

**JETRO WHITE PAPER ON
INTERNATIONAL TRADE
1999**

**FALL IN PRICES CAUSES SLOWDOWN
IN WORLD TRADE**

(Summary)

JETRO

1999

JAPAN EXTERNAL TRADE ORGANIZATION

CONTENTS

PART 1. OVERVIEW OF GLOBAL TRADE	1
1. World Trade Growth Slumps to Decade Low	1
2. Trade Contracts in East Asia, Shows Signs of Recovery in 1999	8
3. Widespread Decline in Export Prices	11
4. Drop in Import Prices Contributes to Price Stability in Industrialized Countries	16
5. Signs of a Recovery in Japanese Trade in 1999	19
6. Issues Facing Japan	26
PART 2. SUMMARY OF REGIONAL TRENDS	27
1. North America	27
(1) Economic and Trade Trends	27
(2) Changes in Trade Environment	27
(3) Developments in Trade with Japan	27
2. Latin America	28
(1) Economic and Trade Trends	28
(2) Changes in Trade Environment	28
(3) Developments in Trade with Japan	29
3. Asia and Oceania	29
(1) Economic Trends	29
(2) Trends in Trade	30
(3) Changes in Trade Environment	30
(4) Developments in Trade with Japan	31
4. Europe	32
(1) Western Europe	32
(2) Central - Eastern Europe and CIS	34
5. Middle East and Africa	35
(1) Middle East	35
(2) Africa	36

PART 1. OVERVIEW OF GLOBAL TRADE

1. World Trade Growth Slumps to Decade Low

According to the report, 1998 was one of the most stagnant years of this decade for global trade. But signs of recovery, such as the turnaround in crude oil prices and the stabilization of the crisis that hit Asian economies, are leading to expectations for improvement in 1999.

The U.S. dollar value of worldwide trade in 1998 showed a decrease from the year before, with exports down 1.8% on the year and imports down 3.8%. It was the first such decline in exports since 1983, and the first in imports since 1993. In volume terms, growth in global trade was sluggish in 1998, increasing only 3.0% compared with a yearly increase of 10.6% in 1997 (Tables 1 - 3).

- (1) Among the causes of the fall in global exports in nominal dollar terms in 1998 were a decline in exports by Japan and East Asian economies and a decline in exports by oil-producing countries due to a fall in crude oil prices. Imports shrank as a result of a contraction in demand in Japan and East Asia. The high level of interdependence between countries and regions in Asia (including Japan) resulted in a simultaneous drop in imports and exports (Table 4).
- (2) Due to the U.S. economy's dependence on Japanese and East Asian markets, the economic downturn in the Asian region caused U.S. exports to fall 0.9% (Tables 7, 8), but imports grew by 5.0% on the previous year as the U.S. absorbed exports from the region. Also noticeable was the growth in trade within the North American Free Trade Agreement (NAFTA) region and the EU, as well as between the U.S. and EU.
- (3) The growth rate of world trade in terms of volume in 1998 was the lowest of the nineties, notwithstanding industrialized countries' imports and exports both exceeding growth for the world as a whole. The reasons for this were a leveling-off in the volume of exports from developing countries and a sharp contraction in their imports (Table 1).
- (4) Global exports of services in 1998 were down 2.1% from the previous year to US\$1.29 trillion. The fall in service exports was the first since 1983 (the first year for which comparable figures are available). Although U.S. and EU imports and exports grew, the fall in imports and exports to and from Japan and East Asia dragged down the total as in the case of trade in goods (Tables 5, 6).

Note: Unless otherwise noted, the Asian Newly Industrialized Economics (NIEs) comprise of the Republic of Korea (R.O.K.), Singapore, Taiwan and the Hong Kong Special Administrative Region (SAR). The four members of the Association of Southeast Asian Nations (ASEAN4) are Malaysia, Thailand, the Philippines and Indonesia. East Asia refers to the nine economies of Asian NIEs, ASEAN4, and China.

