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# INTERNATIONAL ECONOMIC REVIEW

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United States International Trade Commission  
Office of Economics

## **International Trade Developments**

*A Decomposition of North American Trade Growth Since NAFTA*

*Closer Integration Between Canada and the United States*

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

## **International Economic Comparisons**

## **Global Economic Forecasts**

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# INTERNATIONAL TRADE DEVELOPMENTS

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## A Decomposition of North American Trade Growth Since NAFTA

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*Total trade with NAFTA partners increased 78 percent in real terms between 1993 and 2001, compared to 43 percent with the rest of the world. This article compares the nature of U.S. trade growth with Canada and Mexico, to that with non-NAFTA partners. Analyzing the composition of this growth provides insights into whether the United States is trading more of the same goods with NAFTA partners, trading new products, or upgrading the quality and variety of products. Quality upgrading and variety upgrading is shown to explain a part of U.S.-Mexico trade growth.*

### Introduction

U.S. trade with Canada and Mexico is up sharply since the North American Free Trade Agreement (NAFTA) went into effect in 1994. Between 1993 and 2001—from the year prior to NAFTA implementation to the present—U.S. imports from Canada and Mexico have doubled in real terms (up 100 percent in value) while U.S. exports to its NAFTA partners have risen by 77 percent. Such changes in U.S. trade growth are substantially higher than those measured with the rest of the world.

Such sizeable changes in U.S. trade patterns warrant closer scrutiny. This article offers some basic insights into the nature of U.S. trade growth since NAFTA. Recent academic research offers a simple but informative approach to decomposing trade growth. This decomposition can be used to establish some basic facts about the nature of trade growth over the period 1993 to 2001. This period is of interest because it begins just before NAFTA entered into force on January 1, 1994.

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Trade growth occurs when countries trade more of the same goods, or begin trading new goods. This growth can be broken down into three parts: changes in quantity (units of goods being traded), changes in price (unit prices for these goods), or changes in quality or variety of goods being traded (number of varieties traded, often represented by increasingly differentiated tariff line classifications). One feature worth noting among the recent changes in U.S. trade patterns is the latter—changes in variety. A noticeable contributor to increased U.S. exports to both Canada and Mexico has been a net increase in the number of product categories traded—as set out in the Harmonized Tariff Schedule (HTS) of the United States. Similarly, a large part of the increased imports from Mexico can be attributed to trade in a greater number of HTS lines.

### Results

Some basic facts about recent U.S. trade patterns are reported in table 1. U.S. imports and exports with Canada and Mexico have increased at higher rates than that with non-NAFTA countries, with U.S. trade reorienting toward NAFTA partners since 1993. In real terms (adjusted for inflation), U.S. exports to Canada and Mexico are up by 35 and 93 percent, respectively, while U.S. exports to the rest of the world are up only 20 percent. U.S. imports from Canada and Mexico are

**Table 1**  
**Value of U.S. goods trade with NAFTA partners and the rest of the World, 1993 and 2001**

Trade flow/Country	Year		Trade Growth
	1993	2001	1993 to 2001
	Billion (2001) dollars		Percentage change
U.S. Exports to:			
Canada .....	107	145	35
Mexico .....	47	91	93
Rest of world .....	357	431	20
World .....	511	666	30
U.S. Imports from:			
Canada .....	129	217	69
Mexico .....	45	131	190
Rest of world .....	495	785	59
World .....	669	1133	70

Source: Calculated from official data of the U.S. Department of Commerce, and authors' calculations.

up by 69 and 190 percent, respectively, while U.S. imports from the rest of the world are up by 59 percent.

With such a notable shift toward trading with NAFTA partners, this article endeavors to explain the nature of this trade growth since 1993. While the direct effects of NAFTA on trade growth are outside the scope of this article,<sup>2</sup> a methodology proposed by Hummels and Klenow (2002) has been adopted in this analysis to decompose trade growth into the three potential sources of trade growth outlined above. Their approach captures changes in the number of varieties traded (measured in HTS lines at the 10-digit level), as well as changes in price and quantity of goods already traded.

Trade growth between 1993 and 2001 is shown in table 1, column 3. The results of the decomposition of this trade growth are reported in table 2, specifically, the percentage change during this period in the trade volume attributable to each potential source of change—changes in varieties traded, changes in the quantity of products already traded, and changes in the prices of products already traded.<sup>3</sup> These results can be interpreted as the growth in trade volume that would have occurred if the other two factors were constant. For example, the quantity of U.S. imports from Canada

increased by 48 percent during the 1983-2001 period (see table 2, column 2). If real prices of these imports had remained constant, and the number of traded HTS lines remained constant (i.e. no increased variety in goods traded), then the 48-percent increase in U.S. imports from Canada would be due solely to the 48 percent increase in quantity. The reported percentage changes in prices and in HTS lines traded have similar interpretations. The product of the three components is the total trade growth.<sup>4</sup>

### *Increased Variety Creating New Goods to Trade*

Trade growth that can be attributed to greater variety of goods is shown in table 2, column 1. Dubbed the “extensive margin” by Hummels and Klenow, this factor captures changes in the number of varieties being traded, and has proven important in particular for U.S. imports from Mexico. The 8.3 percent increase in the extensive margin for U.S. exports to Mexico, and the 3.4 percent increase for Canada suggest that a growing number of U.S. industries have entered these markets as new exporters to NAFTA partners. Some of these commodities that the United States did not previously export to Mexico in 1993 but did in 2001 include, for example, new types of video monitors and projectors, radio cassette players, and laser reading systems disks.<sup>5</sup> However, some of the new lines simply represent a

<sup>2</sup> There is considerable academic interest in the question of whether NAFTA has been trade diverting or trade creating. Romalis (2001) argues for trade diversion, and finds little direct evidence of trade creation. However, using only the HTS lines traceable from 1980 to 2000, his results do not capture the variety-type of trade creation. The Canada-United States Free Trade Agreement, on the other hand, has been found to be more trade creating, on balance (Clausing, 2001).

<sup>3</sup> Adjustments to the data were made to account for HTS lines with missing quantity information and with unusually large price and quantity changes.

<sup>4</sup> For example, U.S. imports from Canada increased 69 percent (see table 1) and the product of the three components (see table 2) is 69.8 [(1.044\*1.483\*1.097)\*100=169.8, or 69.8 percent]. The discrepancy between 69 and 69.8 is due to an adjustment for missing quantity data.

<sup>5</sup> These HTS lines include 852439 (discs for laser reading systems), 852460 (recording cards with a magnetic stripe), 852712 (pocket size radio cassette player), 852830 (video projectors).

**Table 2**  
**Decomposition of trade growth between 1993 and 2001: Percent change in bilateral trade attributable to changes in the variety, quantity, and price of traded goods**

Trade flow/country	Change in variety of traded goods <sup>1</sup>	Change in quantity of traded goods <sup>2</sup>	Change in price of traded goods <sup>3</sup>
	(Extensive Margin)		(Intensive Margin)
U.S. Exports to:			
Canada .....	3.4	47.0	-7.1
Mexico .....	8.3	147.6	-17.8
Rest of world .....	0.0	20.9	-13.4
World .....	7.4	19.2	-13.2
U.S. Imports from:			
Canada .....	4.4	48.3	9.7
Mexico .....	23.8	74.4	46.6
Rest of world .....	6.9	45.7	0.9
World .....	20.7	49.3	6.3

<sup>1</sup> Net increase.

<sup>2</sup> Measuring HTS lines for already existing goods in 1993.

<sup>3</sup> Measuring change in average real price per unit of U.S. goods already existing in 1993.

Source: Calculated from official data of the U.S. Department of Commerce, and authors' calculations.

reclassification of the same commodities.<sup>6</sup> An increase of 24 percent in Mexican exports to the United States is explained solely by the addition of HTS lines. There also appears to be a sizeable increase in the extensive margin for total U.S. imports from the world, although this may overstate the measurement of growth in the extensive margin.<sup>7</sup> These findings correspond to existing economics literature on variety and trade.<sup>8</sup>

Changes in the extensive margin have important consequences for economic modeling of trade agreements and the interpretation of those results. Many commonly used trade policy models focus on the intensive margin, missing the effects of an increase in the number of traded goods on the affected economies.

<sup>6</sup> An example of a reclassification of U.S. exports to Mexico is vodka, which changed from the 10-digit HTS 2208600000 in 1993 to HTS 2208906300 in 2001.

<sup>7</sup> The true size of growth in the extensive margin may be overstated since this exercise treats new 10-digit lines as new goods. Ten-digit lines may, in some cases, be established for purposes other than economists' conventional idea of product differentiation. For instance, different sizes or even different container sizes of the same exact product may have different lines. Compliance with existing trade policies may also generate new 10-digit lines.

<sup>8</sup> Krugman (1981) and Romer (1994) offer theoretical models that incorporate extensive margins; Klenow and Rodriguez-Clare (1997) and Feenstra, Madani, Yang and Liang (1999) provide empirical evidence of variety effects and trade.

### *Increased Trade in Existing Goods*

The Hummels-Klenow methodology also measures trade growth within already existing HTS lines, dubbed the "intensive margin." The intensive margin can be further decomposed into quantity changes (changes in the number of units traded; see table 2, column 2), and price changes (changes in the average price of the traded units; see table 2, column 3). Column 2 reports quantity changes—changes in the average number of units sold—within an HTS line that showed traded products in both 1993 and 2001. Importers in the United States, as well as U.S.-based exporters in other countries, have reported sizeable increases in the quantities sold during the period that NAFTA has been in effect. The quantity changes for both exports and imports were largest for Mexico: U.S. export quantities to Mexico rose by 148 percent, and U.S. import quantities from Mexico rose by 74 percent. The counterpart markets in Canada have also experienced double-digit percentage increases in this quantity measure.

Column 3 reports inflation-adjusted changes in the unit price of U.S. exports and imports by market. There are two notable results in this column. First, U.S. export prices have not kept up with inflation during this period. Real prices of U.S. goods—as measured by the GDP deflator reported by the U.S. Department of Commerce, Bureau of Economic Analysis—have risen

by 16.3 percent between 1993 and 2001, but prices of U.S. exports have not risen as fast, resulting in a relative decline in the price of U.S. exports. Second, the price of Mexican exports (average unit price) to the United States rose by a notable 46.6 percent. Such a sizeable change in relative prices may suggest the existence of sizeable changes in Mexican production costs—including exchange-rate changes—and production decisions.

## Implications

Broadly, these results can be understood to differentiate between a widening (extensive margin) and a deepening (intensive margin) of the effects of international trade on U.S. industries. The distinction between price and quantity change offers a glimpse at the nature of trade growth within industries.

