.S. residents of \$1.8 billion in the first. The statistical discrepancy—errors and omissions in recorded transactions—was a positive \$19.7 billion in the second quarter, compared with a positive \$8.9 billion in the first. In the second quarter, the U.S. dollar appreciated 3 percent on a trade-weighted quarterly average basis against a group of 7 major currencies.

Revisions

The first-quarter international transactions are revised from previously published estimates. The current-account deficit was revised to \$147.2 billion from \$144.9 billion. The goods deficit was unrevised at \$150.8 billion; the services surplus was revised to \$12.2 billion from \$13.8 billion; the surplus on income was revised to \$12.2 billion from \$12.7 billion; and unilateral current transfers were revised to net outflows of \$20.7 billion from \$20.6 billion. Net recorded financial inflows were revised to \$138.6 billion from \$158.3 billion.

U.S. International Transactions, the Year 2003

In 2003, the U.S. current account deficit—the combined balances on trade in goods and services, income, and net unilateral current transfers—increased to \$541.8 billion from \$480.9 billion in 2002. An increase in the deficit on goods in addition to an increase in net outflows for unilateral current transfers and a decrease in the surplus on services, all accounted for the deficit increase. In contrast, the balance on income shifted to a surplus in 2003 from a deficit in 2002.

Goods and Services

The deficit on goods and services increased to \$490.2 billion in 2003 from \$418.0 billion in 2002.

Goods

The deficit on goods increased to \$549.4 billion in 2003 from \$482.9 billion in 2002. Goods exports increased to \$713.8 billion from \$681.9 billion. Agricultural and nonagricultural products both increased. More than half of the increase in nonagricultural products was attributable to a rise in nonagricultural industrial supplies and materials. The next largest increase was in consumer goods. Goods imports increased to \$1,263.2 billion from \$1,164.7 billion. About one-third of the increase was attributable to an increase in petroleum and petroleum products. Nonpetroleum products also increased, particularly consumer goods and nonpetroleum industrial supplies and materials.

Services

The surplus on services decreased to \$59.2 billion in 2003 from \$64.8 billion in 2002. Services receipts increased to \$304.9 billion from \$292.2 billion. Increases in “other private services” (such as business, professional, technical, and financial services), in royalties and license fees, and in “other transportation” (such as freight and port services), were partly offset by decreases in travel and passenger fares. Services payments increased to \$245.7 billion from \$227.4 billion. The increase was due to increases in “other private services,” in “other transportation,” and in direct defense expenditures.

Income

The balance on income shifted to a surplus of \$16.6 billion in 2003 from a deficit of \$4.0 billion in 2002. Investment receipts on U.S.-owned assets abroad increased to \$272.3 billion from \$252.4 billion. The increase was due to an increase in direct investment receipts. In contrast, “other private receipts”—which consists of interest and dividends—decreased. Income payments on foreign-owned assets in the United States decreased to \$250.4 billion from \$251.1 billion. Decreases in “other private payments”—which consists of interest and dividends—and in U.S. Government payments were partly offset by an increase in direct investment payments.

Compensation of employees

Receipts for compensation of U.S. workers abroad increased slightly to \$3.3 billion from \$3.2 billion. Payments for compensation of foreign workers in the United States increased slightly to \$8.5 billion from \$8.4 billion in 2002.

Unilateral current transfers

Unilateral current transfers were net outflows of \$68.3 billion in 2003, up from net outflows of \$58.9 billion in 2002.

Capital and Financial Account

Capital account transactions were net outflows of \$3.1 billion in 2003, up from net outflows of \$1.3 billion in 2002. On the financial account, net recorded financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by residents of assets abroad—were \$579.0 billion in 2003, up from \$528.0 billion in 2002.

U.S.-owned assets abroad

U.S.-owned assets abroad increased by \$277.7 billion in 2003, compared with an increase of \$179.0 billion in 2002. U.S. claims on foreigners reported by U.S. banks increased by \$24.7 billion in 2003, compared with an increase of \$21.4 billion in 2002. Transactions in foreign securities shifted to net U.S. purchases of \$64.1 billion in 2003 from net U.S. sales of \$15.8 billion in 2002. Net U.S. purchases of foreign stocks were \$91.3 billion, up from \$17.7 billion. Net U.S. sales of foreign bonds were \$27.2 billion, down from \$33.5 billion.

Net financial outflows for U.S. direct investment abroad were \$154.8 billion in 2003, up from \$137.8 billion in 2002. Increases in reinvested earnings and in net equity capital outflows more than offset a decrease in net inter-company debt outflows. U.S. official reserve assets decreased by \$1.5 billion in 2003, following an increase of \$3.7 billion in 2002.

Foreign-owned assets in the United States

Foreign-owned assets in the United States increased by \$856.7 billion in 2003, compared with an increase of \$707.0 billion in 2002. U.S. liabilities to foreigners reported by U.S. banks increased by \$94.5 billion in 2003, following an increase of \$91.1 billion in 2002.

Net foreign purchases of U.S. securities other than U.S. Treasury securities were \$238.7 billion in 2003, down from \$291.5 billion in 2002. Net foreign purchases of U.S. stocks were \$37.2 billion, down from \$55.2 billion. Net foreign purchases of U.S. corporate bonds were \$249.5 billion, up from \$160.0 billion. Transactions in federally sponsored agency bonds shifted to net foreign sales of \$48.1 billion from net purchases of \$76.3 billion. Net foreign purchases of U.S. Treasury securities were \$139.9 billion in 2003, up from \$96.2 billion in 2002.

Net financial inflows for foreign direct investment in the United States were \$82.0 billion in 2003, up from \$39.6 billion in 2002. An increase in reinvested earnings and a decrease in net inter-company debt outflows more than offset a decrease in net equity capital inflows. Foreign official assets in the United States increased by \$207.7 billion in 2003, following an increase of \$94.9 billion in 2002.

Net U.S. currency shipments to foreign countries were \$16.6 billion in 2003, down from \$21.5 billion in 2002. The statistical discrepancy—errors and omissions in recorded transactions—was a negative \$34.1 billion in 2003, compared with a negative \$45.9 billion in 2002.

In 2003, the U.S. dollar depreciated by 12.0 percent on a trade-weighted yearly average basis against the G-7 countries currencies. The Group of Seven (G-7) countries, other than the United States, are Japan, Canada, Germany, the United Kingdom, France, and Italy.

U.S. International Investment Position in 2003

In 2003, the U.S. net international investment position was in the negative, as foreign-owned assets in the United States exceeded U.S.-owned assets abroad, according to the U.S. Department of Commerce, Bureau of Economic Analysis (BEA).⁷

With direct investment measured at current cost, foreign-owned assets in the United States increased to \$9,633.4 billion in 2003 from \$8,646.6 billion in 2002, and U.S.-owned assets abroad increased to \$7,202.7 billion in 2003, from \$6,413.5 billion in 2002, resulting in a negative position for the United States of \$2,430.7 billion in 2003, -\$197.7 billion higher than the \$2,233.0 negative position in 2002. The -\$197.7 billion change from 2002 to 2003 resulted from large net foreign purchases of U.S. securities, which increased the value of foreign-owned assets in the United States by \$545.8 billion. This increase was partly offset by a substantial rise in the dollar value of U.S.-owned assets abroad, especially of U.S. held stocks as a result of the appreciation of most foreign currencies against the U.S. dollar by \$255.5 billion.

Valuing direct investment at market value, foreign-owned assets in the United States increased to

⁷ Patricia E. Abaroa, "The International Investment Position of the United States at Yearend 2003," *Survey of Current Business*, July 2004, vol. 84, No. 7, pp. 30–39, found at Internet address http://www.bea.gov/bea/AR-TICLES/2004/07/July/0704_IIP.pdf, retrieved on Aug. 2, 2004.

\$10,515.0 billion in 2003 from \$9,166.7 billion in 2002. U.S. direct investment abroad increased to \$7,864.0 billion in 2003 from \$6,613.3 billion in 2002. This resulted in a negative position of -\$2,651.0 billion, -\$97.6 billion greater than the negative position of -\$2,553.4 billion in 2002.⁸

Changes in U.S.-Owned Assets Abroad

Table 10 details the sources of change in U.S. assets abroad and foreign-owned assets in the United States in 2003. Valuing direct investment position on a current cost basis, the increase in U.S. assets abroad to \$7,202.7 billion in 2003 from \$6,413.5 billion in 2002 was due to the following changes: (a) financial flows which increased U.S. direct investment position by \$283.4 billion; (b) price changes which increased the U.S. position by \$355.7 billion; (c) exchange rate changes which increased U.S. position by \$327.5 billion; and (d) other changes which decreased the U.S. position by \$177.5 billion. These changes resulted in a net increase of \$789.2 billion.

Valuing the U.S. direct investment position on a market value basis, the increase in U.S. assets abroad to \$7,864.0 billion in 2003 from \$6,613.3 billion in 2002 was due to the following changes: (a) financial flows which increased the U.S. position by \$283.4 billion; (b) price changes which reduced the U.S. position by \$676.7 billion; (c) exchange rates changes which increased the U.S. position by \$468.7 billion; and (d) other changes which reduced the U.S. position by \$178.1 billion. These changes resulted in a net increase of \$1,250.7 billion.

