
INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

International Trade Developments

The Effects of “Fast-Track” Trade Agreements on the U.S. Economy

Trade Openness, the Rule of Law and Economic Performance: Is There a Link?

An Atypical Year in the History of U.S. Imports Under the Andean Trade Preference Act

U.S. Trade Developments

Recent Developments

International Economic Comparisons

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



OFFICE OF ECONOMICS

Robert B. Koopman, *Director*

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An Atypical Year in the History of U.S. Imports under the Andean Trade Preference Act

The expiration of the Andean Trade Preference Act at the end of 2001, followed by the Act's retroactive renewal and amendment in August 2002, profoundly affected imports under this program in 2002 from the beneficiary countries Bolivia, Colombia, Ecuador, and Peru. These developments also affected overall U.S. imports from these Andean countries during the year.

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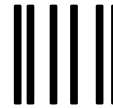
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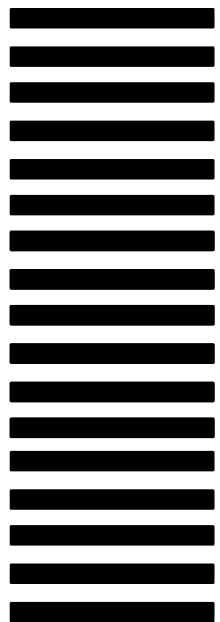
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INTERNATIONAL TRADE DEVELOPMENTS

The Effects of “Fast-Track” Trade Agreements on the U.S. Economy

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Since 1978, U.S. gross domestic product increased two-fold and U.S. trade increased four-fold. Five major trade agreements were signed and implemented by the United States during that period. The article suggests that these trade agreements have helped spur this trade and economic growth, but only partly. Other factors—including population growth and technology—have played even greater roles. Disentangling and measuring the effects of such trade agreements on the U.S. economy is the focus of a recent USITC report on the subject.

Trade Agreements and Fast Track

In September 1973 the Tokyo Declaration opened a 6-year long round of trade negotiations under the General Agreement on Tariffs and Trade (GATT), known as the Tokyo Round. Trade negotiations prior to this round had concentrated on reducing or eliminating tariffs; the Tokyo Round was the first major negotiating effort to focus on nontariff measures as well. The earlier negotiations on tariffs had been facilitated by authority granted to the President by Congress to enter into multilateral tariff agreements and proclaim tariff reductions without further Congressional approval. The broadening of the negotiating agenda to include nontariff measures under the Tokyo Round required a corresponding broadening of negotiating authority.

Sections 102 and 151 of the Trade Act of 1974² were intended as a solution to the problem of granting the President sufficient authority to negotiate nontariff measures, while preserving Congressional oversight of trade. Section 102 provided that the President could enter into trade agreements on nontariff measures,

retaining for Congress the authority to approve the implementing legislation. Section 151 prohibited amendments to the implementing legislation, to expedite its approval and alleviate foreign governments' concerns about the approval process. This was the first instance of the procedure that came to be known as the “fast-track” approval process. The latest instance, renamed “trade promotion authority,” was implemented in the Trade Act of 2002.³ In granting this authority, Title XXI of the Act also required that the U.S. International Trade Commission provide to the Congress an analysis of the economic effects on the United States of earlier trade agreements passed under fast-track negotiating authority.⁴

Effects of Trade Agreements on Trade

In looking at the effects of trade liberalization agreements on the United States economy, it is important to realize that these effects must not be confused with the overall effects of trade on the economy. In the absence of any of these agreements

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² Pub. L. 93-618, 88 Stat. 1978.

³ Pub. L. 107-210, 116 Stat. 933.

⁴ Material in this article is taken from USITC, *The Impact of Trade Agreements: Effect of the Tokyo Round, U.S.-Israel FTA, U.S.-Canada FTA, NAFTA, and the Uruguay Round on the U.S. Economy*, Inv. No. TA-2111-1, Publication 3621, August 2003 (hereafter, *The Impact of Trade Agreements*).

trade would have continued to take place, and to grow over time. The growth of the U.S. and world economies, with increases in the efficiencies of communication and transportation, would have led to increased trade even in the absence of trade liberalization measures. Estimates of the direct effect of such measures suggest that the liberalization of trade policy, as implemented through reductions in tariffs, has accounted for about 15 to 25 percent of the increase in U.S. trade across all sectors.⁵ Indirect effects of trade liberalization on trade flows, operating through such mechanisms as scale economies in shipping or reduced uncertainty about trade policy, may increase the impact of trade policy, but such effects are difficult to estimate.

Particular bilateral or preferential trade agreements have had smaller effects on aggregate trade. Such agreements do, however, serve to increase trade between the partners to the agreement. Studies of the U.S.-Canada Free Trade Agreement (U.S.-Canada FTA) and North America Free Trade Agreement (NAFTA) have found significant effects of these agreements on trade between the United States and its North American trade partners. David Gould found that, due to NAFTA, trade in each direction between the United States and Mexico was, on average, about 16 percent higher for each year during 1994 to 1996 than it would have been without NAFTA.⁶ Kimberly Clausing estimated the effects of the U.S.-Canada FTA and found that U.S. imports from Canada were 26 percent higher due to the agreement.⁷ A number of other studies of NAFTA and the U.S.-Canada FTA concur in finding that preferential trade agreements have positive effects on trade between partners.⁸

Effects of Trade and Trade Agreements on the U.S. Economy

Between 1974 and 2001 the size of the U.S. economy as measured by GDP more than doubled, from \$4.1 trillion to \$9.2 trillion (measured in constant 1996 dollars). Most of that growth was driven by factors other than trade: growth in population and the labor force, growth in the stock of productive capital, and growth in the productivity of these factors. The

⁵ *The Impact of Trade Agreements*, p. xxv.

⁶ Gould, David M. (1998). "Has NAFTA Changed North American Trade?," *Federal Reserve Bank of Dallas Economic Review* (First Quarter), pp. 12-23.

⁷ Clausing, Kimberly A. (2001). "Trade Creation and Trade Diversion in the Canada-United States Free Trade Agreement," *Canadian Journal of Economics*, vol. 34, No. 3, pp. 676-696.

⁸ A summary of this research is provided in *The Impact of Trade Agreements*, pp. 93-100.

effect of trade on GDP growth is difficult to measure, and some of the effect of trade on growth is likely to be indirect, operating through the effect of trade on productivity. Aside from its effects on GDP and productivity, trade also may have effects on employment (and the distribution of employment and wages across groups measured by skill or income).

Evidence of the effects of trade on the economy comes from different kinds of analysis. One body of work, sometimes referred to as "ex ante" analysis, makes use of economic models to simulate the effects of trade agreements. Such models typically contain many equations representing industries, consumers, governments, and international trade. Industries use labor, capital, and intermediate goods to produce outputs, which are traded internationally or purchased by consumers and governments. Governments finance their purchases with taxes, including tariffs. By changing tariffs and other trade barriers in the model, simulated changes in output, consumption, and trade can be observed. This analytical technique is often used to estimate the likely effects of proposed trade agreements or other policy changes in advance of their actual implementation (hence "ex ante"). Such models suffer from limitations imposed by the necessary simplifications needed to represent a complex economy.

"Ex post" analyses rely on a variety of econometric techniques and use historical data to attempt to isolate the effects of policy changes on other economic variables. These analyses can provide many insights, but identifying the effects of policy changes is rendered difficult by the need to filter out the effects of other, often larger, economic events and trends that are simultaneously influencing the economy.

Ex ante estimates of the effects on the United States of trade liberalization in particular agreements have been modest. Even for large liberalizations, such as NAFTA, the Tokyo Round, or the Uruguay Round, effects on U.S. GDP have generally been found to be less than 0.5 percent. Findings in specific sectors often show that trade agreements increase U.S. output in agriculture, and decrease output in textiles and apparel. This is consistent with the high levels of agricultural protection in many foreign markets, and in the U.S. import market for textiles and apparel.

Econometric analyses of the effects of NAFTA have found that the agreement has increased trade in both directions between the United States and Mexico, and has also increased Canada's share of the U.S.

import market.⁹ These findings are in part attributable to trade diversion effects; some of the increase in trade due to discriminatory or preferential agreements such as NAFTA is at the expense of trade from other countries that are not participants in the agreement. Furthermore, for developing countries there is evidence from firm-level data that liberalization of trade is connected to productivity growth, although the causation may run from productivity to exports rather than vice versa; more productive firms are more likely to choose to export.

Much recent attention has been given to links between international trade and the distribution of earnings in the United States. Over the past three decades increases in trade and reductions in tariffs have coincided with growth in the gap between wages paid to skilled and unskilled workers. Between 1977 and 2000, the ratio of wages of nonproduction to production workers in U.S. manufacturing industries increased by 16 percent.¹⁰ Studies that attempt to connect such wage effects to international trade agreements generally find little or no impact.¹¹ That is not to say that there is no connection between the wage distribution and trade; growth in trade (and wage competition) with low wage countries would likely have grown in the absence of trade agreements. There is a consensus that trade growth may have contributed as much as 10 to 20 percent of the growth in the wage gap, with the rest attributable to such forces as rapid technological change.¹²

Another link between trade and the U.S. economy has received increased attention in recent years. A significant portion of trade growth over the last three decades can be attributed to growth in the number of

import sources for commodities. Countries trade more products and with a larger number of countries than in the past. Growth in the number of product-country pairs, particularly the number of products imported from low wage countries, constitutes a sizable portion of the growth in U.S. and global trade. Hillberry and McDaniel¹³ decompose growth in North American trade flows since NAFTA. They find that 23.8 percentage points of the 190-percent increase in U.S. imports from Mexico occurred in products that the United States did not import from Mexico in 1993. Of the 69-percent increase in imports from Canada, 4.4 percentage points occurred in products not imported from Canada in 1993. U.S. exports also benefitted from an increase in the number of traded varieties. Of the 35-percent increase in exports to Canada, 3.4 percent and 8.3 percent of the 93-percent increase in exports to Mexico, were attributable to the growth in the number of products the U.S. exports to those markets. Increased variety of imports, or imports from more sources, are important if consumers value variety or if producers benefit from having access to more sources or a greater number of specialized intermediate inputs.

Conclusion

A number of analytical challenges complicate measurement of the economic effects of trade agreements. Nonetheless, a broad body of economic research can be brought to bear on the issue. The research suggests that these trade agreements contributed to the growth in U.S. trade, but that other sources of trade growth were probably at least as important as the trade agreements. Research links trade growth to higher average living standards, increased productivity, and increased earnings inequality. Direct links between the trade agreements and these phenomena are much weaker. A number of issues warrant further research, including the effects of unmeasured policy changes and growth in foreign outsourcing.

¹³ Russell Hillberry and Christine McDaniel (2002). "A Decomposition of Trade Growth Since NAFTA," U.S. International Trade Commission Office of Economics Working Paper No. 2002-12-A (December).

⁹ Laurie-Ann Agama and Christine A. McDaniel, "The NAFTA Preference and U.S.-Mexico Trade: Aggregate Level Analysis," *The World Economy*, forthcoming 2003, and John Romalis, "NAFTA's Impact on North American Trade," University of Chicago Graduate School of Business Working Paper, 2001.

¹⁰ *The Impact of Trade Agreements*, p. 60.

¹¹ Jonathan E. Haskel and Matthew J. Slaughter (2000). "Have Falling Tariffs and Transportation Costs Raised U.S. Wage Inequality?" National Bureau of Economic Research Working Paper No. 7539 (February).

¹² *The Impact of Trade Agreements*, pp. 114-125.

Trade Openness, the Rule of Law and Economic Performance: Is There a Link?

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The African Growth and Opportunity Act (AGOA) offers incentives for Sub-Saharan African countries to continue their efforts to open their economies and build free markets. By law, AGOA beneficiary countries are required to undergo an annual review to determine whether they are making progress toward establishing a market-based economy, the rule of law and political pluralism, free trade, and economic policies that aim to reduce poverty and to protect workers rights. This article examines the literature linking trade openness, the rule of law, and economic performance, and the implications for Sub-Saharan Africa.

Introduction

On May 18, 2000, the African Growth and Opportunity Act (AGOA) was enacted, providing expanded trade benefits for 48 eligible Sub-Saharan African (SSA) countries. AGOA expands the U.S. Generalized System of Preferences (GSP) by authorizing the President to provide duty-free and quota-free treatment for certain goods produced in eligible SSA countries under certain conditions. On an annual basis, the AGOA countries must undergo a review to determine whether they are making progress toward a market-based economy, the rule of law and political pluralism, free trade, and economic policies that support economic growth, reduce poverty, and protect workers rights.²

On March 14, 2002, President Bush further proposed the creation of a new program--the Millennium Challenge Account (MCA). The proposed initiative represents a new approach toward the provision and delivery of U.S. development assistance by tying increased assistance to performance and creating new accountability for developing countries. The MCA proposes to increase current levels of core development assistance by 50 percent over the next 3 years, providing an annual increase of \$5 billion by

fiscal year 2006. These funds are to be channeled only to those developing countries that demonstrate a strong commitment to the rule of law, transparency, economic freedoms, and investment in their people.³

These recent developments have generated questions about the link between trade openness, the rule of law, and economic performance. This article attempts to address these questions by reviewing the literature on policies, institutions, and economic growth and development. This growing body of research covers a number of topics, including the sources of institutional differences across countries, the mechanisms through which institutions may affect economic performance, and the quantitative importance of these links. One major conclusion to emerge from this literature is that trade openness and a strong rule of law contribute to faster economic growth, higher living standards, and long-term progress toward achieving democracy and freedom, although questions remain about the various methodologies employed to determine such linkages.⁴

In developing countries such as South Korea, Taiwan, Mexico, and Chile, trade liberalization has

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

² For more information about the African Growth and Opportunity Act, see USITC, *U.S. Trade and Investment with Sub-Saharan Africa*, Inv. No. 332-415, Publication 3552, December 2002.

³ R. Glenn Hubbard, Chairman, Council of Economic Advisers, "The Millennium Challenge Account: Taking Governance and Growth Seriously," speech given at the conference "Making Sustainable Development Work: Governance, Finance and Public-Private Cooperation," Washington, D.C., July 12, 2002, found at Internet address http://www.whitehouse.gov/cea/millenniumchallengeacct_july122002.pdf, retrieved on June 10, 2003.

⁴ For a review of the literature, see A. Berg and A. Krueger, "Trade, Growth and Poverty: A Selective Survey," IMF Working Paper, WP/03/30, February 2003.

supported political and economic reform. Among developed countries, a firm commitment to the rule of law forms the foundation of the legal systems in place. In contrast, among SSA countries, transparency, due process, and judicial review are in most cases the exception rather than the norm (figure 1).⁵ The shortcomings in this area are widely regarded as an impediment to attracting foreign direct investment (FDI), which in turn, may stimulate economic growth.⁶ If more FDI is desired (which could be a basis for increased trade), countries in Sub-Saharan Africa need to strengthen the core principles of their legal systems by adopting more transparent regulatory procedures (an effective antidote to government corruption), due process protections, and more meaningful judicial reviews.⁷

A recent study by the International Monetary Fund (IMF) examines the link between institutions and economic performance, and finds that raising Africa's institutions up to developing Asian countries' standards could raise SSA income per capita by 80 percent, from an average of about \$800 to more than \$1,400. Furthermore, raising the quality of institutions in SSA to the world average could raise future per capita income growth for the SSA region by almost 2 percent per year. The authors conclude that while institutional reform is a complex, long-term, and "difficult to implement" endeavor, the potential benefits of reforming institutions in SSA are quite substantial.⁸

For developing countries, trade reform is more effective when it is combined with sound macroeconomic policies and institutions. In addition, liberalizing countries must have appropriate infrastructure and institutions in place for generating adequate supply responses. A supportive external environment is also important, as market access constraints may prevent developing countries from reaping the full benefits of trade reform.⁹ In July 2002, the African Union (formerly the Organization of African Unity) adopted a new integrated framework for African development—the New Partnership for Africa's

Development or NEPAD. The following section describes this new framework, and its peer review process which is designed to make governments in Africa more accountable and transparent. Recent economic developments in the SSA region are also discussed.

