
INTERNATIONAL ECONOMIC REVIEW

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

International Trade Developments

Analysis of Japan's Recent Foreign Investment Trends

Why is the U.S. Trade Deficit With China so Big?

The Return of Dependency Theory?

U.S. Trade Developments

International Economic Comparisons



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Why is the U.S. Trade Deficit with China so Big?

Whereas U.S. trade deficits have arisen in general when U.S. investment spending exceeds U.S. domestic savings—due in recent years to the attractiveness of the U.S. economy to foreign investors, the comparatively lower savings rate of U.S. consumers, and until recently U.S. federal budget deficits—several other factors affect the U.S.-China bilateral trade deficit in particular. These include China's high savings rate, differing measurement of entrepot trade through Hong Kong, China's tariff and nontariff trade barriers, trade diversion between China and other Asian countries, and the Chinese government's recent use of trade policy to boost slow domestic spending in China.

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The Return of Dependency Theory: Is Primary Commodity Specialization Bad for Development?

In the 1970s, most economists became disenchanted with dependency theory—and its consequent import substitution policies—for lack of evidence that specialization in primary commodities was damaging to a country's economic development. The anti-globalization movement of current times appears to be more willing to believe such dependency theories without supporting evidence. Whereas commodity dependence may indeed correlate with fluctuating terms of trade, it is neither clear that commodity prices are in fact trending down or whether living standards would be necessarily depressed if they did. Although other reasons—such as bad economic policies—may be more at fault, it is nonetheless true that primary commodities have not fared well on export markets in recent years and that such countries' external debts have been high.

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INTERNATIONAL TRADE DEVELOPMENTS

Analysis of Japan's Recent Foreign Investment Trends

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There are few formal restrictions on foreign direct investment (FDI) in Japan and in recent years the government has taken steps to address remaining investment-related impediments. Nonetheless, the level of foreign direct investment in Japan remains low and is less than that for Japanese FDI abroad. Japan experienced a surge in FDI in recent years due to structural changes in the economy, with major investments in finance/insurance, telecommunications, and petroleum. This article provides background information on Japan's investment climate followed by an analysis of Japanese inward and outward FDI flows during Japanese Fiscal Years 1998-2000.

As the world's second largest economy, Japan is a huge potential market for foreign direct investment (FDI). Flows of inward FDI have increased during the past few years; however, this surge has been from a very small base. In 1999, for Japan, with an economy half the size of the United States, investment inflows totaled \$21 billion, or only 0.5 percent of its GDP, while for the United States, inflows of FDI totaled \$283 billion, or approximately 3.0 percent of GDP.² This article analyzes Japan's investment flows during Japanese Fiscal Years (JFY)³ 1998-2000.

Background

There are few formal restrictions on FDI in Japan and the government does not impose import-balancing requirements or other trade-related FDI measures. Japan's foreign-exchange laws require only ex-post notification of planned investment in most cases; however, a number of sectors (e.g., agriculture, mining, forestry and fishing) still require prior notification to govern-

ment ministries.⁴ Some of the major impediments, including regulations and nontariff barriers, that foreign businesses still face include: a high overall cost structure for doing business (registration, licenses, land-prices and rents); corporate practices that inhibit foreign acquisition of Japanese firms;⁵ high taxation; exclusive buyer/supplier relationships; close ties between government and industry (e.g. weak antitrust enforcement by the Japan Fair Trade Commission); and laws and regulations that directly or indirectly restrict the establishment of business facilities (e.g. the Large-Scale Retail Store Location Law) and hinder market access for foreign products and services.⁶ In addition, the lack of financial transparency and disclosure and

⁴ United States Trade Representative, *2001 National Trade Estimate Report on Foreign Trade Barriers*, March 2001, p. 250.

⁵ One such practice is senior management emphasis on firm loyalty over shareholder return which leads to premature rejection of M&A offers.

⁶ U.S. Department of State telegram, "2001 Investment Climate Statement for Japan," prepared by U.S. Embassy, Tokyo, message reference No. 004866, July 16, 2001. Japan also continues to restrict the development of industrial and commercial facilities in some areas in an attempt to prevent excessive concentration of development in the environs of Tokyo, Osaka and Nagoya.

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

² Speech by Under Secretary of Treasury Alan Larson, "A Private Sector Formula to Revitalize Japan's Economy," Tokyo, Apr. 25, 2001.

³ Japan's Fiscal Year is from April 1 to March 31.

differing management techniques are among the obstacles to completing mergers and acquisitions in Japan.⁷

However, some of these impediments are weakening. For example, vertical keiretsu relationships—which inhibit foreign acquisition of Japanese firms—are gradually loosening due to weakened mutual stockholding,⁸ the establishment of open supplier systems, and rising unemployment.⁹ In addition, improved accounting standards and changed bankruptcy proceedings that facilitate corporate restructuring have led to a recent surge in FDI.¹⁰

Those sectors which have experienced the most foreign investment are finance/insurance, telecommunications, and broadcasting, because the government has taken steps towards liberalization in these areas. However, in sectors such as medical services, utilities, and education, there has been little foreign investment. Also, foreign investment has been low in the fields of mail service, temporary staffing services, agriculture-related services, ship repair, and electricity/gas.¹¹

In recent years, the government of Japan has taken steps to address several investment-related impediments. For example, in June 1995, the United States and Japan concluded an arrangement containing FDI promotion measures, and in April 1996 the government of Japan issued a report endorsing mergers and acquisitions as part of the government's investment policy. The Economic Structure Reform Plan, which was initiated in May 1997, gives support to improved local investment incentives and local government promotion programs.¹² More recently the government has developed an initiative to revise the commercial code.¹³

⁷ United States Trade Representative, *2001 National Trade Estimate Report on Foreign Trade Barriers*, March 2001, p. 251.

⁸ The keiretsu are a key feature of Japan's economy, directly or indirectly affecting economic transactions in both upstream and downstream channels, within and across industries. By some estimates approximately 50 percent of Japan's capital is controlled by all of the keiretsu. The keiretsu are composed of firms from a wide range of commercial and industrial fields, including trading companies, banks, suppliers, distributors and retailers. Diane Manifold, "Japanese Corporate Activities in Asia: Implications for U.S.-Japan Relations," U.S. International Trade Commission, Office of Economics Working Paper, February 1997.

⁹ Kyoji Fukao, "The Status of Direct Investment in Japan," *Japan Economic Currents*, Keizai Koho Center, May 2001.

¹⁰ U.S. Embassy, Tokyo, "Investment-in-Japan Symposium 2001," found at <http://www.usembassy.state.gov/tokyo/wwwhec0148.html>, retrieved on Aug. 27, 2001.

¹¹ Kyoji Fukao, "The Status of Direct Investment in Japan," *Japan Economic Currents*, Keizai Koho Center, May 2001.

¹² U.S. Department of Commerce, *Country Commercial Guides FY 1999: Japan*.

¹³ The commercial code governs various corporate transactions including corporate boards, restrictions on companies' capital transactions, accounting standards, and other corporate transactions. Some recent recommendations for revising the commercial code include reducing restrictions

These revisions, along with reform of bankruptcy procedures, are expected to provide merger and acquisition opportunities. At the regional level, prefectural and city governments are intensifying their efforts to attract foreign investors.¹⁴

Japan's Recent Inward FDI

Table 1 shows an increase in total FDI between JFY 1998 (\$11.0 billion) and JFY 2000 (\$28.7 billion). The surge in FDI was linked to foreign companies' acquisitions of Japanese companies, especially in the finance, machinery, and telecommunications industries, and greenfield investments in the retail, service and software industries.¹⁵ Structural changes in the Japanese economy have stimulated FDI to Japan, including legislative and regulatory changes in recent years that improved corporate accounting standards, changed bankruptcy proceedings to facilitate corporate restructuring, made it easier to undertake mergers and acquisitions (M&A), facilitated spin-offs, and introduced flexibility into labor regulations and labor dispute settlement.¹⁶ Specifically, consolidated accounting was introduced in JFY 1999 and new disclosure rules and market-value accounting of financial instruments were introduced in JFY 2000. The new Civil Reconstruction Law has given companies more creative options in restructuring. A series of legal changes have helped to facilitate corporate restructuring and M&A. Changes to the Commercial Code in 1999 allow exchanges of shares between companies for M&A and the provision of stock option schemes for employees of companies listed in Japan. The increase in M&A has also been due to changes in the attitude of Japanese firms towards such business deals, deregulation and government measures to facilitate M&A.¹⁷ Foreign buyouts soared in the late 1990's from 40 in 1996 to 100 in 1999, to an annualized rate of 150 during Jan.-Sept. of 2000.¹⁸ Measures relating to corporate governance, regulatory transparency, and labor laws have contributed to the increase in FDI. For example, in the area of corporate governance the introduction of the option for companies to adopt a U.S. style corporate governance system

¹³—Continued

on a variety of corporate financing tools, including the issuance of new shares, stock options, special voting rights for classes of shares, and non-voting shares.

¹⁴ U.S. Department of State telegram, "2001 Investment Climate Statement for Japan," prepared by U.S. Embassy, Tokyo, message reference No. 004866, July 16, 2001.

¹⁵ Ryoko Takahashi and Tsuyoshi Oyama, "Insights into a Recent Increase in Foreign Direct Investment in Japan," Bank of Japan, Working Paper 00-14, October 2000.

¹⁶ U.S. Embassy, Tokyo, "Investment-in-Japan Symposium 2001," found at <http://www.usembassy.state.gov/tokyo/wwwhec0148.html>, retrieved on Aug. 27, 2001.

¹⁷ United Nations, *World Investment Report 1999*, p. 43-44.

¹⁸ Katz, Richard, "Friendlier Territory," *The Oriental Economist*, May 2001, p. 8.

that includes audit, remuneration, and nomination committees of the board of directors instead of statutory auditors has contributed to FDI. In addition, the decline in the price of land and structural changes in the real estate market have led to improvements in the investment environment in Japan.¹⁹

Examining regional trends, there was a decline in FDI from the United States during JFY 1998-99 followed by a major increase during JFY 1999-2000. The decline in FDI outflows between JFY 1998 and JFY 1999 was due mainly to lower equity investment and reinvested earnings. The recession in Japan had a direct impact on the flow of equity investment. The increase in FDI during JFY 1999-2000 (\$2.2 billion to \$9.3 billion) was primarily due to a surge in investment in the financial sector owing to liberalization and growth in investment in technology-related firms.²⁰

¹⁹ U.S. Embassy, Tokyo, "Investment-in-Japan Symposium 2001," found at <http://www.usembassy.state.gov/tokyo/wwwhec0148.html>, retrieved on Aug. 27, 2001.

²⁰ Japan External Trade Organization, "White Paper on Foreign Direct Investment 2001," found at http://www.jetro.go.jp/it/e/pub/whitepaper/invest2001/part2_1.html, retrieved on July 30, 2001.

In JFY 1999, there was a surge in investment from the EU, particularly from French investments that rose from \$131 million in JFY 1998 to \$6.7 billion in JFY 1999. French companies made large acquisitions in the automobile, auto parts, and finance/insurance industries. Investment from the EU grew to a record \$12.7 billion in JFY 1999. In JFY 2000, however, European FDI in Japan declined to \$6.3 billion.

Economic recovery in Asia led to strong inflows of FDI from the ASEAN economies in JFY 1999 to Japan. Singapore exhibited particularly strong flows to Japan, with government affiliated corporations such as Singapore Telecom leading the way with large-scale foreign investments. The strong inflows in JFY 1999 were followed by a decline in investment from Asia from \$986 million to \$383 million during JFY 2000.²¹

Japanese FDI inflows from Latin America increased sharply from \$268 million in JFY 1998 to \$2.6 billion in JFY 1999. This trend was mainly because of investments in commerce, trade and finance.²² Overall investment from Latin America declined in JFY 2000.

²¹ *Ibid.*

²² *Ibid.*

Table 1
Foreign Direct Investment in Japan, by country

(Million dollars; annual flow; reporting basis)

Region/Country	JFY 1998	JFY 1999	JFY 2000	JFY 1989-2000
North America	6,323	3,742	9,887	36,858
United States	6,310	2,230	9,268	32,851
Canada	13	1,512	618	4,006
Europe	2,361	12,674	6,320	36,643
Netherlands	1,000	4,224	475	11,273
United Kingdom	289	805	513	3,767
Germany	262	419	2,566	5,893
Switzerland	225	344	1,993	4,541
France	131	6,685	276	8,095
Asia	165	986	383	5,089
Singapore	57	661	88	2,466
Taiwan	44	118	222	787
Hong Kong	37	108	17	1,122
Korea	16	95	49	537
Latin America	268	2,595	1,541	7,405
Cayman Isles	178	2,257	1,209	4,344
British Virgin Islands	10	209	63	1,537
Bermuda	53	56	235	937
Japan (reinvestment)	1,351	1,448	10,471	18,106
Total	10,468	21,445	28,602	104,401

Source: Ministry of Finance, Japan.

Note—All investor countries are not listed.

Foreign direct investment, by industry, in Japan, is shown in table 2. There was a sharp increase in investment in the nonmanufacturing sector from \$12.7 billion in JFY 1999 to \$21.4 billion in JFY 2000. This was due to a drop in stock/land prices in Japan and a reduction in the value of the yen. As such, Japan seemingly offered bargains for foreign investors.²³ Finance and insurance received the most investment during JFY 2000 (\$9.4 billion), followed by telecommunications (\$6.9 billion), due primarily to major liberalization in these areas.²⁴ Petroleum also showed a large increase from JFY 1999 (\$121 million) to JFY 2000 (\$2.4 billion).

²³ Kyoji Fukao, "The Status of Direct Investment in Japan," *Japan Economic Currents*, Keizai Koho Center, May 2001.