### *Changes in Export Prices of Existing Goods*

There has been a minor decline of roughly 15 percent in the real prices of U.S. exports. This may have occurred because U.S. per capita incomes raced ahead of the other NAFTA countries during this period, allowing U.S. consumers to buy higher quality goods than their foreign counterparts. If U.S. firms producing relatively lower quality goods turned to export markets in response, the average quality of U.S. exports would have fallen relative to U.S. consumption, reducing the relative price of exports. In our analysis, the relative price of U.S. exports falls fastest with respect to Mexico. It is possible that prior to NAFTA, U.S. firms were targeting the higher income portion of the Mexican market. In order to reach a broader set of customers following NAFTA, U.S. firms may have chosen to lower unit prices. Another possibility is that production sharing has increased since NAFTA, and firms are selling earlier stage components to Mexico, which are lower in unit value generally than later stage components.

### *Changes in Import Quantity of Existing Goods*

U.S. import quantities from all sources worldwide have risen substantially, which suggests that U.S. industries competing with imports in 1993 face even more competition today. As import demand is sensitive to changes in income, higher U.S. real incomes might also have contributed to this increased quantity growth. Quantity changes from Mexico are the largest of the markets considered here.

Real prices of U.S. imports have not changed much with the exception of imports from Mexico, which

have risen substantially in the years since NAFTA. Such price increases can reflect an upgrade in the quality of traded goods where access through NAFTA to consumers in the U.S. market may have induced an increase in the average quality of Mexican output that, in turn, allows Mexican producers to command higher prices.<sup>9</sup>

One might expect the rather large exchange-rate movements for Mexico that occurred in 1994 to have an effect on the relative prices between Mexican and the other NAFTA-partners' goods. During the period of time considered for this analysis, Mexico experienced much more rapid inflation than the United States or Canada. The difference in inflation rates was sufficient to offset the nominal depreciation of the peso, leaving only a small change in the real exchange rate—a one percent change (a real appreciation for Mexico) over 1993-2001.<sup>10</sup>

## Conclusions

The above *ex post* assessment of U.S. trade data reveals a net increase along the extensive margin (variety effect), as well as a broadening of international trade activity, that is, more familiar changes in price and quantity along the intensive margin. Commodities that were not exported to NAFTA markets in 1993 are exported now, and industries that did not face competition from specific markets are facing it now. The largest changes in the extensive margin are in U.S. imports from Mexico. This suggests that a new set of industries has had to face competition from an increased variety of Mexican imports. At the same time, consumers and manufacturers have been given a broader set of suppliers, which would reduce prices and improve the selection of goods available.

This article compares the nature of trade growth with Canada and Mexico to that with non-NAFTA partners. The descriptive analysis presented above is highly suggestive of quality upgrading effects and trade in new varieties, particularly with respect to U.S. trade with Mexico. To the degree that free trade agreements lead to changes in the extensive margin, standard economic models that do not account for variety effects—many of which were used to estimate the effects of NAFTA—may underestimate the economic effects of free trade agreements. However, more formal econometric analysis is necessary in order to examine whether and to what extent, NAFTA could be attributed to these changes.

<sup>9</sup> See Hummels and Klenow (2002). Also, Schott (2001) also notes that unit values of U.S. imports are higher among rich countries than among poor countries. Over time, economic growth in Mexico might be expected to raise the unit prices of Mexican exports to the United States.

<sup>10</sup> International Monetary Fund, International Financial Statistics, June 2002, and authors' calculations. See also Robertson (2002).



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## Closer Integration Between Canada and the United States?

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*A once politically unmentionable concept in Canada is receiving attention in light of the increased awareness of interdependence between the two North American trading partners, following hard upon the concerns over border issues and security after the terrorist attacks in the United States on September 11, 2001.*

### Background

In 1989, a bilateral free-trade agreement between the United States and Canada—the United States-Canada Free-Trade Agreement (CFTA)—entered into force. The full effects of the CFTA were to be phased-in gradually over a 10 year period. However, the process was intensified in 1994 when the bilateral CFTA was broadened and deepened with the inauguration of the North American Free Trade Agreement (NAFTA). NAFTA honored the CFTA tariff liberalization commitments, and the bilateral aim of essentially duty-free trade was accomplished in 1998.

Under both the CFTA and the NAFTA, bilateral commerce increased between the United States and Canada, and the already significant flow of goods and services across the border was strengthened further. Canadians and Americans became more aware of the prominence of each other in their trading relationship. However, because the United States accounts for almost 80 percent of Canada's foreign trade, that awareness is particularly acute on the northern side of the border. The events of September 11, 2001, and the increased consciousness of issues such as border security, immigration, and safety have only dramatized the relationship between these two NAFTA partners. It is not surprising then that observers have begun to explore the nature of the trading relationship between these two North American countries and cast an eye to its future in light of the present concerns.<sup>2</sup>

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

<sup>2</sup> The information for this article was largely taken from three sources: an Ottawa conference entitled "The Ties That

### Closer Relations

This year, an annual conference—sponsored by the Center for Trade Policy and Law (CTPL) of Carleton University in Ottawa—focused on the economic relationship between Canada and the United States.<sup>3</sup> Specifically, the conference highlighted the possible intensification of the U.S.-Canada economic relationship. Such an explicit discussion of "closer" relations marks an evolution of the relationship to a new plane. As recently as 1988, the outcome of a Canadian national election turned on the issue of the closer economic ties brought about by agreements such as the CFTA and NAFTA accords. The election amounted to a referendum on Prime Minister Mulroney's decision to intensify the trading relationship with the United States. Now, in 2002, following a tumultuous period of questioning border security, reliance on geopolitical allies and partners, airline safety, etc., Canadians are raising the issue of initiating a joint strategy to manage the North American relationship and achieve a common goal of physical and economic security.

#### 2—Continued

Bind: Closer Economic Relations Between Canada and the United States," sponsored by the Center for Trade Policy and Law (CTPL) of Carleton University, Apr. 18, 2002; a paper by Wendy Dobson, "Shaping the Future of the North American Economic Space," *The Border Papers*, C.D. Howe Institute Commentary, No. 162, April 2002; and an article by Stephen Blank, "Building the North American Community: The Next Steps," *Looking Ahead*, vol. XXIV, No.1, pp. 8-12, National Policy Association.

<sup>3</sup> The conference "The Ties That Bind: Closer Economic Relations Between Canada and the United States," was sponsored by the Center for Trade Policy and Law (CTPL) of Carleton University. It took place on, Apr. 18, 2002, and consisted of a number of panels devoted to different aspects of the U.S.-Canadian economic relationship.

The CTPL conference focused on the possible forms of any new economic relationship, as well as on two of the areas where national policies would need-coordination in the event of any closer relationship—trade in services and the area of unfair trade, particularly trade remedies and competition policy. While the traditional economic understanding of integration covers different *forms* of association,<sup>4</sup> the discussion in Ottawa was supplemented by also considering the importance of political considerations in any decision toward economic association. It was pointed out that the Treaty of Rome, the original pact that set in motion in 1957 the original European Economic Community (EEC), composed of 6 member states, explicitly addressed issues of politics. Indeed, “the driving force behind the European movement was political.”<sup>5</sup> Neither the CFTA nor the NAFTA envision anything like the political entity that the original 6 EEC governments did—an entity now known as the European Union (EU) and currently numbering 15 member states since 1995. Nor has continental institution-building been a priority in the CFTA or the NAFTA. As a result, there is really no basis for some of the more ambitious and more integrative forms of association in North America. Unlike Europe, North America has never taken political integration as an explicit goal. Therefore, a political and economic association like the EU—with supranational institutions like the European Commission, Council, and Parliament; free movement of factors of production; and now with a common currency—is not envisioned for either Canada or the United States. The issue in need of further exploration—in the absence of a political commitment to the EU form of political integration—is whether there can realistically be a North American community of another sort.

It became apparent following the terrorist attacks of September 11, 2001, that there was no clear enunciation of the common interests that the NAFTA nations share in a freer, continent-wide economic system. Recent events in Canada indicate that observers recognize

<sup>4</sup> Economists typically consider free trade areas (where member states lower trade barriers among themselves), customs unions (where member states present a common external tariff to all other trading partners), and common markets (where, in addition to a customs union, factors of production are allowed to move freely among member states) as the three main stages of integration. Further integration is possible through steps toward greater economic cooperation—anything from harmonized or more common trade regulations to a common currency—or through steps oriented more toward social, legal, or political cooperation—perhaps more common technical standards, combined administrations for common functions regarding movement of labor or capital, or common approaches to property ownership, etc.

<sup>5</sup> Stephen Blank, “Building the North American Community: The Next Steps,” *Looking Ahead*, vol. XXIV, No.1, pp. 8-12, National Policy Association, p. 9.

this shortcoming and are taking steps to raise consciousness on the issue and initiate a dialogue. The CTPL conference and the publication of the first in a new series of papers by a prominent Canadian research institute mark the beginning of Canadian consideration of how to achieve closer integration in a world of heightened security concerns.

Many CTPL speakers pointed to the fact that the need for closer economic integration continues to exist after September 11, 2001. Canada’s challenge is to help map out for its as well as other North American citizens the route between autonomy and integration. Political and cultural differences will remain between trading partners, and the economic inequality among NAFTA partners is also not likely to recede quickly. Nevertheless, other structures and institutions supportive of the concept of closer economic relations can be developed.

The need for further thinking, clarification, and elaboration on the possibilities for North American integration is recognized in *The Border Papers*, a new project initiated by the C.D. Howe Institute, a noted Canadian research organization.<sup>6</sup> The series is to examine “how Canada, the United States, and perhaps Mexico can achieve greater physical and economic security without loss of sovereignty and the erosion of the distinctive political and cultural institutions the people of each country hold dear.”<sup>7</sup> The first paper in the series was recently released, and it attempts to provide a framework for the ongoing discussion.<sup>8</sup>

It has been argued that to date integration in North America has been essentially “bottom up.”<sup>9</sup> That is, the process of building closer trade ties and the emergence of complex, cross-border networks of both production and distribution has been driven largely by changes in business strategy and structure. Companies sought to position themselves in such a way that they could take better advantage of the changes made by both CFTA and NAFTA and also heighten efficiency and reduce excess capacity. This progressive evolution in the economic structure has been marked by a strengthening of continental infrastructure, as evidenced by changes in sectors such as railroads, electricity and gas transmission, highways, airline routes, telecommunications, standards and other regulations. This evolution is continuing.

<sup>6</sup> Wendy Dobson, “Shaping the Future of the North American Economic Space,” *The Border Papers*, C.D. Howe Institute Commentary, No. 162, April 2002.

<sup>7</sup> *Ibid.*

<sup>8</sup> Future papers in the series will address such topics as: border issues, mechanisms for resolving trade and investment disputes, the exchange rate regime, energy, immigration, labor mobility, taxes, and defense policy. All the papers will examine available options in each area of interest and offer policy recommendations as well.