Changes in Foreign-Owned Assets in the United States

As table 10 shows, with direct investment on a current cost basis, the increase in foreign assets in the United States to \$9,633.4 billion in 2003 from \$8,646.6 billion in 2002 was due to the following changes: (a) financial flows which increased the foreign position by

⁸ The two measures of valuing direct investment positions introduced by the BEA are the current-cost method and the market-value method. The current-cost method values the U.S. and foreign parents' share of their affiliates investment in plant and equipment, using the current cost of capital equipment; in land, using general price indexes; and in inventories, using estimates of their replacement cost. The market value method values the owner's equity share of direct investment using indexes of stock market prices. The BEA emphasizes the current cost method because the estimates prepared using the current account method are comparable with BEA's current-cost estimates of total U.S. reproducible tangible wealth and the Federal Reserve Board's estimates of domestic net worth (the sum of tangible assets located in the United States, including plant and equipment, inventories, and land).

Table 10
International investment position of the United States, 2002 and 2003, million dollars

Type of Investment	Position (2002)	Changes in position in 2002 attributable to: (decrease (-), increase (+))					Position (2003)
		Financial flows	Price changes	Exchange rate changes ¹	Other changes ²	Total changes	
Net international investment position of the United States							
With direct investment positions at current cost	-2,233,016	-545,759	37,112	255,457	55,526	-197,664	-2,430,682
With direct investment positions at market value	-2,553,407	-545,759	-13,696	397,918	63,954	-97,583	-2,650,990
U.S.-owned assets abroad:							
With direct investment positions at current cost	6,413,535	283,414	355,668	327,520	-177,445	789,157	7,202,692
With direct investment positions at market value	6,613,320	283,414	676,650	468,722	-178,138	1,250,648	7,863,968
U.S. official reserve assets	158,602	-1,523	18,059	8,438	1	24,975	183,577
Gold	90,806	...	18,059	...	-14	18,060	108,886
Special Drawing Rights	12,166	-601	...	1,073	...	472	12,638
Reserve position in the International Monetary Fund	21,979	-1,494	...	2,050	...	556	22,535
Foreign currencies	33,651	572	...	5,315	...	5,887	39,538
U.S. Government assets, other than official reserve assets	85,309	-537	...	...	...	-537	84,772
U.S. credits and other long-term assets	82,682	-702	...	...	...	-702	81,980
Repayable in dollars	82,406	-700	...	...	...	-700	81,706
Other	276	-2	...	...	...	-2	274
U.S. foreign currency holdings and U.S. short-term assets	2,627	165	...	...	...	165	2,792
U.S. private assets							
With direct investment at current cost	6,169,624	285,474	337,609	319,082	-177,446	764,719	6,934,343
With direct investment at market value	6,369,409	285,474	658,591	460,284	-178,139	1,226,210	7,595,619
Direct investment abroad							
At current cost	1,839,995	173,799	9,472	58,756	-13,009	229,013	2,069,013
At market value	2,039,780	173,799	330,454	199,958	-13,702	690,509	2,730,289
Foreign securities	1,846,879	72,337	328,137	227,021	...	627,495	2,474,374
Bonds	501,762	-28,094	3,209	25,253	...	368	502,130
Corporate stocks	1,345,117	100,431	324,928	201,768	...	627,127	1,972,244
U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	908,024	28,932	...	18,093	-340,377	-293,352	614,672
U.S. claims reported by U.S. banks, not included elsewhere	1,574,726	10,406	...	15,212	17,5940	201,558	1,776,284
Foreign-owned assets in the United States							
With direct investment at current cost	8,646,553	829,173	318,556	72,063	-23,2971	986,821	9,633,374
With direct investment at market value	9,166,727	829,173	690,346	70,804	-24,2092	1,348,231	10,514,958
Foreign official assets in the United States	1,212,723	248,573	3,920	...	8,945	261,438	1,474,161

Table 10—Continued
International investment position of the United States, 2002 and 2003, million dollars

Type of Investment	Position (2002)	Changes in position in 2002 attributable to: (decrease (-), increase (+))					Position (2003)
		Financial flows	Price changes	Exchange rate changes ¹	Other changes ²	Total changes	
U.S. Government securities	954,896	194,568	-16,845	...	12,410	190,133	1,145
U.S. Treasury securities	796,449	169,685	-13,947	...	4,476	160,214	956,663
Other	158,447	24,883	-2,898	...	7,934	29,919	188,366
Other U.S. Government liabilities	17,144	-564	...	...	...	-564	16,580
U.S. liabilities reported by U.S.banks, not included elsewhere	144,646	49,420	...	...	-3,465	45,955	190,601
Other foreign official assets	96,037	5,149	20,765	...	...	25,914	121,951
Other foreign assets							
With direct investment at current cost	7,433,830	580,600	314,636	72,063	-241,916	725,383	8,159,213
With direct investment at market value	7,954,004	580,600	686,426	70,804	-251,037	1,086,793	9,040,797
Direct investment in the United States							
At current cost	1,505,171	39,890	6,460	1,259	1,175	48,784	1,553,955
At market value	2,025,345	39,890	378,250	...	-7,946	410,194	2,435,539
U.S. Treasury securities	457,670	113,432	-11,612	...	-16,948	84,872	542,542
U.S. securities other than U.S.Treasury securities	2,786,647	250,981	319,788	48,437	-14,803	604,403	3,391,050
Corporate and other bonds	1,600,414	213,718	5,205	48,437	-14,803	252,557	1,852,971
Corporate stocks	1,186,233	37,263	314,583	...	...	351,846	1,538,079
U.S. currency	301,268	16,640	...	...	...	16,640	317,908
U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	864,632	84,014	...	11,269	-493,372	-398,089	455,543
U.S. liabilities reported by U.S. banks, not included elsewhere	1,518,442	75,643	...	11,098	282,032	368,032	1,887,215

¹ Represents gains or losses on foreign-currency-denominated assets due to their revaluation at current exchange rates.

² Includes changes in coverage, capital gains and losses of direct investment affiliates, and other statistical adjustments to the value of assets.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Patricia E. Abaroa, "The International Investment Position of the United States at Yearend 2003," *Survey of Current Business*, July 2004, vol. 84, No. 7, pp. 30-39, found at Internet address http://www.bea.gov/bea/ARTICLES/2004/07July/0704_IIP.pdf, retrieved on Aug. 2, 2004.

\$829.2 billion; (b) price changes which increased the foreign position by \$318.6 billion; (c) exchange rate changes which increased the foreign position by \$72.1 billion; and (d) other changes which decreased the foreign position by \$233.0 billion. These changes resulted in a total net increase of \$986.8 billion.

With direct investment valued at market value, the increase in the foreign investment position in the United States to \$10,515.0 billion in 2003 from \$9,166.7 billion in 2002 was due to the following changes: (a) financial flows which increased the foreign position by \$829.2 billion; (b) price changes which increased the foreign position by \$690.4 billion; (c) exchange rate changes which increased the foreign position by \$70.8 billion; and (d) other changes which decreased the foreign position by \$242.1 billion. These changes resulted in a total net decrease of \$1,348.2 billion.

Direct Investment Positions Country and Industry Detail

Country and industry detail on the positions of U.S. direct investment abroad (USDIA) and of foreign investment in the United States (FDIUS) is estimated by the BEA on a historical cost basis only. Historical cost estimates largely reflect price levels of earlier times. Because the historical cost estimates are not ordinarily adjusted to reflect changes in the current costs of tangible assets or in the stock market prices of firms, the historical cost estimates are usually lower than estimates based on current cost value or market value estimates. (See footnote 8 for explanation of valuation methods). Table 11 shows the BEA alternative direct investment position estimates, 2002 and 2003, in billions of dollars.

Table 12 details U.S. direct investment position abroad on a historical cost basis in 2003 by country and industry.⁹ On a historical cost basis, the USDIA position in 2003 totaled \$1,788.9 billion (with the 2002 total following in parentheses) (\$1,601.4 billion), an increase of 11.7 percent over 2002. By country and area, the value of USDIA position in 2003 was highest in Europe, \$963.1 billion (\$848.6 billion in 2002); followed by Latin America and the Western Hemisphere, \$304.0 billion (\$284.6 billion); Asia and the Pacific, \$293.5 billion (\$267.1 billion); Canada, \$192.4 billion (\$170.2 billion); Africa, \$19.0 billion (\$16.3 billion); and the Middle East, \$16.9 billion,

(\$14.7 billion). The USDIA position in Eastern Europe in 2003 was \$20.5 billion (\$18.2 billion in 2002). In the European Union (EU-15), the USDIA position was \$844.7 billion (\$749.7 billion); and in OPEC, \$36.6 billion (\$33.6 billion). The highest USDIA positions in Europe were that of the United Kingdom, \$272.6 (\$239.2 billion in 2002); the Netherlands, \$178.9 billion (\$164.2 billion); Switzerland, \$86.4 billion (\$71.5 billion); Germany, \$80.2 billion (\$67.4 billion); and France \$47.9 billion (\$43.0 billion).

