JETRO WHITE PAPER ON INTERNATIONAL TRADE 2001

World Trade Expands Broadly And China Rises to Prominence

(Summary)

JETRO

JAPAN EXTERNAL TRADE ORGANIZATION

CONTENTS

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PART I. OVERVIEW OF WORLD TRADE

1. Current State of World Trade

A. World Trade Exceeds US$6 Trillion in 2000

(1) World trade in merchandise measured in terms of nominal exports broke the US$6 trillion mark for the first time in 2000, surging 12.3% over the previous year to US$6.27 trillion (Tables 1, 2). [Figures for 2000 are from JETRO estimates[1] and for other years are from International Monetary Fund (IMF) statistics. The same applies hereafter.] This compares with an increase of 3.2% in 1999 and a decline of 1.6% in 1998. Real growth in world trade accelerated from 5.6% in 1999 to 12.7% in 2000. World trade prices fell for the fifth consecutive year, though the scale of the decline was just 0.3%, down from 1.5% in the previous year.

Growth in world trade was driven by economic expansion fueled by investment in information technology, particularly in the United States. World gross domestic product (GDP) in real terms grew 4.8% in 2000, up from 3.5% in 1999, according to IMF statistics announced in April 2001.

(2) Although world trade in 2000 reached a record-high real-growth rate for the year, year-on-year growth began to slow in the fourth quarter. Looking at the combined real trade figures of the 15 leading economies* that accounted for over 60% of world trade, both imports and exports registered double-digit growth in the first three quarters of 2000 before slowing to single-digit figures in the last quarter. According to statistics on the 11 leading economies** for which data are available, growth in real trade slowed dramatically in the first quarter of 2001, when exports grew 2.5% and imports grew 2.0% (Tables 3-1, 3-2). The slowdown was prompted from the beginning of 2001 by reduced IT trade[2], which had been the engine of growth.

* Canada, China, France, Germany, Indonesia, Italy, Japan, Malaysia, Mexico, Philippines, Republic of Korea (R.O.K.), Singapore, Taiwan, U.K. and U.S.

** Canada, China, France, Germany, Japan, Mexico, R.O.K., Singapore, Taiwan, U.K. and U.S.

1 The value of world trade in 2000 was calculated from national statistics of 36 economies and IMF statistics. (See Note 1. Calculation of World Trade Statistics on page 30.) The growth rate of world trade was calculated by comparison with the value in 1999, which was calculated by the same method. The value of world imports estimated by the same method increased 12.7% in 2000 to US$6.52 trillion. Exports are valued on an FOB basis and imports on a CIF basis.

2 IT trade consists of trade in the following eight categories of products: computers and peripherals, office equipment, communications equipment, semiconductors and other electronic parts, miscellaneous electronic components, video equipment, audio equipment, and measuring and testing equipment. (See Note 2 on p. 30.)

(1) World Trade Reaches US$6.27 Trillion in 2000

World trade in merchandise measured in terms of exports reached the US$3 trillion level (US$3.02 trillion) in 1989, US$4 trillion level (US$4.28 trillion) in 1994, US$5 trillion level (US$5.12 trillion) in 1995, and US$6 trillion level (US$6.27) in 2000. One of the main reasons for the trillion-dollar increase in world trade in 1995 was the surge in U.S.-dollar trade prices, which rose 9.4% on the previous year. Trade prices went into decline between 1996 and 2000, but trade grew in real terms over the same period.

The 12.3% nominal growth in 2000 was the first double-digit rise in world trade since 19.6% in 1995, while the 12.7% expansion in real growth was the first double-digit increase since 10.4% in 1997.

(2) Decline in Trade Prices Eases

A slower rate of decline in trade prices occurred due to increased prices of oil and nonfuel primary commodities. According to figures announced by the IMF in April 2001, world trade prices in terms of U.S. dollars shrank 0.3% in 2000. While prices of industrial products decreased 6.2%, oil prices surged 56.9% and nonfuel primary commodity prices rose 1.8%—the first increase since 1995 (Table 2).

(3) World Trade Slows from the Fourth Quarter of 2000

Looking at quarterly real trade by the 15 leading economies that accounted for over 60% of world trade, exports registered double-digit year-on-year growth in the first (14.0%), second (12.5%) and third (11.2%) quarters before slowing to 7.7% in the fourth quarter (Table 3-1). Imports grew by 14.0%, 13.4% and 13.4% in the first three quarters of the year, respectively, before slowing to 9.7% in the last quarter (Table 3-2).

The slowdown in real trade became more pronounced in the beginning of 2001. Exports decreased by 4.6% in Japan and 7.5% in Taiwan, while increasing by 4.5% in the U.S., 13.9% in the R.O.K. and 5.4% in Singapore. Imports increased by 4.1% in the U.S., 5.9% in Japan, 2.2% in the R.O.K. and 4.0% in Singapore, while decreasing 6.0% in Taiwan. China, by contrast, posted strong trade growth as exports rose 13.8% and imports grew 16.5%.

(4) IT Trade Slows Dramatically in 2001

The value of IT trade by the 15 leading economies, which accounted for some 80% of world IT trade, grew robustly by 22.7%, 26.2% and 26.2% year on year in the first three quarters of 2000, respectively. Despite slowing to 16.0% in the fourth quarter, growth remained well in excess of the 5.7% growth in total world exports.

IT trade during the first five months of 2001, however, dropped dramatically in the U.S., Japan, R.O.K., Taiwan and Singapore. IT imports in the U.S. fell 4.9% after growing 23.7% over the same period in 2000. Rapid slowdowns in IT exports from the R.O.K., Taiwan and Singapore became pronounced. IT exports from the R.O.K. (which had accounted for 14% of East Asian IT exports in 2000) slumped 13.6% year on year, Taiwanese exports (16% of region's IT exports in 2000) fell 9.5%, and Singaporean exports (19% of region's IT exports in 2000) decreased by 0.7%. Japanese IT exports fell sharply by 11.6%. Growth in IT imports entering Japan slowed dramatically from 32.1% in the fourth quarter of 2000 to 8.1% in the first five months of 2001, but this was still relatively healthy compared with the downturn in Japan's IT export growth.

China's IT exports, on the other hand, registered strong growth of 25.2% in the first five months. Exports of computers and peripherals to the U.S. and electronic components to Japan were firm. IT imports grew strongly by 25.0%, led by semiconductors and other electronic parts from Japan and Malaysia.

Table 1 World Trade in 2000

(Units: US$ million, %)

	Exports			Imports		
	Value	YOY[1] change	Share	Value	YOY[1] change	Share
U.S.	781,918	12.4	12.5	1,218,022	18.9	18.7
Japan	480,701	15.2	7.7	381,100	23.0	5.8
Canada	277,046	15.9	4.4	266,589	11.3	4.1
EU	2,255,830	2.1	36.0	2,262,451	5.0	34.7
Germany	548,903	1.1	8.8	499,423	5.5	7.7
France	296,461	–0.9	4.7	305,958	4.5	4.7
U.K.	290,397	6.7	4.6	345,921	6.7	5.3
Italy	236,497	2.8	3.8	235,166	8.6	3.6
East Asia	1,177,428	20.6	18.8	1,083,759	26.2	16.6
China	249,240	27.7	4.0	225,095	35.8	3.5
Asian NIEs	660,579	19.2	10.5	649,276	24.3	10.0
R.O.K.	172,268	19.9	2.7	160,481	34.0	2.5
Taiwan	147,583	21.7	2.4	139,769	26.2	2.1
Hong Kong SAR[2]	202,778	16.2	3.2	214,353	18.5	3.3
Singapore	137,950	20.3	2.2	134,672	21.3	2.1
ASEAN4	267,610	18.0	4.3	209,388	22.7	3.2
Malaysia	98,158	16.1	1.6	82,155	25.4	1.3
Indonesia	62,124	27.7	1.0	33,666	40.3	0.5
Thailand	69,249	18.3	1.1	62,180	23.3	1.0
Philippines	38,079	8.7	0.6	31,387	2.1	0.5
Other Asia	84,110	16.5	1.3	101,277	14.3	1.6
Vietnam	12,738	22.0	0.2	15,878	20.0	0.2
Cambodia	1,995	50.8	0.0	2,002	61.3	0.0
Myanmar	1,842	34.8	0.0	2,433	9.9	0.0
Laos	310	10.6	0.0	657	4.4	0.0
Brunei	3,093	21.2	0.0	1,427	7.5	0.0
Bangladesh	5,658	25.2	0.1	9,082	8.7	0.1
India	43,948	13.4	0.7	50,434	12.9	0.8
Sri Lanka	5,370	18.8	0.1	8,314	24.9	0.1
Pakistan	9,156	8.5	0.1	11,049	7.3	0.2
Central and Eastern Europe	269,318	22.9	4.3	283,175	14.2	4.3
Russia	87,749	45.7	1.4	29,757	10.8	0.5
Latin America	364,380	22.2	5.8	390,366	11.3	6.0
Mexico	166,424	21.7	2.7	193,859	22.8	3.0
Brazil	55,086	14.7	0.9	61,981	13.4	1.0
Chile	18,215	16.6	0.3	15,385	20.0	0.2
Colombia	13,132	13.5	0.2	11,510	8.3	0.2
Middle East	229,215	45.0	3.7	195,604	10.0	3.0
Israel	30,192	17.1	0.5	38,031	22.3	0.6
Turkey	27,474	3.3	0.4	53,723	33.6	0.8
Africa	138,484	31.8	2.2	132,697	4.4	2.0
South Africa	30,058	11.7	0.5	29,906	11.8	0.5
World total[3]	6,273,114	12.3	100.0	6,518,899	12.7	100.0

Notes: 1. YOY stands for year on year.
2. Hong Kong Special Administrative Region, abbreviated hereinafter as Hong Kong.
3. See Note 1, p. 30, for calculation of world total.

Sources: Prepared by JETRO from national statistics and *Direction of Trade Statistics* (IMF).

Table 2 World Trade and Related Indices

	1995	1996	1997	1998	1999	2000
Value (exports, US$ billion)	5,120	5,336	5,523	5,434	5,610	6,273
YOY % change	19.6	4.2	3.5	–1.6	3.2	12.3
Real growth (%)	10.0	6.2	10.4	4.6	5.6	12.7
Trade prices (US$, YOY % change)	9.4	–0.9	–5.5	–6.1	–1.5	–0.3
Manufactures	10.0	–2.7	–7.3	–1.7	–2	–6.2
Oil	7.9	18.4	–5.4	–32.1	37.5	56.9
Nonfuel primary commodities	8.4	–1.2	–3.2	–14.7	–7.1	1.8
Exchange rates						
¥/US$	94.1	108.8	121.0	130.9	113.9	107.8
US$/Euro	–	–	–	–	1.065	0.921
Real effective exchange rate of U.S. dollar	84.9	86.9	91.5	99.5	98.8	102.5
YOY % change	–2.6	2.3	5.3	8.7	–0.7	3.7

Notes: 1. 2000 figures for value and its year-on-year change, and real growth, are JETRO estimates.
2. The real effective exchange rate of the U.S. dollar is an index. It is calculated by taking the nominal average exchange rates between the dollar and the U.S.'s 26 main trading partners, adjusting them according to the price indices in the U.S. and each country, then weighting them by the value of trade between the U.S. and each country, and finally converting the result into a single index.
3. See Note 1, p. 30, for "Value (exports)" in 2000.

Sources: *World Economic Outlook* (May 2001, IMF) and *International Financial Statistics* (June 2001, IMF).

Table 3-1 Real Export Growth Rates of Leading Economies (Year-on-Year Change)

(Unit: %)

	1998				1999				2000				2001
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
NAFTA	6.5	0.4	–0.6	2.9	1.0	3.6	7.2	5.5	10.7	11.1	11.5	6.8	3.1
U.S.	7.2	–0.4	–1.0	2.9	–1.0	2.6	6.4	4.6	11.0	11.7	13.2	7.9	4.5
East Asia	11.3	5.8	1.6	–0.5	0.1	3.4	9.9	14.9	23.4	20.1	20.5	11.4	8.4
R.O.K.	26.8	16.6	6.0	3.9	3.9	10.5	14.7	13.7	25.4	17.0	23.2	15.1	13.9
Taiwan	5.7	7.7	3.8	–7.3	4.1	3.4	0.8	12.3	7.5	14.5	14.8	3.3	–7.5
Singapore	8.2	1.1	–0.8	–3.6	–3.1	4.6	4.3	15.3	15.2	12.1	20.8	14.9	5.4
China	13.3	3.4	–0.5	–6.2	–6.0	0.4	16.4	17.2	38.6	37.2	24.7	14.9	13.8
EU	10.6	5.8	1.8	–0.4	–1.9	–0.3	3.8	5.6	11.5	9.5	7.0	7.8	1.5
Japan	4.6	–0.4	–2.0	–5.9	–3.0	–1.4	4.5	8.7	13.9	13.2	7.3	3.0	–4.6
Total (15 economies)	8.9	3.6	0.7	–0.3	–0.9	1.3	6.0	7.9	14.0	12.5	11.2	7.7	2.5

Notes: 1. Real exports are nominal exports adjusted by the export price index, or the consumer price index where there is no export price index available.
2. "East Asia" comprises China, Indonesia, Malaysia, Philippines, R.O.K., Singapore and Taiwan, but excludes Indonesia, Malaysia and Philippines for Q1 2001.
3. "EU" comprises France, Germany, Italy and U.K., but excludes Italy for Q1 2001.

Source: Prepared by JETRO from national statistics.

Table 3-2 Real Import Growth Rates of 15 Leading Economies (Year-on-Year Change)

(Unit: %)

	1998				1999				2000				2001
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
NAFTA	13.2	10.1	7.3	8.1	9.4	10.8	13.0	11.0	15.9	15.0	15.2	11.6	2.1
U.S.	14.7	11.8	9.5	11.5	10.0	10.4	12.5	11.1	13.2	12.9	11.5	9.0	4.1
East Asia	–8.8	–14.5	–16.5	–13.6	2.6	13.6	18.2	16.5	22.4	19.5	23.1	13.2	5.7
R.O.K.	–21.6	–21.4	–22.1	–12.1	25.2	29.3	32.7	27.2	23.5	17.5	20.1	7.6	2.2
Taiwan	9.0	8.0	–0.2	–0.7	0.0	2.3	7.9	4.7	7.6	14.9	13.0	6.0	–6.0
Singapore	–0.7	–13.2	–15.8	–16.7	–6.9	9.8	13.5	19.3	14.6	12.2	13.6	12.9	4.0
China	2.5	3.3	–1.3	–4.3	13.5	23.1	25.6	16.4	40.8	32.3	42.7	28.0	16.5
EU	13.1	8.0	10.7	7.2	2.7	3.1	2.4	5.2	9.9	9.8	8.4	6.7	–0.8
Japan	–3.4	–6.4	–6.7	–4.1	4.2	8.6	9.9	16.1	10.8	12.4	10.1	9.3	5.9
Total (15 economies)	6.9	2.8	2.6	2.5	4.9	7.8	9.1	9.9	14.0	13.4	13.4	9.7	2.0

Note: All notes are the same as those for Table 3-1, except substitute "import(s)" for "export(s)."

Source: Prepared by JETRO from national statistics.

B. Background of World Trade Growth in 2000

The primary factor behind increased world trade in 2000 was trade growth in East Asia (Asian NIEs*, ASEAN4** and China), where imports and exports each exceeded US$1 trillion for the first time. The second major factor was the strength of U.S. imports, which began growing strongly in 1999. The main areas of growth were (1) IT trade, principally computers, semiconductors and other electronic parts, and (2) a huge 63.7% increase in the value of mineral-fuel exports due to soaring prices of crude oil.

* Hong Kong, R.O.K., Singapore and Taiwan.
** Indonesia, Malaysia, Philippines and Thailand.

(1) East Asian Trade Breaks Trillion-Dollar Mark

East Asian exports and imports both exceeded US$1 trillion for the first time ever in 2000. Exports rose 20.6% to US$1.18 trillion and imports increased 26.2% to US$1.08 trillion. Consequently, East Asia's contribution to the expansion of world trade grew considerably to account for 3.6 percentage points, or 29.2%, of the 12.3% increase in world exports. The region also contributed 3.9 percentage points, or 30.5%, of the 12.7% increase in world imports. East Asia's contribution to world growth in imports surpassed the U.S. contribution of 3.3%, or 26.2% of the total increase (Charts 1-1, 1-2). The growth in East Asian trade was driven largely by IT, which accounted for 37% of all East Asian exports, up 28.4% from the previous year, and 32% of the region's imports, a surge of 33.0%.

