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# INTERNATIONAL ECONOMIC REVIEW

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**United States International Trade Commission  
Office of Economics**

## **International Trade Developments**

*Assessing the Desirability of a Free-Trade Area in Southern Africa*

*Russia's WTO Accession: Many Hurdles Remain*

*Renewal and Expansion of ATPA Could Enhance Effectiveness of the Program*

## **U.S. Trade Developments**

## **International Economic Comparisons**

*U.S. International Transactions: First Quarter 2001*

*Foreign Direct Investment to Acquire or Establish U.S. Businesses in 2000*



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## OFFICE OF ECONOMICS

Robert B. Koopman, *Director*

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Editor, *International Economic Review*  
Country and Regional Analysis Division/OE, Room 602  
U.S. International Trade Commission  
500 E Street SW., Washington, DC 20436  
Telephone (202) 205-3225

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# INTERNATIONAL TRADE DEVELOPMENTS

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## Assessing the Desirability of a Free-Trade Area in Southern Africa

Laurie-Ann Agama<sup>1</sup>  
lagama@usitc.gov  
202-205-3220

*The theory of economic integration can be used to assess the desirability of forming a free-trade area. However, the traditional theory deals almost exclusively with industrial economies. For developing regions, the importance of dynamic factors in explaining the effects of integration must also be considered. This article examines the static and dynamic effects of further integration in southern Africa.*

### Introduction

The fourteen countries in southern Africa—Angola, Botswana, Democratic Republic of Congo (DROC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe—are the beneficiaries of a regional trade agreement,<sup>2</sup> the Southern Africa Development

Community (SADC). On September 1, 2000, the SADC launched the SADC Trade Protocol. The objectives of the SADC Trade Protocol are to enhance the economic development, diversification and industrialization of the region and to establish a free-trade area (FTA) in southern Africa by 2012.<sup>3</sup>

The objective of forming a FTA is to reduce or eliminate trade barriers between member countries, while maintaining some degree of protection against third countries not signatory to the FTA. Is a free-trade area in southern Africa desirable? What are the implications of total economic integration in southern Africa for world welfare? The theory of integration can be used to assess the desirability of forming a free-trade area. According to the traditional theory of integration, a FTA raises world welfare if its trade creation effect outweighs its trade diversion effect. However, the traditional theory deals almost exclusively with industrial economies, where the process is one of relatively marginal adjustments in production and consumption patterns and not primarily one of eco-

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<sup>1</sup> The views and conclusions expressed in this article are those of the author. They are not necessarily the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

<sup>2</sup> Various terms are used, sometimes interchangeably but sometimes with distinct meanings, for these trading blocs. Distinct from a “multilateral system,” where essentially all countries are members—for example the multilateral trading system governed by the World Trade Organization—regional trade agreements typically group together a number of geographically proximate countries to share common economic benefits not granted to non-member countries. These regional trade agreements are sometimes called free-trade agreements (FTAs), plurilateral trade agreements, preferential trade agreements, customs unions, trading blocs, and so on. Distinctions may or may not be important concerning whether member countries are geographically proximate—e.g. a regional trade agreement—or a free-trade area where some members are not contiguous—e.g. were Chile to join the North American Free-Trade area—or true preferential agreements whereby some countries confer nonreciprocal preferences on another group of countries—e.g. the European Union conferring trade preferences on the African, Caribbean, and Pacific countries under the Lomé Convention—or when a free-trade area (where countries lower tariffs be-

<sup>2</sup>—Continued  
tween one another, but maintain their own separate and varying tariffs toward third countries, such as the North American Free-Trade area) extends its economic integration to a customs union (where all member countries adopt a common external tariff, such as the European Union).

<sup>3</sup> See *The SADC Free-Trade area* found at Internet address <http://www.sadcreview.com>.

conomic development. Thus, while the traditional theory offers some useful guidelines on the effects of integration on production inside and outside the integration area, it is less clear judging the overall desirability of an integration scheme for a developing region like southern Africa. For developing regions, the importance of dynamic factors in explaining the effects of integration must also be considered. As part of a continuing examination of various facets regarding regional trade agreements, this article will discuss the static and dynamic effects of further economic integration in southern Africa.<sup>4</sup>

## The Static Effects of Economic Integration<sup>5</sup>

Five basic principles of the theory of integration can be used to assess the static effects of forming an effective FTA in southern Africa: the level of competition among participating member countries prior to forming a FTA; the economic size of the integrated area; transportation costs within the area; the degree of economic interdependence among participating countries prior to integration; and the level of tariffs before and after the trade area is established.

### Complementary versus Competitive Economies

The static effect of economic integration depends on the competitiveness or complementarity of the products produced by countries in the region. In order for competitiveness to exist, there must be a considerable degree of overlap in the range of commodities pro-

duced by member countries to be protected from third-country competitors outside the regional bloc. A considerable degree of overlapping competitiveness operating within a FTA, with large differences in production costs, can lead to large trade gains after integration as resources are allocated more efficiently among member countries. A reallocation of resources within a free-trade area provides welfare gains for the FTA members commensurate with the extent of initial differences in production costs between member countries. On the other hand, complementarity exists when member countries produce a different range of commodities protected from third-country competitors. In a two-good model, economic integration has the usual trade creation<sup>6</sup> and trade diversion<sup>7</sup> effects when prospective trading partners in a FTA each have a comparative advantage in the production and export of a different good while both goods are consumed by all countries.

In southern Africa, the SADC countries with the exception of South Africa export primary commodities by and large to South Africa and to countries outside the trade bloc, and import mostly manufactured goods from South Africa and from outside the trade area. These countries have not developed the capacity to export to the region the types of goods that are of primary importance in regional imports. However, there is a significant overlap between products currently manufactured and exported by South Africa and the imports of other SADC countries. Therefore, a more integrated southern Africa region in which South Africa's markets are opened up to other countries in the region will facilitate a significant reallocation of production and trade patterns, in which South Africa's goods will compete with goods imported from outside the region. It is also possible that a range of producers in the other SADC member countries will find niche markets in a broader regional market—such as, components manufacture with firms producing in several regional locations component parts for finished products destined for export markets. A more integrated southern Africa region can have such trade creating and trade diverting effects to a major degree.

### Economic Size

A second factor to consider is the economic size of the integrated area. One proposal is that the larger the economic size of the FTA, the greater the potential scope for the division of labor within the area. The division of labor gives rise to improving the skill levels

<sup>4</sup> Previous articles in the *International Economic Review* on regional trade agreements include Soamiely Andriamananjara, "Preferential Trade Agreements and the Multilateral Trading System," *IER*, January/February 2001, USITC Publication 3402 and Michael Anderson, "Preferential Trade Agreements: Trade Diversion and other Worries," *IER*, May/June 2001, USITC Publication 3435.

<sup>5</sup> Sources consulted for this article include B. Balassa, 1961, *The Theory of Economic Integration*, Richard D. Irwin, Inc. Homewood; B. Balassa, 1965, *Economic Development and Integration*, Centro de Estudios Monetarios Latinoamericanos, Mexico; F. Foroutan, 1992, *Regional Integration in Sub-Saharan Africa: Experience and Prospects*, World Bank Policy Research Working Paper 992; J. Frankel, E. Stein and S. Wei, 1995, "Trading blocs and the Americas: The Natural, the Unnatural, and the Super-Natural," *Journal of Development Economics*, 47, pp.61-95; M. Holden, 1996, *Economic Integration and Trade Liberalization in Southern Africa: Is there a Role for South Africa?* World Bank Discussion Paper 342; F. Ng and A. Yeats, 1996, *Open Economies Work Better! Did Africa's Protectionist Policies Cause Its Marginalization in World Trade?* World Bank Policy Working Paper 1636; A. Yeats, 1998, *What Can Be Expected from African Regional Trade Arrangements? Some Empirical Evidence*, World Bank Policy Research Working Paper 2004.

<sup>6</sup> Trade creation refers to the expansion of trade that results when a preferential trading bloc is formed so that consumers pay a lower price for imports.

<sup>7</sup> Trade diversion refers to the shift in the source of trade from the lowest-cost world producer to the lowest cost member within a preferential trading bloc once formed.

of workers, greater time efficiencies with less time lost by workers moving between tasks, as well as increased scope for the application of more capital. A smaller FTA may result in useful shifts in some lines of production, but the probability of the reallocation of production increases with the expansion of the area. For a FTA of a given size, the greater the increase in the size of the market, the larger the gains from economic integration. A second proposition is that successive increments in the size of a FTA reduce the possibility of trade diversion. This corollary suggests that a union of a large number of countries—even with small economies—will result in greater net gains than a union of a few countries—even if they are larger economies.

A counter argument to these proposals is that the larger the union, the greater its bargaining power, therefore, the more susceptible it is to domestic firms pressing for protectionist policies. However, the assertion of protectionist tendencies is open to debate. If comparison is made to a hypothetical free-trade situation, then protectionist tendencies will have adverse consequences on trade. However, if one considers that in developing regions most countries already engage in some form of protectionism behind national boundaries, then the degree and costs of protection may actually diminish as smaller markets are superseded by a larger integrated area.

The preceding debate raises the important question of how to measure the economic size of an integrated area. In practice, such measurement is difficult. Economic size measured by population or geographical area can lead to different conclusions. In addition, if one considers a given amount of marketable output, then the higher the transportation costs and the more divergent the tastes of the population, the smaller the economic size of the market.<sup>8</sup> Therefore, in order to determine the economic size of an area, the adopted measure must reflect differences in tastes and transportation costs.

In practice, a number of measures have been developed. The commonly used measure is the GDP excluding the contribution of the subsistence sector. For the SADC member countries, excluding Mauritius, South Africa, Swaziland, Zambia, and Zimbabwe, a significant proportion of GDP is produced in the subsistence sector. Therefore, the adoption of this measure of economic size suggests comparatively moderate gains of integration for southern Africa through resource reallocation. On the other hand, the large subsistence sectors are largely attributable to low levels of economic development, which suggests that economic

<sup>8</sup> While differences in tastes are important prior to the formation of the union, integration could change consumption patterns and with economic development, tastes are likely to converge to some degree.

integration with development can actually enlarge the market size of these economies in southern Africa.

## Transportation Costs

A third factor to consider is transportation costs within the integrated area. High transportation costs add to risk and reduce the economic size of the market area. High transportation costs can therefore be used as an argument against economic integration in the southern Africa region. In southern Africa, poor facilities for land transport and inland waterways substantially raise the cost of transportation between countries in the region.<sup>9</sup> Poor transportation facilities can therefore decrease trade and lead to a vicious cycle of inadequate transportation and diminished trade. On the other hand, one can make the argument that poor market integration has diminished the volume of trade. As trade volumes increase, the need for improved transportation will lead to the subsequent establishment of improved transportation facilities. Improving transportation facilities will reinforce trade and lead to a positive cycle of increasing trade leading to further improvements in transport systems and so on. To begin such a positive cycle, appropriate arrangements must be made to improve transportation facilities, unify transport regulations, and equalize transportation costs.

## Economic Interdependence

A fourth factor to be considered is the degree of economic interdependence in the region. The possibilities for specialization and exchange depend on the degree of economic interdependence among prospective union members. The existence of intensive trade relationships among prospective member countries indicates the possibilities for further specialization after integration. In southern Africa, most countries are dependent on South Africa for imports, whereas South Africa's major trading partners are outside the region. This low degree of economic interdependence suggests less favorable prospects for trade creation and a high probability for trade diversion. On the other hand, in southern Africa, a number of factors such as the inadequacy of transportation facilities augmented by the absence of market information and distribution channels, import quotas, and multiple exchange rates, have hindered the

<sup>9</sup> The geographic pattern of trade routes established under colonial rule is also a factor. Trade routes may tie one or more African countries predominantly or exclusively to a metropolitan center, a situation that can make intra-regional trade very costly and complicated. In southern Africa, for goods that cannot be shipped by air freight, the intra-regional trade of countries may involve shipment to a metropolitan center, for example Johannesburg, where the goods are then "off-loaded" and then re-exported back to the final destination within the region. Inappropriate anti-competitive transport policies adopted by many countries in the region have inflated their transportation costs that have, in turn, adversely influenced export prospects.

expansion of intra-regional trade. Economic cooperation to reduce these discriminatory factors will create possibilities for the expansion of intra-regional trade.

## Level of Tariffs

A fifth factor to consider is the level of tariffs before and after integration. The higher the tariff levels among participating countries before the trade area is formed the larger the creation of trade after the trade area is formed. The higher the tariffs levied on commodities originating from non-member countries, the greater the trade diversion effects of forming the trade area. The high level of tariffs in southern Africa suggests a high degree of both trade creation and trade diversion as tariff rates between SADC member countries are eliminated.

The static analysis in this section aids the understanding of the effects of further integration in southern Africa. However, the dynamic effects of economic integration, rather than the static effects, are believed to be of major significance for developing countries. Therefore, to assess the desirability of further integration in southern Africa, one needs to go beyond the static analysis of gains and losses to an analysis of the dynamic gains.

## The Dynamic Effects of Further Integration

Economic integration can be viewed as a fusion of national markets. In this view, the hypothesis proposed is that economic integration allows the exploitation of internal scale economies because of an enlarged market. These gains will not be realized if the national economies had been large enough to exploit all sources of scale economies prior to integration. The implication for southern Africa is that economic integration will improve the growth prospects of participating countries. Considering that fragmented markets and the limited size of national markets are several of the main obstacles to the development of manufacturing industries in southern Africa, the dynamic effects of economic integration are likely to be significant. An increase in market size through economic integration will increase demand and the expansion of production will make possible the use of more efficient methods of production. As a result of expected increases in income, demand and efficiency, and the lower levels of risk and uncertainty associated with larger markets, regional investment will be stimulated. If factor mobility is permitted under the new arrangement, capital and labor will move from surplus areas to areas of scarcity, therefore increasing economic efficiency and factor incomes. According to neoclassical theory, competitive

forces will eliminate intra-regional differences in income.

However, a counter-argument is that without government intervention, intra-regional disparities in income can actually increase with integration. The result depends on the "spread" and "backwash" effects from more developed areas to less developed areas. The "spread" effect refers to the increased demand for products from less developed regions and the transmission of technological knowledge from more developed areas to less developed areas as a result of integration. The "backwash" effect refers to the movement of capital and skilled labor from the less developed areas to the more developed areas, and to changes in the location pattern of industries to the detriment of the less developed areas as a result of integration.

With a free-trade area in southern Africa, the industrial development of South Africa may benefit the less developed countries in the region through increased demand for their products and this, in turn, may allow for improvements of production methods, and may also permit the establishment of processing facilities. However, in evaluating the importance of these "spread" effects, a very important consideration must be the supply of capital that is required for improving production processes and establishing processing plants. In southern Africa, there is a limited supply of capital. This limitation may cause new capital to move to regions favored by agglomeration economies,<sup>10</sup> and unfavorable "backwash" effects may reduce the benefits from dynamic external economies of a larger market.

## Conclusions

In southern Africa, exports consist mainly of agricultural and mineral products; transaction costs are relatively high; market size is small in relation to the minimum market size for many industrial products; large disparities exist between the levels of income and economic development of countries in the region; informal trade is significant in many countries; and major distortions impede the functioning of the market system. A conclusion drawn from traditional integration theory is that countries with these characteristics cannot form "optimal" trading blocs. Under static assumptions, the integration of national economies lowers the welfare of third countries through trade diversion and the deterioration of their terms of trade. However, the establishment of a free-trade area can lower the risk and uncertainty associated with foreign trade. Risk and uncertainty due to trade restrictions and changes in tariffs and other forms of trade impediments. The reduction of uncertainty can also influence investment in export industries and foreign investment

<sup>10</sup> Agglomeration economies refers to increasing returns from concentrating the production of a particular industry in a particular location.



flows. Increased investment will lead to a reallocation of resources and changes in production methods. In sum, the dynamic effects of integration are the increase in economic efficiency and income that result from the economic integration of the region. If the dynamic factors of economic integration are large enough to counteract the negative static consequences, third countries

will also benefit in the long run. The dynamic effects of economic integration will benefit third countries as increasing incomes in the FTA result in increased imports from outside the FTA. As a consequence, SADC should proceed with further economic integration in an effort to realize these some of these dynamic gains and increase welfare within the region.



## Russia's WTO Accession: Many Hurdles Remain

James Stamps<sup>1</sup>  
jstamps@usitc.gov  
202-205-3227

*Since beginning his term of office in 2000, Russia's President Putin has made accession to the World Trade Organization (WTO) the country's top economic priority. Russia applied for WTO admission in 1993, but progress toward accession has been uneven over the years. Russia still must complete steps that do not appear to lead to accession until 2002, at the earliest.*

### Russia's WTO Accession: Many Hurdles Remain

The Russian Federation (Russia) has been negotiating terms for accession to the World Trade Organization (WTO) since 1995. Progress toward accession has been uneven over the years, with negotiations to date consisting largely of detailed examinations of Russia's trade policies and the legal and administrative framework for trade.

Russia's WTO accession negotiations have been slow for several reasons. Still in transition from a non-market to a market economy since the breakup of the Soviet Union, Russia faces the ongoing challenges of restructuring its economy, privatizing government-owned industries, and implementing market-oriented economic reforms. Reaching political consensus on reforms—particularly on reforms that would open the Russian economy to more efficient foreign competitors—often has proved difficult and time consuming. A 1998 economic crisis, precipitated by a loss of the financial markets' confidence in Russia, was a significant setback that forced Russian policymakers to make domestic economic crisis-management their priority. Rising world oil prices beginning in 2000—petroleum products are Russia's top exports—generated windfall budget surplus and slowed the impetus in Russia for domestic economic reforms and integration into the global economy.

The goal of WTO membership consistently has been the cornerstone of Russian economic policies to integrate Russia into the global economy following de-

acades of Soviet self-imposed isolation. While the WTO does not require that its members enact specific legislation, its members have requested that Russia develop new laws and regulations in line with international standards, improve enforcement of regulations already compliant with WTO rules, and agree to terms that will open Russian markets to foreign competition before Russia's accession application is approved. Russian officials once hoped to achieve WTO membership before 2000, but at times the Russian government's commitment to WTO accession has seemed uncertain. Vladimir Putin, elected president of Russia in March 2000, has again made WTO accession a priority. In September 2000, President Putin kicked off an accelerated bid for WTO accession that included a timetable for Russia to enact WTO-compliant legislation, with the hope of completing negotiations by the end of 2002.

