
INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

International Trade Developments

U.S.-Japan Trade: Trends and Negotiations

USITC Releases Report on the Impact of CBERA in 2001-2002

United States Trade With Mercosur

*Implementation of ATPDEA Changes Composition of Imports Under ATPA
in 2003*

U.S. Trade Developments

Recent Developments

International Economic Comparisons

*U.S. Economic Performance Relative to Other Group of Seven
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TABLE OF CONTENTS

Page

International Trade Developments

U.S.-Japan Trade: Trends and Negotiations

The U.S. trade deficit with Japan increased from \$51.2 billion in 1996 to \$73.0 billion during 2002, or by 43 percent. This article analyzes trends during 1996-2002 of the leading U.S. exports to and imports from Japan. In addition, it reviews two major sets of bilateral negotiations aimed at addressing both sectoral and structural issues during this period.

(Diane Manifold, 202-205-3271) 1

USITC Releases Report on the Impact of CBERA in 2001-2002

The USITC recently released its biennial report on the impact of the Caribbean Basin Economic Recovery Act (CBERA) in 2001-2002. The report shows that the impact of imports under CBERA on the overall U.S. economy, industries, and consumers continued to be negligible in 2001-2002, despite enhancements to the program in 2000. The enhancements may lead to significant future effects in the textiles and apparel sectors.

(Walker A. Pollard, 202-205-3228) 9

United States Trade With Mercosur

Beginning in 2002, the Southern Common Market (Mercosur) countries of Argentina, Brazil, Paraguay, and Uruguay, reversed their longstanding combined trade deficit with the United States. The United States recorded a \$5.7 billion trade deficit with the Mercosur countries in 2002, down from a \$9.9 billion trade surplus in 1997. This trend continued into 2003. Unlike Andean, Caribbean, and Central American countries, the Mercosur countries receive no preferential access to the U.S. market other than the U.S. Generalized System of Preferences program. Nevertheless, the Mercosur countries increased their share of total U.S. imports between 1997 and 2002—a challenge to the conventional view that Mercosur countries are at a disadvantage relative to Andean, Caribbean, and Central American countries in terms of access to the U.S. market. This article investigates recent U.S.-Mercosur trade patterns.

(James Stamps, 202-205-3227) 13

Implementation of ATPDEA Changes Composition of Imports Under ATPA in 2003

The USITC recently released its annual report on the Andean Trade Preference Act (ATPA) in 2002. The report shows that the composition of U.S. imports under the program began to change with the implementation of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), an enhancement of ATPA, on October 31, 2002. More recent data indicate that the composition of U.S. imports under ATPA has changed substantially as a result of ATPDEA's implementation and that most U.S. imports from the region now enter the U.S. market duty free.

(Joanne Guth, 202-205-3264) 19

U.S. Trade Developments

Recent Developments

(Michael Youssef, 202-205-3269) 23

International Economic Comparisons

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

(Michael Youssef, 202-205-3269) 31

Statistical Tables 37

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November/December 2003

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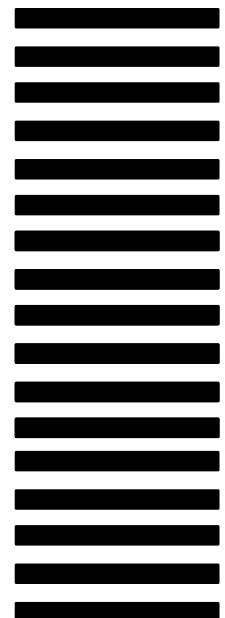
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INTERNATIONAL TRADE DEVELOPMENTS

U.S.–Japan Trade: Trends and Negotiations

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The U.S. trade deficit with Japan increased from \$51.2 billion in 1996 to \$73.0 billion during 2002, or by 43 percent. This article analyzes trends during 1996-2002 of the leading U.S. exports to and imports from Japan. In addition, it reviews two major sets of bilateral negotiations aimed at addressing both sectoral and structural issues during this period.

Introduction

During the period from 1996 to 2002, the U.S. trade deficit with Japan increased by 43 percent to \$73.0 billion. The leading U.S. import category from Japan during 1996-2002 was motor vehicles and parts and the leading export item was parts of aircraft and spacecraft. This article analyzes the trends during 1996-2002 of the leading U.S. exports to and imports from Japan. There have been two major sets of bilateral negotiations aimed at addressing both sectoral and structural issues during the period under consideration. These negotiations are discussed, including the major provisions of the talks.

Economic Profile

Japan ranks second behind the United States in terms of the size of its economy with a GDP of \$4.5 trillion in 2000. It also ranks second in scientific and technical competitiveness, non-governmental assets, foreign exchange reserves and trade surplus. However, Japan's economy has been in decline through the 1990s. The primary reasons cited for the deterioration in Japan's economy are the effects of the bursting of the economic bubble during which the value of land and other assets collapsed; Japan's fiscal policies,

which have emphasized budgetary restraint and increased taxes; and rigid government regulations.² Problems of debt overhang and high unemployment remain.³ Japan's economy grew approximately 1 percent annually in the 1990s compared to about 4 percent per year in the 1980s. GDP fell from 2.2 percent growth in 2000 to a -0.6 percent contraction in 2001.⁴ The process of reforming the economy has been uneven, although reforms accelerated in response to financial sector difficulties and a deep recession in 1998.

U.S.-Japan Trade

The U.S. trade deficit with Japan increased from \$51.2 billion in 1996 to \$73.0 billion during 2002, or by 43 percent. The trade deficit reached a high level of \$84.9 billion in 2000 before declining to \$72.6 billion in 2001 and then reaching \$73.0 billion during 2002. The U.S. trade deficit with Japan totaled \$27.9 billion during the first 6 months of 2003 compared to \$28.9 during 2002, a decrease of 3 percent. The slowdown in the U.S. economy and the weaker dollar led to a decline in the U.S. deficit with Japan. Figure 1 shows the U.S.-Japan trade deficit during 1996-June 2003.

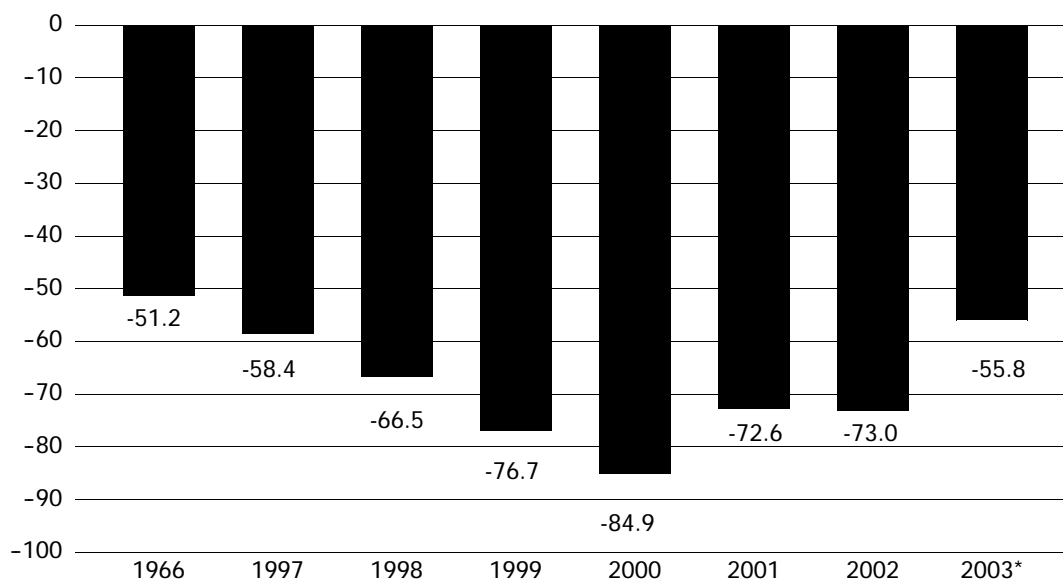
² William H. Cooper, *U.S.-Japan Economic Ties: Status and Outlook*, Congressional Research Service, July 31, 2003.

³ Toshihiko Fukui, "Prospects for the Future of Japan's Economy," July 25, 2003, found at http://www.org.jp/en/press/03/k0_0307/a.htm, retrieved Aug. 5, 2003.

⁴ The World Bank Group, "Japan at a glance," found at Internet address http://www.worldbank.org/data/countrydata/aag/jpn_aag.pdf, retrieved Sept. 11, 2002.

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

Figure 1
U.S.-Japan Trade Deficit
Billion dollars



*January-June 2003 at annualized rate.

Source: Official data of the U.S. Department of Commerce.

The persistent imbalance in U.S.-Japan trade has been explained by domestic savings-investment imbalances in the two countries. Other factors such as sudden changes in exchange rates can cause short-term shifts in trade balances as well.⁵ Excessive Japanese government regulations have been the subject of bilateral negotiations between the United States and Japan for years. Nonetheless, Japan has made limited progress in deregulation. Sectors that have been the subject of recent reform measures include telecommunications, energy and transportation.⁶ The exclusive purchasing behavior of corporate groupings or keiretsu, which control up to 40 percent of Japan's equities, also contribute to the trade deficit.

U.S. Imports from Japan

U.S. imports from Japan rose steadily from \$114.8 billion in 1996 to \$121.3 billion in 2002, or by 6 percent (figure 2). Imports reached their highest level in 2000 at \$145.7 billion. In January-June 2003, U.S.

imports from Japan totaled \$58.2 billion, compared to \$58.3 billion during the same period in 2002. Leading U.S. imports from Japan were motor vehicles; parts and accessories for tractors, public transport passenger vehicles, and motor cars; automatic data processing machines; transmission apparatus for radiotelephony; and parts and accessories for typewriters and other office machines.

U.S. imports of autos and parts increased from \$26.4 billion in 1996 to \$36.3 billion during 2002. Japanese-based passenger vehicle makers increased their manufacturing capacity in the United States during the period 1996-2002. Although imports from Japan grew significantly during that period, they might have increased even more without increased localized production.⁷ Imports of autos and parts increased during 2000 because of continuing popularity of Japanese models and the depreciation of the yen.⁸

⁵ William H. Cooper, *U.S.-Japan Economic Ties: Status and Outlook*, Congressional Research Service, July 31, 2003.

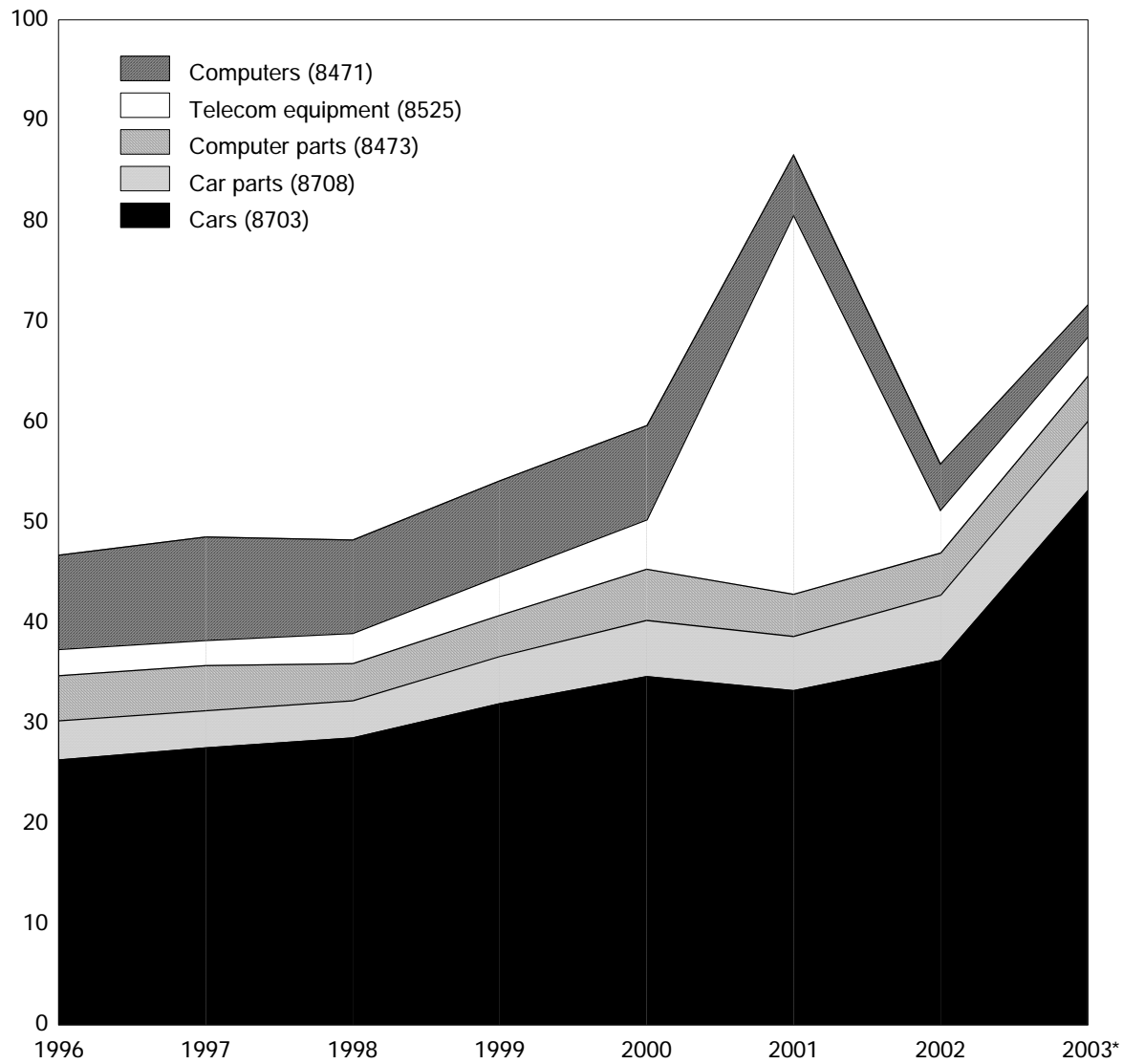
⁶ William H. Cooper, "Japan's Economic Miracle: What Happened," *CRS Report for Congress*, Congressional Research Service, Oct. 1, 2001.