Economic Growth in Africa

According to the IMF, economic growth rates for Sub-Saharan Africa averaged 2.9 and 3.5 percent for 2000 and 2001 respectively. During this period, growth in Sub-Saharan Africa was largely unaffected by the global economic slowdown, primarily because of improved security, increased macroeconomic stability and debt relief under the Highly Indebted Poor Countries (HIPC) initiative. However, growth rates for Sub-Saharan Africa declined slightly in 2002, largely due to a decline in oil production in Nigeria, adverse weather conditions resulting in significantly lower levels of agricultural production, famine in southern Africa, and political instability in Zimbabwe and Côte d'Ivoire and the effect on neighboring economies, in particular, its effect on land-locked countries dependent on port facilities in Abidjan, Côte d'Ivoire.

The IMF has predicted an improvement in economic growth for Sub-Saharan Africa in 2003. However, this prediction is dependent on two factors: an early improvement in weather conditions and a marked improvement in the security situation in the western part of Africa. Governance problems are also of some concern, and the IMF report underscores the need for stronger legal institutions, enforcement capabilities, and greater transparency in Sub-Saharan Africa to achieve higher growth rates and economic development.

The Millennium Development Goals (MDGs) were drafted in September 2000 as part of the Millennium Challenge Account initiative and endorsed by the international community in a series of United Nations summits. The MDGs call for reducing poverty and hunger in Africa to half the 1990 level by the year 2015. The goals also call for significant improvements in health, education, gender equality, and environmental protection. The IMF stresses that in order to achieve these goals, economic growth in Sub-Saharan Africa must be accelerated to levels close to those experienced in developing countries in Asia over the past two decades. This can be achieved with a substantial improvement in the investment climate in Sub-Saharan Africa.

The New Partnership for Africa's Development was launched in 2001 as a comprehensive, integrated strategic framework for African socioeconomic development, and adopted in July 2002 by the African

⁵ Information on the rule of law measure presented in figure 1 is provided in box 2.

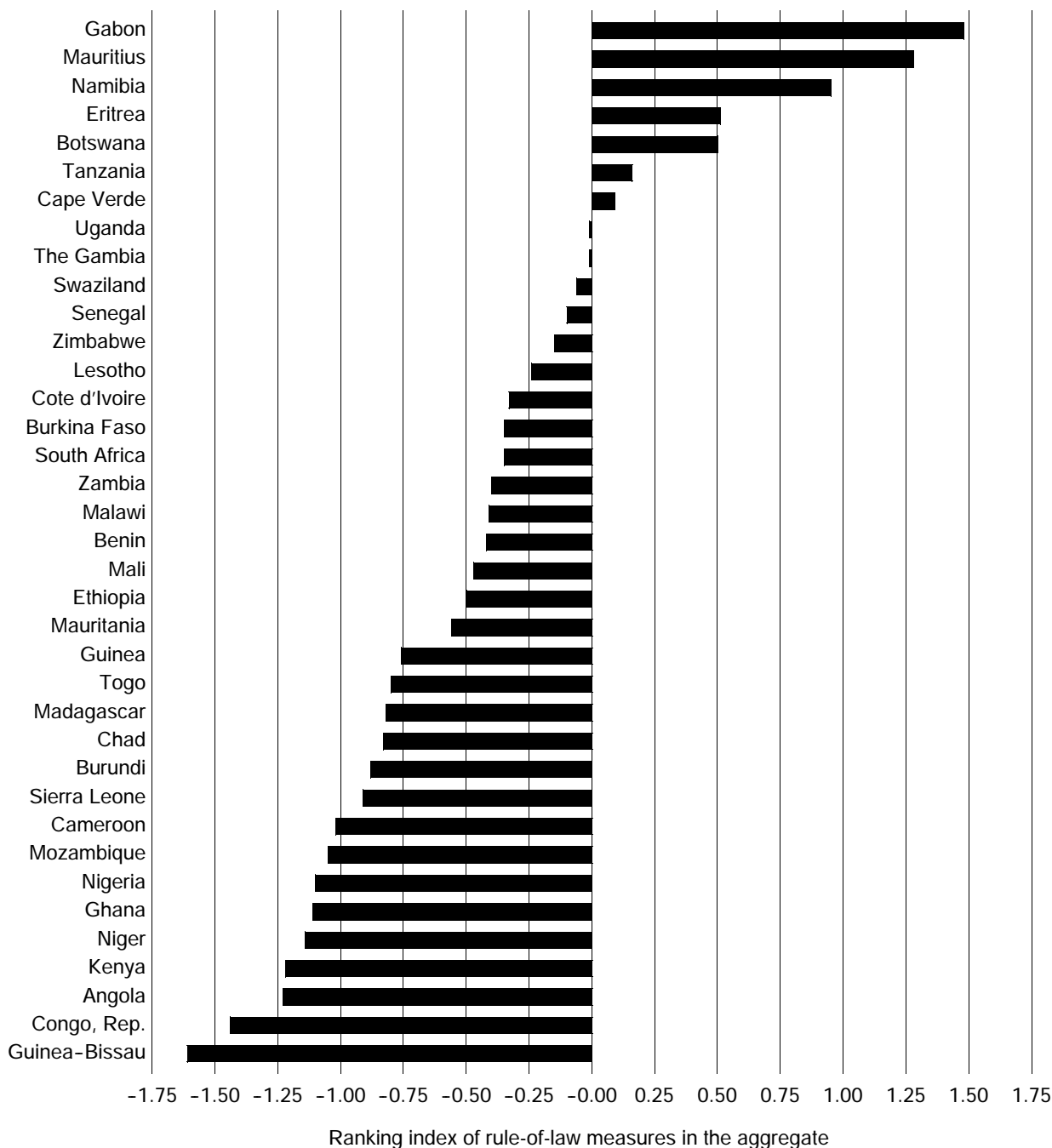
⁶ Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, Basic Books, 2000.

⁷ Clayton Yeutter and Warren Maruyama, "Place the Rule of Law at the Heart of Trade," *Financial Times*, Feb. 17, 2003.

⁸ International Monetary Fund, *World Economic Outlook*, April 2003 (IMF: Washington DC, 2003), pp. 43-46.

⁹ Ademola Oyejide, "Trade Reform for Economic Growth and Poverty Reduction," World Bank Institute Development Outreach, World Bank, July 2003, found at <http://www1.worldbank.org/devoutreach/article.asp?id=204>, retrieved on July 15, 2003.

Figure 1
Rule of Law in Sub-Saharan Africa



Source: Aggregate rule of law measure by Kaufmann, Kraay, and Zoido-Lobaton, "Governance Matters," *World Bank Policy Research Working Paper 2196*, October 1999.

Union at its inaugural summit in Durban, South Africa. As Africa's framework for promoting economic development and strengthening partnerships with the inter-

national community, it is widely regarded in the international community as a tool for achieving political and economic progress in Sub-Saharan Africa. The

partnership, which emphasizes an improved investment climate in Sub-Saharan Africa, requires action in a host of areas including restoring peace and political stability; improving infrastructure, health and education; strengthening public service delivery; liberalizing markets; improving governance; and addressing the HIV/AIDS pandemic. A common element running through these areas is a strengthening of institutions, an issue to which NEPAD gives particular attention. NEPAD seeks to promote accelerated economic growth and sustainable economic development; eradicate widespread poverty; and to stop the marginalization of Africa in the globalization process.¹⁰ A key factor to economic growth, as envisioned in NEPAD, is the more efficient spread of wealth through the generation of resources, which can be achieved through increased trade, domestic savings, and foreign direct investment, which in turn, can be affected by trade policy changes such as the African Growth and Opportunity Act (AGOA).¹¹

For many leaders in Africa, NEPAD is seen as a tool designed to “correct” for decisions made in the past which prevented African countries from taking advantage of globalization’s increasingly free flow of goods, services, people, and information. These leaders view NEPAD as “Africa’s practical and determined response” to past and present problems, designed to “radically change the paralysis” underlying previous development schemes. In this view, NEPAD represents “a new era in economic and social transformation” sweeping the African continent.¹² However, without strong institutions and the will to make them work, the goal of a democratic, representative government with the rule of law may remain elusive for much of the Sub-Saharan Africa continent.¹³

¹⁰ During the past two years, AGOA, by offering favorable trade benefits to SSA countries, has stimulated the export sectors of reforming countries in Sub-Saharan Africa, increased foreign direct investment flows to Sub-Saharan Africa, and increased employment and output in certain industries. Although AGOA-related investment is primarily concentrated in southern Africa and in the textile and apparel industry, examples of AGOA-related investment has occurred across the continent in a number of other sectors. For more information, see USITC, *U.S. Trade and Investment with Sub-Saharan Africa*, Inv. No. 332-415, December 2002, chapters 2, 4 and 5.

¹¹ For additional information, see chapter 2, USITC, *U.S. Trade and Investment with Sub-Saharan Africa*, Inv. No. 332-415, Publication 3552, December 2002.

¹² U.S. Department of State, Bureau of International Information Programs, “NEPAD Evokes Hope, Skepticism from U.S. Officials,” *The Washington File*, found at <http://www.usinfo.state.gov>, retrieved on May 23, 2003.

¹³ U.S. Department of State, Bureau of International Information Programs, “Challenging African Democracy,” *The Washington File*, found at <http://www.usinfo.state.gov>, retrieved on June 2, 2003.

The NEPAD initiative differs from previous initiatives in that it includes a peer review process—the African Peer Review Mechanism (APRM) designed to make governments in Africa more accountable and transparent. However, a major criticism of the peer review process is that it remains voluntary. Despite this criticism, NEPAD is seen by many in the international community as an opportunity for leaders in Sub-Saharan Africa to reverse Africa’s marginalization from the global economy. As of mid-July 2003, 16 SSA countries had formally committed to accede to the African Peer Review Mechanism.¹⁴ Under the terms of a memorandum, signatories will undergo an initial review within 18 months of signing the memorandum, and further regular assessments will be conducted. Other member states of the African Union can demand additional reviews, in particular, if a country shows signs of political or economic crisis. To achieve its goals, the NEPAD initiative has to be integrated into national policies, drawing upon wider participation by civil society and clear commitments to institutional and policy reforms.¹⁵ The following section examines the link between policies, institutions, and economic performance, and the implications for Sub-Saharan Africa.

The Rule of Law, Trade Openness and Economic Growth

A resurgence of attention to the enormous disparities in income across countries has resulted in a growing body of research into the link between policies, institutions, and economic performance. In this context, differences in income growth across countries appear to be closely correlated with measures of trade openness and institutional quality.

Table 1 presents summary statistics on economic outcomes, institutions, and policies for advanced economies, developing economies, and SSA economies taken from the IMF report. Box 1 presents alternative approaches to defining the rule of law. Box 2 provides describes a widely accepted method for measuring the rule of law. The data in table 1 show that stronger economic outcomes for the advanced countries are consistently associated with higher quality of institutions and policies. The data also show

¹⁴ The fifteen countries are Burkina Faso, Cameroon, Republic of Congo, Ethiopia, Gabon, Ghana, Kenya, Mali, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, South Africa, and Uganda plus Algeria in North Africa.

¹⁵ For further details on NEPAD, see “The New Partnership for Africa’s Development” at Internet address <http://www.nepad.com>.

Table 1
Selected Summary Statistics¹

Variable	Advanced economies	Developing economies	Sub-Saharan Africa
Economic outcomes			
Real GDP per capita ²	\$23,498	\$1,589	\$803
Growth volatility ³	2.63	5.03	5.80
Average growth rate ⁴	2.98	1.23	0.53
Institutional measures			
Aggregate governance ⁵	1.25	-0.28	-0.49
Property rights ⁶	4.64	3.00	2.68
Executive constraint ⁷	6.35	3.47	2.85
Policies			
Trade openness ⁸	92.31	25.24	12.59
Inflation ⁹	6.88	19.36	16.24
Exchange rate ¹⁰	104.64	121.87	136.61

¹ Mean values.

² Real GDP per capita in 1995 (IMF, 2003).

³ Average standard deviation of real GDP per capita growth over 1960-1998 (IMF, 2003).

⁴ Average annual growth rate of real GDP per capita over 1960-1998 (IMF, 2003).

⁵ Ranking index of institutional performance (Kaufmann, Kraay, and Zoido-Lobaton, 1999).

⁶ Quality of property rights protection (Heritage Foundation, 2003).

⁷ Constraints on power of the national executive (Polity IV project).

⁸ Percent of years since 1960 classified as "open" (Sachs and Warner, 1995).

⁹ Average inflation over 1960-1998 in natural logarithms (IMF, 2003).

¹⁰ Real effective exchange rate overvaluation (IMF, 2003).

Source: IMF, *World Economic Outlook*, April 2003, p. 122.

SSA countries perform relatively poorly under most measures of economic outcomes, institutions, and policies.

Research indicates that growth-enhancing policies, including trade openness and human capital accumulation, are less likely to be effective in countries with weak institutions. However, a number of studies also suggest causality in the opposite direction, that is, from institutions to policies, with the effectiveness and sustainability of policies depending on the quality of the institutions in place. In practice, this two-way causality between institutions and policies makes it difficult for researchers to identify their respective contributions to economic development.¹⁶ Thus, this remains an empirical question.

In a recent paper, Berg and Krueger (2003) review two strands of the empirical literature—one strand focusing on the relationship between trade openness and levels of income across countries, and the second strand focusing on the link between changes in openness and changes in per capita GDP through time.

A major finding of this review is that cross-country variation in the level of income depends on trade openness. However, a number of questions have been raised about the methodologies employed; problems measuring the variables of interest; causality; as well as the difficulties of separating the links between trade and growth from policies, including the rule of law, that typically accompany more open trade regimes. A second finding is that trade openness is often highly correlated with institutional quality, broadly defined in terms of the importance of the rule of law and the effectiveness of government.

The second strand of the empirical literature attempts to unravel this colinearity of trade openness and institutional quality across countries. This literature avoids the difficulties associated with distinguishing the role of slowly changing institutional factors from openness by looking at differences across countries over time. The main finding is that changes in trade volumes are highly correlated with changes in growth.

¹⁶ IMF, *World Economic Outlook*, April 2003, p.104.

Box 1

What exactly is “the rule of law?”

According to Matthew Stephenson—a researcher at Harvard University, Department of Government and Law School—the term “rule of law” originated in normative writings on law and government, principally by authors in the West who tailored the term to fit their personal vision of the “ideal” or “just” state.¹ As a result, a survey of how the term has been used in Germany, France, the United Kingdom, and the United States concludes that it “belongs to the category of open-ended concepts which are subject to permanent debate.” Despite the multiplicity of definitions of the “rule of law,” however, most can be classified according to whether they emphasize formal characteristics, substantive outcomes, or functional considerations.

Formal definitions use the presence or absence of specific, observable criteria of the legal system. Although there is not a definitive list of formal criteria, and different formal definitions may use different standards, what these definitions have in common is that the “rule of law” is measured by how well the law or legal system conforms to these explicit standards. Examples of commonly used criteria are a formal, independent and impartial judiciary; laws that are public; the absence of laws that apply only to particular individuals or classes; the absence of retroactive laws; and provisions for judicial review of government action.