By industry, the USDIA position was highest in the "other industries" grouping, \$693.1 billion (\$630.5 billion in 2002); followed by manufacturing, \$378.0 billion (\$339.4 billion); finance except depository institutions and insurance, \$299.8 billion (\$264.7 billion); wholesale trade, \$140.6 billion (\$124.7 billion); mining, \$98.7 billion (\$86.6 billion); depository institutions, \$63.7 billion (\$56.6 billion); information, \$47.5 billion (\$39.8 billion); professional, scientific, and technical services, \$40.6 billion (\$34.9 billion); and utilities, \$26.9 billion (\$24.3 billion). Within manufacturing, the USDIA position was highest in chemicals, \$90.3 billion (\$81.5 billion); followed by computer and electronic products, \$57.6 billion (\$53.6 billion); transportation equipment, \$45.4 billion (\$44.8 billion); primary and fabricated metals, \$23.0 billion (\$21.9 billion); food, \$22.7 billion (\$18.3 billion); and machinery, \$21.4 billion (\$18.6 billion).

Table 13 shows the foreign direct investment position in the United States (FDIUS) valued at historical cost—the book value of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates. At yearend 2003, the FDIUS position was \$1,378.0 billion compared to a value of \$1,340.0 billion in 2002. By area, the largest FDIUS in 2003 was that of Europe at \$1,000.5 billion (\$982.1 billion in 2002); followed by the European Union (EU-15), \$855.7 billion (\$832.6 billion); Asia and Pacific, \$192.5 billion (\$183.4 billion); Canada, \$105.3 billion (\$96.4 billion); Latin America and other Western Hemisphere, \$69.6 billion (\$68.4 billion); Middle East, \$7.9 billion (\$7.5 billion); and Africa, \$2.2 billion (\$2.3 billion). Europe's highest FDIUS positions in 2003 were that of the United Kingdom at \$230.4 billion (\$218.2 billion in 2002); Germany, \$148.8 billion (\$139.6 billion); the Netherlands, \$146.1 billion (\$153.7 billion); France, \$143.3 billion, (\$141.4 billion); and Switzerland, \$112.9 billion (\$119.3 billion). For Asia and Pacific, the highest positions for FDIUS were those of Japan at \$159.3 billion (\$150.5 billion), and Australia at \$24.7 billion (\$23.1 billion).

⁹ Maria Borga and Daniel R. Yorgason, "Direct Investment Positions for 2003: Country and Industry Detail," *Survey of Current Business*, July 2004, found at Internet address <http://www.bea.gov/bea.PDF>, retrieved on Aug. 2, 2004.

Table 11
Valuation position changes in 2003—Position at yearend (billion dollars)

Method	Yearend 2002	Total	Capital flows	Valuation adjustments	Yearend 2003
<i>U.S. direct investment abroad</i>					
Historical cost	1,601,414	187,497	151,884	35,613	1788,911
Current cost	1,839,995	229,018	173,799	55,219	2,069,013
Market value	2,039,780	690,509	173,799	516,710	2,730,289
<i>Foreign direct investment in the United States</i>					
Historical cost	1,340,011	37,990	29,772	8,218	1,378,001
Current cost	1,505,171	48,784	39,890	8,894	1,553,955
Market value	2,025,345	410,194	39,890	370,304	2,435,539

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

By industry, FDIUS in 2003 was highest in manufacturing, \$475.5 billion (\$468.5 billion); followed by the “other industries” category, \$227.5 billion (\$219.2 billion); finance except depository institutions and insurance, \$185.7 billion (\$169.0 billion); wholesale trade, \$182.2 billion (\$195.9 billion); information, \$120.1 billion (\$117.7 billion); depository institutions, \$87.5 billion (\$76.8 billion); real estate, rental, and leasing, \$47.0 billion (\$43.5 billion); professional, scientific, and technical services \$28.4 billion (\$27.6 billion); and retail trade, \$24.2 billion (\$22.0 billion). Within manufacturing, FDIUS was highest in chemicals, \$123.2 billion (\$121.6 billion); followed by transportation equipment, \$63.7 billion (\$62.6 billion); computer and electronic products, \$45.9 billion (\$43.1 billion); electrical equipment, appliances, and components, \$42.3 billion (\$46.1 billion); and machinery, \$37.7 billion (\$41.4 billion).

U.S. Multinational Companies Production, Sales and Employment

The impact of multinational companies (MNCs) on U.S. production and employment has been a subject of extensive discussion. Data on patterns of production and on employment by MNCs for the years 1988-2002 released by the U.S. Department of Commerce, Bureau of Economic Analysis show that MNCs accounted for a large share of U.S. output, a large share of U.S. international trade, and a large share of U.S. employment.

MNCs comprise U.S. parent companies and majority owned foreign affiliates (MOFAs). The BEA defines a U.S. parent firm as a person, entity, branch, partnership, associated group, estate, trust, corporation or other organization that owns or controls 10 percent

or more of the voting securities, or the equivalent of a foreign business enterprise. If incorporated, a U.S. parent company comprises the domestic operations of a U.S. MNC in the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, and all other U.S. territories. A MOFA is a foreign affiliate in which the combined ownership of all its U.S. parent firms exceeds 50 percent. Employment is defined as full-time and part-time employees on the payroll at yearend, whose numbers reflected normal operations; or a yearly average if the employment figures were affected by temporary factors such as strikes, or large seasonal variations.¹⁰

U.S. MNCs account for a large share of the U.S. economy. In 2001, U.S. parent firms of U.S. MNCs accounted for about three-fourths of the total gross product, capital expenditures, and employment of MNCs, and their MOFAs accounted for about a fourth, of their combined gross output of \$2,535.6 billion, capital expenditures of \$528.6 billion, and employment of 31.6 million. This amounted to approximately 77 percent of the total production of MNCs, 79 percent of total capital expenditures, and 74 percent of total employment in the United States. The BEA measures MNCs value-added in production or gross product as gross output minus intermediate goods or, alternatively,

¹⁰ Data in this article was taken largely from information released in Raymond J. Mataloni, Jr., “U.S. Multinational Companies: Operations in 2001,” *Survey of Current Business*, November 2003, vol. 83, No. 11, pp. 85-105, found at Internet address on <http://www.bea.gov/beat/articles/2003/11November/1103multinational.pdf>, retrieved on Aug. 2, 2004; and Brian C. Moyer, Mark A. Planting, Mahnaz Fahim-Nader, and Sherlene K. S. Lum, “A Note on Patterns of Production and Employment by U.S. Multinational Companies,” *Survey of Current Business*, March 2004, vol. 84, No. 3, pp. 38-51, found at Internet address <http://www.bea.gov/beat/articles/2004/03March/0304IndustryAcctsV3.pdf>, retrieved on Aug. 2, 2004.

Table 12
U.S. direct investment position abroad on an historical cost basis, 2003, million dollars

	All industries	Mining	Utilities	Manufacturing: Total	Manufacturing: Food	Manufacturing: Chemicals	Primary and fabricated metals	Machinery	Computers and electronic products	Transportation equipment	Wholesale trade	Information	Depository institutions (DI)	Finance, except DI and insurance
	<i>Million dollars</i>													
All countries	1,788,911	98,669	26,907	378,033	22,717	90,341	22,970	21,380	57,596	45,372	140,579	47,525	63,655	299,805
Canada	192,409	24,326	954	74,878	4,253	13,089	4,134	3,066	5,253	17,883	12,653	2,194	2,661	34,181
Europe	963,087	20,801	8,455	177,951	11,321	51,932	10,455	11,256	24,071	16,806	89,467	30,328	38,142	116,384
Austria	5,139	1	0	1,949	disc.	83	60	105	897	329	821	-24	disc.	18
Belgium	25,804	7	0	8,230	411	4,748	-18	107	40	490	2,708	201	638	7,437
Czech Rep.	1,790	negl.	55	856	32	203	16	90	-57	338	77	disc.	disc.	223
Denmark	7,329	disc.	0	2,163	273	208	disc.	disc.	disc.	9	disc.	disc.	0	disc.
Finland	2,271	0	0	901	4	362	41	101	170	194	915	-2	0	disc.
France	47,914	52	78	19,942	1,545	4,429	3,610	188	1,897	1,345	4,016	-146	2,908	3,798
Germany	80,163	74	14	18,985	1,173	2,599	1,622	888	2,616	5,193	20,878	3,347	1,412	11,644
Greece	1,106	2	0	172	-4	164	negl.	0	-1	0	501	44	-44	176
Hungary	2,843	negl.	0	2,024	18	98	329	1	-72	516	275	26	disc.	33
Ireland	55,463	disc.	1	15,002	193	6,089	33	24	3,992	disc.	2,998	14,048	445	8,681
Italy	30,417	-23	38	18,159	1,081	3,374	197	2,701	7,086	1,202	2,593	1,884	239	1,831
Luxembourg	66,919	0	negl.	2,796	0	31	disc.	7	0	0	disc.	disc.	575	79
Netherlands	178,933	3,536	278	21,060	1,298	11,733	1,987	747	1,206	1,284	21,016	3,470	29	9,277
Norway	8,325	5,071	negl.	1,013	25	10	30	419	-20	-24	317	65	29	disc.
Poland	5,453	4	16	2,888	386	323	128	17	disc.	292	49	358	1,485	255
Portugal	3,480	negl.	0	653	47	72	18	disc.	disc.	disc.	582	314	3	622
Russia	1,176	406	0	119	236	106	0	12	23	59	35	172	423	-84
Spain	38,215	-2	88	8,707	541	3,117	158	71	386	1,540	2,849	874	1,665	3,249
Sweden	28,905	0	0	1,024	disc.	254	40	288	360	-431	1,079	166	disc.	384
Switzerland	86,435	10	0	8,721	210	2,966	disc.	479	586	disc.	11,882	-2,711	7,103	3,264
Turkey	1,989	17	89	550	158	-131	negl.	negl.	negl.	329	565	6	496	44
United Kingdom	272,640	8,208	7,401	40,548	3,029	11,027	857	4,813	3,572	3,368	9,901	7,675	18,596	62,359
Other	10,378	3,173	397	1,488	203	67	disc.	2	disc.	disc.	325	disc.	186	disc.
South America	304,023	15,738	9,081	46,775	3,806	10,982	5,022	2,800	222	5,176	12,120	5,963	9,086	81,722
Argentina	11,026	390	disc.	1,593	685	903	-5	123	39	-422	disc.	290	343	940
Brazil	29,915	1,216	2,441	10,326	357	3,049	1,386	1,422	disc.	577	1,460	415	1,948	4,406