<sup>9</sup> Blank, p. 8.

The C.D. Howe paper is an attempt to contribute to the rationale for a “unique North American initiative to achieve even deeper integration” between Canada and the United States in particular. The Dobson discussion<sup>10</sup> begins with an examination of sovereignty, a notion of special interest to Canadians, and especially so in any consideration of their relation to the United States. The reality of exercising Canadian sovereignty is acknowledged at the outset. However, a new and somewhat different perspective is presented. In the early discussion of closer economic association between Canada and the United States, sovereignty was always considered as an aspect of political independence. Any threat to that independence to Canada, coming particularly from its superpower neighbor, would be viewed with general alarm and stiff defensiveness. Now, however, the notion of sovereignty in an interdependent world already characterized by a high degree of economic connectivity, can have another meaning. Dobson maintains that an emphasis exclusively on governance and the issue of independence might cloud the possibilities of other expressions of sovereignty in a more interdependent relationship.<sup>11</sup>

It could be argued, in fact, that past emphasis on political issues like sovereignty has held Canada back rather than contributed to a stronger force internationally and hemispherically. The traditional definition of sovereignty refers to a country’s own determination of policies and questions of national control. In the area of trade and investment, this definition has been affected by recent measures of liberalization. Sovereignty can arguably be diminished by a country voluntarily adhering to multilateral codes, agreements, etc. For example, a government that is a member of the World Trade Organization (WTO) agrees to be bound by WTO dispute-settlement procedures. This more significant impact on sovereignty is the result of governments becoming more accountable to one another through the “rules and procedures of the internationally agreed regimes that they had a hand in constructing.”<sup>12</sup> In this sense sovereignty is not simply a matter of what a country gives up; it is an issue of what it gains as well in terms of greater transparency, more efficient production, larger markets, more effective resolution of disputes,

increased protection of intellectual property, etc. Dobson captures the essence of this “nuance of twenty-first century economic policy:”

Economic advantage no longer flows only from natural endowments, as the theory of comparative advantage implies. It can be *created* by investing in physical infrastructure and in human knowledge and skills. The economic structures of the advanced industrialized countries are shifting from natural resources and goods production to knowledge-based activities. These economies are increasingly tied together by trade and capital flows and by production processes and value chains strung across borders, with business segments located where they can act most efficiently.<sup>13</sup>

As a result, the debate over economic integration causing an erosion of national sovereignty needs to be recast to reflect this new, pro-active brand of sovereignty, where nation states are the architects of their own constraints by means of the decisions they make and those they avoid by “failing to *exercise* their sovereignty.”

Dobson presents three possible scenarios for possible further integration between Canada and the United States: a customs union, a common market, and a “strategic bargain,” which in fact is a composite of the first two, a “pragmatic mix” of customs union- and common market-like proposals, coupled with some Canadian initiatives in areas of strength that ought to be of particular interest to the United States. The examination of each option in the first of the Border Papers includes a brief discussion of Canadian and U.S. items of special interest, as well as items that would be particularly problematic for either side—essentially the pros and cons for each option as viewed from each side. The C.D. Howe monograph endorses the “strategic bargain” option and explains it in terms of a proper exercise of Canadian sovereignty.

According to Professor Blank, a clear example of an area that needs clarification and elaboration prior to further integration, is the area of trade and more specifically, trade disputes. While the free-trade agreements have established mechanisms for addressing such inevitable disputes, certain high-profile disputes continue to test the strength of the commitment of both parties to the arrangements under the CFTA and now the NAFTA. Either narrowly focused sectoral interests or more broadly defined national interests seem to prevent a harmonious resolution of certain disputes. Absent

<sup>10</sup> Wendy Dobson is the president of the C. D. Howe Institute, and Director of the Institute for International Business at the University of Toronto. She is a former associate deputy minister in the Canadian Ministry of Finance.

<sup>11</sup> “. . . a nation that merely reacts to events is likely to see its sovereignty erode and its future determined by others. A nation that exercises its sovereignty anticipates change, prepares options that promote the key interests of its partner, but channels actions in ways that best serve its own interests.” Ibid., p. 18.

<sup>12</sup> Dobson, p. 3.

<sup>13</sup> Ibid.

from any of these discussions is any consideration of a North American interest. As currently set out, Blank argues that there is no North American strategy for developing new trade relationships.<sup>14</sup>

The term “trade remedy law” applies specifically to the use of antidumping and countervailing duty measures in the arsenal of fair trade or protective instruments available to a nation state. Canada has been highly critical of the United States and its use of such measures in the bilateral trade arena.<sup>15</sup> When the CFTA negotiations were concluded, the parties were unable to bridge their differences on the issue of trade remedy law. A bilateral dispute settlement mechanism was established and was accompanied by a commitment on the part of both parties to seek a resolution of those differences within a 5 year period.<sup>16</sup> The movement toward a common competition policy is a major step and one that needs to be explored carefully and in light of its effects on sovereignty.<sup>17</sup>

Among the issues that Professor Dobson believes Canada could consider engaging the United States are: energy, border security, immigration policy, and anti-terrorism. It is suggested that these are areas in which the two NAFTA partners might have common interests; they are certainly areas, following the events of September 11, 2001, where an alignment of policies might be possible.<sup>18</sup> The paper argues that the events of last fall present an opportunity to both Canada and the United States—an opportunity, through joint effort,

<sup>14</sup> The commitment of the Western Hemisphere nations to a Free Trade Area of the Americas (FTAA) seems to be overlooked in the Blank analysis.

<sup>15</sup> Indeed, the notion of “contingent protection” was often raised in U.S.-Canadian bilateral negotiations on both the CFTA and the NAFTA. The removal of such protection and the guarantee of market access was a Canadian objective in economically aligning itself more closely to the United States. It is interesting to note that, among the major industrialized nations today, Canada was the first to formally institute a statute against dumping—in 1904.

<sup>16</sup> The time period passed without any alteration in the arrangement.

<sup>17</sup> An interim measure, mentioned in the Dobson paper, would be the completion of a definition of permissible, commonly accepted subsidies.

<sup>18</sup> Significantly, Dobson does not suggest any complete alignment of policies in certain areas. The aim of closer economic integration is neither a common market nor a customs union, so congruence of policies is not needed.

to advance the long-term agenda for North American security.

## Conclusion

One of the discussants at the CTPL conference made some particularly salient points in challenging Canadians to face the issue of closer economic relations with the United States. Perrin Beatty, a former Federal Cabinet minister and now the chief executive officer of Canadian Manufacturers and Exporters, maintained that the process of continental integration is no longer a question of possibility or even probability—it is already a reality. Canadians have to make a choice: no longer can they define themselves by what they do *not* want to be. Perrin cited the vigor of the new Fox administration in Mexico as one that is out in front of issues, stating its position and its desires in terms of NAFTA. Prior to September 11, 2001, Mexico was effectively setting the NAFTA agenda. Perrin argued that Canada in a similar way also has to direct the discussion toward its own political objectives. “If we do not know what we want, we are unlikely to get it.”

A foundation of vision, ideas, and legitimacy needs to be built to point out the commonalities that exist in North America. Linkages need to be formed and institutions need to be created.<sup>19</sup> The challenge facing Canadians in the post-September 11 era is one of clarification and discernment—defining for themselves the degree of economic closeness they want with their major trading partner as well as forging the elements of any new strategic policy agenda with the United States in a way that complements the increased anxieties and concerns of the United States over security issues along its Northern border, while at the same time remaining true to Canada’s own national interests. Such is the ongoing task on any economic partner—NAFTA or otherwise—in this new age of measured partnership, increased cooperation, and deepening integration.

<sup>19</sup> Professor Blank offers suggestions for specific institutions that could be created to encourage the building of a North American community. See p. 11. Professor Dobson also calls for further institution-building. See p. 28.

# U.S. Trade Developments

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The U.S. Department of Commerce reported that seasonally adjusted total exports of goods and services of \$80.1 billion and imports of \$116.0 billion in April 2002 resulted in a goods and services trade deficit of \$35.9 billion; this was \$3.5 billion more than the \$32.5 billion deficit in March 2002.<sup>2</sup> April imports of goods and services at \$116.0 billion were \$5.2 billion more than March imports of \$110.9 billion.

April 2002 merchandise exports increased to \$56.9 billion from \$55.0 billion in March 2002. Merchandise imports increased to \$96.8 billion from \$91.6 billion, causing the merchandise trade deficit to increase by \$3.3 billion in April to \$39.9 billion from \$36.6 billion in March 2002. For services, exports decreased to \$23.2 billion in April from \$23.4 billion in March. Imports of services decreased to \$19.2 billion in April from \$19.3 billion in March, resulting in a current account trade surplus in April of about \$4.0 billion, nearly \$0.2 billion lower than the \$4.1 billion surplus in March 2002.

Changes in merchandise exports in March-April 2002 reflected increases in industrial supplies and materials (\$0.8 billion); automotive vehicles, parts, and engines (\$0.4 billion); consumer goods (\$0.3 billion); and the statistical category "other goods" (\$0.1 billion). Capital goods; and foods, feeds, and beverages were virtually unchanged.

Imports of goods reflected increases in industrial supplies and materials (\$3.0 billion); consumer goods (\$1.3 billion); automotive vehicles, parts, and engines (\$0.8 billion); capital goods (\$0.4 billion); and foods, feeds, and beverages (\$0.1 billion). A decrease occurred in "other goods" (\$0.3 billion). Additional information on U.S. trade developments in agriculture

and specified manufacturing sectors in March-April 2002 are highlighted in tables 1 and 2, and figures 1 and 2. Services trade developments are highlighted in table 3.

In April 2002, exports of advanced technology products were \$14.4 billion and imports of the same were \$15.5 billion, resulting in a deficit of \$1.1 billion, following a surplus of \$0.8 billion in March 2002. Exports of these products in April 2002 were \$2.6 billion less than the \$17.0 billion recorded in March 2002, while April imports were \$0.7 billion less than the \$16.2 billion imports in March.

The April 2002 trade data showed U.S. surpluses with the following countries (preceding month in parentheses): Australia, \$0.4 billion (\$0.6 billion in March 2002); Egypt, \$0.2 billion (\$0.3 billion); Hong Kong, \$0.4 billion (\$0.5 billion); and Singapore, \$0.1 billion (\$0.5 billion). Deficits were recorded in April 2002 with: Argentina, \$0.1 billion (same); Brazil, \$0.1 billion (virtually zero); Canada, \$4.1 billion (\$3.9 billion); China, \$7.6 billion (\$5.6 billion); Japan, \$6.8 billion (\$5.7 billion); Korea, \$1.1 billion (same); Mexico, \$3.3 billion (\$3.5 billion); OPEC member countries, \$3.0 (\$2.4 billion); Taiwan, \$1.2 billion (\$0.9 billion); and Western Europe, \$7.2 billion (\$5.5 billion).

