
INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

International Trade Developments

USITC Nontariff Measures Database: Overview and Preliminary Findings
*Challenges Facing the Caribbean Region in the Era of Globalization,
and the U.S.-Caribbean Trade Relationship*

U.S. Trade Developments

Recent Developments
U.S. International Transactions in the Second Quarter, 2002
U.S. Productivity and Costs in the Second Quarter, 2002

International Economic Comparisons

*U.S. Economic Performance Relative to Other Group of Seven
(G-7) Members*
Global Economic Forecasts
World Investment in 2002



OFFICE OF ECONOMICS

Robert B. Koopman, *Director*

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INTERNATIONAL TRADE DEVELOPMENTS

USITC Nontariff Measures Database: Overview and Preliminary Findings

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The USITC has completed preliminary work on a database covering nontariff measures for goods and services in the APEC and FTAA regions. This article explains the primary elements of the database and presents a preliminary summary of the data. According to a preliminary review of the data, the nontariff measure category cited by the most countries in the database is inadequate intellectual property rights. A large number of service sectors are also affected by NTMs. Additional work on the database is in progress.

The Office of Economics of the U.S. International Trade Commission is currently conducting a research project to improve the quantification of the effects of nontariff measures (NTMs) on trade flows and other economic variables.² A central feature of this effort is the generation of a database of NTMs for goods and services in the Asia Pacific Economic Cooperation forum (APEC) and the Free Trade Area of the Americas (FTAA) regions. The preliminary database includes information on 20 countries regarding NTMs that have been notified or alleged, products and sectors that have been affected by specific NTMs, as well as reference sources. Each of the elements of the database is discussed in this article, followed by a brief summary of the preliminary data.

In compiling the database, information has been obtained from several sources including the Office of

the United States Trade Representative's (USTR) National Trade Estimate Report on Foreign Trade Barriers (NTE), the European Union's (EU) Market Access Database and the World Trade Organization's (WTO) Trade Policy Reviews. The information contained in the NTE reports and the EU database survey foreign trade measures as reported by government officials and company representatives in the United States and the EU. The WTO Trade Policy Reviews provide information on a country's trade regime as reported by the WTO Secretariat.

There are strengths and limitations associated with each of the three reference sources. All of the sources generally include some of the same categories of NTMs. However, their descriptions of NTMs vary, as does their coverage. Some references contain information regarding only a few NTM categories. For example, the EU's Market Access Database contains information on NTMs for most countries prior to 2001, but includes only a few NTM categories and provides only general information for each category. The WTO reviews countries with varying frequencies, none of them annually. Therefore, the WTO Trade Policy Reviews do not provide information for every country under consideration in the USITC database. The USITC database includes only information from the Trade Policy Reviews conducted from 1998 to the

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

² Inclusion of a citation or item in the database does not constitute an opinion regarding the WTO-consistency or lack thereof, discriminatory impact or lack thereof, or economic effect of that item. The intended purpose of the database is for general research into the economic effects of NTMs in support of USITC's customers.

present. The Trade Policy Reviews are most useful for such topics as import prohibitions, quotas, licensing, and standards. For many countries, the USTR's NTE report includes more in-depth information on NTMs, than either the EU Market Access Database or WTO Trade Policy Review provides.

A major element of the USITC database—in addition to country and product/sector information, as well as references—is information on the NTMs. There is no single definitive classification scheme for NTMs. However, there are several major classification systems such as Robert Baldwin's twelve groupings (1970), UNCTAD's seven categories, Deardorff and Stern (1984, 1988), and OECD (2002). The main problem with classifying NTMs is that the range is potentially infinite, especially if all measures—other than tariffs—that impede trade or raise the cost of trading are included. NTMs can be both formal, including governmental regulations, policies and administrative procedures or they can include informal barriers and practices. Not all categories of NTMs are applicable to all countries and products.

The NTM classification system in the database incorporates both formal governmental regulations (e.g., customs regulations) and policies (e.g., investment-related measures), and informal barriers and practices (e.g., nontransparency, arbitrary enforcement, corruption). Both formal and informal barriers affect a different number of sectors and tariff lines. For example, some countries may have formal governmental NTMs that affect only a few sectors or tariff lines while they have informal practices such as inadequate enforcement of anticompetitive practices or corruption that may act as barriers to imports in many sectors. Table 1 lists the 14 major NTM categories in the USITC's database. Most of the categories can be found in other classification systems, except for taxes, which is separated out in the USITC database. Table 2 provides more detailed examples of the major NTM categories. Some examples of note include preshipment inspection which is included in the category of "Customs," local preferences for bids and countertrade requirements which are included in "Government Procurement," and local content requirements in "Investment-Related Measures."

Another element of the database is the products or sectors affected by NTMs. The USITC database contains both broad sectors such as automobiles and pharmaceuticals and specific products such as wine and margarine. It also includes a large number of service sectors such as telecommunications, banking, and legal services. Some products or sectors may be affected by more than one NTM. For example, a

product such as wheat may be affected by import prohibitions as well as state-trading. Many products or sectors may be affected by the same NTMs. For example, imports of cosmetics, medical equipment, and lighting fixtures are all affected by required inspections in the Philippines.

Table 1
Major NTM Categories in the USITC Database

Anticompetitive Practices/Competition Policy
Corruption
Customs Procedures
Government Procurement
Import Licensing
Import Prohibitions
Import Quotas
Intellectual Property Rights
Investment-Related Measures
Sanitary and Phytosanitary Standards
Services
Standards, Testing, Certification, and Labeling
State Trading
Taxes

Preliminary Data Summary

One initial finding reflected in the data is that some NTM categories are more frequent among the 20 countries in the preliminary database than others (figure 1). For example, the data indicate that 19 countries were cited as having inadequate intellectual property rights protection—the greatest number of countries so notified. The next most widespread NTM categories were import prohibitions (17 countries), standards and licensing (15), and services (15). Corruption was cited least, in only 4 countries.³

For the database as a whole, the measure with the greatest number of citations by far is "Standards, Testing, Certification, and Labeling" (figure 2). There are 1,048 citations within this category, compared to only 475 for "Import Licensing," the next category most frequently cited.⁴ Technical regulations,

³ One major difficulty confronted in assessing nontariff measures may be shown by the example that an NTM may exist even though it is not cited, e.g. corruption may be present in more countries than are cited by the sources incorporated into the USITC database.

⁴ A citation in the database includes information entered regarding a (1) country, (2) sector, and (3) measure. A fourth entry may include references. Thus, an individual citation in the database will include on a single line information about, for example, Afghanistan, apples, and anticompetitive practices. Individual measures are aggregated into NTM categories. In some cases, the product category is listed as a "horizontal" if nearly all products or a group of products are affected.

Table 2
Detailed Examples of Non-Tariff Measures, by Category

Anticompetitive Practices/Competition Policy

- weak antitrust enforcement
- exclusionary business practices
- high levels of cross-shareholding
- oligopolistic market structure
- lack of transparency in rulemaking
- inconsistency in applying laws and regulations

Corruption

- lax enforcement of laws
- lack of transparency
- demand for irregular and non-transparent fees to obtain required permits or licenses
- government awards of contracts based on personal relations
- arbitrary legal system

Customs Procedures

- invoice requirements
- dual pricing schemes/reference prices
- requirements to enter through certain ports
- discriminatory and uneven enforcement of regulations
- long, burdensome, nontransparent inspection and clearance procedures
- inconsistent interpretation of regulatory requirements, arbitrary
- insufficient prior notification of procedural changes
- importer registration procedures, cumbersome and time-consuming
- preshipment inspection
- administrative guidance
- nontransparent and inconsistently applied regulations
- merchandise handling fees
- special import requirements

Government Procurement

- nontransparent preferences in bids
- “Buy National,” “Buy Subnational,” or local preferences
- national security restrictions
- set-asides for small- and medium-sized businesses
- countertrade requirements
- temporary changes in the bidding process

Import Licensing

- mandatory licensing, or non-automatic licensing approval

Import Prohibitions

- for reasons of national security, public health, or environmental reasons

Import Quotas

- lack of transparency of laws and regulations

Intellectual Property Rights

- most common problem: inadequate enforcement of copyrights, patents and trademarks
- insufficient protection of geographic indications and trade secret information
- indirect costs associated with country-specific features of patent systems

Table 2—Continued
Detailed Examples of Non-Tariff Measures, by Category

Investment-Related Measures

- notification requirements
- prohibitions on foreign investment
- restrictions on foreign ownership
- local content requirements
- taxes
- bureaucratic obstacles
- exclusionary business practices
- cross-shareholding
- lack of transparency in government rulemaking
- restrictions on mergers and acquisitions
- lack of rules-based legal infrastructure

Sanitary and Phytosanitary Standards

- pre-clearance inspection requirements

Services

- lack of national treatment
- lengthy and burdensome proceedings in regulatory processes
- limited transparency regarding laws and regulations
- complex laws and regulations
- prohibitions/restrictions on foreign equity ownership
- quota on number of screens (film)
- prohibitions/restrictions on establishing a branch
- conditions on approval of licenses
- prohibitions/restrictions on use of foreign names
- restrictions on numbers of local employees
- requirements for foreign firms to form joint ventures with local firms
- prohibition on licensed professionals
- residency requirements
- broadcast content quota
- restrictions on Internet website
- limits on portfolio investments and restrictions on capital flows

Standards, Testing, Certification, and Labeling

- costly and burdensome standards, testing, certification and labeling
- nontransparent standards and testing procedures
- redundant testing
- quarantine restrictions
- excessive use of fumigation
- cumbersome labeling requirements
- time-consuming inspections
- nontransparent safety regulation system
- sub-federal regulations
- delays in approval for biotechnology foods
- limited recognition of foreign testing and certification
- packaging standards
- safety licenses
- building codes

Table 2—Continued
Detailed Examples of Non-Tariff Measures, by Category

State Trading (examples of government boards)

- wheat
- dairy
- fish
- liquor
- postal
- rice
- tobacco
- silk
- petroleum
- utilities (e.g., gas, electricity)
- grains
- cotton
- fertilizer

Taxes

- value-added tax
 - customs processing fee
 - surcharge
 - excise tax
-

Figure 1
Number of countries reported with non-tariff measures, by category

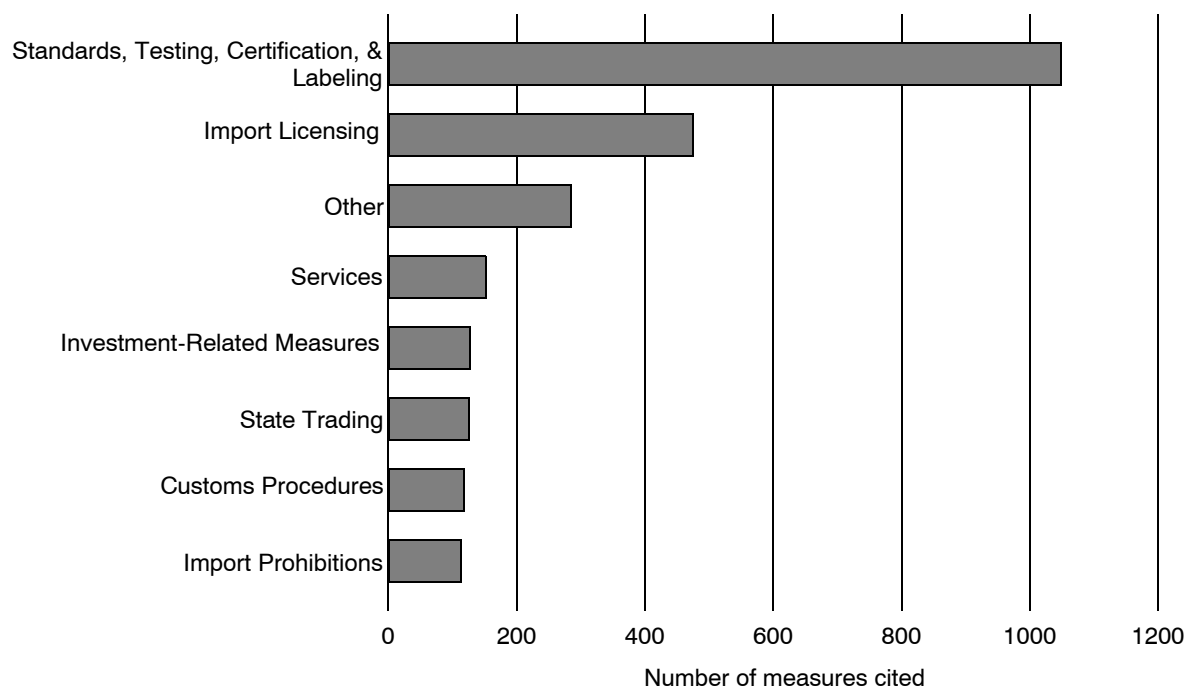


* Standards, Testing, Certification, & Labeling

** Anticompetitive Practices/Competition Policy

Source: USITC.