²⁴ With regard to telecommunications, in February 1998, all restrictions on foreign ownership were removed with respect to Type I telecommunications carriers. A June 2001 amendment to the Nippon Telegraph and Telephone (NTT) law raised the ceiling on foreign investment in NTT from 20 percent to one-third. The cable television broadcast law was revised to remove foreign ownership restrictions on cable television companies in June 1999. U.S. Department of State telegram, "2001 Investment Climate Statement for Japan," prepared by U.S. Embassy, Tokyo, message reference No. 004866, July 16, 2001.

U.S. Direct Investment in Japan

Finance and insurance FDI rose sharply during JFY 1999-2000 to account for 64 percent of all U.S. direct investment in Japan (see table 3). The financial services sector has undergone comprehensive liberalization since 1995, culminating in the "Big Bang," a major liberalization program. During JFY 1998-2000, ongoing economic restructuring and changes in the financial markets contributed to growth in foreign direct investment in Japan.²⁵ Services (\$980 million) and machinery (\$828 million) were the next highest categories of U.S. investments, by value. The increase in investment in transport can be attributed to some large-scale mergers and acquisitions—Ford-Mazda in 1998, Renault-Nissan in 1999 and Daimler Chrysler-Mitsubishi in 2000.²⁶ In terms of the number of investment projects, services was the largest sector for investment (343 cases), followed by commerce/trade (148 cases), and finance/insurance (98 cases).

²⁵ U.S. Department of State telegram, "2001 Investment Climate Statement for Japan," prepared by U.S. Embassy, Tokyo, message reference No. 004866, July 16, 2001.

²⁶ United Nations, *World Investment Report 2000*, p. 38.

Table 2
Foreign Direct Investment in Japan, by industry

(Million dollars; annual flow; reporting basis)

Sector	JFY 1998	JFY 1999	JFY 2000	JFY 1989-2000
Manufacturing	2,442	8,783	7,254	37,082
Machinerya	1,663	7,757	3,228	21,355
Chemicalsa	310	541	1,640	8,398
Metals	16	160	17	1,430
Rubber/Leather	37	63	10	690
Petroleum	66	121	2,352	3,181
Textiles	28	2	22	153
Foods	202	13	0	665
Glass/Ceramics	-	51	0	102
Other	120	76	11	1,108
Non-manufacturing	8,028	12,727	21,417	67,368
Finance/Insurance	3,569	4,586	9,443	23,285
Trade	1,374	3,124	2,536	16,429
Services	2,485	1,845	2,170	13,148
Real Estate	325	151	317	2,910
Telecom	131	2,959	6,888	10,464
Transport	48	20	52	337
Construction	11	20	0	91
Other	87	22	11	704
Total	10,470	21,510	28,671	104,450

Source: Ministry of Finance, Japan.

Table 3
U.S. Direct Investment in Japan, by industry

(Million dollars; annual flow; reporting basis)

Sector	JFY 1999		JFY 2000	
	Value	Number of cases	Value	Number of cases
Manufacturing	1,711	64	1,909	37
Machinery	1,557	35	828	24
Chemicals	26	12	553	7
Metals	30	2	27	1
Foods	5	2	n/a	n/a
Non-manufacturing	2,030	570	7,977	637
Finance/Insurance	543	68	6,360	98
Commerce/Trade	149	141	228	148
Services	961	280	980	343
Real Estate	48	47	28	24
Telecom	312	27	403	20
Construction	11	4	n/a	n/a
Total	3,741	634	9,887	674

Source: Ministry of Finance, Japan.

Japan's Recent Outward FDI

Japan's total outward investment increased during JFY 1998-1999, but then fell during JFY 1999-2000 from \$66.7 billion to \$49.3 billion (table 4). During JFY 1998-1999, most areas of the world experienced increases in Japanese foreign direct investment due to economic growth, particularly in the United States and Europe.²⁷ There was strong FDI in the United Kingdom and the Netherlands as a result of M&A in the food sector involving an acquisition by Japan Tobacco of RJR Nabisco's overseas tobacco business in JFY 1999. In addition, large-scale investments were made through holding companies in the Netherlands to acquire stakes in companies in third countries. The reason for this was to take advantage of tax breaks in the Netherlands.²⁸ Japanese investment in the United States grew as a result of strong investment in the electrical machinery sector and the acquisition of information technology-related firms by companies such as Kyocera.²⁹

²⁷ Japan External Trade Organization, "White Paper on Foreign Direct Investment 2001," found at http://www.jetro.go.jp/it/e/pub/whitepaper/invest2001/part2_1.html, retrieved on July 30, 2001.

²⁸ The attraction of establishing a holding company in the Netherlands, besides excellent infrastructure, included an exemption on dividends earned from capital gains tax and the advance tax ruling (ATR) regime enabling investing companies to sign tax agreements in advance with the tax authorities.

²⁹ Ibid.

Governments in Asia have relaxed controls on foreign capital in order to rebuild their economies since the 1997 Asian financial crisis. Since 1999, deregulation in Asia has focused on services—including communications, finance, and retailing—which have received the most FDI.³⁰ FDI trends in East Asia during JFY 1998-2000 were relatively constant following a period of rising manufacturing production abroad by Japanese affiliates. There were many examples of Japanese parent companies providing their foreign subsidiaries with additional capital. One major example was in the Thai auto industry. Due mainly to large-scale M&A, Japan's FDI flows to South Korea increased sharply from \$302 million in JFY 1988 to \$980 million in JFY 1999. Japanese FDI outflows to ASEAN³¹ and China began to recover in JFY 1999 due to economic recovery. Japan's outflows to this area continued to recover during the first six months of JFY 2000. During the latter half of JFY 2000, according to a survey of Japanese firms, confidence by Japanese firms in the business climate in the Asian countries began to decline. This trend was primarily attributed to weakness among information technology firms. The prolonged U.S. slowdown has also hurt Japanese exports that once fueled Japanese economic growth.³²

Japanese FDI to Latin America declined in JFY 2000. This was primarily because of an economic downturn, particularly in Colombia, Ecuador and Venezuela. The Brazilian economy stabilized and net

³⁰ Ibid.

³¹ The members of ASEAN are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

³² Kyodo, "JETRO Survey: Japanese Firms Showing Less Confidence in Asia," Aug. 23, 2001.

Table 4
Japanese Direct Investment Overseas, by Country

(Million dollars; annual flow; reporting basis)

Region/Country	JFY 1998	JFY 1999	JFY 2000	JFY 1989-2000
North America	10,944	24,770	12,442	271,624
United States	10,316	22,295	12,306	259,923
Canada	627	2,474	137	116,991
Europe	14,011	25,804	24,747	167,401
United Kingdom	9,781	11,718	19,408	82,529
Netherlands	2,118	10,360	2,795	38,774
Germany	552	649	324	10,337
France	520	1,127	330	11,617
Ireland	361	460	49	3,610
Spain	122	518	33	3,676
Sweden	-	-	847	1,016
Asia	6,528	7,162	6,014	108,602
Thailand	1,371	816	944	14,262
Indonesia	1,076	918	419	17,612
China	1,065	751	1,008	19,072
Singapore	637	962	429	13,161
Hong Kong	601	971	949	15,124
Malaysia	514	525	235	8,646
Philippines	379	617	464	5,230
South Korea	302	980	824	5,870
India	257	208	170	1,870
Taiwan	224	285	517	5,161
Vietnam	51	99	22	1,261
Latin America	6,463	7,437	5,306	62,950
Cayman Isles	4,495	2,242	2,774	19,763
Panama	1,040	1,413	1,318	18,232
Brazil	466	654	228	7,618
British Virgin Islands	177	1,041	11	4,323
Mexico	83	1,484	211	3,725
Bermuda	16	145	553	4,706
Oceania	2,213	894	676	31,625
Australia	1,387	857	521	27,106
Africa	444	515	54	5,939
Liberia	386	217	42	4,882
South Africa	52	157	12	681
Middle East	146	113	19	2,776
Saudi Arabia and Kuwait	120	106	-	861
United Arab Emirates	5	n/a	-	632
Israel	5	2	8	53
Total	40,751	66,694	49,257	650,920

Source: Ministry of Finance, Japan.

inflow of Japanese investment was steady. The Argentine economy experienced negative growth, helping trigger the acquisition of an oil firm that led net inflows of FDI to soar. Chile and Mexico also experienced an increase in FDI from Japan.³³

³³ Japan External Trade Organization, "White Paper on Foreign Direct Investment 2001," found at http://www.jetro.go.jp/it/e/pub/whitepaper/invest2001/part2_1.html, retrieved on July 30, 2001.

Japanese outward investment in North America declined by 50 percent during JFY1998-2000. The United States accounted for most of this decline from that went \$22.3 billion in JFY 1999 to \$12.3 billion in JFY 2000. By top ranking country, the United Kingdom accounted for the largest investment (\$19.4 billion) in JFY 2000, followed by the United States (\$12.3 billion), the Netherlands (\$2.8 billion), and the tax haven of the Cayman Islands (\$2.8 billion). There

was a decline in investment in Kuwait and Saudi Arabia due to the completion of energy projects in those countries.³⁴

The largest sector for Japanese investments overseas was transport, nonmanufacturing (\$22.2 billion), followed by commerce/trade (\$3.4 billion), manufacturing (\$3.1 billion), and services (\$1.8 billion) (table 5). Japanese investments in manufacturing experienced a decline of 72 percent in value. This was because the restructuring process begun at home has been extended to foreign affiliates of Japanese multinationals in the manufacturing sector, especially in Southeast Asia.³⁵ The fluctuations in electrical machinery FDI³⁶ during JFY 1998-2000 reflected large changes in demand for electric appliances and electronic machinery in China and the ASEAN countries during that period.³⁷ The sharp increase in transport investment during FY 2000

reflected increased Japanese investments in auto transplants in the United States.

Japanese investments in nonmanufacturing sectors overseas far outweighed those in manufacturing in JFY 2000, \$37.2 billion compared to \$11.8 billion. In the nonmanufacturing area, there were increased investments in commerce, services, transport, mining, agriculture and fisheries during JFY 1999. Overseas investments in finance declined from \$16.4 billion in JFY 1998 to \$8.5 billion in JFY 2000. The restructuring of Japanese firms due to domestic economic difficulties was pronounced in the financial services industries and affected their foreign affiliates. There was a slump in finance/insurance investments during JFY 1999 due to overall declines in investment in the United Kingdom and Latin America. However, during JFY2000, FDI in these sectors remained constant as economic recovery in Europe gathered pace. There was also growth in investment services, transport, and communications. The growth in services was because of expansion by advertising agencies, electric power utilities, and trading companies.³⁸

³⁴ Japan External Trade Organization, "White Paper on Foreign Direct Investment 2001," found at http://www.jetro.go.jp/it/e/pub/whitepaper/invest2001/part2_6.html, retrieved on Oct. 1, 2001.

³⁵ United Nations, *World Investment Report 1999*, p. 43.

³⁶ The category provided by the Ministry of Finance is "electrical."

³⁷ World Trade Organization, *Trade Policy Review: Japan*, Jan. 5, 1998.

³⁸ Japan External Trade Organization, "White Paper on Foreign Direct Investment 2001," found at http://www.jetro.go.jp/it/e/pub/whitepaper/invest2001/part2_1.html, retrieved on July 30, 2001.

Table 5
Japanese Direct Investment Overseas, by industry

(Million dollars; annual flow; reporting basis)

Industry	JFY 1998	JFY 1999	JFY 2000	JFY 1989-2000
Manufacturing	12,253	42,310	11,845	222,218
Electrical	3,419	16,350	3,090	66,465
Chemicals	2,247	1,694	1,942	28,155
Transport	1,607	4,781	3,182	8,945
Food	1,270	14,908	261	25,424
Metals	1,223	1,458	717	16,384
Machinery	795	995	1,430	17,825
Lumber/Pulp	677	116	150	4,917
Textiles	341	260	226	7,675
Other	673	1,749	849	24,442
Non-manufacturing	28,140	24,178	37,158	421,613
Finance/Insurance	16,376	9,885	8,523	118,475
Commerce/Trade	3,777	3,877	3,391	61,552
Real Estate	2,810	2,114	370	84,744
Services	2,053	4,314	1,784	83,094
Transport	1,898	2,771	22,185	50,197
Mining	874	922	650	15,572
Construction	294	182	91	4,806
Agriculture/Forestry	33	81	27	1,610
Fisheries	20	26	134	1,048
Other	-	-	341	-
Total	40,751	66,694	49,257	211,677

Source: Ministry of Finance, Japan.

Conclusions

As noted above, Japan has experienced a surge in inward FDI (from \$11.0 billion in JFY 1988 to \$28.7 billion in JFY 2000) in recent years, albeit from a small base. The major reason for the increase in FDI was because of structural changes in the economy which have led to an increase in foreign acquisitions and greenfield investments. Some of the reforms have included improved corporate accounting standards and changed bankruptcy proceedings. In addition, there has been a weakening in keiretsu ties due to the economic downturn. Corporate alliances and exclusive buyer-supplier networks that include companies belonging to the same business grouping, block market-access opportunities for foreign firms. As these ties, including cross-shareholding have loosened, there have been greater opportunities for foreign firms to enter the market. There are expected to be additional investment opportunities for U.S. firms, in particular, as the financial, insurance, and information technology sectors undergo further liberalization.

Although inward FDI has been on the rise recently from a small base, foreign investors will continue to face relatively high costs of doing business, the legacy of former investment restrictions and remaining structural impediments to greater investment. Despite liberalization efforts thus far, there remain bureaucratic ob-

stacles and such problems as lack of financial transparency and disclosure in financial transactions, scarcity of personnel experienced in M&A activities, and anti-competitive practices.