⁷ "Motor vehicles" as defined in USITC, *Shifts in U.S. Merchandise Trade 2002*, July 2003, USITC Publication 3611.

⁸ USITC, *Shifts in U.S. Merchandise Trade 2002*, p. 11-1.

Figure 2
Top U.S. Imports from Japan, by HTS chapter

Trillion dollars



*January-June 2003 at annualized rate.

Note.-See article for full HTS chapter descriptions

Source: Compiled from the U.S. Department of Commerce, U.S. International Trade Commission, and U.S. Treasury.

U.S. imports of automatic data processing machines and units thereof (computers) increased slightly during 1996-1997 and remained steady during 1998-2000. This trend was primarily due to advances in new technology and increased purchases due to the millennial change to the year 2000, commonly known as "Y2K." There was a decline of 38 percent during 2000-2002 to \$6.0 billion primarily because of lower corporate information technology budgets and the economic downturn in the United States.⁹

The increase from 1999 to 2000 in imports from Japan of transmission apparatus for radiotelephony; and television cameras, still-image video cameras and recorders resulted primarily from demand for still-image digital cameras. Imports of these cameras declined in 2001 following the terrorist attacks in the United States on September 11, 2001, the subsequent decrease in tourism, as well as a general economic downturn in the United States. However, imports of these items bounced back above their 2000 level as prices dropped, features were added, and more first-time buyers came to the market.

Imports of camcorders and cellphones fell from 2000 to 2001 as a result of decreased demand resulting from the September 11 attacks and, again, the general economic downturn. While much of the demand for digital cameras was likely from first-time buyers, cellphones and camcorders have been around for so long that most purchases are replacements and upgrades, rather than first-time purchases. Such upgrade purchases can be postponed more easily. While cellphone and camcorder imports increased in 2002, they did not return to 2000 levels.

Imports of satellite television receivers from Japan dropped off significantly as a result of the economic decline in the United States and did not appear to return to earlier levels.¹⁰

U.S. Exports to Japan

U.S. exports to Japan decreased from \$63.6 billion in 1996 to \$ 48.3 billion in 2002, or by 24 percent, except in 2000 when exports rose to \$60.8 billion (figure 3). During the first six months of 2003, U.S. exports to Japan totaled \$24.4 billion compared to \$23.7 billion during the same period in 2002. The leading U.S. export categories were parts of aircraft and spacecraft; electronic integrated circuits; airplanes and spacecraft; automatic data processing machines and units thereof, and corn. Analysis of trends for each of these categories follows.

⁹ Analysis provided by USITC, Office of Industries.

¹⁰ Analysis provided by USITC, Office of Industries.

Japan is the largest foreign market for U.S. aircraft and aerospace products. In 2002, the United States accounted for 80 percent of Japan's aerospace imports. The Japan Defense Agency (JDA) accounted for 50 percent of domestic production of aircraft and parts.¹¹ U.S. exports of aircraft increased from \$1.5 billion in 1996 to \$1.7 billion in 2002. The trend in aircraft and aerospace products over the period reflected fleet replacement for civil aircraft and a downturn in demand as a result of the Asian financial (currency) crisis in the late 1990s.

The second largest category of U.S. exports to Japan during 1996-2002 was electronic integrated circuits and microassemblies (semiconductors) and parts thereof. U.S. exports of these products increased from \$2.1 billion in 1996 to \$3.0 billion in 2000, primarily because of the long-term growth in the telecommunications market and increased demand for computers which incorporate semiconductors. This was also a period of liberalization in global telecommunications markets which increased demand for semiconductors by major competitors. From 2000 to 2002, there was a decline in U.S. exports of semiconductors to Japan from \$3.0 billion to \$1.8 billion. The decrease in exports to Japan reflected the worldwide decline in the semiconductor market.¹²

U.S. exports of automatic data processing machines and units thereof declined steadily from \$3.0 billion in 1996 to \$1.6 billion in 2002, except for an increase during 1999 to 2000. This trend in exports reflects worldwide consumption patterns in this sector, including an increase in purchases in preparation for Y2K.¹³

U.S. corn exports to Japan decreased from \$2.5 billion in 1996 to \$1.9 billion in 1997, or by 3 percent. The value of exports continued to decline over the period to \$1.5 billion in 2002 primarily because of a fall in the worldwide price of corn from approximately \$150 per metric ton to \$100 per metric ton. In terms of quantity, U.S. exports remained steady. Japan's market for corn is relatively stable at 16 million metric tons.

U.S.-Japan Trade Negotiations

U.S.-Japan Framework for a New Economic Partnership

There have been two major sets of negotiations between the United States and Japan during the 1990s.

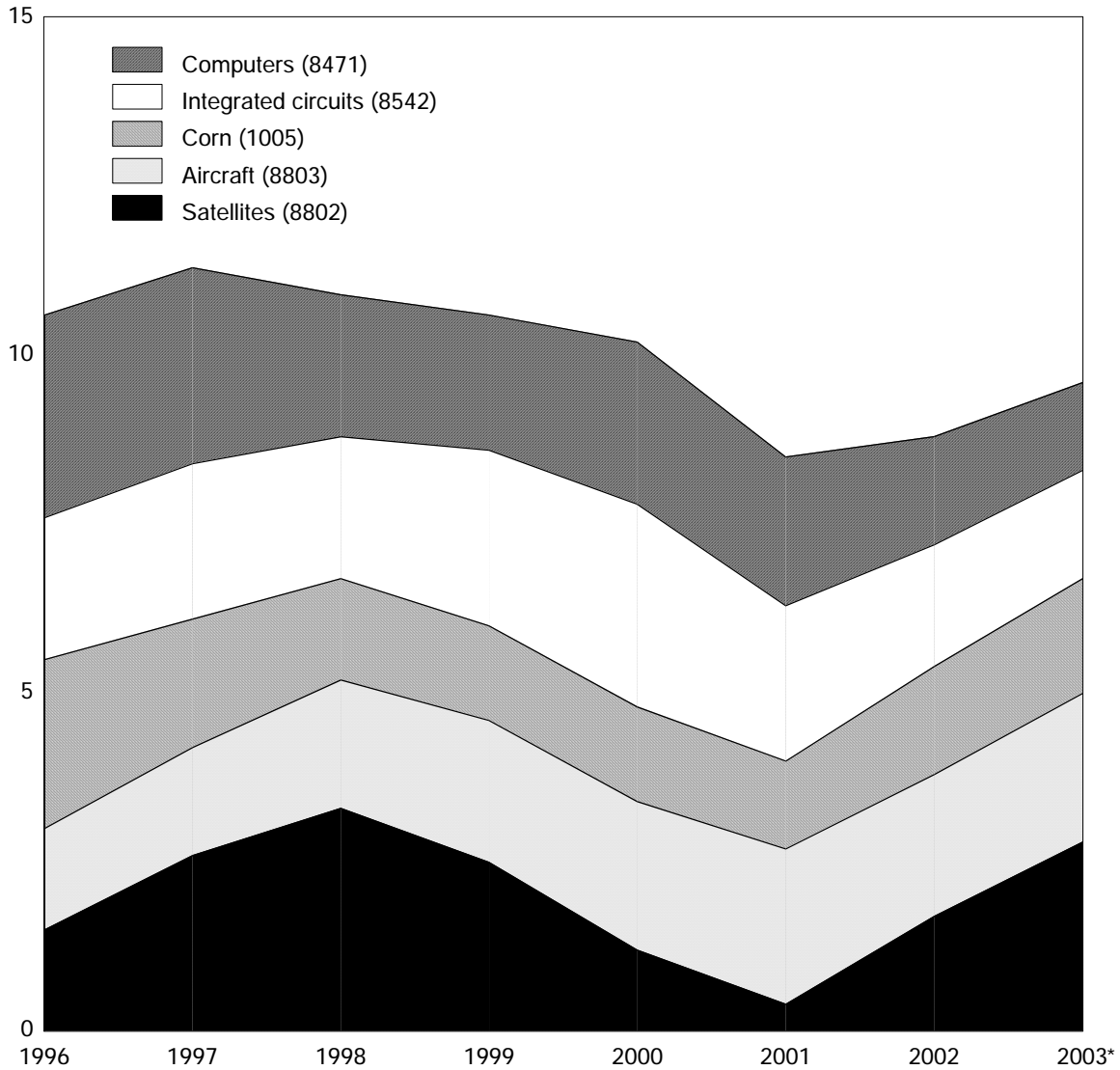
¹¹ United States Trade Representative (USTR), *2003 National Trade Estimate Report on Foreign Trade Barriers*, March 2003, p. 224.

¹² Analysis provided by USITC, Office of Industries.

¹³ Analysis provided by USITC, Office of Industries.

Figure 3
Top U.S. Exports to Japan, by HTS chapter

Trillion dollars



*January-June 2003 at annualized rate.

Note.-See article for full HTS chapter descriptions

Source: Compiled from the U.S. Department of Commerce, U.S. International Trade Commission, and U.S. Treasury.

On July 10, 1993, the United States and Japan signed the U.S.-Japan Framework for a New Economic Partnership or the "Framework Agreement." The agreement provided a mechanism for conducting negotiations on both structural and sectoral issues. The initial "basket" areas for negotiation were (1) government procurement (telecommunications and medical technology), (2) regulatory reform and competitiveness, (3) other major sectors (autos and parts), (4) economic harmonization, and (5) implementation of existing arrangements and measures. Flat glass was added to the negotiating agenda the following year. The two governments were to assess the implementation of measures and policies taken in each sectoral and structural area within each basket; the assessment was to be based upon sets of criteria, either qualitative or quantitative, as appropriate. An update on progress toward reducing current account balances and other macroeconomic issues was to be included in biannual Heads of Governments' statements.

During bilateral negotiations under the Framework Agreement, the United States raised several issues with Japan regarding telecommunications: interconnection and pricing, rights-of-way, unbundling, and leased lines. In 2002, Japan finished a long-term review of its telecommunications framework in preparation for revisions to the Basic Telecommunications Law in FY 2003.

There are two bilateral insurance agreements in effect, a 1994 and a 1996 pact. Under these agreements foreign firms have increased their presence in both life and non-life insurance sectors. Nonetheless there are some remaining issues which the United States continues to raise. One issue of concern is the disparity between private industry and the public sector provider of postal life insurance products (known as Kampo) and uncertainty regarding future funding of the life and non-life insurance safety net systems, or Policyholder Protection Corporations.¹⁴

With regard to access to Japan's flat glass market, Japan's three domestic flat glass producers continue to maintain constant market shares through informal coordination and tight control over distribution channels, thereby restricting access for U.S. manufacturers. To improve access, the United States continues to urge Japan to strengthen the JFTC and enforce its rules against anticompetitive behavior.

¹⁴ USTR, *2003 National Trade Estimate Report on Foreign Trade Barriers*, pp. 195-196, and 218-219.

U.S.-Japan Economic Partnership for Growth

The U.S.-Japan Economic Partnership for Growth was initiated on June 30, 2001. The Partnership established a new bilateral forum for discussing a wide range of global, regional, and bilateral economic and trade issues.¹⁵ The Partnership was aimed at "promoting sustainable economic growth by focusing on sound macroeconomic policies, structural and regulatory reform, financial and corporate restructuring, foreign direct investment, and open markets."¹⁶ Four working groups were set up under the Partnership for negotiations: telecommunications, information technology, energy, and medical devices/pharmaceuticals. Several new initiatives were started under the Partnership: the Regulatory Reform and Competition Policy Initiative, Investment Initiative, Financial Dialogue, and the Trade Forum.

Under the Regulatory Reform and Competition Policy Initiative, the United States and Japan issued a report to the leaders of each country. Achievements were made in various sectors including telecommunications, information technologies, energy, medical devices, pharmaceuticals and financial services. Progress was also made in areas such as competition policy, transparency, other government practices, legal system reform, revision of Japan's Commercial Code, and distribution.¹⁷

Legal and other barriers remain that affect growth in Japan's information technology sector. The United States is working with Japan under the Partnership to establish a regulatory framework that ensures competition, promotes innovation, allows private sector-led regulation where appropriate, and protects intellectual property rights.

Japan has undertaken measures to reform its energy sector, including electricity and natural gas. Nonetheless there remains a need for increased liberalization. Japan abolished its antimonopoly exemption for natural monopolies—including electricity and gas—although this has resulted in little progress toward lowering energy costs and improving efficiency. In 2003, Japan is expected to submit legisla-

¹⁵ USITC, *Operation of the Trade Agreements Program*, 53rd Report, 2001, USITC Publication 3510, May 2002, pp. 4-25 and 4-26.

¹⁶ The Governments of Japan and the United States, "U.S.-Japan Economic Partnership for Growth," June 30, 2001.