Exports of goods and services during January-April 2002 totaled \$313.7 billion, down from \$352.3 billion during January-April 2001. Imports of goods and services decreased to \$444.5 billion, from \$481.9 billion during the same period. As a consequence, the current account deficit on goods and services increased slightly to \$130.8 billion for the January-April 2002 period, from \$129.6 billion during January-April 2001.

The export of goods decreased on a balance-of-payments basis during January-April 2002 to \$221.5 billion from \$255.2 billion during the same 2001 period, a decrease of \$33.7 billion; and imports of goods also decreased to \$367.9 billion, down from \$405.5 billion in January-April 2001. Consequently, the merchandise trade deficit declined to \$146.3 billion from \$150.3 billion. Regarding trade in services, exports in

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

<sup>2</sup> Data for this article were taken largely from U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Trade in Goods and Services," Commerce News, FT-900, release of June 20, 2002, found at <http://www.census.gov/foreign-trade/www/press.html#current>, retrieved June 24, 2002, as well as at Internet address <http://www.bea.doc.gov/bea/newsrel/>.

**Table 1**  
**U.S. trade in goods and services, seasonally adjusted, March 2002-April 2002**

Item	<i>Billion dollars</i>					
	Exports		Imports		Trade balance	
	April 2002	March 2002	April 2002	March 2002	April 2002	March 2002
Trade in goods <sup>1</sup> (see note)						
Including oil .....	56.9	55.0	96.8	91.6	-39.9	-36.6
Excluding oil .....	56.9	55.3	87.2	84.4	-30.3	-29.1
Trade in services <sup>1</sup> .....	23.2	23.4	19.2	19.3	4.0	4.1
Trade in goods and services <sup>1</sup> .....	80.1	78.4	116.0	110.9	-35.9	-32.5
Trade in goods <sup>2</sup> .....	63.2	61.5	107.1	103.3	-43.9	-41.8
Advanced technology products <sup>3</sup> ..	14.4	17.0	15.5	16.2	-1.1	0.8

<sup>1</sup> Current dollars (balance-of-payments basis).

<sup>2</sup> Constant 1996 dollars (Census Bureau basis).

<sup>3</sup> Not seasonally adjusted.

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

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 1, 9, 10, and 16, FT-900 release of June 20, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.



**Table 2**

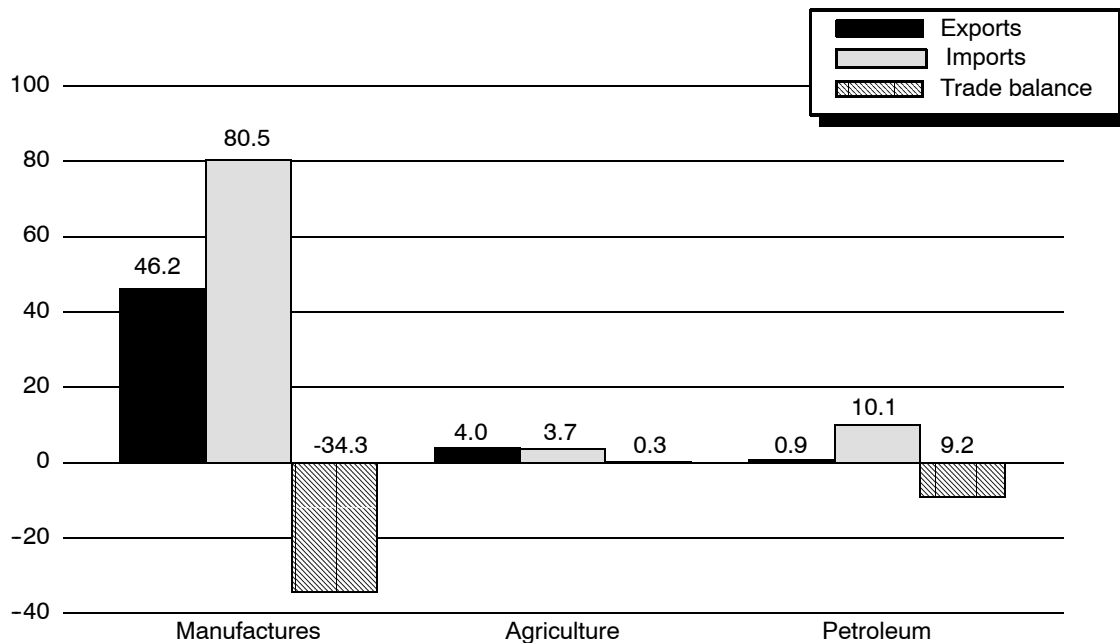
**Nominal U.S. exports, imports, and trade balances, agriculture and specified manufacturing sectors, January 2001-April 2002**

Manufacture sector	Exports			Imports			Trade balance		Change in exports, Jan.-Apr. 2002 over Jan.-Apr. 2001	Change in trade balance, Jan.-Apr. 2002 over Jan.-Apr. 2001	Share of total exports, Jan.-Apr. 2002
	April 2002	Jan.-Apr. 2002	Jan.-Apr. 2001	April 2002	Jan.-Apr. 2002	Jan.-Apr. 2001	Jan.-Apr. 2002	Jan.-Apr. 2001			
<i>Billion dollars</i>									<i>Percent</i>		
ADP equipment & office machinery .....	2.3	10.1	14.7	6.3	24.3	26.6	-14.2	-11.9	-31.3	19.3	4.5
Airplane parts .....	1.1	4.6	5.3	0.4	1.8	2.1	2.8	3.2	-13.2	-12.5	2.0
Airplanes .....	2.4	9.0	9.2	1.1	5.0	4.8	4.0	4.4	-2.2	-9.1	4.0
Chemicals - inorganic .....	0.4	1.7	2.1	0.4	1.7	2.2	0.0	-0.1	-19.0	-100.0	0.8
Chemicals - organic .....	1.4	5.0	5.8	2.6	10.1	10.8	-5.1	-5.0	-13.8	2.0	2.2
Electrical machinery .....	5.6	21.6	27.7	6.7	25.1	31.6	-3.5	-3.9	-22.0	-10.3	9.6
General industrial machinery .....	2.6	9.9	11.4	3.2	11.5	12.0	-1.6	-0.6	-13.2	166.7	4.4
Iron & steel mill products .....	0.4	1.7	1.9	0.9	4.0	4.1	-2.3	-2.2	-10.5	4.5	0.8
Power-generating machinery .....	2.6	10.5	10.8	3.1	11.7	12.2	-1.2	-1.4	-2.8	-14.3	4.7
Scientific instruments .....	2.2	8.9	10.4	1.8	6.5	7.4	2.4	3.0	-14.4	-20.0	4.0
Specialized industrial machinery .....	2.3	7.8	9.9	1.7	6.0	7.5	1.8	2.4	-21.2	-25.0	3.5
Televisions, VCRs, etc. ....	1.7	6.6	8.5	5.2	18.5	20.0	-11.9	-11.5	-22.4	3.5	2.9
Textile yarn and fabric .....	0.9	3.3	3.5	1.4	4.9	4.9	-1.6	-1.4	-5.7	14.3	1.5
Vehicles .....	5.2	18.7	18.1	14.4	53.6	53.1	-34.9	-35.0	3.3	-0.3	8.3
Other manufactures, not included above .....	15.1	57.8	65.2	31.4	117.8	123.8	-60.0	-58.6	-11.3	2.4	25.7
Manufactures .....	46.2	177.2	204.6	80.5	302.6	323.1	-125.4	-118.5	-13.4	5.8	78.9
Agriculture .....	4.0	17.8	18.0	3.7	13.8	13.3	4.0	4.7	-1.1	-14.9	7.9
Other goods, not included above .....	7.8	29.5	34.7	12.5	40.9	56.9	-11.4	-22.2	-15.0	-48.6	13.1
Total (Census basis) .....	58.1	224.5	257.3	96.8	357.2	393.3	-132.7	-136.0	-12.7	-2.4	100.0

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

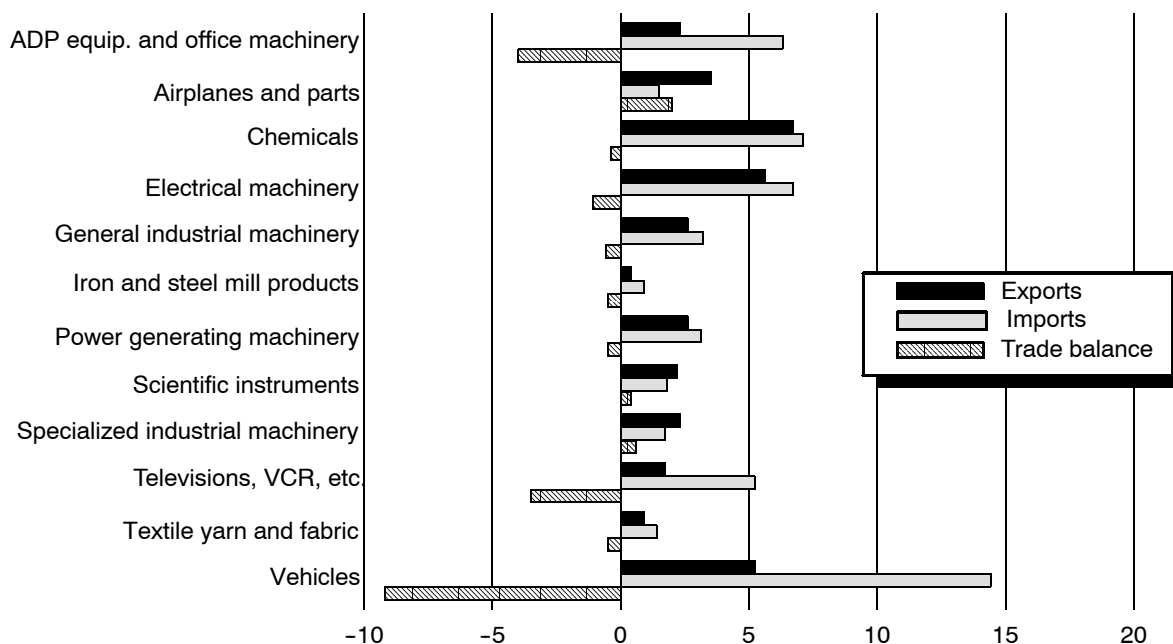
Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of June 20, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

**Figure 1**  
U.S. trade by major commodity, billion dollars, April 2002



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of June 20, 2002.

**Figure 2**  
U.S. trade in principal goods, billion dollars, April 2002



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of June 20, 2002.