An alternative approach to defining the rule of law is one that looks to substantive outcomes such as “justice” or “fairness.” This approach does not place much emphasis on formal rules, except to the extent that they contribute to the achievement of a particular substantive goal of the legal system. Whereas the formal approach eschews value judgements, the substantive approach is driven by a moral vision of the good legal system, and measures the rule of law by how close the system being assessed comes to this ideal. A third approach is similar to the substantive approach, but attempts to avoid the normative issues by focusing on how well the law and legal system perform a specific function, most often the constraint of government discretion, making legal decisions predictable, or some combination of both. An example of a functional definition is the view that a society in which government officials have little or no discretion has a high level of rule of law, whereas a society in which government officials wield a large amount of discretion has little or no rule of law.²

Thus, the term “rule of law” is difficult to define. It transcends “laws on the books”, focusing more on the application of the law and on the performance of the legal and judiciary institutions. The quality of the enforcement of the law is at least as important as the extensiveness of the law. Good laws cannot substitute for the absence of effective legal institutions. The reliability of the legal and judicial institutions affects business confidence and the preparedness of business to fulfill social and environmental responsibilities. A legal system that applies the rule of law and protects property fairly and predictably generates confidence and attracts quality investors who care about social responsibility. Laws that directly influence corporate social responsibility include contractual law, corporate law, tax laws, bankruptcy laws, fiduciary responsibilities of managers, rules governing shareholder “voices”, and class-action lawsuits.³

¹ Matthew Stephenson, “The Rule of Law as a Goal of Development Policy,” Harvard University, Department of Government and Law School, found at <http://www1.worldbank.org/publicsector/legal/ruleoflaw2.htm>, retrieved on May 28, 2003.

² For further details, see Stephenson article.

³ World Bank, “Brief description of various sessions in Corporate Social Responsibility Diamond Module”, found at <http://www.worldbank.org>, retrieved May 28, 2003.

Box 2

How is “the rule of law” measured?

Over the past two decades, legal and judicial reform has become an issue of global importance, underscoring the need for a well-designed set of baseline data, impact indicators, project management indicators and performance indicators. Without these essential statistics, measuring the impact of these initiatives would not be possible. A number of international organizations, political and business risk rating agencies, think-tanks, nongovernmental organizations, and researchers have produced indicators that attempt to measure the degree to which a country enjoys the rule of law. The rule of law indicators are based on information obtained through surveys, and polls of country experts.

In a recent World Bank paper “Governance Matters II,” Kaufmann, Kraay, and Zoido-Lobaton, construct a broad measure of the rule of law.¹ The measure is an aggregation of several indicators, ranging from ratings by country experts to survey results, which measure the extent to which agents have confidence in and abide by the rules of society. The rule-of-law measure reflects the perception of the incidence of violent and non-violent crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts. Given the subjective nature of the underlying polls and surveys, it is possible the responses to questions on institutions are influenced by the respondents’ perception of the policies in place. However, this is the best set of institutional measures.

The authors report the estimates as well as the standard deviations of this conditional distribution to provide a measure of the level of confidence that can be attached to the estimates. The size of the confidence intervals differ across countries and are large relative to the unit in which the rule of law is measured. Therefore, the authors emphasize that cross-country comparisons of the quality of governance should be made with considerable caution since small differences are not likely to be statistically significant, whereas large differences are more likely to be statistically significant.²

¹ For a description of the methodology see Daniel Kaufmann, Aart Kraay, and Pablo Zoido-Lobaton, “Governance Matters,” *World Bank Policy Research Working Paper 2196*, October 1999.

² For more information, see Daniel Kaufmann, Aart Kraay, and Pablo Zoido-Lobaton, “Governance Matters II: Updated Indicators for 2000/01,” *World Bank Policy Research Working Paper 2772*, February 2002.

Berg and Krueger (2003) note that trade is one aspect of the development process, and that a strong institutional environment with respect for the rule of law is central. However, they argue, openness is a contributor to a strong institutional environment. Trade raises the visibility of failure in other areas, and raises the marginal product of other reforms. For example, improvements in infrastructure, telephones, roads, and ports may translate into better performance of the export sector, which in turn, may raise productivity for domestic goods. Trade openness may also change the political reform dynamic by creating constituencies for further reforms.

A recent study by the IMF examines the link between the rule of law and economic performance.¹⁷ The authors conduct an empirical analysis and find a strong positive correlation between the rule of law and economic performance, providing support for the argument that well-functioning legal institutions and a government bound by the rule of law are fundamental factors for economic and social development, because people are reluctant to invest in nations where they will receive little protection under the law.¹⁸ The correct legal code is critical for efficient financial markets, which in turn are critical for economic development.

The IMF study uses a simple econometric framework to examine the impact of institutions and policies on economic performance in 94 countries.¹⁹ The empirical analysis focuses on the impact of institutions and policies on three measures of economic performance—economic development, measured as the logarithm of real per capita GDP in 1995; growth, measured as the average growth rate of per capita GDP over the 1960–1998 period; and volatility of growth, measured as the standard deviation of the growth rate of per capita GDP over the 1960–1998 period. The Sachs and Warner (1995) measure of trade openness and the Kaufmann, Kraay, and Zoido-Lobatón (1999)

measure of the rule of law are included in this regression.²⁰

Consistent with the literature,²¹ the results show that the rule of law has a statistically significant impact on all three measures of economic performance. However, the trade openness variable was not statistically significant when controlling for quality of institutions. The authors caution that the modeling strategy employed and close correlation between policy variables and institution measures make it difficult to make any strong conclusions about the separate contributions of the rule of law and trade openness on economic performance.

This issue is illustrated for a group of Sub-Saharan Africa countries in figures 2, 3, and 4. Figures 2 and 3 show simple correlations between economic growth and trade openness; and economic growth and the rule of law, respectively, for 36 countries in Sub-Saharan Africa. In each case, there is a positive association. However, as illustrated in figure 4, there is also a positive relationship between trade openness and the rule of law. As previously noted, this close association hampers the ability of researchers to draw concrete inferences about individual contributions of policies and institutions to economic growth.²² The evidence suggests a two-way causality link between trade openness and the rule of law. The implications for SSA countries are that sound policies must be supported and sustained by strong institutions. However, weak institutions may reduce the chance of good policies being adopted or may undermine their effectiveness.

²⁰ The Sachs and Warner (1995) index of trade openness indicates the degree of integration of the goods market. The index is measured as the fraction of years from 1960 to 1998 that the economy has been open, on a (0,1) scale. A country is defined to be open if it satisfies all the following criteria: (1) nontariff barriers cover less than 40 percent of trade; (2) average tariffs are less than 40 percent; (3) the black market premium was less than 20 percent during the 1970s and the 1980s; (4) the economy is not socialist; and (5) the government does not control major exports through marketing boards. The Kaufmann, Kraay, and Zoido-Lobatón (1999) rule of law measure indicates the level of protection for persons and property against violence or theft; independence and effectiveness of the judiciary; and enforcement of contracts. This measure is based on a model that aggregates ratings by country experts and survey information.

²¹ See Rodrik, Subramanian, and Trebbi (2002), Easterly and Levine (2003), and Berg and Krueger (2003).

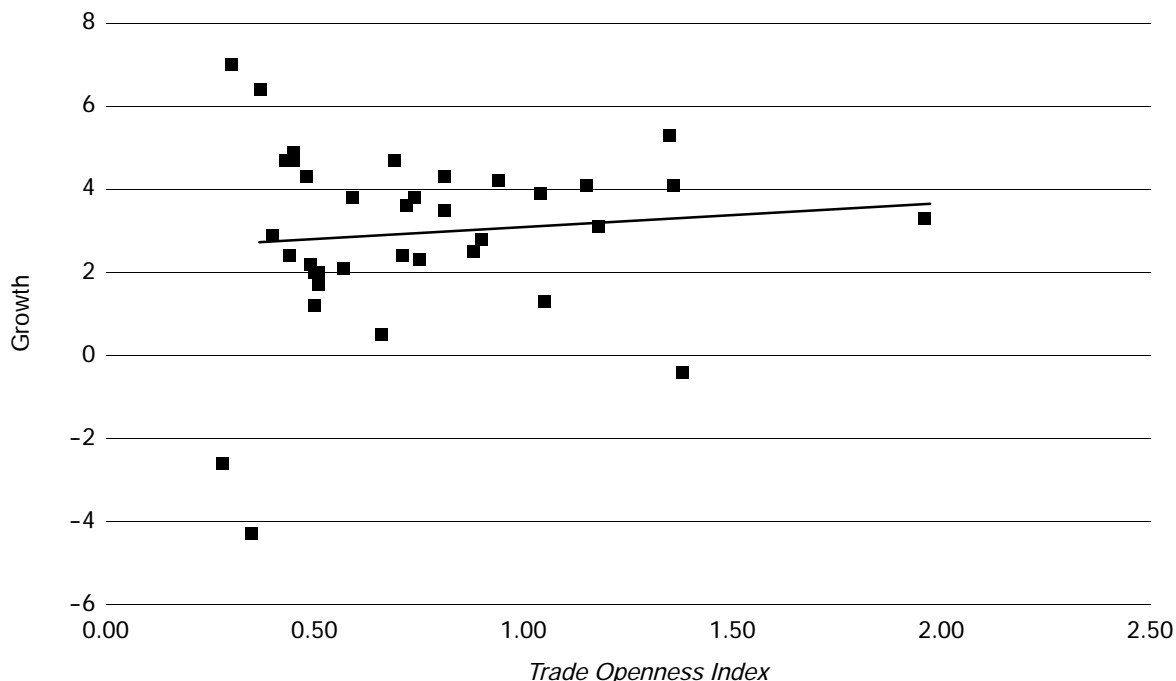
²² Hall and Jones (1999) aggregate indicators of openness and institutional quality into a measure of “social infrastructure” and find this measure to be strongly related to cross-country differences in the level of income per capita.

¹⁷ The IMF report examines the link between a number of institutional quality indicators and economic performance. For further details, see IMF, *World Economic Outlook*, April 2003.

¹⁸ In some specific contexts, external incentives may also assist the drive for stronger domestic institutions. For example, for countries in Sub-Saharan Africa, external incentives—such as AGOA, MCA, and NEPAD—may help in promoting stronger institutions and faster economic growth.

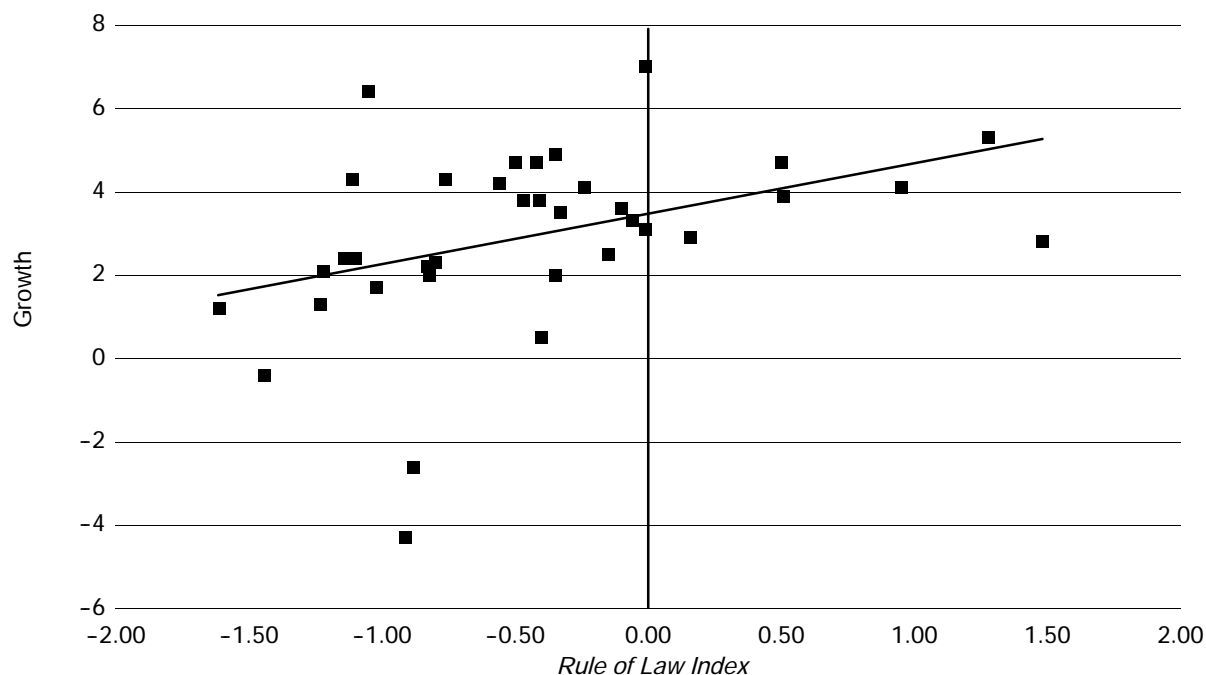
¹⁹ The sample includes 25 advanced economies and 69 developing economies, including 30 SSA countries.

Figure 2
Trade Openness vs Growth for SSA countries



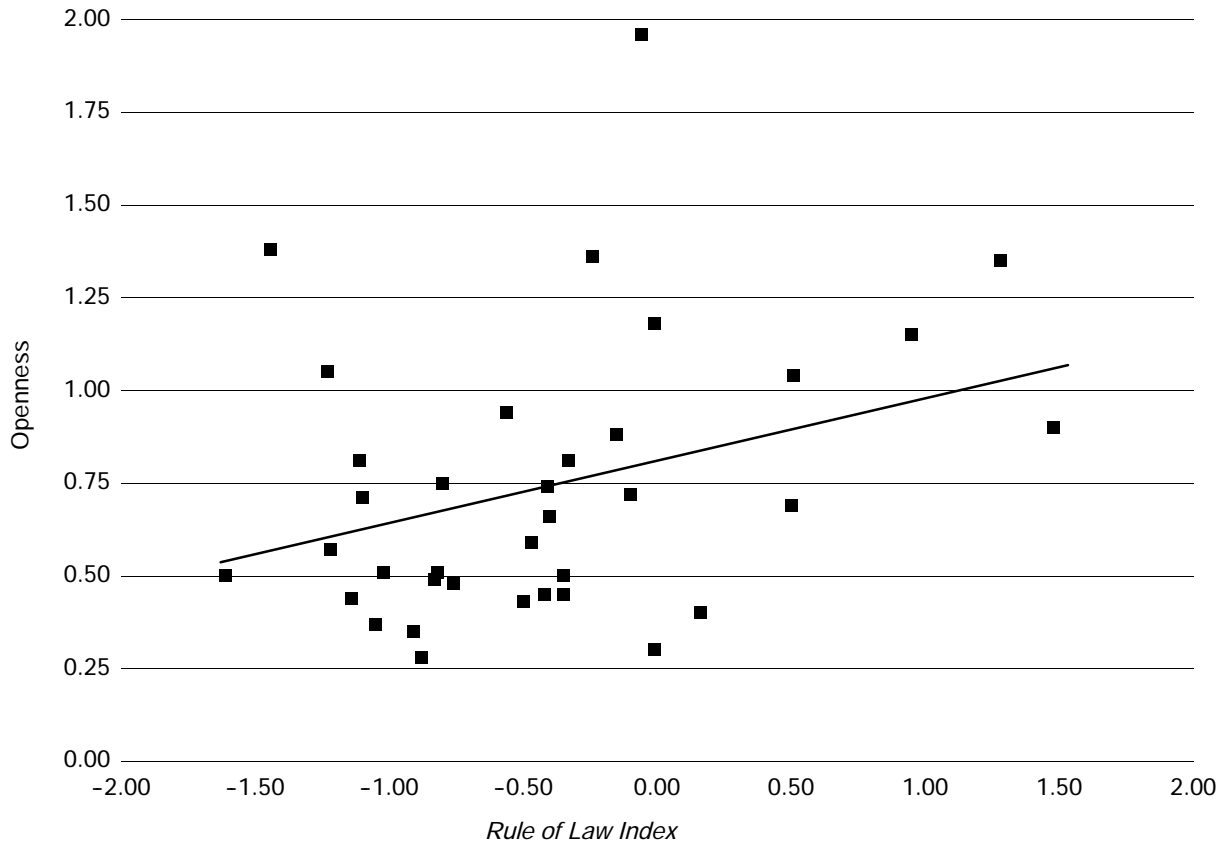
Source: IMF staff calculations of trade openness measured as a share of total trade to GDP, based on World Bank data; and average annual growth rates 1990-2000, based on World Bank, World Development Indicators database.