Footnotes at end table.

Table 12—Continued
U.S. direct investment position abroad on an historical cost basis, 2003, million dollars

	All industries	Mining	Utilities	Manufacturing: Total	Manufacturing: Food	Manufacturing: Chemicals	Primary and fabricated metals	Machinery	Computers and electronic products	Transportation equipment	Wholesale trade	Information	Depository institutions (DI)	Finance, except DI and insurance
	<i>Million dollars</i>													
Chile	9,986	1,447	disc.	1,922	55	483	42	32	2	disc.	426	81	1,049	2,228
Colombia	2,751	238	124	1,129	74	461	13	0	negl.	disc.	161	584	disc.	245
Ecuador	1,446	887	negl.	72	66	1	-3	0	0	disc.	disc.	disc.	disc.	12
Peru	2,659	1,142	147	208	67	98	-58	negl.	0	-1	122	disc.	disc.	124
Venezuela	10,859	2,678	2,208	2,698	489	357	21	98	1	436	253	disc.	disc.	337
Other	1,299	279	94	211	103	73	negl.	5	0	17	224	124	196	89
Central America	71,507	634	1,087	21,735	1,889	4,352	disc.	1,108	-1,699	4,342	3,527	1,360	17,073	8,133
Costa Rica	1,831	negl.	0	728	97	134	31	1	10	0	1,008	26	0	21
Honduras	270	0	negl.	206	20	negl.	0	0	0	disc.	36	negl.	disc.	7
Mexico	61,526	417	677	20,089	1,671	4,007	disc.	1,107	-1,796	disc.	2,030	1,230	16,867	7,193
Panama	6,497	207	disc.	128	26	120	negl.	0	0	-5	274	disc.	158	889
Other	1,382	10	disc.	585	74	91	-7	0	87	0	179	disc.	disc.	22
Other Western Hemisphere	162,574	6,826	566	6,881	21	1,206	disc.	13	disc.	-13	5,388	1,173	-11,978	65,208
Barbados	1,766	4	disc.	71	21	8	6	11	disc.	-13	517	disc.	26	774
Bermuda	84,609	140	93	648	1	disc.	0	1	1	0	2,417	362	0	45,222
Dominican Rep.	860	negl.	128	431	37	33	disc.	0	0	0	146	disc.	disc.	-5
United Kingdom Islands	54,507	3,206	-227	2,093	disc.	disc.	-37	negl.	disc.	negl.	336	628	-11,456	16,858
Other	20,832	3,476	disc.	3,639	disc.	disc.	disc.	1	1	0	1,972	11	disc.	2,358
Africa	18,960	11,802	295	1,266	209	402	55	305	-119	394	598	1,196	618	605
Egypt	3,018	3,087	0	-446	2	-113	7	disc.	0	43	11	6	disc.	11
Nigeria	2,082	610	0	65	negl.	disc.	0	0	0	4	66	0	disc.	0
South Africa	3,902	72	0	1,230	21	448	-21	disc.	4	330	205	1,346	disc.	34
Other	9,958	8,033	295	418	185	disc.	69	2	-123	17	317	-157	241	559
Middle East	16,942	4,669	138	4,537	90	479	46	153	3,231	-7	8	1,535	846	1,015
Israel	6,208	5	disc.	3,647	84	27	-9	52	3,228	disc.	102	disc.	-1	340
Saudi Arabia	4,217	disc.	2	372	6	97	29	22	3	disc.	214	disc.	580	-61
United Arab Emirates	1,430	disc.	24	disc.	0	disc.	24	66	0	negl.	-320	11	disc.	605

Footnotes at end of table.

Table 12—Continued
U.S. direct investment position abroad on an historical cost basis, 2003, million dollars

	All industries	Mining	Utilities	Manufacturing: Total	Manufacturing: Food	Manufacturing: Chemicals	Primary and fabricated metals	Machinery	Computers and electronic products	Transportation equipment	Wholesale trade	Information	Depository institutions (DI)	Finance, except DI and insurance
<i>Million dollars</i>														
Other	5,087	3,425	disc.	disc.	negl.	disc.	2	12	0	0	12	7	disc.	130
Asia and Pacific	293,490	21,332	7,984	72,625	3,038	13,457	3,257	3,801	24,938	5,121	25,734	6,310	12,303	65,899
Australia	40,985	8,167	2,533	10,841	1,159	1,994	2,075	555	475	1,563	2,664	334	2,284	5,028
China	11,877	1,242	565	6,791	531	1,430	124	298	1,496	1,242	1,332	115	413	-49
Hong Kong	44,323	negl.	3,171	4,045	22	206	217	55	1,760	51	8,201	849	1,983	14,951
India	3,609	21	767	1,247	37	279	disc.	415	265	-137	393	-199	691	341
Indonesia	10,387	8,250	728	470	37	265	31	-6	6	disc.	disc.	-189	406	disc.
Japan	73,435	16	0	14,422	197	4,134	245	918	3,373	-1	6,544	3,179	609	34,215
Korea	13,318	1	0	6,842	552	1,231	118	364	1,996	847	827	98	2,021	1,583
Malaysia	7,580	733	0	4,706	-11	254	disc.	103	3,981	-8	425	254	disc.	246
New Zealand	3,849	270	negl.	368	disc.	78	27	14	40	10	483	194	disc.	696
Philippines	4,700	329	187	2,144	259	197	21	23	799	disc.	265	41	disc.	914
Singapore	57,589	-107	2	13,394	12	808	22	672	8,489	1,203	disc.	1,462	843	2,912
Taiwan	10,961	negl.	0	3,986	105	1,472	118	229	1,488	disc.	1,264	73	942	4,275
Thailand	7,393	1,214	negl.	3,113	24	1,032	97	157	763	-49	disc.	86	588	disc.
Other	3,484	1,197	31	255	disc.	77	-3	3	7	disc.	-79	11	241	-8
<i>Memorandum:</i>														
Eastern Europe ¹	20,524	3,586	468	7,211	873	757	1,492	119	2	1,196	642	759	2,676	1,383
European Union (EU-15) ²	844,698	12,119	7,899	160,292	10,053	48,290	8,768	10,236	23,504	14,987	75,942	32,195	27,830	110,842
OPEC ³	36,549	18,874	3,043	4,101	532	1,088	105	185	11	479	207	1,901	1,348	995

Negl.=Less than \$500,000 (+ / -).

Disc.=Suppressed to avoid disclosure of data of individual companies.

¹ "Eastern Europe" comprises Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Czech Rep., Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

² The European Union (EU-15) comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom.

³ OPEC is the Organization of Petroleum Exporting Countries. Its members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Source: Maria Borga and Daniel R. Yorgason, "Direct Investment Positions for 2003: Country and Industry Detail," *Survey of Current Business*, July 2004, found at Internet address <http://www.bea.doc.gov/bea/ARTICLES/2004/07July/0704dip.pdf>, retrieved on Aug. 23, 2004.