Table 1. Rate of Growth in World Trade in Goods

(Unit: %)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
% change in world trade (volume)	4.9	4.5	3.9	9.9	10.3	6.4	10.6	3.0	3.9	5.9
% growth in exports (volume)										
Industrialized countries	5.6	4.7	3.0	9.6	9.5	5.8	11.2	3.4	2.7	5.6
Developing countries	5.5	9.7	7.8	13.5	12.4	8.8	11.1	1.5	4.3	5.5
% growth in imports (volume)										
Industrialized countries	4.0	4.8	2.4	11.1	9.5	6.0	11.0	4.6	5.2	5.9
Developing countries	5.4	12.9	9.9	6.1	12.9	8.0	7.5	-3.0	3.1	6.5
% change in world trade prices										
U.S. dollars	-2.0	2.1	-4.2	2.4	8.6	-1.3	-6.5	-4.3	NA	1.8
SDRs	-2.8	-0.8	-3.4	-0.2	2.5	3.2	-1.3	-2.9	-1.0	1.9

Note: IMF forecasts for 1999 and 2000.

Source: Prepared by JETRO from *World Economic Outlook, May 1999* (IMF).**Table 2. Trends in Value of Global Exports**

(Units: US\$ billion, %)

	1995	1996	1997	1998	% change	Share
World	5,099	5,310	5,536	5,438	-1.8	100.0
Industrialized countries	3,470	3,561	3,641	3,657	0.4	67.2
U.S.	585	625	689	682	-0.9	12.6
Japan	443	411	421	388	-7.8	7.1
EU15	2,062	2,121	2,117	2,187	3.3	40.2
France	287	288	290	305	5.3	5.6
Germany	524	524	512	541	5.5	9.9
Italy	234	252	240	242	0.8	4.5
Netherlands	196	197	195	200	2.4	3.7
Spain	92	102	104	109	4.7	2.0
U.K.	242	261	282	272	-3.5	5.0
Developing countries	1,629	1,750	1,895	1,781	-6.0	32.8
East Asia	871	907	968	915	-5.5	16.8
Asian NIEs	529	551	571	527	-7.7	9.7
R.O.K.	125	130	136	132	-2.8	2.4
Taiwan	112	116	121	110	-8.9	2.0
Hong Kong	174	181	188	174	-7.5	3.2
Singapore	118	125	125	110	-12.1	2.0
ASEAN4	193	204	215	204	-4.8	3.8
Malaysia	74	78	79	73	-6.9	1.3
Thailand	56	56	58	54	-5.4	1.0
Philippines	18	20	25	28	10.7	0.5
Indonesia	45	50	53	49	-8.6	0.9
China	149	151	183	184	0.4	3.4
Latin America	223	249	278	275	-1.1	5.1
Middle East	156	182	183	NA	NA	NA
Africa	91	107	152	120	-21.1	2.2
Russia, Central and Eastern	233	251	260	252	-3.2	4.6
Europe						

Note: Figures for East Asia are totals for the nine economies of the Asian NIEs, ASEAN4 and China.

Sources: Prepared by JETRO from *International Financial Statistics, July 1999* and *Direction of Trade Statistics, June 1999* (both IMF). Taiwan data for 1998 are from *Financial Statistics, March 1999* (The Central Bank of China).

Table 3. Trends in Value of Global Imports

(Units: US\$ billion, %)