In the near term, Japanese outward FDI may be affected by the continued economic downturn in Japan and elsewhere. In Japan, GDP contracted at a 0.8 percent rate in the first quarter of 2001 and is expected to shrink again during the second and third quarters. The International Monetary Fund (IMF) predicts that the Japanese economy will grow 0.2 percent in 2002.³⁹ A consensus of forecasters in Japan predicts real GDP growth of 0.3 percent in 2001 and 1.3 percent in 2002.⁴⁰ Capital flows to Japanese foreign subsidiaries, particularly in East Asia, could subside. However, at the present time, surveys of manufacturers in Japan indicated that most expect to expand their overseas investments in 2002. This is reflective of growing interest in overseas investment in manufacturing, including general machinery, and electronic/electrical equipment sectors.⁴¹

³⁹ IMF, *World Economic Outlook*, October 2001, found at www.imf.org/external/pubs/ft/weo/2001/02/index.htm, retrieved on Oct. 1, 2001.

⁴⁰ "Blue Chip Economic Indicators," Vol. 26, No. 7, July 10, 2001, p. 12.

⁴¹ Japan External Trade Organization, "White Paper on Foreign Direct Investment 2001," found at http://www.jetro.go.jp/it/e/pub/whitepaper/invest2001/part1_5.html, retrieved on July 30, 2001.

Why is the U.S. Trade Deficit with China so Big?

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Whereas U.S. trade deficits have arisen in general when U.S. investment spending exceeds U.S. domestic savings—due in recent years to the attractiveness of the U.S. economy to foreign investors, the comparatively lower savings rate of U.S. consumers, and until recently U.S. federal budget deficits—several other factors affect the U.S.-China bilateral trade deficit in particular. These include China's high savings rate, differing measurement of entrepot trade through Hong Kong, China's tariff and nontariff trade barriers, trade diversion between China and other Asian countries, and the Chinese government's recent use of trade policy to boost slow domestic spending in China.

Introduction

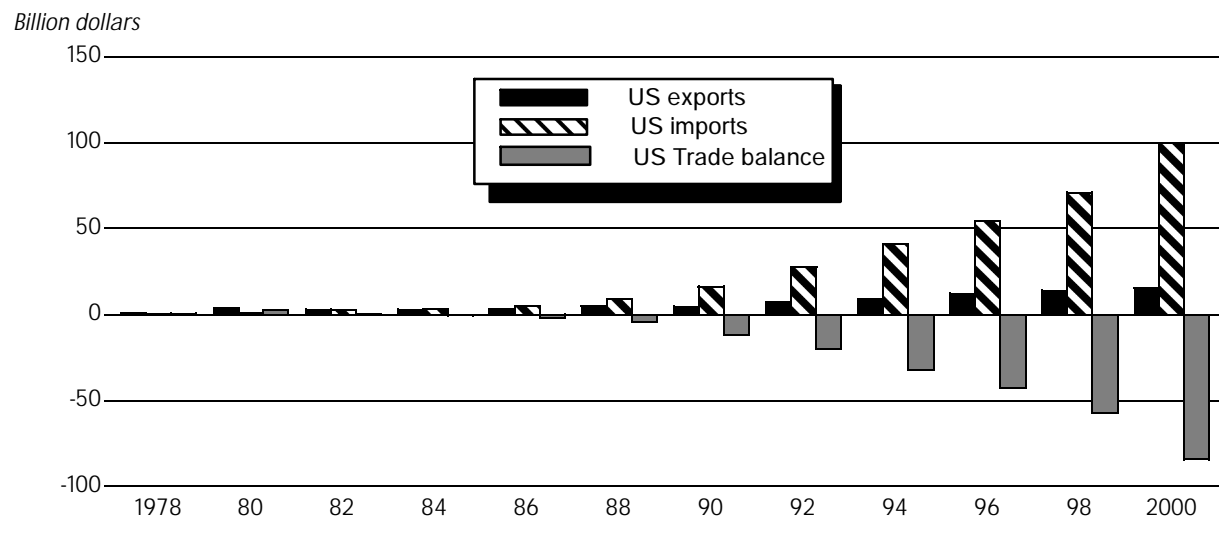
The U.S. trade deficit with China measured \$84.2 billion in 2000, with U.S. exports totaling \$15.3 billion and U.S. imports measuring \$99.6 billion.² The bilateral trade deficit has grown 633 percent since 1990, and 22 percent in the year 2000 alone (figure 1). In terms of total trade, China is the United States fourth largest

trading partner, but the trade deficit with China is almost identical to the largest U.S. bilateral trade deficit, that with Japan (\$84.9 billion) (figure 2). The coming accession of China to the World Trade Organization has brought renewed attention to the size of U.S. trade deficits. This article will first discuss some of the factors contributing to the overall U.S. trade deficit with the world, and then focus on the U.S. trade deficit with China. Some of the factors contributing to the U.S. trade deficit with China include the savings-investment gap, the U.S. budget balance, Hong Kong entrepot trade, trade diversion in Asia, treatment of services trade, Chinese reserve accumulation, trade barriers, and Chinese domestic stimulus policies.

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

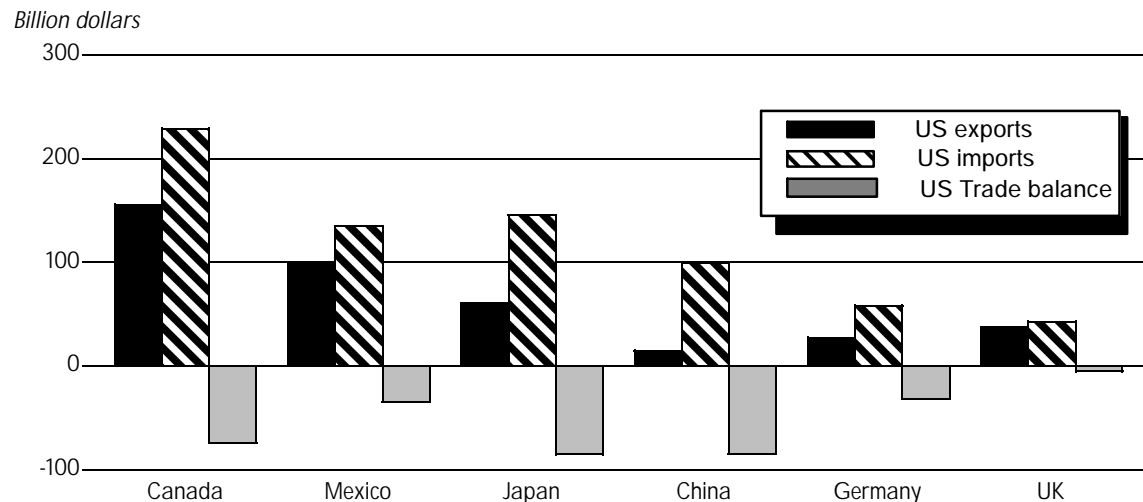
² Trade data used in this article was compiled from official statistics of the U.S. Department of Commerce. Additional data was taken from IMF, *International Financial Statistics*; and from the World Bank, *World Development Indicators*, CD-ROM.

Figure 1
U.S. merchandise trade with China, 1978-2000



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

Figure 2
U.S. trade balances, selected countries, ranked by two-way trade, 2000



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

U.S. Trade Deficit with the World

Savings-Investment Gap

The U.S. trade deficit with the world measured \$493 billion in 2000. A major reason for this long-standing overall deficit is that U.S. investment spending exceeds U.S. savings. American consumers do not save as much as their major trading partners do, and the United States is an attractive destination for foreign investors. The opposite is true for many other countries, including China and Japan, where savings is larger than investment. The result is that countries with excess savings (China and Japan) lend to countries with not enough savings (the United States).

As shown in table 1, the United States domestic savings rate in 1998 measured 18.4 percent of GDP, compared to 42.3 percent in China and 28.7 percent in Japan.³ Given the rates of investment in each country, the table shows that China's savings exceeded investment by 7.1 percent of GDP and Japan's savings exceeded its investment by 1.9 percent. The opposite was true in the United States, where savings fell short of investment by 0.9 percent of GDP. The conclusion is that China was in a position to lend \$67.0 billion to the world in 1998, and Japan could lend \$72.3 billion. In contrast, the United States would have to borrow from the world approximately \$75.6 billion. This "borrowing" is reflected in the bilateral trade deficits with China, Japan, and other countries.

³ Data from 2000 is cited where available, but 1998 data has been used to make international comparisons.

A basic macroeconomic relationship states that for any economy that trades with other countries, the amount of investment that takes place must be equal to the sum of personal savings, government savings, and foreign savings in that economy. If investment increases, it must be true that one of the sources of savings also increases. Similarly, if one source of savings decreases, another source must increase to finance the same level of investment.

Among the three types of savings, personal savings is that done by U.S. consumers. Government savings is the government budget surplus, which has been negative (a budget deficit) until recently in the United States. Finally, foreign savings is equal to a U.S. trade deficit—that amount by which foreign countries' exports to the United States exceed their imports from the United States. This foreign savings appears as capital inflows into the United States as foreigners use the trade proceeds to purchase U.S. investment assets and property. The conclusion is a three-sided relationship effect: (1) if U.S. investment is greater than savings, then (2) U.S. capital inflows must exceed capital outflows, and (3) U.S. imports must exceed U.S. exports.

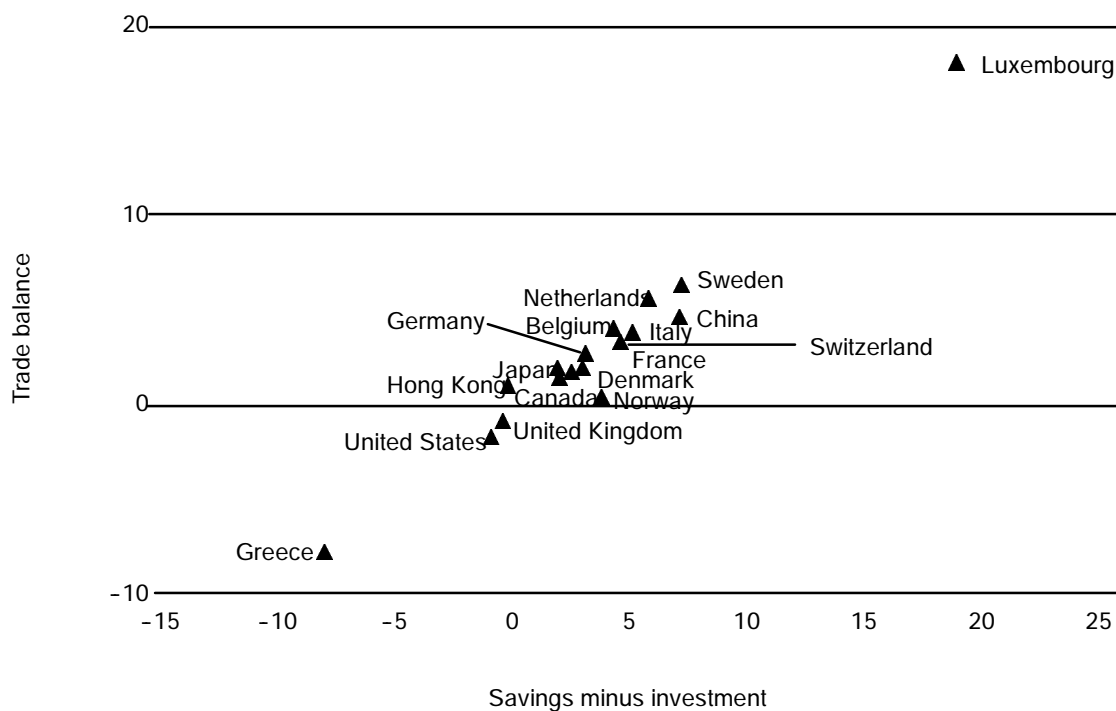
This relationship can be seen to hold true for the countries illustrated in figure 3. The more savings exceeds investment for each country, the more likely it is to have an overall trade surplus. For example, this is especially true for Luxembourg, where in 1998, domestic savings exceeded investment by 18.9 percent of GDP and the trade surplus measured 18.6 percent of GDP. At the other extreme, in Greece, domestic savings were smaller than investment by 8.0 percent of GDP and the country ran a trade deficit of 7.8 percent of GDP. In the United States, savings were less than investment by 0.9 percent of GDP, while its trade

Table 1
Savings and investment in selected countries, 1998

	(Percent of GDP)			(Billions dollars)	
	Savings	Investment	S-I	GDP	S-I
China	42.4	35.3	7.1	946.3	67.0
Luxembourg	38.1	19.2	18.9	18.3	3.5
Hong Kong	30.1	30.4	-0.2	162.9	-0.4
Norway	28.8	25.0	3.8	147.0	5.6
Japan	28.7	26.8	1.9	3,808.1	72.3
Netherlands	27.5	21.7	5.8	391.3	22.6
Belgium	25.1	20.8	4.3	250.4	10.7
Switzerland	25.0	19.9	5.1	262.1	13.5
Germany	23.5	21.1	2.5	2,150.5	52.8
Denmark	23.2	20.2	3.0	173.7	5.2
Italy	23.0	18.4	4.6	1,190.9	54.6
Sweden	23.0	15.8	7.2	237.8	17.1
Canada	21.6	19.6	2.0	598.2	12.0
France	21.5	18.3	3.1	1,447.0	45.1
United States	18.4	19.3	-0.9	8,699.2	-75.6
United Kingdom	17.0	17.4	-0.4	1,410.4	-5.0
Greece	14.1	22.1	-8.0	121.5	-9.7

Source: World Bank.

Figure 3
Savings-investment relation to trade balance, selected countries, 1998



Source: World Bank, World Development Indicators, CD-ROM.

deficit with the world measured 1.7 percent of GDP. In contrast, China's investment exceeded its savings by 7.1 percent of GDP, and China ran a trade surplus of 4.6 percent of GDP. Japan saved more than it invested (1.9 percent of GDP), and thus had a trade surplus of 2.0 percent of GDP. Therefore, because of its relatively small savings, the United States tends to run trade deficits with a majority of its trading partners. China and Japan, countries which save more than they invest, run trade surpluses with the world, implying bilateral trade surpluses with a majority of their trading partners—including the United States.