Table 13
Foreign direct investment position in the United States on an historical cost basis, 2003, billion dollars

	All industries	Manufacturing: Total	Manufacturing: Food	Manufacturing: Chemicals	Primary and fabricated metals	Machinery	Computers and electronic products	Electrical equipment, and components	Transportation	Wholesale trade	Retail trade	Information	Depository institutions (DI)	Finance, except DI	Real estate, rental, and leasing	Professional, scientific, and technical services	Other industries
<i>Billion dollars</i>																	
All countries	1,347,994	470,893	15,113	112,602	18,482	35,502	54,040	53,834	61,570	188,819	28,341	185,408	80,726	162,853	50,769	40,245	139,939
Canada	92,041	23,343	1,076	-1,509	3,584	1,867	6,432	199	2,183	1,969	1,469	3,880	5,828	25,332	6,847	879	22,494
Europe	1,006,530	383,544	11,373	107,878	13,956	30,698	30,461	51,476	39,169	120,727	22,502	165,305	58,903	113,419	22,127	36,704	83,300
Belgium	9,608	2,843	disc.	disc.	353	110	16	12	disc.	1,242	disc.	disc.	disc.	671	280	121	1,127
Finland	7,212	4,447	-1	631	disc.	985	disc.	9	3	disc.	disc.	318	disc.	4	disc.	disc.	disc.
France	170,619	70,169	2,525	29,411	906	disc.	8,716	3,277	2,174	12,623	390	30,799	8,352	32,015	301	12,555	3,415
Germany	137,036	51,190	156	16,049	3,666	2,850	621	disc.	17,036	8,952	1,577	28,997	20,245	10,443	5,549	812	9,271
Ireland	26,179	2,657	59	140	disc.	137	-120	disc.	negl.	5,006	disc.	645	disc.	4,474	385	disc.	9,786
Italy	6,695	1,508	disc.	305	107	93	46	disc.	29	827	1,706	25	758	1,014	89	6	762
Luxembourg	34,349	12,926	342	disc.	199	disc.	70	-6	978	1,156	disc.	5,523	0	157	99	disc.	14,101
Netherlands	154,753	59,640	-1,342	25,214	461	6,763	7,209	1,304	6,540	6,557	disc.	5,634	disc.	34,768	5,358	6,819	10,055
Spain	4,739	1,588	25	342	disc.	-5	6	2	108	128	disc.	disc.	1,219	430	18	disc.	disc.
Sweden	21,989	8,979	0	disc.	863	1,025	292	disc.	disc.	4,117	disc.	94	120	disc.	disc.	332	3,648
Switzerland	113,232	77,630	6,256	18,958	1,021	1,569	463	disc.	disc.	4,117	291	11,339	disc.	16,766	549	445	disc.
United Kingdom	283,317	74,243	1,191	10,345	3,409	4,066	9,147	354	7,206	73,742	1,631	71,830	10,345	9,064	5,455	13,084	23,925
Other	27,763	9,679	1,245	disc.	disc.	9	2,469	disc.	disc.	775	disc.	9,101	422	1,986	689	disc.	4,118
Latin America	52,291	5,405	1,214	-552	-509	24	2,632	845	-255	8,391	1,787	-704	3,142	13,083	4,705	881	15,601
South and Central America	16,917	-1,607	1,140	-1,743	-811	-113	-175	-21	-382	5,474	disc.	disc.	2,262	8,037	487	321	699
Mexico	7,857	788	1,188	-449	260	-42	-133	8	-406	1,440	disc.	disc.	383	728	47	disc.	2,984
Panama	5,668	-2,672	disc.	disc.	disc.	2	-10	negl.	1	26	3	-7	71	disc.	291	16	disc.
Venezuela	4,447	151	negl.	negl.	-1	-18	-2	-7	negl.	disc.	0	-1	672	-1	-24	-1	disc.
Other Western Hemisphere	35,374	7,012	73	1,191	302	137	2,808	865	127	2,918	disc.	disc.	881	5,045	4,218	560	14,901
Netherlands Antilles	4,680	565	2	443	-7	4	-6	1	-3	373	disc.	disc.	158	21	843	-7	2,372
UK Islands, Caribbean	25,502	4,377	12	728	disc.	132	disc.	1	130	1,671	333	247	286	3,148	3,093	685	11,660
Africa	2,344	661	disc.	disc.	13	disc.	2	-4	-14	364	disc.	disc.	disc.	disc.	191	disc.	696
Middle East	6,766	836	disc.	disc.	1	disc.	363	-16	-1	2,554	disc.	disc.	disc.	disc.	1,031	disc.	430
Israel	3,205	858	disc.	disc.	0	disc.	362	negl.	negl.	139	3	339	1,427	disc.	59	disc.	335
Asia and Pacific	188,023	57,105	1,325	6,110	1,437	2,824	14,149	1,335	20,487	54,814	2,542	16,408	11,360	10,784	15,869	1,721	17,418
Australia	24,470	3,457	-13	120	disc.	70	-8	disc.	-47	45	-4	disc.	disc.	1,549	2,801	101	2,728

Table 13—Continued
Foreign direct investment position in the United States on an historical cost basis, 2003, billion dollars

	All Industries	Manu- factu- ring: Total	Manu- factu- ring: Food	Manu- -fact- uring: Chem-i- cals	Pri- mary and fabri- cated metals	Mach- i- nery	Com- p- uters and elec- tronic prod- ucts	Elect- -cal equip- ment, and compo- nents	Trans- port- ation	Whole- sale trade	Retail trade	Infor- mation	De- posi- tory insti- tutions (DI)	Fi- nance, except DI	Real estate, rental, and leasing	Profes- sional, scienti- fic, and techni- cal ser- vices	Other indus- tries
<i>Billion dollars</i>																	
Hong Kong	2,189	588	-1	-42	-5	-5	282	-8	-3	438	-1	202	283	27	164	-2	490
Japan	152,032	49,833	1,301	5,437	1,000	2,767	11,667	1,012	20,522	52,383	disc.	disc.	8,086	9,097	11,997	1,376	13,253
Korea	2,439	752	disc.	47	149	negl.	452	-7	10	1,165	40	10	263	95	45	53	17
Singapore	2,902	1,703	7	-68	-2	-37	1,741	disc.	-3	52	disc.	36	212	2	697	5	disc.
Taiwan	2,311	1,015	negl.	816	1	disc.	137	26	5	348	22	34	630	disc.	38	38	disc.
<i>Memorandum:</i>																	
European Union	862,630	294,672	3,870	87,115	11,601	29,098	27,557	11,115	38,538	115,300	22,177	144,705	57,763	94,628	21,089	34,693	77,604
(EU-15) ¹																	
OPEC ²	7,923	29	negl.	-97	-1	-19	2	-24	negl.	disc.	disc.	8	861	5	957	-6	257

Negl.=Less than \$500,000 (+ / -).

Disc.=Suppressed to avoid disclosure of data of individual companies.

¹ "Eastern Europe" comprises Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Czech Rep., Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

² OPEC is the Organization of Petroleum Exporting Countries. Its members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Source: Compiled from official U.S. Department of Commerce statistics, "Foreign Direct Investment Position in the United States on a Historical-Cost Basis, 2003," found at Internet address <http://www.bea.doc.gov/bea/di/fdipos-03.xls>, retrieved on Aug. 23, 2004.

as the sum of costs incurred except for intermediate inputs plus the profits earned in production. Capital expenditure is defined as expenditures made to acquire, add to, or improve property, or plant and equipment be it land, timber, mineral, structures, machinery, tangible or intangible exploration and development costs, but not costs of mergers and acquisitions or divestitures, or expenditures resulting from changes in accounting methods.¹¹ The BEA estimated that in 2001, the value-added in production originating in nonbank U.S. parent companies totaling more than \$2.5 trillion, amounted to nearly a quarter of the current dollar gross domestic product originating in the private sector.

U.S. MNCs also play a big role in U.S. international trade in goods. The BEA estimated that in 2001 U.S. exports of goods that involved U.S. parent companies or their MOFAs totaled \$425.4 billion, or 58 percent of total U.S. exports of goods. U.S. imports of goods that were associated with U.S. MNCs totaled \$432.9 billion, or 38 percent of total U.S. imports of goods.

In 2002, total employment by MOFAs of U.S. MNCs in high wage countries accounted for 62 percent of total employment of foreign affiliates. This implies that access to markets has been a key factor in locating operations abroad. Sales by MOFAs to local customers in 2001, amounted to 65 percent of affiliates' total sales and 11 percent of affiliates sales were to customers in the United States.¹²

The BEA estimates that U.S. MNCs employed 30.6 million workers worldwide in 2002, of which 22.4 million were employed in the United States by U.S. parent companies, and 8.2 million were employed abroad by MOFAs. The employment of U.S. parent firms accounted for about one-fifth of total U.S. employment in private industries. MOFAs employed 8.2 million workers in 2002, accounting for 5.0 percent of total U.S. employment in private industries. For both U.S. MNCs and the U.S. MOFAs, employment decreased for the second consecutive year in 2002 (table 14).

Employment by U.S. MNCs decreased by 1.5 percent in 2002, following a 3.0-percent decrease in 2001. U.S. parent companies more than accounted for the decreases in both years—their employment decreased by 2.2 percent in 2002, following a 4.1-percent decrease in 2001. Employment by MOFAs increased 0.6 percent in 2002, following a 0.1-percent increase in 2001. The changes in U.S. parent companies' and U.S. affiliates' employment reflected

decreases in total U.S. employment in private industries, which decreased 1.3 percent in 2002 following a slight decrease in 2001.