Significant work remains, however, before Russia's WTO accession can advance. In a recent speech, WTO Director-General Mike Moore reported that a number of difficult issues remained in Russia's accession negotiations.<sup>2</sup> Issues to be addressed include Russian agricultural subsidies, the Russia customs system, foreign investment regulations, market access in Russia's service sectors, Russian standards and technical barriers to trade, as well as Russia's need to improve its administration and enforcement of intellectual property rights.

This article assesses the status of Russia's WTO accession and summarizes key issues that remain to be resolved in Russia's negotiations to join the WTO. While the Russian government's official position remains overwhelmingly in favor of WTO accession, the undercurrent of political views that are opposed to WTO accession also is examined.

<sup>1</sup> The views and conclusions expressed in this article are those of the author. They are not necessarily the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

<sup>2</sup> Mike Moore, WTO Director-General, "Russia, the International Economy, and the World Trade Organization," press release, March 30, 2001.

## Russia's WTO Accession Application

Russia requested membership in the WTO in June 1993 (then known as the General Agreement on Tariffs and Trade, or GATT),<sup>3</sup> and a WTO Working Party was formed that same month.<sup>4</sup> Initially comprising 54 members, the current 25 members of Russia's WTO Working Party include the United States,<sup>5</sup> the European Union (EU), Argentina, Australia, Brazil, Canada, Chile, the Czech Republic, Ecuador, Estonia, Georgia, Hungary, India, Japan, Korea, Latvia, Mexico, Mongolia, Norway, Panama, Poland, New Zealand, Slovakia, Switzerland, and Turkey. Russia's application was formally transferred to the WTO after it was established in 1995.

Russia submitted to the WTO Working Party its Memorandum of Foreign Trade Regime in March 1994. That memorandum, which details Russian trade policies currently in place that have a bearing on the WTO Agreements, forms the basis of detailed fact finding by the Working Party. Areas addressed in the memorandum include Russian import and export regulations, agricultural and industrial policies, policies affecting trade in services, and policies regarding such areas as intellectual property rights, customs valuation,

and licensing requirements. A round of questions from WTO Working Party members about Russia's memorandum, followed by Russia's responses was completed in June 1995. The WTO Working Party then held its first meeting to consider Russia's application in July 1995. From late 1995 through the end of 1998 there were an additional 7 formal meetings of the Working Party to investigate the Russian trade, investment, and subsidies regimes.

Russia submitted its first market-access offer to the WTO Working Party for trade in goods in February 1998, providing a schedule of commitments on tariffs (see *IER*, January/February 1998). Russia tabled additional market-access offers for trade in agricultural products, including commitments on export subsidies and domestic supports for farmers, and commitments for the protection of intellectual property rights, in December 1998. Russia completed its WTO offer with the submission of a market-access offer for trade in services, including banking and financial services, telecommunications, and tourism in October 1999. Commitments each member makes in its WTO accession negotiations become obligatory and enforceable under WTO rules.

With schedules of commitments on market access for trade in goods and for trade in services formally tabled, Russia's initial market-access offer was substantially complete and its WTO application ready to move from the information gathering phase to the negotiation phase.<sup>6</sup> However, the WTO Working Party generally considered these initial offers as deficient and far from a meaningful basis from which to begin negotiations. In joining the WTO, countries commit to reduce and lock in, or "bind," their tariffs (i.e., "binding" a tariff is a legal commitment not to raise it above a specified rate; a member can raise tariffs above bound rates only by payment of compensation to those WTO members affected).<sup>7</sup> Russia's initial tariff offer,

<sup>3</sup> Russia took over the former Soviet Union's nonparticipating "observer" status to the GATT in 1992. The former Soviet Union had been an observer to the GATT since 1990.

<sup>4</sup> A new Working Party is formed for each WTO applicant. Any number of WTO members may join the Working Party for a particular applicant, but generally only those members with particular interests in the accession of a given applicant participate. New WTO members can join Working Parties that already have been formed. The Working Party (1) conducts a fact finding investigation to determine the degree of inconsistency between WTO rules and the relevant legislation and policies of the applicant, and (2) conducts bilateral and multilateral negotiations with the applicant on its tariff, nontariff, and market-access commitments. Each Working Party takes decisions by consensus; therefore, all interested WTO members must be in agreement that their individual concerns have been met and that outstanding issues have been resolved in the course of their bilateral and multilateral negotiations. The applicant is required to extend all commitments made during bilateral and multilateral negotiations with Working Party members to all WTO members upon accession. All documentation examined by the Working Party during the process of negotiation remains restricted by the WTO until accession is complete. WTO, "Accessions on the WTO Website," found at [http://www.wto.org/english/thewto\\_e/acc\\_e/acc\\_e.htm#top](http://www.wto.org/english/thewto_e/acc_e/acc_e.htm#top).

<sup>5</sup> The U.S.-Russia Trade Agreement governs all trade relations between the two countries. The Soviet Union signed the agreement in June 1990, and it was approved by the U.S. Congress in November 1991. The Soviet Union was dissolved in December 1991, before the treaty was ratified. Russia's Duma (parliament) approved the agreement on June 17, 1992, making it possible for the United States to extend most-favored-nation (now normal trade relations, NTR) on an annual basis. Because of Jackson-Vanik amendment restrictions, Russia is not eligible for NTR on a permanent and unconditional basis from the United States.

<sup>6</sup> In the negotiating phase, the WTO applicant engages in parallel multilateral and bilateral talks with members of the Working Party. Negotiations occur as Working Party members submit requests for improved market access, and the applicant responds with modified counter offers. The negotiations continue until the Working Party agrees that all necessary changes have been made to bring the applicants foreign trade regime into compliance with WTO rules. Article XII of the WTO Agreement governing accession does not set a fixed timeframe or deadline for the completion of the accession process. When complete, the final "accession package" is to consist of three documents which represent the results of both the multilateral and bilateral negotiations—a Report of the Working Party containing a summary of proceedings and conditions of entry, a Protocol of Accession, and schedules of market-access commitments in goods and services agreed between the acceding government and WTO members.

<sup>7</sup> WTO, "Tariffs: More Bindings and Closer to Zero," found at [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm2\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm2_e.htm).

however, excluded 500 of Russia's 10,000 tariff lines from tariff binding commitments—meaning that Russia could increase tariffs on those items without restriction. Moreover, Russia proposed to bind its tariffs at significantly higher rates than tariffs currently in force—a starting offer most WTO Working Party members found unacceptable. Russia's initial agricultural commitments contained provisions for subsidies unacceptable to many WTO Working Party members (discussed in more detail below). Working Party members also expressed concerns about the protection of intellectual property in Russia and enforcement of penalties for violations of patents, copyrights, and trademarks. Russia's initial services offer listed extensive cross-sectoral exceptions (“horizontal reservations”), contained an extensive list of countries exempt from the most-favored-nation (MFN) principle of nondiscrimination, and listed few or no commitments on business activities in many areas such as establishment of branches and representative offices.<sup>8</sup>

Following bilateral and multilateral consultations with WTO Working Party members, Russia submitted a revised offer for trade in goods in March 2000. In bilateral negotiations, the United States presented Russia with a detailed request for market access in services in May 2000. Russia tabled further revisions for trade in goods and services in February 2001. The revised offers contained many market-access improvements, although WTO Working Party members noted backward movement in some areas. Russia's revised tariff offer was broadened to apply to all 10,000 tariff lines and the proposed bound tariff rates were lower than those initially offered; however, the proposed revised bound tariff rates remained generally higher than currently applied rates in many cases. The revised services offer eliminated many of Russia's proposed

<sup>8</sup> European Union, “Implementation of the EU-Russia Common Strategy: EU Trade Policy Priorities in the Short to Medium Term,” Sept. 14, 2000, found at [http://www.euro-pa.eu.int/comm/trade/pdf/str\\_russia.pdf](http://www.euro-pa.eu.int/comm/trade/pdf/str_russia.pdf), p. 6; Ministry of Economy, Trade, and Industry, Government of Japan, “Issues Regarding Accession of China, Russia, and Taiwan to the WTO,” p. 409, found at <http://www.meti.go.jp/english/report/download/gCT0116e.pdf>; Department of Economic Affairs, Ministry of Foreign Affairs, Government of Russia, “Russia and the WTO,” Jan. 26, 2000, found at <http://www.in.mid.ru/website/ns-dipecon.ns>; and U.S. Department of State telegram, “WTO Accession by Russia,” message reference No. 22053, U.S. Embassy, Moscow, Dec. 26, 2000.

cross-sectoral restrictions. The revised agriculture market-access offer provided further details on Russia's proposed regime for domestic agricultural subsidies.<sup>9</sup>

## Russian Attitudes Towards WTO Accession

Accession to the WTO generally enjoys broad political support in Russia. Russian officials estimate that Russian trade gains could total as much as \$18 billion over 5 years following WTO accession as a result of reduced tariff and nontariff barriers of Russia's trading partners. A variety of sources anticipate that WTO accession would afford enhanced access to export markets for Russian goods, promote sustainable economic growth in Russia by reducing tariffs on the imported machinery and capital equipment Russia needs to improve agricultural and industrial productivity, promote foreign investment by making Russia's trade and investment regimes more transparent and predictable, and help Russia assert its trade interests worldwide by placing it on a level international playing field and giving Russia access to the WTO dispute resolution system. Despite these likely benefits, one source reported that some members of Russia's largest export sectors—including oil and gas producers and the aluminum industry—are not lobbying heavily for WTO accession because such commodities already trade freely on international markets; however, the costs of being excluded from the WTO could be significant for other Russian industries such as steel, which is subject to antidumping complaints from the European Union and the United States.<sup>10</sup>

The Russian press has documented the concerns of a small number of opponents to Russia's bid to join the WTO.<sup>11</sup> Their primary concern is that WTO accession is premature because Russia is unprepared to face global competition, at least in the near term. Russia would have to lower its own trade barriers and agree to open its market to foreign goods and services in exchange for receiving access to other markets as part of WTO accession. It is feared that such an opening of the

<sup>9</sup> For further information on Russia's WTO accession application and market-access offers, see Mike Moore, WTO Director-General, “Russia,” speech, March 30, 2001, and John Zarocostas, “Russia Finally Submits Market-access Offer to the WTO,” *Journal of Commerce*, Feb. 18, 1998, p. 4A.

<sup>10</sup> Igor Semenenko, “Steel Firms Keen for Spot at WTO Table,” *Moscow Times*, Jan. 31, 2001, p. 1; Natasha Shanetskaya, “Economy Not Yet Stable, Putin Tells WTO,” *Moscow Times*, Apr. 2, 2001, p. 7; and “Russia Must Be Careful Not to Blow it in Negotiations with the WTO,” *The Russia Journal*, April 19-25, 2001.

<sup>11</sup> Natasha Shanetskaya, “Economy Not Yet Stable”; “Moscow Mayor Warns Russia Against Joining WTO,” *Pravda Online*, April 20, 2001, found at <http://english.pravda.ru/main/2001/04/20/3828.html>; “Russia Should Think Hard Before Joining WTO, Says Former USSR Prime Minister,” *Strana.Ru*, found at <http://russia.strana.ru/print/98772616.html>.

trade regime could have an adverse impact on the many Russian industries that are not globally competitive, and ultimately derail Russia's immediate economic growth prospects through industry closures and increased unemployment. One particular concern is that Russia's automobile industry, and industries that supply its inputs such as steel, would be adversely affected by foreign competition from Asian, European, and U.S. automobile producers if protective trade barriers are lifted as a result of WTO accession (Russian automobile tariffs are discussed in more detail below). Another concern is that the Russian government is not yet able to define the country's economic priorities. Some feel that Russia is not institutionally prepared to join the WTO because the country's weak industries lack the power to lobby the government for their interests. Thus, it is difficult for the Russian government to develop a tariff regime within WTO rules that will afford adequate protection for Russian industries, and Russian trade negotiators do not know which sectors to protect and which to open to foreign competition. Other concerns are that tariff bindings in the WTO would restrict Russia's ability to raise tariffs in response to changes in domestic economic conditions, and that closer integration with the global economy would further expose Russia to global cyclical downturns.

Other Russian critics of WTO accession have written that Russia's actual gains from WTO membership will be small because Russia already has MFN trading status with most other WTO members including the European Union,<sup>12</sup> Russia's largest trading partner, and the United States (although the United States must renew that status annually pursuant to the Jackson-Vanik amendment), and that Russian products already have broad access to international markets. For example, U.S. imports from Russia increased from \$4.3 billion in 1997 to \$7.8 billion in 2000; moreover, Russian products valued at \$514 million entered the United States duty free in 2000 under the U.S. Generalized System of Preferences (GSP) program.<sup>13</sup> Moreover, critics say that WTO accession would not completely eliminate other countries' trade barriers. One author wrote, "It is ludicrous, for example, to expect the

<sup>12</sup> Reciprocal MFN treatment was provided under the EU-Russia Partnership and Cooperation Agreement. The agreement was signed in 1994 and entered into force after national ratifications in December 1997.

<sup>13</sup> The GSP program authorizes the President to grant duty-free access to the U.S. market for certain products that are imported from designated developing countries and transitioning economies. Russia has received U.S. GSP benefits since 1993. For further information, see USITC, *The Year in Trade 2000: Operation of the Trade Agreements Program*, 52<sup>nd</sup> Report, USITC Publication 3428, June 2001, pp. 5-15 to 5-20.

United States to let Russian steel into its market."<sup>14</sup> In response to such criticisms, Russia's chief WTO trade negotiator, vice-minister Maxim Medvedkov, has stated, "No one is planning to reduce import tariffs to zero and . . . we mustn't forget that entering the WTO doesn't stop us from applying selective market protection measures including antidumping, constitutional, and special protection measures."<sup>15</sup>

## Specific Issues of Concern in Russia's WTO Accession

### *Agriculture*

According to WTO Director-General Moore, agriculture is one of the most difficult issues in Russia's negotiations, particularly with respect to demands for market access for agricultural exports made by the European Union, the United States, Australia, and other agricultural exporters.<sup>16</sup> While global agricultural exporters want access to the Russian market, Russia wants to ensure that global competition does not undermine domestic producers. Russia's difficulty in formulating a market-access offer lies in the fact that the extent of Russian agricultural reform and the eventual structure of the Russian agricultural sector remain unknown. Land reform measures approved by the Duma in June 2001 authorizing sales and purchases of land to private interests did not extend to agricultural land. WTO Working Party members, however, are pressing to see exactly how Russia will implement its agricultural reform.

Russia's use of agricultural subsidies is another issue of concern to the WTO Working Party. Price deregulation in the Russian agricultural sector has resulted in reduced agricultural production; consequently, the Russian Government has used subsidies to stimulate production, improve infrastructure, build public stockpiles, and provide low-cost loans. Subsidies are not prohibited by the WTO, but the WTO Agriculture Agreement creates a framework within which agricultural supports are regulated. WTO Working Party members have encouraged Russia to reduce market-distorting practices such as agricultural subsidies as much as possible.

Russia's provisions for agricultural subsidies in its initial offer on agriculture was unacceptable to the WTO Working Party. The base period for determining allowable Russian agricultural subsidies has become a particular point of extended negotiations. WTO Working Party members requested that Russia use

<sup>14</sup> Mikhail Delyagin, "No Need to Rush into the WTO," *The Russia Journal*, May 4-10, 2001.

<sup>15</sup> Lyuba Pronina, "Chief WTO Negotiator Relishes His Assignment," *Moscow Times*, Feb. 21, 2001, p. 5.

<sup>16</sup> Mike Moore, WTO Director-General, "Russia," speech, March 30, 2001.

1995-1997 (the 3 most recent years for which data are available, a commonly used standard) as the base period for domestic supports. However, budget difficulties in those years meant that the Russian government had sharply cut spending on agricultural supports in recent years. To preserve the ability to subsidize agriculture in the future, the Russian offer has involved various proposals using a base period of roughly 1989-1991 that would allow higher subsidy levels.

Russia proposed in its February 2001 revised agricultural market-access offer that it would provide export subsidies of up to \$700 million annually, declining to \$465 million annually 6 years after WTO accession, and provide domestic support for farmers of \$16.7 billion annually, declining to \$12.9 billion 6 years after accession. Russian officials indicated that the country's current spending on domestic support totals \$2 billion annually, but that agricultural production is expected to increase by 5 percent annually through 2010.<sup>17</sup>

### **Antidumping Measures**

Currently, EU and U.S. antidumping regulations treat Russia as a non-market economy in antidumping investigations. EU and U.S. antidumping investigators generally do not accept domestic price data from countries with non-market economy status because prices in a non-market economy are assumed to be unrealistic; instead, they use price data from an analogous market economy third country.<sup>18</sup> In practice, non-market status can make it more difficult to defend against dumping allegations. The Russian government is particularly concerned that the United States drop the non-market designation after Russia accedes to the WTO.

The United States currently has antidumping orders in place against Russia for urea (originally imposed in 1987) and ferrovandium and nitrated vanadium (1995). The more recent practice has been for the United States and Russia to negotiate suspension

<sup>17</sup> Daniel Pruzin, "WTO: Russian WTO Negotiator Sees Progress in WTO Accession Talks; Services Access Lags," *Bureau of National Affairs* (BNA), Apr. 27, 2001.

<sup>18</sup> The EU has amended its antidumping regulations to allow investigations concerning imports from Russia, China, Kazakhstan, Ukraine, Vietnam, and any other non-market economies which are WTO members at the date of the initiation of an EU antidumping investigation to be treated as market economies under certain circumstances. Commission Decision No. 435/2001/ECSC of Mar. 2, 2001. Meanwhile, the EU-Russian Partnership and Cooperation Agreement allows a Russian firm subject to an EU antidumping investigation to request market economy treatment if the firm can demonstrate that its exporting activities are determined by market forces. European Union, "EU-Russian Economic and Trade Relations: An Overview," May 21, 2001 found at [http://www.europa.eu.int/comm/trade/bilateral/russia/rus\\_ovw.htm](http://www.europa.eu.int/comm/trade/bilateral/russia/rus_ovw.htm).

agreements<sup>19</sup> under which Russia has both a quota (normally not permitted under WTO rules but allowed because Russia is not a WTO member) and a minimum reference price for shipments to the U.S. market. Such suspension agreements are in place with respect to U.S. imports of Russian uranium (1997), carbon steel plate (1997), hot-rolled steel (1999), and solid fertilizer-grade ammonium nitrate (2000).<sup>20</sup>

### **Customs Law**

Reform of Russian customs law to meet current international standards has been a difficult undertaking for Russia. During the Soviet era, customs officers had the additional roles of political police and censors. Russia's State Customs Committee was established in 1991 under legislation intended to resemble international norms. A 1993 customs law established rules for the valuation of goods imported into Russia closely resembling WTO standards. However, there is a significant gap between Russian customs legislation and actual practices because local Russian customs authorities have broad discretion in interpreting customs laws.