Figure 2
Non-tariff measures cited most frequently, grouped by category



Note.—“Other” is the combination of remaining NTM categories.

Source: USITC.

standards, and conformity assessment procedures are covered under the WTO Agreement on Technical Barriers to Trade (“TBT Agreement”).⁵ The TBT Agreement provides for certain exceptions to international standards for specific, legitimate objectives such as “to ensure the quality of ... exports, or for the protection of human, animal or plant life or health, of the environment, or for the prevention of deceptive practices” whenever international standards do not exist or are inadequate.⁶

Finally, there are a large number of different service sectors affected by NTMs. According to the database, there are 49 service sectors affected by NTMs. The four service sectors affected in the greatest

number of countries are legal services (12), telecommunications (10), insurance (9), and architecture (7). One country was cited for 26 service sectors, many of which were professional services such as interior design, criminology, veterinary journalism, and tourism services.

In conclusion, the USITC’s database is in its preliminary stages of development. Thus, final conclusions cannot be drawn based on its contents at the present time, although a broad summary of the data as it currently stands has been provided here. The nontariff measure cited by the greatest number of countries falls in the category of inadequate “Intellectual Property Rights,” cited by 20 countries in the database. The most frequently cited nontariff measure *overall* falls in “Standards, Testing, Certification, and Labeling,” perhaps because this type of NTM is very specific and may affect many individual products. Finally, the data show that a very large number (49) of services sectors are currently affected by NTMs. The sectors range from broad areas such as telecommunications and legal services to specific professions such as journalism.

⁵ WTO, “Agreement on Technical Barriers to Trade,” *The Results of the Uruguay Round of Multilateral Trade Negotiations* (Geneva:WTO, 1995). See, for example, the Preamble and TBT Article 1 (General Provisions), at Art. 1.6.

⁶ WTO, “Agreement on Technical Barriers to Trade,” *The Results of the Uruguay Round of Multilateral Trade Negotiations* (Geneva:WTO, 1995), TBT Art. 1; and additional information from WTO, “Agreement on Technical Barriers to Trade,” found at Internet address http://www.WTO.org/english/docs_e/legal_e/17-tbt.pdf, retrieved on Aug. 26, 2002.

Challenges Facing the Caribbean Region in the Era of Globalization, and the U.S.-Caribbean Trade Relationship

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The Caribbean Basin Economic Recovery Act (CBERA) was dramatically revitalized by its extension in October 2000, which included the Caribbean Basin Trade Partnership Act (CBTPA). The short experience to date with the enhanced CBERA is also viewed here in the context of the Caribbean Region's overall developmental needs, as assessed by three authors. These authors discuss the new challenges the region faces in the post-colonial global economy, and the role the United States could play in assisting them.

The Revitalization of CBERA by the CBTPA

In January 1994, with the implementation of the North American Free Trade Agreement (NAFTA), Caribbean countries found themselves in a position of competitive disadvantage with Mexico in the U.S. market for certain products, especially apparel. Under NAFTA, apparel from Mexico gained duty-free access, while Caribbean apparel remained dutiable. When the Caribbean apparel entered the U.S. market under production-sharing provisions, the Caribbean value-added portion of the imported product was still subject to duty.²

The competitive disadvantage that by Caribbean countries had to face gave rise to the U.S. law called the United States-Caribbean Basin Trade Partnership Act (CBTPA), which came into effect on October 1, 2000. This legislation enhanced the Caribbean Basin Economic Recovery Act (CBERA), a preferential import program that has benefitted Caribbean and

Central American countries since 1984, but from which apparel and some other products had been generally excluded until the program's recent extension which the CBTPA included.³

CBTPA dramatically revitalized the CBERA program. CBERA's significance in U.S. imports from Caribbean countries began to decline after 1998, because several products that had been leading imports under the program became free of duty under normal trade relations (NTR) rates (formerly known as most-favored-nation rates), and therefore no longer entered under CBERA.⁴ However, since CBERA was extended with CBTPA provisions, preferential trade from CBERA countries has accounted for a sharply increased share of total imports from these countries.

Table 1 shows total annual U.S. imports from the beneficiaries of CBERA countries in 1998-2001;

³ The Caribbean Basin Initiative (CBI), a U.S. program to assist Caribbean countries, first came into effect in 1984 when CBERA, a preferential program for imports from eligible Caribbean countries, was implemented. In 1990, CBERA was extended by several additional preferential provisions. In October 2000, the Caribbean Basin Trade Partnership Act (CBTPA) was implemented as the second extension of CBERA, making apparel and some other Caribbean exports eligible for duty-free treatment under the program. For more information on CBERA, see the series of the U.S. International Trade Commission's *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers*, published annually in September since Sept. 1986 through 2001. Thereafter, the series became biennial, thus the next issue will be released in September 2003.

⁴ For example, beginning in 1999, most instruments (HTS chapter 90) and footwear uppers (HTS chapter 64) that had been leading import categories under CBERA in 1998, became duty-free under normal tariff rates, therefore no longer entered under the program. Similar was the case for many electrical machinery items in 2000.

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² Production sharing occurs when two or more countries provide value-added during the production of a good and at least one country uses imported inputs in the production process. In a typical production-sharing arrangement of U.S. and Caribbean companies, the capital-intensive portion of the shared production process is located in the United States, and the labor-intensive operations are located in a Caribbean country. Apparel, footwear, and electronics assembly lend themselves well to production sharing.

Table 1
U.S. imports from CBERA countries, 1998 to 2001, December 2000 to May 2001, and December 2001 to May 2002

Item	1998	1999	2000	2001	Dec. 2000- May 2001	Dec. 2001- May 2002
Total imports from CBERA countries (1,000 dollars)	17,124,281	19,364,762	22,161,075	20,678,868	10,722,288	9,580,378
Total imports under CBTPA (1,000 dollars)	(¹)	(¹)	157,004	5,592,870	1,999,731	3,096,135
Percent of total imports from CBERA countries			1	27	19	32
Total imports under CBERA exclud- ing CBTPA (1,000 dollars)	3,224,564	2,637,200	2,635,549	2,706,287	1,419,783	1,462,766
Percent of total imports from CBERA countries	19	14	12	13	13	15
Total imports under CBERA includ- ing CBTPA (1,000 dollars)	3,224,564	2,637,200	2,792,553	8,299,157	3,419,514	4,558,901
Percent of total imports from CBERA countries	19	14	13	40	32	48

¹ Not applicable.

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

semiannual imports during December 2000–May 2001, the first half-year period during which entries under CBERA already reflected CBTPA; and imports during December 2001–May 2002, the most recent comparable semiannual period.

In 2001, its first full year, CBTPA alone accounted for relatively more program-related duty-free imports from Caribbean countries than CBERA ever has. CBTPA alone accounted for 27 percent of all U.S. imports from CBERA countries, compared with 13 percent of the total by CBERA alone. During the same year, the new, extended CBERA program—CBERA and CBTPA combined—was responsible for 40 percent of all imports from these countries. Notably, however, CBTPA has not boosted total imports from the Caribbean region in 2001; in fact, imports dropped from \$22.2 billion in the year 2000 to \$20.7 million, or by 6.8 percent. The likely positive impact of CBTPA on this trade was offset by other factors, such as slackening U.S. demand due to recession, and lower prices in some groups of imports, especially petroleum products.

During December 2001–May 2002, both CBERA and CBTPA separately were higher as a portion of overall U.S. imports from CBERA countries than they had been in the comparable period of December 2000–May 2001. The extended CBERA accounted for 48 percent of the total in December 2000–May 2001, compared with 32 percent in the prior 6 months.

Challenges and the Role the United States in the Caribbean Region: A Review

For any student of CBERA's extension by the CBTPA, or of policies affecting the Caribbean in general, a paper released by the Center for Strategic and International Studies (CSIS) may be of interest. Entitled "The United States and Caribbean Strategies," this paper contains three assessments of Caribbean developmental needs, and of policies the authors believe the United States should implement.⁵

The paper touches on several policy issues in addition to economic and trade policy, including political, security, ecological, and social issues; immigration; organized crime; narcotics trafficking;

⁵ The three assessments, released on Apr. 16, 2002, are authored by Richard L. Bernal, Ambassador of Jamaica to the United States "U.S. Caribbean Relations at the Dawn of the Twenty-First Century;" Anthony T. Bryan, professor, University of Miami, "Caribbean Trends and a U.S. Policy Agenda;" and Georges A. Fauriol, director, CSIS Americas Program, "U.S. Policy Prospects toward the Caribbean."

and U.S. policy on Cuba and Haiti. What follows is a review of the authors' policy recommendations pertaining to economics and trade.

It should be noted that the authors generally view the region in terms of the Caribbean Community and Common Market (CARICOM),⁶ which the CARICOM member countries are seeking to call the Caribbean Single Market and Economy (CSME) once they achieve an economically integrated unit.⁷ However, when citing specific U.S. policies, the authors adapt to the U.S. practice that includes the Central American countries in their denotation of the Caribbean region. Also this article will use the term "Caribbean Region" loosely, depending on the context discussed.

Recognizing the CBTPA, but Looking for More

The authors consider the CBTPA "a significant step toward parity of market access between Mexico and CBI countries,"⁸ particularly as the program relates to apparel" (Bernal p. 10; see also Bryan p. 36, and Fauriol p. 44). All three assessments agree that U.S. policies are of utmost importance for the region's economy, because of geographic proximity (Bryan p. 31); because "the NAFTA trade market remains a prize" (Fauriol, p. 42); and "because the United States is the largest trading partner and capital source for the region" (Bernal, p. 8).

However, the authors indicate that they are interested in U.S. engagement on behalf of the Caribbean well beyond preferential trade programs; they propose initiating new U.S. policy actions in some areas and discontinuing existing ones in others. Fauriol does not dispute that the most immediate opportunity for the United States to assist the Caribbean region is in the area of trade and development (p. 35). However, he questions the "compartmentalized nature of U.S.

⁶ CARICOM, established in 1975, includes 15 Caribbean countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, Suriname, St. Vincent and the Grenadines, and Trinidad and Tobago.