Newly acquired or established MOFAs concentrated in large and affluent markets such as the European Union, mostly selling their products in local markets where they were located. Access to these markets proves to be a more significant factor than low cost labor or other productive factors. However, MOFAs almost doubled their gross product in Eastern Europe particularly after the 1989 fall of the Berlin Wall and the opening to investments from Western countries. Some of the factors that encouraged foreign direct investment in the region were abundance of low cost and skilled labor, natural resources, and the proximity to affluent markets in Western Europe.

Although employment by foreign affiliates remains concentrated in high wage countries, employment has also grown faster in low wage countries in recent years. In 1991-2001, foreign affiliates employment grew at an annual rate of 7 percent in low wage countries, while it grew at a rate of 3 percent in high wage countries. This pattern reflects factors such as cost considerations, the developments of new markets, and the liberalization of policies toward foreign investment in a number of major developing countries.

However the forces of globalization that have resulted in increased foreign employment by U.S. MNCs have also resulted in growth in employment in the United States by foreign MNCs. During 1977-2001, employment by majority owned U.S. affiliates of foreign companies grew by 4.7 million.

Possible causes of a change in the domestic share of U.S. MNC employment are (a) different rates of economic growth on the United States and abroad; (b) different rates of productivity growth in U.S. parent firms and foreign affiliates; (c) new market opportunities abroad that cannot be served by U.S. exports; (d) changes in foreign government policies toward direct investment; (e) U.S. parent company outsourcing of an activity to a domestic company that is also a U.S. parent company; and (f) U.S. parent outsourcing of an activity to an unaffiliated or affiliated foreign company.

The BEA asserts that data on the operations of U.S. MNCs indicate a relatively stable mix of domestic and foreign operations, but the inferences that can be drawn from these data about the production strategies of MNCs and about the ultimate effects of U.S. MNCs activities on the U.S. economy and on foreign economies are limited.

¹¹ Ibid.

¹² Ibid.

Table 14
Employment, capital expenditures, and sales by nonbank U.S. multinational companies, 1988-2002

Year	Employment (thousands of employees)			Capital expenditure (million dollars)			Sales (million dollars)	
	U.S. multinational companies	U.S. parent firms	Majority owned foreign affiliates	U.S. multinational companies	U.S. parent firms	Majority owned foreign affiliates	U.S. parent firms	Majority owned foreign affiliates
1988	22,498	17,738	4,760	223,814	177,203	46,611	2,828,209	927,886
1989	23,879	18,765	5,114	260,488	201,808	58,680	3,136,837	1,019,966
1990	23,786	18,430	5,356	274,614	213,079	61,535	3,243,721	1,208,349
1991	23,345	17,959	5,386	269,221	206,290	62,931	3,252,534	1,242,635
1992	22,812	17,530	5,282	272,049	208,834	63,215	3,330,886	1,291,649
1993	22,760	17,537	5,223	271,661	207,437	64,224	3,480,778	1,275,775
1994	24,272	18,565	5,707	303,364	231,917	71,447	3,990,013	1,435,901
1995	24,500	18,576	5,924	323,616	248,017	75,599	4,235,578	1,693,836
1996	24,867	18,790	6,077	340,510	260,048	80,462	4,478,970	1,868,588
1997	26,358	19,878	6,480	398,037	309,247	88,790	4,886,330	1,972,515
1998	26,593	19,820	6,773	411,155	317,184	93,971	4,970,138	1,971,909
1999	30,773	23,007	7,766	483,032	369,728	113,304	5,975,478	2,218,945
2000	32,057	23,885	8,171	506,950	396,313	110,637	6,695,166	2,507,433
2001	31,088	22,907	8,181	533,325	422,303	111,022	6,786,610	2,614
2002	30,634	22,400	8,224	467,278	350,582	116,695	6,483,192	2,656,834
<i>Period percentage change</i>								
1988-1999	2.9	2.4	4.5	7.2	6.9	8.4	7.0	8.2
1999-2000	4.2	3.8	5.2	5.0	7.2	-2.4	12.0	13.0
2000-2001	-3.0	-4.1	0.1	5.2	6.6	0.3	1.4	4.3
2001-2002	-1.5	-2.2	0.6	-12.4	-17.0	5.1	-4.5	1.6

Source: U.S. Department of Commerce, Bureau of Economic Analysis, statistical release BEA 04-16.

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 3.7 percent in the third quarter of 2004, according to advance estimates by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA).² In the second quarter real GDP increased by 3.3 percent, down from the 4.5 percent increase in the first quarter. The major contributors to the increase in real GDP in the third quarter of 2004 were personal consumption expenditure, equipment and software, exports, government spending, and residential fixed investment. The contributions of these components were partly offset by a decline in private inventory investment. Imports increased (accounted for as a subtraction from GDP).

¹ Michael Youssef is an international economist in the Country and Regional Analysis Division, 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 Data for this article were taken largely from the most current of the following sources: U.S. Department of Commerce, Bureau of Economic Analysis, “Gross Domestic Product,” news release series BEA 04-48, found at Internet address <http://www.bea.doc.gov/bea/newsrel/gdpnewsrelease.htm>; Federal Reserve Board of Governors, “Industrial Production and Capacity Utilization,” statistical release series G.17, found at Internet address <http://www.federalreserve.gov/releases/G17/Current/>; U.S. Department of Labor, Bureau of Labor Statistics, “Consumer Price Index,” news release series USDL-04-, 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,” news release series USDL-04-, found at Internet address <http://www.bls.gov/news.release/emp-sit.nr0.htm>.

Real personal consumption expenditure increased by 4.6 percent in the third quarter, up from an increase of 1.6 percent in the second. Durable goods purchases increased 16.8 percent in the third quarter compared with a decrease of 0.3 percent in the second. Nondurable goods increased by 3.9 percent, compared with an increase of 0.1 percent in the second; and services expenditures increased by 2.7 percent, the same as in the second quarter. Real nonresidential fixed investment increased by 11.7 percent in the third quarter, compared with an increase of 12.5 percent in the second. Nonresidential structures increased by 1.4 percent, compared with an increase of 6.9 percent. Equipment and software increased by 14.9 percent in the third quarter compared with an increase of 14.2 percent in the second. Real residential fixed investment increased by 3.1 percent, down from an increase of 16.5 percent in the second quarter.

Real exports of goods and services increased by 5.1 percent in the third quarter of 2004, down from an increase of 7.3 percent in the second. Real imports of goods and services in 2004, second quarter increased by 7.7 percent, compared with an increase of 12.6 percent in the second quarter.

Real federal government consumption expenditure and gross investment increased by 4.6 percent in 2004, third quarter, compared with an increase of 2.7 percent in the preceding quarter. National defense spending increased by 9.3 percent in the third quarter of 2004, following an increase of 4.4 percent in the second. Nondefense spending decreased by 4.7 percent in 2004, third quarter, compared with the second quarter increase of 4.4 percent. Real state and local government consumption expenditures and gross investment decreased by 0.5 percent during 2004, third

quarter, compared with an increase of 1.9 percent in the second quarter.

The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased by 1.8 percent in the third quarter, compared with an increase of 3.5 percent in the second quarter. Excluding food and energy prices, the price index for gross domestic purchases increased by 1.5 percent in the third compared with an increase of 2.5 percent in the second.

In other G-7 economies, the annualized rates of real GDP growth were as follows. In the United Kingdom, the economy grew by 1.5 percent in the third quarter of 2004, and by 3.0 percent during the year through 2004, third quarter. In Germany, the economy grew by 1.9 percent in the second quarter, and by 2.0 percent in the year through the second quarter of 2004. In Japan, the economy grew by 1.3 percent in the second quarter, but grew by 4.2 percent in the year through the second quarter of 2004. In Italy, the economy grew by 1.1 percent in the second quarter, and by 1.2 percent in the year through the second quarter of 2004. In France, the economy grew by 2.8 percent in the second quarter of 2004, and grew at the same rate in the year through the second quarter of 2004. In Canada, the economy grew by 4.3 percent in the second quarter of 2004, but grew by 3.0 percent in the year through the second quarter of 2004. For EU members linked by the euro currency, the euro area, GDP grew by 2.0 percent in the second quarter of 2004, and grew at the same rate in the year through the second quarter of 2004.

U.S. Corporate Profits

The U.S. Department of Commerce in their GDP news release for the second quarter of 2004 reported that corporate profits from current production, with inventory valuation and capital consumption adjustment, increased by \$8.3 billion in the second quarter of 2004, down from the \$36.5 billion increase in 2004, first quarter; and substantially less than the increases of \$72.0 billion in 2003, fourth quarter, and an increase of \$70.9 billion in 2003, third quarter. Current-production cash flow, net cash flow with inventory valuation and capital consumption adjustments—the internal funds available to corporation for investment—decreased by \$5.7 billion in the second quarter of 2004, down from an increase of \$5.9 billion in the first quarter of 2004.³

³ BEA, "Gross Domestic Product: Second Quarter 2004 (Preliminary), Corporate Profits: Second Quarter 2004 (Preliminary)," *BEA News*, BEA 04-39, found at Internet address <http://www.bea.gov/bea/newsrelarchive/2004/gdp204p.pdf>, retrieved on Sept. 1, 2004.