Figure 3
Rule of Law vs Growth for Sub-Saharan African countries



Source: Aggregate rule of law measure by Kaufmann, Kraay, and Zoido-Lobaton, "Governance Matters," *World Bank Policy Research Working Paper 2196*, October 1999; and average annual growth rates 1990-2000, based on World Bank, World Development Indicators database.

Figure 4
Rule of Law vs Trade Openness for Sub-Saharan African countries



Source: Aggregate rule of law measure by Kaufmann, Kraay, and Zoido-Lobaton, "Governance Matters," *World Bank Policy Research Working Paper 2196*, October 1999; and IMF staff calculations of trade openness measured as share of total trade to GDP, based on World Bank data.

An Atypical Year in the History of U.S. Imports Under the Andean Trade Preference Act

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The expiration of the Andean Trade Preference Act at the end of 2001, followed by the Act's retroactive renewal and amendment in August 2002, profoundly affected imports under this program in 2002 from the beneficiary countries Bolivia, Colombia, Ecuador, and Peru. These developments also affected overall U.S. imports from these Andean countries during the year.

The year 2002 was atypical in the 10-year history of the Andean Trade Preference Act (ATPA). For 10 years, ATPA provided duty-free and reduced-duty treatment to qualifying imports from its beneficiaries: Bolivia, Colombia, Ecuador, and Peru. The purpose of the program was to promote broad-based economic development and viable economic alternatives to coca cultivation and cocaine production by offering Andean products broader access to the U.S. market. The original ATPA expired on December 4, 2001.

Eight months later—on August 6, 2002—President Bush signed into law the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which renewed ATPA preferences retroactively, and amended ATPA to cover additional products. During 2002, these changes in the program's legal status, and in the scope of the preferences it provided, profoundly affected eligible U.S. imports as well as overall U.S. imports from the beneficiaries. For this reason, neither U.S. imports under ATPA nor overall U.S. imports from ATPA countries are comparable in 2002 with such imports, respectively, of earlier years. Because 2002 imports will not be comparable with such imports in years to come either, the year 2003 will have to serve as the base year in analyzing trade trends in the future.

ATPDEA authorizes the extension of duty-free treatment to certain products previously excluded from ATPA preferences, including certain textiles and apparel, footwear, petroleum and petroleum derivatives, watches and watch parts (including cases,

bracelets, and straps), and certain tuna in smaller foil or other flexible airtight packages (generally referred to as pouched tuna). However, the expansion took effect only on October 31, 2002, when the four ATPA countries were designated as eligible for ATPDEA.²

According to these legal developments, the year 2002 can be subdivided (with some approximation) into three discrete periods: (1) January–July, when ATPA had lapsed; (2) August–October, when the original ATPA was in effect again; and (3) November–December, during which ATPA as amended (ATPDEA) was in operation. Figure 1 shows how the changes in the status of ATPA during these three periods affected U.S. imports under the program compared with the same period of 2001. Figure 2 shows how the changes may have affected overall U.S. imports from ATPA countries during these periods.

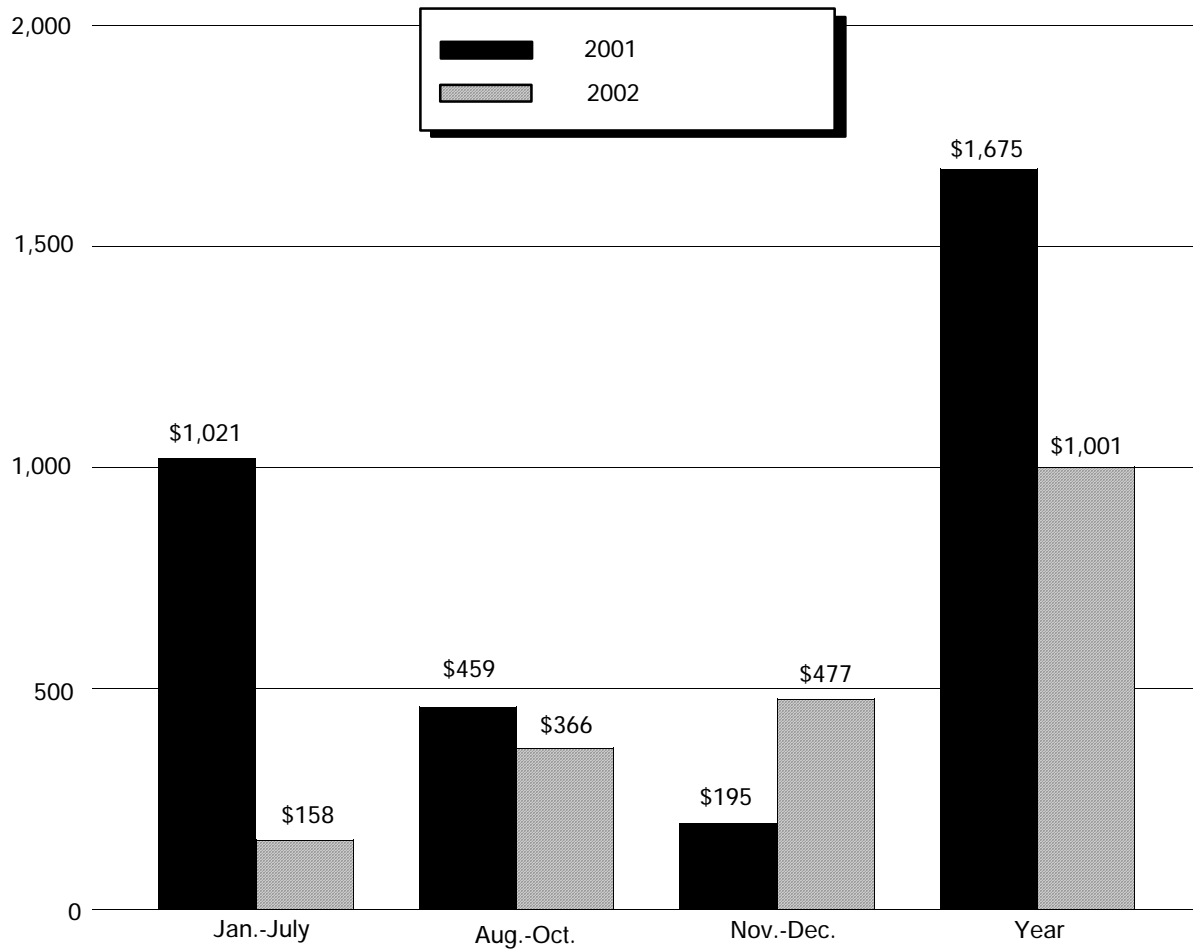
ATPA Not in Effect from January through July 2002

Despite ATPA's expiration at the end of 2001, entries under the program continued to be reported during January–July 2002. One reason might be that on February 15, 2002, the U.S. Customs Service published a temporary rule that granted importers of articles that formerly qualified for duty-free treatment under ATPA the option to defer the payment of estimated duties and fees after entry of these products until May 16, 2002. Nonetheless, U.S. imports under ATPA fell sharply in January–July 2002, by 84.5 percent compared with January–July 2001 (figure 1).

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² For further detail and legal citations, see Joanne Guth and Magda Kornis, "The Andean Trade Preference Act: An Update," USITC, *International Economic Review*, Nov./Dec. 2002.

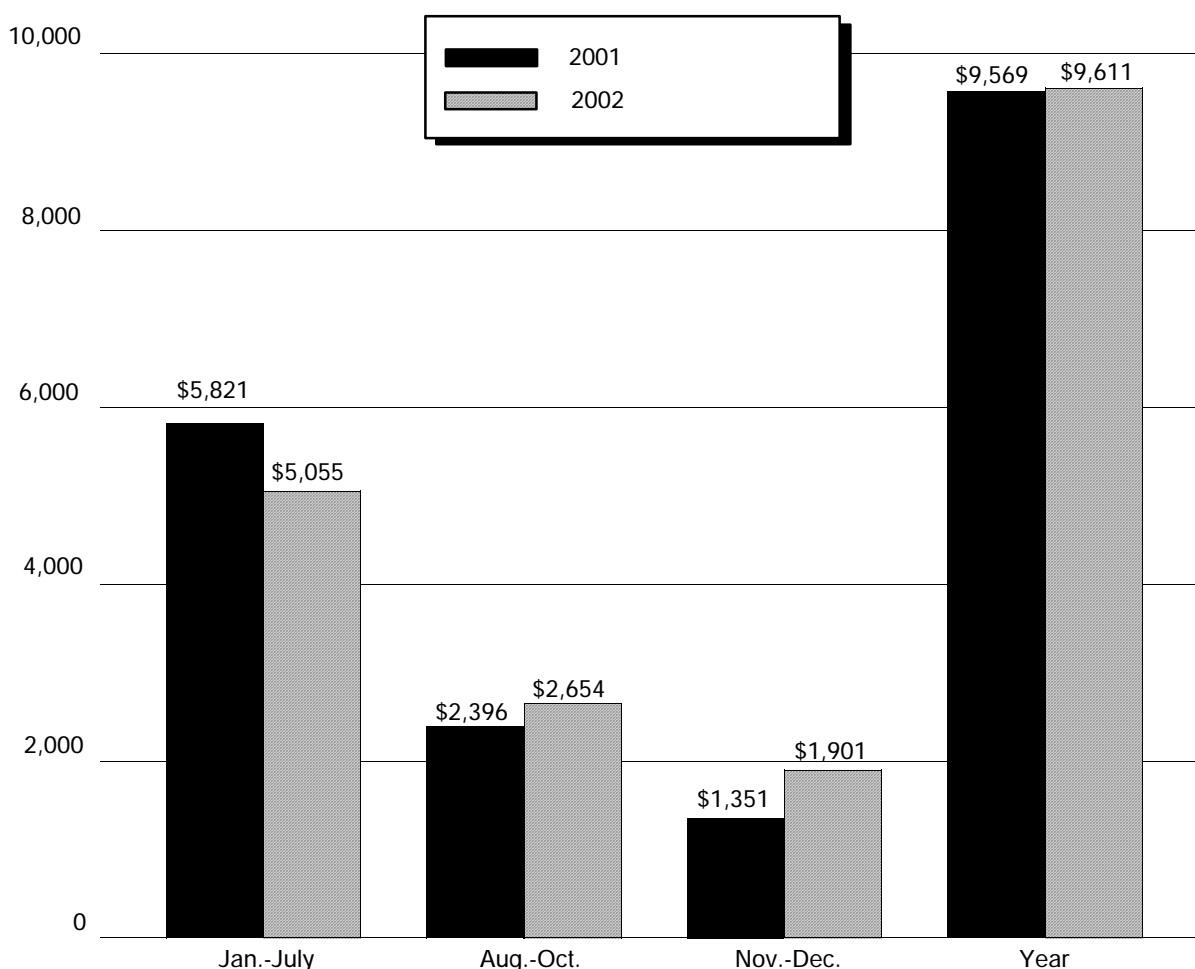
Figure 1
U.S. imports under ATPA, in selected periods, 2001 and 2002
Million dollars



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

Figure 2
U.S. imports from ATPA countries, in selected periods, 2001 and 2002

Million dollars



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

Imports of some products formerly eligible under ATPA were also eligible under the Generalized System of Preferences (GSP), thus they shifted to GSP. Even though the GSP program was also inoperative in January–July 2002, the experience of Andean suppliers with previous lapses in the GSP reportedly left them more hopeful that GSP rather than ATPA would be renewed retroactively.

Several former ATPA-eligible products became dutiable again, entering at tariff rates applicable under normal trade relations (NTR). Notable examples among leading imports under ATPA included refined copper cathodes from Peru, and pigment dispersions from Colombia, whose imports had exceeded GSP competitive limits, therefore they were not allowed to enter under that program either.

ATPA's lapse during January–July 2002 not only restricted imports under ATPA, it also may have depressed overall U.S. imports from ATPA countries, as shown in figure 2. Thus, the lapse may have contributed to the 13.2 percent decline of overall U.S. imports from ATPA countries in January–July 2002, compared with the same period of 2001.

Original ATPA is Reauthorized for August through October 2002

During the 3 months following the renewal of ATPA, eligible entries under the original program became free of duty once again, and some importers may have shifted from GSP back to ATPA. Nonetheless, the unavailability of ATPA preferences for several months had a delayed negative effect,

upsetting the continuity of the program. Although imports under ATPA recovered from their low level recorded during January-July, they remained 20 percent lower during August-October 2002 than in the comparable period of 2001 (figure 1). Total U.S. imports from ATPA countries also recovered after ATPA's renewal. As figure 2 shows, such imports were 11 percent higher in August-October 2002 than in the comparable 3 months of 2001.

ATPDEA is Implemented for November through December 2002

The new eligibility of petroleum and derivatives for ATPA tariff preferences resulted in a substantial increase in imports under the amended ATPA for this short period. Imports under the expanded ATPA were 145 percent higher during November-December 2002 than they had been in the comparable period of 2001 (figure 1). Overall U.S. imports were up 41 percent (figure 2).

Calendar Year 2002

The positive effect on U.S. imports of the implementation of ATPDEA during the last 2 months of the atypical year of 2002 only partly offset the negative effect of the lapse of ATPA during the first 7 months. This resulted in a 40 percent decline of imports under ATPA in 2002 (figure 1). Leading

imports mostly affected included the already mentioned copper cathodes and pigment dispersions, but also various flower and jewelry articles. Overall U.S. imports from ATPA countries remained essentially unchanged in 2002 from 2001, apparently also showing the effects of the long lapse of ATPA (figure 2).

Because ATPDEA was in effect only for 2 months during 2002, U.S. imports benefitting from ATPDEA preferences were negligible in 2002, with the exception of petroleum. Petroleum-based products accounted for the vast majority of U.S. imports under ATPDEA. No imports of textiles and apparel articles, or pouched tuna, and only negligible imports of the other newly eligible items were officially recorded under ATPDEA during the year.

Developments in the last 2 months of 2002 foreshadow significant and lasting changes in the scope and composition of imports under the expanded ATPA. Five petroleum derivatives that were excluded from preferences under the original ATPA already found their way among the 20 leading imports under ATPA for the year 2002. They displaced other products from the list of leading imports in 2001, as shown in tables 1 and 2, including sugar, tuna not in airtight containers, and nonadhesive plates and sheet. By the end of 2003, after the expanded ATPA will have been in effect for the entire year, major changes will likely emerge in the patterns of ATPA trade by commodity and by country.

Table 1
Leading U.S. imports for consumption from ATPA, by HTS provisions, 2000-02

HTS Provision	Description	2000	2001	2002 ¹	Change, 2001-02	Leading ATPA source
		————— 1,000 dollars —————				Percent
7403.11.00	Cathodes and sections of cathodes, of refined copper . . .	565,651	429,379	248,663	-42.1	Peru
2709.00.10 ²	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	0	0	119,804	(³)	Ecuador
0603.10.60	Roses, fresh cut	192,420	180,283	69,765	-61.3	Colombia
2709.00.20 ²	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	0	0	66,571	(³)	Colombia
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids	121,311	92,342	46,539	-49.6	Colombia
0603.10.80	Cut flowers and flower buds suitable for bouquets, n.e.s.o.i.	91,947	85,244	43,302	-49.2	Colombia
7113.19.50	Gold jewelry, except necklaces and clasps	64,663	78,685	36,704	-53.4	Bolivia
0709.20.90	Asparagus, fresh or chilled, not reduced in size, not entered Sept. 15-Nov. 15	33,412	28,261	31,589	11.8	Peru
3212.90.00	Pigments dispersed in non-aqueous media, in liquid or paste form, used in making paints; dyes and coloring matter packaged for retail sale	199,393	194,628	29,866	-84.7	Colombia
7113.19.29	Gold necklaces and neck chains, other than rope or mixed link . .	18,302	24,449	21,828	-10.7	Peru
2402.20.80	Cigarettes containing tobacco but not clove, paper-wrapped .	937	13,781	20,524	48.9	Colombia
0709.20.10	Asparagus, fresh or chilled, not reduced in size, entered Sept. 15-Nov. 15	9,991	15,239	18,729	22.9	Peru
0603.10.30	Miniature (spray) carnations, fresh cut	33,673	24,584	13,239	-46.1	Colombia
2710.11.25 ²	Naphthas, not motor fuel/blending stock, from petroleum oils/oils from bituminous minerals, minimum 70 percent by weight of such products	0	0	9,722	(³)	Colombia
7113.19.21	Rope necklaces and neck chains of gold	20,700	10,005	9,232	-7.7	Peru
0804.50.40	Guavas, mangoes, and mango-steens, fresh, if entered during the period from September 1, in any year, to the following May 31, inclusive	20,530	17,742	7,601	-57.2	Ecuador

See footnotes at end of table.