⁷ Many other definitions exist which all could stand for the "Caribbean Region." The broadest is The Association of Caribbean States (ACS), which comprises 37 nations, including the mainland states of Venezuela, Colombia, Mexico, and the Central American countries. U.S. policies with respect to the Caribbean region are principally concerned with those 24 countries that are beneficiaries of the Caribbean Basin Economic Recovery Act (CBERA), and these include some Caribbean islands outside CARICOM, such as the Dominican Republic, and the Central American countries. Reports of the United States International Trade Commission refer to these countries combined as the "CBERA region" or "CBERA countries."

⁸ The term "CBI countries" also refers to the beneficiaries of CBERA (a.k.a. CBERA countries).

policies with respect to the Caribbean,” which consist of various “country-specific agendas (especially with respect to Cuba and Haiti)” and of discrete issues such as general trade, narcotics trade, money laundering, and immigration (p. 39). But he realizes that “..the United States also faces a region that remains fragmented geographically, as well as politically, which explains in part the absence of an integrated U.S. policy” (p. 41).

The Short-Term Nature of Preferential Trade Programs

Bryan emphasizes the short-term nature of CBERA and of the trade preferences Caribbean nations now enjoy from any government. He warns that Caribbean nations must plan for the long term without counting on such preferences. In his words: “The generous preferential market access for their (i.e. Caribbean countries’) exports to the European Union (EU) and North America is in danger of being eroded or phased out in the coming years” (p. 31).

Bryan reminds the reader that by 2005, newly liberalized global apparel trade will allow additional countries, including China, to compete with Caribbean and other suppliers that now have preferential access to the U.S. market.⁹ Also Fauriol writes that “Preferential trade agreements—the CBI for example—are an endangered species” (p. 44). He is referring to upcoming events in the area of regional and global integration, including negotiations to establish a Free Trade Agreement of the Americas (FTAA) or new World Trade Organization (WTO) rounds on the horizon, which could further challenge the economies of the region (p. 44).

Caribbean Merchandise Exports Other Than Those Affected by the Extended CBERA

The authors point out the continuing importance for the region of merchandise exports that do not benefit, or benefit only in part, from U.S. preferential trade measures, but for which the U.S. market and U.S. policies still play a major role. Bryan comments that

⁹ The Uruguay Round Agreement on Textiles and Clothing (ATC) calls for the gradual and complete elimination by January 1, 2005 of import quotas on textiles and apparel established by the United States and other importing countries under the Multifiber Arrangement (MFA).

“The challenges facing CBI countries, even with the CBTPA, may have less to do now with textiles and apparel products, and more with taking full advantage of tariff-free treatment for non-apparel products. Indeed, the psychological advantages of awakening latent production forces and attracting new investment can be more important than increased market access” (p. 36).

The authors cite bananas as an example of Caribbean exports that are greatly affected by U.S. policies outside of CBERA programs.¹⁰ In the banana case, they see the position the United States has taken in the past on international banana trade to have been detrimental to the interest of some Caribbean island nations. For years, Caribbean island nations exported bananas mostly to Europe, where they enjoyed privileged access to the European market under the EU’s preferential program in favor of African, Caribbean, and Pacific (ACP) countries. The authors claim that the recent adoption by the EU of a more competitive system of international banana trade at the insistence of the United States,¹¹ resulted in the loss of the Caribbean island nations’ privileges in the European market.¹² This loss became a serious problem for some Caribbean countries, whose economies depend largely on banana exports (Bernal, p. 8; see also Bernal, pp. 11–12; Bryan, p. 38; Fauriol, p. 41). Small banana farmers of Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines were especially affected.¹³

Bernal cites sugar as another example of the large impact U.S. policies have on Caribbean trade. Caribbean sugar exports to the U.S. market, while benefitting from duty-free treatment under CBERA,

¹⁰ Bananas are free of duty under the U.S. Harmonized Tariff System (HTS), therefore they do not need to enter the U.S. market under CBERA.

¹¹ The EU adopted a new trade regime in April 2001 in response to U.S. pressure on behalf of Latin American and Central American suppliers, and a World Trade Organization (WTO) ruling, which favored the United States in this U.S.-EU dispute. Notably, however, the WTO ruling benefits the Central American banana producers who are also CBERA beneficiaries; it also benefits Ecuador, the world’s largest banana producer. It does aggravate the competitive position of some Caribbean island producers, especially small ones, whose economies rely heavily on the export of bananas.

¹² Before a tariff-only trading system is to be implemented in 2006, a transitional tariff-rate quota system is in effect with allocations based on past trade.

¹³ Following the release of the CSIS article under discussion, the predicament the Caribbean banana producing countries was alleviated by waivers the WTO granted to the EU, allowing them to maintain preferential access to ACP countries, subject to specific limitations.

are subject to U.S. tariff-rate quotas (TRQs). He mentions the threat for Caribbean sugar producers of the Mexican Government's continuing pressure on the United States to allocate much larger sugar quotas to Mexico. Caribbean producers are concerned that Mexico might eventually succeed in obtaining larger quotas, but will do so at the expense of Caribbean quotas (p. 12). To date, U.S. quotas have been allocated according to historical trade patterns. At the time of this writing the threat has not materialized, and the Dominican Republic still enjoys the largest U.S. sugar quotas among all nations.

Caribbean Foreign-Exchange Earners Other Than Merchandise Exports

The authors call attention to important sectors and sector potential for the Caribbean economy other than the merchandise eligible under preferential trade programs. They point especially to some services, which already are major sources of foreign-exchange earnings in the region. Bryan believes that "The Caribbean region shows potential for global competitiveness in tourism, offshore financial and other services, and major energy-based industries and manufacturing" (p. 32).

Also Bernal extolls the importance of tourism for the Caribbean, saying that "Tourism has been the principal sector which accounts for about 30 percent of the region's export earnings and one in every five jobs" (p. 8). For some small Caribbean countries—he points out—this ratio can be as high as 70 percent (p. 6). Bernal sees information technology (IT) also as an important service provided by certain Caribbean countries, and as a basis for sustained economic growth for some, including Jamaica and Barbados (p. 8).

Offshore financial services, in which small economies have the opportunity of becoming competitive, have assumed considerable importance in the region. However, some Caribbean islands, including Antigua and Barbuda, the Bahamas,¹⁴ Barbados, Belize, St. Lucia, and St. Vincent and the Grenadines, were included in a list of 35 countries that the inter-governmental Financial Action Task Force (FATF)¹⁵ identified as lacking anti-money-laundering measures and as ones which had inadequate bank supervisory and regulatory regimes (Bernal p. 15, see

also Bryan, p. 37). Bernal emphasizes the importance of the U.S. Government's role in supporting ongoing efforts by CARICOM to regulate financial services in Caribbean countries (p. 20). Bryan speaks about "unfair assaults on the Caribbean offshore financial sector by intergovernmental organizations," stating that most Caribbean offshore jurisdictions already have stronger banking regulations, "know your customer" rules, and "due diligence" procedures than similar jurisdictions in the United States (p. 37).

The authors also comment on narcotics' and weapons' trafficking as part of the Caribbean economic spectrum (Bernal, pp. 15-21). Bernal believes that the U.S. anti-narcotic effort in source nations (such as in Colombia) ought to be extended to the transit countries of the drug trade in the Caribbean (p. 19). Also Bryan believes that U.S. technical assistance to counter narcotics trade should be an important component of U.S. policy with respect to the Caribbean (p. 38). But Fauriol says that "There is some resentment among the region's leadership towards the United States, because of Washington's heightened pressure regarding drugs and money laundering" (p. 41).

Vulnerability of Caribbean Countries to External Economic Events

Bernal writes about the vulnerability of the Caribbean economies because of their small size and their consequent disadvantage in obtaining foreign direct investment (FDI), for which small countries are rated more risky than large countries by international lenders and the like. He also identifies the continuing dependence of Caribbean nations on relatively few primary products, and the prevalence of natural disasters in the area as major causes of Caribbean vulnerability (p. 6).

Bryan says that while the Caribbean has been integrated into the world economy since the late fifteenth century through trade and investment, post-colonial globalization added to the vulnerability of the region (pp. 27-28). Caribbean countries lost their special ties to former colonial powers and now "openness renders them extremely vulnerable to external shocks" (p. 31). Also, "While the economies (of the region) were benefitting from low import prices, exports of commodities suffered under the effects of dismantling of trade barriers" (p. 28).

However, Bryan also recognizes Caribbean success stories in the era of post-colonial globalization, such as those of Trinidad and Tobago, and the Dominican Republic (p. 29). So does Fauriol who, in reference to those same two countries and Barbados, concludes that "What one is likely to see are sets of countries

¹⁴ Financial services reportedly account for 12 percent of employment and 15 percent of GDP in the Bahamas (Bernal, p. 15).

¹⁵ FATF is an inter-governmental body established by the G-7 summit in Paris in 1989, whose purpose is the development and promotion of policies, both on the national and international level, to combat money laundering.

engaging globalization at different speeds and defining niche markets” (p. 45).

The U.S. Interest

In these three assessments, the U.S. interest in the Caribbean is described mostly in non-economic terms; the security and environmental aspects of the U.S. relationship with the Caribbean are emphasized. Nonetheless, certain purely economic interests are identified from the U.S. as well as the Caribbean point of view. Bernal points out that major Caribbean export products—sugar, bananas, and bauxite—which made the region important in the past for the United States (and for Europe) no longer matter, since these products are now readily available elsewhere, in some cases at lower prices (p. 8). At the same time, Bernal touts the importance of the region as an export market for the United States, pointing out that “The Caribbean Basin is, in the aggregate, now the tenth largest market for the United States, surpassing other U.S. trading

partners, such as France” (p. 8).¹⁶ Fauriol also comments that “...the aggregate of Caribbean (and Central American) economies surprisingly amounts to a total two-way trade with the United States of about \$40 billion,¹⁷ ranking the region as a significant global player” (p. 40).

Bernal also mentions co-production (referred to in USITC reports as “production sharing”)¹⁸ an arrangement, which helps to increase U.S. competitiveness, especially in the apparel sector, as a notable aspect of U.S.-Caribbean economic interdependence (p. 22).

¹⁶ In its last report on the Caribbean Basin Economic Recovery Act, covering trade in the year 2000, the U.S. International Trade Commission found that the CBERA countries combined ranked ninth among other U.S. market destinations, ahead of the Netherlands.

¹⁷ Official U.S. data show 2001 U.S. imports for consumption from CBERA countries at \$20.6 billion, and U.S. domestic exports to these countries at \$20.1 billion. Thus, two-way trade amounted to \$40.7 billion in 2001.

¹⁸ See footnote 2.

U.S. TRADE DEVELOPMENTS

Recent Developments

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The U.S. Department of Commerce reported that seasonally adjusted total exports of goods and services of \$83.2 billion and imports of \$117.8 billion in July 2002 resulted in a goods and services trade deficit of \$34.6 billion; this was \$2.2 billion less than the \$36.8 billion deficit in June 2002.² July exports were \$1.1 billion more than June exports of \$82.2 billion, imports of goods and services at \$117.8 billion were \$1.1 billion less than June imports of \$118.9 billion.

July 2002 merchandise exports increased to \$59.1 billion from \$58.2 billion in June 2002. Merchandise imports decreased to \$98.0 billion from \$98.9 billion, causing the merchandise trade deficit to decrease by \$1.8 billion in July to \$38.9 billion from \$40.6 billion in June 2002. For services, exports increased to \$24.1 billion in July from \$23.9 billion in June. Imports of services decreased to \$19.8 billion in July from \$20.0 billion in June, resulting in a services trade surplus in July of about \$4.3 billion, nearly \$0.4 billion higher than the \$3.9 billion surplus in June 2002.