(2) Strong Growth in Imports Pushes U.S. Trade Deficit to Record US$436.1 billion

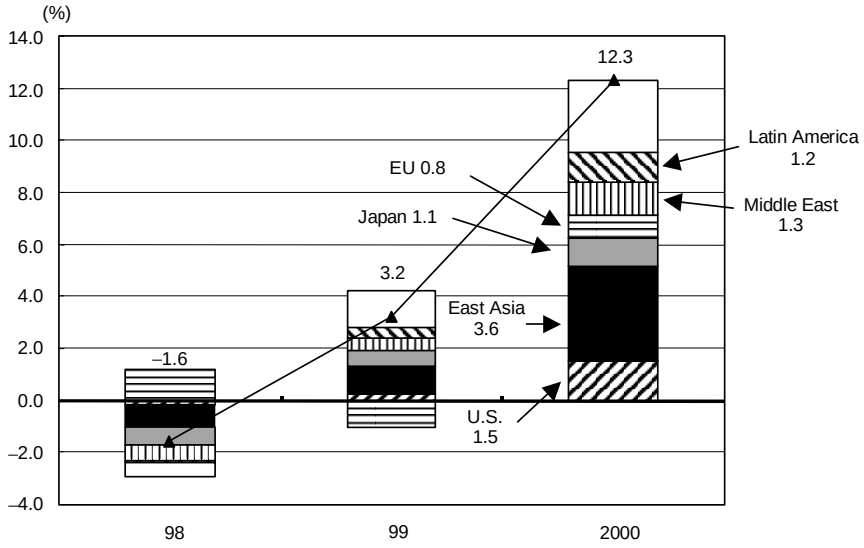
U.S. imports grew strongly in 2000, as in 1999, up 18.9% to US$1.22 trillion. The high rate of growth was supported by the country's booming economy. Imports from other North American Free Trade Agreement (NAFTA) countries were up 18.9% to US$366.8 billion and imports from East Asia rose 18.4% to US$277.7 billion. U.S. exports, fueled by strong economic growth worldwide, grew 12.4% to US$781.9 billion, but the U.S. trade deficit still widened for a ninth consecutive year to US$436.1 billion. The U.S. trade deficit with China grew from US$68.7 billion in 1999 to US$83.8 billion in 2000, placing China ahead of Japan (US$81.6 billion surplus) as the country with the biggest trade surplus with the United States.

(3) IT Trade Remains Engine of Growth in World Trade

According to JETRO estimates of world trade in 2000, IT trade rose 19.7% to US$1.17 trillion and trade in mineral fuels ballooned 63.7% to US$551.1 billion due to soaring prices of crude oil. These two categories provided the major engine of growth in world trade in 2000—IT products accounted for 28.0% while mineral fuels accounted for 31.1% (Table 4).

Looking at specific categories of IT trade, computers and peripherals rose 11.6% to US$346.8 billion, semiconductors and other electronic parts were up 26.8% to US$305.3 billion, and miscellaneous electronic components, such as condensers, resistors and printed circuits, increased 20.5% to US$199.6 billion.

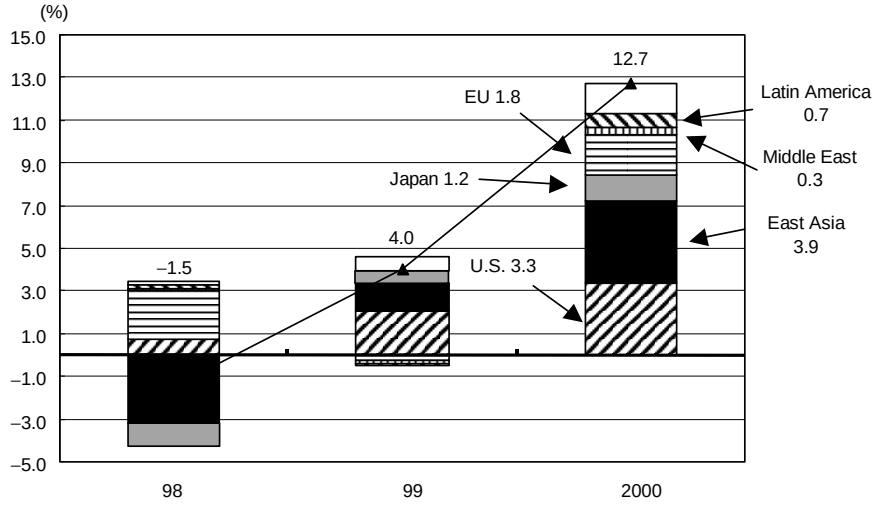
Chart 1-1 Contributions to Growth in World Exports
(Year-on-Year Change)



Notes: 1. "East Asia" comprises nine economies (4 Asian NIEs, ASEAN4 and China).
2. The growth rate of world trade in 2000 was calculated by comparing the values of growth in 2000 and 1999, both of which were calculated according to the explanation given in Note 1, p. 30.

Sources: Prepared by JETRO from national statistics and *Direction of Trade Statistics* (IMF).

Chart 1-2 Contributions to Growth in World Imports
(Year-on-Year Change)



Note: Same as Chart 1-1.

Sources: Prepared by JETRO from national statistics and *Direction of Trade Statistics* (IMF).

Table 4 World Trade (Exports) by Type of Product

	Value (US$ million)		Year-on-year change (%)		Contribution (%)	
	1999	2000	1999	2000	1999	2000
Total value	5,609,780	6,273,114	3.2	12.3	100.0	100.0
Mineral fuels	336,631	551,100	23.1	63.7	35.9	31.1
Chemicals	654,420	704,134	6.0	7.6	21.1	7.2
Synthetic fibers and textiles	52,360	55,162	–4.4	5.4	–1.4	0.4
Clothing	181,320	191,055	1.8	5.4	1.8	1.4
Iron and steel	184,066	201,735	–7.4	9.6	–8.3	2.6
Machinery	2,575,610	2,864,668	6.2	11.2	85.9	42.0
General machinery	853,298	928,089	3.3	8.8	15.5	10.9
Electrical equipment	806,717	981,145	11.6	21.6	47.7	25.3
Transport equipment	722,655	739,618	4.1	2.3	16.0	2.5
Automobiles	351,156	360,454	7.3	2.6	13.7	1.3
Automotive parts	131,474	139,298	6.5	6.0	4.6	1.1
Precision equipment	192,951	215,824	6.5	11.9	6.7	3.3
IT-related equipment	979,407	1,172,495	11.8	19.7	58.9	28.0
Computers and peripherals	310,879	346,842	9.5	11.6	15.4	5.2
Office equipment	17,816	18,287	0.2	2.6	0.0	0.1
Communications equipment	115,341	151,793	18.3	31.6	10.2	5.3
Semiconductors and other electronic parts	240,719	305,269	19.3	26.8	22.1	9.4
Miscellaneous electronic components	165,626	199,562	8.3	20.5	7.2	4.9
Video equipment	47,932	57,078	4.5	19.1	1.2	1.3
Audio equipment	7,634	7,945	2.2	4.1	0.1	0.0
Measuring and testing equipment	73,460	85,720	6.7	16.7	2.6	1.8

Notes: 1. See Note 1, p. 30, for calculation of total value in 2000.
2. Values for individual products are based solely on (1) and (2) in Note 1, p. 30.
3. See Note 2: Definitions of IT Products, p. 30, for explanations of individual IT equipment.

Sources: Prepared by JETRO from national statistics and *Direction of Trade Statistics* (June 2001, IMF).

C. WTO New Round and Free Trade Agreements

The "Quad" members—Canada, EU, Japan and U.S.—worked to build a consensus for holding a new round of World Trade Organization (WTO) negotiations at the Fourth Ministerial Conference of the WTO in Doha, Qatar in November 2001. WTO members attempted to give developing countries greater confidence in the WTO process by addressing their concerns about issues such as the terms of implementing agreements. There was a divergence of views among member countries regarding the negotiation agenda, such as whether to include investment rules, e-commerce and the environment. There were also concerns regarding the abuse of antidumping measures and a rapid increase in the invocation of safeguard measures. The likelihood increased that China's accession to the WTO would be approved at the ministerial meeting. Free trade agreements (FTAs), which proliferated rapidly toward the end of the 1990s, continued to become more comprehensive. Also, geographically distant economies such as the EU and Mexico began to form agreements.

(1) Developed countries took steps to strengthen relations with developing countries regarding the WTO. This included 1) easing the terms of implementing WTO agreements, such as the requirements of the Agreement on Trade-Related Investment Measures (TRIM), 2) helping to strengthen developing countries' capacity to implement WTO agreements and access markets ("capacity building"), 3) providing support for the 49 least-developed countries (LDCs) and 4) improving the transparency of WTO decision-making. Japan helped to support the LDCs by announcing in November 2000 a strategic plan under the Asia-Pacific Economic Cooperation (APEC) framework to provide capacity-building support. In April 2001, Japan expanded the range of products to which it applies preferential treatment, making 99% of Japan's imports from LDCs tariff- and quota-free.

(2) Regarding the agenda for the new WTO negotiations, Japan and the EU advocated covering a wide range of fields, while the U.S. pushed to focus on agriculture and services. At the Organization for Economic Cooperation and Development (OECD) ministerial meeting in May 2001, a consensus was reached by the developed countries to engage in balanced and broad negotiations. At the quadrilateral trade ministers meeting held at the same time, the participants confirmed their commitment to enhance quadrilateral cooperation in preparation for the new round of talks. At the APEC trade ministers meeting in June 2001, agreement was also reached on beginning a new round in November and pursuing a balanced and sufficiently broad agenda.

As a result of economic globalization and progress in the IT field, investment rules and e-commerce have become important new issues. Trade and the environment are also receiving greater attention than before. To counter the growing misuse of antidumping measures by some countries, Japan and developing countries advocate a stronger rules-based system, but the U.S. is opposed to negotiations on this issue. Regarding the inclusion of trade and labor issues in the agenda of the WTO's new round, the statement released by the APEC trade ministers meeting chair read: "The focus of the new round should be trade-related issues, including existing WTO rules, and not duplicate the work of other international organizations." It is still unclear if the Bush administration will follow the lead of the Clinton administration in seeking to include trade and labor issues in the new round.

(3) The use of antidumping measures has surged in recent years. Formerly the preserve of developed countries, antidumping measures are now being used increasingly by developing countries as well. The most targeted country is now China, though developed countries such as the U.S. and Germany have also become common targets, showing that the traditional patterns have changed. To prevent the excessive use of antidumping measures, related rules must be strengthened by making agreements more clear and less arbitrary.

(4) The use of safeguard measures, including by developing countries such as India, has also increased in recent years. The invocation of safeguards releases a country from its WTO obligations for a certain period, during which time the country is obligated to make structural adjustments in the safeguarded industry. Japan took provisional safeguard measures for three categories of products—leeks, shiitake mushrooms and tatami flooring mats made of rushes—in April 2001, but China retaliated by imposing special tariffs on Japanese automobiles, air conditioners and cellular phones. Trade friction thus emerged as a problem between the two countries.

(5) It became highly likely that China's accession to the WTO would be approved at the ministerial meeting in Doha, Qatar in November 2001. Agreement was reached with the U.S. regarding agricultural subsidies, which had been a stumbling block, leaving insurance as the final issue between the U.S. and EU. After the details are hammered out and a multilateral working group produces the accession protocol and other related official documents, China's accession is expected to be approved at Doha. Once the membership agreement is ratified by the Chinese government, the country can officially join the WTO 30 days after submitting its ratification document to the WTO director-general.

(6) The number of free trade agreements (FTAs) increased rapidly in the late 1990s, especially among countries such as Mexico, Chile and Singapore. FTAs were traditionally signed between neighboring countries, but now they are being forged between even geographically distant economies, such as the EU and Mexico. Moreover, their scope has grown beyond merchandise trade to include a comprehensive range of issues, including services trade, intellectual property rights, investment rules and competition policy. An FTA signed by the U.S. and Jordan, for example, covers environmental and labor issues. Japan is currently in negotiations with Singapore regarding the signing of an FTA, to be called the Japan-Singapore Economic Partnership Agreement, within 2001. Also, Japan and Mexico decided in June 2001 to establish a joint team to study the creation of an FTA between the two countries.

2. China's Rise to Prominence

(1) China's role in the global economy and world trade has increased in recent years, with its share of world nominal gross domestic product (GDP) rising from 1.8% in 1990 to 3.4% in 1999 (latest available data). China's share of world exports increased from 1.8% in 1990 to 4.0% in 2000 and its share of world imports rose from 1.5% to 3.5% in 2000. China's trade balance registered a surplus in industrial trade in 1994 and grew strongly in 1997 and 1998. Because of soaring crude oil prices, however, the surplus—although still large—declined in 1999 and 2000 (Tables 5, 6 and Chart 2).

Underlying this trend was the dramatic increase in industrial production in China during the 1990s. China's output of computers and peripherals is now third in the world after the U.S. and Japan. China is also the world's largest producer of many appliances, such as color televisions.

(2) China has a comparative advantage in the production of labor-intensive goods, such as clothing, textiles (threads and fabrics) and toys. Recently, however, there has been strong growth in its exports of mechanical products, such as appliances, computers, electronic parts and motorcycles. Between 1990 and 1999, China's share of world trade in textiles rose from 6.9% to 8.8%, clothing from 9.0% to 16.2%, and machinery and equipment from 0.9% to 2.6%, respectively. As these figures show, the rates of growth have been striking (Table 7).

The reasons for such growth are 1) China's new role as a key manufacturing base for leading U.S., Japanese and European manufacturers of consumer goods, 2) increased outsourcing and procurement of low-priced products from China by leading international discount stores and 3) aggressive overseas expansion by Chinese firms and the consequent penetration of Chinese brands in North American and Asian markets.

(3) It is hoped that China's expected accession to the WTO will result in a reduction of tariffs, as well as a reduction or abolition of non-tariff trade barriers that deviate from WTO regulations.

Imports are forecast to grow faster than exports in China over the foreseeable future. Since the tariff levels of China's main trading partners are already low, Chinese exports will receive little benefit from further reduction of tariffs by these countries. Imports, on the other hand, will be boosted as China lowers both its tariffs and local-content requirements, leading to increased importing of items such as automotive parts. Also, as the Chinese market opens up and increased foreign investment is poured into Chinese industries, such as electronics, key parts and components for these industries will be increasingly imported. This will offer major opportunities for Japan, the biggest exporter of machinery and electronic parts to China.

Increased competition in the Chinese market between domestic vs. imported products and local vs. foreign firms may lead to hard times for uncompetitive industries. Over the medium to long term, however, China's accession to the WTO will encourage economic reforms that result in more competitive Chinese companies and increased Chinese exports.

(1) Many Chinese Products Top World Output

China's GDP rose from 11th highest in the world in 1990 to seventh highest in 1999.

Chinese exports (valued in U.S. dollars) rose from 13th in 1990 to ninth in 1999, and overtook Italy and the Netherlands to secure seventh place (IMF statistics) in 2000. Chinese imports (U.S. dollars) rose from 16th place in 1990 to 10th in 1999, and overtook the Netherlands to hold ninth place in 2000.

China was the world's biggest producer of crude steel for the fifth consecutive year in 2000, accounting for 15.0% of world output in volume terms. It also led output of synthetic textiles with a 23.5% share (2000 estimate) and produced 25.4% of the world's color TVs, far ahead of second-place Mexico's 15.3% share. China also led the world in output of "white goods" appliances, such as air conditioners (50.1% share), washing machines (23.5%) and refrigerators (21.1%).

(2) Chinese Products Penetrate World Markets

China exported US$106.2 billion worth of goods to the U.S., US$57.9 billion to the EU, US$55.3 billion to Japan and US$32.9 billion to East Asia (Asian NIEs and ASEAN4 excluding Hong Kong). In value terms, the developed markets of Japan, North America and Europe accounted for the bulk of Chinese exports, but there was strong growth in Chinese imports in the East Asian countries of Indonesia (48.9%), Taiwan (37.2%) and Malaysia (34.6%).

China's share of consumer appliance imports in other countries between 1997 and 2000 rose from 28.5% to 37.7% in Japan, from 33.8% to 39.8% in the U.S., from 22.1% to 29.9% in Australia, from 1.6% to 17.3% in Germany and from 1.0% to 6.4% in the U.K., respectively. China's share of imports entering Asian NIEs and ASEAN markets also rose over the same period (Chart 4).

(3) Chinese Appliances Gain Prominence

The reputation of Chinese appliances such as refrigerators, air conditioners and compact color TVs improved in the U.S. and European markets. Underlying this was the emergence of internationally competitive Chinese firms that survived fierce competition in China and then began entering global markets with low-priced goods. Another reason was Chinese firms' new focus on improving product quality and engaging in overseas marketing.

(4) Trade Problems Surrounding Chinese Products

The dramatic emergence of Chinese products in world markets was accompanied by friction due to surging imports of Chinese products and Chinese infringements on intellectual property rights. Indonesia, for example, moved toward a ban on imports of certain Chinese motorcycles containing a component that infringes on a Japanese-held patent.