¹⁷ USTR, *2003 Trade Policy Agency and 2002 Annual Report*, March 2003, p. 187.

tion to the Diet (Japan's parliament) to reform its gas sector.¹⁸

The United States and Japan continue to discuss market-access concerns in the medical device and pharmaceutical sectors regarding regulation and reimbursement. The United States has urged Japan to consider how different cost structures in various parts of the healthcare system influence each other and how faster access to innovative products can result in cost savings. In addition, the United States continues to emphasize the importance of a transparent and predictable pricing process to reward innovative medical devices and pharmaceuticals. The United States has indicated that it views Japan's foreign reference price as inappropriate. Another major goal of the United States is to gain expedited review and new product approval procedures.¹⁹

In conclusion, during the period 1996-June 2003, the U.S. trade deficit with Japan increased through 2000—reflecting higher levels of imports—and then

¹⁸ USTR, *2003 National Trade Estimate Report on Foreign Trade Barriers*, March 2003, pp. 198-199.

¹⁹ USTR, *2003 National Trade Estimate Report on Foreign Trade Barriers*, March 2003, pp. 199-200.

declined—primarily because of the slowdown in the U.S. economy and the weaker dollar. U.S. imports rose steadily during this period primarily because of the strength of the U.S. economy relative to the Japanese economy and worldwide shipment trends. U.S. exports to Japan of aircraft and aerospace products—the largest category—increased due to cyclical trends in the industry.

As was noted, U.S. trade negotiations during the 1990s were conducted under the Framework Agreement and the U.S.-Japan Economic Partnership for Growth. Both sets of negotiations covered a number of structural and sectoral issues. Aside from autos and parts, the largest U.S. import category, most negotiations focused on items of smaller import or export values. Achievements were made in sectors such as telecommunications, information technology, energy, medical devices, pharmaceuticals and financial services. In addition, progress was made in structural areas such as competition policy, transparency, other government practices, legal system reform, and distribution. Further bilateral discussions are expected in these areas during 2004.

USITC Releases Report on the Impact of CBERA in 2001-2002

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The USITC recently released its biennial report on the impact of the Caribbean Basin Economic Recovery Act (CBERA) in 2001-2002. The report shows that the impact of imports under CBERA on the overall U.S. economy, industries, and consumers continued to be negligible in 2001-2002, despite enhancements to the program in 2000. The enhancements may lead to significant future effects in the textiles and apparel sectors.

Introduction

The biennial report of the United States International Trade Commission (USITC, or the Commission) on the impact of trade with countries eligible under the U.S. Caribbean Basin Economic Recovery Act (CBERA) was released on October 16, 2003.² Section 215 of the CBERA requires the Commission to prepare a report assessing both the actual and the probable future effects of CBERA on the U.S. economy, on U.S. industries, and on U.S. consumers. The section was amended in May 2000 by the Caribbean Basin Trade Partnership Act (CBTPA), which instructed the Commission also to report on the impact of the overall preference program on the economy of the beneficiary countries.

The Commission used partial-equilibrium analysis to estimate the impact of CBERA on the United States. The probable future effect of CBERA on the United States was estimated by an examination of export-oriented investment in the beneficiary countries. This year's report also provides an assessment of the impact of CBERA in promoting export-led growth and export diversification in three beneficiary countries. Data sources for the report included: field interviews, on-site tours of manufacturing facilities, interviews

with government agencies, information from the U.S. Department of Commerce, data reported by international agencies and multilateral banks, submissions from interested parties, and reports from U.S. embassies in CBERA countries.

The CBERA entered into effect on January 1, 1984, and became permanent on August 20, 1990. It reduces or eliminates tariffs on eligible products of designated Caribbean, Central American, and South American countries and territories. The primary goal of CBERA is to promote export-oriented growth in these 3 groups of Caribbean Basin countries and territories, and to diversify their economies away from traditional agricultural products and raw materials. CBERA applies to many of the same tariff categories covered by the U.S. Generalized System of Preferences (GSP), but differs from GSP in that CBERA's benefits apply to additional products and the qualifying rules for trade in these products are more liberal.

CBTPA, which amended CBERA, was enacted in May 2000 and implemented in October 2000. The first full calendar year that CBTPA was in effect was 2001. A number of products became eligible for preferential duty treatment under CBERA for the first time with the implementation of CBTPA, most notably apparel made from U.S. inputs, and petroleum and petroleum products. Apparel and petroleum categories have dominated total U.S. imports from CBERA beneficiary countries for a number of years and now dominate imports under CBERA preferences. In 2002, imports of products in these categories accounted for 58 percent of the value of total U.S. imports from CBERA countries and 71 percent of the value of U.S. imports under CBERA preferences, including preferences introduced by CBTPA.

The report looks at the CBERA from three vantage points: the trade-related activities resulting from the

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

² USITC, *The Impact of the Caribbean Basin Economic Recovery Act, Sixteenth Report 2001-2002*, Inv. No. 332-227, USITC Publication 3636, September 2003.

preference program in 2001-2002; its impacts on the United States, and the impacts on the beneficiary countries.

Trade-related Activities

Total U.S. imports from CBERA beneficiary countries amounted to \$21.3 billion in 2002, of which \$10.0 billion or 47 percent entered under CBERA preferences. While the introduction of CBTPA resulted in a \$7.2 billion increase in the value of U.S. imports under CBERA from 2000 to 2002, total imports from CBERA countries (all goods, regardless of duty treatment) actually decreased 4.1 percent during the same period, in line with the decrease in total U.S. imports from all countries during the same period. Four countries—the Dominican Republic, Honduras, Trinidad and Tobago, and Costa Rica—accounted for 70 percent of all U.S. imports under CBERA.

The leading U.S. categories of total imports from CBERA beneficiary countries remained the same during 2000-2002, and included apparel, mineral fuels, electrical machinery, and edible fruits. Four countries—the Dominican Republic, Honduras, Costa Rica, and Guatemala—supplied 62.9 percent of these imports in 2002.

The U.S. trade deficit with CBERA countries measured \$561.8 million in 2001, and \$552.3 million in 2002. Between 1987 and 1998, CBERA countries had been among the few trading partners with which the United States had consistently registered a collective merchandise trade surplus. However, since 1999, the United States has had a trade deficit with CBERA countries.

The composition of leading U.S. imports under CBERA changed significantly because CBTPA opened preferential treatment to apparel and petroleum products. While the total value of apparel imported from CBERA countries decreased 1.1 percent from 2000 to 2002, that portion of apparel imports entering under CBERA increased significantly. Apparel accounted for only 8.3 percent of total imports under CBERA in 2000, but it accounted for 61.0 percent of the total in 2002. While the total value of mineral fuels imported from CBERA countries decreased 7.5 percent from 2000 to 2002, imports of mineral fuels under CBERA increased from zero in 2000 to 10 percent of total imports in 2002 under CBERA.

Knit and non-knit (mostly woven) apparel became the two leading U.S. import categories under CBERA in 2001. Imports under CBERA of knit apparel increased 17.9 percent in 2002 to \$3.5 billion.

Similarly, imports of non-knit apparel under CBERA increased by 17.0 percent in 2002 to \$2.6 billion. Four countries supplied 85.2 percent of apparel imports under CBERA in 2002: Honduras, the Dominican Republic, El Salvador, and Guatemala.

Of the 20 leading import items entering under CBERA in 2002, 11 were apparel items. The largest apparel imports under CBERA included knit cotton t-shirts, men's or boy's woven cotton trousers and shorts, knit cotton tops, men's or boys' knit cotton underpants, brassieres, women's or girls' woven cotton trousers and shorts, men's or boys' woven man-made fiber trousers and shorts, and women's or girls' cotton knit panties. Other large import items under CBERA, classified by 8-digit HTS provision, included crude oil, cigars, precious metal jewelry, methanol, fuel oil, and fresh pineapples.

The value of U.S. exports to CBERA countries was nearly unchanged in the period 2000-2002. U.S. exports to the region decreased 0.1 percent to \$20.7 billion in 2002. As in recent years, the Dominican Republic, Costa Rica, Honduras, Guatemala, and El Salvador remain the principal Caribbean markets for the United States, collectively responsible for 55.6 percent of all U.S. exports to CBERA countries in 2002.

CBTPA provisions resulted in a significant shift in the mix between U.S. exports of textiles and apparel to CBERA countries. The new preferences allow more of the production process in the transformation of textiles into apparel to be located in the Caribbean. Cut apparel parts are generally classified as apparel, and the guaranteed access program required these parts to be cut in the United States to qualify for the preferences in most instances. However, CBTPA now allows CBERA countries to cut their own parts as long as the fabric used is made in the United States. Since CBTPA was implemented, the United States has exported significantly more textiles (78.2 percent increase in 2001 and another 34.0 percent increase in 2002) to CBERA countries, and significantly less apparel (26.1 percent decrease in 2001 and another 20.8 percent decrease in 2002). Despite the shift toward exporting more uncut fabric to CBERA countries and fewer pre-cut garment pieces (which have a higher value per square meter than uncut fabric), the total value of U.S. exports of textiles and apparel to CBERA countries decreased only slightly during 2000-2002.

Section 211 of the CBTPA legislation extended North American Free Trade Area (NAFTA)-equivalent treatment to certain "import sensitive articles," including imports of certain mineral fuels (HTS provisions 2709 and 2710). Total imports of crude oil

(HTS provision 2709) increased 20.2 percent in 2001 and 72.9 percent in 2002; while such imports under CBERA increased 118.7 percent in 2002. Total imports of other petroleum products (HTS provision 2710) decreased 23.1 percent in 2001 and 6.8 percent in 2002; but such imports under CBERA increased 161.9 percent in 2002. (There were no imports of crude oil or other petroleum products under CBERA in 2000).

Impact of CBERA on the United States in 2002

The overall effect of CBERA-exclusive imports (imports that receive tariff preferences only under CBERA provisions) on the U.S. economy and on consumers continued to be negligible in 2002. In 2002, the value of all U.S. imports under CBERA preferences was less than 0.10 percent of U.S. gross domestic product (GDP). The value of total U.S. imports from CBERA countries was 1.8 percent of total U.S. imports.

Of the \$10.0 billion in U.S. imports that entered under CBERA in 2002, imports amounting to \$6.7 billion could not have received tariff preferences under any other program. The five leading items benefitting exclusively from CBERA in 2002 were knit cotton t-shirts, men's or boys' woven cotton trousers and shorts, heavy crude oil, brassieres, and knit cotton tops.

Knit cotton t-shirts provided the largest gain in consumer welfare (\$107 million to \$116 million) resulting exclusively from CBERA tariff preferences in 2002. Brassieres provided the second largest gain in consumer welfare (\$53.1 million to \$58.4 million). U.S. imports of the 20 leading CBERA-exclusive items, except for one sugar subheading, produced net welfare gains for U.S. consumers in 2002. Knit cotton t-shirts yielded the largest net gain, valued at \$10.4 million to \$16.7 million, followed by brassieres and knit cotton tops.

No U.S. industries were identified as potentially experiencing displacement of more than 5 percent of the value of U.S. production. U.S. industries producing knit manmade fiber t-shirts, men's or boys' knit cotton underpants, and knit cotton tops experienced the largest net increases in production as a result of CBERA preferences stemming from cut apparel parts supplied to CBERA producers. The U.S. textile industry maintained a heavy presence in supplying raw materials to the CBERA region.

According to the U.N. Economic Commission for Latin America and the Caribbean, foreign direct investment in the Latin American/Caribbean region

decreased 41 percent between 2000 and 2002. In CBERA beneficiary countries, it decreased 19 percent over the same period. Estimated investment flows to the region amounted to approximately \$56 billion in 2002. About \$4.2 billion of that total was received by CBERA beneficiary countries.

The probable future effect of CBERA on the United States is expected to be minimal in most economic sectors. The Commission identified recent expansions in CBERA-related investments in the manufacturing and garment sectors, amounting to nearly \$69 million in 2002.

The enhanced preferences granted under CBTPA in 2000, together with the investment induced by those preferences, will be the main source of future effects of CBERA on the United States. Imports of textiles and apparel under CBERA expanded significantly (up 34.8 percent) in the 2001-2002 period. However, the CBTPA enhanced preferences did not result in an overall increase in imports of apparel from the region. Rather, CBTPA prompted importers to switch from using the production-sharing program to using the new preferences.

The pattern of U.S. production-sharing activity in CBERA beneficiaries began to change with implementation of CBTPA. For instance, in Honduras, U.S. firms now ship uncut U.S. fabrics to Honduras for cutting and assembly into qualifying garments. Moreover, as a result of the CBTPA provision that grants duty-free and quota-free access to the U.S. market for specified quantities of garments made in CBI countries from regional knit fabrics, investors have established or expanded knitting operations in Honduras to make outerwear t-shirts, underwear, and other knitwear for export to the United States.

Many apparel producers have determined that, for the clothing they manufacture, the cost differential between U.S.-origin fabric and lower-priced fabric from Asia is greater than the duty-savings from entering the apparel into the United States under the CBTPA, making it more advantageous in many cases to use Asian fabric even though U.S. duties must be paid.

Impact of CBERA on Beneficiary Countries

According to the field work conducted by the Commission, recent enhancements to CBERA appear to have had a positive effect on investment in a number of beneficiary countries. Employment and investment effects are most pronounced in the textile and apparel sector.

Anticipation of NAFTA-parity legislation and the eventual entry into force of the CBTPA were responsible for the construction of nine textile mills in Guatemala in 2001 and 2002. Of these nine investments, at least three were U.S.-based and two were Korean-based. The apparel industry experienced some consolidation in the last 2 years, with some undercapitalized firms departing despite an overall growth in production in Guatemala. Although existing facilities are reported to be operating at full capacities, potential investors in new plants are awaiting establishment of rules of origin under any forthcoming Central American Free Trade Agreement before committing funds.