Table 1—Continued
Leading U.S. imports for consumption from ATPA, by HTS provisions, 2000-02

HTS Provision	Description	2000	2001	2002 ¹	Change, 2001-02	Leading ATPA source
		————— 1,000 dollars —————				Percent
2710.19.05 ²	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	0	0	7,263	(³)	Colombia
0703.10.40	Onions, other than onion sets or pearl onions not over 16 mm in diameter, and shallots, fresh or chilled	4,285	11,131	6,683	-40.0	Peru
2710.19.10 ²	Distillate/residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degree A.P.I. or more	0	0	6,584	(³)	Ecuador
4421.90.97	Articles of wood, n.e.s.o.i.	0	0	6,571	(³)	Ecuador
	Subtotal	1,377,214	1,205,753	820,779	-31.9	
	All other	604,418	468,854	180,037	-61.6	
	Total	1,981,632	1,674,607	1,000,816	-40.2	

¹ ATPA includes imports under ATPDEA.

² Item is newly eligible under ATPDEA.

³ Not meaningful.

Note.—The abbreviation “nesoi” stands for “not elsewhere specified or otherwise included.”

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

Table 2
Leading U.S. imports for consumption under ATPA, by HTS provisions, 1999-2001

HTS Provision	Description	1999	2000	2001	Change, 2001 over 2000	Leading ATPA source
		————	1,000 dollars	————		Percent
7403.11.00	Refined copper cathodes and sections of cathodes	323,788	565,651	429,379	-24.1	Peru
3212.90.00	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes & coloring matter packaged for retail sale	160,939	199,393	194,628	-2.4	Colombia
0603.10.60	Roses, fresh cut	182,878	192,420	180,283	-6.3	Colombia
0603.10.70	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut	137,925	121,311	92,342	-23.9	Colombia
0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, nesi	74,569	91,947	85,244	-7.3	Colombia
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesoi	59,352	64,663	78,685	21.7	Peru
7113.19.10	Precious metal (o/than silver) rope, curb, etc. in continuous lengths, whether or not plated/clad precious metal, for jewelry manufacture	63,099	44,860	29,560	-34.1	Peru
0709.20.90	Asparagus, nesi, fresh or chilled	26,605	33,412	28,261	-15.4	Peru
1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US note 5 to ch.17	399	21,847	26,818	22.8	Colombia
7901.11.00	Zinc (o/than alloy), unwrought, containing o/99.99% by weight of zinc	52,001	49,032	26,637	-45.7	Peru
1604.14.40	Tunas and skipjack, not in air-tight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each	83,054	74,620	26,505	-64.5	Ecuador
0603.10.30	Miniature (spray) carnations, fresh cut	40,523	33,673	24,584	-27.0	Colombia
7113.19.29	Gold necklaces and neck chains (o/than of rope or mixed links)	25,337	18,302	24,449	33.6	Peru
3921.12.19	Nonadhesive plates, sheets, film, foil and strip, cellular, of polymers of vinyl chloride, combined with textile materials, nesoi	(1)	22,837	20,532	-10.1	Colombia
0804.50.40	Guavas, mangoes, and mangosteens, fresh, if entered during the period September 1 through May 31, inclusive	19,214	20,530	17,742	-13.6	Peru

See footnote at end of table.

Table 2—Continued

Leading U.S. imports for consumption under ATPA, by HTS provisions, 1999-2001

HTS Provision	Description	1999	2000	2001	Change, 2001 over 2000	Leading ATPA source
		———— 1,000 dollars ————				Percent
0709.20.10	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air	13,553	9,991	15,239	52.5	Peru
2402.20.80	Cigarettes containing tobacco but not containing clove, paper-wrapped	(1)	937	13,781	1371.0	Colombia
7306.20.60	Iron or nonalloy steel, seamed, w/ext. diam. 406.4mm or less or o/than circ. x-sect, tubing of a kind used for drilling for oil/gas	4,036	13,331	13,515	1.4	Colombia
4421.90.98	Articles of wood, nesoi	15,140	12,927	12,689	-1.8	Ecuador
0703.10.40	Onions, other than onion sets or pearl onions not over 16 mm in diameter, and shallots, fresh or chilled	10,234	4,285	11,131	159.8	Peru
	Subtotal	1,292,646	1,595,968	1,352,004	-15.3	
	All other	437,633	385,664	322,602	-16.4	
	Total	1,730,279	1,981,632	1,674,607	-15.5	

¹ Not meaningful.

Note.—Because of rounding, figures may not add to totals shown. The abbreviation “nesoi” stands for “not elsewhere specified or otherwise included.”

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

U.S. TRADE DEVELOPMENTS

Recent Developments

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U.S. International Transactions, First Quarter 2003

The U.S. Department of Commerce reported that seasonally adjusted exports of \$86.1 billion and imports of \$126.5 billion in July 2003 resulted in a goods and services deficit of \$40.3 billion, \$0.3 billion more than the \$40.0 billion in June 2003. July 2003 exports were \$1.7 billion more than June exports of \$84.5 billion.² July 2003 imports were \$2.3 billion more than June imports of \$124.5 billion.

July 2003 merchandise exports increased by about \$1.3 billion to \$60.5 billion from June exports of \$59.3 billion. Merchandise imports increased by \$1.5 billion to \$105.8 billion from June imports of \$104.3 billion. The merchandise trade deficit decreased by about \$0.2 billion in July to \$45.3 billion from \$45.1 billion in June.

For services, exports increased by about \$0.4 billion to \$25.6 billion in July 2003 from \$25.2 billion in June. Imports of services increased by about \$0.5 billion to \$20.7 billion in July 2003. The services trade surplus in July decreased slightly, by about \$0.1 billion, to \$5.0 billion from June 2003.

Changes in merchandise exports from June to July 2003 reflected increases in capital goods (\$0.6 billion); industrial supplies and materials (\$0.4 billion);

automotive vehicles, parts, and engines (\$0.3 billion); and foods, feeds, and beverages (\$0.2 billion). Decreases occurred in consumer goods (\$0.1 billion); and the statistical category "other goods" (\$0.1 billion).

Changes in merchandise imports from June to July 2003 reflected increases in industrial supplies and materials (\$1.0 billion); consumer goods (\$0.7 billion); and in foods, feeds, and beverages (\$0.1 billion). A decrease occurred in automotive vehicles, parts, and engines (\$0.1 billion). Capital goods, and "other goods" statistical category was virtually unchanged. Additional information on U.S. trade developments in agriculture and specified manufacturing sectors during January-July 2003 are highlighted in tables 1 and 2, and figures 1 and 2. Services trade developments are highlighted in table 3.

In July 2003, exports of advanced technology products were \$14.6 billion and imports of the same were about \$17.6 billion, resulting in a deficit of \$3.0 billion, about \$1.2 billion more than the June deficit. Exports of these products in July 2003 were about \$0.6 billion less than the \$15.3 billion recorded in June. Imports of advanced technology products of \$17.6 billion in July 2003 were about \$0.5 billion more than the \$17.1 billion imports in June.

The July 2003 trade data showed U.S. surpluses with the following countries (preceding month in parentheses): Australia, \$0.8 billion (\$0.8 billion in June 2003); Hong Kong, \$0.2 billion (\$0.4 billion); Singapore, \$0.4 (virtually zero); and Egypt, \$0.1 billion (\$0.1 billion). Deficits were recorded in July 2003 with Brazil, \$0.7 billion (\$0.6 billion); China, \$11.3 billion (\$10.0 billion); Canada, \$5.0 billion (\$3.7 billion); Mexico, \$3.2 billion (\$3.4 billion); Japan, \$5.9 billion (\$5.4 billion); Korea, \$1.3 billion (\$1.0 billion); OPEC member countries, \$4.5 billion (\$4.0 billion); Taiwan, \$1.1 billion (\$1.1 billion); and Western Europe, \$11.2 billion (\$8.0 billion).

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 U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Trade in Goods and Services," Commerce News, FT-900, release of Sept. 11, 2003, found at <http://www.census.gov/foreign-trade/www/press.html#current>, as well as at Internet address <http://www.bea.doc.gov/bea/newsrel/>.

Table 1
U.S. trade in goods and services, seasonally adjusted, July 2003 to August 2003

Item	Exports		Imports		Trade balance	
	August 2003	July 2003	August 2003	July 2003	August 2003	July 2003
	<i>Billion dollars</i>					
Trade in goods ¹ (see note)						
Including oil	57.8	60.4	102.2	105.4	-44.4	-45.0
Excluding oil	57.7	60.2	90.4	93.6	-32.7	-33.4
Trade in services ¹	25.9	25.7	20.7	20.7	5.2	5.0
Trade in goods and services ¹	83.7	86.0	122.9	126.0	-39.2	-40.0
Trade in goods ²	58.1	60.4	104.0	107.6	-45.9	-47.2
Advanced technology products ³	14.5	14.6	16.2	17.6	-1.7	-3.0

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 Oct.10, 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 August 2003

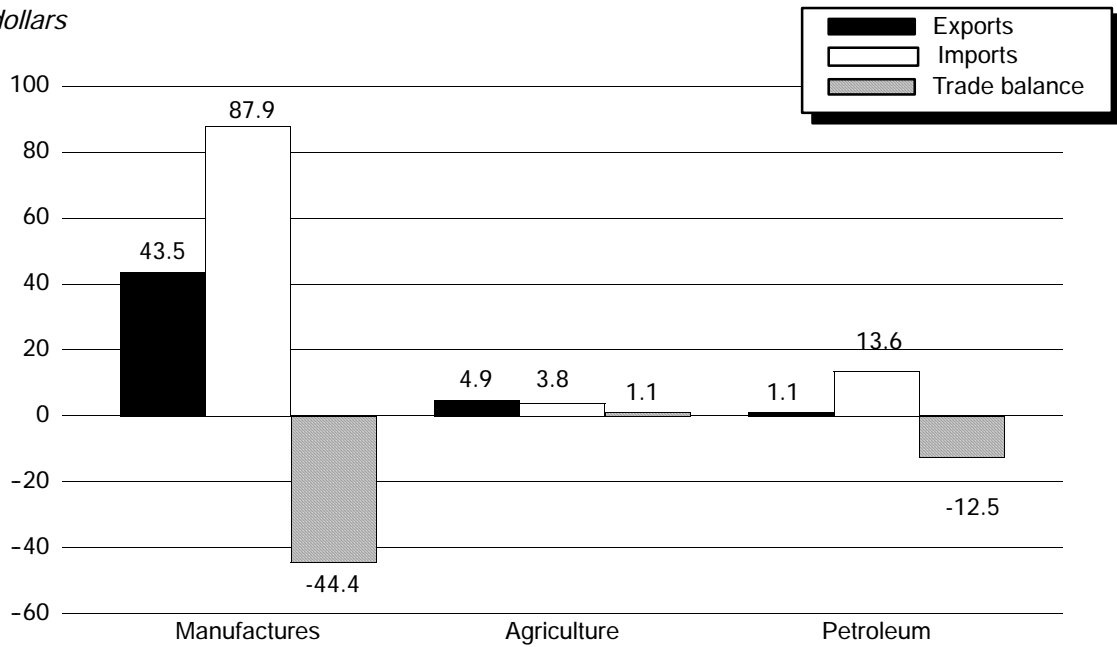
Manufacture sector	Exports			Imports			Trade balance		Change in exports, Jan.-Aug. 2003 over Jan.-Aug. 2002	Change in trade balance, Jan.-Aug. 2003 over Jan.-Aug. 2002	Share of total exports, Jan.-Aug. 2003
	Aug. 2002	Jan.-Aug. 2003	Jan.-Aug. 2002	Aug. 2003	Jan.-Aug. 2003	Jan.-Aug. 2002	Jan.-Aug. 2003	Jan.-Aug. 2002			
	<i>Billion dollars</i>								<i>Percent</i>		
ADP equipment & office machinery	2.2	18.5	20.0	6.5	51.0	50.0	-32.6	-29.9	-7.9	8.9	3.9
Airplane parts	1.3	9.8	9.4	0.3	3.0	3.4	6.8	6.0	4.2	13.3	2.1
Airplanes	1.6	14.9	18.7	0.8	7.6	8.1	7.4	10.6	-20.1	-30.3	3.2
Chemicals - inorganic	0.5	3.8	3.7	0.6	5.0	3.9	-1.1	-0.2	5.2	424.0	0.8
Chemicals - organic	1.6	13.1	10.7	2.4	22.0	20.0	-8.9	-9.3	22.1	-4.7	2.8
Electrical machinery	5.8	45.3	45.0	6.7	52.9	53.0	-7.6	-8.0	0.8	-6.1	9.6
General industrial machinery	2.5	19.9	20.2	3.0	25.9	23.8	-5.9	-3.6	-1.4	65.6	4.2
Iron & steel mill products	0.5	4.3	3.5	0.9	7.5	8.1	-3.3	-4.7	23.1	-30.2	0.9
Power-generating machinery	2.5	20.4	21.5	2.5	21.3	23.0	-0.9	-1.5	-5.1	-39.7	4.3
Scientific instruments	2.3	18.1	18.2	1.9	15.1	13.5	3.0	4.7	-0.1	-35.3	3.9
Specialized industrial machinery	2.0	15.7	16.0	1.6	13.8	12.4	1.8	3.6	-1.8	-48.8	3.3
Televisions, VCRs, etc.	1.4	10.7	13.1	5.8	42.0	41.5	-31.3	-28.4	-17.7	9.9	2.3
Textile yarn and fabric	0.9	7.0	6.9	1.4	11.4	10.8	-4.4	-3.9	1.7	12.7	1.5
Vehicles	4.5	39.4	38.1	12.5	111.3	108.9	-71.9	-70.8	3.3	1.5	8.4
Other manufactures, not included											
above	16.0	123.2	118.9	35.7	272.9	254.4	-149.7	-135.5	3.6	10.5	26.2
Manufactures	45.4	364.1	363.7	82.6	662.6	634.8	-298.6	-271.1	0.1	10.1	77.5
Agriculture	4.3	36.8	34.3	3.6	31.0	27.7	5.8	6.6	7.3	-11.8	7.8
Other goods, not included											
above	8.9	69.1	60.9	16.1	123.8	91.2	-54.7	-30.2	13.4	81.0	14.7
Total (Census basis)	58.6	470.0	458.9	102.3	817.5	753.7	-347.5	-294.8	2.4	17.9	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 Oct. 10, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

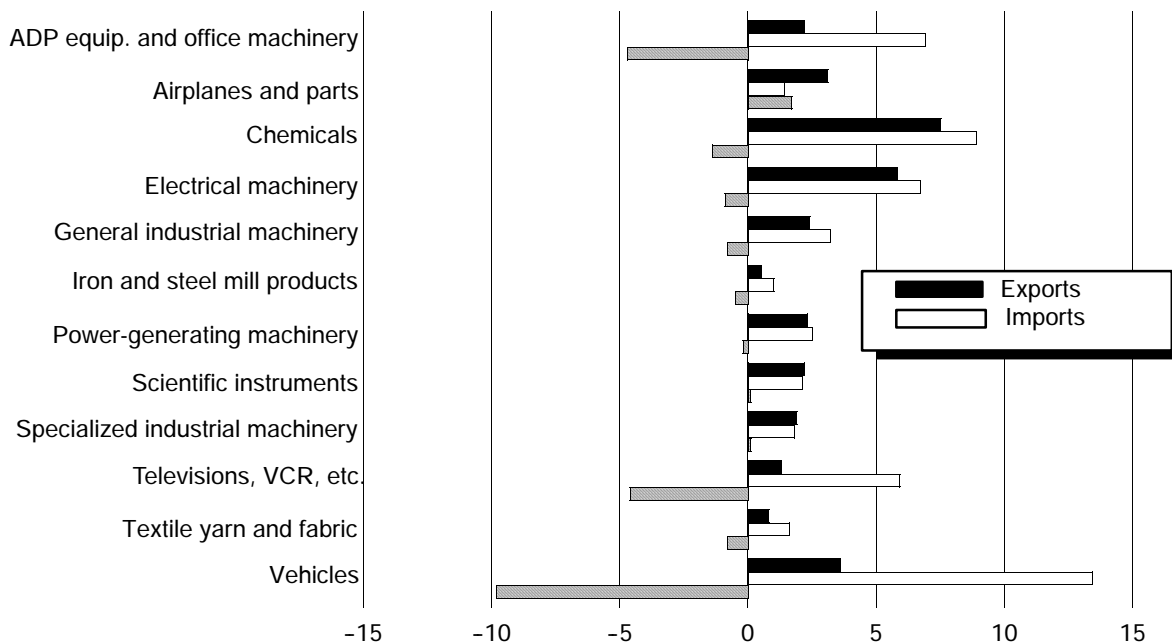
Figure 1
U.S. trade by major commodity, July 2003

Billion dollars



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Feb. 20, 2003.