Changes in merchandise exports in June–July 2002 reflected increases in automotive vehicles, parts, and engines (\$0.4 billion); the statistical category “other goods” (\$0.2 billion), consumer goods (\$0.1 billion), and capital goods (\$0.1 billion). A decrease occurred in industrial supplies and materials (\$0.1 billion); foods, feeds, and beverages were virtually unchanged.

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

² Data for this article were taken largely from U.S. Department of Commerce, Bureau of Economic Analysis, “U.S. International Trade in Goods and Services,” *Commerce News*, FT-900, release of Sept. 18, 2002, found at <http://www.census.gov/foreign-trade/www/press.html#current>, as well as at Internet address <http://www.bea.doc.gov/bea/newsrel/>.

Imports of goods in June–July reflected decreases in consumer goods (\$0.6 billion); other goods (\$0.3 billion); and capital goods (\$0.3 billion). Increases occurred in industrial supplies and materials (\$0.1 billion); and foods, feeds, and beverages (\$0.1 billion). Automotive vehicles, parts, and engines were virtually unchanged. Additional information on U.S. trade developments in agriculture and specified manufacturing sectors in June–July 2002 are highlighted in tables 1 and 2, and figures 1 and 2. Services trade developments are highlighted in table 3.

In July 2002, exports of advanced technology products were \$14.9 billion and imports of the same were about \$17.0 billion, resulting in a deficit of \$2.1 billion, following a deficit of \$0.07 billion in June 2002. Exports of these products in July 2002 were \$1.6 billion less than the \$16.5 billion recorded in June 2002, while July imports were about \$0.5 billion more than the \$16.5 billion imports in June.

The July 2002 trade data showed U.S. surpluses with the following countries (preceding month in parentheses): Australia, \$0.8 billion (\$0.6 billion in June 2002); Egypt, \$0.1 billion (deficit of \$0.3 billion); Hong Kong, \$0.1 billion (\$0.4 billion); and Singapore, \$0.1 billion (\$0.5 billion). Deficits were recorded in July 2002 with: Argentina, \$0.2 billion (\$0.1 billion in June); Brazil, \$0.4 billion (\$0.3 billion); Canada, \$4.4 billion (\$3.5 billion); China, \$9.3 billion (\$8.5 billion); Japan, \$5.7 billion (\$5.3 billion); Korea, \$1.1 billion (\$0.8 billion); Mexico, \$3.4 billion (\$3.2 billion); OPEC member countries, \$3.1 (\$2.9 billion); Taiwan, \$0.9 billion (\$1.1 billion); and Western Europe, \$11.0 billion (\$7.1 billion).

Exports of goods and services during January–July 2002 totaled about \$560.0 billion, down from \$605.0 billion during January–July 2001. Imports of goods and services decreased to \$800.5 billion, from \$826.3 billion during the same period. As a consequence, the

Table 1
U.S. trade in goods and services, seasonally adjusted, June 2002-July 2002

Billion dollars

Item	Exports		Imports		Trade balance	
	July 2002	June 2002	July 2002	June 2002	July 2002	June 2002
Trade in goods ¹ (see note)						
Including oil	59.1	58.2	98.0	98.9	-38.8	-40.6
Excluding oil	59.2	58.4	88.8	89.9	-29.5	-31.6
Trade in services ¹	24.1	23.9	19.8	20.0	4.3	3.9
Trade in goods and services ¹	83.2	82.2	117.8	118.9	-34.6	-36.8
Trade in goods ²	65.2	65.0	108.3	109.4	-43.1	-44.5
Advanced technology products ³ ..	14.9	16.5	17.0	16.5	-2.1	-0.1

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

² Constant 1996 dollars (Census Bureau basis).

³ Not seasonally adjusted.

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

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 1, 9, 10, and 16, FT-900 release of Sept. 18, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

Table 2

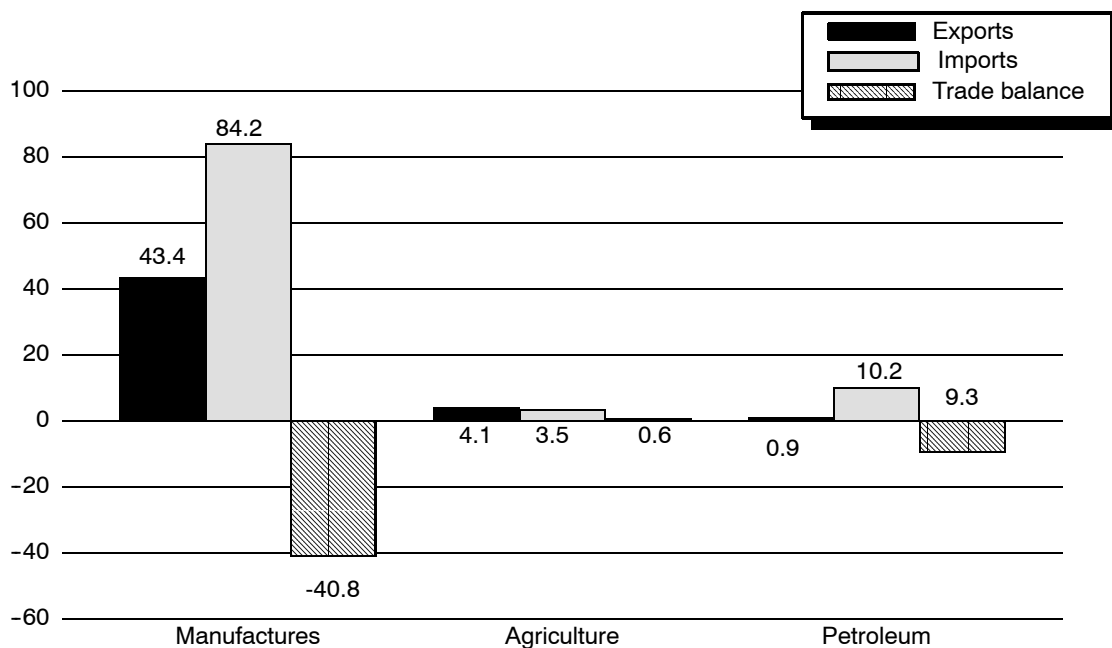
Nominal U.S. exports, imports, and trade balances, agriculture and specified manufacturing sectors, January 2001-July 2002

Manufacture sector	Exports			Imports			Trade balance		Change in exports, Jan.-July 2002 over Jan.-July 2001	Change in trade balance, Jan.-July 2002 over Jan.-July 2001	Share of total exports, Jan.-July 2002
	July 2002	Jan.-July 2002	Jan.-July 2001	July 2002	Jan.-July 2002	Jan.-July 2001	Jan.-July 2002	Jan.-July 2001			
	<i>Billion dollars</i>						<i>Percent</i>				
ADP equipment & office machinery	2.3	17.6	24.3	6.7	43.6	45.3	-25.9	-21.0	-27.3	23.4	4.4
Airplane parts	1.1	8.0	9.5	0.4	3.1	3.8	4.9	5.7	-15.5	-13.5	2.0
Airplanes	2.5	16.6	16.5	0.9	7.7	8.6	8.9	7.9	0.7	12.4	4.2
Chemicals - inorganic	0.5	3.2	3.6	0.6	3.3	3.8	-0.1	-0.2	-10.4	-24.4	0.8
Chemicals - organic	1.3	9.3	9.9	2.4	17.6	18.1	-8.4	-8.2	-6.4	1.5	2.3
Electrical machinery	5.6	38.8	45.1	6.9	45.9	51.8	-7.1	-6.7	-14.1	6.1	9.7
General industrial machinery	2.4	17.6	19.6	3.1	20.8	20.4	-3.2	-0.8	-10.0	281.9	4.4
Iron & steel mill products ...	0.4	3.0	3.2	1.2	7.0	7.3	-4.0	-4.1	-7.3	-1.7	0.7
Power-generating machinery	2.2	18.5	19.4	2.8	20.4	21.3	-1.8	-1.9	-4.7	-1.2	4.6
Scientific instruments	2.1	15.8	17.6	1.8	11.7	12.8	4.1	4.8	-10.1	-14.6	4.0
Specialized industrial machinery	2.2	14.0	16.4	1.7	10.9	12.5	3.1	4.0	-14.5	-20.9	3.5
Televisions, VCRs, etc.	1.5	11.4	14.6	5.9	35.5	35.2	-24.1	-20.6	-21.9	16.9	2.9
Textile yarn and fabric	0.8	5.9	6.1	1.5	9.3	8.7	-3.4	-2.6	-1.8	27.2	1.5
Vehicles	3.5	33.1	31.5	12.5	94.5	91.0	-61.5	-59.6	5.0	3.2	8.3
Other manufactures, not included above	14.8	104.1	113.6	35.8	218.5	220.1	-114.4	-106.4	-8.4	7.5	26.1
Manufactures	43.4	317.0	350.9	84.2	549.8	560.6	-232.7	-209.7	-9.7	11.0	79.4
Agriculture	4.1	30.1	30.2	3.5	24.3	23.2	5.8	7.0	-0.3	-17.3	7.5
Other goods, not included above	7.6	52.3	59.0	12.7	78.7	96.4	-26.4	-37.4	-11.4	-29.4	13.1
Total (Census basis) ...	55.1	399.4	440.2	100.5	652.8	680.2	-253.3	-240.0	-9.2	5.5	100.0

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

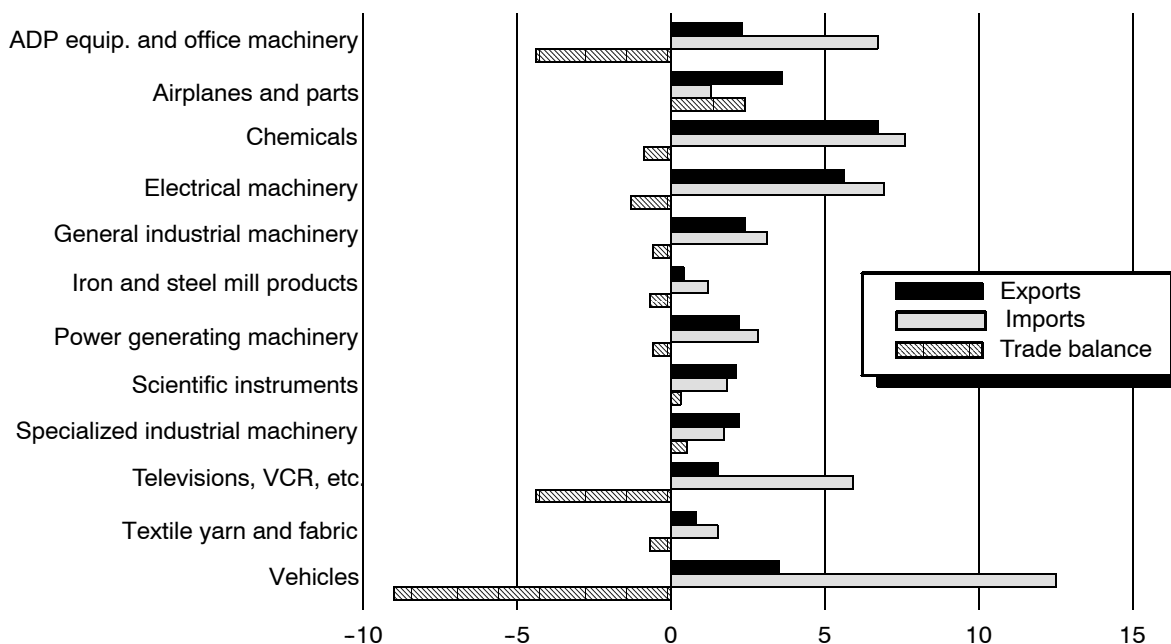
Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Sept. 18, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