The U.S. Budget Balance

As discussed above, government savings (budget surplus) is one source of financing for investment. When government savings decrease, it must be true that one or more of the following occur: 1) personal savings increase, 2) foreign savings increase, or 3) investment decreases. Sometimes called the "twin deficits," budget deficits can thus contribute to a country's trade deficit by decreasing the domestic pool of funds available to finance investment. According to the International Monetary Fund (IMF), the United States ran an overall budget surplus of \$254.4 billion dollars in 2000, while in 1994 the United States had a budget deficit of \$184.6 billion.⁴ A U.S. budget surplus, implies the U.S. Treasury has excess funds to deposit in the U.S. financial market. A surplus translates into more total savings, which in turn implies less capital inflows needed to finance investment, which can result in an improved U.S. trade balance.

In contrast, large U.S. budget deficits (sometimes called government "dis-savings") imply larger trade deficits.⁵ The 1994 budget deficit is an example: according to World Bank data, in addition to U.S. investment of over \$1.20 trillion, U.S. financial markets had to support \$0.02 trillion of borrowing by the government.⁶ With private savings of only \$1.18 trillion, the gap is financed by capital inflows from abroad, which imply larger U.S. trade deficits.

⁴ IMF, *International Financial Statistics*, May 2001, p. 858.

⁵ See also Mohammadi, Hassan and Skaggs, Neil T., "The Twin Deficits: Fiscal Imbalances and Trade Deficits," in Shojai, Siamack, *Budget Deficits and Debt: a Global Perspective*, Westport, Conn. and London: Greenwood, Praeger, 1999, pp. 91-101.

⁶ World Bank, *World Bank Development Indicators*, CD-ROM. Overall budget deficit is current and capital revenue and official grants received, less total expenditure and lending minus repayments. Data are shown for the central government only.

U.S. Trade Deficit with China

Hong Kong Entrepot Trade

Turning to U.S. trade with China, an important determinant in the size of the U.S. bilateral deficit becomes the methodology used to measure trade. The United States and China disagree on the size of the deficit. According to China, the U.S. deficit is smaller than what the United States publishes. China measured the U.S.-China bilateral trade deficit at \$22.5 billion in 1999 (latest year available), while the U.S. Department of Commerce measured it at \$68.9 billion (figure 4). The primary reason is the way the United States and China treat trade with Hong Kong.

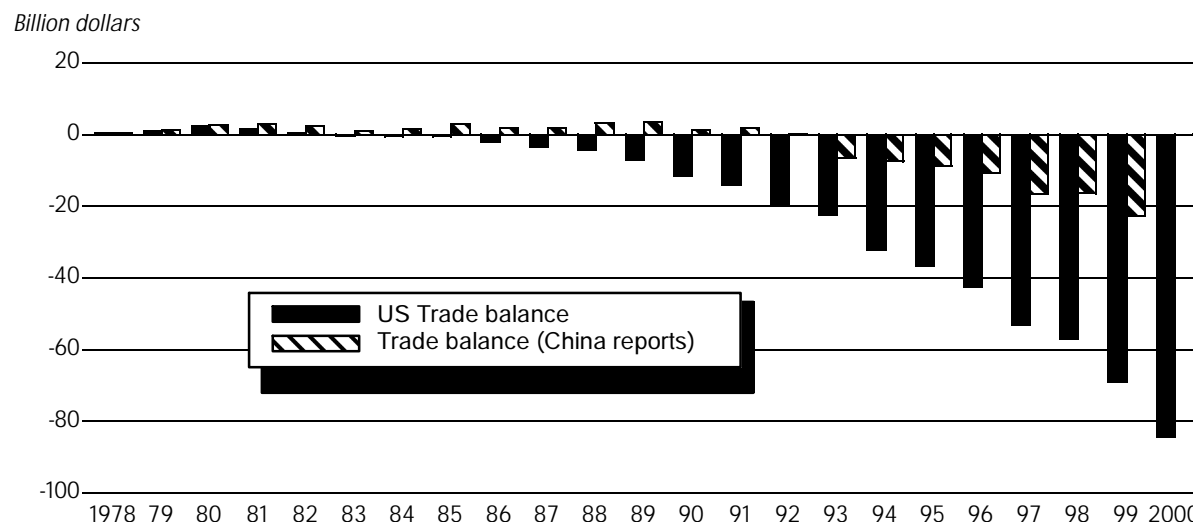
In some ways, Hong Kong acts as a middle-man between China and many of its trading partners. A large quantity of Chinese goods go through Hong Kong before being shipped to the United States. The United States considers these goods as Chinese exports to the United States. In contrast, China considers the goods as exports to Hong Kong, irrespective of what happens to them after that. The same gap appears in the measurement of U.S. goods exported to China—many of them go through Hong Kong first. There are often varying degrees of value added to the goods entering Hong Kong, but again, the United States considers China as the final destination for these U.S. exports. Some research has been done to reconcile this measurement gap, but neither country has officially adopted new methodologies. Research identifies three main factors for the U.S. overstatement/Chinese understatement of U.S. imports from China: re-exports through Hong Kong, price mark-up of goods passing through Hong Kong, and shipping and other transport-related factors such as insurance. According to the U.S.-China Business Council of Washington, D.C., the U.S. bilateral deficit is overstated by 22 percent due to this entrepot trade effect.⁷

Trade Diversion in Asia

The U.S. trade deficit with China has also grown because many producers of labor-intensive U.S. imports have moved out of high-wage Asian countries and into low-wage China. Besides the lower wages in China, this reasoning is supported by three trends: (1) large foreign direct investment into China, (2) a significant shift in Chinese manufacturing towards more labor-intensive products, and (3) the improvement in U.S. trade balances with other Asian trading partners, notably Hong Kong and Taiwan.

⁷ The United States-China Business Council, "Understanding the U.S.-China Balance of Trade," found at Internet address <http://www.uschina.org/>, retrieved Oct. 10, 2001.

Figure 4
Bilateral trade balance: U.S. versus Chinese reporting, 1978-2000



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

The flow of direct investment into China reached \$38.8 billion dollars in 1999,⁸ and data suggests up to 45 percent of this investment is coming from Hong Kong, with over 60 percent going into Chinese manufacturing.⁹ Manufactured goods formerly produced in Hong Kong and Taiwan and purchased by the United States are now being produced in mainland China. As a result, while the U.S. trade deficit with China increases, bilateral trade balances with Hong Kong and Taiwan have moved to U.S. trade surpluses. For example, in 1989, the United States ran trade deficits with both Hong Kong (\$3.8 billion) and China (\$6.1 billion). By 1997, when the deficit with China had grown to \$39.4 billion, the deficit with Hong Kong had turned into a \$3.4 billion surplus. And by 2000, the deficit with China measured \$84.2 billion, while the trade surplus with Hong Kong measured \$0.9 billion (table 2).

Services Trade

The trade deficit data typically cited often does not include U.S. services trade with China—which has grown from a \$0.6 billion surplus in 1996 to a \$1.3 billion surplus in 1999.¹⁰ Including services trade would reduce the measure for the U.S. bilateral trade deficit with China. According to a study done by the

U.S. International Trade Commission (USITC), China's entry into the World Trade Organization will further increase U.S. services exports to China.¹¹

¹¹ USITC, *Assessment of the Economic Effects on the United States of China's Accession to the WTO*, Investigation No. 332-403, Sept. 1999, p. xiv.

Table 2
U.S. Trade Bilateral Trade Deficits with
China and Hong Kong, 1989-2000

(Billion dollars)

	China	Hong Kong
1989	-6.083	-3.776
1990	-10.344	-3.318
1991	-12.616	-1.836
1992	-18.175	-1.57
1993	-22.806	-0.704
1994	-29.394	0.506
1995	-33.757	2.472
1996	-39.408	2.497
1997	-49.462	3.441
1998	-56.906	1.157
1999	-68.937	0.598
2000	-84.425	0.859

Source: Compiled from official statistics of the US Department of Commerce.

⁸ IMF, *International Financial Statistics*, May 2001, p. 230

⁹ USITC, *Assessment of the Economic Effects on the United States of China's Accession to the WTO*, Investigation No. 332-403, Sept. 1999, p. 2-17.

¹⁰ U.S. Department of Commerce.

Foreign Participation in Chinese Exports

Chinese exports to the United States do include a very large number of goods that are made by U.S. companies located in China, or by companies that use non-Chinese imported raw materials for inputs. In 2000, the imports and exports of foreign firms invested in China reached \$236.7 billion, accounting for 50 percent of the country's total trade volume.¹² The significance of such foreign participation is that much of the Chinese export revenues accrue not to China, but to foreign firms.¹³ This is reflected in China's current account, which records not only trade of goods and services, but current income on assets owned by foreigners. In 2000, for example, China's current account included \$27.2 billion in income payments to foreigners for assets owned in China.

International Reserve Accumulation

If China were to stop fixing its exchange rate and accumulating foreign reserves, the U.S. bilateral trade deficit might also be smaller. The U.S. economy interacts with China in two main ways: trade and capital flows. To maintain a balance of payments with foreign countries, a U.S. trade deficit should be offset by a capital surplus, that is, net capital inflows. This is true in the United States, where in 2000, the overall current-account deficit measured \$444.7 billion and net financial inflows from abroad measured essentially the same at \$443.4 billion.¹⁴ But in China, there was a current-account surplus of \$20.5 billion and net capital inflows of \$1.9 billion—not the same.¹⁵

A major reason why China's current and capital accounts are not equal is that China fixes its exchange rate and accumulates international reserves, adding \$10.7 billion to its international reserves in 2000, significantly less than in previous years. In 1994, for example, China added \$30.5 billion to its international reserves.¹⁶ These are dollars that China might have otherwise used for imports of goods from the United

¹² Hong Kong Trade Development Council, "China's Foreign Trade Growth in 2000 Hits a Record High," found at Internet address <http://www.tdctrade.com>, retrieved Aug. 10, 2001.

¹³ See Nicholas Lardy, *China in the World Economy*, Institute for International Economics, Washington, D.C. Apr. 1994, p. 78.

¹⁴ IMF, *International Financial Statistics*, May 2001, p. 858.

¹⁵ IMF, *International Financial Statistics*, May 2001, p. 230.

¹⁶ *Ibid.*

States.¹⁷ Instead, the extra inflows into China are accumulated by Chinese monetary authorities.¹⁸

If the Chinese Renminbi appreciated, this would likely improve the U.S. trade balance by making Chinese goods more expensive to Americans, and U.S. goods cheaper to Chinese consumers. The large Chinese trade surplus could disappear. This, however, is not likely for a number of reasons. First, despite China's stock of reserves totaling \$166 billion,¹⁹ it has foreign debt of approximately \$144 billion.²⁰ Second, China in recent months has struggled to compensate for weak domestic demand by promoting exports. In fact, much speculation has centered on whether China might further devalue their currency to help exports, rather than let it appreciate by selling off its foreign reserves.²¹

Chinese Trade Barriers

Tariff and nontariff trade barriers on imports into China are additional factors related to the U.S. bilateral deficit with China. Chinese tariff barriers reduce U.S. exports to China by making U.S. goods more expensive to Chinese consumers. Nontariff barriers reduce U.S. exports by both raising the price of U.S. goods and by reducing their access to the Chinese market. According to the Office of the United States Trade Representative (USTR), Chinese trade barriers create an "effective firewall against many imports,"²² thus increasing the U.S. bilateral trade deficit. Major Chinese trade barriers include the following:

High Tariffs

The average Chinese tariff rate is currently 17 percent (down from an average rate of 42 percent in 1996), but tariffs on selected items, such as autos and various agricultural products, can be 100 percent or more.

¹⁷ Another alternative to the accumulation of international reserves in China would be greater Chinese investment abroad, or Chinese capital outflow.

¹⁸ The accumulation of foreign reserves would suggest the foreign-exchange value of Chinese currency is being held lower than the free market would determine on its own. The Chinese Renminbi is, in fact, held at a fixed value of 8.3 per U.S. dollar. Fixing the value of a currency below its free market equilibrium value usually results in an excess demand for that currency on the foreign-exchange market. To maintain the fixed rate, monetary authorities supply the needed currency. In this case, Chinese monetary authorities sell Renminbi on the Chinese market in exchange for U.S. dollars. These dollars accumulate in the form of international reserves.

¹⁹ IMF, *International Financial Statistics*, May 2001, p. 230.

²⁰ Orbis Publications, *China Watch*, Mar. 15, 2001, p. 1.

²¹ *Ibid.*

²² United States Trade Representative, *2000 National Trade Estimate Report on Foreign Trade Barriers*, p. 43.

Pervasive Nontariff Barriers

Nontariff barriers are used to control the level of certain imports into China, including quotas, import licenses, registration and certification requirements, and restrictive technical and sanitary standards (especially in respect to agricultural products).

Non-transparent Trade Rules and Regulations

China's trade laws and regulations are often secretly formulated, unpublished, unevenly enforced, and may vary across provinces, making it difficult for exporters to determine what rules and regulations apply to their products. In addition, foreign firms find it difficult to gain access to government trade rulemaking agencies to appeal new trade rules and regulations.

Trading Rights

China restricts the number and types of entities in China that are allowed to import products into China, which limits the ability of both Chinese and foreign firms in China to obtain imported products. Foreign companies are not permitted to directly engage in trade in China. In addition, trading rights for many agricultural products are given exclusively to Chinese state trading companies, which are directed to import only if there is a domestic shortfall of certain products.

Distribution Rights

Most foreign companies are prohibited from selling their products directly to Chinese consumers.