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



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of June 13, 2003.

Table 3

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

Service sector	Exports		Imports		Trade balance		Change in exports Jan.-Aug. 2003 over Jan.-Aug. 2002	Change in imports Jan.-Aug.2 003 over Jan.-Aug. 2002
	Jan.-Aug. 2003	Jan.-Aug. 2002	Jan.-Aug. 2003	Jan.-Aug. 2002	Jan.-Aug. 2003	Jan.-Aug. 2002		
	<i>Billion dollars</i>						<i>Percent</i>	
Travel	42.0	43.1	36.8	38.1	5.2	5.0	-2.6	-3.4
Passenger fares	10.5	11.4	13.7	13.0	-3.2	-1.6	-7.9	5.4
Other transportation services	21.0	19.1	29.5	25.1	-8.5	-6.0	9.9	17.5
Royalties and license fees	31.1	29.2	12.8	13.0	18.3	16.2	6.5	-1.5
Other private sales	86.5	81.4	50.0	45.6	36.5	35.8	6.3	9.6
Transfers under U.S. military sales contracts	8.1	7.8	15.6	12.4	-7.5	-4.6	3.8	25.8
U.S. Government miscellaneous services .	0.5	0.5	2.0	2.0	-1.5	-1.5	0.0	0.0
Total	199.7	192.5	160.4	149.2	39.3	43.3	3.7	7.5

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

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 3 and 4, FT-900 release of Oct. 10, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

In January–July 2003, exports of goods and services were \$581.7 billion, about \$18.7 billion higher than January–July 2002 exports of \$563.1 billion. Imports of goods and services were \$867.2 billion, \$75.1 billion higher than January–July imports of \$792.1 billion. The trade deficit was \$285.5 billion, \$56.5 billion higher than the January–July 2002 deficit of \$229.0 billion.

The July 2002 to July 2003 change in exports of goods reflected increases in industrial supplies and materials (\$1.6 billion); consumer goods (\$0.4 billion); and foods, feeds, and beverages (\$0.3 billion). Decreases occurred in capital goods (\$0.4 billion), and automotive vehicles, parts, and engines (\$0.1 billion). The July 2002 to July 2003 in imports of goods reflected increases in industrial supplies and materials (\$4.3 billion); consumer goods (\$1.7 billion); automotive vehicles, parts, and engines (\$0.9 billion); capital goods (\$0.6 billion); and foods, feeds, and beverages (\$0.4 billion); and the “other goods” statistical category (\$0.1 billion).

The January–July 2003 trade data show surpluses with Belgium, \$3.0 billion (for January–July 2002, \$1.6 billion); the Netherlands, \$5.2 billion (\$5.2 billion); Hong Kong, \$2.1 billion (\$2.1 billion); Australia, \$3.9 billion (\$3.9 billion); Singapore, \$0.5 billion (\$1.4 billion); and Egypt, \$0.6 billion (\$0.9 billion). Deficits were recorded with Canada, \$30.7 billion (\$27.4 billion); Mexico, \$24.3 billion (\$21.6 billion); Western Europe, \$57.2 billion (\$48.8 billion); euro area, \$43.1 billion (\$36.9 billion); European Union, \$53.3 billion (\$45.3 billion); France, \$6.4 billion (\$5.4 billion); Germany \$22.5 billion (\$19.5 billion); Italy, \$8.9 billion (\$8.1 billion); United Kingdom, \$4.4 billion (\$3.9 billion); EFTA, \$3.4 billion (\$3.4 billion); Pacific Rim countries, \$126.3 billion (\$113.5 billion); China, \$65.3 billion (\$52.5 billion); Japan, \$38.1 billion (\$38.9 billion); Korea, \$6.7 billion (\$7.2 billion); Taiwan, \$8.5 billion (\$7.6 billion); and OPEC, \$30.0 billion (\$18.2 billion). It should be noted, however, 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 Pacific Rim countries grouping. U.S. trade developments with major trading partners are highlighted in table 4.

World Trade Developments in 2002

The World Trade Organization (WTO)³ in its latest report reported that world trade rebounded in 2002

³ World Trade Organization, *World Trade Report 2003*, August 2003, found at Internet address <http://www.wto.org>, retrieved Sept. 4, 2003.

following contraction in 2001, growing by 2.5 percent in volume terms, a rate of growth faster than output growth. The rebound occurred despite the weakness of the global economic recovery, large reductions in capital flows, exchange-rate fluctuations, and increased trade restrictions due to geopolitical tensions.

Trade growth was strong in Asia and transition economies, largely reflecting better economic performance in these areas. Trade, however, was stagnant in Western Europe and contracted in Latin America as a result of economic problems in a number of these countries. Strong domestic demand increased North American imports, but exports continued to decline in 2002.

Regional trade agreements (RTAs) continued to proliferate, increasing the danger that regionalism might distract policy makers from multilateral trade agreements. This concern revolves around whether RTAs result more in trade creation or trade diversion. Although conclusive results are not evident, the report recommends the multilateral trading system as a better engine of trade creation and economic growth.

Although trade policies benefitted from momentum generated by the Doha Ministerial conference and the U.S. Congress' approval of U.S. trade negotiating authority, several developments—such as the U.S. safeguard measures of steel, passage of the U.S. farm bill, and continued disagreement over reform of the EU common agricultural policy—still cast a shadow over trade and agricultural policy negotiations, says the WTO report.

Nevertheless, the recent recovery in a number of commodity prices in 2002 has had an important impact on growth prospects of poor countries and also on international trade. Yet, the prospects of poor countries growth is still an important issue that overshadows trade negotiations because of the pronounced declines in many non-oil commodity prices in the last decade. Although recovery in 2002 of non-oil commodity prices marked an historic high from late 2001, prospects for commodity price stabilization still depend to a large extent on the pace of technological change and the diversification of the economies of commodity producers. Prospects of growth in 2003 depend to a large extent on global economic condition, such as GDP growth, improvement in business and consumer confidence, favorable movements in exchange rates, and improvement in geopolitical conditions.

Table 4

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

Country/areas	Exports			Imports			Trade balance		Change in exports, Jan.-Aug. 2003 over Jan.-Aug. 2002	Change in imports, Jan.-Aug. 2003 over Jan.-Aug. 2002
	Aug.2003	Jan.-Aug. 2003	Jan.-Aug. 2002	Aug.2002	Jan.-Aug. 2003	Jan.-Aug. 2002	Jan.-Aug. 2003	Jan.-Aug. 2002		
	<i>Billion dollars</i>								<i>Percent</i>	
Total (Census basis)	58.6	470.0	458.9	102.3	817.5	753.7	-347.5	-294.8	2.4	8.5
North America	21.1	173.8	170.8	29.3	237.0	227.2	-63.2	-56.4	1.8	4.3
Canada	13.1	111.3	106.8	17.9	146.9	138.3	-35.6	-31.5	4.2	6.2
Mexico	8.0	62.5	64.0	11.4	90.2	88.9	-27.7	-24.9	-2.3	1.5
Western Europe	13.1	108.6	104.1	20.0	172.7	160.0	-64.1	-55.9	4.3	7.9
Euro Area	8.6	73.0	69.4	14.3	121.8	111.9	-48.8	-42.5	5.2	8.8
European Union (EU-15)	11.8	98.9	95.1	18.4	158.8	146.8	-59.9	-51.7	4.0	8.2
France	1.3	11.4	12.4	2.2	18.7	18.8	-7.3	-6.4	-8.1	-0.5
Germany	2.3	19.1	17.3	5.1	44.3	39.7	-25.2	-22.4	10.4	11.6
Italy	0.7	6.8	6.6	2.2	17.1	16.0	-10.3	-9.4	3.0	6.9
Netherlands	1.6	13.1	12.4	0.9	7.2	6.4	5.9	6.0	5.6	12.5
United Kingdom	2.8	22.9	22.5	3.1	27.6	26.9	-4.7	-4.4	1.8	2.6
Other EU	0.9	7.4	7.0	2.6	20.7	18.0	-13.3	-11.0	5.7	15.0
EFTA ¹	1.0	7.0	6.3	1.2	10.6	10.3	-3.6	-4.0	11.1	2.9
Eastern Europe/FSR ²	0.5	4.3	4.5	1.5	12.4	9.2	-8.1	-4.7	-4.4	34.8
Russia	0.2	1.6	1.6	0.7	6.2	4.2	-4.6	-2.6	0.0	47.6
Pacific Rim Countries	15.8	121.7	119.0	35.2	267.3	252.6	-145.6	-133.6	2.3	5.8
Australia	1.1	8.6	8.7	0.6	4.2	4.3	4.4	4.4	-1.1	-2.3
China	2.0	16.8	13.9	14.0	93.8	77.3	-77.0	-63.4	20.9	21.3
Japan	4.3	34.5	34.7	9.1	77.5	78.8	-43.0	-44.1	-0.6	-1.6
NICs ³	6.4	46.5	46.7	7.4	59.6	59.8	-13.1	-13.1	-0.4	-0.3
Latin America	4.5	33.8	33.9	7.0	51.4	44.1	-17.6	-10.2	-0.3	16.6
Argentina	0.2	1.5	1.0	0.3	2.1	2.0	-0.6	-1.0	50.0	5.0
Brazil	1.0	7.2	8.3	1.6	11.8	10.1	-4.6	-1.8	-13.3	16.8
OPEC	1.5	11.0	12.1	5.6	45.1	34.0	-34.1	-21.9	-9.1	32.6
Other Countries	2.7	20.1	19.2	6.4	48.4	42.4	-28.3	-23.2	4.7	14.2
Egypt	0.3	1.6	2.1	0.1	0.8	1.0	0.8	1.1	-23.8	-20.0
South Africa	0.2	1.7	1.7	0.3	2.9	2.5	-1.2	-0.8	0.0	16.0

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

² Former Soviet Republics (FSR).

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

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

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 14 and 14a, FT-900 release of Oct. 10, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.

Growth in the Value of Merchandise Trade by Region 2001-2002

Data released by WTO show that the value of world merchandise exports reached \$6.24 trillion dollar in 2002 an increase of 4.0 percent compared to a decline of 4.0 percent in 2001. The value of world merchandise imports reached \$6.5 trillion, an increase of 3.0 percent compared with a decline of 4.0 percent in 2001.

U.S. merchandise exports declined by 5.0 percent in value terms to \$694.0 billion, in 2002, whereas imports value increased by 2.0 percent to \$1.202 trillion following a decline of 6.0 percent in 2001. Weak foreign demand and strong U.S. demand led to increased imports not matched by increased exports despite the fall in the value of the U.S. dollar, a factor that should have enhanced U.S. price competitiveness.

Latin America's exports increased by 1.0 percent to \$351.0 billion, and imports decreased by 7.0 percent to \$355.0 billion, following a decline of 2.0 percent in 2001. Economic and political problems in several of these countries led to the stagnation of their foreign trade.

Western European merchandise trade recorded the highest levels compared with other regions. Exports increased by 5.0 percent to \$2.65 trillion over 2001, and imports increased by 4.0 percent to \$2.64 trillion. The introduction of the euro and the elimination of national currencies and transaction costs from currency exchange, have had a powerful effect on trade and financial flows, particularly intra- EU trade, which increased by 5.0 percent to \$1.50 trillion following a decline of 1.0 percent in 2001. Imports increased at the same rate as exports, reaching \$1.51 trillion. The euro has also facilitated the integration of financial markets in the euro area and the convergence of interest rates, factors conducive to trade growth.

Merchandise exports from transition economies increased by 8.0 percent to \$309.0 billion, and imports increased by 10.0 percent to \$297.0 billion, over 2001. Central/Eastern Europe exports of \$145.0 billion increased by 12.0 percent, and imports of \$176.0 billion increased by 10.0 percent over 2001. Russian exports increased by 4.0 percent to \$107 billion following a decrease of 2.0 percent in 2001; imports increased by 12.0 percent to \$60.0 billion following an increase of 20.0 percent in 2001.

Africa's merchandise exports increased by 1.0 percent to \$139.0 billion following a decline of 6.0 percent in 2001; its imports increased by 1.0 percent to \$133.0 billion following an increase of 2.0 percent in 2001.

Middle Eastern merchandise exports declined by 2.0 percent to \$236.0 billion in 2002 following a decline of 7.0 percent in 2001; imports increased by 2.0 percent to \$183.0 billion following an increase of 4.0 percent in 2001.

Commodity exports and imports from Asia increased the most in 2002, exceeded only by commodity exports and imports of Western Europe. Asia's exports increased by 8.0 percent to \$1.61 trillion following a decline of 9.0 percent in 2001; imports increased by 6.0 percent to \$1.46 trillion following a decline of 7.0 percent in 2001. Japan's exports increased by 3.0 percent to \$416.0 billion in 2002, following a decline of 16.0 percent in 2001, but imports declined by 4.0 percent to \$336.0 billion following a decline of 8.0 percent in 2001. Developing Asia's commodity exports increased by 10.0 percent to \$1.11 trillion following a decline of 7.0 percent in 2001; imports increased by 9.0 percent to \$1.03 trillion following a decline of 7.0 percent in 2001. Of this group, China recorded the highest growth rates, as exports increased by 22.0 percent to \$326.0 billion following an increase of 7.0 percent in 2001; and imports increased by 21.0 percent to \$295.0 billion following an increase of 8.0 percent in 2001.

Growth in the Value of Commercial Services Trade by Region, 2001-2002

World trade in commercial services grew in 2002 following a decline in 2001. World exports of commercial services grew by 5.0 percent in 2002 to \$1.54 trillion following a 1.0 percent decline in 2001; imports grew by 5.0 percent to \$1.52 trillion also following a decline of 1.0 percent in 2001.

North America's exports of services increased by 3.0 percent to \$304.0 billion following a decrease of 4.0 percent in 2001; imports increased by 11.0 percent to \$260.0 billion. The bulk of the increase in North America trade in services was in the United States. U.S. exports increased by 3.0 percent to \$268 billion, and imports increased by 13.0 percent to \$218 billion.