A number of beneficiary countries consistently maintain that the outcome of the ongoing negotiations

toward a Central American Free Trade Agreement with the United States will be a greater determinant of future trading relationships in the increasingly significant textile and apparel sector than any unilateral preference program of the United States.

The USITC report, *The Impact of the Caribbean Basin Economic Recovery Act, Sixteenth Report 2001-2002* (Inv. No. 332-227, USITC Publication 3636, September 2003) is available on the USITC's Internet address at <http://www.usitc.gov>. A printed or CD-ROM version may be requested by calling 202-205-1809 or by writing to the Office of the Secretary, U.S. International Trade Commission, 500 E Street SW, Washington, DC 20436. Requests may also be faxed to 202-205-2104.

United States Trade With Mercosur

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Beginning in 2002, the Southern Common Market (Mercosur) countries of Argentina, Brazil, Paraguay, and Uruguay, reversed their longstanding combined trade deficit with the United States. The United States recorded a \$5.7 billion trade deficit with the Mercosur countries in 2002, down from a \$9.9 billion trade surplus in 1997. This trend continued into 2003. Unlike Andean, Caribbean, and Central American countries, the Mercosur countries receive no preferential access to the U.S. market other than the U.S. Generalized System of Preferences program. Nevertheless, the Mercosur countries increased their share of total U.S. imports between 1997 and 2002—a challenge to the conventional view that Mercosur countries are at a disadvantage relative to Andean, Caribbean, and Central American countries in terms of access to the U.S. market. This article investigates recent U.S.-Mercosur trade patterns.

Mercosur Overview

The Southern Common Market (Mercosur) countries of Argentina, Brazil, Paraguay, and Uruguay, form the largest trade bloc in South America. Mercosur became operative on January 1, 1995. As a customs union, Mercosur comprises a free trade area with a common external tariff (CET). The free trade area eliminates tariffs on eligible products traded among the Mercosur partners, while the CET applies a set of common tariffs on products imported from non-Mercosur countries. The CET covers more than 9,600 items, with tariffs mostly ranging between zero and 21.5 percent, although each Mercosur member is allowed to maintain lists of items exempt from the CET and subject to higher tariffs. According to the United States Trade Representative, the CET remains a “significant barrier” to increased U.S. exports of agricultural products, distilled spirits, and computer and telecommunications equipment.²

The Mercosur countries are participating as a bloc in negotiations for the Free Trade Area of the Americas (FTAA)³ and in negotiations for a free trade agreement with the European Union. Mercosur also is negotiating

free trade agreements (FTAs) with Mexico, the Andean Group, and India. Mercosur is open to membership by other countries that belong to the Latin American Integration Association (LAIA).⁴ Bolivia, Chile, and Peru are associate members of Mercosur. Each has negotiated an FTA with Mercosur and thus participates in the Mercosur free trade area; however, because Bolivia, Chile, and Peru have tariffs that are below those of the Mercosur CET, they do not apply the CET and do not participate in the Mercosur customs union.⁵

The combined Mercosur economy is very small relative to the United States. In 2002, Mercosur had a combined gross domestic product (GDP) of \$573.4 billion—just 5.5 percent that of the U.S. economy of \$10.4 trillion. With an estimated combined population of 221 million individuals in 2002, Mercosur had a per capita GDP of \$2,586, compared to a U.S. population of 285 million and U.S. per capita GDP of \$36,368.⁶ Mercosur thus represents a large potential market for the United States, but a market whose potential as a

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² United States Trade Representative (USTR), “Brazil,” *2003 National Trade Estimate Report on Foreign Trade Barriers*, March 2003, p. 14.

³ The United States and the 33 other democratic nations of the Western Hemisphere launched FTAA negotiations in 1998. Negotiations are scheduled to be completed by January 2005.

⁴ LAIA (also known by the Spanish acronym ALADI), is an economic cooperation agreement designed to encourage free trade among its members. Current LAIA members are: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

⁵ Chile became an associate member in 1996, Bolivia in 1997, and Peru in November 2003. This article references U.S. trade only with the Mercosur customs union members—Argentina, Brazil, Paraguay, and Uruguay.

⁶ Mercosur GDP and population data obtained from World Bank, *World Development Indicators 2003 Database*, found at <http://www.developmentgateway.org/node/244175/>, retrieved Nov. 3, 2003. U.S. GDP and population data obtained from OECD, *Gross Domestic Product for OECD Countries*, found at <http://www.oecd.org/dataoecd/48/4/2371304.pdf>, retrieved Nov. 3, 2003.

trading partner is hampered by its low income.⁷ Brazil is by far the largest and most economically influential country in Mercosur—accounting for about 79 percent of the bloc's population, 79 percent of the bloc's combined GDP, and more than 81 percent of total U.S.-Mercosur trade in 2002. The relative importance of the Brazilian economy in the region has been magnified in recent years as Argentina, the second largest Mercosur economy accounting for approximately 18 percent of the bloc's 2002 GDP, has been mired in a deep recession since 1999.

U.S. Trade with Mercosur

Mercosur is a small regional trading partner of the United States. In 2002, Mercosur accounted for just 2.1 percent of total U.S. exports and 1.6 percent of total U.S. imports. The United States recorded a trade surplus with the Mercosur countries for most of the period 1991-2001. The U.S. trade surplus with Mercosur peaked in 1997 at nearly \$10 billion, with U.S. exports valued at a record high of \$22.0 billion, and U.S. imports of \$12.0 billion (figure 1). U.S. exports to Mercosur have declined by 39 percent since 1997 to \$13.3 billion in 2002, while U.S. imports from Mercosur have increased by 59 percent to a record high \$19 billion. In 2002, the United States recorded a trade deficit with Mercosur for the first time in 9 years amounting to nearly \$5.8 billion.

U.S. exports to the Mercosur countries declined by nearly 40 percent during 1997-2002, with the steepest decline during 2001-2002. This trend continued into 2003, with exports during the first half of 2003 valued at \$6.0 billion, versus \$6.6 billion during the first half of 2002. The decline in U.S. exports reflects an economic recession that spread throughout the entire Mercosur region during the period, and consequent decline in Mercosur imports from the world. Overall, GDP in the Mercosur countries contracted by an average of 1.4 percent in 2001, and contracted again by

an average of 4.7 percent in 2002.⁸ Argentina recorded 4.4 percent GDP decline in 2001, and a 10.9 percent GDP contraction in 2002. Argentina's total imports from the world fell from \$27.4 billion in 2001, to \$13.7 billion in 2002. U.S. exports to Argentina declined by 58 percent during the same period, from \$3.6 billion in 2001 to \$1.5 billion in 2002. Brazil recorded 1.5 percent GDP growth in 2001 and 1.4 percent growth in 2002. Brazil's total imports from the world fell from \$72.6 billion in 2001, to \$62.1 in 2002. U.S. exports to Brazil declined by 24 percent during the same period, from \$14.6 billion in 2001 to \$11.2 billion in 2002. According to one report, Brazil's lower imports may have been due to that country implementing an import substitution policy.⁹

Further contributing to the U.S. trade deficit with Mercosur was a sharp increase in imports from the region. U.S. imports from the Mercosur countries increased by nearly 60 percent during 1997-2002, rising to a record high of \$19.0 billion in 2002. This trend continued into 2003, with imports during the first half of 2003 valued at nearly \$10.1 billion, versus \$8.5 billion during the first half of 2002. Imports from Brazil accounted for most of this increase. U.S. imports from Brazil rose from \$9.5 billion in 1997 to a record high of \$15.6 billion in 2002, an increase of 64 percent. This increase may have been accelerated by exchange rate movements that made Brazilian goods more competitive—the Brazilian currency depreciated by 40 percent against the dollar during 2002.¹⁰ These trends continued into 2003, with imports from Brazil during the first half of 2003 valued at \$8.4 billion, versus \$6.9 billion during the first half of 2002, and despite a 25-percent appreciation of the Brazilian currency in the first half of 2003.¹¹

The composition of U.S. imports from Mercosur, with Brazil the primary regional supplier, has changed since 1997—with the value of imported manufactured

⁷ U.S.-Brazilian trade, to the extent that the relatively small value of U.S.-Brazilian trade has been examined in the economic literature, is illustrated by the following observation: "Gravity [econometric] models consistently report that the United States and Brazil trade less than is expected given the magnitude of the two economies and the distance between them." Trade barriers, including high Mercosur tariffs on manufactured goods and high U.S. tariffs on textiles and footwear and U.S. protection for sensitive farm products, may be contributing factors. Jeffrey J. Schott, "U.S.-Brazil Trade Relations in a New Era," Institute for International Economics, 2003, pp. 5-6, found at <http://ie.com/publications/papers/schott1103-2.htm>, retrieved Nov. 12, 2003.

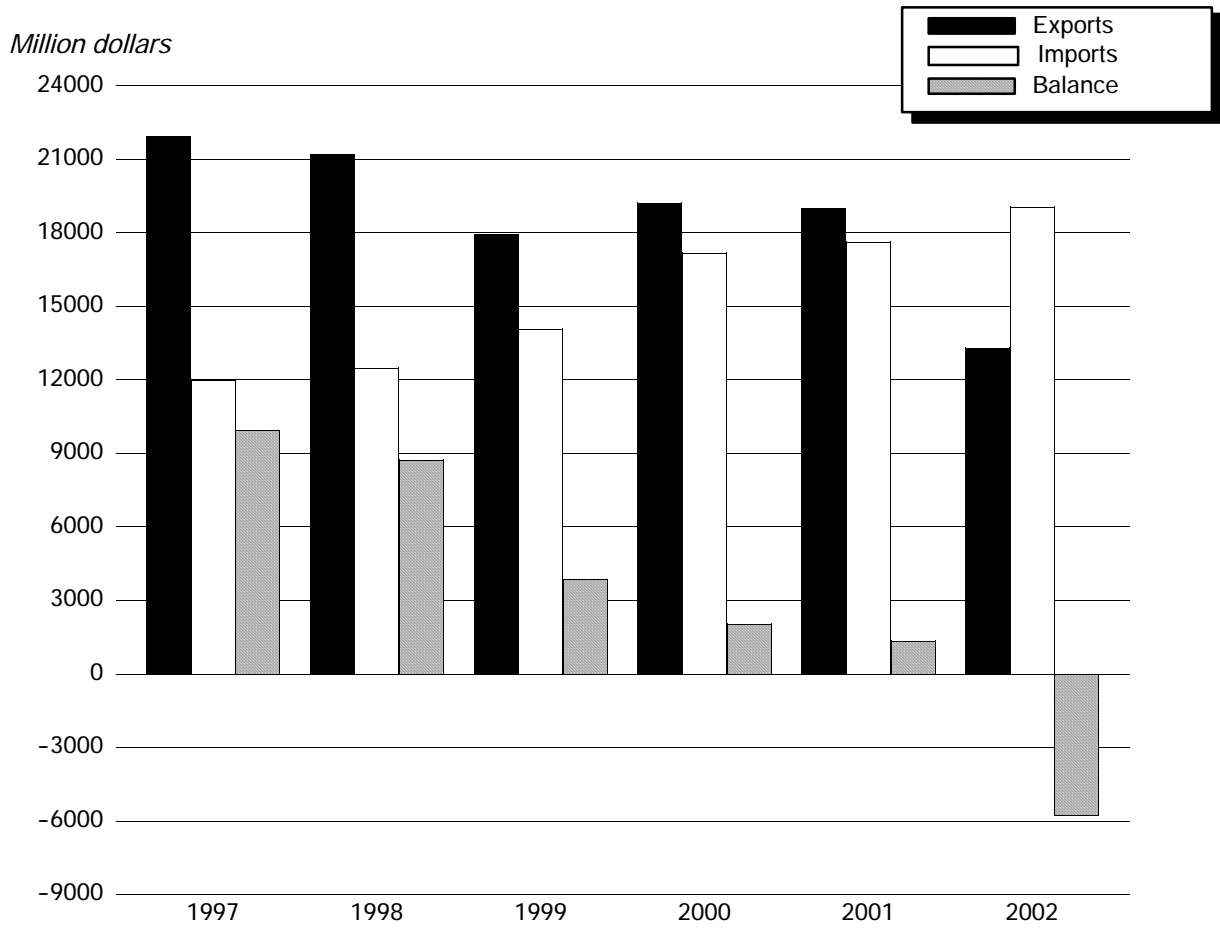
⁸ Mercosur GDP data obtained from World Bank, *World Development Indicators 2003 Database*, found at <http://wbi0018.worldbank.org/external/lac/lac.nsf>, retrieved Nov. 3, 2003. Mercosur trade data obtained from United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2002*, LC/G.2196-P, December 2002. U.S. trade data obtained from USITC, Tariff and Trade DataWeb, found at <http://dataweb.usitc.gov/>, retrieved Nov. 12, 2003.

⁹ ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean*, pp. 55-56.

¹⁰ ECLAC, *Current Conditions and Outlook: Economic Survey of Latin America and the Caribbean, 2002-03*, August 2003, LC/G.2208-P/1, p. 17.