Almost every aspect of the Russian customs regime—including laws, tariff rates, and enforcement—has come under scrutiny during Russia's WTO accession negotiations. Many Working Party members have expressed concern over the lack of uniformity and transparency in the actual administration of the trading system. Legislation for a new customs code to meet some WTO concerns has been introduced into the Duma, but continues to be the subject of internal debates within the Russian government. WTO-consistent legislation on customs valuation reportedly has been folded into draft legislation revising the Russian tax code. Members of the WTO Working Party are not likely to consult with Russia on the WTO-consistency of its customs law until a final version of the customs code is drafted.<sup>21</sup>

<sup>19</sup> A U.S. antidumping investigation may be suspended through an agreement before a final determination is made by the U.S. Department of Commerce. An investigation may be suspended if exporters accounting for substantially all of the imports of the merchandise under investigation agree either to eliminate the dumping or to cease exports of the merchandise to the United States within 6 months. In extraordinary circumstances, an investigation may be suspended if exporters agree to revise prices to completely eliminate the injurious effect of the imports. USITC, *The Year in Trade 2000: Operation of the Trade Agreements Program*, p. 5-12.

<sup>20</sup> U.S. Department of State telegram, "Snapshot 54: Anti-dumping and Market Economy Status," message reference No. 22214, prepared by U.S. Embassy Moscow, Dec. 28, 2000. Additional information on antidumping orders in effect (as of Dec. 31, 2000) from USITC, *The Year in Trade 2000: Operation of the Trade Agreements Program*, table A-26, p. A-33.

<sup>21</sup> U.S. Department of State telegram, "2001 National Trade Estimate Report: Russia," message reference No. 00430, prepared by U.S. Embassy Moscow, Jan. 12, 2001.

### **Import Licenses and Restrictions**

Russia requires import licenses for various goods, including ethyl alcohol and vodka, color televisions, raw and processed sugar, precious metals, alloys and stones, encryption software and related equipment, weapons, and explosives. A Russian law restricts imports of distilled spirits to no more than 10 percent of alcohol sales in Russia; within this quota, at least 60 percent of imports must contain 15 percent alcohol or less—severely restricting imports of most distilled spirits such as bourbon, rum, and vodka, a concern for U.S. exporters. Working Party members are seeking assurances that Russia's import policies will be based on WTO rules that justify its licensing requirements and import restrictions.<sup>22</sup>

### **Intellectual Property**

Russia will be required to meet obligations under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) immediately upon accession. Russia currently is party to major international agreements concerning the protection of intellectual property, including the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention, the Paris Convention for the Protection of Industrial Property, and the Universal Copyright Convention. Russia has made considerable progress in constructing a legal framework to bring the country to world standards for intellectual property protection, although there are deficiencies in the area of protection for pre-existing copyrighted works and sound recordings. New legislation being considered by the Russian government is intended to bring Russia's legislation largely in line with the TRIPS standard. Russia has committed to bring its intellectual property regime in line with that of the European Union by January 1, 2003 as part of the EU-Russian Partnership and Cooperation Agreement.

Despite Russia's success in enacting legislation to protect intellectual property, enforcement of these laws remains problematic. The Russian judicial system is generally ill-prepared to handle many intellectual property cases, and the Russian criminal code provides inadequate penalties for provisions for intellectual property violations. There are many cases of copyright and trademark violation. Software piracy is widespread in Russia, with an estimated 90 percent of software sold in Russia being pirated. Russia a source of pirated audiovisual products and counterfeit branded consumer goods that get onto world markets. U.S. industry sources estimate their cost of intellectual property violations in Russia to be approximately \$1 billion annually. Russia recently has stepped up enforcement of anti-piracy laws and has implemented judicial sys-

<sup>22</sup> U.S. Department of State telegram, "2001 National Trade Estimate Report: Russia."

tem reforms to better handle intellectual property cases.<sup>23</sup>

### **Investment**

Despite passage of a new foreign investment law in 1999, WTO Working Party members report that Russia's foreign investment regime remains confusing and contradictory. A yet undesignated single agency is to register all foreign investment. The law does not codify the principle of nondiscriminatory treatment for foreign investors, including the right to purchase securities, transfer property rights, protect rights in Russian courts, repatriate funds abroad after payment of duties and taxes, and receive compensation for expropriation.

Russia maintains several investment-related restrictions. Foreign investment is restricted to 25 percent of an enterprise in the aerospace industry; 20 percent in the natural gas monopoly Gazprom, and 25 percent in the electrical power utility Unified Energy Systems. Foreign investment is prohibited in the importation, bottling, and distribution of beverages containing more than 12 percent alcohol.

The WTO Agreement on Trade-Related Investment Measures (TRIMS) applies to investment measures that affect trade in goods, and states that no member shall apply any such measure that discriminates against foreigners or foreign products. Russia has stated that it intends to eliminate any measures contrary to the TRIMS Agreement by the time of its WTO accession. The Russian government also plans to introduce a commercially acceptable regime for production-sharing agreements (PSAs) that will be consistent with the TRIMS Agreement.<sup>24</sup>

Russia and the United States signed a bilateral investment treaty (BIT) in June 1992. The BIT was approved by the U.S. Senate in October of the same year, but has not yet been ratified by the Duma. In January 1996, Russia and the United States concluded a joint memorandum of understanding that addresses U.S. concerns about barriers to the Russian civil aircraft market and the application of international trade rules to the Russian aircraft sector. That memorandum states

<sup>23</sup> U.S. Department of State telegram, "2001 National Trade Estimate Report: Russia." For additional information regarding intellectual property, see Art Franczek, "Russia, WTO, and Customs Reform: An Uphill Struggle," *AmCham Newsletter*, Jan.-Feb. 2001, and Lyuba Pronina, "IP Takes Spotlight in Race for WTO Entry," *Moscow Times*, Feb. 21, 2001, p. 5.

<sup>24</sup> PSAs, which are used in many countries, are fixed-term agreements providing a regulatory framework for large-scale foreign investment projects. The U.S. oil and gas industry considers a commercially acceptable PSA regime particularly suitable for large-scale investments in Russia because the agreements establish an unambiguous regulatory framework that minimizes opportunities for arbitrary decisions and for local corruption. U.S. Department of State telegram, "Snapshot 79: Production Sharing Agreements," message reference No. 00023, prepared by U.S. Embassy Moscow, Jan. 3, 2001.



that U.S. aircraft manufacturers will be able to participate in the Russian market, and makes it clear that the Russian aircraft industry will in time be fully integrated into the international economy.<sup>25</sup> Russia has not indicated willingness to become a signatory to the WTO Agreement on Trade in Civil Aircraft, which contains disciplines on government procurement of civil aircraft such as key rules regarding inducements to purchase (so-called offsets) or acceptable and unacceptable forms of government financial support for the civil aircraft sector.

### **Regional Trade Arrangements**

Russia has a network of trade arrangements with neighboring former Soviet republics making up the Commonwealth of Independent States (CIS) and with other countries that have drawn the attention of the Working Party. Included are Russia's bilateral free-trade agreements, with the goal of an eventual CIS-wide customs union (a free-trade area extended to include a common external tariff), with Armenia, Azerbaijan, Georgia, Moldova, Tadjikistan, Turkmenistan, Ukraine, and Uzbekistan, as well as bilateral customs union agreements with Belarus, Kazakstan and the Kyrgyz Republic.

Article XXIV of the GATT permits members to establish regional trading arrangements such as customs unions and free-trade areas, which normally would violate the WTO's principle of equal treatment for all trading partners, provided that the arrangements help trade flow more freely among the countries in the group without raising trade barriers to nonparticipants. Several Working Party members have sought clarification on the scope of Russia's regional trade agreements and their WTO conformity. The United States also has sought assurances that the EU-Russian Partnership and Cooperation Agreement, which envisions an eventual EU-Russia free-trade agreement, does not disadvantage U.S. exporters and investors vis-à-vis their EU counterparts in the Russian market.

### **Services**

The WTO General Agreement on Trade in Services (GATS) establishes multilateral, legally enforceable rules covering international trade in a broad range of services. In addition to certain general principles and obligations, GATS establishes rules for specific sectors and individual countries' specific commitments to provide nondiscriminatory access to their markets. WTO Director-General Moore reported that there was significant work yet to be done on negotiations with Russia in

<sup>25</sup> U.S. Department of State telegram, "2001 National Trade Estimate Report: Russia."

the area of trade in services.<sup>26</sup> Vice-minister Medvedkov characterized discussions with WTO Working Party members on foreign access to Russia's services market as "extremely difficult."<sup>27</sup> Russia is reluctant to provide foreign market access to its services sectors until they can become more internationally competitive. Paradoxically, Russian service providers lack indigenous capital to undertake the needed large-scale investment. The U.S. Embassy in Moscow reports that discrimination against foreign providers of non-financial services is in most cases not the result of Russian federal laws, but stems from local regulations, abuse of power, and practices that may even violate Russian federal laws.<sup>28</sup>

Banking consistently has been a difficult topic in Russia's WTO accession discussions. Foreign banks are permitted to establish subsidiaries pursuant to Russia's 1996 banking law, but the amount of foreign bank capital is limited to 12 percent of total Russian bank capital. Russia's revised WTO services offer increased that amount to 20 percent. Russia's 1999 insurance law permits majority-foreign owned insurance companies to operate in subject to market capitalization restrictions, but prohibits them from selling life insurance. Four foreign companies currently licensed under "grandfather clause" provisions with minority foreign participation (49 percent or less) are not subject to the above restrictions. Russia's revised WTO offer proposes limiting foreign investment to 15 percent of total equity in the life and non-life insurance sectors. Russia's revised WTO offer also proposes allowing foreign investment up to 49 percent of Russian-based fixed line and mobile operators which provide telecommunications services through their own networks, and a maximum of 25 percent holding in forms which provide resale-based connection services. Working Party members continue to seek further clarification on Russia's proposals for cross-sectoral restrictions such as natural monopolies (including electricity, gas, and railroads), allowed forms of commercial presence, and restrictions on establishing commercial presence in retail services. Other Working Party concerns include the need for Russia to draft foreign market-access commitments for marine transportation services and road transportation services.<sup>29</sup>

<sup>26</sup> Mike Moore, WTO Director-General, "Russia," speech, March 30, 2001.

<sup>27</sup> Daniel Pruzin, "WTO: Russian WTO Negotiator Sees Progress."

<sup>28</sup> U.S. Department of State telegram, "2001 National Trade Estimate Report: Russia," and "Snapshot 49: The Telecom Sector in Russia," message reference No. 22134, prepared by U.S. Embassy Moscow, Dec. 27, 2000.

<sup>29</sup> Daniel Pruzin, "WTO: Russian WTO Negotiator Sees Progress"; Ministry of Economy, Trade, and Industry, Government of Japan, "Issues Regarding Accession of China, Russia, and Taiwan to the WTO," p. 416; and U.S. Department of State telegram, "2001 National Trade Estimate Report: Russia."

## Standards and Certification

Standards, testing, and certificates have become significant obstacles to market access due to a lack of transparency and predictability in the Russian standards system, lack of harmonization with international standards, and absence of unified and procedures. Russian standards and procedures for certifying imports have long been criticized as expensive, time-consuming, and beset by redundancies. The WTO Agreement on Technical Barriers to Trade (TBT) recognizes members' rights to adopt standards they consider appropriate, but tries to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles. Reports indicate that a 1998 law on certification of products and services brought an estimated 30 percent of Russian standards into conformity with the TBT Agreement, although certification remains particularly onerous in the areas of construction materials and equipment, consumer electronics, telecommunications equipment, and oil and gas equipment.<sup>30</sup>

## Tariffs

A major revision of tariff rates took effect January 1, 2001 as part of a new customs law. Under the revision, tariffs were consolidated into 4 major product groups—raw materials, semi-finished goods, food products, and finished products—with tariffs ranging from 5-20 percent ad valorem (the maximum rate was reduced from 30 percent) for almost all tariff categories. This represents an overall lowering of tariff rates from 11.4 percent to 10.7 percent, according to the Russian government. However, unification caused tariff rates for some individual items to rise, creating a number of so-called tariff peaks—including higher rates for raw sugar (30 percent), poultry (25 percent) and automobiles (25 percent). Working Party members remain concerned that a large number of Russia's proposed bound tariff rates continue to exceed currently applied rates on many tariff lines, particularly for agricultural products. WTO Working Party members also have expressed the interest that Russia become a signatory to WTO sectoral initiatives such as the Information Technology Agreement under which tariffs on information technology products are reduced to zero.

Russian automobile imports are subject to both the automobile tariff and an excise tax based on engine displacement; the engine displacement-weighted excise tax can raise import prices of larger U.S.-made passenger cars and sport utility vehicles by over 70 percent.

<sup>30</sup> Art Franczek, "Russia, WTO, and Customs Reform: An Uphill Struggle," *AmCham Newsletter*, January-February 2001; Ministry of Economy, Trade, and Industry, Government of Japan, "Issues Regarding Accession of China, Russia, and Taiwan to the WTO," p. 415; and U.S. Department of State telegram, "2001 National Trade Estimate Report: Russia."

Russian tariffs of 20 percent ad valorem on imported aircraft remain prohibitively high. However, Russia waives aircraft tariffs for purchases by Russian Airlines contingent on those airlines' purchases of Russian-made aircraft.

## Transition Period

One unresolved issue is the amount of time Russia will be granted to fully implement its commitments once its WTO application is approved. Russian President Putin has stated that although Russia seeks no special privileges for entering the WTO, an understanding that Russia is undergoing a period of economic restructuring is desirable. Russian officials already have indicated their intent to seek a 5 to 7 year transition period in which to phase in WTO commitments,<sup>31</sup> although the Working Party may insist that Russia implement major elements such as intellectual property protection, standards, and customs reforms upon accession.

## Conclusion

Notwithstanding their desire to become a member of the WTO, Russian officials have voiced the concern that the terms of admission for Russia not be different from those of prior applicants. According to vice-minister Medvedkov, "We are very firm that Russia cannot be compelled to accept a WTO-plus,"<sup>32</sup> or disciplines and measures that go beyond what is required to join the WTO that other prospective WTO members have not had to accept. Indeed, there are a number of commitments that WTO members and applicants can make that are not mandatory for membership—such as joining the Agreement on Trade in Civil Aircraft and the Agreement on Government Procurement, and adopting sectoral tariff-cutting initiatives such as the Information Technology Agreement and the Chemical Harmonization Program. Working Party members have noted that major WTO members, and all of the countries that have completed their accession negotiations since the WTO was created in 1995, have accepted some or all of these additional commitments.

Russian officials have been particularly concerned about requests from the WTO Working Party to review draft legislation in order to ensure that the proposed laws are WTO-compatible before Russia formally enacts them.<sup>33</sup> However, all WTO members are required to bring their relevant legislation into line with WTO provisions, and recent acceding countries have drafted and enacted virtually all WTO implementing legisla-

<sup>31</sup> Andrew Jack, "Russia Says It Is Keen to Join World Trade Body," *Financial Times*, Mar. 31-Apr. 1, 2001, and Natasha Shanetskaya, "Economy Not Yet Stable."

<sup>32</sup> Robert Evans, "Minister Vows Faster Reforms for WTO Bid," *Moscow Times*, Dec. 20, 2000, p. 10.

<sup>33</sup> BNA, "WTO: Russian Officials Balk at Demand for WTO Vetting of Trade Legislation," June 28, 2001.

tion prior to completing their negotiations. WTO Working Party members have underscored the fact that, although acceding countries are not required to share their draft legislation, countries typically provide copies of draft and completed laws for Working Party review and comment to ensure that the legislation does not need to be revised after it already has been enacted.

Based on a sample of recent economic literature and press reports, current estimates are that Russia's WTO accession could be sometime between 2002 to 2005. Some sources report that Russia is increasingly concerned, and vexed, by the number of East European and former Soviet republics that are now WTO mem-

bers. Albania (WTO membership granted in September 2000), Croatia (November 2000), Estonia (November 1999), Georgia (June 2000), Latvia (February 1999), Lithuania (May 2001), Kyrgyz Republic (December 1998), Moldova (July 2001), and Slovenia (July 1995) are now WTO members. Many of these countries have joined the WTO Working Party on the accession of Russia, and will have roles in determining the terms for Russia's accession. Russia and China are the only major economies in the world that are still not WTO members. The recent announcement that China has substantially completed negotiations in its accession Working Party could prove to be yet another hurdle for Russian trade negotiators.



## Renewal and Expansion of ATPA Could Enhance Effectiveness of the Program

Walker Pollard<sup>1</sup>  
wpollard@usitc.gov  
202-205-3228

*The Andean Trade Preference Act (ATPA), which was intended to expand economic opportunities in beneficiary countries as an alternative to illegal drug activities, is under consideration for renewal and expansion. The effectiveness of the current ATPA program is limited because of the limited nature of trade preferences included in ATPA. Renewal of ATPA beyond December 2001 that includes expansion of product eligibility similar to that in the U.S.-Caribbean Basin Trade Partnership Act of 2000 would greatly enhance possibilities for expanded exports by ATPA countries to the United States.*

The Andean Trade Preference Act (ATPA) expires on December 4, 2001, under existing legislation (19 U.S.C. 3201-3206). ATPA was intended to expand economic incentives to Andean countries to encourage them to move out of the production, processing, and shipment of illegal drugs and into the production of legitimate products. The limited number of products of Andean countries that receive exclusive preferential tariff treatment under ATPA and the limited margin of preference received by major products benefiting exclusively from ATPA have limited the effectiveness of ATPA in its principle purpose of stemming the illegal drug trade. The Bush administration supports an extension of ATPA as a bridge to a Free-trade Area of the Americas (FTAA), which is slated for implementation in 2005, and an expansion of coverage to give ATPA countries parity with the more liberal provisions granted to Caribbean Basin countries in the Caribbean Basin Trade Partnership Act (CBTPA) of May 2000. Legislation has been introduced in Congress (S. 525) by Senators Bob Graham (D-Fla.) and Mike DeWine (R-Ohio) to grant the extension and expansion of ATPA.