	1995	1996	1997	1998	% change	Share
World	5,125	5,372	5,588	5,377	-3.8	100.0
Industrialized countries	3,426	3,550	3,637	3,719	2.3	69.2
U.S.	771	822	899	944	5.0	17.6
Japan	336	349	339	280	-17.2	5.2
EU15	1,964	2,011	2,009	2,101	4.6	39.1
France	275	278	270	288	6.7	5.3
Germany	464	459	446	467	4.9	8.7
Italy	206	208	210	216	2.7	4.0
Netherlands	177	181	178	185	3.9	3.4
Spain	115	122	123	133	8.5	2.5
U.K.	264	286	311	314	0.9	5.8
Developing countries	1,699	1,822	1,951	1,658	-15.0	30.8
East Asia	903	948	964	787	-18.3	14.6
Asian NIEs	556	582	600	487	-18.7	9.1
R.O.K.	135	150	145	93	-35.5	1.7
Taiwan	104	101	114	105	-8.0	1.9
Hong Kong	193	199	209	185	-11.6	3.4
Singapore	125	131	132	105	-20.9	1.9
ASEAN4	217	228	222	159	-28.2	3.0
Malaysia	78	78	79	58	-26.2	1.1
Thailand	71	72	63	43	-31.6	0.8
Philippines	28	34	38	31	-19.8	0.6
Indonesia	41	43	42	27	-34.4	0.5
China	129	139	142	140	-1.3	2.6
Latin America	221	245	293	NA	NA	NA
Middle East	149	155	162	NA	NA	NA
Africa	102	101	138	143	3.5	2.7
Russia, Central and Eastern	250	297	319	NA	NA	NA
Europe						

Note and Sources: Same as Table 2.

Table 4. Contributions to Changes in World Trade

	Exports			Imports		
	1996	1997	1998	1996	1997	1998
% Annual growth	4.1	4.2	-1.8	4.8	4.0	-3.8
Industrialized countries	1.8	1.5	0.3	2.4	1.6	1.5
U.S.	0.8	1.2	-0.1	1.0	1.4	0.8
Japan	-0.6	0.2	-0.6	0.3	-0.2	-1.0
EU15	1.1	-0.1	1.3	0.9	-0.0	1.6
France	0.0	0.0	0.3	0.0	-0.1	0.3
Germany	0.0	-0.2	0.5	-0.1	-0.2	0.4
Italy	0.4	-0.2	0.0	0.0	0.0	0.1
Netherlands	0.0	-0.0	0.1	0.1	-0.0	0.1
Spain	0.2	0.0	0.1	0.1	0.0	0.2
U.K.	0.4	0.4	-0.2	0.4	0.5	0.0
Developing countries	2.4	2.7	-2.1	2.4	2.4	-5.2
East Asia	0.7	1.2	-1.0	0.9	0.3	-3.2
Asian NIEs	0.4	0.4	-0.8	0.5	0.3	-2.0
R.O.K.	0.1	0.1	-0.1	0.3	-0.1	-0.9
Taiwan	0.1	0.1	-0.2	-0.0	0.2	-0.2
Hong Kong	0.1	0.1	-0.3	0.1	0.2	-0.4
Singapore	0.1	-0.0	-0.3	0.1	0.0	-0.5
ASEAN4	0.2	0.2	-0.2	0.2	-0.1	-1.1
Malaysia	0.1	0.0	-0.1	0.0	0.0	-0.4
Thailand	-0.0	0.0	-0.1	0.0	-0.2	-0.4
Philippines	0.1	0.1	0.0	0.1	0.1	-0.1
Indonesia	0.1	0.1	-0.1	0.0	-0.0	-0.3
China	0.0	0.6	0.0	0.2	0.2	-0.0
Latin America	0.5	0.5	-0.1	0.5	0.9	NA
Middle East	0.5	0.0	NA	0.1	0.1	NA
Africa	0.3	0.8	-0.6	-0.0	0.7	0.1
Russia, Central and Eastern Europe	0.4	0.2	-0.2	0.9	0.4	NA

Note and Sources: Same as Table 2.