Table 5 Share of World Nominal GDP by Region

(Unit: %)

	1960	1970	1980	1990	1999
World	100.0	100.0	100.0	100.0	100.0
U.S.	46.2	42.2	28.6	28.5	31.8
Japan	4.0	8.3	11.2	15.2	14.9
EU15	29.0	30.7	35.8	33.9	28.3
East Asia	7.3	5.7	5.4	6.0	8.1
Asian NIEs	0.7	0.8	1.5	2.7	3.2
R.O.K.	0.4	0.4	0.7	1.3	1.4
Hong Kong	0.1	0.2	0.3	0.4	0.5
Taiwan	0.1	0.2	0.4	0.8	1.0
Singapore	0.1	0.1	0.1	0.2	0.3
ASEAN4	1.1	1.1	1.8	1.5	1.5
Philippines	0.6	0.3	0.3	0.2	0.3
Thailand	0.2	0.3	0.3	0.4	0.4
Malaysia	0.2	0.2	0.3	0.2	0.3
Indonesia	n.a.	0.4	0.8	0.6	0.5
China	5.5	3.7	2.1	1.8	3.4
Latin America	3.9	4.8	5.9	4.6	4.7
Canada	3.7	3.5	2.8	2.9	2.2
India	3.3	2.5	2.0	1.7	1.4
Russia	n.a.	n.a.	n.a.	3.0	0.6
South Africa	0.7	0.7	0.9	0.6	0.4
Others	1.8	1.6	7.4	6.7	7.7

Notes: 1. "World" is the 207 economies given in *World Development Indicators* (World Bank)
2. "Latin America" is the total for Argentina, Brazil, Chile and Mexico.

Sources: *World Development Indicators* (World Bank) and *International Financial Statistics* (IMF).
Statistics for Taiwan from *Financial Statistics* (Central Bank of China).

Table 6 Average Growth in East Asian Trade and Share of World Trade

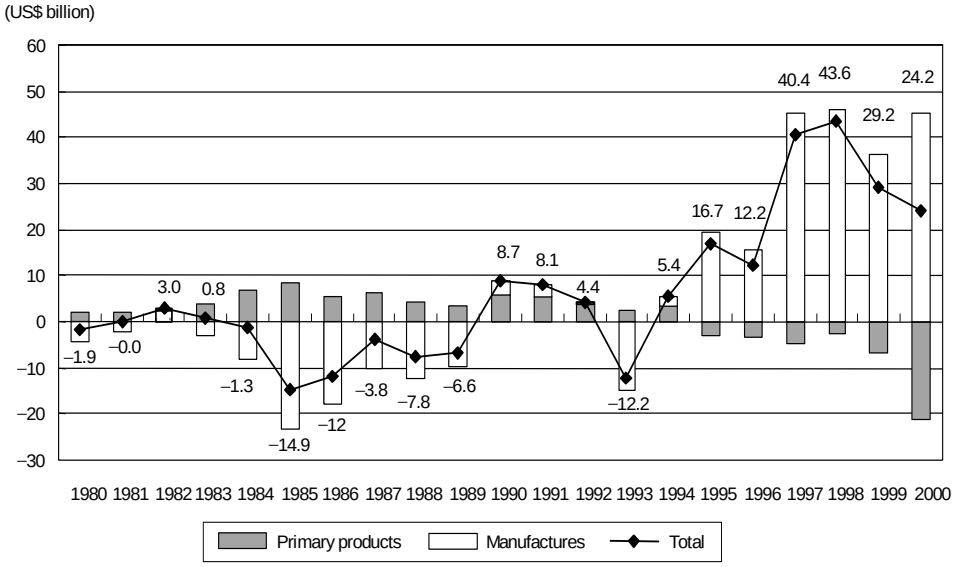
(Unit: %)

		Average growth in trade				Share of world trade			
		1960s	1970s	1980s	1990s	1970	1980	1990	2000
Exports	U.S.	7.4	17.8	5.5	6.6	14.1	11.6	11.4	12.5
	Japan	16.5	20.3	8.6	4.3	6.4	6.8	8.4	7.7
	China	–0.6	21.8	12.6	13.6	0.8	0.9	1.8	4.0
	Asian NIEs	11.5	28.5	13.9	8.4	2.1	4.0	7.8	10.5
	ASEAN4	3.2	26.1	5.3	11.4	1.5	2.4	2.5	4.3
	World	8.7	20.6	5.0	5.6	100.0	100.0	100.0	100.0
Imports	U.S.	10.0	20.2	7.5	8.3	13.4	12.7	14.6	18.7
	Japan	14.4	21.6	4.5	3.2	6.0	7.1	6.7	5.8
	China	–3.5	23.8	12.8	13.4	0.7	1.0	1.5	3.5
	Asian NIEs	10.8	25.8	11.5	7.7	2.8	4.4	7.6	10.0
	ASEAN4	6.0	21.7	7.6	6.5	1.6	2.0	2.8	3.2
	World	8.3	20.1	5.0	5.6	100.0	100.0	100.0	100.0

Note: In 1999, foreign affiliates in China accounted for 1.6% of world trade and domestically owned Chinese firms accounted for 1.9%.

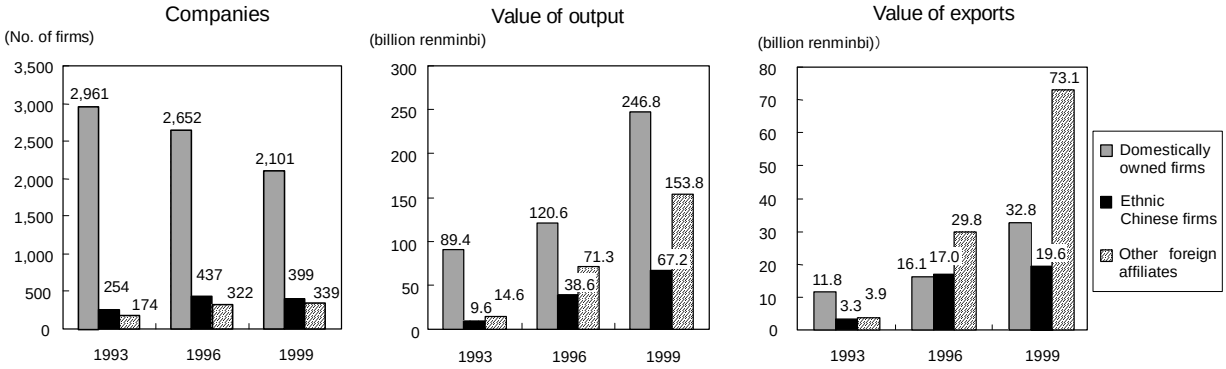
Sources: Prepared by JETRO from *International Financial Statistics* (May 2001, IMF).
Figures for 2000 are from national statistics.

Chart 2 Chinese Trade Balances



Source: Prepared by JETRO from Chinese customs statistics.

Chart 3 China's Electronics Companies, Output and Exports



Notes: 1. "Domestically owned firms" include state-, collective- and privately owned firms.
2. "Ethnic Chinese firms" are Hong Kong, Taiwanese and Macao firms. "Other foreign affiliates" are foreign affiliates other than ethnic Chinese firms.

Source: Prepared by JETRO from *Chinese Electronics Industry Yearbook*.

Table 7 China's Share of World Trade, by Product

(Unit: %)

	Average annual change (%, 1995 to 1999)			China's share of world trade					
	World trade	China		Exports			Imports		
		Exports	Imports	1990	1995	1999	1990	1995	1999
Agricultural products	–4.7	–2.7	–7.2	2.4	2.5	2.6	1.8	2.7	2.4
Food	–2.8	–2.3	–14.7	2.5	2.7	2.7	1.4	2.0	1.4
Energy	5.5	n.a.	31.8	n.a.	n.a.	1.1	n.a.	1.4	2.2
Industrial products	5.3	17.4	13.3	1.9	3.3	4.1	1.7	2.7	3.0
Iron and steel	–9.0	n.a.	10.3	n.a.	3.4	n.a.	2.5	4.0	5.4
Chemical products	3.8	7.1	18.8	1.3	1.9	2.0	2.2	3.5	4.4
Machinery and equipment	7.8	36.9	15.0	0.9	1.6	2.6	1.8	2.7	2.9
Communications and office equipment	11.4	44.1	45.8	n.a.	2.3	3.9	n.a.	2.3	3.8
Textiles (fibers and fabrics)	–3.1	–3.2	0.8	6.9	8.8	8.8	4.9	6.9	7.1
Clothing	7.0	11.8	n.a.	9.0	14.8	16.2	n.a.	n.a.	n.a.

Note: Product categories follow WTO definitions.

Source: *International Trade Statistics* (WTO).

Table 8 Main Economies' Shares of Exports to and Imports from China

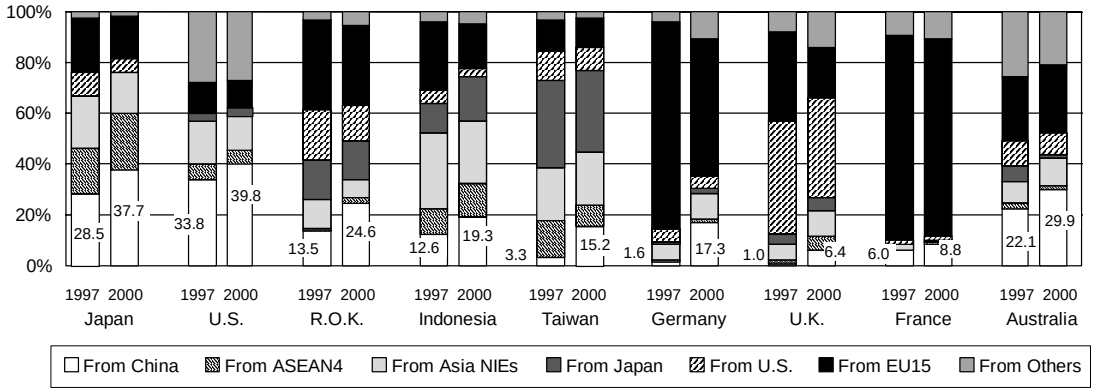
(Units: %, % points)

	Exports					Imports				
	China's share of total		Growth in 2000			China's share of total		Growth in 2000		
	1997	2000	To World	To China	Contribution	1997	2000	From World	From China	Contribution
Japan	5.2	6.3	15.2	30.4	1.7	12.4	14.5	23.0	29.0	4.0
U.S.	1.9	2.1	11.8	23.3	0.4	7.3	8.6	18.1	22.8	1.9
EU	0.9	1.0	1.4	12.8	0.1	2.0	2.5	8.4	19.2	0.4
Hong Kong	34.9	35.2	14.2	20.6	6.9	37.7	42.9	19.9	18.0	7.9
East Asia (excl. Hong Kong)	4.1	5.1	17.4	32.5	1.5	4.3	5.1	25.0	23.6	1.2
Asia NIEs (excl. Hong Kong)	4.8	6.0	18.6	35.0	1.9	5.0	5.7	24.8	27.5	1.5
Taiwan	0.5	2.8	21.7	65.7	1.4	3.4	4.4	26.2	37.2	1.5
R.O.K.	10.0	10.6	16.3	29.6	2.8	6.9	7.3	27.0	25.2	1.9
Singapore	3.2	3.9	18.2	34.0	1.2	4.3	5.2	21.0	23.4	1.2
ASEAN4	2.8	3.6	15.6	26.1	0.9	3.1	3.8	25.4	13.9	0.6
Thailand	3.0	4.3	5.4	27.1	1.0	3.6	3.1	7.0	–27.0	–1.2
Malaysia	2.3	2.7	21.1	20.1	0.5	2.8	3.4	31.4	34.8	1.1
Indonesia	4.2	5.4	17.5	31.4	1.5	3.6	7.7	30.6	48.9	3.3
Philippines	1.0	1.7	16.9	21.3	0.3	2.5	2.4	39.3	–0.4	–0.0
India	1.9	2.2	13.4	30.9	0.6	2.7	3.1	12.9	20.5	0.6
Vietnam	5.2	3.8	22.0	52.0	1.6	3.5	8.4	20.0	26.5	2.1
Russia	4.7	5.1	42.2	50.5	2.4	2.4	2.8	11.8	6.6	0.2
Latin America (4 countries)	1.2	1.0	11.5	52.1	0.4	1.8	2.1	8.3	23.1	0.4
Argentina	3.4	2.0	16.5	2.7	0.1	3.3	3.6	7.6	–0.9	–0.0
Brazil	2.0	1.8	17.8	48.5	0.7	1.9	2.0	14.2	34.2	0.6
Chile	2.5	4.6	17.2	138.7	3.1	3.5	5.2	25.5	37.1	1.8
Mexico	0.0	0.1	7.8	24.0	0.0	1.1	1.6	4.8	25.0	0.3
Africa	1.5	2.5	27.8	82.5	1.4	2.4	3.5	9.3	22.9	0.7

Note: "Contribution" is China's percentage-point contribution to the growth rate of exports to (or imports from) the world.

Sources: Prepared by JETRO from *Direction of Trade Statistics* (IMF) and national statistics.

Chart 4 China's Increasing Share of Consumer Appliance Imports



Source: Prepared by JETRO from national statistics.

Table 9 Trends in Chinese Imports, by Main Industries

(Units: US$ million, %)

	1998			1999			2000				Main exporters in 2000		
	Value	Annual change	Contribution (% points)	Value	Annual change	Contribution (% points)	Value	Annual change	Contribution (% points)	Share	1st	2nd	3rd
Automobiles	815	18.0	0.1	792	–2.7	–0.0	1,178	48.7	0.2	0.5	Japan	Germany	U.S.
Automotive parts	2,191	0.5	0.0	3,215	46.7	0.7	4,248	32.2	0.6	1.9	Japan	Germany	Canada
Video equipment	694	–7.8	–0.0	772	11.2	0.1	812	5.3	0.0	0.4	Japan	Taiwan	Hong Kong
Electronic parts	15,775	19.8	1.8	23,089	46.4	5.2	34,986	51.5	7.2	15.5	Japan	Taiwan	R.O.K.
Semiconductors and other electronic parts	8,209	31.1	1.4	13,397	63.2	3.7	21,157	57.9	4.7	9.4	Japan	Taiwan	R.O.K.
Miscellaneous electronic components	7,566	9.6	0.5	9,692	28.1	1.5	13,829	42.7	2.5	6.1	Japan	Taiwan	R.O.K.
Computers (including peripherals and parts)	5,542	38.8	1.1	7,085	27.8	1.1	10,016	41.4	1.8	4.4	U.S.	Japan	Taiwan
Chemical products	11,075	7.5	0.5	14,064	27.0	2.1	18,100	28.7	2.4	8.0	Japan	R.O.K.	U.S.
Iron and steel	7,677	–4.2	–0.2	8,759	14.1	0.8	11,261	28.6	1.5	5.0	Japan	Taiwan	R.O.K.
Mineral fuels	6,635	–34.4	–2.4	8,840	33.2	1.6	20,402	130.8	7.0	9.1	Oman	R.O.K.	Angola
Synthetic fibers	6,201	–13.8	–0.7	5,709	–7.9	–0.4	6,753	18.3	0.6	3.0	Taiwan	R.O.K.	Japan
Food	3,988	–13.9	–0.5	3,852	–3.4	–0.1	5,151	33.7	0.8	2.3	U.S.	Russia	Peru
Subtotal	60,592	–0.7	–0.3	76,177	25.7	11.1	112,908	48.2	22.2	50.2	–	–	–
Total	140,385	–1.2	–1.2	165,779	18.1	18.1	225,095	35.8	35.8	100.0	Japan	Taiwan	R.O.K.

Note: Automotive parts include products in HS categories 6813, 7320, 8407-09, 8415, 8511, 8512, 8527, 8539, 8708, and 8714.

Source: Prepared by JETRO from Chinese customs statistics.