When it was enacted in 1991, the trade preferences of ATPA were modeled after those in the Caribbean Basin Economic Recovery Act (CBERA) as it existed at the time. The basic preferences in both acts were duty-free entry of U.S. imports from eligible countries<sup>2</sup> of all products not excluded, given certain country-of-origin requirements. Products excluded were textiles and apparel subject to textile agreements; certain foot wear; canned tuna; petroleum and petroleum products;

certain watches and watch parts; and certain leather-related products. There were duty reductions for certain handbags, luggage, and similar leather-related products. In addition, rum was excluded under ATPA.

The impact of ATPA on U.S. imports from beneficiary countries has never been large, mainly because of the relatively small number of items that receive preferential treatment exclusively from ATPA. U.S. imports from ATPA countries have been overwhelmingly dominated in recent years by petroleum and petroleum derivatives, which, along with other mineral fuels and similar products (chapter 27 of the Harmonized Tariff Schedule (HTS)), have accounted for around 30 to 40 percent of U.S. imports from ATPA countries, as shown in table 1.<sup>3</sup> Imports from ATPA countries have been dominated to a lesser extent by coffee, bananas, and shrimp, which are free of duty under normal trade relations (NTR) rates.

Total U.S. imports from ATPA countries, total imports under ATPA provisions, and total imports benefiting exclusively from ATPA in 1996-2000 are shown in table 2. Total imports from ATPA countries in 2000 rose 13 percent from 1999 after an 18-percent rise in 1999. Imports entered under ATPA rose 13 percent in 2000 and imports benefiting exclusively under ATPA rose 40 percent. Despite the healthy growth of imports from ATPA countries, the share of imports that benefit exclusively from ATPA provisions remains a small proportion of those imports, and even that proportion is deceptively large.

<sup>1</sup> The views and conclusions expressed in this article are those of the author. They are not necessarily the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

<sup>2</sup> The eligible countries under ATPA are Bolivia, Colombia, Ecuador, and Peru.

<sup>3</sup> Petroleum and petroleum derivatives are excluded from ATPA preferences, but NTR duties on these products are extremely low, amounting to less than 1 percent ad valorem equivalent in most cases. Most other chapter 27 items enter free of duty under NTR rates.

The concept of imports that benefit exclusively from ATPA is most useful for assessing the impact of ATPA on the United States or on ATPA countries. These are imports that can enter the United States free of duty or at reduced duties only under ATPA provisions. They are defined as those items that enter under either ATPA duty-free or reduced-duty provisions and are not eligible to enter free of duty under NTR rates or under other programs, such as the Generalized System of Preferences (GSP).<sup>4</sup> Consistent with this definition, GSP-eligible items imported from ATPA countries that entered under ATPA preferences are considered to benefit exclusively from ATPA only if imports of the item from a certain country exceed competitive need limits.<sup>5</sup> The leading items that benefited exclusively from ATPA in 1999 and 2000 are shown in table 3.

The share of imports that benefit exclusively from ATPA has typically been around half the value of imports that enter under ATPA in recent years (with the exception of 1995 and 1996 when there were uncertainties about the renewal of GSP). This reflects the fact that many items that entered under ATPA could also have entered free of duty under GSP. The share of imports benefiting exclusively from ATPA rose from 9.6 percent in 1999 to 11.8 percent in 2000.

The increase in the ATPA-exclusive share of imports and the level of that share are both deceptively high as indicators of the impact of ATPA. One product, copper cathodes (HTS subheading 7403.11.00), accounts for 65 percent of the increase in ATPA-exclusive imports from 1999 to 2000 and 43 percent of total ATPA-exclusive imports in 2000. Two products, copper cathodes and pigments (HTS subheading 3212.90.00), account for more than 100 percent of the change (\$379 million increase in imports of the two items versus \$373 million increase in total ATPA-exclusive imports) and over 53 percent of total ATPA-exclusive imports. If these two products are excluded, the remaining ATPA-exclusive imports account for only 5.5 percent of total imports from ATPA countries in 2000.

<sup>4</sup> All of the ATPA beneficiary countries are also GSP beneficiary countries.

<sup>5</sup> A beneficiary developing country loses GSP benefits for an eligible product when U.S. imports of the product exceed either a specific annually adjusted value or 50 percent of the value of total, U.S. imports of the product in the preceding calendar year—the so-called competitive-need limits. Sec. 504(c)(1) of the Trade Act of 1974, as amended. ATPA has no competitive-need limits. Thus, eligible products that are excluded from duty-free entry under GSP because their competitive-need limits have been exceeded can still receive duty-free entry under ATPA.

Imports of copper cathodes and pigments are probably not dependent on ATPA tariff preferences, mainly because the margin of preference for these products is very low. NTR duties on these products are 1 percent and 3.1 percent, respectively.<sup>6</sup> It is likely that U.S. imports of these products from ATPA countries would be nearly the same in the absence of ATPA preferences.

The effectiveness of ATPA is restricted by the limited number of ATPA-country products that benefit exclusively from ATPA preferences and the limited margin of preference received by major ATPA-exclusive products. It follows that major alternatives to the illegal drug trade will only occur with an expansion of product coverage. The legislation introduced by Senators Graham and DeWine would expand duty-free (and quota-free) entry to include apparel assembled in ATPA countries from U.S.-origin fabric, and would lower duties on other formerly excluded products to the duties applied to Mexican-origin products, many of which are already zero—essentially the same treatment accorded products from CBERA countries under CBTPA.<sup>7</sup>

The product area with the biggest potential for expanding U.S. imports from ATPA countries is apparel. The experience of CBERA countries is illustrative. Before liberal quota treatment was instituted for apparel assembled in CBERA countries from U.S. fabric, imports of apparel (HTS chapters 61 and 62) amounted to about 5 percent of U.S. imports from CBERA countries.<sup>8</sup> By 2000, apparel amounted to nearly 45 percent of such imports. Further expansion of the apparel share can be expected to result from full duty elimination under CBTPA. Imports of apparel accounted for about 7.5 percent of U.S. imports from ATPA countries in 2000, very close to the share from CBERA countries before the first stages of apparel trade liberalization. The simultaneous liberalization of duties and quotas for imports of apparel from ATPA countries could open up possibilities similar to what happened in CBERA countries.

<sup>6</sup> Both products are GSP-eligible, but Peru (the exclusive source of benefiting copper cathodes) has exceeded the competitive need limit for copper cathodes, and Colombia (the exclusive source of benefiting pigments) has exceeded the competitive need limit for pigments, leading to their inclusion in the list of ATPA-exclusive products.

<sup>7</sup> For additional information on impending legislation, CBTPA provisions, and the apparel industry in ATPA countries, see Laura V. Rodriguez, "Apparel: Andean Countries Seek Parity with Caribbean Basin Countries to Remain Competitive in the U.S. Market," *Industry Trade and Technology Review*, USITC Publication 3413, March 2001, pp. 1-13.

<sup>8</sup> See fig. 2-2 in USITC, *CBERA, Fourteenth Report*, USITC Publication 3234, p. 9.

**Table 1**  
**Leading U.S. imports from ATPA countries, by HTS chapter, 1999-2000**

HTS chapter	Description	1999		2000	
		Customs value <i>(1,000 dollars)</i>	Percent of total	Customs value <i>(1,000 dollars)</i>	Percent of total
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes .....	3,555,699	36.2	4,783,829	43.0
74	Copper and articles thereof .....	353,731	3.6	601,776	5.4
09	Coffee, tea, mate and spices .....	629,643	6.4	541,473	4.9
61	Articles of apparel and clothing accessories, knitted or crocheted .....	463,069	4.7	536,544	4.8
08	Edible fruit and nuts; peel of citrus fruit or melons .....	587,067	6.0	517,442	4.7
29	Organic chemicals .....	292,501	3.0	477,396	4.3
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin .....	704,196	7.2	467,933	4.2
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage .....	438,735	4.5	441,745	4.0
99	Special import reporting provisions, nesi .....	309,914	3.2	365,536	3.3
03	Fish and crustaceans, molluscs and other aquatic invertebrates .....	533,682	5.4	345,307	3.1
62	Articles of apparel and clothing accessories, not knitted or crocheted .....	245,379	2.5	294,488	2.6
32	Tanning or dyeing extracts; tannins and derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastics; inks .....	169,936	1.7	209,386	1.9
98	Special classification provisions, nesi .....	178,107	1.8	140,789	1.3
80	Tin and articles thereof .....	81,505	0.8	116,060	1.0
44	Wood and articles of wood; wood charcoal .....	111,187	1.1	112,544	1.0
	Subtotal .....	8,654,352	88.0	9,952,249	89.5
	Total .....	9,830,217	100.0	11,117,225	100.0

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

**Table 2****Total imports from ATPA beneficiaries, imports entered under ATPA provisions, and imports that benefited exclusively from ATPA provisions, 1996-2000**

Item	1996	1997	1998	1999	2000
Total imports from ATPA beneficiaries:					
Value ( <i>million dollars</i> <sup>1</sup> ) .....	7,868	8,674	8,361	9,830	11,117
Imports entered under ATPA provisions: <sup>2</sup>					
Value ( <i>millions dollars</i> <sup>1</sup> ) .....	1,270	1,353	1,645	1,750	1,981
Percent of total .....	16.1	15.6	19.7	17.8	17.8
Imports that benefited exclusively from ATPA provisions:					
Value ( <i>million dollars</i> <sup>1</sup> ) .....	1,033	635	915	939	1,312
Percent of total .....	13.1	7.3	10.9	9.6	11.8

<sup>1</sup> Customs value.

<sup>2</sup> Includes articles entered free of duty and at reduced duties under ATPA provisions.

Source: Estimated by the staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.



**Table 3**  
**Leading U.S. imports that benefited exclusively from ATPA, 1999-2000**

HTS number	Description	1,000 dollars		Change
		1999	2000	1999-2000
				Percent
7403.11.00 <sup>1</sup>	Refined copper cathodes and sections of cathodes .....	323,788	565,651	74.7
0603.10.60	Roses, fresh cut .....	182,878	192,420	5.2
3212.90.00 <sup>2</sup>	Pigments dispersed in nonaqueous media, in liquid or paste form, used in making paints; dyes & coloring matter packaged for retail sale .....	0	136,963	-
0603.10.70 <sup>3</sup>	Chrysanthemums, standard carnations, anthuriums and orchids, fresh cut .....	133,376	119,480	-10.4
1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each .....	83,054	74,620	-10.2
2843.30.00 <sup>3</sup>	Gold compounds .....	56,649	48,603	-14.2
0709.20.90	Asparagus, nesi, fresh or chilled .....	26,605	33,412	25.6
7113.19.21 <sup>1</sup>	Gold rope necklaces and neck chains .....	12,360	18,656	50.9
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	230.3
4202.91.00 <sup>4</sup>	Cases, bags and containers nesi, with outer surface of leather, of composition leather or patent leather .....	9,378	9,991	6.5
0709.20.10 <sup>1</sup>	Asparagus, fresh or chilled, not reduced in size, if entered September 15 to November 15, inclusive, and transported to the U.S. by air .....	13,036	9,855	-24.4
7905.00.00	Zinc, plates, sheets, strip and foil .....	23,489	8,978	-61.8
6908.90.00	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, nesi .....	6,994	8,392	20.0
4202.21.90	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over \$20 ea. ....	3,262	5,056	55.0
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size .....	2,442	4,788	96.1
4202.11.00	Trunks, suitcases, vanity & all other cases, occupational luggage & like containers, surface of leather, composition or patent leather .....	5,642	4,725	-16.3
7210.49.00	Iron/nonalloy steel, width 600mm+, flat-rolled products, plated or coated with zinc (other than electrolytically), not corrugated .....	2,865	4,432	54.7
4202.21.60	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, n/o \$20 ea. ....	3,280	4,004	22.1
2003.10.00	Mushrooms, prepared or preserved otherwise than by vinegar or acetic acid .....	1,872	3,545	89.4
4412.29.45 <sup>5</sup>	Plywood nesi, at least one hardwood outer ply nesi, no particle board, surface covered other than clear/transparent .....	4,192	3,535	-15.7
	Total of above .....	899,198	1,270,437	41.3
	Total .....	939,096	1,312,316	39.7

See notes at end of table.

**Table 3—Continued**  
**Leading U.S. imports that benefited exclusively from ATPA, 1999-2000**

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<sup>1</sup> Includes only imports from Peru. Item is GSP-eligible, but imports from Peru exceeded the competitive need limit and thus were eligible for duty-free entry only under ATPA.

<sup>2</sup> Includes only imports from Colombia for the second half of 2000. Item is GSP-eligible, but imports from Columbia exceeded the competitive need limit and thus were eligible for duty-free entry only under ATPA in the second half of 2000. There were substantial imports of pigments under ATPA in 1999 and the first half of 2000 that could have entered free of duty under GSP during that period, and therefore were not counted as benefiting exclusively from ATPA.

<sup>3</sup> Includes only imports from Colombia. Item is GSP-eligible, but imports from Colombia exceeded the competitive need limit and thus were eligible for duty-free entry only under ATPA.

<sup>4</sup> Subject to reduced duties under ATPA provisions.

<sup>5</sup> Includes only imports from Ecuador. Item is GSP-eligible, but imports from Ecuador exceeded the competitive need limit and thus were eligible for duty-free entry only under ATPA.

Note.—The abbreviation, nesi, stands for “not elsewhere specified or included.”

Source: Estimated by the staff of the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

# U.S. TRADE DEVELOPMENTS

Michael Youssef<sup>1</sup>  
myoussef@usitc.gov  
202-205-3269

The U.S. Department of Commerce (*Commerce News*, FT-900 (01-05)) reported that seasonally adjusted total exports of goods and services of \$87.7 billion and imports of \$116.1 billion in May 2001 resulted in a goods and services trade deficit of \$28.3 billion; this was \$3.7 billion less than the \$32.0 billion in April 2001.<sup>2</sup> May 2001 exports of goods and services were \$0.8 billion more than April 2001 exports of \$86.9 billion. May imports of goods and services were \$2.9 billion less than the April imports of \$118.9 billion.

May 2001 merchandise exports increased to \$62.8 billion from \$62.2 billion in April 2001. Merchandise imports decreased to \$197.2 billion from \$99.8 billion, causing the merchandise trade deficit to decrease in

May by \$3.3 billion to \$34.4 billion from \$37.7 billion in April. For services, exports increased to \$24.9 billion, and imports of services decreased to 18.8 billion from \$19.1 billion resulting in a surplus of \$6.1 billion slightly higher than \$5.7 billion surplus in April.

Exports of merchandise goods in March-May 2001 reflected increases in capital goods; automotive vehicles, parts and engines, consumer goods and in the statistical category "Other goods." Decreases occurred in foods, feeds, and beverages; and industrial supplies and materials. Imports of goods reflected decreases in capital goods, consumer goods, and automotive vehicles, parts, and engines, and industrial supplies and materials. Other goods and foods, feeds, and beverages were virtually unchanged. Additional information on U.S. trade developments in agriculture and specified manufacturing sectors, in April-May 2001, are highlighted in tables 1 and 2 and figures 1 and 2. Services trade developments are highlighted in table 3.

<sup>1</sup> The views and conclusions expressed in this article are those of the author. They are not necessarily the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

<sup>2</sup> Data for this article was taken largely from U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Trade in Goods and Services," *Commerce News*, FT-900 (01-05), May 2001, <http://www.bea.doc.gov/bea/newsrel/trad0501.htm>, retrieved July 25, 2001.

**Table 1**  
**U.S. trade in goods and services, seasonally adjusted, Apr.-May 2001**  
(Billion dollars)

Item	Exports		Imports		Trade balance	
	May 2001	Apr. 2001	May 2001	Apr. 2001	May 2001	Apr. 2001
Trade in goods (Current dollars) (see note)						
Including oil . . . . .	62.8	62.2	97.2	99.8	-34.4	-37.6
Excluding oil . . . . .	62.7	61.9	86.8	89.7	-24.1	-27.8
Trade in services (Current dollars) . . . . .	24.9	24.8	18.8	19.1	6.1	5.7
Trade in goods and services (Current dollars) . . .	87.7	86.9	116.1	118.9	-28.4	-32.0
Trade in goods (1996 dollars) (Census basis) . . .	69.0	68.3	103.2	106.9	-34.2	-38.6
Advanced technology products (not seasonally adjusted) . . . . .	17.2	16.6	15.3	16.2	1.9	0.4

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

Source: Calculated from data from U.S. Department of Commerce, "Exhibit 1. U.S. International Trade in Goods and Services," "Exhibit 10. Exports and Imports of Goods by Principal End-Use Category (Constant Dollars Basis), 1996 Constant Dollar Basis," "Exhibit 16. Exports, Imports and Balance of Advanced Technology Products," FT-900 (01-05), July 19, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad0501.htm>.