**Table 3****Nominal U.S. exports, imports, and trade balances of services, by sectors, January 2001-April 2002, seasonally adjusted**

Service sector	Exports		Imports		Trade balance		Change in exports Jan.-Apr. 2002 over Jan.-Apr. 2001	Change in imports Jan.-Apr. 2002 over Jan.-Apr. 2001
	Jan.-Apr. 2002	Jan.-Apr. 2001	Jan.-Apr. 2002	Jan.-Apr. 2001	Jan.-Apr. 2002	Jan.-Apr. 2001		
	<i>Billion dollars</i>						<i>Percent</i>	
Travel .....	22.9	27.7	21.8	19.6	1.1	8.1	-17.3	11.2
Passenger fares .....	5.5	6.7	7.9	6.8	-2.4	-0.1	-17.9	16.2
Other transportation services .....	9.0	10.0	14.0	12.1	-5.0	-2.1	-10.0	15.7
Royalties and license fees .....	13.5	13.0	5.4	6.1	8.1	6.9	3.8	-11.5
Other private sales .....	37.0	35.6	21.5	25.1	15.5	10.5	3.9	-14.3
Transfers under U.S. military sales contracts .....	4.1	3.9	4.7	5.9	-0.6	-2.0	5.1	-20.3
U.S. Government miscellaneous services ..	0.3	0.3	1.0	1.0	-0.7	-0.7	0.0	0.0
Total .....	92.2	97.1	76.3	76.6	15.9	20.5	-5.0	-0.4

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

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 3 and 4, FT-900 release of June 20, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

January-April 2002 decreased to \$92.2 billion, from \$97.1 billion in the same period of 2001, a decrease of about \$5.0 billion. Imports of services decreased to \$76.6 billion from \$76.3 billion, a decrease of \$0.3 billion. The surplus on trade in services decreased to \$15.5 billion in January-April 2002 from \$20.7 billion in the same period in 2001, a decrease of \$5.2 billion.

The January-April 2002 exports of advanced technology products declined to \$58.0 billion from \$73.5 billion in January-April 2001. Imports decline to \$61.1 billion in January-April 2002 from \$68.5 billion in the same period of 2001. As a consequence, the trade surplus in these products of nearly \$5.0 billion in January-April 2001 turned into a deficit of about \$3.1 billion in January-April 2002.

The January-April 2002 trade data in merchandise goods showed trade deficits with the following coun-

tries (same period a year ago in parentheses): Canada, \$16.4 billion (\$20.4 billion in January-April 2001); China, \$26.5 billion (\$24.4 billion); Eastern Europe, \$1.7 billion (\$3.1 billion); EFTA, \$1.6 billion, (\$0.8 billion); the euro area, \$17.4 billion (\$16.4 billion); the European Union (EU-15), \$21.1 billion (\$18.9 billion); Japan, \$22.9 billion (\$24.8 billion); NICs, \$6.7 billion (\$6.6 billion); Mexico, \$11.8 billion (\$8.6 billion); OPEC, \$10.0 billion (\$14.5 billion); and Western Europe, \$22.5 billion (\$19.6 billion). South and Central American countries—such as Argentina, Brazil, and Colombia—recorded small changes in their trade balances. Taiwan's merchandise trade deficit with the United States was \$4.5 billion, down from \$4.9 billion in the same period of 2001. Trade surpluses were recorded with Australia, Egypt, Hong Kong, Netherlands, Singapore, and Spain. 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. 2001-April 2002**

Country/areas	Exports			Imports			Trade balance		Change in exports, Jan.-Apr. 2002 over Jan.-Apr. 2001	Change in trade balance, Jan.-Apr. 2002 over Jan.-Apr. 2001	
	April 2002	Jan.-Apr. 2002	Jan.-Apr. 2001	April 2002	Jan.-Apr. 2002	Jan.-Apr. 2001	Jan.-Apr. 2002	Jan.-Apr. 2001			
	<i>Billion dollars</i>							<i>Percent</i>			
Total (Census basis) . . . . .	58.1	224.5	257.3	96.8	357.2	393.3	-132.7	-136.0	-12.7	-2.4	
North America . . . . .	22.3	83.3	91.8	29.7	111.5	120.9	-28.2	-29.1	-9.3	-3.1	
Canada . . . . .	14.1	52.5	57.0	18.3	68.9	77.4	-16.4	-20.4	-7.9	-19.6	
Mexico . . . . .	8.2	30.8	34.9	11.5	42.6	43.5	-11.8	-8.6	-11.7	37.2	
Western Europe . . . . .	13.4	53.6	63.7	20.6	76.1	83.3	-22.5	-19.6	-15.9	14.8	
Euro Area . . . . .	8.8	35.8	40.8	13.9	53.2	57.2	-17.4	-16.4	-12.3	6.1	
European Union (EU-15) . . . . .	12.1	49.0	57.2	18.7	70.1	76.1	-21.1	-18.9	-14.3	11.6	
France . . . . .	1.6	6.8	7.3	2.5	9.6	10.9	-2.8	-3.6	-6.8	-22.2	
Germany . . . . .	2.1	8.9	10.9	4.9	18.5	20.4	-9.6	-9.5	-18.3	1.1	
Italy . . . . .	0.8	3.2	3.6	2.0	7.4	8.1	-4.2	-4.5	-11.1	-6.7	
Netherlands . . . . .	1.7	6.4	7.3	0.9	3.1	3.3	3.3	4.0	-12.3	-17.5	
United Kingdom . . . . .	3.0	11.5	14.3	3.7	12.9	14.7	-1.4	-0.4	-19.6	250.0	
Other EU . . . . .	0.8	3.5	4.2	1.9	8.4	7.7	-4.9	-3.5	-16.7	40.0	
EFTA <sup>1</sup> . . . . .	0.8	3.1	4.9	1.6	4.6	5.7	-1.5	-0.8	-36.7	87.5	
Eastern Europe/FSR <sup>2</sup> . . . . .	0.6	2.3	2.4	1.4	3.9	5.5	-1.6	-3.1	-4.2	-48.4	
Russia . . . . .	0.2	0.8	0.9	0.5	1.6	2.8	-0.8	-1.9	-11.1	-57.9	
Pacific Rim Countries . . . . .	14.1	55.8	64.6	31.9	117.6	126.6	-61.8	-62.0	-13.6	-0.3	
Australia . . . . .	1.0	3.9	3.6	0.6	2.0	2.0	1.9	1.6	8.3	18.8	
China . . . . .	1.5	6.3	5.7	9.1	32.8	30.1	-26.5	-24.4	10.5	8.6	
Japan . . . . .	3.9	16.4	21.4	10.7	39.3	46.2	-22.9	-24.8	-23.4	-7.7	
NICs <sup>3</sup> . . . . .	5.8	21.9	25.8	7.6	28.6	32.4	-6.7	-6.6	-15.1	1.5	
Latin America . . . . .	4.3	16.7	19.6	5.4	20.1	23.9	-3.4	-4.3	-14.8	-20.9	
Argentina . . . . .	0.2	0.5	1.5	0.2	0.9	1.0	-0.4	0.5	-66.7	-180.0	
Brazil . . . . .	1.1	4.2	5.1	1.2	4.4	4.7	-0.2	0.4	-17.6	-150.0	
OPEC . . . . .	1.6	5.6	7.2	4.6	15.6	21.7	-10.0	-14.5	-22.2	-31.0	
Other Countries . . . . .	2.3	9.5	10.6	5.0	19.5	20.7	-10.0	-10.1	-10.4	-1.0	
Egypt . . . . .	0.3	1.2	0.9	0.1	0.3	0.3	0.9	0.6	33.3	50.0	
South Africa . . . . .	0.2	0.7	1.0	0.3	1.2	1.5	-0.5	-0.5	-30.0	0.0	

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

<sup>2</sup> Former Soviet Republics (FSR).

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

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

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 14 and 14a, FT-900 release of June 20, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.



# International Economic Comparisons

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

### *Economic Growth*

The real gross domestic product (GDP) of the United States—the output of goods and services produced in the United States measured in 1996 prices—increased at an annual rate of 6.1 percent in the first quarter of 2002. In the fourth quarter of 2001, real GDP increased at an annual rate of 1.7 percent, according to estimates by the Bureau of Economic Analysis.<sup>2</sup> For the year 2001, real GDP grew by 1.2 percent, following growth rate of 4.1 in the year 2000. The major contributors to the increase in the first quarter of 2002 were: private inventory investment, personal consumption expenditures, government spending, residential fixed investment and exports.

The annualized rates of real GDP growth in the first quarter of 2002 was 6.0 percent in Canada, 1.4 percent in France, 0.7 percent in Germany, 0.6 percent in Italy, and nil percent in the United Kingdom. The annualized rate of real GDP growth in the fourth quarter of 2001 was -4.8 percent in Japan. For EU members linked by the euro currency, the euro area (EU-12), GDP growth rate was 0.9 percent in the first quarter of 2002.

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

<sup>2</sup> Data for this article were taken largely from the following sources: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product," BEA News Release, found at Internet address <http://www.bea.doc.gov/bea/newsrel/gdp.htm>; Federal Reserve Board, "Industrial Production and Capacity Utilization," G.17 (419) Release, found at Internet address <http://www.federalreserve.gov/releases/G17/Current/>; U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Price Index," USDL-01, found at Internet address <http://www.bls.gov/news.release/cpi.nr0.htm>; U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," USDL-01, found at Internet address <http://www.bls.gov/news.release/emp-sit.nr0.htm>; and the Conference Board, Consumer Research Center, "Forecasters' Forecasts," facsimile transmission, used with permission.

### *Industrial Production*

The Federal Reserve Board reported that U.S. industrial production rose 0.4 percent in April 2002 for its fourth consecutive monthly increase. It increased at the same rate in March 2002 and increased by 0.3 percent in February 2002. Output in April 2002 was 2.0 percent below its level in April 2001. The rate of capacity utilization for total industry was 1.1 percent higher in April 2002 than in April 2001. At 75.5 percent, it remained more than 6.0 percent points below 1967-2001 average.

Manufacturing output increased 0.3 percent in April, to its highest level since August 2001; excluding motor vehicles and parts, manufacturing output was up 0.1 percent. Output of utilities moved up 0.9 percent and production in mining climbed 1.1 percent. Increases in the production of motor vehicles and parts, miscellaneous goods, fabricated metals, furniture and fixtures, industrial machinery and equipment and electrical machinery more than offset declines in the output of aerospace and miscellaneous transportation equipment, instruments and lumber. Gains in the production of computers and office equipment and in semiconductors and related electronic components boosted the output of industrial machinery and equipment and electrical machinery. Among non-durables, increases occurred in the production of food, and tobacco products, and petroleum products. Output at utilities moved up 0.9 percent, and production in mining climbed 1.1 percent. By market groups, the output of consumer goods rose 0.3 percent in April, and was led by further increases in the production of durable goods. The production of automotive products climbed 2.7 percent to its highest level since August 1999, and the output of home electronics goods increased 0.4 percent. The production index for appliances, furniture, and carpeting and for miscellaneous goods fell back after having posed gains in March. Among non-durables, an increase in the output of energy products, particularly electricity, offset a small decline in overall production of non-energy goods. The output of business equipment edged up 0.1 percent. The index of information processing equipment slipped 0.1 percent after three

consecutive monthly increases; The production of defense and space equipment climbed 0.9 percent and was nearly 3.0 percent higher than a year ago.