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



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Sept. 18, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

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



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Sept. 18, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

Table 3

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

	Exports		Imports		Trade balance		Change in exports Jan.-July 2002 over Jan.-July 2001	Change in imports Jan.-July 2002 over Jan.-July 2001
	Jan.-July 2002	Jan.-July 2001	Jan.-July 2002	Jan.-July 2001	Jan.-July 2002	Jan.-July 2001		
Service sector	<i>Billion dollars</i>						<i>Percent</i>	
Travel	40.2	46.9	34.3	37.9	5.9	9.0	-14.4	-9.6
Passenger fares	9.9	11.5	12.0	14.2	-2.2	-2.7	-14.1	-15.3
Other transportation services	16.2	17.0	21.8	23.8	-5.6	-6.8	-5.0	-8.4
Royalties and license fees	24.0	22.6	10.7	9.5	13.2	13.1	5.8	12.9
Other private sales	66.1	62.6	45.2	37.8	20.9	24.8	5.5	19.5
Transfers under U.S. military sales contracts	7.1	7.1	10.8	8.3	-3.7	-1.2	0.7	30.9
U.S. Government miscellaneous services	0.5	0.5	1.7	1.7	-1.2	-1.2	-6.9	0.9
Total	163.8	168.2	136.5	133.2	27.3	35.1	-2.6	2.5

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

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 3 and 4, FT-900 release of Sept. 18, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

trade deficit on goods and services increased slightly to \$240.5 billion for the January–July 2002 period, from \$221.3 billion during January–July 2001.

The export of goods on a balance-of-payments basis during January–July 2002 decreased to \$396.2 billion from \$436.7 billion during the same 2001 period, a decrease of \$40.5 billion; and imports of goods also decreased to \$663.9 billion, down from \$693.1 billion in January–July 2001. Consequently, the merchandise trade deficit increased to \$267.7 billion from \$256.4 billion. Regarding trade in services, exports in January–July 2002 decreased to \$163.8 billion, from \$168.2 billion in the same period of 2001, a decrease of about \$4.4 billion. Imports of services increased to \$136.5 billion from \$133.2 billion, an increase of \$3.3 billion. The surplus on trade in services decreased to \$27.3 billion in January–July 2002 from \$35.1 billion in the same period in 2001, a decrease of \$7.8 billion.

The January–July 2002 exports of advanced technology products declined to \$104.1 billion from \$123.4 billion in January–July 2001. Imports declined to \$110.2 billion in January–July 2002 from \$116.9 billion in the same period of 2001. As a consequence,

the trade surplus in these products of nearly \$6.4 billion in January–July 2001 turned into a deficit of about \$6.1 billion in January–July 2002.

The January–July 2002 trade data in merchandise goods showed trade deficits with the following countries (same period a year ago in parentheses): Canada, \$28.6 billion (\$32.9 billion in January–July 2001); China, \$52.5 billion (\$44.6 billion); Eastern Europe, \$3.8 billion (\$4.8 billion); EFTA, \$3.3 billion, (\$1.3 billion); the euro area, \$37.2 billion (\$32.2 billion); the European Union (EU–15), \$45.7 billion (\$36.2 billion); Japan, \$38.9 billion (\$40.5 billion); NICs, \$11.3 billion (\$12.2 billion); Mexico, \$21.7 billion (\$17.4 billion); OPEC, \$18.3 billion (\$25.8 billion); and Western Europe, \$49.0 billion (\$37.4 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 \$7.6 billion, down from \$8.8 billion in the same period of 2001. Trade surpluses were recorded with Australia, Egypt, Hong Kong, Netherlands, and Singapore. U.S. trade developments with major trading partners are highlighted in table 4.

Table 4

U.S. exports and imports of goods with major trading partners, January 2001-July 2002

Country/areas	Exports			Imports			Trade balance		Change in exports, Jan.-July 2002 over Jan.-July 2001	Change in trade balance, Jan.-July 2002 over Jan.-July 2001
	July 2002	Jan.-July 2002	Jan.-July 2001	July 2002	Jan.-July 2002	Jan.-July 2001	Jan.-July 2002	Jan.-July 2001		
	<i>Billion dollars</i>								<i>Percent</i>	
Total (Census basis)	55.1	399.4	440.2	100.5	652.8	680.2	-253.3	-240.0	-9.2	5.5
North America	19.6	148.3	158.4	27.3	198.5	208.7	-50.2	-50.3	-6.4	-0.1
Canada	11.7	92.9	98.8	16.1	121.4	131.7	-28.5	-32.9	-6.0	-13.3
Mexico	7.9	55.4	59.6	11.3	77.1	77.0	-21.7	-17.4	-7.0	24.8
Western Europe	11.7	91.5	107.3	22.7	140.5	144.7	-49.0	-37.4	-14.8	30.9
Euro Area	7.7	61.0	67.9	16.1	98.2	100.0	-37.2	-32.2	-10.1	15.5
European Union (EU-15)	10.5	83.4	96.4	20.9	129.1	132.6	-45.7	-36.2	-13.5	26.2
France	1.2	11.1	11.9	2.7	16.7	18.5	-5.6	-6.5	-6.7	-13.9
Germany	2.0	15.1	18.4	5.8	34.6	35.9	-19.4	-17.5	-17.5	10.9
Italy	0.8	5.8	5.9	2.4	13.9	14.4	-8.1	-8.5	-2.4	-4.1
Netherlands	1.4	10.9	11.8	0.9	5.6	5.6	5.2	6.2	-8.1	-15.4
United Kingdom	2.5	19.6	25.2	3.7	23.6	25.2	-3.9	0.1	-22.2	-6552.5
Other EU	0.8	6.0	6.9	2.4	15.7	13.8	-9.7	-6.9	-13.0	39.5
EFTA ¹	0.8	5.6	8.3	1.4	8.9	9.7	-3.3	-1.3	-32.5	146.7
Eastern Europe/FSR ²	0.6	3.9	4.1	1.3	7.7	8.9	-3.8	-4.8	-3.3	-21.8
Russia	0.2	1.4	1.7	0.6	3.5	4.2	-2.1	-2.5	-15.7	-17.1
Pacific Rim Countries	15.8	103.1	109.2	34.6	216.6	218.5	-113.5	-109.3	-5.6	3.8
Australia	1.4	7.6	6.3	0.6	3.7	3.7	3.9	2.6	20.1	48.6
China	1.9	12.1	10.6	11.2	64.6	55.2	-52.5	-44.6	14.0	17.6
Japan	4.5	29.9	35.6	10.2	68.7	76.1	-38.9	-40.5	-16.1	-4.0
NICs ³	6.3	40.5	43.3	8.0	51.8	55.5	-11.3	-12.2	-6.5	-7.3
Latin America	4.1	29.6	35.0	6.2	37.6	41.1	-8.0	-6.1	-15.5	32.1
Argentina	0.1	0.9	2.6	0.3	1.7	1.8	-0.9	0.9	-67.5	-203.2
Brazil	1.0	7.1	9.6	1.4	8.4	8.3	-1.3	1.2	-25.5	-206.4
OPEC	1.6	10.7	12.1	4.7	29.0	38.0	-18.3	-25.8	-12.0	-29.1
Other Countries	2.2	16.5	18.8	6.0	36.4	36.4	-19.9	-17.5	-12.3	13.3
Egypt	0.2	1.8	1.8	0.1	0.9	0.6	0.9	1.2	1.4	-26.1
South Africa	0.3	1.4	1.8	0.3	2.2	2.7	-0.8	-0.9	-23.3	-16.2

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

² Former Soviet Republics (FSR).

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

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

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 14 and 14a, FT-900 release of Sept. 18, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

U.S. International Transactions in the Second Quarter, 2002

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Current Account

The U.S. current account deficit (the combined balances on trade in goods and services, income, and net unilateral transfers) increased to \$130.0 billion in the second quarter of 2002 from \$112.5 billion in the first quarter, according to the U.S. Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce.² Increases in the deficit on goods and services and in the deficit on income more than offset a decrease in net outflows for unilateral current transfers.

Goods and Services

The deficit on goods and services increased to \$110.6 billion in the second quarter from \$95.5 billion in the first. The deficit on goods increased to \$122.6 billion from \$106.4 billion in the first. Goods exports increased to \$172.7 billion from \$164.6 billion. The largest export increases were in industrial supplies and materials, in capital goods, and in automotive products. Goods imports increased to \$295.3 billion from \$271.1 billion. Imports of petroleum and products increased strongly, largely as a result of an increase in petroleum prices. Imports of non-petroleum products also increased strongly, where the largest increases were in consumer goods and in automotive products. The surplus on services increased to \$12.0 billion in the second quarter from \$10.9 billion in the first. Services receipts increased to \$71.1 billion from \$68.6 billion.

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² This article is taken largely from material found in U.S. Department of Commerce News, Bureau of Economic Analysis, Economics and Statistics Administration, Sept. 12, 2002, BEA 02-27, also found at Internet address <http://www.bea.gov/bea/rels.htm>.

Much of the increase in services receipts was accounted for by increases in “other” private services and in royalties and license fees. Services payments increased to \$59.0 billion from \$57.7 billion, where much of the increase was accounted for by increases in “other” transportation and in “other” private services.

Income

The deficit on income increased to \$6.3 billion in the second quarter from \$0.9 billion in the first, income receipts on U.S. investment abroad or on U.S.-owned assets abroad increased to \$60.0 billion from \$57.5 billion. Most of the increase was attributable to an increase in direct investment receipts. Income payments of foreign-owned assets in the United States increased to \$64.6 billion from \$56.8 billion. Most of the increase was accounted for by an increase in direct investment payments, but “other” private payments and U.S. Government payments also increased. Receipts for compensation of U.S. workers abroad were virtually unchanged at \$0.6 billion, whereas payments for compensation of foreign workers in the United States edged up to \$2.3 billion.

Unilateral Current Transfers

Unilateral current transfers were net outflows of \$13.1 billion in the second quarter, down from net outflows of \$16.0 billion in the first. The decrease was more than accounted for by a decrease in U.S. Government grants.

Capital and Financial Account

Capital Account

Capital account transactions were net inflows of \$0.2 billion in the second quarter virtually unchanged from the first.

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 \$80.4 billion in the second quarter, compared with \$87.6 billion in the first. Financial outflows for U.S.-owned assets abroad increased more than financial inflows for foreign-owned assets in the United States. U.S.-owned assets abroad increased by \$140.8 billion in the second quarter, following an increase of \$25.9 billion in the first. Net financial outflows for U.S. direct investment abroad were \$29.4

billion in the second quarter up slightly from \$29.3 billion in the first.

Foreign-owned assets in the United States increased by \$221.2 billion in the second quarter, following an increase of \$113.5 billion in the first. Net financial inflows for foreign direct investment in the United States were \$1.0 billion in the second quarter, down from \$16.2 billion in the first. Table 1 shows a brief summary of U.S. international transactions by year and quarter.