¹¹ The currencies of the four Mercosur economies appreciated against the dollar in real terms during the first half of 2003. *Ibid.*

Figure 1
U.S. trade with Mercosur, 1997-2002



	1997	1998	1999	2000	2001	2002
Exports	21,923	21,212	17,945	19,227	18,987	13303
Imports	11,974	12,481	14,083	17,177	17,636	19053
Balance	9,949	8,731	3,862	2,050	1,351	-5,750

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

products surpassing the value of traditional imported commodities and semimanufactures (table 1). In 1997, footwear (HTS 640399) ranked as the leading U.S. import, followed by processed agricultural and raw materials including coffee (HTS 090111), petroleum oils (HTS 270900), semifinished iron and non-alloy steel products (HTS 720712),¹² gold (HTS 710812), and tobacco (HTS 240120). In 2002, aircraft (HTS 880230) and radio and television transmission apparatus (HTS 852520) ranked as the leading U.S. imports from the Mercosur countries. Brazil was the sole Mercosur supplier of aircraft and the main supplier of radio and television transmission apparatus in 2002.

Preferential Access Programs Compared

Imports from most Latin American and Caribbean countries benefit from preferential access to the U.S. market under the U.S. Generalized System of Preferences (GSP)¹³ program. In addition to the GSP program, eligible products of designated Andean, Caribbean, and Central American countries receive enhanced preferential access to the United States under the Andean Trade Preference Act (ATPA) or the Caribbean Basin Economic Recovery Act (CBERA) programs.¹⁴ Apart from GSP eligibility, products of Mercosur countries receive no other preferential access to the U.S. market.¹⁵ Moreover, duty-free U.S. imports

¹² According to one recent study, the composition of U.S. steel imports from Brazil has shifted, as a result of U.S. antidumping duties on hot-rolled flat products in 1999 and U.S. steel safeguards in 2002, away from high-value, finished steel products to steel slab. Schott, "U.S.-Brazil Trade Relations in a New Era," p. 12.

¹³ The U.S. GSP program permits duty-free access to the U.S. market for certain products that are imported from designated developing countries and territories. Mexico, a member of the North American Free Trade Agreement (NAFTA), does not receive GSP benefits. The United States maintains economic sanctions with respect to Cuba, consequently imports from Cuba are prohibited generally.

¹⁴ ATPA and the related Andean Trade Promotion and Drug Eradication Act (ATPDEA) provide duty-free and reduced-duty treatment to qualifying imports from Bolivia, Colombia, Ecuador, and Peru. CBERA and the related Caribbean Basin Trade Partnership Act (CBTPA) provide duty-free and reduced-duty entry to qualifying imports from 24 designated Caribbean Basin countries and territories. ATPA and CBERA provide many of same benefits as GSP, but with fewer restrictions. ATPDEA, which became operative in 2002, and CBTPA, which became operative in 2000, provide duty-free treatment for products previously excluded from either ATPA or CBERA. See accompanying articles in this publication on ATPDEA and CBERA.

¹⁵ Chile and Venezuela are GSP-eligible, but are not included in any other U.S. preferential access program. The United States and Chile signed a free trade agreement in June 2003.

from Mercosur under GSP declined from \$2.7 billion in 1997 to \$2.5 billion in 2002, in contrast to an overall increase in U.S. GSP imports from all countries from \$15.6 billion to \$17.7 billion between 1997 and 2002.

Despite Mercosur's relatively limited preferential U.S. market access, total U.S. imports from Mercosur countries increased by 59 percent between 1997 and 2002—significantly outpacing the increase in imports under both ATPA and CBERA preferential programs (table 2). The Mercosur countries increased their small share of total U.S. imports from 1.4 percent of total U.S. imports in 1997 to 1.6 percent in 2002, while imports under both ATPA and CBERA marginally declined as a share of total U.S. imports. This trend stands in contrast to the conventional view that U.S. trade preference programs for Andean and Caribbean countries give those countries a relative advantage, compared to Mercosur countries, in expanding trade with the United States.¹⁶ However, the enhanced preferential access afforded by ATPDEA and CBTPA eventually could provide significantly greater access to the U.S. market for Andean, Caribbean, and Central American suppliers relative to Mercosur suppliers.¹⁷ Moreover, other Latin American and Caribbean countries stand to gain even greater access to the U.S. market relative to Mercosur countries upon completion of ongoing negotiations for a U.S.-Central America and a U.S.-Dominican Republic FTA, and the U.S. administration's plans to negotiate bilateral FTAs with other Latin American and Caribbean countries.

Conclusion

A U.S. trade deficit with Mercosur that emerged in 2002 appears likely to continue into 2003 against a background of reduced U.S. exports to the region—most likely due to depressed demand as most of Mercosur remains plagued by economic recession and slow growth—and increased exports stoked by Brazil's 2002 currency depreciation. The Mercosur countries, despite their lack of preferential access to the U.S. market other than GSP, have achieved a small increase in their U.S. market access. Brazil, which accounts for most of Mercosur's trade, has been most successful in increasing exports of manufactured products—particularly of aircraft and radio and television transmission apparatus—while continuing to export higher total values of more traditional commodities and semimanufactured products.

¹⁶ For example, see Schott, "U.S.-Brazil Trade Relations in a New Era," p. 17.

¹⁷ Between the first half of 2002 and the first half of 2003, U.S. imports from ATPA countries increased by 29.3 percent, increased by 22.1 percent from CBERA countries, and increased by 18.4 percent from Mercosur countries.

Table 2
U.S. imports from ATPA, CBERA, and Mercosur countries 1997-2002

	1997		2002		1997-2002 change
	<i>Million dollars</i>	<i>Share of total (percent)</i>	<i>Million dollars</i>	<i>Share of total (percent)</i>	<i>Percent</i>
ATPA	8,674	1.0	9,611	0.8	10.8
CBERA	16,572	1.9	21,255	1.8	28.2
Mercosur . . .	11,974	1.4	19,053	1.6	59.1

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

Mercosur's success in increasing its share of U.S. trade appear to challenge the conventional view that U.S. trade preferences for Andean, Caribbean, and Central American countries give those countries a relative advantage in access to the U.S. market. However, with the United States poised to extend its

free trade accords beyond NAFTA through bilateral FTAs with Chile, Central America, the Dominican Republic, and other countries in the hemisphere, Mercosur may find it difficult to expand its share of the U.S. market without the FTAA or a trade agreement with the United States of its own.

Implementation of ATPDEA Changes Composition of Imports Under ATPA in 2003

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The USITC recently released its annual report on the Andean Trade Preference Act (ATPA) in 2002. The report shows that the composition of U.S. imports under the program began to change with the implementation of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), an enhancement of ATPA, on October 31, 2002. More recent data indicate that the composition of U.S. imports under ATPA has changed substantially as a result of ATPDEA's implementation and that most U.S. imports from the region now enter the U.S. market duty free.

The USITC recently released its ninth report on the Andean Trade Preference Act (ATPA). The report analyzes U.S. imports under the program during 2002 from the four ATPA beneficiary countries—Bolivia, Colombia, Ecuador, and Peru (also, see *IER*, September/October 2003).² U.S. imports under ATPA in 2002 declined 40 percent, owing primarily to the lapse of the ATPA program for over half of the year—from its expiration in December 2001 to its renewal on August 6, 2002. However, changes in the composition of overall 2002 imports were largely affected by the implementation of the Andean Trade Promotion and Drug Eradication Act (ATPDEA) on October 31, 2002. During the last 2 months of 2002, U.S. imports of petroleum derivatives—a major import from the region—became newly eligible for trade preferences and quickly altered the composition of U.S. imports under ATPA.

ATPDEA amended ATPA to authorize duty-free treatment to designated countries for certain products previously excluded from ATPA trade preferences, including certain textiles and apparel, footwear, tuna in foil or other flexible airtight packages (not cans), petroleum and petroleum derivatives, and watches and watch parts. Certain handbags, luggage, flat goods, work gloves, and leather wearing apparel, previously eligible for reduced rates of duty under the original

ATPA are also eligible for duty-free treatment under ATPDEA. Each beneficiary country of the original ATPA was eligible to be designated by the President for the additional trade benefits under the ATPDEA. ATPDEA was implemented on October 31, 2002, when the President designated all four ATPA beneficiary countries as ATPDEA beneficiary countries.

According to the USITC report, during 2002, five newly eligible petroleum derivatives became leading items among the top 20 U.S. imports under ATPA.³ Refined copper cathodes continued to lead the list for the fifth year in a row, but petroleum derivatives ranked second and fourth on the list, despite only two months of eligibility for trade preferences. U.S. imports of other newly eligible products under ATPDEA were either not officially recorded in 2002 or were recorded in negligible amounts. Traditionally important U.S. imports under ATPA, including flowers, jewelry and parts of jewelry, and asparagus, remained on the 2002 list of leading imports.

As the U.S. economy strengthened in 2003 and the U.S. trade preference programs were again in force (ATPA and the Generalized System of Preferences (GSP)), total U.S. imports from the ATPA region increased nearly 29 percent in January-August 2003 compared to the same period in 2002 (table 1), and by 13 percent compared to the same period in 2001.⁴ U.S.

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² Magda Kornis, "An Atypical Year in the History of U.S. Imports under the Andean Trade Preferences Act," *International Economic Review*, Sept./Oct. 2003, United States International Trade Commission, USITC Publication 3638.

³ The data cited in this article were drawn from the USITC Tariff and Trade DataWeb, except as noted.

⁴ The renewal of both ATPA and the GSP program on August 6, 2002 after significant lapses dating from 2001, probably also contributed to the rise in U.S. imports from the region in 2003 compared with 2001 and 2002.

Table 1
U.S. imports from ATPA countries, total and under ATPA, 2001-August 2003, in million dollars

	2001	2002	Jan.-Aug. 2002	Jan.-Aug. 2003	Percent change, YTD 2002- YTD 2003
Total imports	9,569	9,611	5,924	7,621	28.7
Imports under ATPA	1,675	1,001	269	3,656	1,261.3

Source: Compiled by staff of the U.S. International Trade Commission.

imports from ATPA countries grew far more rapidly during January-August 2003 than U.S. imports from the world, which grew just 8 percent. In addition, with the enhancement of ATPA to cover most previously excluded products, only one product—canned tuna—was subject to a duty among the top 30 U.S. imports from the region in January-August 2003. All other imports entered free of duty either under ATPA or under Normal Trade Relations (NTR) tariff rates.

In January-August 2003, U.S. imports under ATPA totaled \$3,656 million, an increase over comparable periods in previous years because more products are covered under the program.⁵ For the same reason, the proportion of all U.S. imports from ATPA countries that entered under ATPA almost tripled in January-August 2003 compared to previous years—to 48 percent. The eligibility of petroleum derivatives is primarily responsible for the large increase in imports under the program. Table 2 lists the 20 leading imports under ATPA during January-August 2003. Petroleum-related products ranked first and second on the list, and accounted for four out of the top seven items on the list. These newly eligible petroleum derivatives accounted for nearly 60 percent of the value of U.S. imports under ATPA in January-August 2003. The top two petroleum-related imports under ATPA are also the leading two imports among all U.S. imports from the region. Colombia was the largest supplier of petroleum derivatives under ATPA, accounting for 62 percent, followed by Ecuador with 34 percent, and Peru with 4 percent.

Refined copper cathodes ranked third on the list of leading imports under ATPA and fresh cut roses ranked fourth. Apparel, previously excluded from ATPA trade preferences, accounted for 6 of the top 20 leading imports under ATPA. The remaining leading items ranked among leading items under the original ATPA: flowers, cigarettes, jewelry and parts of jewelry, asparagus, and guavas and mangoes. Notably, U.S. imports of cigarettes from ATPA countries were first recorded in meaningful quantities only in 2001, and

⁵ Comparisons with calendar year 2002 are not meaningful since ATPA was not in effect until August 6, 2002.

have been rapidly increasing since then, from primarily Colombia but also Peru.

Apparel imports under ATPA accounted for nearly 13 percent of U.S. imports under ATPA in January-August 2003 and for 67 percent of all apparel imports from the region during the 2003 period. Among the top apparel imports under ATPA were cotton knit sweaters, pullovers, shirts, blouses and t-shirts, as well as cotton trousers and shorts. According to the U.S. Department of Commerce, about 90 percent of U.S. apparel imports by value under ATPA represented apparel assembled from ATPDEA fabric from U.S. or ATPDEA yarn. Peru was the source of 61 percent of apparel imports under ATPA during the period, followed by Colombia with 33 percent, Bolivia with 4 percent, and Ecuador with 2 percent. Overall U.S. apparel imports from the ATPA region increased 45 percent during the period, from \$478 million in January-August 2002 to \$693 million in January-August 2003.

Other products newly eligible for trade preferences under ATPA did not enter among the top 20 U.S. imports under ATPA during the January-August 2003 period. Approximately \$11 million worth of U.S. imports of “pouched” tuna entered free of duty under ATPA for the first time during January-August 2003. Most U.S. imports of tuna from ATPA countries enter in cans, but canned tuna is not eligible for ATPA tariff preferences. U.S. imports of footwear under ATPA during January-August 2003 were valued at \$2.6 million, and accounted for 60 percent of all footwear imports from the ATPA region. U.S. imports of all footwear from ATPA countries amounted to \$4.4 million in January-August 2003, an increase over the same period in 2002 but a 5 percent decline over January-August 2001. U.S. imports under ATPA of watches and watch parts were valued at \$97,000 in January-August 2003.