Table 10 Trends in Chinese Exports, by Main Industries

(Units: US$ million, %)

	1998			1999			2000				Main importers in 2000		
	Value	Annual change	Contribution (% points)	Value	Annual change	Contribution (% points)	Value	Annual change	Contribution (% points)	Share	1st	2nd	3rd
Automobiles	155	–18.0	–0.0	100	–35.3	–0.0	187	87.3	0.0	0.1	Iraq	Hong Kong	Democratic Republic of Korea
Automotive parts	4,985	4.9	0.1	5,428	8.9	0.2	7,187	32.4	0.9	2.9	U.S.	Japan	Hong Kong
Video equipment	2,402	6.2	0.1	2,919	21.5	0.3	4,552	56.0	0.8	1.8	U.S.	Japan	Hong Kong
Electronic parts	11,192	11.4	0.6	14,359	28.3	1.7	19,208	33.8	2.5	7.7	Hong Kong	Japan	U.S.
Semiconductors and other electronic parts	2,358	21.1	0.2	3,711	57.4	0.7	5,352	44.2	0.8	2.1	Hong Kong	Japan	R.O.K.
Miscellaneous electronic components	8,834	9.1	0.4	10,648	20.5	1.0	13,857	30.1	1.6	5.6	Hong Kong	Japan	U.S.
Computers (including peripherals and parts)	10,308	35.9	1.5	11,810	14.6	0.8	16,665	41.1	2.5	6.7	U.S.	Hong Kong	Netherlands
Chemical products	9,638	2.6	0.1	10,011	3.9	0.2	11,641	16.3	0.8	4.7	U.S.	Japan	Hong Kong
Iron and steel	6,571	–14.4	–0.6	6,399	–2.6	–0.1	9,069	41.7	1.4	3.6	U.S.	Japan	Hong Kong
Apparel	27,122	–5.3	–0.8	27,338	0.8	0.1	32,292	18.1	2.5	13.0	Japan	Hong Kong	U.S.
Synthetic fibers	3,352	–7.6	–0.2	3,145	–6.1	–0.1	4,052	28.8	0.5	1.6	Hong Kong	R.O.K.	United Arab Emirates
Footwear	8,027	–1.5	–0.1	8,353	4.1	0.2	9,508	13.8	0.6	3.8	U.S.	Japan	Hong Kong
Leather, leather products and fur	889	–1.1	–0.0	888	–0.1	–0.0	1,219	37.4	0.2	0.5	Hong Kong	R.O.K.	U.S.
Toys and exercise goods	7,760	3.2	0.1	7,708	–0.7	–0.0	9,196	19.3	0.8	3.7	U.S.	Hong Kong	Japan
Subtotal	92,399	1.8	0.9	98,459	6.6	3.3	124,778	26.7	13.5	50.1	–	–	–
Total	183,746	0.5	0.5	195,177	6.2	6.2	249,240	27.7	27.7	100.0	U.S.	Hong Kong	Japan

Note: Same as Table 9.

Source: Prepared by JETRO from Chinese customs statistics.

3. Trade in Japan

A. Growth in Overall Trade, including Imports from China

(1) Japanese trade measured in dollars on a customs-clearance basis reached record levels in terms of both imports and exports in 2000. Exports rose 15.2% to US$480.7 billion, exceeding the previous peak set in 1995, and imports rose 23% to US$381.1 billion to pass the previous record set in 1996 (Table 11).

The value of Japan's manufactured imports rose 20.4% to a record US$232.9 billion, but the share of manufactured imports fell 1.3 percentage points, from 62.4% in 1999 to 61.1% in 2000, due to increased imports of crude oil.

Japan's trade surplus fell 7.5% to US$99.6 billion, the first decline since 1996. The surplus with the U.S., however, increased from US$61.1 billion in 1999 to US$70.5 billion in 2000.

(2) The value of imports from China rose 29.0% to US$55.3 billion, of which 82.7% was manufactured goods. China overtook the EU to become Japan's second biggest source of manufactured imports, behind the U.S.

In response to a rapid surge in imports of agricultural products from China, the Japanese government imposed provisional safeguard measures on April 23, 2001 to curb imports (from all countries) of leeks, fresh shiitake mushrooms and rush mats for tatami flooring. Although Japan had imposed special safeguard measures on imports of pork in 1997, it had not previously invoked general safeguards, or any such measures regarding textiles. The Chinese government retaliated by imposing a 100% special tariff on imports of Japanese automobiles, cellular phones, car phones and air conditioners beginning June 22, 2001. China was not constrained by WTO rules as a non-member, but it would not be able to take such measures if it were to join the WTO.

(3) In April 2001, JETRO conducted a survey of Japanese firms regarding their procurement of Chinese products and the rapid influx of Chinese products into Japan. This survey, a questionnaire, found that:

a) Approximately 60% of the respondents procure from China, indicating that China has become firmly established as a procurement source for Japanese companies (Chart 7).

b) The influx of Chinese products into Japan is due not only to their cost-competitiveness, but also improved quality and enhanced production operations resulting from direct investment by Japanese and other foreign firms in China (Chart 8).

c) Some companies are considering shifting production and procurement to China in order to take advantage of the country's lower production costs (Chart 9).

(1) There was a downturn in Japanese exports in the beginning of 2001 due to economic slowdowns in the U.S. and East Asia. Although import growth slowed due to the depressed state of the Japanese economy, imports from China remained high. Year-on-year growth rates for export and import volumes worsened in each quarter between the third quarter of 2000 and the second quarter of 2001, although imports performed slightly better than exports (10.9%, 9.6%, 6.3% and –0.4% compared to 8.1%, 3.2%, –4.4% and –11.1%, respectively).

(2) China's share of imports entering Japan nearly tripled from 5.1% in 1990 to 14.5% in 2000. The proportion of imports from China consisting of machinery and equipment rose sharply from 4.3% in 1990 to 26.1% in 2000. Eighteen of the 20 fastest-growing categories of imports from China (based on the four-digit HS4 classification) were manufactured imports, the other two being crude oil and coal. Clothing and other textile products comprised many of the 20 categories. Chinese products accounted for large proportions of clothing imports entering Japan, including 70% of T-shirts and 78% of women's suits and jackets. While the HS4 classification provides no indication of import amounts for the three categories of agricultural products protected by provisional safeguards taken by Japan against China, the more detailed nine-digit HS9 classification system shows that imports of leeks rose 26.4% in value (44.9% in volume), fresh shiitake mushrooms rose 14.4% in value (33.1% volume) and tatami rush mats rose 30.7% in value (49.6% volume).

(3) JETRO conducted a survey in April 2001 regarding the competitiveness of Chinese products in Japanese markets. Questionnaires were distributed to 2,690 manufacturers, trading companies, wholesalers and retailers in Japan. Valid responses were received from 1,011 companies for a response rate of 37.6%. The results included the following:

a) 57.9% of the respondents import, procure or source from China.

b) The most common reason given for the influx of Chinese products in the Japanese market was "strong price competitiveness and the demand for cheap products in the domestic market," which was cited by 40.7% of companies. "Improvement in quality as well as price competitiveness" was cited by 37.2% of the companies, clearly showing that upgraded quality has also been a factor behind the influx of Chinese products (Chart 8).

c) 427 firms (42.2% of respondents) indicated an interest in shifting production from Japan or other countries to production in or procurement from China. The most common reason given was the inability to compete due to the high cost of manufacturing in Japan, which was cited by 311 companies (72.8%).

Table 11 Overview of Japanese Trade

	1995	1996	1997	1998	1999	2000	2000				2001	
							1Q	2Q	3Q	4Q	1Q	2Q
Total value of exports (US$ million)	442,937	412,433	422,881	386,271	417,442	480,701	115,780	118,937	123,058	122,927	108,966	100,247
% change from year earlier	(12.0)	(–6.9)	(2.5)	(–8.7)	(8.1)	(15.2)	(18.5)	(22.8)	(16.4)	(5.0)	(–5.9)	(–15.7)
Total value of imports (US$ million)	336,094	350,654	340,408	279,316	309,745	381,100	89,658	91,780	95,992	103,669	94,665	88,010
% change from year earlier	(22.3)	(4.3)	(–2.9)	(–17.9)	(10.9)	(23.0)	(24.5)	(27.8)	(24.7)	(16.6)	(5.6)	(–4.1)
Trade balance (US$ million)	106,843	61,779	82,474	106,955	107,697	99,601	26,121	27,156	27,066	19,257	14,301	12,238
% change from year earlier	(–11.6)	(–42.2)	(33.5)	(29.7)	(0.7)	(–7.5)	(1.5)	(8.5)	(–5.9)	(–31.6)	(–45.3)	(–54.9)
% of nominal GDP	2.0	1.3	1.9	2.7	2.4	2.1	2.2	2.4	2.3	1.5	1.4	n.a.
Export volume index (1995=100)	100.0	101.2	113.1	111.6	114.0	124.8	120.7	124.6	126.8	126.9	115.3	110.7
% change from year earlier	(3.2)	(1.2)	(11.8)	(–1.3)	(2.1)	(9.4)	(13.7)	(13.3)	(8.1)	(3.2)	(–4.4)	(–11.1)
Import volume index (1995=100)	100.0	105.6	107.4	101.7	111.4	123.7	117.5	121.6	123.4	131.9	124.9	121.2
% change from year earlier	(11.7)	(5.6)	(1.7)	(–5.3)	(9.6)	(11.0)	(10.7)	(12.6)	(10.9)	(9.6)	(6.3)	(–0.4)
Manufactured imports' share (%)	59.1	59.4	59.3	62.1	62.4	61.1	60.3	61.1	61.9	61.1	62.2	61.2
Real GDP growth rate (%)	1.6	3.5	1.8	–1.1	0.8	1.5	2.6	1.2	0.4	1.9	0.0	n.a.
Contribution from foreign demand (% points)	–0.5	–0.4	0.9	0.3	–0.1	0.4	0.5	0.6	0.5	0.1	–0.5	n.a.
Crude oil import price (US$/barrel)	18.0	20.4	20.7	13.9	17.1	28.5	26.2	26.6	29.2	31.9	25.6	26.5

Note: Figures for second quarter of 2001 are preliminary.

Sources: *Trade Statistics* (Ministry of Finance); *National Accounts* (Cabinet Office) and *Financial and Economic Statistics Monthly* (Bank of Japan).

Table 12 Japan's Rapidly Increasing Imports from China (2000)

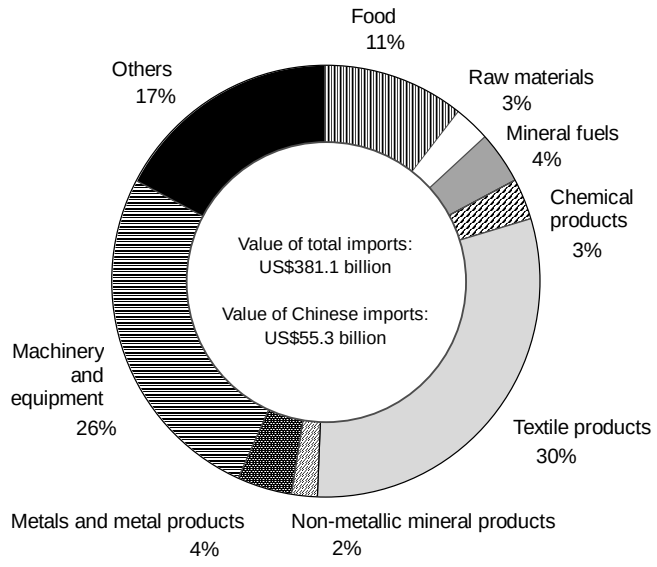
(US$ million, %)

	HS number	Selected imports entering Japan from all countries	Value	Share	YOY change	China's share
		Total	55,303	100.0	29.0	14.5
1	8471	Computers and peripherals	1,120	2.0	107.9	6.4
2	8473	Parts for office equipment	1,427	2.6	71.8	15.6
3	2709	Crude oil	1,095	2.0	62.2	2.5
4	6109	T-shirts, etc.	889	1.6	58.4	70.0
5	8527	Radio receivers, radio cassette players and audio equipment	554	1.0	49.3	42.9
6	6204	Women's suits, jackets, dresses, skirts and trousers	2,009	3.7	43.7	78.0
7	8504	Transducers and rectifiers, etc.	1,143	2.1	30.6	47.2
8	6206	Women's blouses and shirts	561	1.0	28.9	81.3
9	6110	Jerseys, pullovers, cardigans and waistcoats, etc.	2,905	5.3	27.9	81.0
10	8536	Switches and fuses, etc.	635	1.2	26.6	37.6
11	6203	Men's suits, jackets and trousers	1,502	2.7	25.1	75.6
12	2701	Coal	589	1.1	24.6	10.9
13	8544	Cables and other electrical conductors	839	1.5	24.5	40.6
14	6205	Men's shirts	632	1.2	24.3	76.2
15	6402	Plastic footwear with rubber or plastic soles or insteps	875	1.6	24.2	79.3
16	4202	Travel goods and handbags, etc.	1,257	2.3	19.7	42.0
17	6211	Tracksuits, ski suits and swimwear, etc.	630	1.1	16.7	80.1
18	9503	Scale models and puzzles, etc.	897	1.6	16.5	80.2
19	8501	Motors and generators	577	1.1	15.9	49.2
20	1604	Fish (prepared)	913	1.7	11.6	58.8

Note: Each category accounted for at least 1% of total imports in 2000.

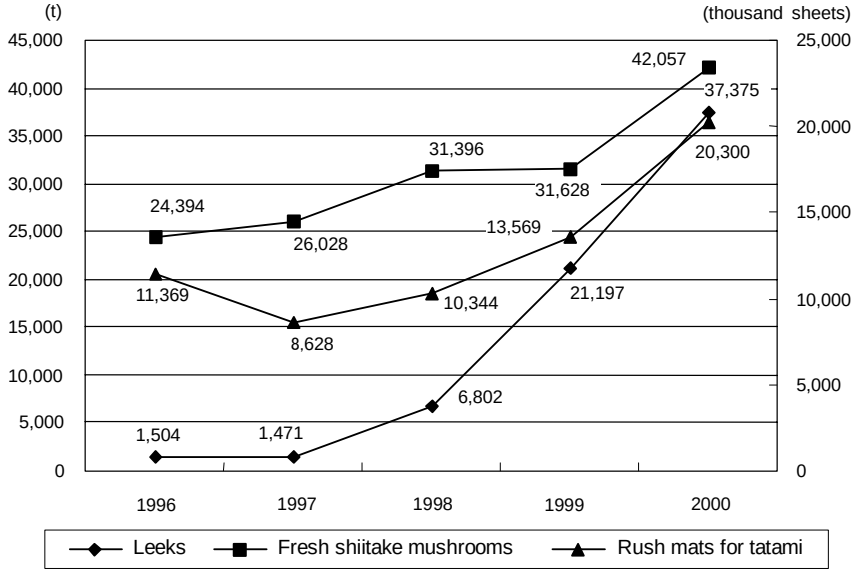
Source: Prepared by JETRO from *Trade Statistics* (Ministry of Finance).

Chart 5 Japan's Imports from China, by Product Category (2000)



Source: Prepared by JETRO from *Trade Statistics* (Ministry of Finance).

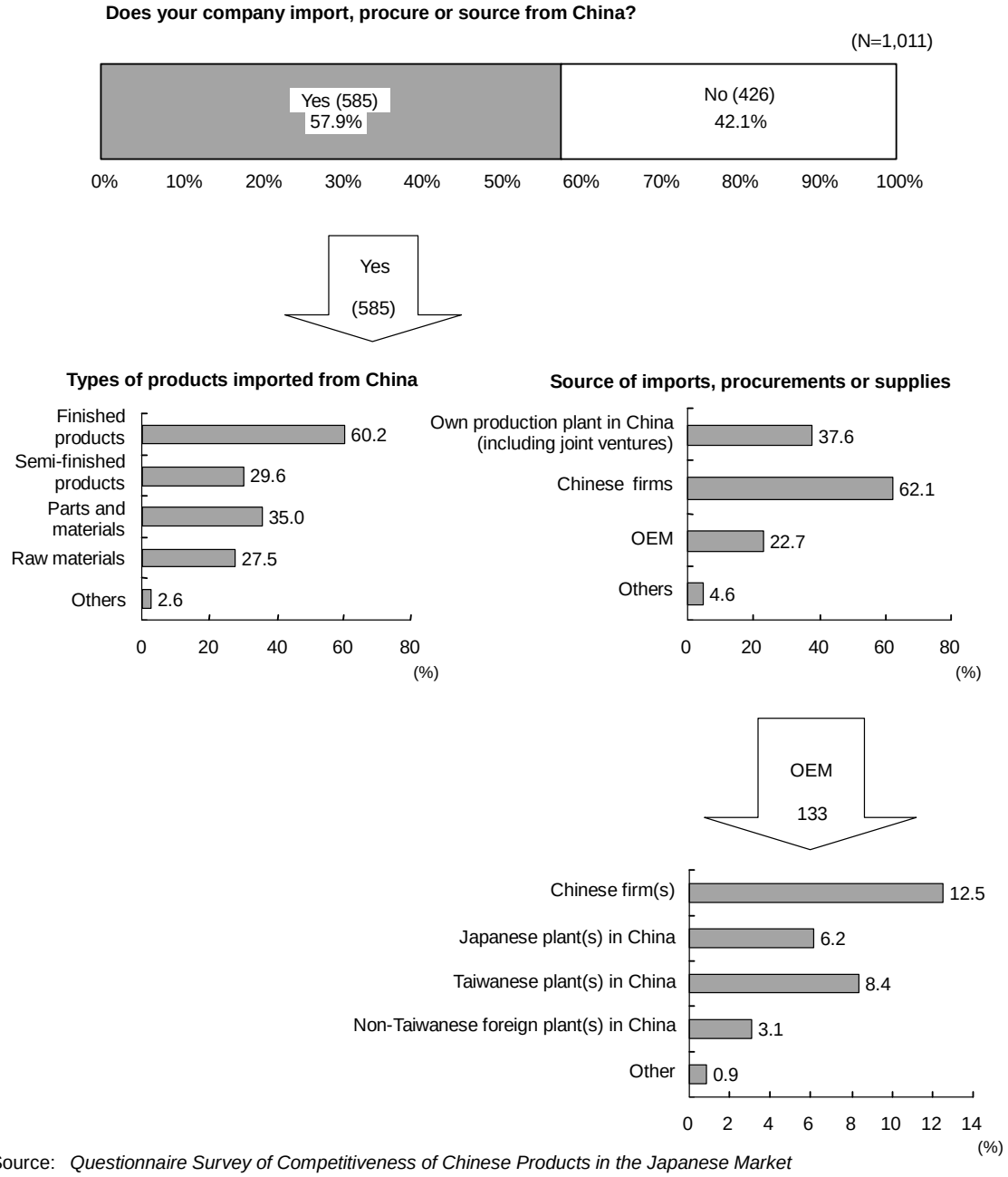
Chart 6 Volume of Imports Covered by Provisional Safeguards
(Leeks, Fresh Shiitake Mushrooms and Rush Mats for Tatami Flooring)



Notes: 1. Figures for leeks and mushrooms given in metric tons.
2. Figures for rush mats given in mat sheets.