Latin America exports of services declined by 6.0 percent to \$55.0 billion and imports declined by 12.0 percent to \$63.0 billion. Mexico, Mercosur, and other Latin American countries and areas all experienced declines in their exports and imports in 2002.

Western Europe services exports increased by 7.0 percent to \$764.0 billion and imports increased by 6.0 percent to \$695.0 billion. The bulk of the increase in services exports and imports was recorded in the European Union where exports increased by 8.0 percent to \$673.0 billion, and imports increased by 6.0 percent to \$651.0 billion.

Services trade with the transition economies increased in 2002. Of this group, Central/Eastern Europe exports increased by 3.0 percent to \$33.0 billion and imports increased by 12.0 percent to \$29.0 billion. Russian services exports increased by 18.0 percent to \$12.0 billion, and imports increased by 13.0 percent to \$21.0 billion.

Africa's services exports declined by 6.0 percent to \$29.0 billion, but imports increased slightly by 1.0 percent to \$40.0 billion. Middle East services exports declined by 4.0 percent to \$32.0 billion, and imports increased by 3.0 percent to \$47.0 billion.

Asia's services trade was exceeded only by that of the European Union. Services exports from Asia increased by 5.0 percent to \$316.0 billion, and imports

increased by 1.0 percent to \$354.0 billion. Of this group, Japan's export of services grew by 2.0 percent to \$65.0 billion, but imports of services declined by 2.0 percent to \$105.0 billion.

Developing Asia's exports grew by 6.0 percent to \$230.0 billion, but imports grew by 2.0 percent to \$227.0 billion. Of this group, China's exports grew by 13.0 percent to \$37.0 billion, and imports grew by the same rate to \$44.0 billion. Hong Kong China's export of services grew by 6.0 percent to \$44.0 billion but imports decreased by 2.0 percent to \$24.0 billion. The Republic of Korea's exports declined by 1.0 percent to \$29.0 billion, but imports increased by 2.0 percent to \$34.0 billion. Singapore's export of services increased by 3.0 percent to \$27.0 billion and imports increased by 1.0 percent to \$21.0 billion.

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 3.1 percent in the second quarter of 2003, compared to 1.4 percent growth in the first quarter, according to estimates by the U.S. Department of Commerce, Bureau of Economic Analysis.² For the year 2002, real GDP grew by 2.4 percent, up from 0.3 percent growth in the previous year. The major contributors to the increase in real GDP in the second quarter of 2003 were Federal government spending, personal consumption expenditures, and nonresidential fixed investment. However, the contributions of these components were partly offset by a decrease in private inventory investment,

and from exports. Exports—which are an addition to GDP—declined by 1.2 percent, whereas imports—which are a subtraction in the calculation of GDP—increased by 7.9 percent in the second quarter of 2003. The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 0.2 percent in the second quarter compared with an increase of 3.4 percent in the first quarter. Excluding food and energy prices, the price index for gross domestic purchases increased 0.6 percent in the second quarter, compared with an increase of 1.8 percent in the first. Excluding food and energy prices, the price index for gross domestic purchases increased 0.7 percent in the second quarter, compared with an increase of 1.8 percent in the first.

In other G-7 economies, the annualized rates of real GDP growth were as follows. The United Kingdom the economy grew by 1.3 percent in the second quarter of 2003, and it grew by 1.8 percent in the year to the second quarter of 2003. In Germany, the economy contracted by 0.2 percent in the second quarter and also contracted by the same percentage in the year to the second quarter of 2003. In Japan, the economy grew at unexpected strong rate of 3.9 in the second quarter and by 3.0 percent in the year to the second quarter of 2003. In Italy, the economy shrank by 0.3 percent in the second quarter, but grew by 0.3 percent in the year to the second quarter of 2003. In France, the economy contracted by 1.3 percent in the second quarter of 2003, and grew by nil percent in the year to the second quarter of 2003. In Canada, the economy contracted by 0.3 percent in the second quarter of 2003, but grew by 1.6 percent in the year to the second quarter of 2003. For EU members linked by the euro currency, the euro area (EU-12) GDP shrank

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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 News Release, found at Internet address <http://www.bea.doc.gov/bea/newsrel/gdp.htm>; Federal Reserve Board, "Industrial Production and Capacity Utilization," G.17 (419) 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-01, 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-01, found at Internet address <http://www.bls.gov/news.release/emp-sit.nr0.htm>; and the Conference Board, Consumer Research Center, "Forecasters' Forecasts," facsimile transmission, used with permission.

by 0.3 percent in the second quarter of 2003, but grew by 0.2 percent in the year to the second quarter of 2003.

U.S. Corporate Profits

The U.S. Department of Commerce in their GDP News Release for the second quarter, 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 to corporate investment.³ Profits from current production (corporate profits with inventory valuation and capital consumption adjustments) increased by \$88.3 billion in the second quarter, following an increase of \$20.4 billion in the first quarter. Current production cash flow—that is, internal funds available to corporations for investment—increased by \$78.5 billion in the second quarter, in contrast to a decrease of \$4.0 billion in the first. Domestic profits of financial corporations increased by \$14.2 billion in the second quarter, compared with an increase of \$15.9 billion in the first. Domestic profits of nonfinancial corporations increased by \$64.6 billion in the second quarter, compared with an increase of \$12.1 billion in the first. In the second quarter, both real gross corporate product and profits per unit of real product increased. The increase in unit profits reflected a larger decrease in both unit labor and non-labor costs incurred by corporations than in the prices corporations received.

The rest-of-the-world component of profits increased by \$9.6 billion in the second quarter, in contrast to a decrease of \$7.6 billion in the first. 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 second quarter increase was accounted for by an increase in receipts and a decrease in payments.

Profits before tax with inventory valuation adjustments is the best available measure of industry profits because estimates of the capital consumption adjustment by industry do not exist. This measure reflects the accounting practices for inventory and depreciation used for federal income tax returns.

³ U.S. Department of Commerce, Bureau of Economic Analysis, "News Release: Gross Domestic Product and Corporate Profits," BEA 03-32, found at Internet address <http://www.bea.gov/bea/newsrel/gdp203p.htm>, retrieved Aug. 29, 2003.

According to this measure, profits before tax decreased by \$20.6 billion in the second quarter, in contrast to an increase of \$33.2 billion in the first.

Industrial Production

The Federal Reserve Board reported that U.S. industrial production rose 0.1 percent in August after having risen by 0.7 percent in July 2003. Manufacturing output edged down 0.1 percent in August after three consecutive months of gain. Output at utilities moved up 1.9 percent in August following a 3.8 percent rise in July. Mining output moved up 0.2 percent in August, and was up 0.3 percent in July. Despite the recent monthly gains, U.S. industrial production decreased at an annual rate of 1.0 percent in lower than its level in August 2002. The rate of capacity utilization for total industry was unchanged at 74.6 percent in August, 6.7 percentage point below its 1972-2002 average.

By market group, the output of consumer goods dipped 0.2 percent in August due the decline in the production of automobiles. The output of business equipment rose by 0.5 percent in August following an increase of 0.3 percent in July, but was 1.3 percent below its level in August 2002. The output of information processing equipment rose 2.0 percent in August due to the rise in the production of consumers and telecommunication equipment.

Other G-7 member countries reported the following growth rates of industrial production. For the year ending July 2003, Japan reported 0.3 percent decrease; the United Kingdom reported 0.5 percent decrease; France reported a decrease of 1.1 percent; but Germany reported an increase of 0.5 percent; Italy reported a decrease of 1.7 percent, and Canada reported an increase of 0.5 percent. The euro area reported a decrease of 0.3 percent for the year ending July 2003.

Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) increased by 0.3 percent in August following a 0.2 percent increase in July 2003, according to the U.S. Department of Labor. For the year ended August 2003, consumer prices increased 2.1 percent higher than in August 2002.

During the year ended in August 2003, prices increased by 1.1 percent in Germany, 2.8 percent in Italy, 1.9 percent in France, 2.9 percent in the United Kingdom, and 2.2 percent in Canada. Prices declined by 0.2 percent in Japan. Prices increased by 2.1 percent in the euro area in the year ended August 2003.

Employment

The U.S. Department of Labor, Bureau of Labor Statistics reported that the U.S. unemployment rate was essentially unchanged in August at 6.1 percent. Job losses continued in manufacturing, information and other sectors.

In other G-7 countries, the latest unemployment rates were reported to be 8.0 percent in Canada, 9.6 percent in France, 10.6 percent in Germany, 8.7 percent in Italy, 5.3 percent in Japan, and 5.1 percent in the United Kingdom. The unemployment rate in the euro area was 8.9 percent.

Productivity and Costs

U.S. labor productivity soared in the second quarter of 2003. Productivity growth has held down business costs and inflation. The Bureau of Labor Statistics (BLS) reported that U.S. labor productivity—measured as output per hour of all persons—rose in the second quarter of 2003 by 6.1 percent in the business sector as output increased by 3.2 percent and hours worked decreased by 2.7 percent. In the non-farm business sector, productivity rose by 5.7 percent as output increased by 3.4 percent and hours worked declined by 2.2 percent. In the manufacturing sector productivity rose in the second quarter by 4.2 percent. In the durable goods manufacturing, productivity rose by 3.8 percent, and in the nondurable goods manufacturing sector, productivity increased by 4.4 percent.

Productivity growth in manufacturing in the second quarter of 2003 reflected decreases in both output and hours; output declined by 2.1 percent, but hours of all persons fell 6.1 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.

International Manufacturing Productivity and Labor Cost Trends for 2001

Revised data from the BLS shows output per hour in manufacturing declined in Canada, Japan, and the United States in 2001. Labor productivity was unchanged in Sweden, and it grew in the remaining nine economies for which comparable data are available. Korea and Taiwan recorded the largest productivity gains, while Canada and Japan recorded the largest declines.

Unit labor costs in manufacturing, expressed in national currency units, increased in 12 of the 14 economies for which comparable data on unit labor costs are available for 2001. The largest increases occurred in Canada (5.5 percent) and Korea (5.2 percent). Unit labor costs increased 2.0 percent in U.S. manufacturing. Taiwan and Denmark were the only two economies where unit labor costs expressed in national currency units declined in 2001.

If exchange-rate changes are taken into account, unit labor costs expressed in U.S. dollars declined in 9 of the 14 countries due to the relative strength of the U.S. dollar in 2002 against most other countries. The largest declines occurred in Taiwan (11.2 percent), and Japan (9.2 percent). Table 2 summarizes change in manufacturing productivity, unit labor costs, and related variables between 2000 and 2001.

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, and continued economic growth at this annual rate into the second quarter of 2003, in contrast to the sluggish growth rates in other major economies.

Federal Reserve Board Forecasts⁴

Despite the unusual degree of uncertainty attending the economic outlook, the Federal Reserve Board believes the most probable outcome for 2003 to be a pickup in the pace of economic expansion. The central tendency of real GDP forecasts made by the members

⁴ Federal Reserve Board of Governors, "Monetary Policy Report to the Congress," *Federal Reserve Bulletin*, March 2003.

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

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
<i>Percent change from preceding quarter</i>						
Business	6.1	3.2	-2.7	3.9	3.3	-2.0
Nonfarm business	5.7	3.4	-2.2	3.5	2.9	-2.1
Manufacturing	4.2	-2.1	-6.1	5.4	4.8	1.2
Durable	3.8	-3.1	-6.7	5.2	4.6	1.4
Nondurable	4.4	-1.0	-5.2	5.8	5.2	1.3
<i>Percent change from same quarter a year ago</i>						
Business	4.0	2.9	-1.1	3.1	0.9	-0.9
Nonfarm business	3.8	2.9	-0.9	2.8	0.6	-1.0
Manufacturing	4.8	-0.9	-5.5	5.6	3.4	0.7
Durable	5.5	-0.7	-5.9	5.2	3.0	-0.2
Nondurable	4.1	-0.1	-4.9	6.4	4.1	2.2

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs - Second Quarter 2003," USDL 03-411, found at Internet address <ftp://ftp.bls.gov/pub/news.release/History/prod2.08072003.news>, retrieved Sept. 26, 2003.

Table 2
International manufacturing productivity comparisons, percentage change, 2000 to 2001

Country	Productivity	Output	Employment	Total hours worked	Average hours worked	Total compensation	Hourly compensation	Unit labor costs (national currency)	Unit labor costs (U.S. dollars)	Exchange rate
United States	-0.4	-6.0	-4.1	-5.6	-1.6	-4.2	1.5	2.0	2.0	—
Canada	-2.0	-3.3	-0.4	-1.4	-1.0	2.1	3.5	5.5	1.2	-4.1
Belgium	1.2	0.3	0.1	-1.0	-1.1	4.1	5.2	3.9	0.7	-3.0
Denmark	NA	4.7	-0.7	NA	NA	3.2	NA	-1.4	-4.2	-2.8
France	2.8	1.7	1.2	-1.0	-2.2	4.0	5.0	2.2	-0.9	-3.0
Germany	1.4	0.6	0.4	-0.8	-1.2	2.3	3.1	1.7	-1.4	-3.0
Italy	1.7	0.7	0.3	-1.0	-1.3	2.7	3.8	2.0	-1.1	-3.0
Netherlands	0.4	0.2	-0.1	-0.2	-0.1	4.7	4.9	4.4	1.3	-3.0
Norway	0.8	-1.2	-1.6	-2.0	-0.4	3.3	5.4	4.6	2.4	-2.0
Sweden	0.0	-2.4	-1.0	-2.4	-1.4	0.9	3.4	3.4	-8.3	-11.3
United Kingdom . .	1.3	-2.4	-4.2	-3.6	0.6	-0.3	3.4	2.1	-3.0	-5.0
Japan	-1.6	-4.9	-2.6	-3.4	-0.8	-2.6	0.7	2.4	-9.2	-11.3
Taiwan	6.3	-5.7	-4.5	-11.3	-7.1	-9.4	2.2	-3.9	-11.2	-7.6
Korea	3.2	1.7	0.8	-1.5	-2.3	7.0	8.7	5.2	-7.9	-12.5

Note.—Exchange rates are the values of foreign currencies relative to the U.S. dollar. NA=not available.

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Table A. Output per hour, hourly compensation, unit labor costs, and related measures, manufacturing, 14 countries or areas, 2000-2001," USDL 03- 89, found at Internet address <http://www.bls.gov>, retrieved Apr. 2, 2003.

of the Board of Governors and the Federal Reserve Bank presidents is 3.25 percent to 3.50 percent measured from the final quarter of 2002 to the final quarter of 2003. The civilian unemployment rate is expected to be in the 5.25 percent to 6.0 percent range. Consumer prices will increase less in 2003 than in 2002 if energy prices reverse last year's sharp rise, and if resource utilization remains sufficiently slack to slow down inflationary forces. Monetary policy remains stimulative for domestic demand, and economic activity abroad is expected to strengthen foreign demand for U.S. exports. Furthermore, robust gains in U.S. labor productivity are expected to promote business and household spending in 2003.

OECD Industrialized Country Forecasts⁵

Forecasts by the Organization of Economic Co-operation and Development (OECD) in its June 2003 Economic Outlook still show fragile and weaker-than-expected growth rates for the United States, as well as disappointing growth in the euro area and Japan. Geopolitical and psychological factors weakening investor and consumer confidence have caused the world economy to undershoot economic expectations by wide margins. However, the forecast sees a progressive if unspectacular world economic recovery. U.S. real GDP is projected to grow by 2.5 percent in 2003, and by 4.0 percent in 2004. In contrast, Japan's real GDP is projected to grow by 1.0 percent in 2003, and then grow by 1.1 percent in 2004. In the euro area (EU-12), real GDP is projected to grow by 1.0 percent in 2003, and by 2.4 percent in 2004. In the larger area of the European Union (EU-15), real GDP is projected to grow by 1.2 percent in 2003, and by 2.4 percent in 2004. Real GDP for the whole OECD area—the world's industrialized economies as a group—is projected to grow by 1.9 percent in 2003, and by 3.0 percent in 2004.