Table 5. Trends in Value of World Exports of Services

(Units: US\$ billion, %)

	1995	1996	1997	1998	% change	Share
World	1,193	1,274	1,318	1,290	-2.1	100.0
U.S.	197	215	232	234	0.7	18.1
Japan	64	66	68	61	-10.8	4.7
EU15	511	535	536	550	2.6	42.6
France	83	83	80	79	-2.1	6.1
Germany	75	79	75	76	1.4	5.9
Italy	65	69	72	70	-2.2	5.4
Netherlands	47	49	49	48	-0.5	3.7
Spain	40	44	44	48	10.1	3.7
U.K.	75	81	92	100	8.3	7.7
East Asia	160	178	188	151	-19.6	11.7
Asian NIEs	101	107	111	93	-16.6	7.2
R.O.K.	22	23	25	24	-7.4	1.8
Taiwan	15	16	17	17	-2.3	1.3
Hong Kong	34	38	38	34	-10.5	2.6
Singapore	30	30	30	18	-40.0	1.4
ASEAN4	41	50	52	35	-32.4	2.7
Malaysia	11	14	15	11	-26.8	0.8
Thailand	15	17	16	13	-18.0	1.0
Philippines	9	13	15	8	-49.6	0.6
Indonesia	5	6	7	4	-39.6	0.3
China	18	21	25	23	-6.0	1.8
Latin America	44	46	50	53	5.0	4.1
Middle East	NA	NA	NA	NA	NA	NA
Africa	25	27	28	26	-6.2	2.0
Russia, Central and Eastern Europe	NA	NA	NA	NA	NA	NA

Note: Figures for East Asia are totals for the nine economies of the Asian NIEs, ASEAN4 and China.

Source: Prepared by JETRO from *WTO Database*.

Table 6. Trends in Value of World Imports of Services

(Units: US\$ billion, %)

	1995	1996	1997	1998	% change	Share
World	1,200	1,264	1,301	1,291	-0.8	100.0
U.S.	130	139	152	161	5.9	12.5
Japan	122	129	122	110	-10.3	8.5
EU15	503	520	518	538	3.9	41.7
France	65	66	62	63	1.1	4.9
Germany	125	127	118	122	3.1	9.4
Italy	65	67	70	69	-1.3	5.4
Netherlands	45	45	44	45	2.2	3.5
Spain	22	24	24	27	12.3	2.1
U.K.	60	65	71	76	6.9	5.9
East Asia	165	177	191	162	-15.3	12.5
Asian NIEs	87	94	96	87	-9.2	6.7
R.O.K.	25	29	29	23	-21.0	1.8
Taiwan	23	24	24	23	-3.3	1.8
Hong Kong	21	22	23	23	-2.2	1.8
Singapore	18	19	19	18	-7.4	1.4
ASEAN4	54	61	65	46	-29.0	3.6
Malaysia	15	17	17	12	-31.5	0.9
Thailand	19	19	17	12	-28.7	0.9
Philippines	7	9	14	10	-29.2	0.8
Indonesia	13	15	16	12	-26.4	0.9
China	25	22	30	29	-5.0	2.2
Latin America	52	55	65	67	4.0	5.2
Middle East	NA	NA	NA	NA	NA	NA
Africa	36	36	38	37	-2.4	2.9
Russia, Central and Eastern Europe	NA	NA	NA	NA	NA	NA

Note and Source: Same as Table 5.

Table 7. World Trade Matrix: 1997-98 Growth Rates

(Unit: %)