Investment Restrictions

Chinese officials pressure foreign investors to agree to contract provisions which stipulate technology transfers, exporting a certain share of production, and commitments on local content. Other problems faced by foreign firms in China include the denial of national treatment (i.e., foreign firms are treated less favorably than domestic firms), foreign-exchange controls, distribution and marketing restrictions, and a lack of the rule of law.

Many studies have analyzed what impact China's WTO entry would have on the U.S. bilateral trade deficit, with varying results. The USITC study found that tariff cuts associated with China's WTO membership would increase the bilateral deficit, but would not affect the overall U.S. trade balance with the world.²³ Removal of Chinese nontariff barriers would likely re-

²³ USITC, *Assessment of the Economic Effects on the United States of China's Accession to the WTO*, Investigation No. 332-403, Sept. 1999, p. 2-17.

sult in increased U.S. exports and U.S. investment in China.

Chinese Domestic Economy

A final element of China's trade surplus with the United States and the rest of the world is the important role trade has played in China's economic development program as well as recent macroeconomic policy implemented to speed up a slowing economy.

Chinese Economic Development

Under Chairman Mao, China's foreign trade served a dual purpose: (1) to meet its needs for foreign goods and services, and (2) to promote political relations with foreign countries. In fact, many Western countries established trade or economic relations with China before they extended diplomatic recognition. After 1978, however, China renounced their self-imposed economic isolationism and opened the door to outsiders, especially to Western countries. The three elements of external sector reforms in China have been changes in foreign exchange, the trading system, and foreign direct investment. The move has been toward less central planning, market based foreign-exchange markets, current-account convertibility, and an "open door" to foreign direct investment through special economic zones.²⁴ Specific trade reforms have included: (1) expansion of trading rights, (2) gradual phase-out of mandatory planning, and (3) price liberalization.²⁵ Trade has become a principle avenue for Chinese economic development.

Recent Chinese Economic Stimulus Policy

In recent years, exports have been used as a policy tool to stimulate a slowing domestic economy. China's 7.1 percent GDP growth rate²⁶ during the second quarter 1999, might have been the envy of most countries around the world, but a slowdown has been occurring in the Chinese economy since 1992 when GDP grew at 14.2 percent annually.²⁷ By the middle of 1999, three main trends described poor economic conditions in China: falling exports, a drop in foreign direct investment and foreign lending, and a slowdown in consumer spending. With weak consumption expenditure, slow government expenditures financed largely by the sale of government bonds,²⁸ as well as slow exports, investment was the remaining source of economic growth for China. The government took several steps to try and speed up spending in each of the expenditure categories.

²⁴ IMF, "China: External Sector Opening," *IMF Staff Country Report*, No. 97/72.

²⁵ See both Lardy, *China in the World Economy*; and *IMF Staff Country Report*, No. 97/72.

²⁶ Economic Intelligence Unit, CD-ROM, 1999.

²⁷ *Chinese Statistical Yearbook*, 1998.

²⁸ Nicholas Lardy, "China and Normal Trade Relations," seminar at the CATO Institute, Washington DC, June 15, 1999.

Some of the policies that China either implemented or actively considered included increased fiscal spending, a savings tax to boost consumption, looser monetary policy, housing investment incentives, and even a scheme to increase stock market values. Most relevant to the trade balance, however, was China's emphasis on increasing exports to replace slow domestic demand. Beside the strong speculation of a currency devaluation to increase exports, the policies implemented finally included increased tax rebates for exporters, reform of export regulations, and government involvement in export market development. Results were positive, with Chinese exports increasing 28 percent in 2000. (Imports also increased, by 36 percent). Chinese exports to the United States increased 22.1 percent in 2000, a jump from the 7.6 percent growth recorded in 1998.²⁹

²⁹ U.S. Department of Commerce.

Conclusion: Bilateral Trade Deficits in General

The principal reason the United States has enormous trade deficits is that investment spending exceeds savings in the United States. This is compounded by the exact opposite situation in China, where the savings rate is very high. The result is that China runs a large trade surplus with the world and, given that given the United States is one of China's largest trading partners, it would seem likely that China would continue to run a surplus with the United States.

The Return of Dependency Theory: Is Primary Commodity Specialization Bad for Development?

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In the 1970s, most economists became disenchanted with dependency theory—and its consequent import substitution policies—for lack of evidence that specialization in primary commodities was damaging to a country's economic development. The anti-globalization movement of current times appears to be more willing to believe such dependency theories without supporting evidence. Whereas commodity dependence may indeed correlate with fluctuating terms of trade, it is neither clear that commodity prices are in fact trending down or whether living standards would be necessarily depressed if they did. Although other reasons—such as bad economic policies—may be more at fault, it is nonetheless true that primary commodities have not fared well on export markets in recent years and that such countries' external debts have been high.

Introduction

Developing countries have long been ambivalent towards trade liberalization. This ambivalence is enshrined in Part IV of the General Agreement on Tariffs and Trade (GATT), first adopted in 1965, which calls upon industrialized countries to open their markets to the exports of developing countries, while at the same time excusing developing countries from reciprocal liberalization whenever they perceive a threat to their development. While this ambivalence toward trade is similar to the mercantilist logic employed by trade negotiators generally, it differs in that it is justified by goal of ending poverty and despair in the Third World. As country delegations are scheduled to gather in Doha, Qatar, November 9-13, 2001, for the fourth WTO ministerial conference, this ambivalence will once again be on display. If developing countries do not take a firm stand in favor of greater openness, the proposed kick-off for a new round of global trade negotiations could result in another Seattle-style disaster.

A number of factors are pushing the issue of trade and development to the fore. Most developing country governments have come to accept, either through experience with failed import-substitution policies or by the necessity of terms under IMF conditionality and World Bank Structural Adjustment loans, that trade liberalization is the only way forward. Many have taken the step of reducing their trade barriers unilaterally. At the same time, they have found industrialized countries reluctant to liberalize trade in areas in which developing coun-

tries have a comparative advantage, such as agriculture and textiles. In addition, developing countries have seen their export revenues fall in recent years, because of the weakness in primary commodity prices. Thus, developing country governments are pressuring industrialized countries to open their markets to developing country exports.

Another factor is the growing “anti-globalization” movement, spearheaded by a network of non-governmental organizations (NGOs). Originally concerned for the most part with the effects of trade on labor and environmental standards, this movement has expanded its scope and now seems to have adopted a conceptual framework based on old-fashioned dependency theory.² The idea is that trade with industrialized countries traps developing countries in permanent underdevelopment, because it induces them to specialize in primary commodities—raw materials and agricultural products—according to their “static” comparative advantage. Dependent on primary commodities, developing countries fall victim to the vicissitudes of commodity markets. Standards of living decline secularly as the prices of such goods decline, relative to the exports of the industrialized world. Moreover, fluctuations in commodity prices force developing countries into debt when prices are low; debts that can only be repaid with export revenues from commodity exports (derisively referred to as “cash crops” by globalization foes). This commodity trade-debt nexus is why the WTO, IMF, and World Bank are all seen as linked together in a conspiracy of exploitation.

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

² Palma (1978) provides a survey of the major currents in the dependency literature. See Wallach and Sforza (1999, Ch. 5) for a recent critique of the WTO policies toward developing countries.

The positions of the developing country governments and the anti-globalization movement appear to be at odds with each other. The former want more trade with industrialized countries, while the latter wants less.³ Nevertheless, they can agree that industrialized countries should not be the ones putting up barriers to North-South trade. Rather, it should be the developing countries that have the option to restrict trade, according to their development needs. Thus, despite the history of failure of import-substitution policies, the ambivalence of Part IV of the GATT remains as politically compelling as ever.

This article takes a brief, critical look at some claims of dependency theory, with an emphasis on the facts. While economists typically treat this issue as part of the debate over import-substituting versus export-oriented industrialization,⁴ this article examines the more fundamental question of whether dependence on primary commodities is indeed detrimental to economic development. The conclusion is that primary commodity dependence is neither as prevalent nor as damaging to developing countries as it has been made out to be.

The Prebisch-Singer Hypothesis

Dependency theory draws heavily on the work of Prebisch (1950) and Singer (1950). These authors were concerned about the then-rising per capita income gap between industrialized and developing countries and its relationship to international trade. They argued that international specialization along the lines of comparative advantage had excluded developing countries from the fruits of technical progress that had so enriched the industrialized world.

They rested their case on three stylized facts: first, that developing countries were indeed highly specialized in the production of primary commodities; second, that technical progress was concentrated mainly in industry; and third, that the relative price of primary commodities in terms of manufactures had fallen steadily since the late 19th Century. Together these facts suggested that, because of their specialization in primary commodities, developing countries had obtained no benefit from industrial technical progress, either directly through higher productivity, or indirectly

³ Globalization foes have an explanation for this disagreement: the leaders of developing countries tend to be Northern-educated elites who do not represent the interests of the people. See, e.g., *Fifty Years is Enough: U.S. Network for Global Economic Justice*, at <http://www.50years.org/s28/responses.html>.

⁴ For a good, accessible treatment of this debate, see Ch. 10 of, Krugman, Paul R. and Maurice Obstfeld, *International Economics: Theory and Policy*, 5th ed., Addison Wesley Longman, 2000.

through improved terms of trade. Rather, they had lost ground.

How Dependent are Developing Countries on Primary Commodities?

There is no single measure of primary commodity dependence. The most common approach is to examine the share of a country's export revenue attributable to its top one or two export commodities. Table 1 shows all countries (developing and industrialized) with at least 10 percent of their export revenue from a primary commodity. There are 22 countries that derive at least half of their export revenue from a single primary commodity. All of them are developing countries, predominantly from Africa and the Middle East and exporting chiefly crude petroleum. Another 38 countries derive between 20 and 49 percent of their export revenue from a single commodity. Crude petroleum accounted for about a third of these as well. There are 47 countries that derive between 10 and 19 percent of export revenues from one primary commodity. The fact that so many commodity-dependent countries are dependent on oil is important, because the behavior of oil prices has been very different from that of other primary commodity prices over the years. For this reason, empirical work relating to the Prebisch-Singer hypothesis almost always excludes oil.

With the exception of the oil exporters, most countries have experienced a decline in the export share of primary commodities since the middle of the 20th Century. The interpretation of this requires care, however, for if indeed the price of primary commodities relative to manufactures has trended downward over the same period, commodity export shares would tend to fall even without any changes in export volumes. Nonetheless, there is supporting evidence for the claim that commodity dependence has fallen in recent years. Monzano and Rigobon (2001) report that, between 1978 and 1996, per capita production of primary commodities by the most commodity-dependent countries fell faster than for the rest of the world in every commodity except for silver. Gutiérrez de Piñeres and Ferrantino (2000) construct a price-deflated index of export specialization (a measure of the concentration of export revenues in all goods, not just primary commodities), and show that the index has steadily fallen in Latin America since the early 1960s.⁵

An alternative approach measuring dependence is to examine the importance of primary commodities prices for the terms of trade (relative price exports to

⁵ A decline in export specialization need not correspond to a decline in commodity dependence, if a country diversifies into other primary commodities.

Table 1
Countries Deriving a Sizable Share of Export Earnings from a Commodity
(Based on annual average export shares, 1992-97)

Commodity	50 percent or more of export earnings	20-49 percent of export earnings	10-19 percent of export earnings
Aluminum		Tajikistan	Bahrain
Arabica coffee	Burundi, Ethiopia	Rwanda	Colombia, Guatemala, Honduras, Nicaragua, El Salvador
Bananas		St. Vincent, Honduras	St. Lucia, Costa Rica, Ecuador
Cocoa	Sao Tome and Principe	Cote d'Ivoire, Ghana	Cameroon
Copper	Zambia	Mongolia, Chile	Congo, Dem. Rep., Peru, Kazakhstan, Papua New Guinea
Copra & coconut oil	Kiribati		
Cotton		Benin, Chad, Mali, Sudan, Pakistan, Uzbekistan	Burkina Faso, Paraguay, Azerbaijan, Tajikistan, Turkmenistan
Crude petroleum	Bahrain, Saudi Arabia, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Yemen, Angola, Gabon, Nigeria, Congo Rep., Venezuela	Syria, United Arab Emirates, Cameroon, Equatorial Guinea, Ecuador, Trinidad Tobago, Azerbaijan, Papua New Guinea, Brunei Darussalam, Norway, Russia	Egypt, Algeria, Colombia, Mexico, Indonesia, Kazakhstan, Vietnam
Fishmeal			Peru
Gold		Ghana, South Africa, Papua New Guinea	Mali, Zimbabwe, Guyana, Uzbekistan
Iron Ore		Mauritania	
Natural gas	Turkmenistan	Algeria	
Rice			Guyana
Robusta coffee	Uganda		Cameroon
Sugar		Mauritius, Guyana, St. Kitts & Nevis	Swaziland, Belize
Tea			Kenya, Rwanda
Timber (Hardwood)		Equatorial Guinea, Lao PDR, Solomon Islands	Central African Rep., Swaziland, Gabon, Ghana, Cambodia, Papua New Guinea, Indonesia, Myanmar
Timber (Softwood)			Latvia, New Zealand
Tobacco	Malawi	Zimbabwe	

Source: Cashin, Liang, and McDermott (1999).

imports) of developing countries. Bleaney and Greenaway (1993), for example, estimate the relationship between the terms of trade and an index of primary commodity prices for non-oil developing countries from 1955-89. The results show that for every 1 percent increase in the relative price of primary commodities there is a 0.3 percent increase in the terms of trade of non-oil developing countries. These results are similar to those of Grilli and Yang (1988) and Powell (1991). In a similar vein, Bidarkota and Crucini (2000) find that at least 50 percent of the annual variation in national terms of trade of a typical developing country

can be accounted for by variation in the international prices of three or fewer primary commodity exports.