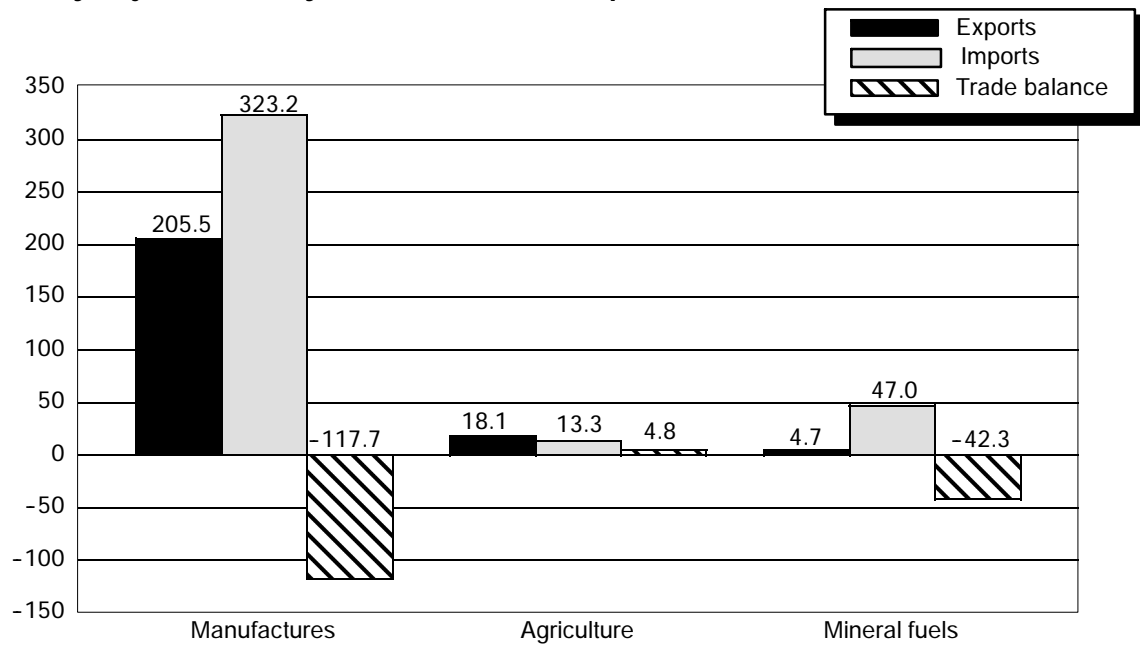
**Table 2**  
**Nominal U.S. exports and trade balances, agriculture and specified manufacturing sectors, Jan. 2000-May 2001**

	Exports		Imports		Change in exports, Jan.-May 2001 over Jan.-May 2000	Share of total exports, Jan.-May 2001	Trade balance		
	May 2001	Jan.-May 2001	Jan.-May 2001	Jan.-May 2000			Jan.-May 2001	Jan.-May 2001	Jan.-May 2000
	<i>Billion dollars</i>						<i>Percentage</i>		<i>Billion dollars</i>
ADP equipment & office machinery .....	3.2	17.9	32.6	17.9	34.8	0.0	5.5	-14.7	-16.9
Airplanes .....	2.7	11.9	6.1	10.7	4.2	11.2	3.7	5.8	6.5
Airplane parts .....	1.4	6.7	2.7	6.1	2.2	9.8	2.1	4.0	3.9
Electrical machinery .....	6.3	34.0	38.5	34.6	41.5	-1.7	10.5	-4.5	-6.9
General industrial machinery .....	2.9	14.3	14.9	13.7	14.8	4.4	4.4	-0.6	-1.1
Iron & steel mill products .....	0.5	2.4	5.2	2.4	6.8	0.0	0.7	-2.8	-4.4
Inorganic chemicals .....	0.5	2.6	2.7	2.1	2.4	23.8	0.8	-0.1	-0.3
Organic chemicals .....	1.5	7.4	13.2	7.4	11.0	0.0	2.3	-5.8	-3.6
Power-generating machinery .....	3.0	13.9	15.3	13.5	14.3	3.0	4.3	-1.4	-0.8
Scientific instruments .....	2.5	12.9	9.2	12.0	8.3	7.5	4.0	3.7	3.7
Specialized industrial machinery .....	2.2	12.2	9.3	12.4	9.7	-1.6	3.8	2.9	2.7
Televisions, VCRs, etc .....	2.0	10.5	25.0	10.9	25.0	-3.7	3.2	-14.5	-14.1
Textile yarns, fabrics and articles .....	0.9	4.4	6.2	4.3	6.3	2.3	1.4	-1.8	-2.0
Vehicles .....	5.2	23.1	66.3	25.7	67.9	-10.1	7.1	-43.2	-42.2
Subtotal .....	34.8	174.2	247.2	173.7	249.2	44.9	53.9	-73.0	-75.5
Other manufactures exports not included above .....	17.0	83.1	155.2	80.4	150.4	-42.6	25.7	-93.2	-87.0
Manufactures .....	51.8	257.3	402.4	254.1	399.6	1.3	79.6	-145.1	-145.5
Agriculture .....	4.1	22.2	16.7	20.9	17.0	6.2	6.9	5.5	3.9
Subtotal .....	55.9	279.5	419.1	275.0	416.6	7.5	86.5	-139.6	-141.6
Other exports, not included above .....	9.0	43.6	70.2	40.8	61.7	-42.6	13.5	-93.2	-87.0
Total .....	64.9	323.1	489.3	315.8	478.3	2.3	100.0	-166.2	-162.5

Note.—Data may not add to totals shown because of rounding details. Data are presented on a Census basis.

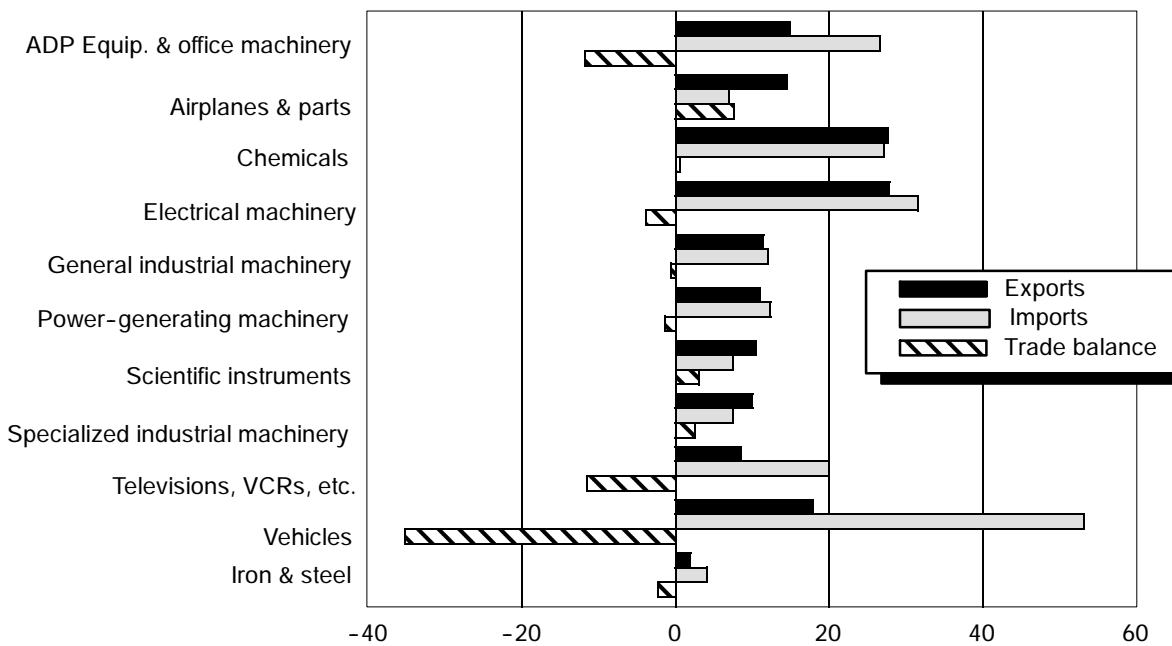
Source: Calculated from data from U.S. Department of Commerce, "Exhibit 15. Exports and Imports of Goods by Principal SITC Commodity Groupings," FT-900 (01-05), July 19, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad0501.htm>.

**Figure 1**  
U.S. trade by major commodity, billion dollars, Jan.-Apr. 2001



Source: Calculated from data from U.S. Department of Commerce, "Exhibit 15. Exports and Imports of Goods by Principal SITC Commodity Groupings," FT-900 (01-04), June 21, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad0401.htm>.

**Figure 2**  
U.S. trade in principal goods, billion dollars, Jan.-Apr. 2001



Source: Calculated from data from U.S. Department of Commerce, "Exhibit 15. Exports and Imports of Goods by Principal SITC Commodity Groupings," FT-900 (01-04), June 21, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad0401.htm>.

**Table 3**  
**Nominal U.S. exports and trade balances of services, by sectors, Jan. 2000-May 2001, seasonally adjusted**

Service sector	Exports		Change Jan.-May 2001 over Jan.-May 2000	Imports		Trade balance	
	Jan.-May 2001	Jan.-May 2000		Jan.-May 2001	Jan.-May 2000	Jan.-May 2001	Jan.-May 2000
	<i>Billion dollars</i>		<i>Percentage</i>	<i>Billion dollars</i>			
Travel .....	33.8	34.4	-1.7	26.9	27.1	-0.6	7.3
Passenger fares .....	8.2	8.6	-4.7	10.2	9.9	-0.4	-1.3
Other transportation services .....	12.2	12.4	-1.6	17.3	16.4	-0.2	-4.0
Royalties and license fees .....	16.6	15.7	5.7	7.6	6.1	0.9	9.6
Other private sales .....	47.1	44.0	7.0	25.6	21.3	3.1	22.7
Transfers under U.S. military sales contracts .....	5.7	6.0	-5.0	5.9	5.5	-0.3	0.5
U.S. Government miscellaneous services .....	0.4	0.4	0.0	1.2	1.2	0.0	-0.8
Total .....	124.0	121.5	2.1	94.7	87.4	2.5	34.1

Note.—Services trade data are on a balance-of-payments (BOP) basis. Data may not add to totals shown because of rounding details and seasonal adjustments.

Source: Compiled from U.S. Department of Commerce, "Exhibit 3. U.S. Services by Major Category — Exports," "Exhibit 4. U.S. Services by Major Category — Imports," FT-900 (01-05), July 19, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad0501.htm>.

In May 2001, exports of advanced technology products were \$17.2 billion and imports of the same were \$15.3 billion, resulting in a surplus of 2.0 billion, about \$1.6 billion more than the April surplus of 0.4 billion.

The May 2001 trade data showed U.S. surpluses with Australia, Argentina, Brazil, Egypt, Hong Kong and Singapore. Deficits were recorded with Japan, China, Western Europe, Canada, Mexico, Korea, Taiwan, and OPEC member countries.

The export of goods and services during January-May 2001 increased to \$444.0 billion, up from \$432.8 billion during January-May 2000, an increase of 2.6 percent. However, imports of goods and services increased to \$599.3 billion, up from \$579.9 billion during the same period, an increase of 3.3 percent. As a consequence, the trade deficit increased to \$155.4 billion for the January-May period, up from \$147.1 billion during January-May 2000, an increase of 5.7 percent.

The export of goods during January-May 2001 increased to \$319.9 billion from \$311.3 billion during the same 2000 period, an increase of 2.8 percent, but imports of goods rose to \$504.5 billion, up from \$492.5 billion in January-May 2000, an increase of 2.4

percent. Consequently, the merchandise trade deficit rose to \$155.4 billion from \$147.1 billion, a 5.6 percent increase. Regarding trade in services, exports in January-May 2001 increased to \$124.0 billion up from \$121.5 billion in the same period of 2000, an increase of 2.1 percent. Imports of services rose to \$94.8 billion up from \$87.4 billion, an increase of 8.5 percent. The surplus on trade in services decreased to \$29.2 billion from \$34.2 billion.

The January-May 2001 exports of advanced technology products rose to \$91.0 billion up from \$88.4 billion in January-May 2000, an increase of 2.9 percent. Imports rose to \$83.8 billion from \$82.1 in the same period, an increase of 2.1 percent. The trade surplus increased to \$7.2 billion from \$6.3 billion in January-May 2000, an increase of 14.3 percent.

The January-May 2001 trade data in goods and services showed trade deficits with Canada, Mexico, Western Europe, the Euro area (EU-11), the European Union (EU-15), EFTA, Eastern Europe, China, Japan, Korea, Taiwan, and OPEC. Trade surpluses were recorded with Belgium, the Netherlands, Spain, Australia, Argentina, Brazil, and Egypt. U.S. trade developments with major trading partners are highlighted in table 4.

**Table 4**  
**U.S. exports and imports of goods with major trading partners, Jan. 2000-May 2001**  
*(Billion dollars)*

Country/areas	Exports			Imports			Trade balance	
	May 2001	Jan.-May 2001	Jan-May 2000	May 2001	Jan.-May 2001	Jan.-May 2000	Jan.-May 2001	Jan.-May 2000
Total .....	64.9	323.1	315.8	97.1	489.3	478.3	-166.2	-162.5
North America .....	23.8	115.9	120.5	31.5	151.3	148.4	-35.4	-27.9
Canada .....	15.2	72.3	76.3	20.1	96.4	94.9	-24.1	-18.6
Mexico .....	8.6	43.6	44.3	11.4	55.0	53.5	-11.4	-9.2
Western Europe .....	16.2	80.1	74.9	20.8	104.1	97.0	-24.0	-22.1
Euro Area .....	9.5	50.1	47.3	14.4	71.6	65.5	-21.5	-18.2
European Union (EU-15) .....	14.1	71.4	67.4	19.0	95.3	88.7	-23.9	-21.3
France .....	1.7	9.0	8.3	2.6	13.6	12.1	-4.6	-3.8
Germany .....	2.6	13.5	12.5	5.2	25.7	23.9	-12.2	-11.4
Italy .....	0.8	4.4	4.3	2.0	10.2	10.0	-5.8	-5.7
Netherlands .....	1.6	8.9	8.7	0.9	4.1	4.0	4.8	4.7
United Kingdom .....	4.1	18.3	17.0	3.6	18.3	17.8	0.0	-0.8
Other EU .....	0.9	5.2	4.8	1.9	9.7	7.7	-4.5	-2.9
EFTA <sup>1</sup> .....	1.7	6.6	5.5	1.4	7.0	6.7	-0.4	-1.2
Eastern Europe/FSR .....	0.6	3.0	2.3	1.1	6.6	6.4	-3.6	-4.1
Russia .....	0.3	1.2	0.8	0.4	3.2	3.1	-2.0	-2.3
Pacific Rim Countries .....	15.2	80.0	78.8	29.3	156.0	158.6	-76.0	-79.8
Australia .....	0.9	4.5	5.3	0.5	2.6	2.4	1.9	2.9
China .....	1.6	7.4	5.9	7.8	37.8	34.8	-30.4	-28.9
Japan .....	4.9	26.4	25.7	9.7	55.9	59.1	-29.5	-33.4
NICs <sup>2</sup> .....	5.8	31.6	32.8	7.6	40.0	42.1	-8.4	-9.3
Latin America .....	5.2	25.0	23.1	5.8	29.8	29.0	-4.8	-5.9
Argentina .....	0.4	1.9	1.9	0.3	1.3	1.2	0.6	0.7
Brazil .....	1.4	6.6	5.4	1.3	5.9	5.4	0.7	0.0
OPEC .....	1.7	8.9	7.4	5.8	27.5	25.1	-18.6	-17.7
Other Countries .....	3.0	13.8	11.8	5.0	25.6	24.9	-11.8	-13.1
Egypt .....	0.3	1.4	1.4	0.1	0.4	0.3	1.0	1.1
South Africa .....	0.3	1.3	1.0	0.4	1.9	1.5	-0.6	-0.5
Other .....	2.3	11.1	9.4	4.5	23.4	23.1	-12.3	-13.7

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

<sup>2</sup> The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan. FSR = Former Soviet Republics.

Note.—Country/area figures may not add to the totals shown because of 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 data from U.S. Department of Commerce, "Exhibit 14. Exports, Imports and Balance of Goods by Selected Countries and Geographic Areas," FT-900 (01-05), July 19, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad0501.htm>.



# INTERNATIONAL ECONOMIC COMPARISON

Michael Youssef<sup>1</sup>  
myoussef@usitc.gov  
202-205-3269

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

### Economic Growth

U.S. real GDP—the output of goods and services produced in the United States measured in 1996 prices—grew at a revised annual rate of 1.2 percent in the first quarter of 2001 following a 1.0-percent growth rate in the fourth quarter of 2000, according to advance estimates by the U.S. Bureau of Economic Analysis (*BEA News Release*, BEA 01-20).<sup>2</sup> For the year 2000 real GDP grew by 5.0 percent.

The annualized rate of real GDP growth in the first quarter of 2001 was 1.7 percent in the United Kingdom, 2.5 percent in Canada, 2.0 percent in France, 1.5 percent in Germany, 2.8 percent in Italy and -0.8 percent in Japan. The annualized rate of real GDP growth in the first quarter was 2.0 percent for EU members linked by the Euro currency, the Euro area (EU-11).

### Industrial Production

The Federal Reserve Board (*Federal Reserve Statistical Release*, G.17) reported that U.S. industrial production fell 0.7 percent in June following a decline of 0.8 percent in May 2001. After nine consecutive

months of decline, industrial production in June was nearly 3-1/2 percent below its level in June 2000. Manufacturing output, which also posted its ninth consecutive monthly decline, contracted 0.8 percent in June, to more than 4.0 percent below its year-earlier level. Mining output weakened 0.4 percent and utilities production increased 0.9 percent. The output of consumer goods dipped 0.2 percent in June, despite a gain in the production of consumer energy goods. The production of automotive products, which jumped in May, fell back 1.3 percent in June; the level of production was nearly 7.0 percent below that of June 2000. Elsewhere among consumer durables, the production of home audio and video equipment, appliances, and household furniture weakened noticeably. The output of non-durable consumer goods was flat. The output of business equipment fell 1.4 percent in June. The output of production and information processing equipment declined 1.2 percent, reflecting, in part, continued losses in the communication equipment industry; the output of computer and office equipment was flat in June. Output of utilities increased 0.9 percent, and production of mining weakened 0.4 percent in June. Total capacity utilization in June 2001 was 3.6 percent higher than in June 2000.

Other G-7 member countries reported the following growth rates of industrial production. For the year that ended in April 2001, Japan reported a decline of 4.9 percent and the United Kingdom reported a decline of -0.8 percent, Germany reported an increase of 1.0 percent. For the year ended March 2001, Italy reported a decline of 0.3 percent, France reported an increase of 1.9 percent, and Canada reported an increase of 0.7 percent. The Euro area reported an increase of 3.0 percent for the year that ended in March 2001.

<sup>1</sup> The views and conclusions expressed in this article are those of the author. They are not necessarily the views of the U.S. International Trade Commission as a whole or of any individual commissioner.

<sup>2</sup> Data for this article was taken largely from the following sources: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product: First Quarter 2001 (Final)," *BEA News Release*, BEA 01-20, June 29, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/gdp101f.htm>, retrieved July 25, 2001; Federal Reserve Board, "Industrial Production and Capacity Utilization," G.17 Release, July 17, 2001, found at Internet address <http://www.federalreserve.gov/releases/G17/Current/>, retrieved July 25, 2001; U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Price Index: June 2001,"

2—Continued  
*USDL-01-226*, July 18, 2001, found at Internet address <http://www.bls.gov/news.release/cpi.nr0.htm>, retrieved July 25, 2001; U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation: June 2001," *USDL 01-206*, July 6, 2001, found at Internet address <http://www.bls.gov/news.release/empsit.nr0.htm>, retrieved July 25, 2001; and the Conference Board, Consumer Research Center, "Forecasters' Forecasts: June 2001," facsimile transmission, July 12, 2001, used with permission.

## Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) increased by 0.4 percent in May 2001, following a 0.3 percent rise in April, according to the U.S. Department of Labor (*Consumer Price Index: June 2001*, USDL-01-226). For the 12-month period that ended in May 2001, the more specific urban CPI (CPI-U) increased by 3.6 percent.

During the 1-year period that ended in May 2001, prices increased by 3.5 percent in Germany, 2.1 percent in the United Kingdom, 2.3 percent in France, and 3.0 percent in Italy. During the 1-year that ended in April 2001, prices increased by 3.6 percent in Canada, and in Japan prices fell by 0.4 percent. Prices increased by 2.9 percent in the Euro area in the year that ended in April 2001.

## Employment

The Bureau of Labor Statistics (*Employment Situation Summary*, USDL 01-206) reported that the U.S. unemployment rate was little changed from 4.5 percent in April 2001 to 4.4 percent in May. Large job losses continued in manufacturing, which was mostly offset by employment gains in other industries, including services, construction and finance, insurance and real estate.

In other G-7 countries, their latest unemployment rates were 7.0 percent in Canada, 9.3 percent in Ger-

many, 5.0 percent in the United Kingdom, 8.7 percent in France, 9.9 percent in Italy, and 4.8 percent in Japan. The unemployment rate in the Euro area was 8.3 percent.

## Forecasts

Seven major U.S. forecasters expect real GDP growth in the United States during the second quarter of 2001 to reach an average of about 1.8 percent at an annualized rate, and to increase to 2.0 percent in the third quarter and 2.8 percent in the fourth quarter. The growth rate for the year 2001 is expected to average about 1.7 percent. Table 1 shows macroeconomic projections for the U.S. economy from January to December 2001, and the simple average of these forecasts. Forecasts of all the economic indicators, except unemployment, are presented as percentage changes from the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 4.5 percent in the second quarter, and a slight increase in the third and fourth quarters. For the year 2001, the unemployment rate is projected to reach 4.6 percent. Inflation, as measured by the GDP deflator, is expected to remain subdued, reaching an average of about 2.4 percent in the second quarter and about 2.4 percent during 2001.

**Table 1**  
**Projected changes of selected U.S. economic indicators, by quarters, Jan.-Dec. 2001**  
*(Percentage)*

	Conference Board	Macroeconomic Advisers	DRI-WEFA	UCLA Business Forecasting Project	Regional Financial Assoc.	Merrill Lynch Capital Markets	E.I. Dupont	Mean of forecasts
<b>GDP, constant dollars</b>								
<b>2001</b>								
Jan.-Mar. ....	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Apr.-June ....	2.6	0.8	0.9	-0.3	0.4	1.2	0.0	0.8
July-Sept. ....	4.4	2.6	1.1	-0.2	2.3	2.1	1.8	2.0
Oct.-Dec. ....	4.6	3.5	2.2	0.0	3.4	3.7	2.2	2.8
Annual 2001 ....	2.5	1.8	1.6	1.1	1.7	1.8	1.5	1.7
<b>GDP price deflator</b>								
<b>2001</b>								
Jan.-Mar. ....	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Apr.-June ....	2.6	2.6	2.6	3.2	2.0	1.4	2.2	2.4
July-Sept. ....	3.3	2.2	3.3	3.0	1.8	1.8	2.2	2.5
Oct.-Dec. ....	3.3	2.2	2.2	3.5	1.8	1.4	2.2	2.4
Annual 2001 ....	2.6	2.4	2.5	2.7	2.3	2.1	2.2	2.4
<b>Unemployment, average rate</b>								
<b>2001</b>								
Jan.-Mar. ....	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Apr.-June ....	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
July-Sept. ....	4.6	4.6	4.8	4.8	4.7	4.8	4.8	4.7
Oct.-Dec. ....	4.4	4.6	5.0	5.4	4.9	5.0	5.0	4.9
Annual 2001 ....	4.4	4.5	4.6	4.7	4.6	4.6	4.6	4.6

Note.—Except for the unemployment rate, percentage changes in the forecast represent annualized rates of change from the preceding period. Quarterly data are seasonally adjusted. Forecast date, June 2001.



## U.S. International Transactions: First Quarter 2001<sup>1</sup>

*The estimates of the international transactions accounts for the first quarter of 2001 have been revised to reflect the incorporation of improved estimating methodologies and newly available source data, says the Bureau of Economic Analysis of the U.S. Department of Commerce. A summary of the revisions is provided in the section on "Revisions."*

### Current Account

The U.S. current-account deficit—the combined balances on trade in goods and services, income, and net unilateral current transfers—decreased to \$109.6 billion in the first quarter of 2001 from \$116.3 billion (revised) in the fourth quarter of 2000, according to preliminary estimates of the U.S. Bureau of Economic Analysis. Decreases in the deficit on goods and services and in net unilateral current transfers more than offset a shift from a small surplus to a deficit on income.

### Goods and Services

The deficit on goods and services decreased to \$95.0 billion in the first quarter of 2001 from \$100.3 billion in the fourth quarter of 2000. The deficit on goods decreased to \$112.5 billion in the first quarter of 2001 from \$118.5 billion in the fourth quarter of last year. Goods exports decreased to \$194.9 billion from \$196.2 billion. An increase in agricultural exports was more than offset by a decrease in nonagricultural exports. Within nonagricultural exports, decreases in automotive products and in industrial supplies and materials more than offset increases in consumer goods and in capital goods. Goods imports decreased to \$307.5 billion from \$314.8 billion. Both petroleum and non-petroleum imports decreased. The decrease in the value of petroleum imports was attributable to a decline in petroleum prices; the volume of petroleum imports increased. Regarding non-petroleum imports, the largest decreases in value were in capital goods and in automotive products. The surplus on services decreased to \$17.5 billion in the first quarter of 2001 from \$18.2 billion in the fourth quarter of 2000. Services receipts increased to \$74.4 billion from \$73.9 billion. The increase was more than accounted for by increases in "other" private services (such as financial services and business, professional, and technical services) and in royalties and license fees. Services payments increased to \$56.9 billion from \$55.7 billion. The increase was more than accounted for by increases in "other" private services, royalties and license fees, and travel.

<sup>1</sup> The views and conclusions expressed in this article are those of the author. They are not necessarily the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

### Investment Income

The overall balance of income receipts—including direct investment receipts and U.S. Government and other private income receipts from U.S. assets abroad—shifted to a deficit of \$3.1 billion in the first quarter of 2001 from a surplus of \$0.6 billion in the fourth quarter of 2000. Income receipts on U.S.-owned assets abroad decreased to \$86.0 billion in the first quarter of 2001 from \$91.9 billion in the fourth quarter of 2000, largely as a result of a decrease in "other" private receipts. Direct investment receipts also decreased, and U.S. Government receipts increased slightly. Income payments on foreign-owned assets in the United States decreased to \$87.7 billion from \$89.9 billion, mostly as a result of a decrease in "other" private payments. U.S. Government payments also decreased, and direct investment payments increased.

### Compensation of Employees

Receipts for compensation of U.S. workers abroad were unchanged at \$0.6 billion. Payments for compensation of foreign workers in the United States edged up to \$2.0 billion from \$1.9 billion.

### Unilateral Current Transfers

Unilateral current transfers were net outflows of \$11.5 billion in the first quarter of 2001, down from net outflows of \$16.7 billion in the fourth quarter of 2000. The decrease was largely accounted for by a decrease in U.S. Government grants, which were boosted in the fourth quarter of 2000 by grants to Israel.

## Capital and Financial Account

### Capital Account

Capital account transactions were net inflows of \$0.2 billion in the first quarter of 2001, unchanged from the fourth quarter of 2000.

### Financial Account

Net recorded financial inflows—net acquisitions by foreign residents of assets in the United States less

net acquisitions by U.S. residents of assets abroad—were \$80.6 billion in the first quarter of 2001, compared with \$113.8 billion in the fourth quarter of 2000. Financial inflows for foreign-owned assets in the United States decreased more than financial outflows for U.S.-owned assets abroad.

## U.S.-owned Assets Abroad

U.S.-owned assets abroad increased \$156.9 billion in the first quarter of 2001, following an increase of \$181.5 billion in the fourth quarter of 2000. U.S. claims on foreigners reported by U.S. banks increased \$90.0 billion in the first quarter of 2001, following an increase of \$71.6 billion in the fourth quarter of 2000. The first-quarter increase was attributable to continued strong lending by U.S. banks to foreign banks and a surge in lending by U.S. brokers and dealers. Net U.S. purchases of foreign securities were \$28.5 billion in the first quarter of 2001, up from \$24.6 billion in the fourth quarter of 2000. Net U.S. purchases of foreign stocks were \$25.5 billion, up from \$22.4 billion; the increase was more than accounted for by a shift to net U.S. purchases from Asia from net U.S. sales previously. Net U.S. purchases of foreign bonds were \$3.0 billion, up from \$2.3 billion; the increase was more than accounted for by a shift to net U.S. purchases of outstanding bonds from Western Europe from net U.S. sales. Net financial outflows for U.S. direct investment abroad were \$33.0 billion in the first quarter of 2001, down from \$39.1 billion in the fourth quarter of 2000. The decrease was largely accounted for by a shift to net inflows for inter-company debt from net outflows. Both net equity capital outflows and reinvested earnings decreased. U.S. official reserve assets decreased \$0.2 billion in the first quarter of 2001, in contrast to an increase of \$1.4 billion in the fourth quarter of 2000.

## Foreign-owned Assets in the United States

Foreign-owned assets in the United States increased \$237.5 billion in the first quarter of 2001, following an increase of \$295.3 billion in the fourth quarter of 2000. U.S. liabilities to foreigners reported by U.S. banks, excluding U.S. Treasury securities, decreased \$0.5 billion in the first quarter of 2001, in contrast to an increase of \$43.4 billion in the fourth quarter of 2000. The small first-quarter decrease was more than accounted for by a reduction in borrowing by U.S.-owned banks from foreign banks. Transactions in U.S. Treasury securities shifted to net foreign purchases of \$0.5 billion in the first quarter of 2001 from net foreign sales of \$10.4 billion in the fourth quarter of 2000. The shift was more than accounted for by a shift to net purchases by investors in Western Europe.

Net foreign purchases of U.S. securities other than U.S. Treasury securities were a record \$147.1 billion in the first quarter of 2001, up from \$126.6 billion in the fourth quarter of 2000. (The previous record was \$136.2 billion in the first quarter of 2000.) Net foreign purchases of U.S. stocks were \$41.0 billion, up from \$39.3 billion; the increase occurred despite widespread declines in U.S. stock prices. Net foreign purchases of U.S. corporate and other bonds were a record \$106.1 billion, up from the previous record \$87.4 billion in the fourth quarter of 2000; the increase was largely accounted for by an increase in net purchases by investors in Western Europe. Net financial inflows for foreign direct investment in the United States were \$41.6 billion in the first quarter of 2001, down from \$84.7 billion in the fourth quarter of 2000. The decrease was more than accounted for by a decrease in net equity capital inflows, resulting from a drop in foreign acquisitions of U.S. companies after a very strong fourth quarter in 2000. In contrast, net inter-company debt inflows increased and reinvested earnings edged higher. Net U.S. currency shipments to foreigners were \$2.3 billion in the first quarter of 2001, down from \$6.2 billion in the fourth quarter of 2000. Foreign official assets in the United States increased \$4.1 billion in the first quarter of 2001, in contrast to a decrease of \$3.6 billion in the fourth quarter of 2000. The statistical discrepancy—errors and omissions in recorded transactions—was a positive \$28.8 billion in the first quarter of 2001, following a positive \$2.4 billion in the fourth quarter of 2000. In the first quarter of 2001, the U.S. dollar was unchanged on a trade-weighted quarterly average basis against a group of 7 major currencies.

## Revisions

As is customary each June, estimates of U.S. international transactions are revised to incorporate improved estimating methodologies and newly available source data. This year a number of changes are introduced for 1989-2000; however, most changes are limited to 1996-2000 and arise mainly from updated source data. The major changes are summarized below.

—Foreign direct investment in the United States financial flows and related income payments are revised for 1997-2000 to incorporate the results of BEA's benchmark survey for 1997 and revised quarterly survey results for subsequent years. Benchmark and quarterly survey results are also incorporated into the affiliated components of royalties and license fees and "other" private services.

—"Other" private income receipts and payments for banks are revised for 1996-2000 to more accurately reflect current practices in banking markets, including a decline in the use of non-interest earning compensating balances.

–U.S. nonbank liabilities are revised for 1996-2000 as a result of the substitution of BIS data on nonbank liabilities to foreign banks for U.S.-source data. The substitution significantly expands the coverage of these financial transactions. Related nonbank income payments are also revised for 1996-2000.

–Net foreign purchases of U.S. securities other than U.S. Treasury securities are revised for 1999-2000 as a result of a more complete accounting for large U.S. acquisitions of foreign companies, especially those acquisitions accomplished by an exchange of shares.

–Goods exports and goods imports are revised for 1999–2000 to assure more consistency in classification by type of end-use commodity and to assure more consistency in application of seasonal and trading-day adjustment factors.

In addition to the above improvements, all estimates have been revised as a result of newly available or revised quarterly and annual survey results and other

source data. Most revisions attributable to updated source data are for 1997-2000. Revised estimates for the detailed components of the U.S. international transactions accounts for 1999-2000 are shown in table 1. Revised estimates for the current-account balance and its major components for 1989-2000 are shown in table 2. The fourth-quarter 2000 international transactions are revised from previously published estimates. Revisions reflect both newly available source data for the fourth quarter of 2000 and changes from all of the above sources of revision. The current-account deficit was revised to \$116.3 billion from \$115.3 billion. The goods deficit was revised to \$118.5 billion from \$118.3 billion; the services surplus was revised to \$18.2 billion from \$19.4 billion; the balance on income was revised to a surplus of \$0.6 billion from a deficit of \$0.5 billion; and unilateral current transfers were revised to net outflows of \$16.7 billion from net outflows of \$15.9 billion. Net recorded financial inflows were revised to \$113.8 billion from \$86.6 billion.

**Table 1**  
**U.S. international transactions**

*(Millions of dollars, quarters, seasonally adjusted)*

(Credits +, debits -)	1999r	2000r	1999: lr	1999: llr	1999: lllr	1999: lvr	2000: lr	2000: llr	2000: lllr	2000: lvr	2001: lp	Change 2000: IV - 2001: I	Amount of Revision, 2000
<b>Current account</b>													
1 Exports of goods . . . . and services and income receipts	1242655	1418568	296210	302880	315099	328467	339645	355075	361236	362617	355905	-6712	3643
2 Exports of goods . . . . and services	957353	1065702	231317	234177	241593	250265	257256	265822	272497	270131	269297	-834	-3829
3 Goods, balance of . . . payments basis	684553	772210	164716	166267	173045	180525	185142	191558	199273	196237	194942	-1295	-1094
4 Services . . . . .	272800	293492	66601	67910	68548	69740	72114	74264	73224	73894	74355	461	-2735
5 Transfers under . . . . . U.S. military agency sales contracts	15920	14060	4217	4526	3855	3322	3401	3910	3329	3420	3388	-32	-544
6 Travel . . . . .	74731	82042	18101	18339	18808	19483	20448	20976	20226	20392	20309	-83	-3111
7 Passenger fares . . . .	19785	20745	4839	4864	5112	4970	5013	5342	5213	5177	4933	-244	-568
8 Other transportation . .	26916	30185	6469	6666	6707	7074	7365	7619	7593	7609	7357	-252	338
9 Royalties and . . . . . license fees	36420	38030	9137	9063	9097	9122	9345	9525	9538	9624	9883	259	75
10 Other private . . . . . services	98143	107568	23635	24229	24730	25549	26338	26679	27105	27447	28257	810	1075
11 U.S. Government . . . . miscellaneous services	885	862	203	223	239	220	204	213	220	225	228	3	
12 Income receipts . . . . .	285302	352866	64893	68703	73506	78202	82389	89253	88739	92486	86608	-5878	7472
13 Income receipts . . . . . on U.S.-owned assets abroad	283092	350525	64357	68154	72947	77636	81814	88670	88151	91891	85994	-5897	7473
14 Direct investment . . . . receipts	123718	149240	27557	29994	32469	33698	34734	37591	37335	39581	38349	-1232	-219
15 Other private . . . . . receipts	156177	197440	35889	37350	39732	43206	46014	49941	49971	51514	46752	-4762	7675
16 U.S. Government . . . . receipts	3197	3845	911	810	746	732	1066	1138	845	796	893	97	17
17 Compensation of . . . . . employees	2210	2341	536	549	559	566	575	583	588	595	614	19	-1

See notes at end of table.



**Table 1—Continued**  
**U.S. international transactions**

(Millions of dollars, quarters, seasonally adjusted)

(Credits +, debits -)	1999r	2000r	1999: I r	1999: II r	1999: III r	1999: IV r	2000: I r	2000: II r	2000: III r	2000: IV r	2001: I p	Change 2000: IV - 2001: I	Amount of Revision, 2000
<b>Current account—Cont'd.</b>													
18 Imports of goods . . . . and services and income payments	-1518106	-1809099	-351607	-368662	-391401	-406437	-432624	-450748	-463461	-462268	-454010	8258	-12038
19 Imports of goods . . . . and services	-1219191	-1441441	-284189	-297043	-312728	-325233	-344578	-356606	-369837	-370424	-364312	6112	-3430
20 Goods, balance of . . . . payments basis	-1029987	-1224417	-238709	-250557	-264777	-275944	-292547	-303229	-313884	-314757	-307462	7295	-1645
21 Services . . . . .	-189204	-217024	-45480	-46486	-47951	-49289	-52031	-53377	-55953	-55667	-56850	-1183	-1785
22 Direct defense . . . . . expenditures	-13334	-13560	-3186	-3306	-3559	-3283	-3262	-3382	-3541	-3375	-3550	-175	324
23 Travel . . . . .	-58865	-64537	-14330	-14553	-14763	-15219	-16399	-16123	-16075	-15940	-16176	-236	507
24 Passenger fares . . . .	-21315	-24197	-5187	-5242	-5346	-5540	-5805	-6146	-6226	-6020	-5994	26	-295
25 Other transportation . .	-34139	-41058	-7784	-8187	-8952	-9216	-9693	-10097	-10554	-10718	-10527	191	-345
26 Royalties and . . . . . license fees	-12613	-16106	-2946	-3091	-3149	-3428	-3604	-3715	-4535	-4253	-4529	-276	225
27 Other private . . . . . services	-46117	-54687	-11357	-11432	-11416	-11913	-12554	-13200	-14298	-14634	-15339	-705	-2201
28 U.S. Government . . . . miscellaneous services	-2821	-2879	-690	-675	-766	-690	-714	-714	-724	-727	-735	-8	
29 Income payments . . . .	-298915	-367658	-67418	-71619	-78673	-81204	-88046	-94142	-93624	-91844	-89698	2146	-8608
30 Income payments . . . . on foreign-owned assets in the United States	-291603	-360146	-65654	-69797	-76828	-79323	-86194	-92259	-91771	-89920	-87724	2196	-8952
31 Direct investment . . . . payments	-56674	-68009	-11009	-14249	-16649	-14766	-18369	-19474	-16286	-13878	-15086	-1208	-2326
32 Other private . . . . . payments	-139798	-184465	-31976	-32393	-36032	-39397	-41751	-45884	-48116	-48714	-45647	3067	-6626
33 U.S. Government . . . . payments	-95131	-107672	-22669	-23155	-24147	-25160	-26074	-26901	-27369	-27328	-26991	337	
34 Compensation of . . . . . employees	-7312	-7512	-1764	-1822	-1845	-1881	-1852	-1883	-1853	-1924	-1974	-50	344
35 Unilateral current . . . . transfers, net	-48913	-54136	-11051	-11596	-11761	-14504	-11924	-12461	-13080	-16673	-11457	5216	-895

See notes at end of table.