Although the overall composition of U.S. imports under ATPA changed substantially in January-August 2003, U.S. imports of some of the more traditional ATPA products also strengthened during the period compared with both 2001 and 2002. For example, U.S. imports of cut flowers from ATPA countries, both in

Table 2
Leading U.S. imports for consumption under ATPA, by HTS provisions, 2001-August 2003

HTS No.	Description	2001	Jan.-Aug.		Change, YTD 2002- YTD 2003	
			2002	2003		
			<i>1,000 dollars</i>		<i>Percent</i>	
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	0	66,571	0	1,056,178	(1)
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I. ...	0	119,804	0	849,357	(1)
7403.11.00	Refined copper cathodes and sections of cathodes	429,379	248,663	91,930	297,891	224.0
0603.10.60	Roses, fresh cut	180,283	69,765	30,078	150,193	399.3
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	0	7,263	0	144,930	(1)
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	0	0	0	124,730	(1)
2710.11.25	Naphthas (exc. motor fuel/mtr fuel blend. stock) from petroleum oils & bitumin minerals (o/than crude) or preps 70%+ by wt. fr petroleum oils	0	9,722	0	101,564	(1)
0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, nesi ..	85,244	43,302	15,443	84,589	447.7
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	0	0	0	74,038	(1)
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	92,342	46,539	17,969	61,865	244.3
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	0	0	0	53,383	(1)
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	13,781	20,524	5,777	35,514	514.7
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	0	0	0	29,017	(1)
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesoi	78,685	36,704	10,006	29,011	189.9
0709.20.90	Asparagus, nesi, fresh or chilled	28,261	31,589	6,254	27,643	342.0
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi ..	0	0	0	22,672	(1)
7113.19.29	Gold necklaces and neck chains (o/than of rope or mixed links)	24,449	21,828	3,594	21,399	495.4
6106.10.00	Women's or girls' blouses and shirts, knitted or crocheted, of cotton	0	0	0	21,242	(1)
0804.50.40	Guavas, mangoes, and mangosteens, fresh, if entered during the period September 1 through May 31, inclusive	17,742	7,601	1,688	16,066	851.8
0603.10.30	Miniature (spray) carnations, fresh cut	24,584	13,239	4,586	15,830	245.2
	Subtotal	974,750	743,115	187,326	3,217,113	1,617.4
	All other	699,857	257,701	81,212	438,386	439.8
	Total	1,674,607	1,000,816	268,538	3,655,500	1,261.3

¹ Not meaningful.

Source: Data on this site have been compiled from tariff and trade data from the U.S. Department of Commerce.

total and under ATPA, increased in January-August 2003 compared to the same periods in 2001 and 2002.⁶ All four flower items that were previously among the leading 20 imports under ATPA—roses, cut flowers suitable for bouquets, chrysanthemums, and miniature carnations—remained on the January-August 2003 list of leading imports under ATPA, despite the new presence of petroleum derivatives and apparel on the list. U.S. imports of copper cathodes, the leading U.S. import under ATPA in each year during 1998-2002, also recovered slightly in 2003. After declining in 2001 and 2002 due to depressed copper prices resulting from world oversupply, overall U.S. imports of copper cathodes from the region increased 3 percent in January-

⁶ Comparisons with calendar year 2002 are not particularly meaningful since U.S. imports of flowers from the ATPA region were adversely affected by the expiration of ATPA.

August 2003 compared to the same period in 2002. Following increases in 2001 and 2002, U.S. imports of asparagus from ATPA countries continued to rise in January-August 2003.

Since the implementation of the original ATPA, Colombia has been the leading source of U.S. imports under the program. In January-August 2003, Colombia's first place ranking strengthened, because it is the leading ATPA-country supplier of the newly eligible petroleum-related products. In January-August 2003, Colombia was responsible for 52 percent of U.S. imports under ATPA, followed by Ecuador with 25 percent, Peru with 21 percent, and Bolivia with 1.5 percent. Ecuador formerly ranked third behind Peru, but U.S. imports of Ecuadoran petroleum derivatives under ATPA moved Ecuador to second place in January-August 2003.

U.S. TRADE DEVELOPMENTS

Recent Developments

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U.S. International Trade in Goods and Services

The U.S. Department of Commerce reported that seasonally adjusted exports of \$88.0 billion and imports of \$129.7 billion in October 2003 resulted in a goods and services deficit of \$41.8 billion, \$0.5 billion more than the \$41.3 billion deficit in September 2003. October 2003 exports were \$2.2 billion more than September exports of \$85.7 billion.² October 2003 imports were \$2.7 billion more than September imports of \$127.1 billion.

October 2003 merchandise exports increased by about \$1.7 billion to \$61.4 billion, from September exports of \$61.4 billion. Merchandise imports increased by \$2.5 billion to \$108.8 billion from September 2003 imports of \$106.3 billion. The merchandise trade deficit increased by about \$0.9 billion in October 2003 to \$47.4 billion from \$46.6 billion in September.

For services, exports increased by about \$0.6 billion to \$26.6 billion in October 2003 from \$26.0 billion in September. Imports of services increased to \$20.9 billion in October 2003 from \$20.8 billion in September. The services trade surplus in October 2003 rose to \$5.7 billion from \$5.2 billion in September 2003.

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

² Data for this article were taken largely from the U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Trade in Goods and Services," October 2003, BEA-03-50 FT-900 (03-10), Dec. 12, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad-newsrelease.htm>, retrieved on Dec. 12, 2003.

Changes in merchandise exports from September to October 2003 reflected increases in capital goods (\$0.9 billion); industrial supplies and materials (\$0.6 billion); foods, feeds, and beverages (\$0.2 billion); and automotive vehicles, parts, and engines (\$0.2 billion). A decrease occurred in consumer goods (\$0.2 billion); but the statistical category "other goods" was virtually unchanged.

Changes in merchandise imports from September to October 2003 reflected increases in consumer goods (\$1.5 billion); automotive vehicles, parts, and engines (\$1.0 billion); capital goods (\$0.2 billion); and the "other goods" statistical category (\$0.1 billion). A decrease occurred in industrial supplies and materials (\$0.1 billion), but foods, feeds, and beverages were virtually unchanged. Additional information on U.S. trade developments in agriculture and specified manufacturing sectors during January-October 2003 is highlighted in tables 1 and 2, and figures 1 and 2. Services trade developments are highlighted in table 3.

In October 2003, exports of advanced technology products were around \$16.3 billion and imports of the same were about \$19.8 billion, resulting in a deficit of \$3.5 billion, about \$0.4 billion less than the September deficit of \$3.9 billion. Exports of these products in October 2003 of \$16.3 billion were about \$1.3 billion more than the \$15.0 billion recorded in September. But imports of advanced technology products of \$19.8 billion in October 2003 were about \$0.9 billion more than the \$18.9 billion imports in September.

The October 2003 trade data showed U.S. surpluses with the following countries (preceding month in parentheses): Australia, \$0.6 billion (\$0.7 billion in September 2003); Hong Kong, \$0.3 billion (\$0.3 billion); Egypt, \$0.2 billion (\$0.3 billion), and Singapore \$0.1 billion (deficit of \$0.1 billion). Deficits were recorded in October 2003 with China, \$13.6 billion (\$12.7 billion); Western Europe, \$9.4 billion (\$8.9 billion); Canada, \$4.9 billion (\$5.3 billion);

Table 1
U.S. trade in goods and services, seasonally adjusted, September 2003 to October 2003

Item	Exports		Imports		Trade balance	
	Oct. 2003	Sept. 2003	Oct. 2003	Sept. 2003	Oct. 2003	Sept. 2003
	Billion dollars					
Trade in goods ¹ (see note)						
Including oil	61.4	59.7	108.8	106.3	-47.4	-46.6
Excluding oil	61.2	59.5	97.6	94.8	-36.4	-35.3
Trade in services ¹	26.6	26.0	20.9	20.8	5.7	5.2
Trade in goods and services ¹	88.0	85.7	129.7	127.1	-41.8	-41.3
Trade in goods ²	61.1	59.6	111.5	108.6	-50.4	-48.9
Advanced technology products ³	16.3	15.0	19.8	18.9	-3.5	-3.9

¹ Current dollars (balance-of-payments basis).

² Constant 1996 dollars (Census Bureau basis).

³ Not seasonally adjusted.

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

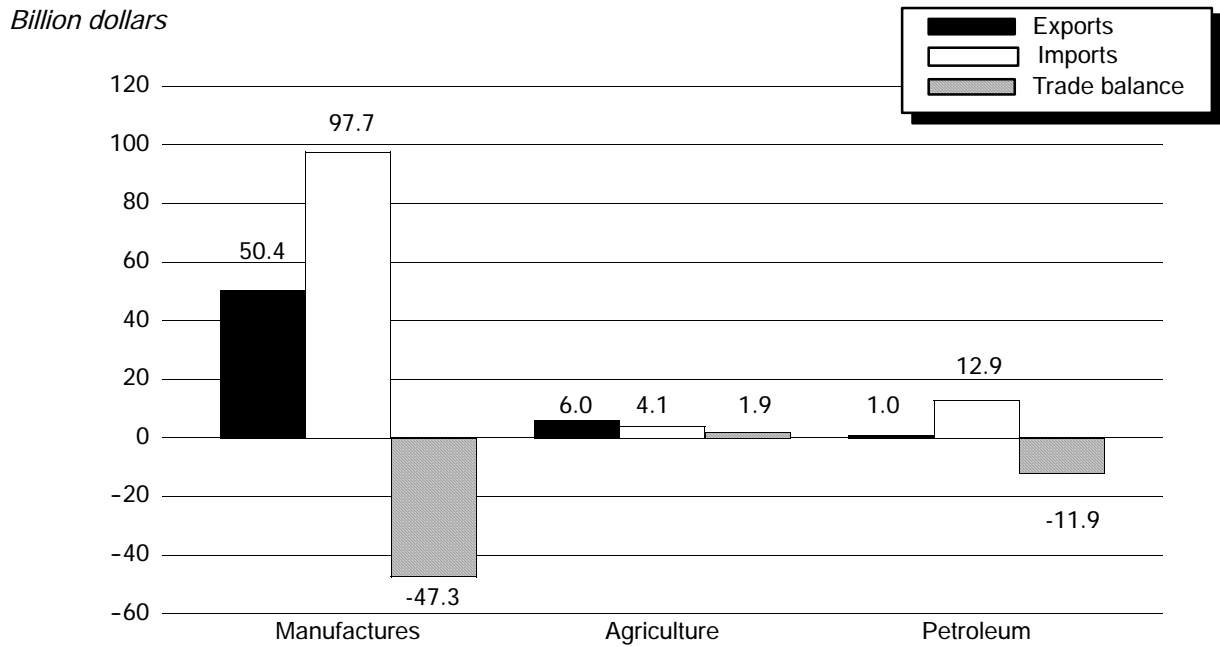
Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 1, 9, 10, and 16, FT-900 release of Dec. 12, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

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

Manufacture sector	Exports		Imports		Trade balance		Change in exports, Jan.-Oct. 2003 over Jan.-Oct. 2002	Change in trade balance, Jan.-Oct. 2003 over Jan.-Oct. 2002	Share of total exports, Jan.-Oct. 2003		
	Oct. 2003	Jan.-Oct. 2003	Jan.-Oct. 2003	Jan.-Oct. 2002	Jan.-Oct. 2003	Jan.-Oct. 2002					
	Billion dollars										
ADP equipment & office machinery	2.5	23.5	25.1	7.7	65.9	62.8	-42.4	-37.7	-6.5	12.5	3.9
Airplane parts	1.2	12.2	11.8	0.4	3.8	4.2	8.4	7.6	3.1	10.2	2.0
Airplanes	1.9	18.6	23.3	0.9	9.6	10.0	8.9	13.3	-20.2	-33.0	3.1
Chemicals - inorganic	0.5	4.8	4.6	0.6	6.1	5.0	-1.4	-0.4	4.6	225.1	0.8
Chemicals - organic	1.9	16.6	13.6	2.6	27.4	25.1	-10.8	-11.5	22.1	-6.2	2.8
Electrical machinery	6.5	57.7	56.5	7.8	68.2	67.5	-10.4	-10.9	2.1	-4.7	9.7
General industrial machinery	2.7	25.1	25.3	3.3	32.2	29.5	-7.2	-4.2	-0.9	70.8	4.2
Iron & steel mill products	0.5	5.3	4.4	0.9	9.3	10.6	-4.1	-6.2	20.2	-34.4	0.9
Power-generating machinery	2.6	25.8	27.3	3.1	27.1	28.6	-1.3	-1.3	-5.5	2.5	4.3
Scientific instruments	2.5	22.9	22.6	2.3	19.5	17.2	3.4	5.4	1.3	-36.9	3.8
Specialized industrial machinery	2.1	19.6	19.7	1.8	17.2	15.3	2.4	4.4	-0.6	-46.1	3.3
Televisions, VCRs, etc.	1.6	13.7	16.4	7.9	56.8	54.0	-43.1	-37.6	-16.2	14.6	2.3
Textile yarn and fabric	1.0	8.8	8.7	1.6	14.4	13.5	-5.6	-4.8	1.5	16.8	1.5
Vehicles	5.8	50.3	48.3	16.6	141.4	137.9	-91.1	-89.6	4.2	1.7	8.4
Other manufactures, not included above	16.9	155.8	149.6	40.0	350.6	325.4	-194.8	-175.7	4.2	10.8	26.1
Manufactures	50.4	460.7	457.3	97.7	849.8	806.5	-389.0	-349.2	0.8	11.4	77.3
Agriculture	6.0	47.2	42.9	4.1	39.0	34.5	8.2	8.4	10.0	-1.7	7.9
Other goods, not included above	10.0	88.3	78.0	15.8	155.2	118.4	-66.9	-40.4	13.1	65.7	14.8
Total (Census basis)	66.4	596.2	578.2	117.6	1043.9	959.4	-447.7	-381.2	3.1	17.4	100.0