While it is clear that variation in primary commodity prices causes variation in the terms of trade in developing countries, perhaps the more relevant question is whether the alleged downward *trend* in commodity prices causes a similar trend in the terms of trade. This is considered indirectly by Hadass and Williamson (2001). They bypass the question of the relationship between the terms of trade and commodity prices altogether and simply reexamine evidence on the Prebisch-Singer hypothesis, using country-specific

terms-of-trade data, instead of commodity price data. They construct estimates of the terms of trade for 19 countries, developing and industrialized, and aggregate these into four regions: land-scarce Europe, land-scarce Third World, land-abundant New World (Australia, Canada and the United States) and land-abundant Third World. They find that the terms of trade improved for all regions except for the land-scarce Third World (which fell slightly) during the same period from 1870 to World War II (the period on which Prebisch and Singer had based their conclusions). This was due in part to rapidly declining transport costs.

In sum, most developing countries depend on primary commodities for at least 10 percent of their export revenues, though their dependence is declining, and the majority of the most commodity-dependent countries are oil exporters. The terms of trade of developing countries fluctuates along with commodity prices in the short run, though this has generally not produced a secular deterioration in their terms of trade over the long run.

Do Relative Commodity Prices Trend Downward?

This is one of the most debated questions in development economics. Visual inspection of an index of non-fuel commodity prices relative to manufactures would appear to support the Prebisch-Singer hypothesis of a downward trend.⁶ However, inferring a trend from these data is much more complicated than simply observing that the index is lower now than it was before. The notion of a trend implies an underlying tendency, which can be used to predict the value of the index in the future.

Uncovering a trend from a stochastic time series is like trying to infer the destination of vessel from its path through a violent storm. There are a number of possible hypotheses to consider. One possibility is that the pilot has a destination in mind and always tries to point the vessel in that direction. This would produce what is known as a "deterministic trend." Another possibility is that the pilot has no destination in mind and simply goes whichever way the wind blows. This is referred to as a "unit root process." If the wind has no prevailing direction, so that the vessel has as much chance of turning North as South at each point in time, the process is called a "random walk." If there is a prevailing direction to the wind, it is called a unit root with "drift." Still another possibility is that there might be "structural breaks." In the case of a deterministic trend, this would correspond to the pilot setting a new course at some point along the trip. In the case of a unit root, this would correspond to a change in the prevailing wind.

⁶ The index includes 24 non-fuel primary commodities: bananas, beef, cocoa, coffee, lamb, maize, palm oil, rice, sugar, tea, and wheat; cotton, hides, jute, rubber, timber,

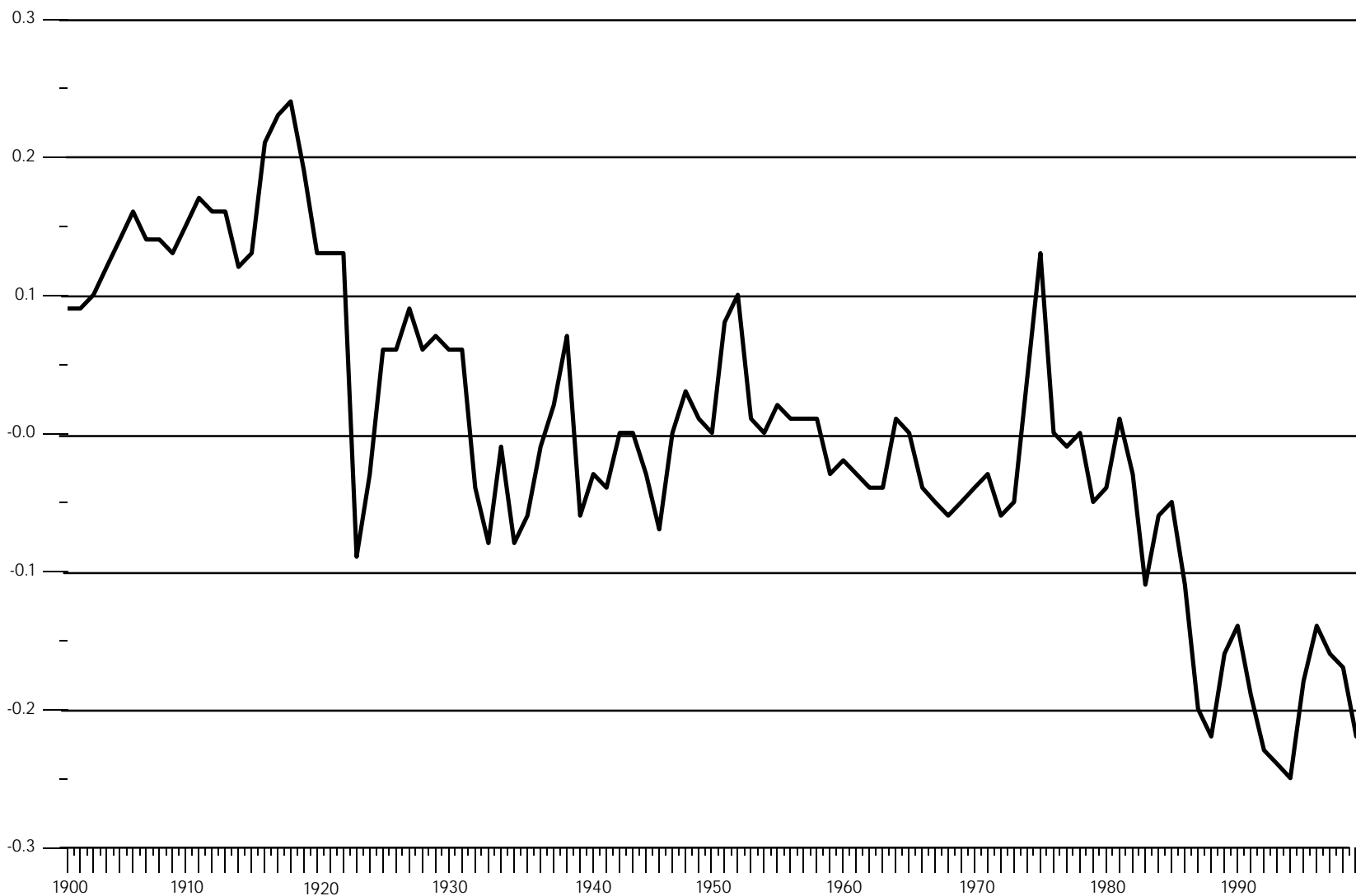
All of these hypotheses have been tested in the case of relative commodity prices. About the only point on which there is now a general consensus is that the hypothesis of a single deterministic trend can be rejected. Recent literature finds strong evidence of downward structural breaks, one in 1921 (Cuddington and Urzúa, 1989) and a smaller one in 1985 (Cuddington, Ludema, and Jayasuriya, 2001). Moreover, once these breaks are accounted for, one can detect neither a downward deterministic trend nor a downward drift in a unit root process in the periods between the breaks. That is, commodity prices tend to level off after the breaks.

So what caused these structural breaks? Empirical work on commodity price determinants has identified a number of factors (see, e.g., Borensztein and Reinhart, 1994, and Hua, 1998). Commodity prices are influenced positively by worldwide industrial output, as primary commodities are used as inputs to industrial production; negatively by the value of the U.S. dollar, as commodities prices are quoted in dollars, and thus an appreciation increases the price (and lowers demand) in non-U.S. markets; and negatively by interest rates, as commodity stocks become more costly to hold when interest rates are high. Commodity prices are also affected by supply shocks. In 1921, the sustained economic expansion associated with World War I came to an abrupt halt, as the U.S. Federal Reserve sharply increased interest rates, and the U.S. real exchange rate soared. This caused the largest ever fall in commodities prices. In the early 1980s, there was a severe recession, followed by an appreciation of the U.S. dollar and record interest rates lasting much of the decade. At the same time, the collapse of the Soviet Union, and along with it the collapse of industrial production in that region, sent a flood of primary commodities onto world markets from former Soviet states. The debt crisis of the mid-1980s is thought to have had a similar effect, as did 1997 Asian financial crisis. This sequence of events has held commodity prices down, since the mid-1980s.

One final issue is whether the relative price of primary commodities in terms of manufactures, as presented in figure 1, is even relevant to the living standards of commodity-dependent countries. If the relative price of primary commodities falls because of a rapid expansion of the relative supply of primary commodities, then on balance the commodity-producing nations are better off. Moreover, indices measuring the relative price of primary commodities in terms of manufactures do not properly account for the increasing quality of manufactures. This point was originally made by Viner (1953). The index in figure 1. measures how large a bundle of manufactured goods one can buy with a given bundle of primary commodities. A fall in this number may not be bad thing for a commodity exporter, if the quality of the bundle of manufactured

⁶—Continued
tobacco and wool; aluminum, copper, lead, silver, tin, and zinc.

Figure 1
Price index of primary commodities relative to manufactures, 1900-1998



Source: Data supplied by the IMF; index based on Grilli and Yang (1988).

goods imported improves substantially at the same time. The fact that the biggest manufactured exports of industrialized countries are goods like computers and cars, the quality of which has increased remarkably in recent years, gives this argument particular force.

In sum, while there have clearly been declines in commodity prices at certain times, there is little if any, evidence of a downward trend in commodity prices. Nor is it clear that this would depress living standards if there were. If commodity dependence is bad for developing countries, therefore, it is probably not for the reasons suggested by Prebisch and Singer.

Does Commodity Dependence Retard Growth?

Despite the paucity of evidence supporting the Prebisch-Singer hypothesis, there may still be a negative connection between commodity dependence and growth, but this too is a debated issue.

The standard empirical approach to this issue is to use a cross-country growth regression. A cross-country growth regression is an equation that relates economic growth, as the dependent variable, to various country characteristics (e.g., investment, human capital, rule of law, openness, past growth rates) as independent variables, for a large cross-section of countries. Sachs and Warner (1995, 2001) conduct such an exercise and include among the independent variables the level of commodity dependence, as measured by the ratio of commodity exports to GNP. They find that commodity dependence negatively affects growth—specifically, a 1 percent increase in commodity dependence is associated with a decrease in economic growth of 0.07 percent to 0.10 percent. They refer to this result as the “resource curse.” The reason for the curse, they speculate, is that production of tradable manufactures generates dynamic technological spillovers that other sectors do not.

Manzano and Rigoban (2001) challenge this result by showing that the curse disappears when the cross-country growth regression is estimated on panel data, which accounts for changes in the variables over time. Basically, the Sachs-Warner result says that countries with above average commodity dependence have below average growth, and vice versa. It does not say that a country that reduces its commodity dependence over time will increase its growth rate. This latter type of relationship is rejected by the data, according to Manzano and Rigoban.

Manzano and Rigoban also offer an alternative explanation for the Sachs-Warner cross-sectional result: resource rich countries, instead of being disadvantaged, were showered with credit in the late 1970s.

This was essentially an asset price bubble that burst when commodity prices declined a few years later. The resulting debt overhang then became a drag on growth, as countries found themselves unable to borrow. This hypothesis is supported by the fact that, when the debt to GDP ratio is included as an independent variable in Sachs-Warner's regression, the effect of commodity dependence on growth is no longer statistically significant.

In related work, Gutiérrez de Piñeres and Ferrantino (2000), using an approach similar to that of Manzano and Rigoban, show a negative relationship between economic growth and export specialization in Latin America. Export specialization is not quite the same as commodity dependence, however. A country may diversify its exports and yet remain predominantly a commodity exporter, as did Chile, for example. The implication of Gutiérrez de Piñeres and Ferrantino's result is that there may be gains to export diversification, though this need not involve a flight from primary commodities.

In sum, there is little evidence that commodity dependence *per se* reduces economic growth. At worst, commodity dependence is correlated with other factors that do negatively affect growth, such as export specialization and poor decision making (by both developing country governments and international lenders). These factors are not necessary consequences of commodity dependence.

Conclusions

Dependency theory fell out of fashion in the early 1970s, along with the import-substitution policies it helped to spawn. Most economists at that time recognized the paucity of evidence supporting the notion that specialization in primary commodities is damaging to economic development. Even economists who maintained the validity of the Prebisch-Singer hypothesis (like Prebisch and Singer themselves) balked at import-substitution policies, when it became clear that those policies had failed. In the end, the only remaining dependency theorists were those for whom empirical evidence was irrelevant. The anti-globalization movement appears to be following in these footsteps.

Dependence on primary commodities has long been on the decline for non-oil commodity exporters, and while commodity dependence does lead to fluctuating terms of trade, there is no long-run downward trend either in primary commodity prices or in developing country terms of trade. Nor is it clear that a downward trend would depress living standards if there were one. There is also no evidence of a direct connection between primary commodity dependence and economic growth. Instead, there seems to be a correlation between primary commodity dependence and bad economic policies.

There is a grain of truth to the claims of the anti-globalization movement. Countries that export primary commodities have not fared so well in recent years—their growth has been slower, and their external debts have been high. Moreover, these debts would probably not have been incurred had they not been resource-rich countries. However, none of this supports the claim that developing countries would gain by withdrawing from international trade. Rather, doing so would prob-

ably make matters worse, as trade restrictions are well known to be inefficient instruments of economic policy and there is considerable empirical evidence suggesting a positive link between trade and economic growth.⁷

⁷ See, e.g., Levine, R. and D. Renelt, (1992), "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review*, 82(4), 942-63.

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U.S. TRADE DEVELOPMENTS

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The U.S. Department of Commerce reported that seasonally adjusted total exports of goods and services of \$83.7 billion and imports of \$112.6 billion in July 2001 resulted in a goods and services trade deficit of \$28.8 billion; this was \$0.2 billion less than the \$29.1 billion in June 2001.² July 2001 exports of goods and services were \$83.7 billion, or \$2.2 billion less than June 2001 exports of \$85.9 billion. July imports of goods and services were \$112.6 billion or \$2.4 billion less than June imports of \$115.0 billion.