	World	NAFTA	U.S.	EU	Japan	East Asia	Asian NIEs	R.O.K.	Taiwan	Hong Kong	Singapore	ASEAN4	Malaysia	Thailand	Philippines	Indonesia	China
World	-1.8	8.4	5.0	4.4	-17.2	-18.3	-18.7	-35.5	-8.0	-11.6	-20.9	-28.2	-26.2	-31.6	-19.8	-34.4	-1.3
NAFTA	-0.0	5.0	5.0	5.4	-13.7	-17.5	-19.9	-34.6	-12.0	-15.6	-11.2	-23.6	-17.8	-29.3	-10.5	-47.8	9.8
U.S.	-0.9	5.5	5.5	6.2	-11.7	-16.8	-19.1	-34.0	-10.8	-14.5	-11.4	-22.8	-16.9	-28.8	-9.2	-49.3	10.9
EU	3.0	11.3	11.4	5.1	-14.4	-20.2	-16.6	-41.7	18.1	-17.3	-21.1	-41.3	-39.0	-34.6	-36.1	-53.3	4.2
Japan	-8.1	1.3	0.9	8.6	-15.4	-15.2	-15.7	-31.2	0.2	-14.5	-18.8	-21.4	-20.0	-23.6	-7.1	-37.6	-8.2
East Asia	-5.4	4.6	4.3	6.3	-15.4	-15.2	-15.7	-31.2	0.2	-14.5	-18.8	-21.4	-20.0	-23.6	-7.1	-37.6	-8.2
Asian NIEs	-7.8	0.1	-0.4	2.7	-18.9	-16.6	-18.7	-34.1	-4.8	-17.4	-27.5	-24.4	-22.5	-27.1	-10.9	-43.2	-8.6
R.O.K.	-2.8	4.7	5.5	7.7	-17.2	-17.3	-16.6	-37.2	11.4	-21.0	-29.9	-24.1	-17.3	-35.4	8.9	-49.6	-12.0
Taiwan	-9.4	-0.2	-0.6	7.5	-20.2	-19.2	-17.8	-37.2	11.4	-21.0	-29.9	-24.1	-17.3	-35.4	8.9	-49.6	-12.0
Hong Kong	-7.5	-0.2	-0.6	-1.2	-20.1	-11.5	-18.4	-36.3	-7.5	-18.7	-18.7	-24.9	-20.8	-21.1	-23.6	-43.2	-8.8
Singapore	-12.2	-3.6	-5.1	-0.6	-18.3	-21.5	-22.6	-30.6	-15.9	-23.4	-23.3	-23.3	-20.8	-21.1	-23.6	-43.2	-8.8
ASEAN4	-4.2	7.6	7.6	6.2	-18.7	-12.3	-13.9	-27.8	4.0	-12.6	-15.6	-10.1	-4.5	-14.1	-2.3	-20.6	-3.5
Malaysia	-6.9	7.8	8.3	4.2	-21.1	-18.6	-21.2	-33.7	-10.8	-21.7	-21.3	-14.5	-28.5	-18.1	-1.8	-18.6	5.9
Thailand	-5.7	7.5	7.1	4.8	-13.6	-18.3	-20.3	-36.6	9.6	-18.8	-26.1	-20.0	-28.5	-18.1	-1.8	-18.6	5.9
Philippines	16.9	14.3	14.6	32.3	0.9	19.6	22.4	8.2	50.2	13.2	13.0	10.3	78.3	-25.9	-48.1	33.6	-0.4
Indonesia	-8.6	-0.8	-1.6	-4.1	-27.0	-5.7	-5.0	-25.8	-3.5	4.5	4.6	0.3	0.1	11.1	-10.9	-17.8	-17.8
China	0.5	16.5	16.2	18.2	-6.7	-13.4	-12.9	-31.2	13.9	-11.5	-9.0	-17.9	-16.9	-23.5	12.1	-36.4	-17.8

Table 8. World Trade Matrix: Shares of Exports (1998)

(Unit: %)