Table 1**Summary of U.S. International Transactions, million dollars, by year, and by first and second quarter, 2001-2002**

Item	2001	2001	2001	2002	2002
		Q:I	Q:II	Q:I	Q:II
Balance on goods	-427165	-113032	-107719	-106424	-122640
Balance on services	66875	15872	14395	10932	12027
Balance on goods and services	-358290	-97160	-93324	-95492	-110613
Balance on income	14382	1046	6006	-946	-6286
Unilateral current transfers	-49463	-11608	-11916	-16016	-13060
Balance on current account	-393371	-107722	-99234	-112454	-129959
U.S. assets abroad (net increase/financial outflow (-))	-370962	-215815	-80036	-25918	-140833
Foreign assets in the United States, net (increase/financial inflow (+))	752806	302510	181610	113496	221213
Net Capital Inflows (+), Outflows (-)	381844	86695	101574	87578	80380

Source: U.S. International Transactions, million dollars, seasonally adjusted, U.S. Department of Commerce, Bureau of Economic Analysis, also available at Internet address <http://www.bea.gov/bea/rels.htm>.

U.S. Productivity and Costs in the Second Quarter, 2002

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The U.S. Department of Labor, Bureau of Labor Statistics reported revised productivity data for the second quarter of 2002.² Productivity as measured by output per hour of all persons (at seasonally adjusted annual rates) increased in the second quarter by 1.7 percent in the business sector, and by 1.5 percent in the non-farm business sector. In the business sector productivity grew as hours worked dropped by 1.2 percent and output edged up 0.5 percent. In the non-farm business sector productivity increased by 1.5 percent as hours worked fell by 0.7 percent and output grew by 0.8 percent.

Productivity increased by 4.3 percent in manufacturing, 6.0 percent in durable goods manufacturing, and 2.6 percent in nondurable goods manufacturing. Manufacturing productivity rose by 4.3 percent in the second quarter, as output grew by 3.6 percent and hours worked declined by 0.7 percent (at seasonally adjusted annual rates). In the first quarter productivity rose by 9.7 percent, reflecting an increase of 3.0 percent in output and a drop of 6.1 percent in hours worked. Growth in second-quarter productivity differed in the durable and non-durable goods sectors. In durable goods, productivity rose by 6.0 percent as output rose by 5.4 percent and hours worked of all persons fell by 0.6 percent. Hourly compensation of all manufacturing workers increased by 3.0 percent in the second quarter, reflecting growth of 2.8 percent in durable goods and 3.4 percent in non-durable goods.

Real hourly compensation of all manufacturing workers declined by 0.4 percent in the second quarter, after rising by 5.4 percent in the first quarter. Unit labor costs dropped by 1.2 percent in the second quarter, the fourth consecutive decline. Unit labor costs fell by 3.1 percent in durable goods manufacturing and rose by 0.8 percent in non-durable goods manufacturing. This difference in growth rates in unit labor costs reflects differing growth rates in productivity and hourly compensation between the two sectors.

However, output and output per hour in manufacturing, which include about 16 percent of U.S. business-sector employment, tend to vary more from quarter to quarter than data from the aggregate business and non-farm business sectors. Also, data sources and methods used in the preparation of the manufacturing series differ from those used in preparing the business and non-farm business series, and these measures are not directly comparable. Output measures for business and non-farm business are based on measures of gross domestic product prepared by the Bureau of Economic Analysis of the U.S. Department of Commerce, whereas quarterly output measures for manufacturing reflect indexes of industrial production independently prepared by the Board of Governors of the Federal Reserve System. Moreover, productivity measures describe the relationship between real output and labor time involved in its production. They show the changes from period to period in the amount of goods and services produced per hour. Although these measures relate output to hours at work of all persons engaged in a sector, they do not measure the specific contribution of labor, capital, or any other factor of production. Rather, they reflect the joint effects of many influences, including changes in technology; capital investment; level of output; utilization of capacity, energy, and materials; the organization of production; managerial skill; and the characteristics and effort of the work force.

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² This article is taken largely from material found in U.S. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs, Second Quarter 2002, Revised," *U.S. Department of Labor News*, USDL 02-508, Sept. 5, 2002; also found an Internet address <http://www.bls.gov/news.release/prod2.nr0.htm>.

INTERNATIONAL ECONOMIC COMPARISONS

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

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Economic Growth

The real gross domestic product (GDP) of the United States—the output of goods and services produced in the United States measured in 1996 prices—increased at an annual rate of 1.3 percent in the second quarter of 2002. In the first quarter of 2002, real GDP increased at an annual rate of 5.0 percent, according to estimates by the U.S. Department of Commerce, Bureau of Economic Analysis.² For the year 2001, real GDP grew by 0.3 percent, following a growth rate of 3.8 percent in the year 2000. The major contributors to the increase in the second quarter of 2002 were private inventory investment, personal consumption expenditures, exports, and government spending. However, the contributions of these

components were partly offset by a decrease in non-residential structures. Imports, which are a subtraction in the calculation of GDP, increased sharply.

The annualized rate of real GDP growth in the second quarter of 2002 was 4.3 percent in Canada, 2.0 percent in France, 1.1 percent in Germany, 0.9 percent in Italy, 2.6 percent in Japan, and 2.4 percent in the United Kingdom. For EU members linked by the euro currency, the euro area (EU-12), GDP growth rate was 1.4 percent in the second quarter of 2002.

Industrial Production

The Federal Reserve Board reported that U.S. industrial production fell 0.3 percent in August 2002, a partial reversal of the 0.4 percent increase in July and its first decline since December 2001. The rate of capacity utilization for total industry was 76.0 percent, a rate that has remained essentially flat for the last three months.

Manufacturing output decreased 0.1 percent in August, following increases of 0.3 percent in July and 0.6 percent in June. Excluding motor vehicles and parts, manufacturing output was unchanged. Output of utilities dropped back 2.5 percent, but production in mining climbed 0.8 percent. Production of motor vehicles and parts retreated slightly from the elevated pace in July, and furniture output declined, but production of primary metals—principally iron and steel—and industrial and electrical machinery rose noticeably. The output of semiconductors and related electronic components has risen since the fourth quarter of 2001.

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

Other G-7 member countries reported the following growth rates of industrial production. For the year ending August 2002, Japan reported an increase of 1.9 percent. For the year ending July 2002, Canada reported an increase of 1.3 percent, France reported a decrease of 1.7 percent, Germany reported a decrease of 1.9 percent, Italy reported an increase of 0.9 percent, and the United Kingdom reported a decrease of 2.5 percent. The euro area reported a decrease of 0.5 percent for the year ending July 2002.

Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) rose 0.3 percent in August 2002, following a 0.1 increase in each of the preceding two months, according to the U.S. Department of Labor. For the year ended August 2002, consumer prices increased 1.8 percent more than its level in August 2001.

During the 1-year period that ended in September 2002, Germany reported an increase of 1.1 percent, and Italy reported an increase of 2.6 percent. During the year ending in August 2002, prices increased by 2.6 percent in Canada, 1.8 percent in France, and 1.4 percent in the United Kingdom. But prices decreased by 0.9 percent in Japan during the year ending in August 2002. Prices increased by 2.2 percent in the euro area in the year ending September 2002.

Employment

The U.S. Department of Labor, Bureau of Labor Statistics reported that the U.S. unemployment rate at 5.6 percent in September was little changed. Job losses in manufacturing and transportation offset gains in finance and health services.

In other G-7 countries, the latest unemployment rates were reported to be 7.5 percent in Canada, 9.0 percent in France, 9.9 percent in Germany, 9.0 percent in Italy, 5.4 percent in Japan, and 5.2 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. However, a report submitted to the Congress on July 16, 2002, by the Federal Reserve Board emphasized that the pace of economic activity in the United States picked up in the first half of 2002 as some of the powerful forces that had been restraining spending for the preceding year and a half abated. The Board expects the economy to expand rapidly enough over the next six quarters to erode current margins of underutilized capital and labor resources. The central tendency of the Board forecasts for real GDP growth over the four quarters of

2002 is 3.5 percent to 3.75 percent, and the central tendency for real GDP growth in 2003 is 3.5 percent to 4.0 percent. The central tendency of the projection of the civilian unemployment rate, is 6.0 percent, which is expected to stay close to this figure for the remainder of the 2002 and then move down to between 5.25 percent and 5.5 percent by the end of 2003. The economy continues to display characteristics favorable to long-term growth; productivity growth remains strong, and inflation remains low and stable, the Board reported. Support from monetary and fiscal policies, and rising productivity should lead to a strengthening in final demand over coming quarters. Business spending on equipment and software will likely be boosted by rising sales, improving profitability, tax incentives, and by the desire to acquire new capital embodying ongoing technological advances. Inflation—as measured by an increase in the chain-type index for personal consumption expenditures—is expected to stay mute. The Board expects underlying inflation to remain close to recent levels through the end of 2003. The central tendency of the Board's projections of the increase in personal consumption expenditure over the four quarters of both 2002 and 2003 is 1.5 percent to 1.75 percent, compared with last year's pace of 1.25 percent.³

In addition, private economic prospects improved despite the terrorist attacks in the United States on September 11, 2001. Seven major U.S. forecasters expect real GDP growth in the United States during the third quarter of 2002 to reach an average annualized rate of 3.0 percent, and 2.9 percent in the fourth quarter. The overall growth rate for the year 2002 is expected to average 2.4 percent. In the first and second quarters of 2003, GDP is projected to grow at 3.4 percent and 3.7 percent respectively. Table 1 shows macroeconomic projections for the U.S. economy from April 2002 to September 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 6.0 percent in the third quarter of 2002, and remain at 6.0 percent for the rest of the year 2002, then rises slightly during the first quarter of 2003 and dips afterward. Inflation, as measured by the GDP deflator, is expected to remain subdued, reaching an average of about 1.8 percent in the third quarter of 2002, then dips in the fourth quarter to 1.6 percent. For the year, inflation is projected to remain at 1.2 percent, and then rises by 1.8 percent in the year 2003 (see table 1).

³ Board of Governors of the Federal Reserve System, "Monetary Policy Report to the Congress," submitted to the Congress on July 16, 2002, found at Internet address <http://www.federalreserve.gov/boarddocs/hh/2002/July/Full-Report.txt>, retrieved on Oct. 1, 2002.

Table 1

Projected changes of selected U.S. economic indicators, by quarter and year, April 2002-September 2003

	Conference Board	Macroeconomic Advisers	E.I. Dupont	UCLA	Regional Forecasting Associates	Merrill Lynch Capital Markets	Eaton Corporation	Mean of forecasts
<i>Percent (see note)</i>								
GDP, constant dollars								
2002	Q:II (actual)	1.1	1.1	1.1	1.1	1.1	1.1	1.1
	Q:III	2.5	3.5	3.0	2.4	2.8	3.1	3.0
	Q:IV	4.0	2.4	2.0	2.5	2.3	3.5	2.9
2003	Q:I	3.9	2.8	3.0	2.8	3.1	4.1	3.4
	Q:II	3.7	3.8	3.0	2.8	3.6	4.2	3.7
	Q:III	5.0	3.8	3.0	2.8	4.2	4.0	3.7
	Annual 2002	2.4	2.4	2.3	2.3	2.3	2.5	2.4
	Annual 2003	3.7	3.1	2.7	2.6	3.1	3.7	3.2
Unemployment, average rate								
2002	Q:II (actual)	5.9	5.9	5.9	5.9	5.9	5.9	5.9
	Q:III	6.1	6.0	5.9	5.9	6.1	5.8	6.0
	Q:IV	6.1	6.0	6.0	6.0	6.3	5.9	6.0
2003	Q:I	6.2	5.9	5.9	5.9	6.3	6.0	6.1
	Q:II	6.1	5.7	5.8	5.8	6.2	5.9	6.1
	Q:III	5.9	5.6	5.7	5.8	6.1	5.8	5.8
	Annual 2002	5.9	5.9	5.9	5.9	6.0	5.8	5.9
	Annual 2003	5.9	5.6	5.8	5.8	6.1	5.9	5.9
GDP price deflator								
2002	Q:II (actual)	1.1	1.1	1.1	1.1	1.1	1.1	1.1
	Q:III	2.2	1.0	1.5	1.3	1.5	1.9	1.8
	Q:IV	2.5	1.1	1.5	1.1	1.8	0.5	1.6
2003	Q:I	3.6	1.3	1.4	1.5	1.8	1.3	2.0
	Q:II	2.7	1.6	1.4	1.5	2.2	1.0	1.8
	Q:III	2.8	1.8	1.8	1.3	2.2	1.3	1.9
	Annual 2002	1.3	1.1	1.2	1.1	1.2	1.1	1.2
	Annual 2003	2.7	1.4	1.5	1.3	1.9	1.1	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, August 2002.