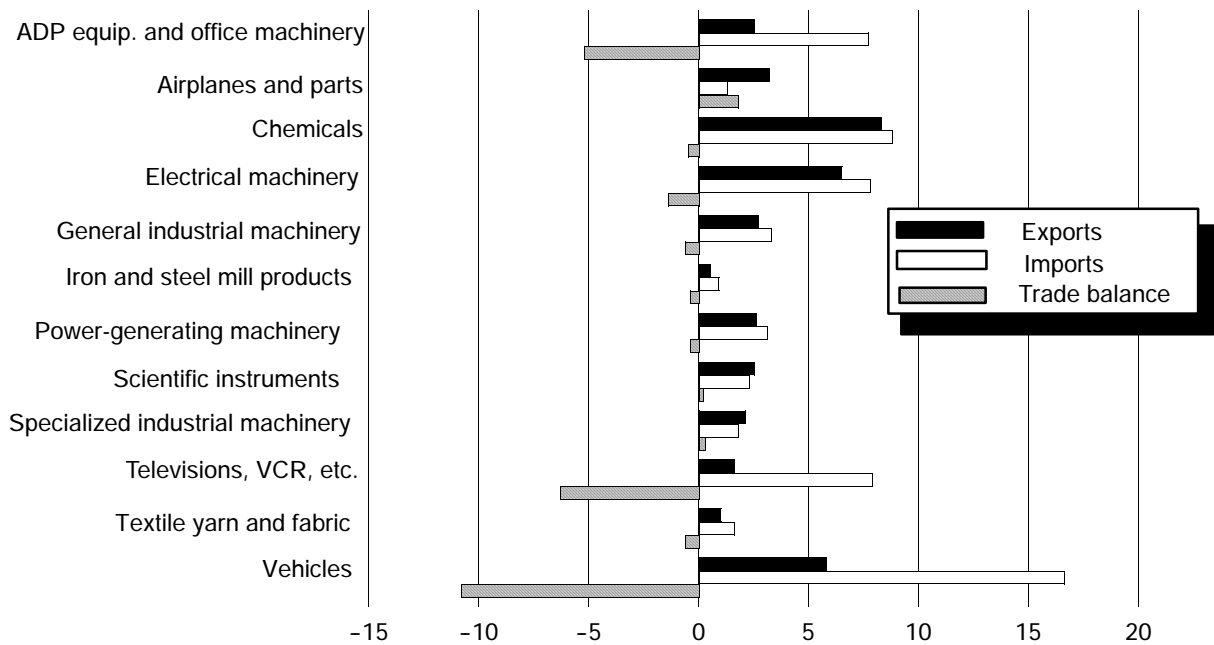
Note.—Data on trade in manufactures are presented on a Census Bureau basis. Data may not add to totals due to rounding.
Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Dec. 12, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

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



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Dec. 12, 2003.

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



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Dec 12, 2003.

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

Service sector	Exports		Imports		Trade balance		Change in exports	Change in imports
	Jan.-Oct. 2003	Jan.-Oct. 2002	Jan.-Oct. 2003	Jan.-Oct. 2002	Jan.-Oct. 2003	Jan.-Oct. 2002	Jan.-Oct. 2003 over Jan.-Oct. 2002	Jan.-Oct. 2003 over Jan.-Oct. 2002
	Billion dollars		Billion dollars				Percent	
Travel	53.1	54.4	46.5	47.8	6.6	6.6	-2.4	-2.9
Passenger fares	12.7	14.2	16.8	16.5	-4.1	-2.3	-10.5	2.0
Other transportation services	26.2	24.0	37.2	31.5	-11.1	-7.5	9.1	18.1
Royalties and license fees	39.8	36.7	15.9	16.2	23.9	20.5	8.6	-1.8
Other private sales	107.8	101.9	63.3	57.4	44.5	44.5	5.8	10.3
Transfers under U.S. military sales contracts	10.4	10.0	19.7	15.8	-9.2	-5.8	4.3	24.9
U.S. Government miscellaneous services	0.7	0.7	2.5	2.4	-1.8	-1.8	2.0	2.5
Total	250.7	241.8	201.8	187.6	48.9	54.2	3.7	7.6

Note.-Data on trade in services are presented on a balance-of-payments basis. Data may not add to totals due to rounding and seasonal adjustments.
Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 3 and 4, F1-900 release of Dec. 12, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

Japan, \$6.4 billion (\$5.1 billion); OPEC member countries, \$4.4 billion (\$4.0 billion); Mexico \$3.5 billion (\$3.3 billion); Taiwan, \$1.1 billion (\$1.4 billion); Korea, \$1.6 billion (\$1.1 billion); and Brazil, \$0.6 billion (\$0.6 billion).

In January-October 2003, exports of goods and services were \$837.4 billion, about \$27.3 billion higher than January-October 2002 exports of \$810.1 billion. Imports of goods and services were \$1,246.4 billion, about \$99.2 billion higher than January-October 2002 imports of \$1,147.2 billion. The trade deficit was about \$409.0 billion, \$71.9 billion higher than the January-October 2002 deficit of \$337.1 billion.

The October 2002 to October 2003 change in exports of goods reflected increases in industrial supplies and materials (\$1.5 billion); capital goods (\$1.1 billion); foods, feeds, and beverages (\$0.9 billion); consumer goods (\$0.4 billion); and automotive vehicles, parts, and engines (\$0.3 billion). A decrease occurred in "other goods" statistical category (\$0.1 billion).

The October 2002 to October 2003 changes in imports of goods reflected increases in consumer goods (\$3.5 billion); capital goods (\$3.1 billion); industrial supplies and materials (\$2.3 billion); automotive vehicles, parts, and engines (\$1.3 billion); and foods, feeds and beverages (\$0.7 billion). A decrease occurred in the "other goods" statistical category (\$0.2 billion).

The January-October 2003 trade data show surpluses with Belgium, \$4.3 billion (for January-October 2002, \$2.9 billion); the Netherlands, \$7.6 billion (\$7.2 billion); Hong Kong, \$3.5 billion (\$2.7 billion); Australia, \$5.7 billion (\$5.4 billion); Singapore, \$1.3 billion (\$1.8 billion); and Egypt, \$1.3 billion (\$1.3 billion). Deficits were recorded with Canada, \$45.8 billion (\$40.3 billion); Mexico, \$34.5 billion (\$31.5 billion); Western Europe, \$82.4 billion (\$71.4 billion); the euro area, \$61.2 billion (\$53.7 billion); European Union, \$76.6 billion (\$65.8 billion); France, \$9.6 billion (\$7.5 billion); Germany \$31.6 billion (\$28.6 billion); Italy, \$12.4 billion (\$11.7 billion); United Kingdom, \$7.2 billion (\$5.8 billion); EFTA, \$4.9 billion (\$5.2 billion); Pacific Rim countries, \$191.9 billion (\$173.4 billion); China, \$103.3 billion (\$83.1 billion); Japan, \$54.5 billion (\$58.5 billion); Korea, \$10.3 billion (\$10.3 billion); Taiwan, \$12.2 billion (\$11.1 billion); and OPEC, \$42.5 billion (\$28.3 billion). It should be noted that individual European countries shown here are also included in the euro area and in the European Union grouping. Likewise, individual Asian countries mentioned are also included in the Pacific Rim countries grouping. U.S. trade developments with major trading partners are highlighted in table 4.

Table 4

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

Country/areas	Exports			Imports			Trade balance		Change in exports, Jan.-Oct. 2003 over Jan.-Oct. 2002	Change in imports, Jan.-Oct. 2003 over Jan.-Oct. 2002
	Oct. 2003	Jan.-Oct. 2003	Jan.-Oct. 2002	Oct. 2003	Jan.-Oct. 2003	Jan.-Oct. 2002	Jan.-Oct. 2003	Jan.-Oct. 2002		
	Billion dollars						Percent			
Total (Census basis)	66.4	596.2	578.2	117.6	1043.9	959.4	-447.7	-381.2	3.1	8.8
North America	25.0	221.8	216.4	33.4	302.0	288.2	-80.3	-71.8	2.5	4.8
Canada	15.5	141.3	134.9	20.4	187.1	175.2	-45.8	-40.3	4.7	6.8
Mexico	9.5	80.5	81.5	13.0	115.0	113.0	-34.5	-31.5	-1.2	1.7
Western Europe	14.8	136.3	130.7	24.2	218.7	202.1	-82.4	-71.4	4.3	8.2
Euro Area	10.3	92.1	87.7	16.7	153.4	141.4	-61.2	-53.7	5.1	8.5
European Union (EU-15)	13.6	124.3	119.7	22.2	200.9	185.4	-76.6	-65.8	3.9	8.4
France	1.4	14.2	15.9	2.6	23.8	23.4	-9.6	-7.5	-10.9	1.3
Germany	2.7	24.0	22.0	6.3	55.5	50.6	-31.6	-28.6	9.0	9.8
Italy	1.1	8.6	8.2	2.1	20.9	19.9	-12.4	-11.6	4.0	5.2
Netherlands	2.0	16.8	15.3	1.0	9.2	8.1	7.6	7.2	9.3	13.1
United Kingdom	2.8	28.3	28.1	4.1	35.4	33.9	-7.1	-5.8	0.8	4.5
Other EU	1.0	9.6	8.8	2.8	26.4	23.2	-16.9	-14.4	8.7	14.2
EFTA ¹	0.9	8.7	7.8	1.5	13.6	13.0	-4.9	-5.2	11.0	4.3
Eastern Europe/FSR ²	0.8	5.7	5.6	1.5	15.5	11.7	-9.8	-6.2	2.0	32.4
Russia	0.3	2.1	2.0	0.4	7.4	5.4	-5.4	-3.4	2.4	37.5
Pacific Rim Countries	16.9	153.7	148.9	41.2	345.6	322.3	-191.9	-173.3	3.2	7.2
Australia	1.2	11.0	10.8	0.6	5.3	5.4	5.7	5.4	1.5	-2.0
China	2.9	21.8	17.9	16.4	125.0	101.0	-103.3	-83.1	21.5	23.8
Japan	4.4	43.1	43.0	10.8	97.6	99.5	-54.5	-56.5	0.3	-1.9
NICs ³	6.5	58.8	58.6	8.8	76.4	75.6	-17.7	-17.0	0.2	1.1
Latin America	4.9	42.8	42.8	7.1	65.1	57.5	-22.3	-14.7	0.2	13.2
Argentina	0.2	1.9	1.3	0.2	2.6	2.5	-0.7	-1.3	52.3	2.9
Brazil	1.0	9.2	10.5	1.6	14.9	13.1	-5.7	-2.6	-12.3	13.9
OPEC	1.5	14.2	15.7	5.9	56.7	44.0	-42.5	-28.3	-9.6	28.8
Other Countries	3.0	25.9	23.8	6.8	62.0	54.4	-36.1	-30.6	8.5	14.0
Egypt	0.3	2.2	2.5	0.1	1.0	1.2	1.3	1.3	-9.2	-15.6
South Africa	0.2	2.2	2.1	0.6	3.9	3.3	-1.7	-1.2	3.2	17.2

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.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 14 and 14a, FT-900 release of Dec. 12, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

INTERNATIONAL ECONOMIC COMPARISONS

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

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202-205-3269

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 8.2 percent in the third quarter of 2003, compared to 3.3 percent growth in the second quarter, according to preliminary estimates by the U.S. Department of Commerce, Bureau of Economic Analysis.² For the calendar year 2002, real GDP grew by 2.4 percent, up from 0.3 percent growth in 2001. The major contributors to the increase in real GDP in the third quarter of 2003 were real personal consumption expenditures, increasing by 6.4 percent compared with an increase of 3.8 percent in the second quarter; real non-residential fixed investment, increasing by 14.0 percent compared with an increase of 7.3 percent in the second quarter; equipment and software, increasing by 18.4 percent

compared with an increase of 8.3 percent in the second quarter; real residential fixed investment increasing by 22.7 percent compared with an increase of 6.6 percent in the second quarter; real exports of goods and services increasing by 11.0 percent, compared with a decline of 1.0 percent in the second quarter; and real imports of goods and services, increasing by only 1.5 percent compared to an increase of 8.8 percent in the second quarter. Real federal government consumption expenditures and gross investment played a less pronounced role in the GDP rise for the third quarter of 2003, decreasing by 0.4 percent compared with an increase of 25.5 percent in the second quarter of 2003.

The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased by 1.8 percent in the third quarter of 2003 compared with an increase of 0.4 percent in the second quarter. Excluding food and energy prices, the price index for gross domestic purchases increased 1.4 percent in the third quarter of 2003, compared with an increase of 0.8 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 3.1 percent in the third quarter of 2003, and it grew by 2.0 percent in the year through the third quarter of 2003. In Germany, the economy grew by 0.9 percent in the third quarter but contracted by 0.2 percent in the year through the third quarter of 2003. In Japan, the economy grew at a rate of 1.4 percent in the third quarter and by 1.8 percent in the year through the third quarter of 2003. In Italy, the economy grew by 2.0 percent in the third quarter, but grew by 0.5 percent in the year through the third quarter of 2003. In France, the economy grew by 1.5 percent in the third quarter of 2003, but shrank by 0.2

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

percent in the year through the third quarter of 2003. In Canada, the economy grew by 1.1 percent in the third quarter of 2003, but grew by 1.0 percent in the year through the third quarter of 2003. For EU members linked by the euro currency, the euro area (EU-12) GDP grew by 1.5 percent in the third quarter of 2003, but grew by 0.3 percent in the year through the third quarter of 2003.