**Table 1—Continued**  
**U.S. international transactions**

(Millions of dollars, quarters, seasonally adjusted)

(Credits +, debits -)	1999r	2000r	1999: I r	1999: II r	1999: III r	1999: IV r	2000: I r	2000: II r	2000: III r	2000: IV r	2001: I p	Change 2000: IV - 2001: I	Amount of Revision, 2000
<b>Current account—Cont'd.</b>													
36 U.S. Government . . . grants	-13774	-16821	-2574	-3097	-2847	-5256	-2912	-3232	-3634	-7043	-2299	4744	-373
37 U.S. Government . . . pensions and other transfers	-4406	-4705	-1066	-1074	-1085	-1181	-1168	-1179	-1183	-1177	-1235	-58	6
38 Private remittances . . and other transfers	-30733	-32610	-7411	-7425	-7829	-8067	-7844	-8050	-8263	-8453	-7923	530	-528
<b>Capital and financial account</b>													
<b>Capital account</b>													
39 Capital account . . . . transactions, net Financial account	-3491	705	158	167	173	-3989	173	173	175	184	174	-10	25
40 U.S.-owned . . . . . assets abroad, net (increase/financial outflow (-))	-437067	-580952	-43657	-170707	-114931	-107769	-198105	-93573	-107727	-181548	-156937	24611	-27603
41 U.S. official reserve . . assets, net	8747	-290	4068	1159	1951	1569	-554	2020	-346	-1410	190	1600	
42 Gold . . . . .													
43 Special drawing . . . . rights	10	-722	562	-190	-184	-178	-180	-180	-182	-180	-189	-9	
44 Reserve position . . . . in the International Monetary Fund	5484	2308	3	1413	2268	1800	-237	2328	1300	-1083	574	1657	
45 Foreign currencies . .	3253	-1876	3503	-64	-133	-53	-137	-128	-1464	-147	-195	-48	
46 U.S. Government . . . assets, other than official reserve assets, net	2751	-944	118	-392	-686	3711	-127	-572	114	-359	68	427	-229
47 U.S. credits and . . . . other long-term assets	-6175	-5177	-1314	-2167	-1595	-1099	-1750	-1368	-1050	-1009	-1061	-52	-290
48 Repayments on U.S. credits and other long-term assets	9560	4257	1554	1887	1026	5093	1329	855	1265	808	1029	221	193

See notes at end of table.

**Table 1—Continued**  
**U.S. international transactions**

(Millions of dollars, quarters, seasonally adjusted)

(Credits +, debits -)	1999r	2000r	1999: lr	1999: llr	1999: lllr	1999: lvr	2000: lr	2000: llr	2000: lllr	2000: lvr	2001: lp	Change 2000: IV - 2001: I	Amount of Revision, 2000
<b>Capital and financial account</b>													
<b>Capital account—Cont'd.</b>													
49 U.S. foreign . . . . . currency holdings and U.S. short-term assets, net	-634	-24	-122	-112	-117	-283	294	-59	-101	-158	100	258	-132
50 U.S. private . . . . . assets, net	-448565	-579718	-47843	-171474	-116196	-113049	-197424	-95021	-107495	-179779	-157195	22584	-27374
51 Direct investment . . .	-155385	-152437	-38527	-36474	-49750	-30631	-38388	-33346	-41634	-39070	-33015	6055	9140
52 Foreign securities . . .	-131217	-124935	975	-71379	-42415	-18398	-27546	-39639	-33129	-24621	-28535	-3914	-1329
53 U.S. claims on . . . . . unaffiliated foreigners reported by	-85700	-163846	-33328	-27605	-13555	-11212	-75256	-29491	-14585	-44514	-5618	38896	-6858
54 U.S. claims . . . . . reported by U.S. banks, not included elsewhere	-76263	-138500	23037	-36016	-10476	-52808	-56234	7455	-18147	-71574	-90027	-18453	-28327
55 Foreign-owned . . . . . assets in the United States, net (increase/ financial inflow (+))	813744	1024218	130758	278047	172119	232820	256782	250007	222108	295321	237503	-57818	71788
56 Foreign official . . . . . assets in the United States, net	43551	37619	4164	-736	12721	27402	22498	6447	12247	-3573	4091	7664	1710
57 U.S. Government . . . . . securities	32527	30676	6793	-916	14798	11852	24311	6334	5271	-5240	2547	7787	1144
58 U.S. Treasury . . . . . securities	12177	-10233	800	-6708	12963	5122	16204	-4000	-9001	-13436	-1027	12409	1144
59 Other . . . . .	20350	40909	5993	5792	1835	6730	8107	10334	14272	8196	3574	-4622	
60 Other U.S. . . . . . Government liabilities	-2855	-1987	-1461	-1064	-671	341	-474	-1000	-220	-293	-1244	-951	553

See notes at end of table.

**Table 1—Continued**  
**U.S. international transactions**

(Millions of dollars, quarters, seasonally adjusted)

(Credits +, debits -)	1999r	2000r	1999: lr	1999: llr	1999: lllr	1999: lvr	2000: lr	2000: llr	2000: lllr	2000: lvrr	2001: lp	Change 2000: IV - 2001: I	Amount of Revision, 2000
<b>Capital and financial account</b>													
<b>Capital account—Cont'd.</b>													
61 U.S. liabilities . . . . . reported by U.S. banks, not included elsewhere	12964	5803	-1273	1761	-1617	14093	-2270	209	6884	980	1785	805	13
62 Other foreign . . . . . official assets	915	3127	105	-517	211	1116	931	904	312	980	1003	23	
63 Other foreign . . . . . assets in the United States, net	770193	986599	126594	278783	159398	205418	234284	243560	209861	298894	233412	-65482	70078
64 Direct investment . . .	301006	287655	35221	151354	50803	63628	36508	90394	76046	84707	41638	-43069	-28872
65 U.S. Treasury . . . . . securities	-20490	-52792	-7325	-5410	9687	-17442	-9348	-20546	-12503	-10395	538	10933	-586
66 U.S. securities . . . . . other than U.S. Treasury securities	343963	485644	63430	83903	95412	101218	136208	94400	128393	126643	147132	20489	19786
67 U.S. currency . . . . .	22407	1129	2440	3057	4697	12213	-6847	989	757	6230	2311	-3919	
68 U.S. liabilities to . . . . . unaffiliated foreigners reported by	69075	177010	46262	16799	-8869	14883	85188	24400	19078	48344	42269	-6075	71282
69 U.S. liabilities . . . . . reported by U.S. banks, not included elsewhere	54232	87953	-13434	29080	7668	30918	-7425	53923	-1910	43365	-476	-43841	8468
70 Statistical discrepancy (sum of above items with sign reversed)	-48822	696	-20811	-30129	30702	-28588	46053	-48473	749	2367	28822	26455	-34920
<b>Memoranda:</b>													
71 Balance on goods . . . (lines 3 and 20)	-345434	-452207	-73993	-84290	-91732	-95419	-107405	-111671	-114611	-118520	-112520	6000	-2739
72 Balance on . . . . . services (lines 4 and 21)	83596	76468	21121	21424	20597	20451	20083	20887	17271	18227	17505	-722	-4520

See notes at end of table.

**Table 1—Continued**  
**U.S. international transactions**

(Millions of dollars, quarters, seasonally adjusted)

(Credits +, debits -)	1999r	2000r	1999: I <sup>r</sup>	1999: II <sup>r</sup>	1999: III <sup>r</sup>	1999: IV <sup>r</sup>	2000: I <sup>r</sup>	2000: II <sup>r</sup>	2000: III <sup>r</sup>	2000: IV <sup>r</sup>	2001: I <sup>p</sup>	Change 2000: IV - 2001: I	Amount of Revision, 2000
<b>Capital and financial account</b>													
<b>Capital account—Cont'd.</b>													
<b>Memoranda:</b>													
73 Balance on goods . . . and services (lines 2 and 19)	-261838	-375739	-52872	-62866	-71135	-74968	-87322	-90784	-97340	-100293	-95015	5278	-7259
74 Balance on income . . (lines 12 and 29)	-13613	-14792	-2525	-2916	-5167	-3002	-5657	-4889	-4885	642	-3090	-3732	-1136
75 Unilateral current . . . . transfers, net (line 35)	-48913	-54136	-11051	-11596	-11761	-14504	-11924	-12461	-13080	-16673	-11457	5216	-895
76 Balance on current . . account (lines 1, 18, and 35 or lines 73, 74, and 75)	-324364	-444667	-66448	-77378	-88063	-92474	-104903	-108134	-115305	-116324	-109562	6762	-9290

r Revised. p Preliminary.

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

Source: Excerpted from U. S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Transactions: First Quarter 2001," BEA News Release BEA 01-18, June 21, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trans101.htm>, retrieved July 11, 2001.

**Table 2**  
**Revisions to the current-account estimates**

*(Millions of dollars; quarterly data are seasonally adjusted)*

	Exports of goods and services and income receipts			Imports of goods and services and income payments			Unilateral current transfers, net			Balance on current account		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
1989	650494	648290	-2204	-721307	-721607	-300	-26169	-26169	....	-96982	-99486	-2504
1990	708881	706975	-1906	-759189	-759287	-98	-26654	-26654	....	-76961	-78965	-2004
1991	730387	727557	-2830	-734524	-734563	-39	10752	10752	....	6616	3747	-2869
1992	749324	748603	-721	-762035	-762105	-70	-35013	-35013	....	-47724	-48515	-791
1993	776933	777044	111	-821977	-821930	47	-37637	-37637	....	-82681	-82523	158
1994	868867	869328	461	-949212	-949312	-100	-38260	-38260	....	-118605	-118244	361
1995	1006576	1005935	-641	-1081976	-1081776	200	-34057	-34057	....	-109457	-109898	-441
1996	1075874	1077966	2092	-1159111	-1158822	289	-40081	-40081	....	-123318	-120937	2381
1997	1194283	1195538	1255	-1294029	-1294553	-524	-40794	-40794	....	-140540	-139809	731
1998	1191422	1191932	510	-1364531	-1364962	-431	-44029	-44427	-398	-217138	-217457	-319
1999	1232407	1242655	10248	-1515861	-1518106	-2245	-48025	-48913	-888	-331479	-324364	7115
2000	1414925	1418568	3643	-1797061	-1809099	-12038	-53241	-54136	-895	-435377	-444667	-9290
1996: I	262540	262927	387	-277301	-277198	103	-10519	-10519	....	-25280	-24790	490
II	266135	266859	724	-287269	-287257	12	-8744	-8744	....	-29878	-29142	736
III	266709	267240	531	-294421	-294437	-16	-8940	-8940	....	-36652	-36137	515
IV	280484	280934	450	-300121	-299931	190	-11878	-11878	....	-31515	-30875	640
1997: I	286666	287373	707	-311988	-312810	-822	-9054	-9054	....	-34376	-34491	-115
II	299955	300459	504	-320660	-321005	-345	-9280	-9280	....	-29985	-29826	159
III	305537	305114	-423	-329383	-328883	500	-9561	-9561	....	-33407	-33330	77
IV	302129	302595	466	-331999	-331858	141	-12902	-12902	....	-42772	-42165	607
1998: I	301732	301933	201	-334328	-335558	-1230	-9794	-9866	-72	-42390	-43491	-1101
II	298857	298319	-538	-340233	-340566	-333	-10099	-10154	-55	-51475	-52401	-926
III	291341	291449	108	-341992	-341256	736	-10658	-10731	-73	-61309	-60538	771
IV	299489	300229	740	-347980	-347583	397	-13474	-13671	-197	-61965	-61025	940

See footnotes at end of table.

**Table 2—Continued**  
**Revisions to the current-account estimates**

(Millions of dollars; quarterly data are seasonally adjusted)

	Exports of goods and services and income receipts			Imports of goods and services and income payments			Unilateral current transfers, net			Balance on current account		
	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision	Previously published	Revised	Revision
1999: I	293717	296210	2493	-349513	-351607	-2094	-10831	-11051	-220	-66627	-66448	179
II	300994	302880	1886	-368439	-368662	-223	-11537	-11596	-59	-78982	-77378	1604
III	313084	315099	2015	-391337	-391401	-64	-11396	-11761	-365	-89649	-88063	1586
IV	324612	328467	3855	-406575	-406437	138	-14260	-14504	-244	-96223	-92474	3749
2000: I	336729	339645	2916	-426410	-432624	-6214	-12087	-11924	163	-101768	-104903	-3135
II	353494	355075	1581	-446399	-450748	-4349	-12334	-12461	-127	-105239	-108134	-2895
III	362765	361236	-1529	-462926	-463461	-535	-12949	-13080	-131	-113110	-115305	-2195
IV	361938	362617	679	-461332	-462268	-936	-15872	-16673	-801	-115266	-116324	-1058

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

Source: Excerpted from U. S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Transactions: First Quarter 2001," BEA News Release BEA 01-18, June 21, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trans101.htm>, retrieved July 11, 2001.





## Foreign Direct Investment to Acquire or Establish U.S. Businesses in 2000<sup>1</sup>

*Foreign direct investors' spending to acquire or establish U.S. businesses increased 17 percent to \$320.9 billion in 2000, according to preliminary estimates by the U.S. Bureau of Economic Analysis. Investment spending increased 28 percent to \$275.0 billion in 1999 after more than tripling in 1998.*

The strong growth of the U.S. economy relative to other major industrial economies, coupled with soaring merger and acquisitions activities worldwide, has resulted in unprecedented levels of foreign direct investment establishing new businesses in the United States during the last 3 years. Particularly large acquisitions have been evident in industries where large companies predominate, such as in sectors involving petroleum, motor vehicles, food manufacturing, telecommunications, and financial services. In both the telecommunications and financial services industries, deregulation and rapid technological change during the latter half of the 1990's increased incentives for business consolidations.

European investors accounted for 75 percent of total investment spending during 1998-2000; up from 64 percent in 1995-97. Spending by British investors, investors from any other country. Spending by investors from the Netherlands, at \$47.9 billion, ranked sec-

ond. In Asia and Pacific, about three-fourths of the increase in outlays was accounted for by investors from Japan; investors from Singapore also contributed to the increase.

### Outlays in 1992-2000

Table 1 shows investment outlays for the period 1992 to 2000, and table 2 shows distribution of investment outlays by size for the same period. By industry, outlays in 2000 (table 3) increased sharply in manufacturing (to \$144.9 billion from \$73.1 billion in 1999) and in professional, scientific, and technical services (to \$32.0 billion from \$9.4 billion). Within manufacturing, the largest increases were in food, petroleum, and computers and electronic products. Outlays decreased in information services, but at \$62.2 billion, they remained substantial. Within the information services category, outlays were largest in broadcasting and telecommunications and in information and data processing services, says the BEA report released in June 2001.

<sup>1</sup> This article was excerpted largely from the U.S. Department of Commerce, Bureau of Economic Analysis, "Foreign Direct Investors' Spending to Acquire or Establish U.S. Businesses Increased to \$321 Billion in 2000," *BEA 01-16*, June 6, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/fdi00.htm>, retrieved June 12, 2001.

**Table 1**  
**Investment Outlays, 1992-2000**

(Million dollars)

Year	Outlays
1992 .....	15,333
1993 .....	26,229
1994 .....	45,626
1995 .....	57,195
1996 .....	79,929
1997 .....	69,708
1998 .....	215,256
1999r .....	274,956
2000p .....	320,858

p=Preliminary.

r=Revised.

Source: U.S. Bureau of Economic Analysis, found at Internet address <http://www.bea.doc.gov/bea/newsrel/fdi00.htm>, retrieved July 11, 2001.

**Table 2**  
**Distribution of investment outlays by size, 1992-2000**

(Percent)

	1992	1993	1994	1995	1996	1997	1998	1999r	2000p
Total outlays . . . . .	100	100	100	100	100	100	100	100	100
\$5 billion or more . . . . .	0	0	0	(D)	0	0	55	55	48
\$2 billion - \$4.999 billion . . . . .	0	(D)	27	18	29	12	11	16	20
\$100 million - \$1.999 billion . . . . .	42	51	51	48	55	67	27	24	28
Less than \$100 million . . . . .	58	(D)	22	(D)	16	21	7	5	4

(D)=Suppressed to avoid disclosure of data of individual companies.

p=Preliminary.

r=Revised.