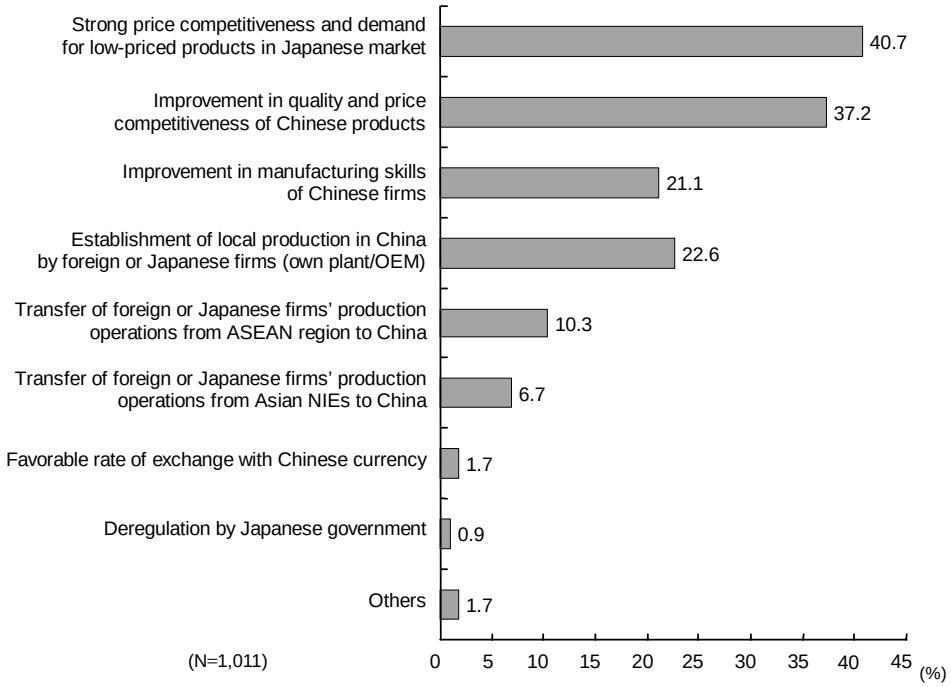
Source: Government survey of safeguards (released March 23, 2001, Ministry of Agriculture, Forestry and Fisheries website).

Chart 7 Importing, Procurement and Sourcing from China



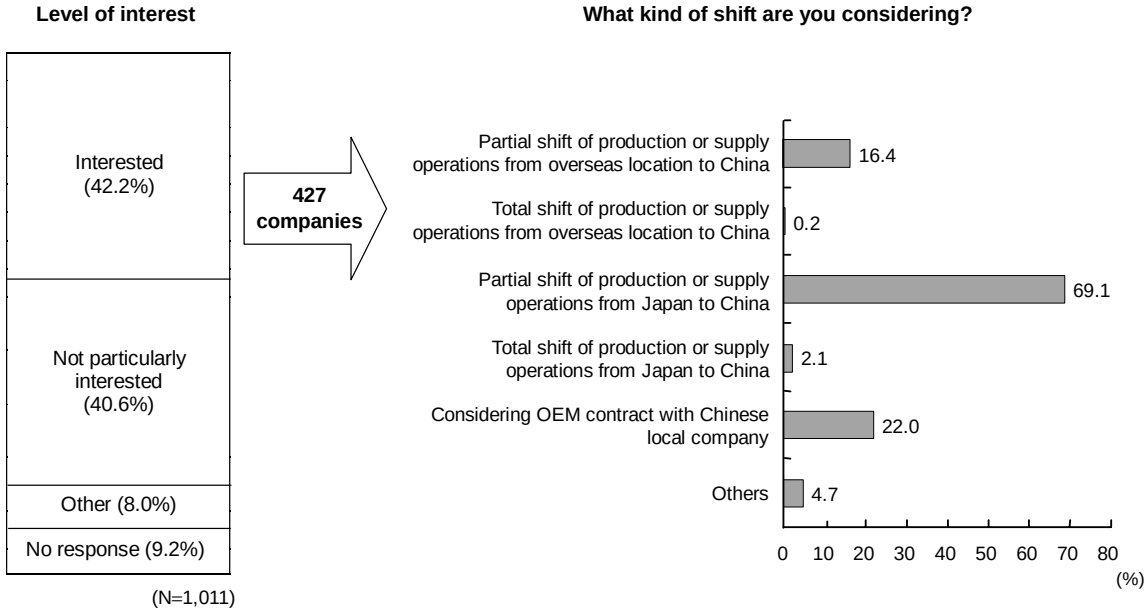
Source: *Questionnaire Survey of Competitiveness of Chinese Products in the Japanese Market* (conducted April 2001, JETRO).

Chart 8 Reasons for Influx of Chinese Products in Japan



Source: *Questionnaire Survey of Competitiveness of Chinese Products in the Japanese Market* (conducted April 2001, JETRO).

Chart 9 Plans to Shift Production or Procurement to China



Source: *Questionnaire Survey of Competitiveness of Chinese Products in the Japanese Market* (conducted April 2001, JETRO).

B. Strengthening of Japan's Manufacturing Base

(1) Japan's trade surplus as a percentage of gross domestic product (GDP), after peaking in the 1980s at 4.5% in 1986, reached no higher than 3.3% in 1992 for all of the 1900s and even hit a low of 1.8% in 1996. Japan's trade balance has tended to fluctuate depending upon cyclical and structural factors, such as gaps between its growth rate and those of other economies, as well as exchange rates, export substitution stemming from growing offshore production, and level of export competitiveness. In the future, it is conceivable that the Japanese trade surplus as a percentage of GDP will decline due to Japanese firms' relative decline in competitiveness as a result of factors such as their increased use of offshore production, their relatively slow adoption of IT, and growing competition from emerging economies such as China.

(2) The weakening of Japan's manufacturing base is another area of concern. This is thought to be both a cause and outcome of various factors, such as a decline in the startup rate, decrease in the number of employees in manufacturing, business practices lacking an economic rationale, high cost structure due to regulation, sluggish domestic investment, and slow pace of change in the business environment, including IT infrastructure. Government and industry are looking at macro- and micro-level measures to strengthen Japan's manufacturing base for restored competitiveness.

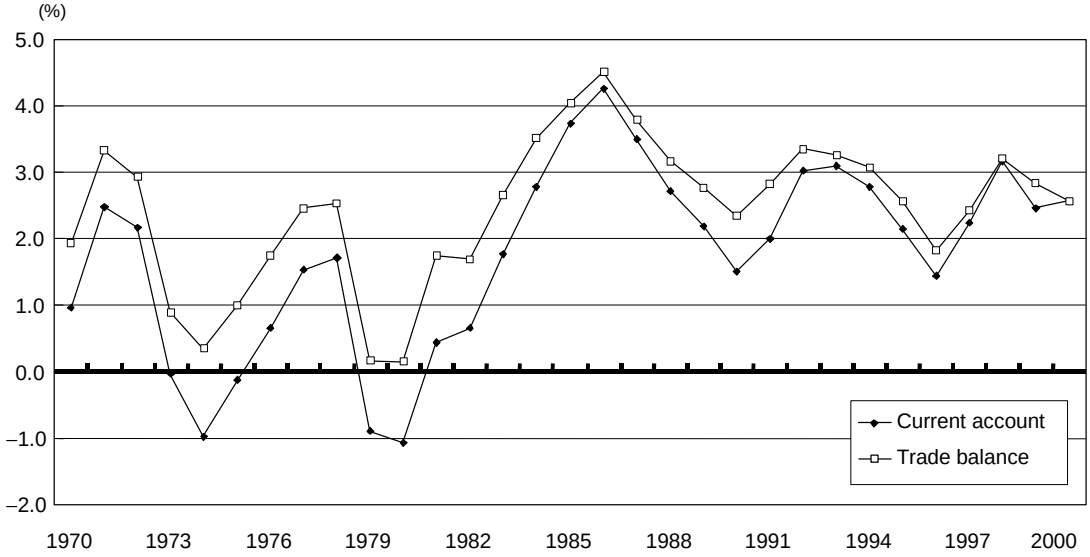
(3) Global trade, now worth more than US$6 trillion, encompasses not only the mature markets of developed countries and the growing markets of China and the ASEAN economies, but also the newly emerging markets of countries such as India, Russia and Brazil. Despite the long-term prospects for growth in the newly emerging markets, however, Japanese companies, partly due to their high sensitivity to risk, have been slower than their European and North American counterparts to enter these markets. Japanese companies must act with greater urgency to seize opportunities for business expansion through trade, investment and technological tie-ups.

(1) As Japanese domestic demand slumped in the 1990s, imports grew but exports stagnated despite the growth of the world economy. Supporting the growth of Japan's manufactured imports were the dual factors of 1) a rise in the estimated elasticity of Japanese imports to GDP from 0.98 between 1973 and 1990 to 1.32 between 1973 and 2000, and 2) a fall in the estimated elasticity of Japanese exports to world trade (imports) from 1.09 between 1973 and 1990 to 0.81 between 1973 and 2000. These changes indicated that the structure of Japanese trade had changed. Also, the average annual growth rate in Japanese manufacturing productivity slowed from 3.9% in the 1980s to 2.2% in the 1990s, while in the U.S. it rose from 3.9% to 4.1%, respectively. Clearly, Japanese manufacturers suffered a slowdown in the pace of their productivity improvement, the heart of industrial competitiveness.

(2) Japanese companies have attempted to revitalize their manufacturing operations through various measures. These include reorganizing domestic plants (including operational scope), focusing strategically on selected products, specializing in highly value-added fields such as semiconductor design, and raising efficiency by using IT to enhance development and productivity while reducing delivery times. The government unveiled measures to strengthen the nation's manufacturing base in a plan called "Structural Reform of the Japanese Economy: Basic Policy for Macroeconomic Management," which was released in June 2001. In line with this plan, the government began strengthening Japanese business infrastructure by reviving technological competitiveness (educational reforms and IT infrastructure enhancement), supporting entrepreneurial activity, rectifying Japan's high cost structure (deregulation and structural reform), and increasing the vitality of the labor force by supporting greater employment of women and the elderly.

(3) The Basic Policy for Macroeconomic Management plan mentioned above envisions the next two or three years as a period of intensive adjustment, when banks, for example, must dispose of their non-performing loans. Structural reform is essential for the recovery of the Japanese economy, which has been ailing since the collapse of the 1980's asset-inflated bubble economy. In the short term, reforms can be expected to have negative effects on economic growth and employment. During this period, however, free trade agreements could be an effective means of not only increasing opportunities for trade, but also facilitating the implementation of structural reforms.

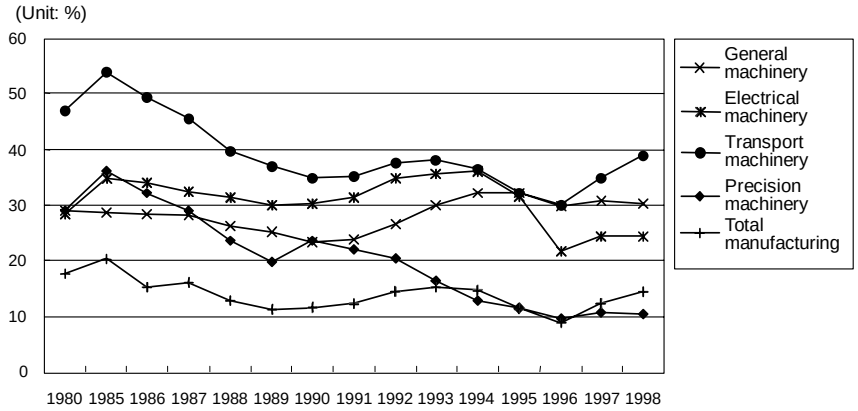
Chart 10 Japan's Trade Balance and Current Account as Percentage of Nominal GDP (Balance of Payments Basis)



Notes: 1. Nominal GDP based on 68SNA.
2. The methods of calculating trade balances and current accounts changed in 1985.

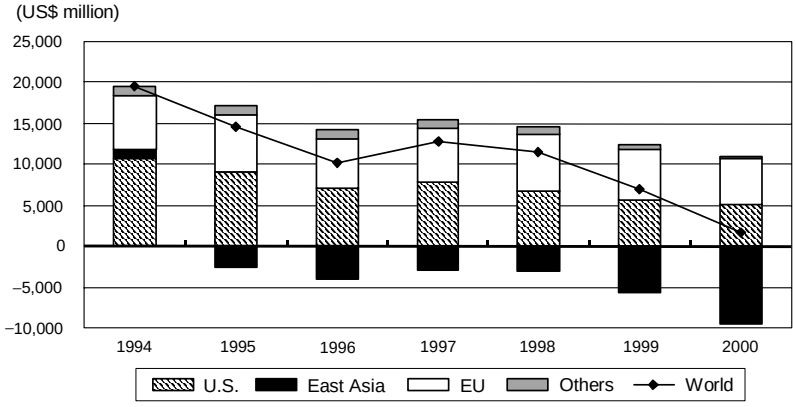
Sources: Prepared by JETRO from *Balance of Payments Statistics* (Bank of Japan) and *National Accounts* (Cabinet Office).

Chart 11 Ratio of Trade Surplus to GDP in Main Industries (1990 Constant Prices)



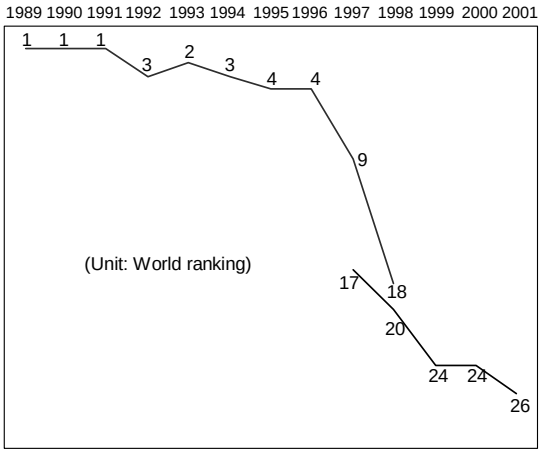
Source: Prepared by JETRO from *SNA Input-Output Tables* (Cabinet Office).

Chart 12 Trade Balance of Japanese Computer and Peripherals Industry



Source: Prepared by JETRO from *Trade Statistics* (Ministry of Finance).

Chart 13 Change in Japan's IMD World Competitiveness Ranking



Note: Ranking criteria were changed in 1997.

Source: Prepared by JETRO from World Competitiveness Yearbook (IMD).

Table 13 Scale of Japanese Industry

Numbers of firms and employees in manufacturing

	Firms	Employees
1991	856,893	14,087,202
1996	771,791	12,922,034
1999	689,194	11,452,317

Source: *Statistical Survey of Business Establishments* (Management and Coordination Agency Statistics Bureau).

Manufacturing's share of real GDP

	% share
1991	24.7%
1996	23.2%
1999	22.4%

Source: *National Accounts* (Cabinet Office).