U.S. Corporate Profits

The U.S. Department of Commerce in their GDP news release for the third quarter of 2003, reported that U.S. corporate profits increased substantially in 2003 compared with 2002, causing a substantial increase in corporate cash flows and the internal funds available for corporate investment.³ Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) increased by \$105.5 billion in the third quarter of 2003, following an increase of \$80.6 billion in the second quarter. Current production cash flow—that is, internal funds available to corporations for investment—increased by \$71.3 billion in the third quarter, compared with an increase of \$70.8 billion in the second. Domestic profits of financial corporations increased by \$20.3 billion in the third quarter of 2003, compared with an increase of \$8.4 billion in the second. Domestic profits of non-financial corporations increased by \$83.8 billion in the third quarter, compared with an increase of \$70.5 billion in the second. In the third quarter of 2003, both real gross corporate product and profits per unit of real product increased. The increase in unit profits reflected an increase in the prices corporations received and a decrease in unit costs, both unit labor and non-labor costs.

The rest-of-the-world component of profits increased by \$1.4 billion in the third quarter of 2003, in contrast to an increase of \$1.7 billion in the second. This measure is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates, including dividends received by U.S. residents from unaffiliated foreign corporations, minus (2) payments by U.S. affiliates of earnings to their foreign parents, including dividends paid by U.S. corporations to unaffiliated foreign residents. The third quarter 2003 increase was accounted for by a larger increase in receipts than in payments.

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

Profits before tax with inventory valuation adjustments is the best available measure of industry profits because estimates of the capital consumption adjustment by industry do not exist. This measure reflects the depreciation-accounting practices for inventory and depreciation used for federal income tax returns. According to this measure, profits before tax increased by \$78.2 billion in the third quarter of 2003, in contrast to a decrease of \$27.9 billion in the second.

Industrial Production

The Federal Reserve Board reported that U.S. industrial production rose 0.2 percent in October 2003 after an increase of 0.5 percent in September. Manufacturing output edged up 0.1 percent in October 2003 since a large decline in the production of motor vehicles and parts held down the index. Mining output fell 0.8 percent, and production of utilities increased 2.0 percent. U.S. industrial production was 0.6 percent higher in October 2003 than its year-ago level. The rate of capacity utilization for total industry edged up by 0.1 percentage point, to 75.0 percent, a level 6.3 percentage points below its 1972-2002 average.

By market group, the output of consumer goods decreased 0.3 percent in October 2003, and decreased by 0.8 percent in the year from October 2002 from October 2003. The decline was attributable to a 2.9 percent decline in the index for automotive products, which offset increases in all other major categories of consumer durables. The output of business equipment fell back 0.5 percent as declines in the output of transit equipment and of industrial and other equipment, particularly farm equipment, outweighed an increase in the production of information processing equipment.

Other G-7 member countries reported the following growth rates of industrial production. For the year ended October 2003, Japan reported a 3.6 percent increase; the United Kingdom reported a 0.9 percent increase; Germany reported 0.8 percent increase. For the year ended September 2003, France reported a 1.8 percent decrease, Italy reported a 1.7 percent decrease; and Canada reported a decrease of 0.2 percent. The euro area reported a decrease of 1.8 percent for the year ending September 2003.

Prices

The seasonally adjusted U.S. Consumer Price Index was unchanged in October 2003 following increases of 0.3 percent in each of the preceding two months, according to the U.S. Department of Labor. For the year ended October 2003, consumer prices increased 2.0 percent higher than in October 2002.

During the year ended in November 2003, prices increased by 2.3 percent in France; 1.3 percent in Germany, and by 2.5 percent in Italy. During the year ended in October 2003, prices increased 2.6 percent in the United Kingdom, and 1.6 percent in Canada. Prices increased by nil percent in Japan during the year ended October 2003. Prices increased by 2.2 percent in the euro area in the year ended November 2003.

Employment

The U.S. Department of Labor, Bureau of Labor Statistics reported that the U.S. unemployment rate was 5.9 percent in November 2003, essentially unchanged from October. Job losses have lessened in manufacturing, and unemployment has trended up in construction and several services industries. G-7 countries, the latest unemployment rates were reported to be 7.5 percent in Canada, 9.7 percent in France, 10.5 percent in Germany, 8.5 percent in Italy, 5.2 percent in Japan, and 5.0 percent in the United Kingdom. The unemployment rate in the euro area was 8.8 percent.

Productivity and Costs

U.S. labor productivity soared in the third quarter of 2003. Productivity growth has held down business costs and inflation and raised standards of living. The U.S. Department of Labor, Bureau of Labor Statistics reported that revised U.S. labor productivity data—measured as output per hour of all persons—rose in the third quarter of 2003 by 8.6 percent in the business sector as output increased by 10.2 percent and hours worked increased by only 1.4 percent. In the non-farm business sector, productivity rose by 9.4 percent as output increased by 10.3 percent and hours worked rose by only 0.8 percent. In the manufacturing sector productivity rose in the third quarter of 2003 by 9.0 percent. In the durable goods manufacturing sector, productivity soared—rising by 14.8 percent—and in the non-durable goods manufacturing sector, productivity increased by 3.1 percent.

Productivity growth in manufacturing in the third quarter of 2003 reflected increases in output but a decrease in hours; output increased 3.5 percent, but hours of all persons fell by 5.0 percent (at seasonally adjusted annual rates). Output and hours worked in manufacturing—which includes about 15 percent of U.S. business sector employment—tend to vary more from quarter to quarter than data for the aggregate business and non-farm business sectors.

The data sources and methods used in the preparation of the manufacturing series differ from

those used in preparing the business and non-farm business series, and these measures are not directly comparable. Output measures for business and non-farm business series are based on measures of gross domestic product prepared by the U.S. Department of Commerce, Bureau of Economic Analysis. Quarterly output measures for manufacturing reflect indexes of industrial production prepared by the Federal Reserve System, Board of Governors. Table 1 shows U.S. productivity and costs measures.

Forecasts

The U.S. economy has continued to grow at a remarkable rate despite the forces burdening it, according to the Federal Reserve Board, IMF, OECD and other major private forecasts. Despite such forces as the lengthy adjustment of capital spending following several years of decline in equity values, economic retrenchment triggered by revelations of corporate malfeasance, and the heightened political risks in areas such as the Middle East, U.S. real GDP grew by 2.4 percent in calendar 2002. In 2003, the U.S. economy continued growing at 3.3 percent (annual rate) into the second quarter of 2003, and soared to an 8.2-percent annual rate in the third quarter. Forecasts point to a recovery taking hold across the OECD area following a period of fits and starts of world economic growth.

OECD Forecasts for the Industrialized Countries⁴

Economic forecasts by the Organization of Economic Co-operation and Development (OECD) in its November 2003 *Economic Outlook* (preliminary edition) show a palpable recovery has finally taken hold across the OECD area following a drawn-out period of fits and starts. In the United States, the economy has recovered, benefitting from strong productivity gains, the stimulus provided by monetary and fiscal policies, and high-potential investment growth. Japan's economy has shown a marked and better-than-expected improvement due to better investment prospects in the manufacturing sector and fast growing markets in other Asian economies. The 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.

⁴ OECD, *Economic Outlook No. 74*, preliminary edition, November 2003, found at Intranet address <http://www.oilis-net.oecd.org/>.

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

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
Business	8.6	10.2	1.4	2.3	0.0	-5.8
Nonfarm business	9.4	10.3	0.8	3.0	0.7	-5.8
Manufacturing	9.0	3.5	-5.0	4.1	1.7	-4.5
Durable	14.8	8.1	-5.9	3.5	1.1	-9.9
Nondurable	3.1	-0.8	-3.8	5.3	2.9	2.1
			Percent change from same quarter a year ago			
Business	5.0	4.4	-0.6	2.8	0.6	-2.1
Nonfarm business	5.0	4.4	-0.5	2.7	0.5	-2.2
Manufacturing	4.4	-0.4	-4.7	4.4	2.2	0.0
Durable	6.9	1.4	-5.1	4.0	1.8	-2.7
Nondurable	1.8	-2.3	-4.0	5.2	2.9	3.4

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs - Third Quarter 2003," release USDL 03-815, Dec. 3, 2003, found at Internet address <http://www.bls.gov/news.release/pdf/prod2.pdf>, retrieved on Dec. 3, 2003.

The OECD forecast U.S. real GDP to grow by 2.9 percent in 2003, and by 4.2 percent in 2004. In contrast, Japan's real GDP is projected to grow by 1.8 percent both in 2003 and in 2004. In the euro area (EU-12), real GDP is projected to grow by 1.8 percent in 2003, and by 2.5 percent in 2004. In the larger area of the European Union (EU-15), real GDP is projected to grow by 1.9 percent in 2003, and by 2.5 percent in 2004. Real GDP for the whole OECD area—the world's industrialized economies as a group—is projected to grow by 3.0 percent in 2003, and by 3.1 percent in 2004.

Inflation is projected to remain subdued in the United States, rising by 1.6 percent in 2003 and by 1.2 percent in 2004. In Japan, deflationary price pressures are expected to remain throughout the 2-year forecast period, as prices are projected to decline by 2.5 percent in 2003, and by 1.3 percent in 2004. In the euro area, inflation is projected to slow from 1.9 percent in 2003 to 1.7 percent in 2004. In the European Union, inflation is projected to slow from 2.1 percent in 2003, to 1.8 percent in 2004. In the overall OECD area, inflation is projected to slow from 1.8 percent in 2003, to 1.4 percent in 2004.

Unemployment is projected to remain at 6.1 percent in the United States in 2003, then decline

slightly to 5.9 percent in 2004. In Japan, unemployment is projected to stay at 5.3 percent in 2003, and 5.2 percent in 2004. In the euro area, unemployment is projected to remain high at 8.8 percent in 2003, and at 9.0 percent in 2004. In the European Union, unemployment is projected to hit 8.0 percent in 2003, rising slightly to 8.1 percent in 2004. In the total OECD area, unemployment is projected to remain around 7.1 and 7.0 percent in the two year period.

The U.S. current account deficit, as a percent of GDP, is projected to remain high in the two years, growing at 5.0 percent in 2003 and 2004. In Japan, the current account surplus is projected to grow from 2.9 percent of GDP in 2003 to 3.6 percent in 2004. In the euro area, the current account surplus is projected to stay at 0.4 percent in 2003, and at 0.7 percent in 2004. The overall OECD current account deficit, as a percent of GDP, is projected to remain at 1.4 percent and 1.3 percent in 2003 and 2004, respectively.

World trade volume—the average of world merchandise imports plus exports—is projected to increase by 4.0 percent in 2003, and by 7.8 percent in 2004, up from the much lower growth rate of 3.6 percent in 2002.

STATISTICAL TABLES

Table 1
Unemployment rates in G-7 countries, by specified periods, 2002 to October 2003¹

Country	2002				2003			
	Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	Q:III	Q:IV
United States	5.6	5.9	5.8	5.9	5.8	6.2	6.1	6.0
Canada	7.1	6.9	7.0	6.9	6.7	7.0	7.2	6.9
Japan	5.3	5.4	5.5	5.4	5.4	5.3	5.1	5.2
France	8.5	8.6	8.8	8.8	9.0	9.3	9.2	9.3
Germany	8.2	8.3	8.5	8.7	9.0	9.1	9.1	9.1
Italy	9.2	9.2	9.1	9.0	9.0	8.8	NA	NA
United Kingdom	5.1	5.2	5.3	5.1	5.1	5.1	5.0	NA

NA=Not available.

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

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Unemployment Rates in Nine Countries, Civilian Labor Force Basis, Approximating U.S. Concepts, Seasonally Adjusted, 1990-2002," release of Dec. 5, 2003, 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, 2002 to October 2003

Country	2002				2003			
	Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	Q:III	Q:IV
United States	1.3	1.3	1.6	2.2	2.9	2.1	2.2	2.1
Canada	1.5	1.3	2.3	3.8	4.5	2.8	2.1	2.2
Japan	-1.4	-0.9	-0.8	-0.5	-0.2	-0.2	-0.2	-0.2
France	2.1	1.6	1.8	2.1	2.4	1.9	1.9	1.9
Germany	1.9	1.2	1.1	1.2	1.2	0.9	1.0	0.9
Italy	2.4	2.3	2.4	2.8	2.7	2.7	2.7	2.8
United Kingdom	1.2	1.2	1.5	2.6	3.1	3.0	2.9	2.9

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Prices in Nine Countries, Percent Change from Same Period of Previous Year, 1990-2002," release of Dec. 5, 2003, found at Internet address <ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flscplm.txt>.

Table 3
U.S. trade balances by major commodity categories and by specified periods, October 2002 to October 2003¹

Sector	2002												2003	
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	
Manufactures	-39.8	-40.0	-40.5	-37.7	-32.6	-35.0	-38.2	-36.5	-37.0	-44.4	-37.2	-43.2	-47.3	
Agriculture	1.1	1.5	1.2	1.0	1.2	0.7	0.2	0.3	0.6	1.1	0.7	0.6	1.9	
Petroleum ²	-10.7	-9.8	-10.0	-10.9	-11.1	-14.2	-11.6	-11.2	-11.5	-12.5	-12.5	-11.7	-11.9	
Dollar unit price of U.S. petroleum imports ²	26.25	24.19	24.15	27.73	30.46	30.27	26.02	24.11	25.50	26.70	27.55	26.48	26.25	

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 Dec. 12, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.