July 2001 merchandise exports decreased to \$58.8 billion from \$60.8 billion in June 2001. Merchandise imports decreased to \$94.2 billion from \$96.4 billion, causing the merchandise trade deficit to decrease in July by \$0.1 billion to \$35.4 billion from \$35.5 billion in June. For services, exports decreased to \$24.9 billion from \$25.1 billion, imports of services were \$18.3 billion down from \$18.6 billion resulting in a surplus of \$6.6 billion slightly higher than \$6.5 billion surplus in June.

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

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

² Data for this article was taken largely from U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Trade in Goods and Services," *Commerce News*, FT-900, August 2001, found at <http://www.census.gov/foreign-trade/www/press.html#current>, retrieved Sept.19, 2001, as well as <http://www.bea.doc.gov/bea/news-rel/>.

In July 2001, exports of advanced technology products were \$15.1 billion and imports of the same were \$16.5 billion, resulting in a deficit of \$1.4 billion, following a surplus of \$1.1 billion in June. The July 2001 trade data showed U.S. surpluses with Australia, Argentina, Brazil, Egypt, Hong Kong and Singapore. Deficits were recorded with Japan, China, Western Europe, Canada, Mexico, Korea, Taiwan, and OPEC member countries.

The export of goods and services during January-July 2001 increased to \$613.4 billion, up from \$612.6 billion during January-July 2000. However, imports of goods and services increased to \$826.0 billion, up from \$822.7 billion during the same period. As a consequence, the trade deficit increased to \$212.6 billion for the January-July 2001 period, up from \$210.1 billion during January-July 2000, an increase of \$2.5 billion.

The export of goods during January-July 2001 decreased to \$439.6 billion from \$441.8 billion during the same 2000 period, a decrease of \$2.2 billion, and imports of goods were \$695.2 billion, down from \$699.0 billion in January-July 2000. Consequently, the merchandise trade deficit declined to \$255.6 billion from \$257.2 billion. Regarding trade in services, exports in January-July 2001 increased to \$173.7 billion, up from \$170.8 billion in the same period of 2000, an increase of \$2.9 billion. Imports of services rose to \$130.8 billion up from \$123.8 billion, an increase of \$7.0 billion. The surplus on trade in services decreased to \$42.9 billion in January-July 2001 from \$47.0 billion in the same period in 2000.

The January-July 2001 exports of advanced technology products declined to \$123.8 billion from \$126.8 billion in January-June 2000. Imports declined to \$116.9 billion in January -July 2001 from \$119.7 billion in the same period of 2000. The trade surplus decreased to \$6.8 billion in January-July 2001 from \$7.1 billion in January-July 2000.

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

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

Item	Exports		Imports		Trade balance	
	July 2001	June 2001	July 2001	June 2001	July 2001	June 2001
Trade in goods (Current dollars) (see note)						
Including oil	58.8	60.8	94.2	96.4	-35.4	-35.6
Excluding oil	59.0	60.8	85.4	86.5	-26.4	-25.6
Trade in services (Current dollars)	24.9	25.0	18.3	18.6	6.6	6.5
Trade in goods and services (Current dollars)	83.7	85.9	112.6	115.0	-28.8	-29.1
Trade in goods (1996 dollars) (Census basis)	65.0	67.0	102.1	103.0	-37.2	-36.1
Advanced technology products (not seasonally adjusted) . .	15.1	17.7	16.5	16.6	-1.4	1.1

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

Source: Calculated from data from U.S. Department of Commerce, "Exhibit 1. U.S. International Trade in Goods and Services," "Exhibit 9. Petroleum and Non-Petroleum End-Use Category Totals," "Exhibit 10. Exports and Imports of Goods by Principal End-Use Category (Constant Dollars Basis), 1996 Constant Dollar Basis," "Exhibit 16. Exports, Imports and Balance of Advanced Technology Products," FT-900 (01-07), Sept. 19, 2001, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

Table 2

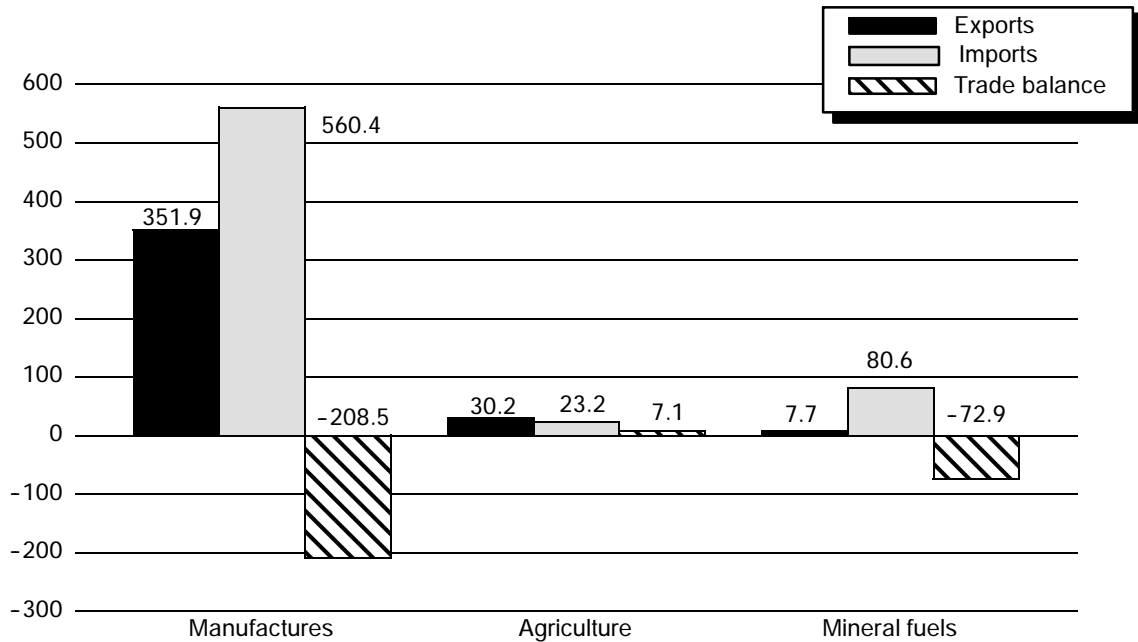
Nominal U.S. exports and trade balances, agriculture and specified manufacturing sectors, Jan. 2000-July 2001

	Exports		Imports		Exports		Imports		Trade balance	
	July 2001	Jan.-July 2001	Jan.-July 2001	Jan.-July 2000	Jan.-July 2000	Jan.-July 2000	Change in exports, Jan.-July 2001 over Jan.-July 2000	Share of total exports, Jan.-July 2001	Jan.-July 2001	Jan.-July 2000
	<i>Billion dollars</i>						<i>Percent</i>	<i>Billion dollars</i>		
ADP equipment & office machinery	2.9	24.3	45.3	25.7	50.8	-5.2	5.5	-21.0	-25.2	
Airplane parts	1.4	9.5	3.8	8.6	3.2	9.9	2.1	5.7	5.5	
Airplanes	1.6	16.4	8.6	14.9	6.2	10.5	3.7	7.9	8.6	
Chemicals - inorganic	0.5	3.6	3.8	3.0	3.4	18.7	0.8	-0.2	-0.4	
Chemicals - organic	1.3	10.0	17.9	10.3	15.7	-3.6	2.3	-8.0	-5.3	
Electrical machinery	5.3	45.2	51.8	49.7	59.9	-9.1	10.2	-6.7	-10.2	
General industrial machinery	2.5	19.6	20.4	19.1	20.7	2.3	4.4	-0.9	-1.6	
Iron & steel mill products	0.4	3.2	7.3	3.3	9.8	-1.6	0.7	-4.0	-6.5	
Power-generating machinery	2.4	19.6	21.3	18.9	19.8	3.6	4.4	-1.7	-0.9	
Scientific instruments	2.1	17.6	12.8	17.1	12.1	2.7	4.0	4.8	5.1	
Specialized industrial machinery	2.2	16.5	12.5	17.7	13.6	-7.2	3.7	4.0	4.2	
Televisions, VCRs, etc	1.9	14.7	35.2	15.6	36.9	-6.0	3.3	-20.5	-21.3	
Textile yarns, fabrics and articles	0.7	6.1	8.7	6.1	9.0	0.1	1.4	-2.6	-2.9	
Vehicles	3.0	31.2	90.9	34.1	92.9	-8.4	7.1	-59.6	-58.9	
Subtotal	28.3	237.3	340.2	244.1	353.9	-2.8	53.8	-102.9	-109.8	
Other manufactures exports not included above	15.2	114.6	220.2	113.3	216.5	1.2	26.0	-105.6	-103.2	
Manufactures	43.4	351.9	560.4	357.3	570.4	-1.5	79.7	-208.5	-213.1	
Agriculture	3.9	30.2	23.2	28.8	23.3	5.0	6.8	7.1	5.5	
Subtotal	47.4	382.2	583.6	386.1	593.7	-1.0	86.6	-201.5	-207.6	
Other exports, not included above	7.5	59.3	96.9	57.7	91.1	2.9	13.4	-37.5	-33.4	
Total	54.9	441.5	680.5	443.8	684.8	-0.5	100.0	-239.0	-241.0	

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

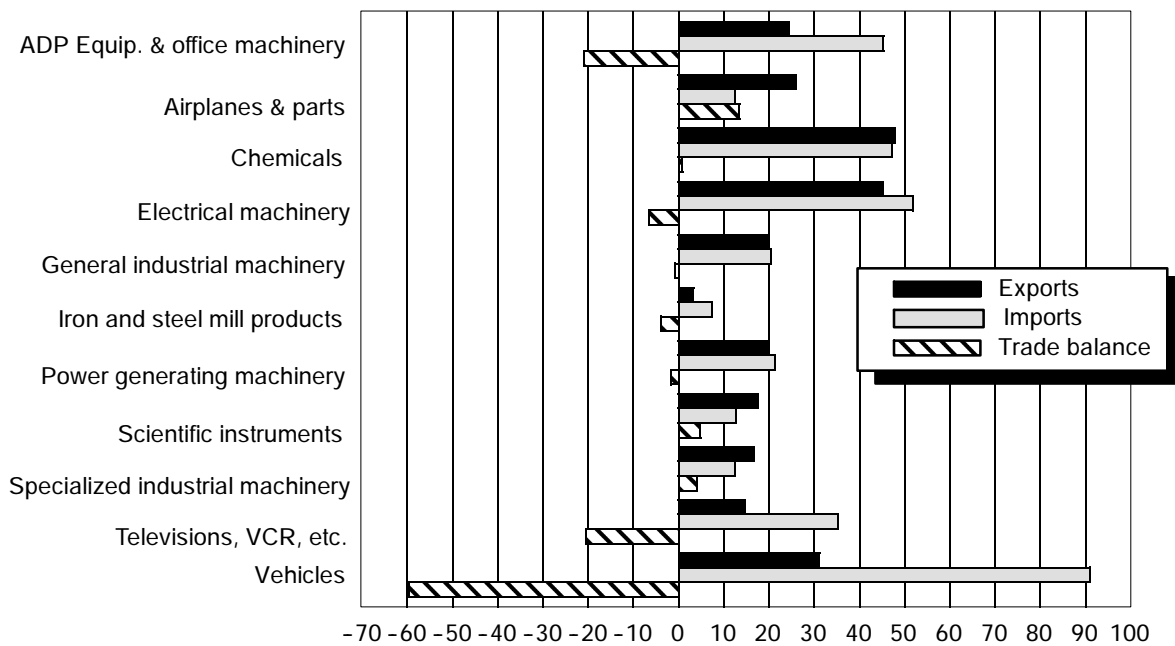
Source: Calculated from data from U.S. Department of Commerce, "Exhibit 15. Exports and Imports of Goods by Principal SITC Commodity Groupings," FT-900 (01-07), Sept. 19, 2001, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

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



Source: Calculated from data from U.S. Department of Commerce, "Exhibit 15. Exports and Imports of Goods by Principal SITC Commodity Groupings," FT-900 (01-07), Sept.19, 2001, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

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



Source: Calculated from data from U.S. Department of Commerce, "Exhibit 15. Exports and Imports of Goods by Principal SITC Commodity Groupings," FT-900 (01-07), Sept 19, 2001, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

Table 3

Nominal U.S. exports and trade balances of services, by sectors, Jan. 2000-July 2001, seasonally adjusted

Service sector	Exports			Imports		Trade balances	
	Jan.-July 2001	Jan.-July 2000	Change Jan.-July 2001 over Jan.-July 2000	Jan.-July 2001	Jan.-July 2000	Jan.-July 2001	Jan.-July 2000
	<i>Billion dollars</i>		<i>Percentage</i>	<i>Billion dollars</i>		<i>Billion dollars</i>	
Travel	48.4	48.2	0.3	37.7	37.9	10.7	10.3
Passenger fares	11.8	12.1	-2.3	14.6	14.0	-2.8	-1.9
Other transportation services	16.9	17.5	-3.2	23.4	23.2	-6.5	-5.8
Royalties and license fees	22.7	22.0	2.9	9.6	8.6	13.1	13.4
Other private sales	65.3	62.0	5.3	35.6	30.4	29.7	31.6
Transfers under U.S. military sales contracts	8.2	8.5	-3.8	8.2	7.8	-0.0	0.7
U.S. Government miscellaneous services	0.5	0.5	6.9	1.7	1.7	-1.2	-1.2
Total	173.7	170.8	6.1	130.8	123.7	42.9	47.0

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

Source: Compiled from U.S. Department of Commerce, "Exhibit 3. U.S. Services by Major Category — Exports," "Exhibit 4. U.S. Services by Major Category — Imports," FT-900 (01-07), Sept. 19, 2001, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

Table 4
U.S. exports and imports of goods with major trading partners, Jan. 2000-July 2001

(Billion dollars)