Other G-7 member countries reported the following growth rates of industrial production. For the year ending April 2002 Japan reported a decrease of 6.1 percent. For the year that ended in March 2002: Canada reported a decrease of 0.6 percent, France reported a decrease of 0.4 percent; Germany, a decrease of 3.2 percent; Italy, a decrease of 7.6 percent; and the United Kingdom reported a decrease of 5.9 percent. The euro area reported a decrease of 2.9 percent for the year ending March 2002.

## Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) rose 0.5 percent in April 2002, following a 0.3 increase in March, according to the U.S. Department of Labor. For the year ended April 2002, consumer prices increased 1.6 percent.

During the 1-year period that ended in May 2002, Germany reported an increase of 1.2 percent, and Italy reported an increase of 2.3 percent. During the year ending in April 2002, prices increased by 1.7 percent in Canada, 2.0 percent in France, and 1.5 percent in the United Kingdom but decreased by 1.1 percent in Japan. Prices increased by 2.0 percent in the euro area in the year ending May 2002.

## Employment

The Bureau of Labor Statistics reported that the U.S. unemployment rate rose to 6.0 percent in April 2002 following a rise of 5.7 percent in March 2002. Employment rose in services industry but fell in construction. Since its recent low of 3.9 percent in October 2000, the jobless rate has increased by 2.1 percentage points. Manufacturing job losses continued to moderate, however.

In other G-7 countries, the latest unemployment rates were reported to be: 7.6 percent in Canada, 9.1 percent in France, 9.6 percent in Germany, 9.0 percent in Italy, 5.2 percent in Japan, and 5.1 percent in the

United Kingdom. The unemployment rate in the euro area was 8.3 percent.

## Forecasts

The events of 2001 brought new challenges for the U.S. economy and for economic policy. The Council of Economic Advisers projects real GDP to pick up in 2002. The economy continues to display characteristics favorable to long term growth; productivity growth remains strong, and inflation remains low and stable. The pace is expected to be slow initially, followed by an acceleration thereafter; over the four quarters of 2002 real GDP is expected to grow by 2.7 percent. The unemployment rate is projected to continue rising through the middle of 2002 when it is expected to peak around 6 percent.

In addition, private economic prospects improved despite the September 11 terrorist attacks. Seven major U.S. forecasters expect real GDP growth in the United States during the first quarter of 2002 to reach an average annualized rate of 5.6 percent, 2.8 percent in the second quarter, 3.4 percent in the third and 3.7 percent in the fourth quarter. The overall growth rate for the year 2002 is expected to average about 2.7 percent. In the first and second quarters of 2003 GDP is projected to grow at 3.9 percent. Table 1 shows macroeconomic projections for the U.S. economy from January 2002 to June 2003, 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 5.6 percent in the first quarter of 2002, and remain around 5.9 percent for the rest of the year 2002 and dips in 2003. Inflation, as measured by the GDP deflator, is expected to remain subdued, reaching an average of about 1.0 percent in the first quarter of 2002, and then rise slightly thereafter to 1.6 percent. For the whole year inflation is projected to remain at 1.2 percent. (See table 1).



Table 1

## Projected changes of selected U.S. economic indicators, by quarter and year, January 2002-June 2003

		Conference Board	Macro-economic Advisers	E.I. Dupont	UCLA	Regional Forecasting Associates	Merrill Lynch Capital Markets	Eaton Corp.	Mean of forecasts
		<i>Percent (see note)</i>							
<b>GDP, constant dollars</b>									
2002	Q:I (actual)	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
	Q:II . . . . .	2.0	2.6	3.0	2.1	2.7	4.0	2.9	2.8
	Q:III . . . . .	2.8	3.3	3.0	2.4	2.4	4.5	5.1	3.4
	Q:IV . . . . .	2.9	3.7	3.5	2.5	3.0	4.5	5.5	3.7
2003	Q:I . . . . .	4.2	4.2	3.5	2.8	4.0	4.1	4.3	3.9
	Q:II . . . . .	4.7	4.2	3.5	2.7	4.4	4.2	3.8	3.9
	Annual								
	2002 . . . . .	2.4	2.7	2.7	2.4	2.5	3.1	3.2	2.7
	Annual								
	2003 . . . . .	3.8	3.9	3.3	2.6	3.6	4.2	4.4	3.7
<b>Unemployment, average rate</b>									
2002	Q:I (actual)	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
	Q:II . . . . .	6.0	5.9	5.8	6.0	5.9	6.0	5.7	5.9
	Q:III . . . . .	6.1	5.9	5.6	6.0	6.0	5.9	5.5	5.9
	Q:IV . . . . .	6.1	5.7	5.5	6.1	6.0	5.7	5.2	5.8
2003	Q:I . . . . .	6.0	5.5	5.4	5.9	5.9	5.6	4.9	5.6
	Q:II . . . . .	5.9	5.3	5.3	5.8	5.8	5.6	4.8	5.5
	Annual								
	2002 . . . . .	5.9	5.8	5.6	5.9	5.9	5.8	5.4	5.8
	Annual								
	2003 . . . . .	5.8	5.2	5.3	5.9	5.7	5.5	4.8	5.5
<b>GDP price deflator</b>									
2002	Q:I (actual)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Q:II . . . . .	1.6	1.3	1.1	1.5	2.6	0.5	2.8	1.6
	Q:III . . . . .	1.5	0.6	1.5	1.3	2.2	1.3	1.6	1.4
	Q:IV . . . . .	2.4	1.6	1.5	1.1	2.2	0.9	1.6	1.6
2003	Q:I . . . . .	3.0	2.2	1.8	1.5	2.2	1.2	1.8	2.0
	Q:II . . . . .	2.3	2.2	1.8	1.5	2.1	1.2	1.7	1.8
	Annual								
	2002 . . . . .	1.3	1.0	1.1	1.1	1.6	1.0	1.4	1.2
	Annual								
	2003 . . . . .	2.4	1.9	1.7	1.3	2.3	1.2	1.7	1.8

Note.—Projected changes in percent represent annualized percentage rates of change from the preceding period, except for the unemployment rate which represents a simple percentage rate of the U.S. labor force. Quarterly data are seasonally adjusted.

Source: Calculated from data supplied by the Conference Board. Used with permission. Forecast date, May 2002.



# Global Economic Forecasts

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## Introduction

In addition to quarterly forecasts of the U.S. economy by private-sector forecasters, cited regularly in the preceding article, a number of longer term economic forecasts by governments and international organizations are released—typically in the spring—as full calendar year data become available for the previous year. In April 2002, the International Monetary Fund (IMF) released its annual *World Economic Outlook*, projecting near-term global and regional economic growth for 2002 and 2003, as well as a medium-term forecast for the 2004-2007 period. In May 2002, the World Trade Organization (WTO) released its annual report on international trade in 2001 and predictions for 2002. Also in May 2002, the U.S. Federal Reserve Board summarized U.S. international transactions for the full year 2001. In June 2002, the Organization for Economic Cooperation and Development (OECD) released its semiannual *Economic Outlook*, forecasting economic activity in the industrialized OECD countries for 2002 and 2003. Summaries of these projections follow.

## IMF Forecasts Moderate Global Economic Recovery in 2002

In April 2002, the IMF released its *World Economic Outlook*, projecting world output and related measures for 2002 and 2003, as well as select medium-term projections for 2004 to 2007.<sup>2</sup> Real GDP growth worldwide expanded by 2.5 percent in 2001, and is expected to grow by 2.8 percent in 2002, increasing to 4.0 percent in 2003, reaching a real GDP growth rate of 4.4 percent annually on average over the period 2004 to 2007. World output would be equivalent

to \$49 trillion in 2002, and \$52 trillion in 2003, estimating prices on a purchasing power parity basis (table 1).

Real economic growth is forecast to recover modestly in 2002 in the advanced and developing economies, expand somewhat faster in 2003, and moderate or grow moderately in the medium term over 2004-07. The advanced economies grew in 2001—albeit slowly—at 1.2 percent, but are expected to recover to 1.7 percent growth in 2002, and expand economic output by 3.0 percent in 2003, reaching an annual average growth rate of 3.1 percent over 2004-07. The developing economies, from an economic growth rate of 4.0 percent in 2001, are projected to grow by 4.3 percent in 2002, by 5.5 percent in 2003, and attain an average annual growth rate of 6.0 percent over 2004-07. The economies in transition, which reached a real GDP growth rate of 5.0 percent in 2001, are expected to expand by 3.9 percent in 2002, 4.4 percent in 2003, and reach an average annual growth rate of 5.0 percent over 2004-07.

Consumer prices are estimated to remain low. In the advanced economies, consumer prices are forecast lower, from 2.2 percent increase in 2001, slowing to a 1.3 percent increase in 2002, then expanding by 1.8 percent in 2003, and reaching an average rate of inflation of 2.0 percent annually over 2004-07. In developing economies, consumer price inflation is low as well, starting from a rate of 5.8 percent consumer price inflation in 2001, roughly maintaining this low rate around 5.5 to 5.8 percent in 2002, decelerating slightly to around 4.7 to 5.1 percent in 2003, and somewhat further to an annual average near 4.2 percent during 2004-07.<sup>3</sup> Transition economies are expected to experience the greater consumer price inflation, with consumer prices rising by 15.9 percent in 2001, still rising by 10.8 percent in 2002 albeit more slowly, by 8.7 percent in 2003, and subsiding to a 6.2 percent average annual increase during 2004-07.

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

<sup>2</sup> IMF, “World Economic Outlook – Recessions and Recoveries,” World Economic and Financial Surveys, April 2002, found at Internet address <http://www.imf.org/external/pubs/ft/weo/2002/01/index.htm>, retrieved on May 16, 2002.

<sup>3</sup> Forecasts for consumer price changes in the highly heterogeneous grouping of the developing countries vary slightly between the standard 2-year projection in the main text of the report (found in Statistical Appendix Table 8) and that showing the medium-term baseline scenario (Statistical Appendix Table 45).