Start-up and closing rates, by industry (Unit: %)

	Fiscal year	1985	1989	1994	1999
Manufacturing	Start-ups	4.4	4.5	2.3	1.9
	Closings	3.9	3.0	3.6	5.3
Construction	Start-ups	6.5	8.1	6.4	3.0
	Closings	6.1	3.6	3.4	4.8
Services	Start-ups	6.9	8.1	5.6	4.2
	Closings	3.1	2.9	2.9	4.8

Source: *White Paper on Small and Medium Enterprises in Japan* (2001, Small and Medium Enterprise Agency).

Table 14 Cost Comparison between Japan and Other Countries

Initial investment costs in manufacturing (Japan=100)

	Japan	U.S.	U.K.	Germany	France
Production start-up	100	41	56	53	41
Office start-up	100	12	81	12	14
Company start-up	100	7	139	76	2
Recruitment	100	25	38	76	76
Overall	100	40	57	52	41

Survey period: October 1999 to March 2000.

Source: Prepared by JETRO from The Survey on Actual Conditions Regarding Access to Japan (June 2000, JETRO).

Prices of intermediate goods (Japan=100)

	Overall	Manufactures, etc.	Industrial services
U.S.	53	97	37
Germany	48	74	36
R.O.K.	44	52	33
Taiwan	26	64	16
China	18	40	12

Survey period: September 2000 to November 2000.

Source: Prepared by JETRO from *FY2000 Survey on Foreign and Domestic Prices for Industrial Intermediate Inputs* (July 2001, Ministry of Economy, Trade and Industry).

4. Issues Facing Japan

A. WTO New Round and Complementing Multilateral Arrangements with FTAs

(1) Chances improved for holding a new round of WTO multilateral negotiations on trade liberalization at the Fourth WTO Ministerial Meeting in Doha, Qatar in November 2001. Japan can play a crucial leadership role by helping to ensure that the agenda is comprehensive and includes not only agriculture and services, for which negotiations have begun already, but also a range of other matters, such as the further lowering of tariffs on manufactures, the formulation of investment rules and the revision of antidumping agreements. To encourage developing countries to actively take part in the new round, it will be particularly important to continue with "capacity-building" efforts that enhance their capability to participate in WTO agreements. This includes, for example, extending the time frames of the agreements on Trade-Related Investment Measures (TRIM) and Trade-Related Aspects of Intellectual Property Rights (TRIPS).

(2) Free trade agreements (FTAs) complement the WTO-centered multilateral free trade system. In addition to having a positive impact on trade and investment, FTAs stimulate domestic regulatory reform and prevent backtracking. By 2001, Japan plans to complete negotiations with Singapore regarding an FTA that would go beyond the scope of a conventional merchandise-trade agreement to encompass services and the movement of people. FTAs are on the rise worldwide and it is important for Japan to be actively involved in this movement. Based on joint studies that the Japan External Trade Organization (JETRO) has conducted with Mexico, the R.O.K. and Chile, Japan should strengthen bilateral ties with these countries to facilitate FTAs. The possibility of signing FTAs with other countries and regions should also be pursued actively .

New investment rules and unified competition policies—issues that might be placed on the agenda of the WTO's next round—are already addressed in the North American Free Trade Agreement (NAFTA) and an FTA between Mexico and the EU. FTAs thus offer a relatively easy means of hastening the introduction of new rules in the WTO, a process that can otherwise require considerable time because of the organization's large membership. In this sense, FTAs precede and thereby encourage WTO negotiations on trade liberalization. New types of advanced FTAs can thus make a valuable contribution to multilateral trade liberalization under the WTO.

B. East Asia's New Prominence Led by China, and the Role of Japan

(1) China's accession to the WTO will fully integrate its huge market of almost 1.3 billion people into the international trade system, as well as add momentum to economic globalization. Membership was sought as a means of improving trade conditions between China and other nations, but now the question is how other economies will both cooperate and compete with China. In the short term, WTO membership will increase the level of imports entering China. In the medium to long term, however, the ensuing structural reform of Chinese industry will likely serve to increase the export competitiveness of Chinese firms and thereby increase China's prominence in world trade.

It is likely that China and the ASEAN region will increasingly compete with each other for foreign capital. This will require the ASEAN members to further integrate their regional market of 500 million people. They will also have to improve their economic efficiency by 1) steadily scrapping internal tariffs and non-tariff barriers as required by the ASEAN Free Trade Area (AFTA) schedule, 2) strengthening and encouraging the agglomeration of supplier ("supporting") industries by

attracting investment and developing human resources, 3) enhancing their physical and services infrastructure for more efficient movement of people, goods and funds within the region, and 4) pursuing the further internationalization and transparency of business rules governing trade, investment and business in general. Japan can offer assistance in many areas, including the unification of regional tariff codes and standards.

Accession to the WTO by Taiwan and Vietnam would expand the reach of common rules for trade and investment in East Asia. This would also lead to the formation of an East Asian market that unifies the ASEAN and Chinese markets. Japanese companies should welcome such developments, as integration would increase the benefits of scale in East Asian business networks. An important development in this respect is the establishment of a working group to promote an "ASEAN Plus Three" free trade economic bloc comprising the ASEAN economies, China, Japan and the R.O.K.

(2) China's rise to prominence in world trade has also been accompanied by some serious problems, such as infringement of intellectual property rights in China and overseas. An area of particular concern that requires immediate action is the prevalence of imitation (pirated) products, which are harming the reputation of Chinese products. Japan can play an active role in this area by helping to establish rules for intellectual property and train specialists in how to address this problem. WTO membership will force China to establish a market economy system that complies with international rules. This includes the reform of Chinese business law (antidumping laws, etc.) and the enactment of legislation to open up the Chinese market (antimonopoly and telecommunications laws, etc.). It is also hoped that China will make its economic systems more transparent by, for example, improving the transparency of law enforcement.

Japan, with a view to supporting Japanese affiliates operating in the Chinese market, should make use of its extensive experience in economic matters to help China develop its system of business laws.

C. Strengthening Japan's Competitiveness

(1) In April 2001, the Japanese government imposed provisional safeguards in response to a rapid surge in agricultural imports of leeks, fresh shiitake mushrooms and rush mats for tatami flooring. According to WTO rules, Japan thereby obligated itself to make structural adjustments in these industries.

The Chinese government, however, retaliated by imposing 100% special tariffs on Japanese automobiles, cellular phones and air conditioners in June 2001. The imposition of retaliatory measures against provisional safeguards is not permitted under the WTO safeguard agreement, so it was hoped that the Chinese government, although a non-WTO member at the time, would retract the measures immediately.

It is generally accepted that safeguards are only worthwhile if they are accompanied by the desired structural adjustments. If Japan were to misuse safeguards by not conducting strict investigations before invoking them, or by not showing clear plans to implement the necessary structural adjustments, it would run the risk of losing its international stature as a leading proponent of free trade. In addition, the interests of consumers should be carefully considered before safeguards are imposed.

(2) Amid signs that Japan's manufacturing base is weakening, there is concern that the international competitiveness of Japanese manufacturers is declining. Improving productivity through greater use

of IT and corporate restructuring, as well as improving the international competitiveness of Japan's services sector, are urgent priorities. Accomplishing these tasks will require, however, further deregulation and structural reform in Japan.

Note 1: Calculation of World Trade Statistics

World totals for export and import values in 2000 (Tables 1, 2 and 4 and Charts 1–1 and 1–2) are the sum of the following:

(1) Exports and imports of 36 leading economies (see below) according to national statistics compiled by each of these countries as of June 2001.

(2) For other economies in which national statistics were not available, the above 36 economies' national statistics on trade with these other economies were used. CIF figures were recalculated on an FOB basis to estimate exports and FOB figures were recalculated on a CIF basis to estimate imports.

(3) All other export and import values are based on data from the IMF's *Direction of Trade Statistics* (June 2001).

The 36 economies are:

Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Denmark, Finland, France, Germany, Hong Kong, Indonesia, Ireland, Italy, Japan, Malaysia, Mexico, Netherlands, New Zealand, Norway, Philippines, Portugal, R.O.K., Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, U.K. and U.S.

Note 2: Definitions of IT Products

			HS number	Main products
IT-related products	1	Computers and peripherals	8471, 8473	Finished and semi-finished computers, peripherals (hard drives, displays, keyboards, etc.) and parts thereof
	2	Office equipment	8469, 8470, 9009	Copiers, cash registers, calculators
	3	Communications equipment	8517, 852510, 852520, 8526	Telephones, cellular phones, wireless and radar equipment and parts thereof
	4	Semiconductors and other electronic parts	8540, 8541, 8542	Electron tubes, semiconductors (diodes, transistors, integrated circuits, etc.)
	5	Miscellaneous electronic components	8504, 8532, 8533, 8534, 8535, 8518, 8522, 8523, 8529, 8536	Condensers, resistors, printed circuits, protectors and connecting parts (switches and fuses, etc.), magnetic tapes and disks, parts of video and audio equipment (6 & 7)
	6	Video equipment	8521, 852530, 852540, 8528, 9006	TVs, VTRs, DVD players, video cameras
	7	Audio equipment	8519, 8520	Tape recorders, CD and MD players
	8	Measuring and testing equipment	8543, 9014, 9015, 9024, 9025, 9026, 9027, 9030, 9031, 9032	Industrial measuring equipment, semiconductor and IC measuring devices, optical measuring equipment, electromagnetic measuring instruments, aeronautical equipment (compasses, etc.), surveying instruments, materials analyzers, chemistry and physics lab equipment
		Parts		Parts of computers and peripherals (8473) and 4 & 5 above
		Finished products		Parts not covered by 1-8 above

PART II. SUMMARY OF REGIONAL TRENDS

1. North America

A. Economy: Slowdown Begins in Second Half of 2000

The U.S. economy registered 4.1% growth in 2000, underpinned by the stable growth of non-residential investment and consumer spending. The economy decelerated from the latter half of the year, however, slowing to annually adjusted rates of 1.3% in the third quarter and 1.9% in the fourth quarter. In 2001, growth slowed further to 1.3% in the first quarter and 0.7% (preliminary estimate) in the second quarter. The Federal Reserve Board lowered interest rates six times between January and July 2001 and the U.S. government implemented large-scale tax cuts in an effort to stimulate the economy. As a result, growth was expected to begin recovering in the latter half of the year.

In Canada, sweeping tax cuts had the desired effect on the economy, helping it to post 4.4% growth in 2000. Hit by the slowdown in the U.S., however, growth began to decelerate in the second half of the year. The Canadian economy grew at an annualized rate of 2.5% in the first quarter of 2001 compared with the fourth quarter of 2000.

B. Trade: U.S. Trade Deficit Hits New High

Imports entering the U.S., supported by strong demand in the U.S. economy, grew 18.9% to US$1.22 billion in 2000. This outpaced U.S. exports, which grew 12.4% to US$781.9 trillion. As a result, the U.S. merchandise trade deficit grew 32.6% to US$436.1 billion, a new record. The balance of trade in goods and services (measured on a BOP basis) swelled to a deficit of US$375.7 billion, setting a new record for a third consecutive year.

Canada's merchandise trade surplus came to C$27.6 billion, the country's second consecutive annual surplus. Exports grew 15.9% to C$384.1 billion and imports grew 11.3% to C$356.5 billion. .

C. Trade Environment: U.S. Seeks to Lead International Trade, while Canada Focuses on Multilateral Trade Relations

The Bush administration adopted a mix of bilateral, regional and multilateral trade policies in an effort to rebuild the global trade order under American leadership. On the bilateral front, the U.S. conducted negotiations with Singapore and Chile regarding the establishment of free trade agreements (FTAs). At the same time, the U.S. worked actively toward the establishment of the Free Trade Area of the Americas (FTAA), which would integrate 34 American economies, and the launch of a new round of WTO negotiations. The Bush administration placed a high priority on obtaining trade promotion authority from Congress as soon as possible to strengthen its capability to negotiate effectively in trade talks.

Canada continued to actively pursue FTAs to diversify its trade relationships. From the beginning of 2001, preparations began for FTA negotiations with four Central American countries and 13 Caribbean countries. Also, the Canadian private sector began to consider the merits of signing an FTA with Japan.

D. Trade with Japan: U.S. and Canadian Deficits Grow

The U.S. trade deficit with Japan grew 11.1% to US$81.6 billion in 2000. Although this set a new record, the U.S. trade deficit with China was even larger. U.S. exports to Japan grew 13.0% to US$64.9

billion, but strong demand in the booming U.S. economy pushed Japanese imports up 11.9% to US$146.5 billion. Exports of manufactured goods, which accounted for about 70% of U.S. exports to Japan, rose 16.0%. Imports of manufactured goods, about 90% of all imports from Japan, rose 11.8%.

Canadian trade with Japan rose in 2000. Exports increased 7.0% to C$8.9 billion, while imports increased 10.4% to C$16.6 billion. As a consequence, Canada's trade deficit with Japan widened 14.7% to C$7.7 billion.

Key Economic Indicators in U.S. and Canada

	Real GDP growth (%)[1]		Change in CPI (%)[1]		Unemployment (%)		Merchandise exports		Merchandise imports		Balance of trade (Goods and services)	
							(US$ billion)	(C$ billion)[2]			(US$ billion)	(C$ billion)
	U.S.	Canada	U.S.	Canada	U.S.	Canada	U.S.	Canada	U.S.	Canada	U.S.	Canada
1996	3.6	n.a.	3.0	1.6	5.4	9.6	625	259	795	233	–102	n.a.
1997	4.4	4.5	2.3	1.6	4.9	9.1	689	281	870	273	–108	17
1998	4.3	3.9	1.6	1.3	4.5	8.3	682	298	912	298	–167	16
1999	4.1	5.1	2.2	1.5	4.2	7.6	696	331	1,025	320	–262	32
2000	4.1	4.4	3.4	1.5	4.0	6.8	782	384	1,218	356	–376	53

Notes: 1. Percentage change from previous year.
2. U.S. exports are valued on an FAS basis and imports are customs value. Canadian import and export values are FOB.

Sources: U.S. Department of Commerce, U.S. Department of Labor and Statistics Canada

2. Latin America

A. Economy: Mexico and Brazil Drive Regional Growth

Latin America achieved economic growth of 4.1% in 2000, the highest rate since the economy grew 5.2% both in 1993 and 1997. Exports of both goods and services contributed to the growth. Major factors included manufactured exports from Brazil aided by the Brazilian real's devaluation in the beginning of 1999, strong growth in output by Maquiladora plants in Mexico, and oil exports due to the soaring price of crude oil. Economic growth of 7.0% in Mexico and 4.5% in Brazil underpinned the regional economy. In contrast, Argentina's ailing economy followed up a decline of 3.4% in 1999 with a further decline of 0.5% in 2000 due to political instability, deteriorating government finances, high unemployment and a relative decline in price competitiveness because of the Argentine peso's fixed exchange rate. Inflation in the region was 8.7%, down from 9.5% in 1999. Despite the general tone of recovery in 2000, however, the economic outlook for 2001 grew increasingly uncertain. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) revised downward its initial growth forecast from 3.5% to 2.0% in August, mainly due to the U.S. economic slowdown. Forecasts for all major economies in the region were lowered, with Mexico and Costa Rica showing the greatest decreases. The depressed state of the Argentine economy was another cause for concern. Worries about its ability to service foreign debt could rekindle financial instability in Brazil and other neighboring countries.

B. Trade: Soaring Oil Prices Push Exports Past US$400 Billion

According to ECLAC, Latin American exports of goods and services (FOB basis) rose 19.7% to US$409.5 billion in 2000, the highest rate of growth in five years. Many countries registered double-digit growth, including Venezuela's stunning 62.7%. Underlying this increase was the robust state of the U.S. economy, as well as strong exports of mineral products (such as crude oil and nickel) and agricultural products (such as soybeans and sugar). Imports rose 17.0% to US$422.4 billion. Factors behind this rise included increased expenditure by oil-importing countries due to the rising

cost of crude and increased imports of parts by export-assembly industries in countries such as Mexico and the Dominican Republic.

C. Trade Environment: Agreement on FTAA Schedule Reached

Common external tariffs have not taken effect in MERCOSUR as a result of Argentina's unveiling of higher tariffs on consumer goods and its abolition of tariffs on capital goods (in an effort to enhance competitiveness) in the beginning of 2001. Talks on a bilateral free trade agreement between the U.S. and Chile, a MERCOSUR associate member, were launched at the end of 2000, dealing a blow to efforts to integrate the South American market. Trade ministers meeting in Buenos Aires, however, agreed to complete negotiations regarding the establishment of the FTAA by January 2005 and to implement the resulting agreement by the end of the same year.