	Exports				Imports		Trade balances	
	July 2001	Jan.-July 2001	Jan.-July 2000	July 2001	Jan.-July 2001	Jan.-July 2000	Jan.-July 2001	Jan.-July 2000
Total	54.9	441.4	443.8	94.9	680.5	684.8	-239.0	-241.0
North America	19.5	158.8	167.2	27.1	209.3	208.6	-50.5	-41.4
Canada	11.7	99.1	104.5	16.5	132.2	132.2	-33.1	-27.7
Mexico	7.7	59.7	62.7	10.6	77.1	76.4	-17.4	-13.7
Western Europe	12.3	107.6	103.4	20.9	144.6	137.2	-37.1	-33.8
Euro Area	7.9	67.4	65.7	14.7	99.7	92.6	-32.4	-26.9
European Union (EU-15)	11.5	96.6	93.4	19.3	132.5	125.1	-36.0	-31.7
France	1.2	11.9	11.5	2.7	18.5	16.9	-6.6	-5.4
Germany	2.5	18.4	16.9	5.2	35.7	33.5	-17.3	-16.6
Italy	0.7	5.9	6.1	2.2	14.4	14.3	-8.5	-8.2
Netherlands	1.3	11.8	12.2	0.7	5.7	5.6	6.2	6.6
United Kingdom	3.1	25.3	23.4	3.5	25.2	24.9	0.1	-1.5
Other EU	0.8	6.9	6.8	2.2	13.9	11.5	-7.0	-4.7
EFTA ¹	0.6	8.4	7.1	1.2	9.6	9.6	-1.2	-2.5
Eastern Europe/FSR	0.5	4.1	3.2	1.1	8.7	9.0	-4.7	-5.8
Russia	0.3	1.6	1.2	0.5	4.1	4.3	-2.5	-3.1
Pacific Rim Countries	14.2	109.4	114.4	31.6	218.5	230.9	-109.1	-116.5
Australia	0.9	6.3	7.4	0.6	3.7	3.6	2.7	3.8
China	1.5	10.6	8.9	9.0	55.2	52.6	-44.6	-43.7
Japan	4.3	35.7	36.6	10.3	76.1	83.9	-40.4	-47.3
NICs ²	5.9	43.4	48.0	7.7	55.5	61.6	-12.1	-13.6
Latin America	5.0	35.2	33.1	5.7	41.2	41.7	-6.0	-8.7
Argentina	0.3	2.6	2.6	0.2	1.8	1.7	0.9	0.9
Brazil	1.4	9.6	8.2	1.2	8.3	8.0	1.3	0.2
OPEC	1.7	12.2	10.2	5.3	38.1	37.0	-25.9	-26.9
Other Countries	2.4	19.1	16.7	5.5	36.3	36.4	-17.3	-19.7
Egypt	0.4	2.0	2.0	0.1	0.6	0.5	1.4	1.5
South Africa	0.2	1.8	1.7	0.4	2.7	2.4	-0.9	-0.7
Other	1.8	15.3	13.1	5.0	33.0	33.5	-17.8	-20.4

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

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

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

Source: Calculated from data from U.S. Department of Commerce, "Exhibit 14. Exports, Imports and Balance of Goods by Selected Countries and Geographic Areas," FT-900 (01-07), Sept. 19, 2001, found at Internet address <http://www.census.gov/foreign-trade/www/press.html#current>.

INTERNATIONAL ECONOMIC COMPARISON

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

Economic Growth

U.S. real GDP—the output of goods and services produced in the United States measured in 1996 prices—grew at an annual rate of 0.3 percent in the second quarter following an increase of 1.3 percent in the first quarter of 2001, according to estimates by the U.S. Bureau of Economic Analysis (*BEA News Release*, BEA 01).² For the year 2000, real GDP grew by 4.1 percent.

The annualized rate of real GDP growth in the second quarter of 2001 was 2.1 percent in the United Kingdom, 2.1 percent in Canada, 2.0 percent in Italy, 0.6 percent in Germany, 2.3 percent in France, and -0.7 percent in Japan. The annualized rate of real GDP growth in the second quarter was 1.7 percent for EU members linked by the Euro currency, the Euro area (EU-11).

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

² Data for this article was taken largely from the following sources: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product," *BEA News Release*, release of Sept. 28, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/gdp201f.htm>; Federal Reserve Board, "Industrial Production and Capacity Utilization," G.17 Release, release of Oct. 16, 2001, 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*, release of Sept. 18, 2001, 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*, release of Oct. 5, 2001, found at Internet address <http://www.bls.gov/news.release/empsit.nr0.htm>; and the Conference Board, Consumer Research Center, "Forecasters' Forecasts," facsimile transmission, Aug./Sept. 2001, used with permission.

Industrial Production

The Federal Reserve Board (*Federal Reserve Statistical Release*, (G.17) 419) reported that U.S. industrial production fell 0.8 percent in August 2001, its eleventh consecutive monthly decline. Industrial production in August 2001 was nearly 5.0 percent below its level in August 2000. Production in the second quarter of 2001 was revised upward but still fell at an annual rate of 4.2 percent. Manufacturing output declined 1.0 percent in August. Utilities production rose 1.6 percent, but mining output decreased 0.4 percent. Total capacity utilization in August 2001 was 3.1 percent higher than in August 2000.

By market groups, the output of consumer goods fell 0.8 percent in August after a 0.4 percent increase in July. The output of durable consumer goods dropped 1.5 percent as sizable decreases in the output of automotive products and miscellaneous consumer goods more than offset a bounce back in the production of appliances and home electronics such as audiovisual equipment; the output of home computers contracted again. The production of nondurable consumer goods fell 0.6 percent. The production of business equipment, which fell 1.6 percent, was nearly 7 percent lower than it was in August 2000; decreases in transit equipment and in industrial and other equipment accounted for most of the past month's decline. The output of information processing equipment, which includes computers, also fell again; it has declined more than 4 percent since May and about 8 percent since the end of 2000. Other G-7 member countries reported the following growth rates of industrial production for the year that ended in July 2001: the United Kingdom reported a decrease of 3.2 percent; Japan, a decrease of 8.5 percent; Germany, a decrease of 1.5 percent; and Italy, an increase of 1.7 percent. For the year ended June 2001, France reported an increase of 2.3 percent, and Canada reported a decrease of 2.4 percent. The Euro area reported an increase of 1.4 percent for the year that ended in June 2001.

Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) increased by 2.7 percent in August 2001,

according to the U.S. Department of Labor (*Consumer Price Index*, USDL-01).

During the 1-year period that ended in August 2001, prices increased by 2.6 percent in Germany, 2.1 percent in the United Kingdom, 2.8 percent in Canada, 1.9 percent in France, and 2.8 percent in Italy. During the year that ended in June 2001, prices fell by 0.8 percent in Japan. Prices increased by 2.7 percent in the Euro area in the year that ended in August 2001.

Employment

The Bureau of Labor Statistics (*Employment Situation Summary*, USDL 01) reported that the U.S. unemployment rate rose to 4.9 percent in August from 4.5 percent in July. Job losses continued in manufacturing, whereas most other major industries showed little or no change. In other G-7 countries, the latest unemployment rates were reported to be: 7.2 percent in Canada, 9.3 percent in Germany, 5.0 percent in the United Kingdom, 8.9 percent in France, 9.5 percent in Italy, and 5.0 percent in Japan. The unemployment rate in the Euro area was 8.3 percent.

Forecasts

The Board of Governors of the Federal Reserve System expects economic growth to remain slow in the near term, though it is anticipated that growth will pick up later in the year.³ The central tendency forecast for increases in real U.S. GDP over the four quarters of 2001 span a range of 1.25 percent to 2.0 percent and the central tendency forecast for increases in real U.S. GDP growth in 2002 is 3.0 percent to 3.25 percent. The civilian unemployment rate which averaged 4.5 percent in the second quarter of 2001, is expected to move up

³ Federal Reserve Board, Monetary Policy and the Economic Outlook, *Federal Reserve Bulletin*, August 2001, found at Internet address <http://www.federalreserve.gov/boarddocs/hh/2001/July/ReportSection1.htm>.

to around 4.75 to 5.0 percent by the end of the year. With pressures in labor and product markets abating and with energy prices no longer soaring, inflation is expected to be well contained over the next 18 months, according to the Federal Reserve report.

The report added that, despite the projected increase in real GDP growth, the uncertainty about the near-term outlook remains considerable. This uncertainty arises not only from the difficulty of assessing when businesses will feel that conditions are sufficiently favorable to warrant increases in capital spending, but also from the difficulty of gauging where businesses stand in the inventory cycle. Nonetheless, the report foresees a return to solid growth by 2002. Inventory corrections are expected to be largely complete by then, and the monetary policy actions taken this year as well as the recently enacted tax rebate, should be providing appreciable support to final demand.

In addition, following the September 11 terrorist attacks forecasters lowered their projections. Seven major U.S. forecasters expect real GDP growth in the United States during the third quarter of 2001 to reach an average of about -0.6 percent at an annualized rate, and to decline further in the fourth quarter to a rate of -1.1 percent. The overall growth rate for the year 2001 is expected to average about 1.1 percent. Table 1 shows macroeconomic projections for the U.S. economy from January to December 2001, and the simple average of these forecasts. Forecasts of all the economic indicators, except unemployment, are presented as percentage changes from the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 4.9 percent in the third quarter, and rise to 5.5 percent in the fourth quarter. For the year 2001, the unemployment rate is projected to reach 4.8 percent. Inflation, as measured by the GDP deflator, is expected to remain subdued, reaching an average of about 2.3 percent during 2001.

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

	Conference Board	Macro-economic Advisers	DRI-WEFA	Eaton Corp.	Regional Financial Associates	Merrill Lynch Capital Markets	E.I. Dupont	Mean of forecasts
GDP, constant dollars								
2001								
Jan.-Mar.	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Apr.-June	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
July-Sept.	-0.2	-0.6	-0.2	-0.2	-0.3	-1.0	-2.0	-0.6
Oct.-Dec.	-1.4	0.1	-1.8	-1.0	-0.6	-1.0	-2.0	-1.1
Annual 2001	1.1	1.2	1.1	1.1	1.2	1.0	0.9	1.1
GDP price deflator								
2001								
Jan.-Mar.	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Apr.-June	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
July-Sept.	1.5	1.5	1.2	2.1	2.0	2.1	2.2	1.8
Oct.-Dec.	1.8	1.8	2.2	2.1	1.8	1.9	1.5	1.9
Annual 2001	2.2	2.3	2.3	2.4	2.3	2.3	2.3	2.3
Unemployment, average rate								
2001								
Jan.-Mar.	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Apr.-June	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
July-Sept.	4.9	4.8	4.9	5.0	4.8	4.8	4.9	4.9
Oct.-Dec.	5.5	5.1	5.4	6.0	5.3	5.5	5.6	5.5
Annual 2001	4.8	4.6	4.8	4.9	4.7	4.8	4.8	4.8

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

Source: Calculated from data from the Conference Board. Used with permission. Forecast date, Aug.-Sept. 2001.

STATISTICAL TABLES

Unemployment rates (civilian labor force basis)¹ in G-7 countries, by specified periods, 1998-July 2001

(Percentage rates)

Country	1998	1999				2000				2001				
		Q:I	Q:II	Q:III	Q:IV	Q:I	Q:II	Q:III	Q:IV	Q:I	Apr.	May	June	July
United States	4.5	4.3	4.3	4.2	4.1	4.1	4.0	4.0	4.0	4.2	4.5	4.4	4.5	4.5
Japan	4.1	4.7	4.8	4.8	4.7	4.8	4.7	4.7	4.8	4.8	4.8	4.9	5.0	5.1
Canada	7.5	7.1	7.1	6.8	6.2	6.0	5.8	5.8	5.7	5.8	5.8	5.9	5.9	6.0
Germany	9.3	8.8	8.8	8.8	8.7	8.4	8.3	8.2	8.1	8.1	8.1	8.2	8.2	8.2
United Kingdom . .	6.3	6.2	6.1	5.9	5.9	5.8	5.5	5.4	5.3	5.2	4.9	5.0		
France	11.8	11.4	11.3	11.2	10.8	10.2	9.7	9.6	9.2	8.9	8.8			
Italy	12.0	11.8	11.7	11.5	11.3	11.2	10.9	10.5	10.1	9.9	9.7			

¹ Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Unemployment Rates in Nine Countries, Civilian Labor Force Basis, Approximating U.S. Concepts, Seasonally Adjusted, 1990-2001," Sept. 7, 2001, found at Internet address <ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flsjec.txt>.

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

(Percentage change from same period of previous year)

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

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Prices in Nine Countries, Percent Change from Same Period of Previous Year, 1990-2001," Sept. 7, 2001, found at Internet address <ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flscpim.txt>.

U.S. trade balances by major commodity categories and by specified periods, July 2000-July 2001¹

(Billion dollars)

Commodity categories	2000												2001
	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
Agriculture	0.845	1.095	1.152	1.690	1.406	1.381	0.961	1.452	1.422	0.897	0.790	0.848	0.692
Petroleum and selected products (unadjusted)	-10.969	-10.544	-10.662	-10.959	-10.123	-12.303	-12.099	-9.738	-9.844	-10.605	-10.900	-9.957	-9.718
Manufactured goods	-36.366	-35.771	-36.196	-38.931	-34.785	-27.186	-32.696	-25.220	-30.321	-29.452	-27.396	-28.402	-35.026
Unit price (dollars) of U.S. imports of petroleum and selected products (unadjusted)	27.73	26.59	29.03	28.57	28.34	26.40	23.13	23.76	22.76	21.65	22.62	23.09	22.34

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

Source: Calculated from data from U.S. Department of Commerce, "Exhibit 15. Exports and Imports of Goods by Principal SITC Commodity Groupings," FT-900 (01-07), Sept. 19, 2001, found at Internet address <http://www.bea.doc.gov/bea/newsrel/trad0701.htm>.