Domestic profits by financial and nonfinancial firms together increased by \$28.3 billion in the second quarter of 2004, compared with an increase of \$47.0 billion in the first quarter. Domestic profits of financial corporations decreased \$7.9 billion in 2004, second quarter, in contrast to an increase of \$19.8 billion in the first quarter. Domestic profits of nonfinancial corporations increased by \$36.2 billion in 2004, second quarter, compared with an increase of \$27.3 billion in the first quarter. In 2004, second quarter, real gross value-added increased and profits per unit of real gross value added increased. The 2004, second quarter increase in unit profits reflected a larger increase in prices corporations received than the unit costs they incurred, as unit labor costs increased while unit nonlabor costs remained unchanged.

The foreign component of profits decreased by \$20.0 billion in the second quarter of 2004, compared with an increase of \$10.5 billion in the first quarter. 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 parent companies, plus dividends paid by U.S. corporations to unaffiliated foreign residents. The second quarter 2004 decrease was accounted for by a large increase in payments and a small decrease in receipts.

Industrial Production

The Federal Reserve Board reported that U.S. industrial production rose by 0.1 percent in September 2004 after decreasing by 0.1 percent in August, and following an increase of 0.7 percent in July 2004. Total output was 4.6 percent higher in September 2004 than its level in September 2003. Manufacturing output declined by 0.3 percent in September, but posted a substantial annual rate of increase of 5.3 percent over September 2003. Utilities output increased 5.4 percent in September following a decrease of 2.3 percent in August as temperatures returned to normal levels after unseasonably warm weather in August. Utilities output in September 2004 was 5.5 percent higher than in September 2003. Mining output declined by 2.3 percent in September as the recent spate of hurricanes appears to have had a noticeable restraining effect on production. The index for the rate of capacity utilization for total industry was unchanged in September at 77.2 percent in September 2004, and was 1.5 percentage points above its level in September 2003, and 3.9 percentage points below its 1972-2003 average.

By market group, the output of consumer goods rose 0.3 percent in September 2004. The production of

consumer durables fell 0.3 percent in September as output in all major categories slipped. The output of consumer automotive products edged down after a sizable gain in August. The output of business equipment rose 0.3 percent in September, and it increased 10.0 percent over September 2003. The production of information processing equipment increased by 0.3 percent in September, but rose by 12.6 percent over September 2003. Computer and electronic products increased for the fourth consecutive month by 0.7 percent in September 2004, and was 9.5 percent higher than in September 2003.

Other G-7 member countries reported the latest growth rates of industrial production for the month of August 2004, as follows: the United Kingdom reported a 0.1-percent decrease, France reported a 0.7-percent increase; Germany reported a 3.5-percent increase, Italy reported a 3.5-percent decrease, Canada reported a 4.1-percent increase, and Japan reported an 3.8-percent increase in September 2004. The euro area reported an increase of 1.5 percent for the month of August 2004.

Prices

The seasonally adjusted U.S. Consumer Price Index increased by 0.2 percent in September 2004 following an increase of 0.1 percent in August, according to the U.S. Department of Labor. For the year ended September 2004, consumer prices increased 2.5 percent. Energy costs declined 0.4 percent in September after advancing sharply in the first half of the year. The index for food was unchanged in September following an increase of 0.1 percent in August. The price index for all items, less food and energy, increased by 0.3 percent in September and increased by 2.0 percent in the 12 months ended September 2004.

Other G-7 members reported the latest consumer price increases as follows: consumer prices increased by 2.1 percent in Germany, 2.1 percent in Italy, 1.1 percent in the United Kingdom, 1.8 percent in Canada, 2.2 percent in France, but prices decreased by 0.2 percent in Japan. Prices increased by 2.1 percent in the euro area.

Employment

The U.S. Department of Labor, Bureau of Labor Statistics, reported that the U.S. unemployment rate was virtually unchanged at 5.4 percent in September 2004. Job growth in September was little changed in most of the major industry sectors over the month. In

other G-7 countries, the latest unemployment rates were reported to be 7.1 percent in Canada, 9.9 percent in France, 10.7 percent in Germany, 8.1 percent in Italy, 4.8 percent in Japan, and 4.7 percent in the United Kingdom. The unemployment rate in the euro area was 9.0 percent.

Forecasts

The world economy continues to display characteristics favorable to long-term growth, according to the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD).

IMF Forecasts

Forecasts of the International Monetary Fund in their latest report on the world economic outlook show that the global recovery has become increasingly well established.⁴ World output growth is projected at about 5.0 percent; world trade volume projected to rise sharply by about 8.8 percent in 2004 and by 7.2 percent in 2005; with strong growth in industrial countries and exceptionally rapid expansion in emerging markets, notably China. World growth has been accomplished by a strong upturn in global trade flows, a pickup in private consumption expenditure, underpinned by generally improving labor market conditions, and continued strength in investment, as post bubble corporate balance sheets restructuring has proceeded. But challenges and risks still remain, including terrorist attacks, global trade imbalances, high oil prices, and fiscal deficits. Although the global recovery appears to be underway, its pace and nature vary significantly across regions. Well established recoveries appear underway in the United States and Asia, but less well established recoveries appear in the euro area as domestic demand and consumption remain weak.

In the United States, GDP is projected by the IMF to grow at 4.3 percent in 2004, and 3.5 percent in 2005. Inflation is expected to remain subdued, with consumer prices projected to increase by 3.0 percent in 2004, and in 2005. The unemployment rate is projected at 5.5 percent in 2004 and 5.4 percent in 2005.

In contrast, GDP in the euro area is projected to grow at 2.2 percent in 2004 and in 2005; consumer prices to increase by 2.1 percent in 2004 and by 1.9 percent in 2005; and the unemployment rate to remain high at 9.0 percent in 2004 and at 8.7 percent in 2005.

⁴ IMF, "Advancing Structural Reforms," *World Economic Outlook*, April 2004, found at Internet address <http://www.imf.org/external/pubs/ft/weo/2004/01/index.htm>, retrieved on Sept. 1, 2004.

In Japan, GDP is projected to grow by 4.4 percent in 2004 and by 2.3 percent in 2005; consumer prices to decline by 0.2 percent in 2004 and by 0.1 percent in 2005 as deflationary pressures persist albeit at a slower rate; and the unemployment rate to remain at 4.7 percent in 2004 and 4.5 percent in 2005. In Canada, GDP is projected to grow by 2.9 percent in 2004, and by 3.1 percent in 2005; consumer prices are projected to increase by 1.9 percent in 2004 and by 2.2 percent in 2005; and the unemployment rate is projected at 7.2 percent in 2004 and 6.8 percent in 2005. In the newly industrialized Asian countries, GDP is projected to grow by 5.5 percent in 2004 and by 4.0 percent in 2005; consumer prices are to increase by 2.4 percent in 2004 and by 2.6 percent in 2005; and the unemployment rate is projected at 4.1 percent in 2004 and in 2005.

The current account position for the United States is projected by the IMF to improve, reaching 5.4 percent of GDP in 2004 and 5.1 percent in 2005. Japan's current account surplus is expected to reach 3.4 percent of GDP in 2004 and at 3.2 percent in 2005. In the euro area the current account surplus would rise slightly from 2003 to 0.8 percent of GDP in 2004, and 0.9 percent in 2005. Germany's surplus would increase to 4.4 percent of GDP in 2004 and to 4.8 percent in 2005. Canada's surplus would reach 2.9 percent of GDP in 2004 and to 2.4 percent in 2005, up from 2.0 percent of GDP in 2003. The current account deficit in the United Kingdom as a percent of GDP would moderate to 2.0 percent in 2004 and 1.9 percent in 2005. France's current account surplus would turn into a deficit of 0.6 percent of GDP in 2004 and in 2005. The current account surplus of the newly industrialized Asian economies would also moderate to 6.8 percent of GDP in 2004 and 6.5 percent in 2005, down from 7.6 percent surplus in 2003.

OECD Forecast for the Industrialized Countries

Economic forecasts by the Organization of Economic Co-operation and Development (OECD) in its May 2004 *Economic Outlook* find that a strong momentum has finally taken hold across the OECD area following a drawn-out period of fits and starts.⁵ 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 eco-

nomics recovery has benefitted from strong productivity gains, the stimulus provided by monetary and fiscal policies, and high-potential investment growth. In Japan, the 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 forecasted 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 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

⁵ OECD, *Economic Outlook No. 75*, June 2004, found at Internet address http://www.oecd.org/document/18/0,2340,en_2649_34109_20347538_1_1_1_1,00.html, retrieved on Sept. 8, 2004.

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.