Global Economic Forecasts

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The International Monetary Fund (IMF) in its *World Economic Outlook*² forecast of September 2002 projected slower global economic growth in 2002 and 2003, following a global recovery since late 2001 with trade and industrial production picking up across the world. Concerns about the sustainability of the recovery have risen significantly. Financial markets have weakened markedly, and equity markets have fallen sharply since end-March 2002 accompanied by a depreciation of the U.S. dollar, says the IMF report.

The IMF report, however, stated that—with inflation subdued—macroeconomic policies in the advanced countries will need to remain accommodative if the recovery falters, and additional monetary easing needed. The IMF report called for focusing on policies to reduce dependence on the United States as the engine of global growth, and to support an orderly reduction in global imbalances which remain a serious risk to the world economy.

The global economic recovery that has been under way since the turn of the year has been led by the United States, and underpinned by a pickup in global industrial production and trade. Allowing for the recent substantial downward revision to GDP growth in 2001 in the United States, the global slowdown still proved to be more moderate than previous downturns. This owes much to an aggressive policy response, particularly following the terrorist events in the United States on September 11, 2001, which in turn was made possible by the improvements in economic fundamentals during the 1990s. Other contributing factors included the decline in oil prices in 2001, the resilience of the global financial infrastructure to a

variety of substantial shocks, and the short-lived impact of the terrorist attacks on investor and consumer confidence.

Following the upturn during the first quarter of 2002, global financial markets have weakened significantly, industrial countries equity markets have fallen sharply. This has reflected a combination of factors, including earlier optimistic profit forecasts and widespread concerns about accounting and auditing practices, particularly in the United States. In currency markets, the U.S. dollar has depreciated markedly against the euro and yen, although more moderately in trade-weighted terms. This depreciation appears to have reflected, in part, a diminution in the attractiveness of U.S. assets, a slowdown in euro area institutions' diversification away from euro-denominated assets, and growing concerns about the large U.S. current account deficit.

The IMF projected world output to grow by 2.8 percent in 2002 and by 3.7 percent in 2003, following growth rates of 4.7 percent in 2000 and 2.2 percent in 2001. The major advanced economies are projected to grow by 1.4 percent in 2002 and 2.3 percent in 2003, following growth rates of 3.4 percent in 2000 and 0.6 percent in 2001. In the United States economic growth is projected to reach 2.2 percent in 2002 and 2.6 percent in 2003, following growth rates of 3.8 percent in 2000 and 0.3 percent in 2001. In the euro area, growth is projected to reach 0.9 percent in 2001, and 2.3 percent in 2003, following growth rates of 3.5 percent in 2000 and 1.5 percent in 2001. In Canada, growth is projected to reach 3.4 percent in both 2002 and 2003.

In Japan, growth rates are projected to decline by 0.5 percent in 2002, but increase in 2003 by 1.1 percent, following growth rates of 2.4 percent in 2000 and a decline in growth rates of 0.3 percent in 2001. In Germany, economic growth is projected to reach 0.5 percent in 2002 and 2.0 percent in 2003, following growth rates of 2.9 percent in 2000 and 0.6 percent in 2001. In France, economic growth is projected to reach 1.2 percent in 2002 and 2.3 percent in 2003, following growth rates of 4.2 percent in 2000 and 1.8 percent in

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² International Monetary Fund, *World Economic and Financial Surveys – World Economic Outlook*, September 2002, also found at Internet address <http://www.imf.org/external/pubs/ft/weo/2002/02/index.htm>.

2001. In Italy, economic growth is projected to reach 0.7 percent in 2002 and 2.3 percent in 2003, following growth rates of 2.9 percent in 2000 and 1.8 percent in 2001. In the United Kingdom, economic growth is projected to reach 1.7 percent in 2002 and 2.4 percent in 2003, following growth rates of 3.1 percent in 2000 and 1.9 percent in 2001. Other advanced economies are projected to grow by 2.6 percent in 2002 and 3.3 percent in 2003, following growth rates of 5.3 percent in 2000 and 1.6 percent in 2001.

The IMF projects growth rates in the industrializing Asian economies to reach 4.7 percent in 2002 and 4.9 percent in 2003, following growth rates of 8.5 percent in 2000 and 0.8 percent in 2001. Developing countries as a group are projected to grow by 4.2 percent in 2002 and by 5.2 percent in 2003, following growth rates of 5.7 percent in 2000 and 3.9 percent in 2001.

Countries with economies in transition are projected to grow by 3.9 percent in 2002 and 4.5 percent in 2003, following growth rates of 6.6 percent in 2000 and 5.0 percent in 2001. Central and Eastern Europe economies are projected to grow by 2.7 percent in 2002 and 3.8 percent in 2003, following growth rates of 3.8 percent in 2000 and 3.0 percent in 2001. Growth rates for the Commonwealth of Independent States and Mongolia are projected to reach 4.6 percent in 2002 and 4.9 percent in 2003, following growth rates of 8.4 percent in 2000 and 6.3 percent in 2001. Russia's economy is projected to grow by 4.4 percent in 2002 and 4.9 percent in 2003, following growth rates of 9.0 percent in 2000 and 5.0 percent in 2001.

The IMF projects world trade volume of goods and services to increase by a meager 2.1 percent in 2002, but increase considerably by 6.1 percent in 2003. This

follows an increase of 12.6 percent in 2000 and a decline of 0.1 percent in 2001.

Consumer prices in advanced economies are projected to increase by 1.4 percent in 2002 and 1.7 percent in 2003, following increases of 2.3 percent in 2000 and 2.2 percent in 2001. In developing countries, consumer prices are projected to increase by 5.6 percent in 2002 and 6.0 percent in 2003, following increases of 6.1 percent in 2000 and 5.7 percent in 2001. In the transition economy countries, consumer prices are projected to moderate, increasing by 11.3 percent in 2002 and 8.8 percent in 2003, following increases of 20.2 percent in 2000 and 15.9 percent in 2001.

The assumptions that have been adopted by the IMF for the projections in their September 2002 Outlook are that: (a) real effective exchange rates will remain constant at their average level from July 19, 2002 to August 16, 2002, except for currencies participating in the European exchange-rate mechanism, which are assumed to remain constant in nominal terms relative to the euro; (b) established policies of national authorities will be maintained; (c) the price of oil will average \$24.40 a barrel in 2002, and \$24.20 in 2003, and will remain unchanged in real terms over the medium term; (d) the six-month London interbank offered rate (LIBOR) on U.S. dollar deposits will average 2.1 percent in 2002 and 3.2 percent in 2003; (e) the three-month certificate of deposit rate in Japan will average 0.1 percent in 2002, and in 2003; and that (f) the three-month interbank deposit rate for the euro will average 3.4 percent in 2002, and 3.8 percent in 2003. However, uncertainties surrounding these assumptions add to the margin of error, the report cautioned, that is involved in any event in these projections.

World Investment in 2002

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The United Nations Conference on Trade and Development released its annual report on foreign direct investment, transnational corporations, and export competitiveness for the year 2002. The article highlights the report.

Foreign Direct Investment in 2001

A recent report by the United Nations Conference on Trade and Development (UNCTAD) shows that global flows of foreign direct investment (FDI) declined sharply in 2001 for the first time in a decade, following a record increase in 2000.² This was the result of the weakening of the world economy, particularly in the world's three largest economies—which all fell into recession—and a consequent drop in the value of cross-border mergers and acquisitions (M&As). The total value of cross-border M&As completed in 2001 (\$594 billion) was only half that in 2000. The number of cross-border M&As also declined, from more than 7,800 in 2000 to some 6,000 in 2001, with the number of cross-border deals worth over \$1.0 billion also falling from 175 to 133, and the total value of these large M&As falling from \$866 billion to \$378 billion.

According to the UNCTAD report, the decline in FDI was concentrated in developed economies, where FDI inflows shrank by 59 percent, compared to 14 percent in developing countries. Inflows to Central and Eastern Europe as a whole remained stable. Global inflows of FDI declined from a record \$1,492 billion in 2000 to \$735 billion in 2001, of which \$503 billion went to developed economies, \$205 billion to developing economies, and the remaining \$27 billion

to the transition economies of Central and Eastern Europe (CEE). The shares of developing countries and those of the CEE in global FDI inflows reached 28 percent and 4 percent respectively in 2001, compared to an average of 18 percent and 2 percent in the preceding two years. The 49 least developed countries (LDCs), as determined by the United Nations, remain marginal recipients with only 2 percent of all FDI to developing countries or 0.5 percent of the global total.

Both inflows and outflows fell sharply in developed countries in 2001 by more than half, to \$581 billion and \$503 billion respectively, after reaching a peak in 2000. The United States—despite the economic slowdown and the terrorist attacks of September 11, 2001—retained its position as the largest FDI recipient, although inflows more than halved, down to \$124 billion. The United States, however, regained its position as the world's largest investor despite outflows of \$114 billion that reflected a decline of 30 percent. Major partners both receiving and providing U.S. FDI inflows and outflows were the countries of the European Union (EU). However, the importance of North American Free Trade Agreement (NAFTA) countries as a recipient of U.S. FDI also increased, due partly to the acquisition of Banamex (Mexico) by Citigroup. Concerning inward FDI into the United States, cross-border M&A continued to be the primary mode of entry, led by the acquisition of VoiceStream Wireless Corp. by Deutsche Telekom for \$29.4 billion, the largest cross-border M&As deal worldwide in 2001.

Inflows and outflows to and from the EU dropped in 2001 by about 60 percent, to \$323 billion and \$365 billion, respectively, mainly due to a decline in M&A-related FDI. FDI inflows to the United Kingdom—the main recipient in Western Europe—and Germany declined the most, while those to France, Greece, and Italy increased. FDI outflows comprised mainly cross-border M&As. France became the largest

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² This article is taken largely from material found in United Nations Conference on Trade and Development, "World Investment Report 2002: Transnational Corporations and Export Competitiveness – Overview," *World Investment Report 2002* (New York and Geneva, United Nations:2002); found at Internet address http://www.unctad.org/WIR/pdfs/wir02ove_a4.en.pdf, retrieved Oct. 1, 2002.

outward investor of the region, followed by Belgium and Luxembourg. Intra-regional flows accounted for an increased share of FDI in the EU. FDI outflows from Japan grew in 2001, while domestic investment and inward FDI declined, mainly due to the prolonged economic recession in that country. FDI flows to and from Australia and New Zealand, countries that have closer economic ties to the Asia-Pacific region, were less affected by developments in the United States than was Canada, where inflows fell by 60 percent.