Inflation is projected to remain subdued in the United States, rising by 1.6 percent in 2003 and by 1.3 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 2.2 percent in 2003, and by 1.8 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 1.9 percent in 2003, and to 1.8 percent in 2004. In the overall OECD area, inflation is projected to slow from 1.7 percent in 2003, and to 1.4 percent in 2004.

Unemployment is projected to remain at 6.0 percent in the United States in 2003, then decline slightly to 5.8 percent in 2004. In Japan, unemployment is projected to stay at 5.7 percent in 2003 and 2004. In the euro area, unemployment is projected to remain high at 8.8 percent in 2003, and decline slightly to 8.7 percent in 2004. In the European Union, unemployment is projected to slow from 8.0 percent in 2003 to 7.9 percent in 2004. In the total OECD area, unemployment is projected to remain around 7.0 to 7.2 percent during the forecast period.

The U.S. current account deficit, as a percent of GDP, is projected to remain high in the two years, growing from 5.4 percent in 2003 to 5.5 percent of GDP in 2004. In Japan, the current account surplus is projected to grow from 3.1 percent of GDP in 2003 to 3.9 percent in 2004. In the euro area, the current account surplus is projected to stay at 1.4 percent in 2003, and in 2004. The overall OECD current account deficit, as a percent of GDP, is projected to remain at 1.2 percent over the two years.

World trade volume—the average of world merchandise imports plus exports—is projected to increase by 5.9 percent in 2003, and by 8.8 percent in 2004, up from the much lower growth rate of 3.6 percent in 2002.

IMF World Economic Forecasts

In its September 2003 World Economic Outlook, the International Monetary Fund (IMF) projects that the global economic recovery will resume in the second half of 2003, accelerating to about 4.0 percent in 2004, with equity markets strengthening markedly and accompanied by a marked improvement in business and consumer confidence. In the United States, GDP is projected to grow by 2.6 percent in 2003, and by 3.9 percent in 2004. U.S. consumer prices are forecast to rise by 2.1 percent in 2003 and by 1.3 percent in 2004. The unemployment rate is projected to remain at 6.0 percent and then decline slightly to 5.7 percent in 2004. In contrast, GDP is projected to grow by 0.5 percent in the euro area in 2003 and by 1.9 percent in 2004. Consumer prices are projected to increase by 2.0 percent in 2003 and by 1.6 percent in 2004. The unemployment rate is projected to rise to 9.1 percent in 2003 and to 9.2 percent in 2004. In Japan, growth is projected to be 2.0 percent in 2003 and 1.4 percent in 2004; consumer prices are projected to decline by 0.7 percent in 2003, and by 0.9 percent in 2004; the unemployment rate is projected to remain at 5.4 to 5.5 levels in 2003 and 2004. In Canada, GDP is projected to grow by 1.9 percent in 2003 and by 3.0 percent in 2004. Consumer prices are projected to

⁵ OECD, *Economic Outlook No. 73*, vol. 2003/1, No. 73, June 2003, found at Intranet address <http://www.oilis-net.oecd.org/>.

increase by 2.8 percent in 2003 and by 1.7 percent in 2004, and the unemployment rate to rise to 7.9 percent in 2003 and decline slightly in 2004 to 7.7 percent.

In the foreign sector, the U.S. current account deficit is projected to reach 5.1 percent of GDP in 2003 and decrease to 4.7 percent of GDP in 2004. In the euro area the current account surplus is projected to reach 0.8 percent of GDP in both 2003 and 2004. Japan's current account surplus is projected to reach 2.9 percent of GDP in both years. Canada's current account surplus is projected to reach 1.6 percent of GDP in both 2003 and 2004.

UNCTAD World Investment Report, 2003

The United Nations Conference on Trade and Development (UNCTAD) in their most recent report stated that global foreign direct investment (FDI) flows contracted in 2002.⁶ The FDI slump in 2002 was the second consecutive decline, declining by a fifth to \$651 billion, the lowest level since 1998. Several factors led to the FDI decline in 2002: (1) the global economic slowdown and the dim prospects for recovery, (2) falling stock market valuations, (3) lower corporate profitability, (4) a slowdown in the pace of corporate restructuring in some industries, (5) the winding down of privatization in some countries, and (6) a large drop in the value of cross-border mergers and acquisitions (M&As).

The decline in FDI in 2002 was uneven across regions and countries and was also uneven by sector. Flows into the primary sector rose, while those in the manufacturing and services declined. By region, flows to developed countries fell by 22 percent to \$460 billion and flows to developing countries fell to \$160 billion. The United States and the United Kingdom sustained half of the decline. Flows to Latin America and the Caribbean declined by 33 percent in 2002; Africa registered a decline of 41 percent. FDI in Asia and the Pacific declined the least because of China's record FDI inflows of \$53 billion. China was the world's biggest host country for FDI. Central and East Europe recorded an increase in FDI of \$29 billion.

A continuing slowdown in corporate investment, declining stock prices, a slowdown in the consolidation of activities in some industries, and

repayments of intra-company loans contributed to lower FDI flows. The large part of the decline in the United States was due to repayments of loans by foreign affiliates to parent companies in order to take advantage of U.S. low interest rates and improve the debt-to-equity ratio of parent firms. The most notable feature of the decline in FDI in developed countries was the plunge in cross-border M&As especially in the United States and the United Kingdom. Overall, the number of M&As fell from a high of 7,894 cases in 2000 to 4,493 cases in 2002 and their average value fell from \$145 million in 2000 to \$82 million in 2002. The number of M&A deals worth more than \$1 billion declined from 175 in 2000 to only 81 in 2002, the lowest since 1998, the UNCTAD report said.

FDI inflows declined in 16 of the 26 developed countries. However, Australia, Germany, Finland, and Japan were among the countries with higher FDI inflows in 2002, according to the report. FDI outflows from developed countries also declined in 2002 to \$600 billion. The fall was concentrated in France, the Netherlands, and the United Kingdom. Outflows from Austria, Finland, Greece, Norway, Sweden, and the United States increased. Luxembourg recorded the highest FDI inflows and outflows in 2002.

Africa suffered a large decline in FDI flows from \$19 billion in 2001 to \$11 billion in 2002. Flows to 23 of the continent's 53 countries declined. FDI in the oil industry remained dominant. Angola, Algeria, Chad, Nigeria, and Tunisia accounted for more than half of the 2002 inflows.

The Asia-Pacific region suffered a decline for the second consecutive year, from \$107 billion in 2001 to \$95 billion in 2002. Flows to 31 of the region's 57 economies declined, although several countries received increased FDI. Intra-regional investment flows in Southeast Asia and Northeast Asia remained strong as a result of the relocation of production activities, expanding regional production networks and continuing regional integration efforts.

In Latin America and the Caribbean, FDI flows declined for the third consecutive year, from \$84 billion in 2001 to \$56 billion in 2002, affecting 28 of the region's 40 economies. Argentina's economic crisis and economic and political uncertainties in some other countries were factors causing this region's decline in FDI inflow. The services sector suffered the most, leaving the manufacturing sector little changed. Tables 3 and 4 show FDI inflows and outflows for selected regions and countries taken from the report.

⁶ United Nations Conference on Trade and Development, *World Investment 2003*, September 2003 (United Nations: New York, 2003).

Table 3
Foreign direct investment inflows, billion dollars, by host region and economy, 1991-2002

	Annual average, 1991-1996	1997	1998	1999	2000	2001	2002
World	254.3	481.9	686.0	1079.1	1393.0	823.8	651.2
Developed economies	154.6	269.6	472.3	824.6	1120.5	589.4	460.3
Western Europe	91.0	139.3	263.0	496.2	709.9	400.8	384.4
European Union	87.6	127.9	249.9	476.5	683.9	389.4	374.4
France	18.4	23.2	31.0	46.6	43.3	55.2	51.5
Germany	4.8	12.2	24.6	55.8	203.1	33.9	38.0
Netherlands	9.1	11.1	37.0	41.2	60.3	51.2	29.2
United Kingdom	16.5	33.2	74.3	84.2	130.4	62.0	25.0
Other Western Europe	3.5	11.4	13.1	20.7	26.0	11.4	10.0
North America	53.4	114.9	197.2	308.1	380.8	172.8	50.6
United States	46.8	103.4	174.4	283.4	314.0	144.0	30.0
Canada	6.6	11.5	22.8	24.7	66.8	28.8	20.6
Other developed econo- mies	10.2	15.5	12.0	20.3	29.9	15.8	25.3
Australia	6.2	7.7	6.0	2.9	13.1	4.0	14.0
Japan	0.9	3.2	3.2	12.7	8.3	6.2	9.3
Developing economies	91.5	193.2	191.3	229.3	246.1	209.4	162.2
Africa	4.6	10.7	8.9	12.2	8.5	18.8	11.0
Latin America & Caribbean ..	27.1	73.3	82.0	108.3	95.4	83.7	56.1
Argentina	4.3	9.2	7.3	24.0	11.7	3.2	1.0
Brazil	3.6	19.0	28.9	28.6	32.8	22.5	16.6
Mexico	7.4	14.2	12.2	12.9	15.5	25.3	13.6
Asia and Pacific	59.8	109.3	100.3	108.8	142.2	106.9	95.1
Asia	59.4	109.1	100.0	108.5	142.1	106.8	95.0
China	25.5	44.2	43.8	40.3	40.8	46.9	52.7
Japan	0.9	3.2	3.2	12.7	8.3	6.2	9.3
West Asia	2.2	5.9	6.9	0.8	1.5	5.2	2.3
Southeast & Southwest Asia	56.2	100.1	90.1	105.3	138.7	97.6	88.6
Central & Eastern Europe ..	8.2	19.0	22.5	25.2	26.4	25.0	28.7
Russia	1.5	4.9	2.8	3.3	2.7	2.5	2.4
Memorandum:							
Least developed countries ..	1.7	3.4	4.6	6.0	3.4	5.6	5.2
Oil exporting countries	7.7	18.4	14.0	5.3	2.5	8.1	7.4
All developing economies, excl. China	66.1	149.0	147.5	189.0	205.3	162.6	109.5

Source: Compiled from UNCTAD, World Investment Report 2003, Annex table B.1.

Table 4
Foreign direct investment outflows, billion dollars, by home region and economy, 1991-2002

	Annual average, 1991-1996	1997	1998	1999	2000	2001	2002
World	280.6	476.9	683.2	1096.6	1200.8	711.5	647.4
Developed economies	240.6	396.1	630.9	1021.3	1097.8	660.6	600.1
Western Europe	140.1	244.1	436.5	770.6	872.4	468.8	411.7
European Union	127.8	221.0	416.4	731.1	819.2	451.9	394.2
France	24.3	35.6	48.6	126.9	177.5	93.0	62.6
Germany	27.9	41.8	88.9	109.7	56.9	42.1	24.5
Netherlands	17.6	24.5	36.7	57.6	73.5	48.5	26.3
United Kingdom	28.3	61.6	122.8	207.2	249.8	68.0	39.7
Other Western Europe	12.4	23.2	21.2	39.5	53.3	16.9	17.5
North America	75.2	118.8	165.4	226.6	189.3	140.4	148.5
United States	67.1	95.8	131.0	209.4	142.6	103.8	119.7
Canada	8.2	23.1	34.4	17.3	46.6	36.6	28.8
Other developed economies	25.3	33.1	29.0	24.1	36.1	51.4	39.9
Australia	3.6	6.5	3.4	-0.7	0.6	11.0	6.8
Japan	20.9	26.0	24.2	22.8	31.6	38.3	31.5
Developing economies	39.4	76.7	49.8	72.8	99.1	47.4	43.1
Africa	1.9	3.8	2.0	2.6	1.3	-2.5	0.2
Latin America & Caribbean .	6.0	23.7	19.1	30.9	13.5	8.0	5.8
Argentina	1.0	3.7	2.3	1.7	1.0	-0.2	-1.1
Brazil	0.5	1.1	2.9	1.7	2.3	-2.3	2.5
Mexico	0.3	1.1	1.4	1.5	1.0	0.9	1.0
Asia and Pacific	31.6	49.2	28.8	39.4	84.2	41.9	37.2
Asia	31.6	49.2	28.8	39.4	84.1	41.8	37.1
China	2.6	2.6	2.6	1.8	0.9	6.9	2.9
Japan	20.9	26.0	24.2	22.8	31.6	38.3	31.5
West Asia	0.5	-0.1	-1.2	1.9	3.5	4.7	2.1
Southeast & Southwest Asia	31.1	49.3	29.9	37.1	80.6	36.9	34.2
Central & Eastern Europe ..	0.5	4.2	2.5	2.5	3.9	3.5	4.2
Russia	0.5	3.2	1.3	2.2	3.2	2.5	3.3
Memorandum:							
Least developed countries ..	0.2	0.8	-0.4	0.4	0.8	-1.0	0.1
Oil exporting countries	2.1	0.9	-1.0	2.3	2.9	4.5	3.4
All developing economies, excl. China	36.9	74.1	47.2	71.0	98.1	40.5	40.3

Source: Compiled from UNCTAD, World Investment Report 2003, Annex table B.2.

STATISTICAL TABLES

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

Country	2002				2003							
	Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	Apr.	May	June	July	Aug.	
	<i>Percent</i>											
United States	5.6	5.9	5.8	5.9	5.8	6.2	6.0	6.1	6.4	6.2	6.1	
Canada	7.1	6.9	7.0	6.9	6.7	6.9	6.8	7.0	6.9	7.0	7.2	
Japan	5.3	5.4	5.5	5.4	5.4	5.4	5.5	5.5	5.4	5.3		
France	8.5	8.6	8.8	8.8	9.0	9.2	9.1	9.2	9.2	9.3	9.2	
Germany	8.2	8.3	8.5	8.6	9.0	9.2	9.2	9.2	9.1	9.1	9.1	
Italy	9.2	9.2	9.1	9.0	9.0	8.8	8.8			8.8		
United Kingdom	5.1	5.2	5.3	5.1	5.1	5.0	5.0	5.0	5.1			

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 Oct. 3, 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 August 2003

Country	2002				2003							
	Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	Apr.	May	June	July	Aug.	
	<i>Percent, change from same period of previous year</i>											
United States	1.3	1.3	1.6	2.2	2.9	2.1	2.2	2.1	2.1	2.1	2.2	
Canada	1.5	1.3	2.3	3.8	4.5	2.8	3.0	2.9	2.6	2.2	2.0	
Japan	-1.4	-0.9	-0.8	-0.5	-0.2	-0.2	-0.1	-0.2	-0.4	-0.2	-0.3	
France	2.1	1.6	1.8	2.1	2.4	1.9	2.0	1.8	2.0	1.9	1.9	
Germany	1.9	1.2	1.1	1.2	1.2	0.9	1.0	0.7	1.0	0.9	1.1	
Italy	2.4	2.3	2.4	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.8	
United Kingdom	1.2	1.2	1.5	2.6	3.1	3.0	3.1	3.0	2.9	3.1	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 Oct. 3, 2003, found at Internet address <ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flscpim.txt>.

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

Sector	2002						2003						
	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
	<i>Billion dollars</i>												
Manufactures	-40.8	37.2	-38.7	-39.8	-40.0	-40.5	-37.7	-32.6	-35.0	-38.2	-36.5	-37.0	-44.4
Agriculture	0.6	-0.9	0.7	1.1	1.5	1.2	1.0	1.2	0.7	0.2	0.3	0.6	1.1
Petroleum ²	-9.3	9.0	-9.1	-10.7	-9.8	-10.0	-10.9	-11.1	-14.2	-11.6	-11.2	-11.5	-12.5
Dollar unit price of U.S. petroleum imports ²	23.7	24.6	25.5	26.2	24.2	24.2	27.7	30.5	30.3	26.0	24.1	25.5	26.7

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 Oct. 10, 2003, found at Internet address <http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm>.