Productivity and Costs, Second Quarter 2004

The Bureau of Labor Statistics of the U.S. Department of Labor reported that revised productivity data—as measured by output per hour of all persons—showed gains in the second quarter of 2004.⁶ The revised seasonally adjusted annual rates of productivity change in the second quarter were 1.5 percent in the business sector, and 2.5 percent in the nonfarm business sector. In manufacturing, the revised productivity changes in the second quarter were 6.9 percent in manufacturing, 4.9 percent in durable goods manufacturing, and 9.7 percent in nondurable goods manufacturing (table 1).

Business

Productivity in the business sector increased by 1.5 percent in the second quarter of 2004, as output increased by 3.2 percent, hours worked rose by 1.6 percent, hourly compensation rose by 3.7 percent. This measure of hourly compensation includes wages and salaries, supplements, employer contributions to employee benefit plans, and taxes. Real hourly compensation in the business sector declined by 0.1 percent in the second quarter, and unit labor costs rose by 2.1 percent. The change in unit labor cost approximates the change in hourly compensation less the change in productivity. The implicit price deflator for business output, which reflects changes in both unit labor costs and unit nonlabor payments, rose by 3.4 percent. In the first quarter of 2004, productivity grew by 3.9 percent as output grew by 5.3 percent and hours worked grew by 1.3 percent. Hourly compensation grew by 2.8 percent in the first quarter, and real hourly compensation declined by 0.8 percent. Unit labor costs declined by 1.1 percent and the implicit price

deflator for business rose by 2.1 percent in the second quarter of 2004.

Nonfarm Business

Productivity rose by 2.5 percent in the nonfarm business sector in the second quarter of 2004, reflecting a 3.5-percent rise in output and a 1.0-percent increase in working hours of all persons. Hourly compensation increased by 4.3 percent. Real hourly compensation in the second quarter declined by 0.4 percent, and unit labor costs grew by 1.8 percent. The implicit price deflator for nonfarm business output rose by 2.9 percent in the second quarter of 2004. In the first quarter of 2004, productivity increased by 3.7 percent as output grew by 5.7 percent, hours worked rose by 2.0 percent, hourly compensation rose by 2.0 percent, real hourly compensation decreased by 1.6 percent and unit labor cost decreased by 1.6 percent. The implicit price deflator rose by 2.0 percent.

Manufacturing

In the second quarter of 2004, productivity in manufacturing grew by 6.9 percent as output expanded by 6.2 percent, working hours of all persons declined by 0.6 percent, hourly compensation rose by 3.2 percent. Real hourly compensation declined by 1.5 percent, and unit labor costs declined by 3.5 percent. In the first quarter of 2004, productivity grew by 2.7 percent as output expanded by 6.2 percent, hours worked rose by 3.4 percent, hourly compensation declined by 4.1 percent, real hourly compensation declined by 7.4 percent, and unit labor costs decreased by 6.6 percent.

In durable goods industries, productivity grew by 4.9 percent, as output expanded by 5.9 percent, hours worked rose by 1.0 percent, and hourly compensation declined by 2.3 percent. Real hourly compensation decreased by 2.3 percent, and unit labor costs decreased by 2.5 percent. In the first quarter, productivity grew by 4.3 percent, as output expanded by 9.9 percent, hours worked rose by 5.4 percent, and hourly compensation declined by 7.1 percent. Real hourly compensation decreased by 10.4 percent, and unit labor costs in durables declined by 10.9 percent.

In nondurable goods industries, productivity grew by 9.7 percent in the second quarter of 2004, as output expanded by 6.3 percent, but hours worked declined by 3.1 percent. Hourly compensation in nondurables manufacturing rose by 4.4 percent during the second quarter but real hourly compensation declined by only 0.3 percent as unit labor costs declined by 4.8 percent. In the first quarter, productivity rose by 1.6 percent as

⁶U.S. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs — Second Quarter 2004," *News*, USDL 04-1727, Sept. 2, 2004, found at Internet address <http://www.bls.gov/lpc/>, retrieved on Sept. 8, 2004.

Table 1
Productivity and costs: Second quarter 2004 measures, seasonally adjusted annual rates

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
<i>Percent change from preceding quarter</i>						
Business	4.6	5.2	0.5	5.9	2.2	1.2
Nonfarm business .	3.8	5.4	1.5	4.6	0.9	0.8
Manufacturing	2.9	5.8	2.8	6.2	2.5	3.1
Durable	5.9	9.3	3.2	5.5	1.8	-0.4
Nondurable	-0.7	1.4	2.1	7.3	3.6	8.1
<i>Percent change from same quarter a year ago</i>						
Business	5.6	5.9	0.3	4.8	2.8	-0.8
Nonfarm business .	5.5	5.9	0.4	4.6	2.7	-0.8
Manufacturing	5.2	3.1	-2.0	6.1	4.2	0.9
Durable	7.4	5.7	-1.6	6.3	4.4	-1.0
Nondurable ...	2.8	0.1	-2.6	5.6	3.7	2.8

Source: U.S. Department of Labor, Bureau of Labor Statistics, news release USDL 04-995, found at <http://www.bls.gov/1pc/>.

output expanded by 1.8 percent, hours worked rose by 0.2 percent and hourly compensation grew by 1.5 percent. Real hourly compensation declined by 2.0 percent and unit labor costs rose by zero percent.

It is worth noting that although productivity measures describe the relationship between real output and labor time involved in production, these do not measure the specific contributions of labor, capital, or any other factor of production. Rather, they reflect the joint effects of many influences, including changes in technology, capital investment, capacity utilization, organization, managerial skills, and other characteristics of the work force. Also, output and hours in manufacturing, which includes about 13 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. Moreover, 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 that these measures are not directly comparable. Output measures for business and nonfarm business 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 independently prepared by the Federal Reserve System, Board of Governors. Business output is an annual-weighted index constructed after excluding from GDP general government, nonprofit institutions, and private households. Using this method, business output accounted for about 78 percent of the value of GDP.

STATISTICAL TABLES

Table 1
Unemployment rates in G-7 countries, by specified periods, 2003 to September 2004¹

Country	2003				2004					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	July	Aug.	Sept.
	<i>Percent</i>									
United States	5.8	6.1	6.1	5.9	5.6	5.6	5.5	5.5	5.4	5.4
Canada	6.7	6.9	7.2	6.8	6.7	6.6	6.4	6.5	6.4	6.3
Japan	5.4	5.4	5.2	5.1	5.0	4.7	4.8	5.0	4.9	4.6
France	9.0	9.2	9.4	9.4	9.4	9.4	9.4	9.4	9.5	9.4
Germany	9.6	9.8	9.8	9.7	9.7	9.9	9.9	9.9	10.0	10.0
Italy	9.0	8.8	8.7	8.6	8.6	N/A	N/A	N/A	N/A	N/A
United Kingdom	5.1	5.0	5.0	4.9	4.8	4.8	N/A	4.7	N/A	N/A

N/A indicates 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, 1990-2004," release of Nov. 5, 2004, found at Internet address <ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flsjec.txt>.

Table 2
Consumer prices of G-7 countries, by specified periods, 2003 to September 2004

Country	2003				2004					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	July	Aug.	Sept.
	<i>Percent, change from same period of previous year</i>									
United States	2.9	2.1	2.2	1.9	1.8	2.9	2.7	3.0	2.7	2.5
Canada	4.5	2.8	2.1	1.7	0.9	2.2	2.0	2.3	1.9	1.8
Japan	-0.2	-0.2	-0.2	-0.3	-0.1	-0.3	-0.1	-0.1	-0.2	0.0
France	2.4	1.9	1.9	2.2	1.8	2.4	2.3	2.3	2.4	2.1
Germany	1.2	0.9	1.0	1.2	1.0	1.8	1.9	1.8	2.0	1.8
Italy	2.7	2.7	2.7	2.5	2.3	2.3	2.2	2.3	2.3	2.1
United Kingdom	3.1	3.0	2.9	2.7	2.6	2.8	3.1	3.0	3.2	3.1

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Prices in Nine Countries, Percent Change from Same Period of Previous Year, 1990-2004," release of Nov. 5, 2004, found at Internet address <ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flscpm.txt>.

Table 3
U.S. trade balances by major commodity categories and by specified periods, September 2003 to September 2004¹

Sector	2003				2004								
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
	<i>Billion dollars</i>												
Manufactures	-43.2	-47.3	-39.1	-42.5	-38.3	-35.9	-43.4	-44.5	-39.8	-49.9	-49.9	-49.8	-48.7
Agriculture	0.6	1.9	2.2	1.6	1.1	1.2	0.9	0.3	0.2	-0.3	0.1	-0.2	0.5
Petroleum ²	-11.7	-11.9	-10.9	-11.6	-12.9	-12.6	-14.3	-13.6	-14.5	-16.6	-15.4	-17.3	-16.1
Dollar unit price of U.S. petroleum imports ²	26.43	26.28	26.54	27.17	28.55	29.17	30.64	31.00	33.12	33.76	33.28	36.37	37.62

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 Nov. 10, 2004, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.