For developing countries, FDI inflows fell from \$238 billion in 2000 to \$205 billion in 2001. The bulk of this decline was limited to a relatively small number of host countries. Argentina, Brazil, and Hong Kong experienced a decline in FDI inflows amounting to \$57 billion. Africa remains a marginal recipient of FDI, even though FDI inflows rose from \$9 billion in 2000 to more than \$17 billion in 2001. The increase of \$8 billion was largely due to a few large FDI projects, notably in South Africa and Morocco. Certain policy initiatives, notably the African Growth and Opportunity Act (AGOA) in the United States, have contributed to increased FDI in some countries that benefit from improved market access. Also sectoral composition of FDI inflows into the African continent is changing. While more than half of FDI flows went into the primary sector, particularly into oil and petroleum, FDI flows into service industries such as banking and finance, and transport, have become almost as important over the past two years, which the UNCTAD report notes suggests a gradual broadening of investment opportunities over time albeit at a slow pace.

FDI inflows to Asia and the Pacific fell from \$134 billion in 2000 to \$102 billion in 2001. Much of the decline was due to the drop in inflows to Hong Kong from a record level of \$62 billion in 2000. The share of the Asia-Pacific region in world inflows rose from 9 percent in 2000 to nearly 14 percent in 2001. China regained its position as the largest FDI recipient in the region as well in the developing world as a whole. India, Kazakhstan, Singapore, and Turkey were significant recipients. The Association of the South-East Asian Nations (ASEAN) saw a fall in FDI levels in recent years. FDI inflows to ASEAN during 2000-2001 were only \$12 billion per year which is about one third of the peak in 1996-1997.

FDI flows into Latin America and the Caribbean declined for the second consecutive year, mainly because of a significant drop in FDI to Brazil, where the privatization process of the past few years has almost stopped; and to Argentina, where the economic

and financial crisis has discouraged new investment. Mexico became the largest regional recipient with the acquisition of the bank Banamex by Citicorp for \$12.5 billion. Outflows from Latin American economies remained modest and mainly directed at other countries in the region.

FDI in the 49 LDCs, although small in absolute terms, continued to make a contribution to local capital formation. As a percentage of total investment, FDI averaged 7 percent for the LDCs as a group during 1998-2000, compared to 13 percent for all other developing countries. Official development assistance (ODA) remains the largest component of external financial flows to LDCs. LDCs as a whole received \$12.5 billion in bilateral and multilateral ODA in 2000 compared to \$16.8 billion in 1990.

FDI inflows of \$27 billion to the CEE countries and outflows of \$4 billion from them in 2001, remain at levels comparable to those of 2000. FDI inflows increased in 14 of the region's 19 countries, and the region's share of world FDI inflows rose from 2 percent in 2000 to 3.7 percent in 2001. Five countries (Czech Republic, Hungary, Poland, Russia, and Slovakia) accounted for more than three quarters of the region's inflows in 2001. Outflows from the CEE countries declined somewhat in 2001, due to a slowdown in flows from Russia, which accounts for three-quarters of the outward FDI from the region.

Transnational Corporations and Export Competitiveness

Trends in International Production

UNCTAD's report also analyzed the role of transnational corporations (TNCs), export competitiveness, and trends in international production. The report notes that the role of TNCs in the globalizing world economy is increasing. International production continues to grow, as TNCs expand their role in the globalizing world economy. UNCTAD estimates suggest there are about 65,000 TNCs at the present time with about 850,000 foreign affiliates across the globe. In 2001, foreign affiliates accounted for about 54 million employees, compared to 24 million employees in 1990; their sales of almost \$19 trillion were more than twice as high as world exports in 2001 (see table 1). Foreign affiliates now account for one tenth of world GDP and one third of world exports.

The expansion of international production is driven by a combination of factors that play out differently for different industries and for different countries. Three

Table 1
Selected indicators of FDI and international production, 2001

Item	Value at current prices	Annual growth rates
	Billion dollars	Percent
FDI inflows	735.0	-50.7
FDI outflows	621.0	-55.0
Sales of foreign affiliates	18517.0	9.2
Gross product of foreign affiliates	3495.0	8.3
Total assets of foreign affiliates	24952.0	9.9
Exports of foreign affiliates	2600.0	0.3
Employment of foreign affiliates (thousands) ...	53581.0	7.1
GDP in current prices	31900.0	2.0
Gross fixed capital formation	6680.0	—
Receipts from royalties and license fees	73.0	—
Exports of goods and non-factor services	7430.0	-5.4

Note.—Not included in this table are the value of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and the sales of parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of TNCs from France, Germany, Italy, Japan, and the United States on the basis of the shares of those countries in worldwide outward FDI stocks.

Source: UNCTAD, *World Investment Report 2002*.

factors are the main drivers, according to the UNCTAD report. The first factor is policy liberalization—opening up national markets and allowing all kinds of FDI and non-equity arrangements. In 2001, 208 changes in FDI laws were made by 71 countries. More than 90 percent of these changes aimed at making the investment environment more favorable to inward FDI. In addition, as many as 97 countries were involved in the conclusion of 158 bilateral investment treaties, bringing the total of such treaties to 2,099 by the end of 2001. Similarly, 67 new double-taxation treaties were concluded. Moreover, the investment issue figured prominently at the Fourth WTO Ministerial Conference in Doha, Qatar, in November 2001. Part of the followup work involves a substantial effort to help developing countries evaluate better the implications for their development process of closer multilateral cooperation in the investment area.

The second factor is rapid technological change which, with its rising costs and risks, makes it imperative that firms tap world markets in order to spread these costs and risks over many markets and situations. Decreasing transportation and communication costs have made it economical to integrate distant operations and ship products and components across the globe in search of greater efficiency, with important implications for the export competitiveness of countries.

The third factor is increasing competition. Heightened competition compels firms to explore new ways of increasing their efficiency by trying to reduce

costs and reaching out to new markets. As a result, international production has taken new forms, with new ownership, new contractual arrangements, and new activities that have been located in new sites.

TNCs and Export Competitiveness

The UNCTAD analysis of TNCs and their role in promoting export competitiveness suggests that improving export competitiveness helps countries develop, via: (a) increasing market share; (b) diversifying the export basket; (c) sustaining higher growth rates over time; (d) upgrading the technological and skill content of export activities; (e) expanding the economic base of domestic firms capable of competing internationally so that competitiveness becomes sustainable and is accompanied by rising incomes; (f) allowing countries to earn more foreign exchange and import goods, services, and technologies they need to raise productivity and living standards; (g) allowing countries to diversify away from dependence on a few primary commodity exports; (h) allowing countries to move up the skills and technology ladder, which is essential for increasing local value added and sustaining rising wages; and (i) permitting a greater realization of economies of scale and scope by offering larger and more diverse markets.

Improved export competitiveness can have significant consequences. In terms of market shares, only 20 economies together account for three quarters of the value of world trade. Developed countries—particularly the United States, Germany, and Japan—are major trading countries. However,

developing countries—such as China, Korea, Malaysia, Mexico, the Philippines, Taiwan, Thailand, Singapore, and economies in transition, such as Hungary—accounted for the largest gains in market share in 1985–2000. Each of the following six countries—China, Costa Rica, Hungary, Ireland, Korea, and Mexico—experienced not only a sharp increase in market share, but also a shift in their export profile, from non-dynamic to dynamic products, and from low technology to medium- and high-technology products. Dynamic products—such as electronics, automotive equipment, and apparel—promote technical skills and add greater value to products that are in greater demand in international markets. Asian winner countries gained market shares in all principal markets (Japanese, European, and North American), while those from other regions advanced mainly in a regional context. Western and Eastern European countries gained mainly in European markets, and countries in

Latin America and the Caribbean have mainly gained in North American markets.

The UNCTAD report observed that access to key markets is a necessary but not sufficient condition for attracting export-oriented activities. Although multilateral trade liberalization has been a facilitating factor behind the emergence of international production systems, and the establishment of export-oriented activities abroad by TNCs, access to developed-country markets, especially for products of export interest to developing countries, needs to be further improved. In particular tariff peaks, tariff escalation and nontariff barriers in agriculture, textiles and clothing need to be addressed. Meanwhile, a rise in protectionism could effectively jeopardize the prospects of poor countries to fully exploit their comparative advantage. The growing use of trade measures such as antidumping, safeguards, and targeted subsidies in developed countries all give cause for concern, according to the report.

STATISTICAL TABLES

Table 1
Unemployment rates in G-7 countries, by specified periods, 2000-July 2002¹

Country	Percent										
	2000				2001				2002		
	Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	July
United States ...	4.0	4.0	4.1	4.0	4.2	4.5	4.8	5.6	5.6	5.9	5.9
Canada	6.1	6.1	6.1	6.1	6.2	6.3	6.4	6.8	7.1	7.0	6.9
Japan	4.8	4.7	4.7	4.8	4.8	4.9	5.2	5.5	5.3	5.4	
France	9.9	9.5	9.3	9.0	8.6	8.5	8.7	8.9	9.0		
Germany	8.3	8.1	8.0	7.8	7.9	8.0	8.0	8.1	8.2	8.3	8.5
Italy	11.2	10.9	10.5	10.1	10.0	9.6	9.5	9.3	9.2		
United Kingdom .	5.8	5.5	5.4	5.2	5.1	5.0	5.1	5.2	5.1	4.9	4.8

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

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

Country	Percent, change from same period of previous year										
	2000				2001				2002		
	Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	July
United States	3.2	3.3	3.5	3.4	3.4	3.4	2.7	1.9	1.3	1.3	1.5
Canada	2.7	2.4	2.7	3.1	2.8	3.6	2.7	1.1	1.5	1.3	2.1
Japan	-0.7	-0.7	-0.7	-0.5	-0.4	-0.7	-0.8	-1.0	-1.4	-0.9	-0.8
France	1.5	1.5	1.9	1.9	1.3	2.0	1.8	1.4	2.1	1.6	1.6
Germany	1.8	1.6	2.1	2.3	2.5	3.2	2.5	1.8	1.9	1.2	1.0
Italy	2.4	2.5	2.6	2.7	2.9	3.1	2.8	2.4	2.5	2.3	2.2
United Kingdom ..	2.3	3.1	3.2	3.1	2.5	1.9	1.8	1.0	1.2	1.2	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 Sept. 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, May 2001-May 2002¹**

Commodity categories	Billion dollars												
	2001						2002						
	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
Manufactures	-35.0	-33.2	-31.5	-38.6	-32.9	-26.8	-31.6	-30.5	-28.9	-34.3	-33.4	-33.1	-40.8
Agriculture	0.7	1.3	0.8	1.7	1.9	1.5	1.3	1.5	0.9	0.3	0.5	0.7	0.6
Petroleum ²	-9.7	-9.0	-8.2	-8.0	-6.4	-5.8	-6.7	-5.4	-7.4	-9.2	-9.4	-8.9	-9.3
Dollar unit price of U.S. petroleum imports ²	22.34	22.15	22.99	19.94	17.13	15.51	16.31	16.56	19.18	22.48	23.76	23.30	23.72

¹ Exports, f.a.s. value, not seasonally adjusted. Imports, customs value, not seasonally adjusted.

² Petroleum and selected products, not seasonally adjusted.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 15 and 17, FT-900 release of Sept. 18, 2002, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.