**Table 1**  
**Summary of IMF World Economic Outlook, 2000–2007, medium-term forecast\***

Item/area	2000	2001	2002	2003	2004-2007
<b>Real GDP growth</b>			<i>Annual percent change</i>		
World .....	4.7	2.5	2.8	4.0	4.4
Advanced economies .....	3.9	1.2	1.7	3.0	3.1
Transition economies .....	6.6	5.0	3.9	4.4	5.0
Developing countries .....	5.7	4.0	4.3	5.5	6.0
<b>Trade growth</b>			<i>Annual percent change</i>		
World trade in goods and services (volume basis) .....	12.4	-0.2	2.5	6.6	7.0
<b>Imports</b>					
Advanced economies .....	11.6	-1.5	2.1	6.6	6.7
Transition economies .....	13.2	10.8	8.0	7.7	7.4
Developing countries .....	16.0	2.9	6.4	7.7	8.5
<b>Exports</b>					
Advanced economies .....	11.7	-1.3	0.9	6.3	6.6
Transition economies .....	14.6	6.3	5.2	6.1	6.5
Developing countries .....	15.0	3.0	4.8	7.0	8.1
<b>Trade balances (current account)</b>			<i>Percent of GDP</i>		
Advanced economies .....	-1.0	-0.8	-0.8	-0.7	-0.7
Transition economies .....	3.6	1.9	0.2	-0.6	-1.5
Developing countries .....	1.2	0.5	-0.4	-0.9	-1.2
<b>Consumer prices</b>			<i>Annual percent change</i>		
Advanced economies .....	2.3	2.2	1.3	1.8	2.0
Transition economies .....	20.2	15.9	10.8	8.7	6.2
Developing countries .....	6.1	5.7	5.5	4.7	4.2
<b>World prices (U.S. dollar basis)</b>			<i>Annual percent change</i>		
Primary commodities, nonfuel .....	1.8	-5.5	-0.1	7.2	3.4
Oil .....	57.0	-14.0	-5.3	-4.4	-1.2
Manufactures .....	-5.1	-2.4	-0.5	1.2	1.0
<b>Developing countries--selected indicators</b>			<i>Annual percent change</i>		
Real GDP .....	5.7	4.0	4.3	5.5	6.0
Export volume .....	15.0	3.0	4.8	7.0	8.1
Import volume .....	16.0	2.9	6.4	7.7	8.5
<b>Regional groups</b>					
<b>Africa</b>					
Real GDP .....	3.0	3.7	3.4	4.2	5.0
Export volume .....	5.2	3.0	1.5	4.1	6.1
Import volume .....	4.7	3.4	3.0	2.6	4.3
<b>Developing Asia</b>					
Real GDP .....	6.7	5.6	5.9	6.4	6.8
Export volume .....	22.2	3.6	6.5	7.9	10.0
Import volume .....	22.1	5.8	9.0	9.7	11.1

See footnote at end of table.

**Table 1—Continued****Summary of IMF World Economic Outlook, 2000–2007, medium-term forecast\***

Item/area	2000	2001	2002	2003	2004-2007
<b><i>Middle East and Turkey</i></b>					
Real GDP .....	5.8	2.1	3.3	4.5	5.0
Export volume .....	6.2	1.2	0.6	4.9	4.8
Import volume .....	15.8	-2.8	6.3	5.5	5.7
<b><i>Western Hemisphere</i></b>					
Real GDP .....	4.0	0.7	0.7	3.7	4.3
Export volume .....	12.8	3.4	6.7	7.8	7.4
Import volume .....	11.0	1.6	3.1	7.8	7.0

\*Medium-term baseline scenario.

Source: Compiled by USITC staff from IMF, *World Economic Outlook*, April 2002, Appendix Tables 45 and 46--Summary of World Medium-Term Baseline Scenario.

Producer price increases are largely expected to remain moderate for goods traded on world markets priced in U.S. dollars. Primary commodity prices (excluding oil) fell by 5.5 percent in 2001, are expected to fall only 0.1 percent in 2002, but are projected to increase 7.2 percent in 2003, before slower price increases take hold at an annual average of 3.4 percent over 2004-07. Oil commodity prices, which fell by 14 percent in 2001, are projected to fall further by 5.3 percent in 2002, fall 4.4 percent in 2003, and fall at a slower average annual rate of 1.2 percent during 2004-07. Manufacturing prices fell at a 2.4 percent rate in 2001, are forecast to fall at a 0.5 percent rate in 2002, then to rise by 1.2 percent in 2003, and rising more moderately by an annual average of 1.0 percent over 2004-07.

## WTO Expects Moderate Growth in World Trade in 2002

International trade in goods contracted during 2001 by 4.0 percent in value terms for merchandise exports and by 1.0 to 1.5 percent for commercial services, according to WTO data released in May 2002 as part of its *Annual Report 2002*.<sup>4</sup> This slowdown contrasted sharply with brisk increases in 2000, when exports of goods grew by 12.5 to 13.0 percent and services exports grew by 6.0 percent. World exports of merchandise goods in 2001 were estimated at roughly \$6 trillion, and world exports of commercial services around \$1.4 trillion, valuing world trade at approximately \$7.5 trillion in 2001 (table 2).

Three major factors contributed to this slowdown in world trade: (1) moribund demand for information technology (IT) products following the bursting of the global IT market bubble; (2) sluggish demand overall in Western Europe; and to a much lesser extent, (3) depressed demand following the terrorist attacks in the United States on September 11, 2001. Weakening private consumption in all major industrial markets, a marked reduction in business inventories, and a fall in business investment, combined to yield a matching decline in world output throughout 2001.

In 2002, world trade is expected to recover, primarily at first due to inventory rebuilding. The WTO projects that world exports are likely to reach an annualized rate of growth of roughly 6 percent by the fourth

quarter of 2002, but that world trade overall for 2002 is likely to average only the same 1.5 percent annual growth rate as in 2001. Typically, international trade has expanded faster than global economic activity, but a 1 percent expansion of world trade in 2002 would represent the second year running where world trade has lagged behind world output. Part of the underlying explanation for this slower world trade growth may be that IT products constitute a larger share in international trade than they do in world production—such that a depressed world market for IT products affects trade more than production—as well as higher transaction costs for world trade that may result from the terrorist events of September 11, 2001.

Geographically, countries and regions where IT products form a substantial portion of their trade experienced first a great expansion followed by a great decline in their merchandise exports in 2000 and 2001, respectively. East Asian traders with significant involvement in IT product trade—such as Chinese Taipei (Taiwan), Korea, Malaysia, the Philippines, Singapore, and Thailand—experienced as a group a 13 percent contraction in their goods exports between 2000 and 2001, and Japan experienced a 16 percent contraction, compared to overall world exports contracting only 4 percent in the same period. In contrast, transition economies in Central and Eastern Europe saw their merchandise exports expand by 11 percent in 2001, supported by substantial inflows of foreign direct investment.

Goods exports from developing countries contracted roughly 6 percent in 2001, approximating but somewhat greater than the contraction in world trade overall. Tentative estimates—based on incomplete information—of goods exports from the 48 least developed countries point to a stagnation in both exports and imports for 2001, although their overall share in world trade remains very small at one half of one percent (0.5 percent).

In its release, the WTO also reported on a longer term view of commodity prices and export earnings as they concern developing countries. Over recent decades, the WTO has found that developing countries have steadily diversified their export structure to a remarkable degree, both diversifying the items exported and exporting more manufactured goods. Whereas primary products accounted for over 90 percent of developing countries' export earnings in 1955, the share of primary products in these countries' exports accounted for less than 30 percent by the end of the 1990s.

However, although developing countries as a group have sharply reduced their dependence on primary products, this shift is uneven and masks a number of

<sup>4</sup> WTO, "Chapter II—World Trade Developments," Annual Report 2002, found at Internet address [http://www.wto.org/english/news\\_e/pres02\\_e/pr288\\_e.htm](http://www.wto.org/english/news_e/pres02_e/pr288_e.htm), retrieved on May 14, 2002.

Table 2

## Summary of WTO estimates of growth in world trade in goods and services, by region, 1990-2001

Country/region	Exports (f.a.s.)				Imports (c.i.f.)			
	Value	Growth			Value	Growth		
	2001	1990-2000	2000	2001	2001	1990-2000	2000	2001
	<i>Billion dollars</i>	<i>Annual percentage change</i>			<i>Billion dollars</i>	<i>Annual percentage change</i>		
<b>Growth in trade in merchandise goods (value basis)</b>								
World .....	6162	6	13	-4	6439	7	13	-4
North America .....	994	7	13	-6	1410	9	18	-6
Latin America .....	349	9	20	-3	381	12	16	-2
Mexico .....	159	15	22	-5	176	15	23	-4
Other Latin America .....	190	6	18	-1	205	9	10	0
Western Europe .....	2484	4	4	-1	2527	4	6	-3
EU-15 .....	2290	4	3	-1	2335	4	6	-2
Transition economies .....	285	7	26	5	268	5	14	11
Africa .....	141	4	28	-5	134	3	5	1
Middle East .....	239	7	42	-9	174	5	10	4
Asia .....	1671	8	18	-9	1544	8	23	-7
Japan .....	405	5	14	-16	350	5	22	-8
China .....	266	15	28	7	244	16	36	8
<b>Growth in trade in commercial services (value basis)</b>								
World .....	1440	6	6	-1	1430	6	6	-1
North America .....	298	7	9	-4	227	7	14	-6
Latin America .....	58	7	11	-4	72	7	12	2
Mexico .....	13	7	17	-7	17	5	19	1
Other Latin America .....	45	7	9	-3	55	8	10	2
Western Europe .....	670	5	1	0	631	5	1	0
EU-15 .....	604	5	1	1	589	5	1	0
Transition economies .....	55	n.a.	10	10	57	n.a.	18	11
Africa .....	30	5	0	n.a.	38	4	7	n.a.
Middle East .....	31	8	15	n.a.	56	4	10	n.a.
Asia .....	298	9	12	-2	351	7	8	-3
Japan .....	63	5	13	-7	107	3	1	-8
China .....	31	18	15	3	36	24	16	2

Note.—“n.a.” indicates not available.

Source: Compiled by USITC staff from WTO, *Annual Report 2002 — Chapter II*, May 2002, Tables II.2 and II.5.

regional differences. Developing Asia has advanced the furthest, from approximately a 60 percent dependence on primary product exports in 1970 to around 15 percent in the late 1990s. Latin America has also substantially reduced dependence on primary product exports since 1970, from about 90 percent to roughly 40 percent in the late 1990s. Africa and the Middle East, however, have made less progress in diversifying away from primary product to more manufactured exports, although where certain countries' dominate regional trade—such as the Republic of South Africa within Southern Africa—any regional trend toward diversification may be obscured.

For over half of the developing countries, dependence on petroleum and fuel exports increased rather than decreased reliance on primary product export earnings—particularly from the mid-1970s to mid-1980s. Sharply lower oil prices from about 1986 have made for sharper rather than more gradual adjustments toward export diversification in these countries.