D. Trade with Japan: Imports and Exports both Increase

According to Japanese statistics, Japanese exports to Latin America rose 8.4% to US$19.27 billion and imports rose 15.7% to US$10.65 billion in 2000. Japan's trade surplus with the region was US$8.63 billion. Machinery and equipment accounted for 87.7% of total Japanese exports. Within this category, Japanese exports of transport equipment, which amounted to 53.7% of total exports, rose to US$10.34 billion on the strength of recovered demand in Latin America. Metal ore and other raw materials amounting to US$3.75 billion accounted for the largest category of imports from Latin America.

Basic Economic Indicators in Latin America's Major Economies

	Real economic growth (%)		Change in CPI (%)		Balance of trade in goods and services (US$ billion)		Current account (US$ billion)		External debt (US$ billion)	Gold and foreign exchange reserves (US$ billion)
	1999	2000	1999	2000	1999	2000	1999	2000	End 2000	End 2000
Argentina	–3.4	–0.5	–1.8	–0.7	–4.9	–1.8	–12.4	–9.4	147.7	26.5
Brazil	0.7	4.5	8.4	5.3	–8.2	–8.3	–25.4	–24.6	236.1	33.0
Chile	–0.1	4.9	2.3	4.5	1.4	0.9	–0.1	–1.0	36.8	14.7
Colombia	–3.8	2.3	9.1	8.8	0.5	1.3	0.0	–0.1	33.3	9.0
Costa Rica	8.0	1.7	10.0	10.3	1.0	0.3	–0.7	–0.8	4.1	1.3
Ecuador	–9.5	2.8	60.7	91.0	1.2	1.2	1.0	1.4	13.6	1.2
Mexico	3.7	7.0	12.3	9.0	–7.4	–10.3	–14.3	–17.7	148.8	33.6
Peru	0.9	3.0	3.8	3.8	–1.2	–1.0	–1.8	–1.6	27.7	8.2
Venezuela	–5.8	4.0	20.1	13.4	5.1	14.7	3.7	13.3	31.5	20.5
Latin America	0.4	4.1	9.5	8.7	–21.7	–13.6	–55.7	–46.7	720.6	159.9

Note: Data on countries cited in the main text are based on the latest statistics available from each country and do not necessarily match the figures given in the table.

Source: United Nations Economic Commission for Latin America and the Caribbean.

3. Asia and Oceania

A. Economy: Growth Down in 2nd Half as U.S. Enters Slowdown

The ASEAN5 nations (Indonesia, Malaysia, Philippines, Singapore and Thailand), Hong Kong and the R.O.K. all rebounded in 2000 and most exceeded their previous year's growth rates. This was due mainly to 1) the continued expansion of the U.S. economy into the first half of 2000, 2) growing global demand for IT products, such as laptop computers and cellular phones, and 3) increased private-sector consumption in all countries. Significantly higher growth was registered by Singapore, Malaysia and the R.O.K.—all of which are heavily dependent on exports of IT products.

Cambodia, Laos, Myanmar and Vietnam, the four newest members of ASEAN, all registered real GDP growth. Vietnam, buoyed by strong growth in manufacturing thanks to surging output of

automobiles and motorcycles, achieved robust growth of 6.7%. Laos and Cambodia benefited from vigorous exports of clothing to register growth rates similar to those in 1999. Myanmar achieved growth of 13.9% according to unofficial figures, though some experts have noted that these figures seem to overstate the level of growth in the real economy.

China's real GDP growth reached 8.0%, the first time in 8 years the growth rate exceeded that of the previous year. This was due mainly to increased domestic demand and strong exports. In Taiwan, rising prices of crude oil and political strife between the ruling and opposition parties prompted a slump in share prices from the third quarter of 2000, hindering economic development.

In Southwest Asia, a slump in agriculture caused India to revise down its real GDP forecast from 6.0% to 5.2% for fiscal 2000 (April 2000 to March 2001). In Bangladesh, Pakistan and Sri Lanka, improved exports of ready-to-wear clothes and certain agricultural products contributed to growth.

In Oceania, slumping housing investments in Australia pushed GDP down to a government-estimated 2.0% in FY2000–'01 (July 2000 to June 2001), considerably slower than 4.3% in the previous year. In New Zealand, buoyant exports to Asia and increased use of information technology supported GDP growth of 3.5%, the second consecutive year above the 3% mark, following 3.9% in 1999.

In the second half of 2000, China and the rest of East Asia were affected by the U.S. economic slowdown and declining demand for IT products. At the same time, the ASEAN nations became increasingly concerned about growing competition with Chinese products. From the end of 2000, unease over the economic outlook was exacerbated by political turmoil due to scandals involving government leaders. Share prices and exchange rates of regional currencies remained depressed. In contrast with China, where strong exports and domestic demand were expected to support growth of between 7% and 8%, all other governments in the region revised down their growth forecasts for 2001.

B. Trade: Exports Decline from Start of 2001

East Asian exports surged in 2000, driven by economic expansion in the U.S. through the first half of the year and growth in demand for IT products, components and parts. According to national statistics, exports in U.S. dollar terms surged throughout East Asia, including 27.7% both in China and Indonesia, 21.7% in Taiwan, 20.3% in Singapore, 19.9% in the R.O.K., 18.3% in Thailand, 16.2% in Hong Kong and 16.1% in Malaysia.

Imports were fueled by vigorous demand for both intermediate goods and parts/materials for export-related production. Imports rose 40.3% in Indonesia, 35.8% in China, 34.0% in the R.O.K., 26.2% in Taiwan, 25.4% in Malaysia, 23.3% in Thailand, 21.3% in Singapore and 18.5% in Hong Kong. The value of oil imports also increased, reflecting the steep rise in oil prices.

As a result of the U.S. economic slowdown from the second half of 2000 and a rapid slump in demand for electronics products, however, East Asian exports began to slow between November and December 2000, then began to show monthly year-on-year declines from the beginning of 2001. In China, monthly year-on-year growth remained in double figures until May, when it slowed to 3.5%.

C. Trade Environment: Trade Friction Emerges as FTAs Spread

Prior to the establishment of the ASEAN Free Trade Area (AFTA) in 2002, the six founding members of ASEAN—Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand—lowered their tariffs to 5% or less for 92.7% of the products on the Common Effective Preferential Tariff (CEPT)

Inclusion List (IL). (Of the products covered in these counties' tariff lines, 98.4% are on the IL.) Regarding products on the Temporary Exclusion List (TEL), for which the tariff-lowering deadline can be extended, Malaysia gave notice in May 2000 that it would extend its deadline for 218 products (completely built-up and completely knocked-down parts) by two years, until 2005. In response, ASEAN signed a protocol in November 2000 laying down the procedures for deadline extensions. Based on this agreement, Thailand requested Malaysia to expand its imports of rice and other Thai products, but the negotiations broke down in July 2001. The Indonesian auto industry and Philippine petrochemical industry also began seeking extensions of tariff-lowering deadlines under the CEPT scheme.

Singapore, the front-running country in the movement to develop bilateral FTAs, signed the Agreement between New Zealand and Singapore on a Closer Economic Partnership (ANZSCEP) in November, which went into effect on January 1, 2001. Singapore also worked toward FTAs with Australia, the European Free Trade Association, Japan and the U.S., aiming to realize these agreements by the end of 2001. Other bilateral studies or negotiations were conducted by New Zealand with Hong Kong and Chile, and by Thailand with the R.O.K.

FTAs expanded in Southwest Asian countries, particularly India. A reciprocal FTA came into effect between India and Sri Lanka in March 2000. In addition, India not only signed trade agreements with Nepal and Bhutan, it also unilaterally lowered its tariffs on products from these countries.

Although 2000 saw progress in both AFTA's ongoing development and the expansion of bilateral FTAs, the year was also marked by rising trade friction within East Asia. Competition with China became particularly conspicuous due to its rise to global prominence as a source of manufactured products and as an exporter. Indonesia and Vietnam, for instance, saw imports of Chinese-made motorcycles surge. An antidumping committee in Indonesia began investigating Chinese motorcycles at the request of the Indonesian motorcycle industry in August 2000. India has been particularly sensitive to the influx of Chinese products. Although India liberalized trade by scrapping quantitative import restrictions, it also took action against imports, such as requiring products to be compliant with India's own quality standards, as well as raising tariffs on imported motorcycles and secondhand automobiles. Chinese products were the targets of an increasing number of antidumping investigations in India.

Negotiations on China's entry into the WTO (and previously the GATT, the WTO's predecessor) have been stretched out for more than 15 years. In the first half of 2001, however, rapid progress was made toward China finally becoming a member of the WTO. Once it joins the organization, China will be required to build a market-oriented economic system that complies with WTO rules, including the enactment and amendment of necessary legislation. At the same time, China will have to adopt WTO-stipulated tariffs and either reduce or abolish non-tariff barriers. The consequent influx of imports entering China, as well as the opening up of China's services sector and other areas of the economy, will engender increased competition between imported and domestic products and between domestic and foreign firms—thus putting great pressure on uncompetitive industries in China. The restructuring and weeding out of inefficient state-owned enterprises will proceed at an unprecedented pace and quite likely result in temporary side effects such as increased unemployment. In order for this idle labor to be absorbed, great hopes are being placed in efforts to attract more foreign firms, stimulate China's small and medium-sized business sector and nurture the development of firms in the services sector. For this to happen, however, measures are urgently needed to further deregulate the Chinese economy and provide more support to growing companies.

D. Trade with Japan: Trade with East Asia, Except China, Down in Early 2001

Trade between Japan and East Asia increased dramatically in 2000. According to Japanese customs statistics in U.S. dollars, Japanese exports to the Asian NIEs rose 27.6%, ASEAN4 rose 26.3% and China rose 30.4%. Imports from the Asian NIEs grew 29.3%, from the ASEAN4 29.9% and from China 29.0%. Thanks to the strong demand for IT products, Japanese exports of electronic components, general machinery and electrical machinery were particularly vigorous, as were Japan-bound East Asian exports of office equipment, semiconductors and other electronic parts and mineral fuels.

In the first four months of 2001, however, the U.S. economic slowdown and the worsening state of the Japanese economy caused trade between Japan and both the Asian NIEs and ASEAN4 to drop sharply, with Japanese exports falling 15.2% and 4.7% and imports growing just 1.7% and 5.4%, respectively. In contrast, Japanese trade with China continued to grow, with exports up 20.5% and imports up 13.2%.

Key Economic Indicators in Major Asian Economies

	Real GDP growth (%)			Change in CPI (%)		Approved FDI (US$ billion)		Balance of trade (US$ billion)		Current account (US$ billion)	
	1999	2000	2001	1999	2000	1999	2000	1999	2000	1999	2000
China	7.1	8.0	7.8	–1.4	0.4	41.22	62.38	36.21	32.10	15.65	14.00
Hong Kong	3.0	10.5	3.0	–4.0	–3.7	24.59	64.43	–6.00	–11.39	n.a.	n.a.
R.O.K.	10.9	8.8	3.8	0.8	2.3	15.54	15.69	28.37	16.60	24.48	11.04
Taiwan	5.4	6.0	4.0	0.2	1.3	4.23	7.61	15.04	13.06	8.38	7.59
Cambodia	5.0	4.5	5.0	4.0	–0.8	0.20	0.16	–0.23	–0.32	–0.05	–0.14
Indonesia	0.3	4.8	3.5	20.7	3.8	10.89	14.97	20.64	24.90	5.78	7.80
Laos	5.2	5.5	6.0	128.4	23.2	0.09	0.03	–0.25	–0.26	–0.16	–0.09
Malaysia	6.1	8.3	5.0-6.0	2.8	1.6	3.23	5.22	22.77	19.56	12.61	7.83
Myanmar	10.9	n.a.	n.a.	11.4	n.a.	0.06	n.a.	−1.31	n.a.	−0.49	n.a.
Philippines	3.3	3.9	3.3-3.8	6.7	4.4	2.73	1.82	4.30	6.69	7.24	8.65
Singapore	5.9	9.9	0.5-1.5	0.0	1.3	3.63	4.20	11.16	11.40	21.75	21.80
Thailand	4.2	4.4	2.0-3.0	0.3	1.6	3.60	5.31	9.27	5.53	12.42	9.95
Vietnam	4.8	6.7	7.5-8.0	0.1	–0.6	1.57	1.99	1.08	0.64	1.12	0.58
Bangladesh	5.5	n.a.	n.a.	8.9	3.4	n.a.	n.a.	−1.90	−1.78	−0.65	−0.44
India	6.4	5.2	n.a.	3.3	7.0	6.59	8.24	−17.10	−17.79	−4.16	−6.51
Pakistan	4.5	n.a.	n.a.	5.7	3.6	0.47	n.a.	−2.09	−1.44	−2.38	−0.98
Sri Lanka	4.3	6.0	4.5	4.7	6.2	0.79	n.a.	−1.37	−1.80	−0.57	−0.99

Notes: 1. India data are April–March, except foreign direct investment, Bangladesh and Pakistan data are July–June, and Myanmar data are April–March.
2. 2001 GDP growth rates are government forecasts, except for China (Chinese Academy of Social Sciences), the R.O.K. (Bank of Korea), and Cambodia and Laos (Asian Development Bank).
3. Approved FDI was calculated as follows:
(1) Hong Kong: Balance of payments
(2) Singapore: Commitments
(3) Philippines: Cumulative value of approvals by Board of Investment, Philippine Economic Zone Authority, Subic Bay Metropolitan Authority, and Clark Development Corporation.
(4) Bangladesh: Does not include investment in export processing zones.

Sources: CPI, balance of trade and current account: *Asian Development Outlook 2001* (ADB) and real GDP growth and foreign investment approvals: national statistics

4. Europe

A. Economy: Firm Demand and Increased Exports Stimulate Growth

Strong economic growth in the EU and the rest of Western Europe in 2000 was underpinned by the firm tone of both exports and demand in the region. The EU's real GDP growth rate was a ten-year high of 3.4%. Prices rose overall as the cost of crude oil soared. When oil prices peaked in November 2000, the monthly inflation rate reached 2.6% in the overall EU and 2.9% in the euro zone, where

import prices rose due to the weakening euro. For the year, inflation averaged 2.1% in the EU and 2.3% in the euro zone. The European Central Bank (ECB), in its determination to maintain price stability, raised the interest rate for main refinancing operations six times, reaching 4.75% in October 2000.

The European Commission, expecting the impact of the U.S. slowdown to be limited, forecast growth of 2.8% in April 2001. Harsher forecasts of between 1% and 2% were released subsequently by German and French economic institutions. Governments of the principal European countries sought to stimulate consumer spending and achieve sustained growth through large-scale tax cuts. The ECB cut interest rates by 0.25 points in May 2001, but renewed concern about inflation in the euro zone left the bank with a difficult course to steer between price stability and economic growth.

The economies of the 10 Central and Eastern European countries negotiating entry into the EU registered a robust average growth rate of 4.0% in their real GDPs. This was supported by a substantial rise in exports and expanded inward direct investment. The improving macroeconomic stability of these countries is expected to help sustain strong growth in 2001 as well.

B. Trade: EU External Trade Deficit Widens

According to Eurostat, the EU's statistics office, internal trade exceeded external trade by a ratio of three to two in 2000. Internal trade grew 15.5% on the previous year, with Germany, France, the U.K., the Netherlands, Italy and Belgium leading the way. The four largest internal trade surpluses were recorded by the Netherlands, Germany, Belgium and Ireland.

External trade was vigorous, with exports up 23.2% to 935.7 billion euros and imports up 31.6% to 1.26 trillion euros, the first time imports had exceeded one trillion euros. Export growth was due principally to increased export competitiveness in the euro zone, owing to the weakening of the euro, while outside the zone British exports to the booming U.S. market grew almost 30% in value despite the strength of the pound. There was also strong growth in exports to Central and Eastern Europe, principally the Czech Republic and Hungary, as well as Turkey and the recovering economies of Asia. Import growth was due largely to a huge 88.3% rise in the value of energy imports, which made up around 14% of all imports, because of soaring prices of crude oil. The EU external trade deficit widened from the previous year, when it recorded its first deficit since membership was expanded to 15 countries. The EU's largest trade deficit was with China, surpassing even that with Japan, as imports as well as exports increased sharply in EU-China trade.

Exports from Central and Eastern European countries rose, supported by strong demand in the EU market in the first half of the year. Poland, Slovenia and Slovakia saw their trade deficits with the EU shrink. Countries that saw their imports from the EU grow, such the Czech Republic and Romania, however, also saw their trade deficits widen. Contributing to this trend were growing imports from Russia owing to sharply higher prices of crude oil. The EU's share of total trade with Central and Eastern Europe declined somewhat, due to the weaker euro's impact on export value. Economic relations with the EU remained strong, however, with Hungary leading the way.