Source: U.S. Bureau of Economic Analysis, found at Internet address <http://www.bea.doc.gov/bea/newsrel/fdi00.htm>, retrieved July 11, 2001

**Table 3**  
**Investment Outlays by Industry of U.S. Business Enterprise, 1998-2000**  
*(Million dollars)*

	1998	1999r	2000p
All industries .....	215,256	274,956	320,858
Manufacturing .....	149,243	73,122	144,871
Food .....	1,286	859	(D)
Beverages and tobacco products .....	442	1,417	4,121
Petroleum and coal products .....	67,658	158	(D)
Chemicals .....	3,627	5,703	14,060
Plastics and rubber products .....	1,434	3,682	2,540
Nonmetallic mineral products .....	900	3,175	6,539
Primary metals .....	2,454	2,542	321
Fabricated metal products .....	532	1,388	467
Machinery .....	5,220	13,941	1,048
Computers and electronic products .....	17,861	30,601	43,945
Electrical equipment, appliances, and components .....	136	4,247	8,287
Transportation equipment .....	37,177	2,786	2,700
Other .....	10,516	2,667	6,643
Wholesale trade .....	3,321	(D)	7,486
Retail trade .....	1,153	3,458	(D)
Information .....	13,399	90,855	62,198
Publishing industries .....	9,856	(D)	9,387
Motion pictures and sound recording industries .....	36	(D)	(D)
Broadcasting and telecommunications .....	2,841	0	(D)
Information services and data processing services .....	667	(D)	12,502
Depository institutions .....	1,563	(D)	(D)
Finance (except depository institutions) and insurance .....	21,057	46,380	44,117
Real estate and rental and leasing .....	6,299	5,206	3,197
Professional, scientific, and technical services .....	4,289	9,366	31,999
Other industries .....	14,932	32,680	23,283

(D)=Suppressed to avoid disclosure of data of individual companies.

p=Preliminary.

r=Revised.

Source: U.S. Bureau of Economic Analysis, found at Internet address  
<http://www.bea.doc.gov/bea/newsrel/fdi00.htm>, retrieved July 11, 2001.

**Table 4**  
**Investment Outlays by Country of Ultimate Beneficial Owner, 1998-2000<sup>1</sup>**  
*(Million dollars)*

	1998	1999r	2000p
All countries .....	215,256	274,956	320,858
Canada .....	22,635	9,271	27,536
Europe .....	170,173	196,288	244,705
France .....	14,493	23,750	26,508
Germany .....	39,873	21,514	16,887
Netherlands .....	19,009	22,265	47,909
Switzerland .....	4,525	7,512	22,485
United Kingdom .....	84,995	109,226	107,666
Other Europe .....	7,278	12,021	23,250
Latin America and Other Western Hemisphere .....	11,354	33,046	13,072
South and Central America .....	920	1,622	(D)
Other Western Hemisphere .....	10,433	31,424	(D)
Africa .....	212	(D)	(D)
Middle East .....	2,810	848	(D)
Asia and Pacific .....	7,329	15,100	33,278
Australia .....	(D)	(D)	(D)
Japan .....	4,862	11,696	25,343
Other Asia and Pacific .....	(D)	(D)	(D)
United States <sup>2</sup> .....	743	(D)	(D)

(D)=Suppressed to avoid disclosure of data of individual companies.

p=Preliminary.

r=Revised.

<sup>1</sup> For investments in which more than one investor participated, each investor and each investor's outlays are classified by country of each ultimate beneficial owner.

<sup>2</sup> The United States is shown as the country of ultimate beneficial owner for businesses newly acquired or established by foreign investors that are, in turn, ultimately owned by persons located in the United States.

Source: U.S. Bureau of Economic Analysis, found at Internet address <http://www.bea.doc.gov/bea/newsrel/fdi00.htm>, retrieved July 11, 2001.

**Table 5**  
**Selected operating data of U.S. businesses acquired or established, by industry of U.S. business enterprise, 1999-2000**

	1999r					2000p				
	Total assets	Sales	Net income	Employees	Land owned <sup>1</sup>	Total assets	Sales	Net income	Employees	Land owned <sup>1</sup>
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Million dollars</i>	<i>Thousands</i>	<i>Hectares</i>	<i>Million dollars</i>	<i>Million dollars</i>	<i>Million dollars</i>	<i>Thousands</i>	<i>Hectares</i>
All industries . . . . .	454,012	124,253	895	602.7	582,642	446,838	142,315	7,454	645.5	310,301
Manufacturing . . .	73,715	42,219	-912	210.4	92,156	143,857	57,515	3,724	173.2	207,939
Wholesale trade .	4,098	11,886	-229	45.2	1,089	6,163	12,579	239	27.2	570
Retail trade . . . . .	5,807	10,099	-23	55.5	(D)	6,831	8,508	-62	69.5	(D)
Information . . . . .	40,257	12,276	221	47.2	50	41,235	13,063	-345	47.7	1,392
Depository . . . . .	111,205	(D)	20	J	235	11,506	(D)	(D)	G	(D)
institutions										
Finance (except . .	164,780	13,448	2,309	29.5	1,239	175,930	19,337	2,307	41.9	116
depository										
institutions) and										
insurance										
Real estate . . . . .	6,604	(D)	67	I	4,401	4,741	(D)	(D)	G	4,506
and rental and										
leasing										
Professional, . . . .	3,273	2,196	-194	15.4	(D)	30,351	9,738	628	70.8	(D)
scientific, and										
technical										
services										
Other industries . .	44,272	20,310	-362	179.5	482,066	26,224	19,967	790	210.9	95,088

(D)=Suppressed to avoid disclosure of data of individual companies.

p=Preliminary.

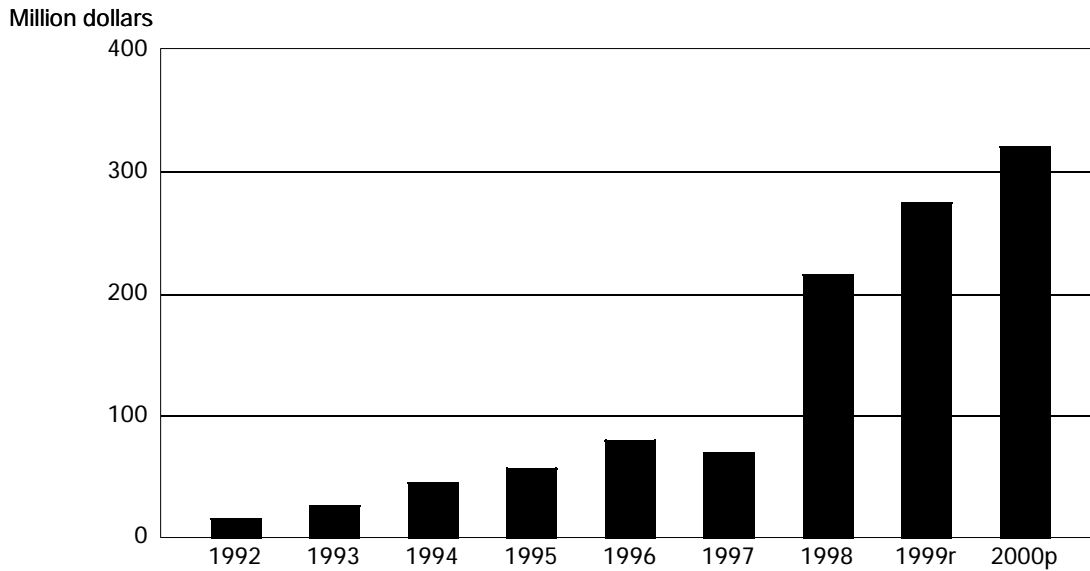
r=Revised.

<sup>1</sup> One hectare equals 2.471 acres. Thus, for all industries, the number of acres of land owned in 1999 and 2000 were 1,439,708 and 766,754, respectively.

Notes.—For newly acquired businesses, data cover the most recently completed financial reporting year. For newly established businesses, data are projections for the first full year of operations. Size ranges are given in employment cells that are suppressed. The size ranges are: A—1 to 499; F—500 to 999; G—1,000 to 2,499; H—2,500 to 4,999; I—5,000 to 9,999; J—10,000 to 24,999; K—25,000 to 49,999; L—50,000 to 99,999; M—100,000 or more.

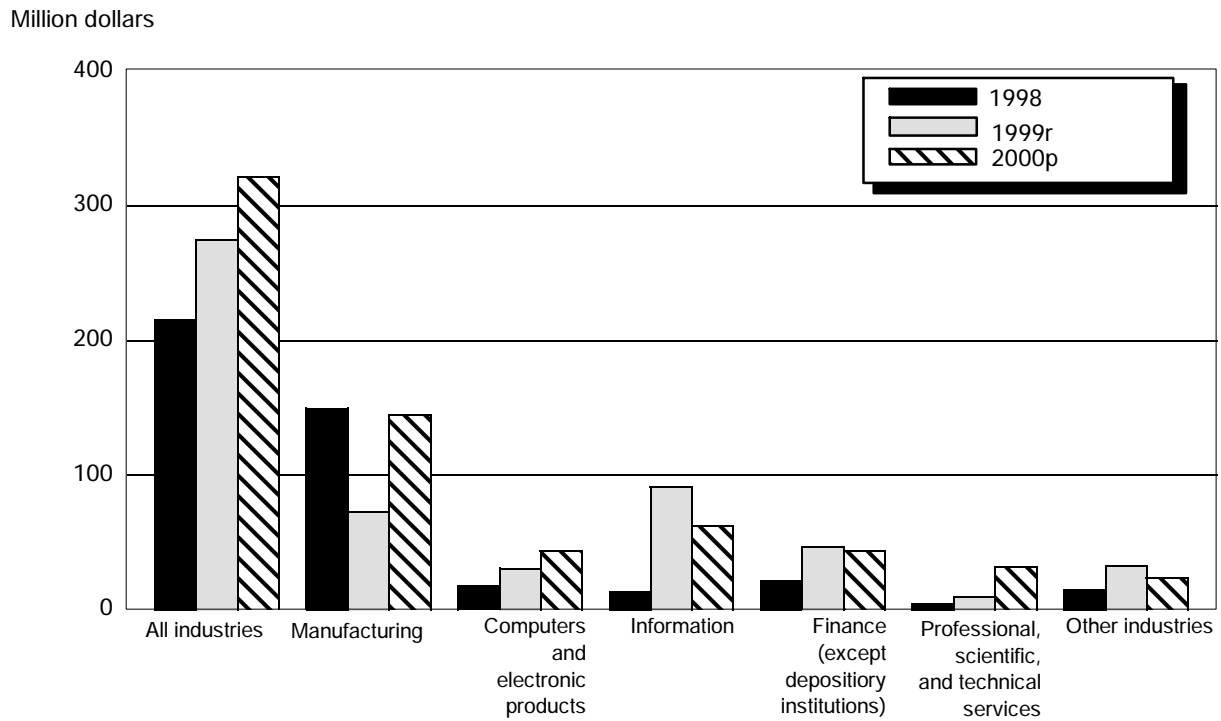
Source: U.S. Bureau of Economic Analysis, found at Internet address <http://www.bea.doc.gov/bea/newsrel/fdi00.htm>, retrieved July 11, 2001.

**Figure 1**  
Investment outlays, 1992-2000



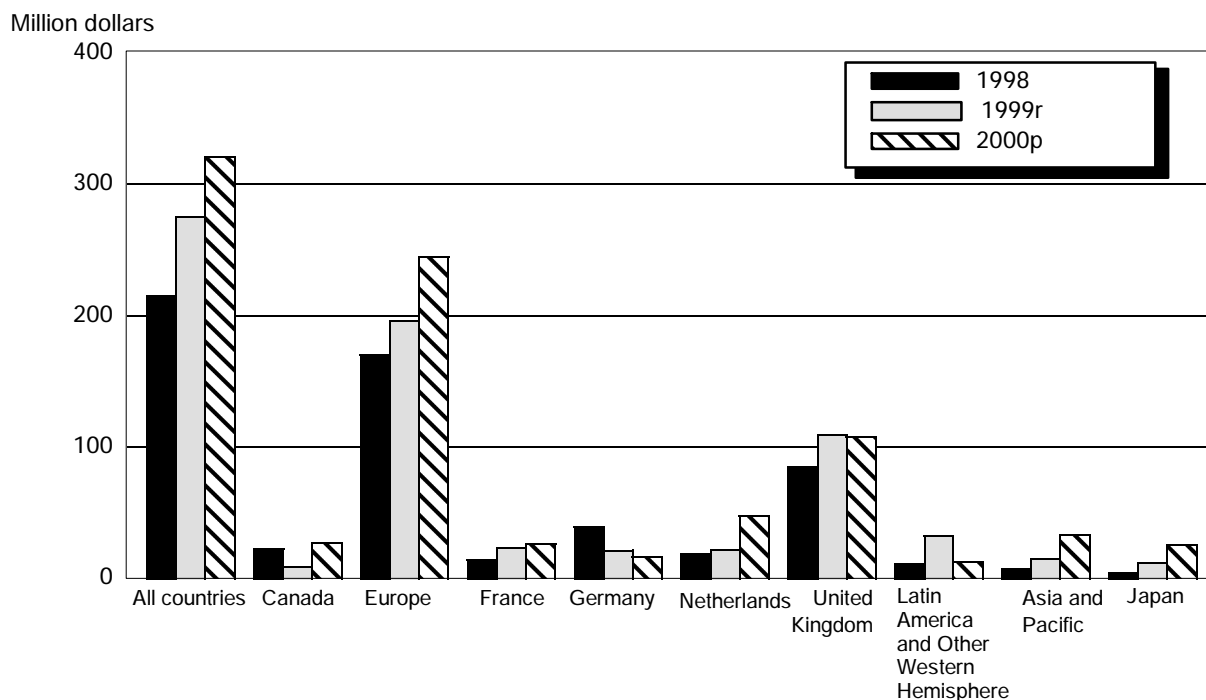
Source: U.S. Bureau of Economic Analysis.

**Figure 2**  
Investment Outlays by Major Industry of U.S. Business Enterprises, 1998-2000



Source: U.S. Bureau of Economic Analysis.

**Figure 3**  
**Investment Outlays by Country of Ultimate Beneficial Owner (UBO), 1998-2000**



Source: U.S. Bureau of Economic Analysis.

Table 4 shows that outlays by investors from Canada, Europe, and Asia and Pacific increased, as measured by country of ultimate beneficial owner (UBO). In Europe, most of the increase was accounted for by investors from the Netherlands, Switzerland, as well as the category of "Other Europe," in particular the countries of Spain, Finland, and Belgium. Spending by investors from the Netherlands, at \$47.9 billion, ranked second. In Asia and Pacific, about three-fourths of the increase in outlays was accounted for by investors

from Japan; investors from Singapore also contributed to the increase.

### **Employment Gains in Newly Acquired and Established Businesses**

U.S. businesses that were newly acquired or established by foreign investors in 2000 employed 646,000





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# STATISTICAL TABLES

**Unemployment rates (civilian labor force basis)<sup>1</sup> in G-7 countries, by specified periods, 1998-May 2001**

(Percentage rates)

Country	1998	1999				2000				2001				
		Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	Q:III	Q:IV	Jan.	Feb.	Mar.	Apr.	May
United States .....	4.5	4.3	4.3	4.2	4.1	4.1	4.0	4.0	4.0	4.2	4.2	4.3	4.5	4.4
Japan .....	4.1	4.7	4.8	4.8	4.7	4.8	4.7	4.7	4.8	4.9	4.7	4.8	4.8	
Canada .....	7.5	7.1	7.1	6.8	6.2	6.0	5.8	5.8	5.7	5.9	5.8	5.8	5.8	5.9
Germany .....	9.3	8.8	8.8	8.8	8.7	8.4	8.3	8.2	8.1	8.1	8.1	8.1	8.2	
United Kingdom .....	6.3	6.2	6.1	5.9	5.9	5.8	5.5	5.4	5.3	5.2	5.1	5.0		
France .....	11.8	11.4	11.3	11.2	10.8	10.2	9.7	9.6	9.2	9.0	8.8	8.7	8.8	
Italy .....	12.0	11.8	11.7	11.5	11.3	11.2	10.9	10.5	10.1	9.9			9.7	

<sup>1</sup> Seasonally adjusted; rates of foreign countries adjusted to be comparable with 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, 1990-2001," July 6, 2001, found at Internet address <ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flsjec.txt>.

**Consumer prices of G-7 countries, by specified periods, 1998-May 2001**

(Percentage change from same period of previous year)

Country	1998	1999				2000				2001				
		Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	Q:III	Q:IV	Jan.	Feb.	Mar.	Apr.	May
United States .....	1.6	1.7	2.1	2.3	2.6	3.2	3.3	3.5	3.4	3.7	3.5	2.9	3.3	3.6
Japan .....	0.6	-0.1	-0.3	0.0	-1.0	-0.7	-0.7	-0.7	-0.5	0.1	-0.1	-0.4	-0.4	-0.5
Canada .....	0.9	0.8	1.6	2.2	2.4	2.7	2.4	2.7	3.1	3.0	2.9	2.5	3.6	3.9
Germany .....	1.0	0.3	0.5	0.6	1.0	1.8	1.6	2.1	2.3	2.4	2.6	2.5	2.9	3.5
United Kingdom .....	3.4	2.2	1.4	1.2	1.5	2.3	3.1	3.2	3.1	2.7	2.7	2.3	1.8	2.1
France .....	0.7	0.3	0.4	0.5	1.0	1.5	1.5	1.9	1.9	1.2	1.4	1.3	1.8	2.3
Italy .....	2.0	1.4	1.4	1.7	2.1	2.4	2.5	2.6	2.7	3.0	3.0	2.8	3.1	3

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Prices in Nine Countries, Percent Change from Same Period of Previous Year, 1990-2001," July 6, 2001, found at Internet address <ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flscpim.txt>.

**U.S. trade balances by major commodity categories and by specified periods, May 2000-May 2001<sup>1</sup>**

(Billion dollars)

Commodity categories	2000												2001	
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
Agriculture .....	0.52	0.53	0.82	0.84	1.10	1.15	1.69	1.41	1.38	0.96	1.45	1.42	0.90	0.79
Petroleum and selected products (unadjusted) .....	-8.59	-9.33	-10.63	-10.97	-10.54	-10.66	-10.96	-10.12	-12.30	-12.10	-9.74	-9.84	-10.60	-10.90
Manufactured goods .....	-28.72	-32.85	-31.40	-36.37	-35.77	-36.20	-38.93	-34.78	-27.19	-32.70	-25.22	-30.32	-29.45	-27.40
Unit price (dollars) of U.S. imports of petroleum and selected products (unadjusted) .....	24.41	24.28	26.78	27.73	26.59	29.03	28.57	28.34	26.40	23.13	23.76	22.76	21.65	22.62

<sup>1</sup> Exports, f.a.s. value, not seasonally adjusted. Imports, customs value, not seasonally adjusted.

Source: Calculated from data from U.S. Department of Commerce, "Exhibit 15. Exports and Imports of Goods by Principal SITC Commodity Groupings," FT-900 (01-05), July 19, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad0501.htm>.