## International Transactions in 2001 Narrowed U.S. Trade Deficit

In 2001, weak economic growth worldwide helped reduce the U.S. current account deficit substantially, decreasing both United States imports and exports of goods and services.<sup>5</sup> The U.S. deficit on merchandise trade narrowed during the year, with the improvement in the current account assisted further by a slight increase in the U.S. surplus on trade in services. The U.S. deficit on investment income, however, continued to expand.

A U.S. surplus on the capital account in 2001—capital inflows that represent foreign savings seeking to finance investment in the United States—provided the counterpart offset to the U.S. current account deficit. Net private capital inflows set a record pace in 2001, in particular through transactions in private securities.

The reduced U.S. deficit on trade in goods and services in 2001 contrasts with the steady increases in the overall U.S. trade deficit during the past decade. Should U.S. economic activity in 2002 increase at a faster pace than its trading partners, as a number of forecasters broadly expect, the U.S. trade deficit is likely again to widen—with imports of U.S. goods and

services expanding more rapidly than exports of the same. The extent to which the U.S. trade deficit is likely to widen will hinge significantly on the strength of economic activity abroad among principal U.S. trading partners as well as the strength of the appreciation of the U.S. dollar relative to other currencies in recent years.

## OECD Forecasts Economic Recovery, Varied by Region

In June 2002, the OECD released its semiannual forecast of macroeconomic activity for the next 18 months, focused on the 30 industrialized nations that comprise the OECD.<sup>6</sup> Overall, the OECD expects an economic recovery to emerge over the coming quarters, but differentiated by region (table 3). The OECD forecast also finds economic activity outside the OECD area to be firming.

The OECD projects annual economic growth—increase in real gross domestic product, GDP—in the United States to rise from 1.2 percent in 2001, to 2.5 percent in 2002, and increase further to 3.5 percent in 2003. For the European Union (EU), however, growth of 1.7 percent in 2001 is not likely to be matched this year—reaching 1.5 percent in 2002—but with an upturn to 2.8 percent real GDP growth forecast for 2003. Japan's economy—undergoing domestic price deflation, fiscal retrenchment, and structural economic reforms—is forecast to worsen from a contraction of GDP of -0.4 percent in 2001, to -0.7 percent in 2002, before improving with positive economic activity in 2003 of 0.3 percent real GDP growth.

Price inflation is projected in the United States to fall from 2.2 percent in 2001, to 1.5 percent in 2002, and remain at that level at approximately 1.6 percent in 2003. In the EU, inflation of 2.3 percent in 2001 is expected to continue at 2.3 percent in 2002, before subsiding to 1.9 percent in 2003. Japan—again, undergoing deflation—saw its price level fall by -1.4 percent in 2001, which is forecast again at -1.4 percent in 2002, with further deflation expected at -1.7 percent in 2003.

Unemployment in the United States and the EU is expected to show no particular trend over the forecast period. Unemployment of 4.8 percent in 2001 in the United States is expected to rise to 5.6 percent in 2002, then fall to 5.3 percent in 2003. In the EU, unemployment of 7.4 percent in 2001, is expected to rise to 7.6 percent in 2002, and then fall to 7.5 percent in 2003. In Japan, however, unemployment appears to be on the

<sup>5</sup> William L. Helkie, "U.S. International Transactions in 2001," Federal Reserve Bulletin, May 2002, found at Internet address <http://www.federalreserve.gov/pubs/bulletin/2002/02bulletin.htm#may>, retrieved on May 14, 2002.

<sup>6</sup> OECD, Economic Outlook No. 71, June 2002, found at Internet address <http://www.oecd.org/>, retrieved on June 18, 2002.



**Table 3**  
**Summary of OECD Economic Outlook projections, by selected region/country, 2001-2003<sup>1</sup>**

Item/area	2001	2002	2003	2001:H1	2001:H2	2002:H1	2002:H2	2003:H1	2003:H2
<b>Real GDP</b>				<i>Percentage change from previous period</i>					
OECD area .....	1.0	1.8	3.0	1.1	-0.2	2.3	2.8	3.0	3.1
United States .....	1.2	2.5	3.5	1.2	-0.2	3.5	3.4	3.5	3.7
Japan .....	-0.4	-0.7	0.3	1.0	-3.4	0.0	0.6	0.2	0.3
EU .....	1.7	1.5	2.8	1.8	0.6	1.4	2.5	3.0	3.0
<b>Inflation (GDP deflator)</b>				<i>Percentage change from previous period</i>					
OECD area .....	2.7	2.3	1.8	3.2	2.2	2.6	2.1	1.8	1.7
United States .....	2.2	1.5	1.6	2.6	1.6	1.3	1.6	1.6	1.5
Japan .....	-1.4	-1.4	-1.7	-1.6	-0.9	-1.5	-1.6	-1.7	-1.6
EU .....	2.3	2.3	1.9	2.8	1.9	2.6	1.9	1.9	2.0
<b>Unemployment</b>				<i>Percent of labor force</i>					
OECD area .....	6.4	6.9	6.7	6.2	6.6	6.9	6.9	6.8	6.6
United States .....	4.8	5.6	5.3	4.3	5.2	5.6	5.5	5.4	5.2
Japan .....	5.0	5.8	6.0	4.8	5.3	5.7	6.0	6.0	6.0
EU .....	7.4	7.6	7.5	7.3	7.4	7.5	7.6	7.5	7.4
<b>Trade balances (current account)</b>				<i>Percent of GDP</i>					
OECD area .....	-1.1	-1.1	-1.2	-1.2	-0.9	-1.0	-1.1	-1.1	-1.1
United States .....	-4.1	-4.4	-4.9	-4.3	-3.9	-4.2	-4.6	-4.8	-5.0
Japan .....	2.2	3.3	4.3	2.0	2.4	3.1	3.6	4.2	4.4
EU .....	0.1	0.4	0.6	-0.3	0.5	0.4	0.4	0.5	0.6
<b>World trade (volume basis)<sup>2</sup></b>				<i>Percentage change from previous period</i>					
Growth in trade in goods and services .....	0.0	2.5	9.5	-1.8	-5.7	4.2	7.8	10.0	10.3

<sup>1</sup> Seasonally adjusted annual rates. Assumes exchange rates of Apr. 4, 2002, e.g. US\$1=131.9 yen, =1.139 euro.

<sup>2</sup> Growth rate of the arithmetic average of world merchandise import and export volumes.

Source: Compiled by USITC staff from OECD *Economic Outlook No. 71*, June 2002.

increase, reaching 5.0 percent in 2001, forecast to rise to 5.8 percent in 2002, and rise further to 6.0 percent in 2003.

Trade balances are expected to widen over the forecast period. The United States is forecast to widen its current account deficit to 4.1 percent of GDP in 2001, to 4.4 percent in 2002, and still further to 4.9

percent in 2003. In contrast, Japan is forecast to widen its export-led recovery by widening its current account surplus from 2.2 percent of GDP in 2001, to 3.3 percent in 2002, to 4.3 percent in 2003. The EU is also expected to widen its much smaller trade surplus over the period, from 0.1 percent of GDP in 2001, to 0.4 percent in 2002, and to 0.6 percent in 2003.

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# STATISTICAL TABLES

**Table 1**  
**Unemployment rates in G-7 countries, by specified periods, 2000-April 2002<sup>1</sup>**

Country	Percent												
	Q:I	Q:II	Q:III	2000 Q:IV	Q:I	Q:II	Q:III	2001 Q:IV	Q:I	Jan.	Feb.	Mar.	2002 Apr.
United States .....	4.0	4.0	4.1	4.0	4.2	4.5	4.8	5.6	5.6	5.6	5.5	5.7	6.0
Canada .....	6.1	6.1	6.1	6.1	6.2	6.3	6.4	6.8	7.1	7.3	7.1	7.0	7.0
Japan .....	4.8	4.7	4.7	4.8	4.8	4.9	5.2	5.5	5.3	5.3	5.4	5.3	5.2
France .....	9.9	9.5	9.3	9.0	8.6	8.5	8.7	8.9	9.0	9.0	9.0	9.0	9.1
Germany .....	8.3	8.1	8.0	7.8	7.9	8.0	8.0	8.1	8.2	8.2	8.2	8.2	8.2
Italy .....	11.2	10.9	10.5	10.1	9.9	9.7	9.5	9.3	9.2	9.2			
United Kingdom .....	5.8	5.5	5.4	5.2	5.1	5.0	5.1	5.2		5.1	5.2		

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

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

**Table 2**  
**Consumer prices of G-7 countries, by specified periods, 2000-April 2002**

Country	Percent, change from same period of previous year												
	Q:I	Q:II	Q:III	2000 Q:IV	Q:I	Q:II	Q:III	2001 Q:IV	Q:I	Jan.	Feb.	Mar.	2002 Apr.
United States .....	3.2	3.3	3.5	3.4	3.4	3.4	2.7	1.9	1.3	1.1	1.1	1.5	1.6
Canada .....	2.7	2.4	2.7	3.1	2.8	3.6	2.7	1.1	1.5	1.3	1.5	1.8	1.7
Japan .....	-0.7	-0.7	-0.7	-0.5	-0.4	-0.7	-0.8	-1.0	-1.4	-1.4	-1.6	-1.2	-1.1
France .....	1.5	1.5	1.9	1.9	1.3	2.0	1.8	1.4	2.1	2.2	2.0	2.1	2.0
Germany .....	1.8	1.6	2.1	2.3	2.5	3.2	2.5	1.8	1.9	2.1	1.7	1.8	1.6
Italy .....	2.4	2.5	2.6	2.7	2.9	3.1	2.8	2.4	2.5	2.4	2.5	2.5	2.4
United Kingdom .....	2.3	3.1	3.2	3.1	2.5	1.9	1.8	1.0	1.2	1.3	1.0	1.3	1.5

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

**Table 3****U.S. trade balances by major commodity categories and by specified periods, April 2001-April 2002<sup>1</sup>***Billion dollars*

Commodity categories	2001									2002			
	Apr.	May	June	July	Aug.	Sept	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Manufactures .....	-29.5	-27.4	-28.4	-35.0	-33.2	-31.5	-38.6	-32.9	-26.8	-31.6	-30.5	-28.9	-34.3
Agriculture .....	0.9	0.8	0.8	0.7	1.3	0.8	1.7	1.9	1.5	1.3	1.5	0.9	0.3
Petroleum <sup>2</sup> .....	-10.6	-10.9	-10.0	-9.7	-9.0	-8.2	-8.0	-6.4	-5.8	-6.7	-5.4	-7.4	-9.2
Dollar unit price of U.S. petroleum imports <sup>2</sup> .....	21.6	22.6	23.1	22.3	22.2	23.0	19.9	17.1	15.5	16.3	16.6	19.2	22.48

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

<sup>2</sup> Petroleum and selected products, not seasonally adjusted.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 15 and 17, FT-900 release of June 20, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.



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