C. Trade Environment: New Entries into the EU Anticipated

EU leaders meeting at the European Council in Nice in December 2000 agreed on structural reforms to facilitate the EU's enlargement. It became quite likely that candidate countries in Central and Eastern Europe would enter the EU from 2004. Besides pursuing enlargement, the EU also strengthened external trade relations. The EU and Macedonia signed the Stabilization and Association Agreement (SAA) in April 2001, which provides for the signing of an FTA within 10

years of the SAA taking effect. An Association Agreement including an FTA was signed with Egypt on June 25 and biregional FTA negotiations with MERCOSUR also got under way. Outside the EU, the European Free Trade Association (EFTA), led by pro-FTA Switzerland, joined with Mexico in signing an FTA in November 2000, with implementation set for October 2001. EFTA also engaged in negotiations with Canada, Chile, MERCOSUR, the R.O.K., Singapore and South Africa.

D. Trade with Japan: EU Deficit Grows

The EU's trade deficit with Japan rose 12.4% to 40.8 billion euros in 2000. Exports grew 26.4% to 44.7 billion euros and imports rose 19.2% to 85.5 billion euros. Fast-growing exports included office machines and computers, automobiles, optical equipment and medical equipment, while electrical machinery contributed to import growth.

According to Japanese customs statistics, Japan's only trade deficits among EU countries were with Ireland, Denmark and Sweden. The deficit with Ireland roughly doubled to US$1.66 billion as imports of general machinery and electrical machinery doubled. The deficit with Denmark rose almost 40% as Japanese exports of transport and general machinery declined while Danish pork imports increased. Japan's trade surpluses with the Netherlands, France and Italy, however, widened between US$400 million and US$500 million each.

Japan's combined trade surplus with the eight leading Central and Eastern Europe countries increased 14.0% to US$834 million as exports rose 27.2% to US$1.71 billion while imports grew 42.9% to US$876.9 million.

Key Economic Indicators in Major Western European Economies

	Real GDP growth (%)			Change in CPI (%)		Unemployment (%)		Exports (billion euros)		Imports (billion euros)		Balance of trade (billion euros)	
	1999	2000	2001	2000	2001	2000	2001	1999	2000	1999	2000	1999	2000
EU	2.5	3.4	2.8	2.1	2.1	8.3	7.7	759.8	935.7	779.1	1,025.5	–19.3	–89.8
Euro zone	2.5	3.4	2.8	2.3	2.2	8.9	8.5	831.5	1,004.7	780.6	997.8	50.9	6.9
Germany	1.6	3.0	2.2	2.1	2.0	8.1	7.8	510.0	596.7	444.8	544.1	65.2	52.6
France	2.9	3.2	2.9	1.8	1.3	9.5	8.5	304.3	351.8	294.2	361.0	10.1	–9.2
Italy	1.6	2.9	2.5	2.6	2.2	10.5	9.8	221.0	257.3	207.0	255.9	14.0	1.4
Spain	4.0	4.1	3.2	3.5	3.2	14.1	12.8	97.7	117.8	127.0	157.1	–29.3	–39.3
Netherlands	3.9	3.9	3.4	2.3	4.3	2.8	2.6	205.1	249.7	193.4	234.4	11.7	15.3
Belgium	2.7	3.9	3.0	2.7	1.9	7.0	6.5	175.8	207.2	165.2	196.1	10.6	11.1
Luxembourg	7.5	8.5	5.6	3.8	2.2	2.2	2.0						
Ireland	9.8	10.7	7.5	5.3	4.0	4.2	3.8	66.8	83.0	43.8	55.0	23.0	28.0
Portugal	3.0	3.3	2.6	2.8	3.5	4.2	4.6	23.0	25.2	37.5	41.4	–14.5	–16.2
Austria	2.8	3.2	2.5	2.0	1.6	3.7	3.4	62.0	72.7	66.9	78.4	–4.9	–5.7
Finland	4.2	5.7	4.0	3.0	2.4	9.8	9.1	39.6	49.9	30.1	37.3	9.5	12.6
Greece	3.4	4.1	4.4	2.9	2.6	11.0	10.5	9.8	11.7	26.3	30.2	–16.5	–18.5
U.K.	2.3	3.0	2.7	0.8	1.4	5.6	5.3	255.4	308.0	304.8	371.0	–49.4	–63.0
Denmark	2.1	2.9	2.1	2.7	2.1	4.7	4.6	47.2	55.0	42.9	49.5	4.3	5.5
Sweden	4.1	3.6	2.7	1.3	1.5	5.9	5.2	79.6	94.3	64.3	79.0	15.3	15.3
Norway	0.9	2.9	2.3	3.1	3.1	3.4	3.3	41.1	61.0	31.0	35.9	10.1	25.1
Switzerland	1.5	3.4	2.3	1.6	1.2	2.0	1.5	73.8	85.4	72.8	86.7	1.0	–1.3
Iceland	4.3	2.9	2.6	5.0	6.5	1.3	1.5	1.9	2.0	2.3	2.8	–0.4	–0.8

Notes: 1. 2000 figures are estimates and 2001 figures are forecasts.
2. Trade figures for Belgium and Luxembourg are aggregates for the two countries.
3. Greece joined the euro in 2001.

Sources: European Commission and Eurostat. CPI and unemployment figures for Norway, Switzerland and Iceland are from national statistics.

Key Economic Indicators in Major Central and Eastern European Economies

	Real GDP growth (%)			Change in CPI (%)		Unemployment (%)		Exports (US$ billion)		Imports (US$ billion)		Balance of trade (US$ billion)	
	1999	2000	2001	2000	2001	2000	2001	1999	2000	1999	2000	1999	2000
Poland	4.1	4.2	4.3	10.1	6.8	16.0	16.5	27.41	31.65	45.91	48.94	–18.50	–17.29
Hungary	4.5	5.3	4.6	9.8	9.0	6.4	6.2	25.01	28.09	28.01	32.08	–3.00	–3.99
Czech Republic	–0.8	3.1	3.5	3.9	4.3	8.8	8.5	26.24	29.00	28.08	32.17	–1.84	–3.17
Slovakia	1.9	2.2	3.0	12.0	7.5	18.6	18.4	10.28	11.91	11.27	12.67	–0.99	–0.76
Romania	–3.2	1.6	1.8	49.0	36.7	7.2	7.7	8.50	10.37	10.40	13.06	–1.90	–2.69
Bulgaria	2.4	5.4	5.2	10.1	8.5	17.8	17.5	4.01	4.81	5.52	6.49	–1.51	–1.68
Slovenia	4.9	4.5	4.3	8.9	8.0	7.2	7.0	8.55	8.73	10.08	10.12	–1.53	–1.39
Croatia	–0.4	3.7	–	6.2	–	21.3	–	4.30	4.43	7.80	7.92	–3.50	–3.49

Note: All 2000 figures are estimates, while 2001 figures for real GDP, CPI and unemployment are forecasts.

Sources: European Commission, except for all import and export figures, which are based on national and central bank statistics. In addition, all figures for Croatia were estimated from national and central bank statistics of its trading partners.

5. Commonwealth of Independent States (CIS)

A. Economy: Resource Exporters Push Growth and Capital Investment Surges

Most countries in the Commonwealth of Independent States (CIS) achieved high levels of growth in 2000. The Russian economy grew 8%, a 30-year high. The leading factors behind strong regional growth were the Russian economy's favorable impact on the other CIS economies and greatly improved terms of trade for resource-exporting countries due to soaring prices of primary products. Fixed investment in Russia grew 17% to outpace GDP growth. A virtuous cycle of sustained growth was created in Russia by mutually complementary external factors, such as sharply higher prices of crude oil and the ruble's devaluation, and internal factors, such as increased domestic demand. President Vladimir Putin strengthened his political position and pushed for rapid tax reform and other improvements in the business environment. Strong exports fueled increased capital investment throughout the region, with the sole exception of Georgia.

B. Trade: Higher Resource Prices and Russian Demand Fuel Exports

CIS exports rose 38% in 2000, with only Moldova failing to achieve a significant increase. Crude oil exports from Azerbaijan and Kazakhstan grew both in volume and value because of soaring oil prices. Turkmenistan increased exports of natural gas, its predominant trade item, to Russia and Ukraine. Strong demand in the Russia economy and the ruble's strength against other currencies in the region supported a substantial rise in intra-regional exports to Russia. Cumulative imports grew 14%, with only Uzbekistan and Kyrgyzstan showing no upturn. Trade balances improved in all countries except Armenia, Belarus, Georgia and Moldova. The CIS cumulative trade surplus rose 25% to US$73.0 billion.

C. Trade Environment: Resource-Rich Countries Drive Growth, Contribute to Stability

Countries with rich resources of oil and natural gas, such as Kazakhstan, Russia and Turkmenistan, showed considerable potential as markets for machinery and equipment and non-durable goods, imports that were funded with export revenue. Countries without large reserves of natural resources, however, such as Georgia, Kyrgyzstan, Moldova and Tajikistan, were burdened with growing foreign borrowings needed to cover chronic current account deficits. Sustainable, balanced development of the region will depend on the resource-rich countries helping to stabilize these resource-poor countries.

D. Trade with Japan: High-Level Mission Visits Russia to Develop Business

Japanese exports to the CIS rose 6% to US$794.96 million and imports from the CIS rose 23% to US$4.93 billion in 2000. Exports to Russia, Japan's largest trading partner in the region, after slumping the year before, grew 19% to US$571.36 million. Japanese exports to Kazakhstan and Turkmenistan were also up sharply. Imports from Russia grew for a second consecutive year, rising 22% to US$4.59 billion. Imports from all other CIS countries, except Armenia, also rose. Japan's first major economic mission to Russia in 25 years took place in May and June 2001, headed by Keidanren Chairman Takashi Imai. The mission evaluated the Russian business environment for opportunities to develop new business.

Key Economic Indicators in CIS Economies

(% change on previous year)

	Real GDP growth		Industrial production		Change in CPI		Exports		Imports	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
CIS	3.2	7.3	7.0	9.8	81.0	27.0	–0.3	38.4	–23.2	13.5
Armenia	3.3	6.0	5.0	6.4	1.0	–0.8	5.9	27.4	–11.2	10.4
Azerbaijan	7.4	11.4	4.0	6.9	–8.0	1.8	53.2	87.9	–4.1	13.4
Belarus	3.4	6.0	10.0	8.0	294.0	168.6	–16.2	24.6	–22.1	27.2
Georgia	3.0	1.8	5.0	10.8	19.0	4.0	23.9	38.5	–31.9	20.7
Kazakhstan	2.7	9.6	3.0	14.6	8.0	13.2	2.9	63.4	–15.3	37.2
Kyrgyzstan	3.7	5.0	–4.0	6.0	36.0	18.7	–11.6	11.2	–28.7	–7.5
Moldova	–3.4	1.9	–12.0	2.3	39.0	31.0	–26.9	2.0	–44.4	36.5
Russia	5.4	8.3	8.0	9.0	37.0	20.2	0.5	40.9	–29.7	9.1
Tajikstan	3.7	8.3	6.0	10.3	26.0	24.0	15.4	13.1	–6.6	1.6
Turkmenistan	16.0	17.6	15.0	25.0	…	…	99.8	111.1	46.6	20.8
Ukraine	–0.2	5.8	4.0	12.9	23.0	28.2	–8.4	25.8	–19.3	17.8
Uzbekistan	4.4	4.0	6.0	6.4	26.0	25.0	–9.0	11.5	–9.1	3.7

Sources: Prepared by JETRO from *Statistical Bulletin* (Nos. 2–4 and 7, 2001, Interstate Statistical Committee of the CIS), www.*cisstat.com* (Interstate Statistical Committee of the CIS), *Economic Survey of Europe* (Volume 1, 2001, United Nations Economic Commission for Europe) and *Uzbek Economic Trends* (No. 4, 2000, European Commission).

6. Middle East and Africa

A. Middle East and North Africa

(1) Economy and Trade: Higher Crude Prices Drive Oil-Producing Economies

Real GDP growth in the Middle East and North Africa recovered from 0.8% in 1999 to 5.4% in 2000. This was due to a strong economic upturn in oil-producing countries as a result of crude oil prices rising after OPEC and non-OPEC oil producers agreed to reduce output in March 1999. Another key factor was Turkey's return to growth following an economic contraction brought on by serious earthquakes in 1999.

New free trade arrangements were formed in the region, such as an agreement by Egypt, Tunisia, Morocco and Jordan to form a free trade bloc ahead of the Arab Free Trade Area's establishment in 2005. Egypt also signed an agreement with the EU in June regarding the establishment of an EU–Mediterranean free trade area in 2010. The region's free trade arrangements thus gained a broader geographical scope.

(2) Trade with Japan: Surging Oil Imports Drive up Japan's Trade Deficit

Japanese exports to the region declined 0.6% to US$12.19 billion while imports rose 60.6% to US$50.52 billion in 2000. The export decline was due largely to a 14.3% fall in Japanese iron and steel exports. As a result, Japan's trade deficit with the region almost doubled to US$38.32 billion.

Japan's import of crude oil skyrocketed 69.3% to US$38.55 billion, or 76% of total imports, due to a rise in oil prices.

B. Sub-Saharan Africa

(1) Economy and Trade: South Africa and Oil-Producing Countries Boost Growth

The real GDP growth rate of sub-Saharan Africa accelerated from 2.2% in the previous year to 3.1% in 2000. The increase was underpinned by healthy domestic demand in South Africa, which accounted for a large share of the region's economy, and strong growth in Nigeria and other oil-producing countries due to the high price of crude oil.

In developments regarding regional economic blocs, the West African Economic and Monetary Union (UEMOA) launched a customs union and the Common Market for Eastern and Southern Africa (COMESA) agreed in June 2000 on the formation of a customs union by the end of 2004. The Economic Community of West African States (ECOWAS) decided in January 2000 to adopt a common currency by 2003.

(2) Trade with Japan: Nonferrous Metal Imports Produce Japanese Deficit

Japanese exports to sub-Saharan Africa shrank 0.4% from the previous year to US$3.69 billion in 2000, while imports rose 22.3% to US$4.10 billion. The export decline was due mainly to electrical equipment and transport equipment, which fell 27.8% and 0.7%, respectively. Growth in imports was fueled largely by nonferrous metals, such as platinum and rhodium, which increased 48.0% to US$1.81 billion due to higher prices.

Key Economic Indicators in the Middle East and Africa

(Units: US$ million, %)

Country	Real GDP growth (%)		Change in CPI (%)		Value of exports		Value of imports		Current account		External debt
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	End 1999
Iran	2.4	5.9	20.1	13.0	21,030	21,725	13,433	11,150	6,589	n.a.	10,357
Saudi Arabia	–0.8	4.5	–1.2	–0.6	50,757	n.a.	28,032	30,299	110	n.a.	n.a.
United Arab Emirates	0.5	5.8	2.0	2.0	35,093	43,295	30,674	31,926	2,786	9,190	n.a.
Turkey	–3.4	7.2	68.8	39.0	26,588	27,324	40,687	53,983	–1,364	–9,767	101,796
Israel	2.3	6.0	1.3	0.0	22,778	28,275	30,630	35,221	–1,881	–737	n.a.
Egypt	6.1	5.1	3.1	2.7	4,445	6,388	17,008	17,861	–1,723	–1,171	30,404
Kenya	1.4	–0.3	3.5	6.2	1,641	1,572	2,935	3,253	–98	–238	6,562
Tanzania	4.7	4.9	7.9	5.9	559	663	1,679	1,536	–793.5	–514.5	7,967
Zimbabwe	–0.2	–4.2	58.2	55.7	1,523	1,368	1,792	1,546	27	n.a.	4,566
South Africa	1.9	3.1	5.2	5.3	26,899	30,058	26,741	29,906	–556	–439	24,158
Nigeria	1.1	2.8	6.6	6.9	12,876	n.a.	8,588	n.a.	445	n.a.	29,358
Côte d'Ivoire	1.5	–2.3	0.8	3.6	4,301	3,614	2,888	2,486	–133	56	13,170

Notes:
1. Local currencies converted to U.S. dollars at the IMF average rate for each year.
2. 2000 figures for all countries, except Turkey, are not final.
3. Iranian figures for FY1999–2000 and FY2000–2001 are from March 21 to March 20. FY2000–2001 import and export figures are for first three quarters only.
4. IMF estimates are used for the 1999 and 2000 real GDP growth rates of Nigeria, Zimbabwe and the UAE, and the current account of Zimbabwe in 1999.
5. IMF estimates are used for the 1999 and 2000 CPI figures of Nigeria, Saudi Arabia and the UAE .
6. Egyptian figures for FY1998–1999 and FY1999–2000 are from July 1 to June 30. Imports and exports are based on balance of payments. Changes in CPI are for calendar year.
7. Zimbabwe imports and exports in 1999 and 2000 are for first 10 months only.
8. External debt figures are from *World Development Indicator*.

Sources: National statistics, *IFS* and *World Economic Outlook* (IMF) and *World Development Indicator* (World Bank).

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