	World	NAFTA	U.S.	EU	Japan	East Asia	Asian NIEs	R.O.K.	Taiwan	Hong Kong	Singapore	ASEAN4	Malaysia	Thailand	Philippines	Indonesia	China
NAFTA	100.0	51.5	28.1	16.2	6.4	10.6	6.6	1.8	1.9	1.4	1.6	2.4	0.9	0.5	0.7	0.3	1.6
U.S.	100.0	34.5	34.5	21.9	8.5	14.8	9.3	2.4	2.7	1.9	2.3	3.4	1.3	0.8	1.0	0.3	2.1
EU	100.0	9.4	8.2	62.7	1.6	4.5	2.7	0.4	0.8	0.9	0.6	0.9	0.3	0.3	0.2	0.2	0.9
Japan	100.0	33.3	30.5	18.4	33.2	20.2	4.0	6.6	6.6	5.8	3.8	7.8	2.4	2.4	1.9	1.1	5.2
East Asia	100.0	23.3	21.6	15.8	10.5	35.2	19.1	1.9	2.9	10.0	4.4	7.1	3.3	1.5	1.4	0.9	9.0
Asian NIEs	100.0	23.6	21.8	15.4	7.2	37.6	14.2	1.1	2.7	8.2	2.1	8.9	4.6	1.7	1.7	0.9	14.6
R.O.K.	100.0	19.5	17.2	13.7	9.2	30.3	14.0	3.9	3.9	7.0	3.1	7.3	2.7	1.1	2.1	1.3	9.0
Taiwan	100.0	28.7	26.6	16.7	8.4	34.0	26.7	1.3	22.4	2.9	6.5	6.5	2.1	1.7	1.7	0.9	0.8
Hong Kong	100.0	25.3	23.4	15.7	5.2	43.1	5.8	1.0	2.5	2.3	2.9	2.9	0.8	0.8	1.0	0.3	34.4
Singapore	100.0	20.9	19.9	15.8	6.6	41.4	15.0	2.3	4.3	8.4	22.7	22.7	15.2	3.8	2.2	1.4	3.7
ASEAN4	100.0	23.3	21.9	17.1	13.9	32.3	23.1	2.6	4.0	4.6	12.0	6.3	2.1	1.9	1.3	1.0	2.9
Malaysia	100.0	22.8	21.7	16.2	10.5	36.8	28.0	2.3	4.1	4.6	17.0	6.1	3.2	3.2	1.6	1.4	2.7
Thailand	100.0	23.9	22.3	17.9	13.7	27.8	18.1	1.1	3.2	5.1	8.7	6.5	3.3	1.4	1.9	3.2	3.2
Philippines	100.0	36.2	34.2	20.3	14.3	25.9	18.4	1.7	6.0	4.5	6.2	6.4	3.9	2.1	0.4	1.1	1.1
Indonesia	100.0	15.7	14.4	15.9	18.7	34.2	24.3	5.3	3.5	3.8	11.7	6.2	2.8	1.9	1.4	3.8	3.8
China	100.0	22.2	20.7	15.3	16.2	31.7	28.7	3.4	2.1	21.1	2.1	2.9	0.9	0.6	0.8	0.6	0.6

Notes: (1) Prepared from data on exports of individual countries and regions (data from importers used instead if statistics unavailable from exporting economies).
 (2) Figures on the percentage change in world exports of individual countries and regions differ from those in Table 2.

Sources: Prepared by JETRO from *International Financial Statistics* (IMF), *Monthly Statistics of Foreign Trade* (OECD), and national trade statistics.

2. Trade Contracts in East Asia, Shows Signs of Recovery in 1999

The impact of the Asian currency and economic crises spread in 1998, and plunging imports and exports caused trade in East Asia to drop in dollar terms. This was the first year-on-year fall in the region's exports in dollar terms since 1985, and the first in imports since 1982.

There are signs, however, that the economies of East Asia seem to be stabilizing in 1999 (Table 9-1), and most of the countries that posted lower imports in 1998 will see their imports fall by less or possibly grow (Table 9-2).

- (1) A considerable drop in East Asian trade in 1998 was seen in Singapore and Taiwan, where exports fell by 12.1% and 8.9%, respectively from the previous year, and the R.O.K., Indonesia and Thailand, where imports fell by 35.5%, 34.4% and 31.6%, respectively. The drop in imports was more conspicuous, as the economic downturn in East Asia caused a contraction in domestic demand.
- (2) Among the nine economies in East Asia, except China and the Philippines, exports fell in value terms. This appears to have been due to a fall in dollar export prices. If dollar export prices had remained the same in 1998 as in 1997 and exports had been the same in volume terms as in reality (ignoring any increase in the volume of exports due to the fall in prices), then the value of exports in 1998 from six of these economies (excluding Malaysia as its volume index of exports is unknown) would have exceeded the actual figure by US\$70.2 billion. This is equivalent to 1.3% of the value of world trade in 1998, and is indicative of the considerable impact of the fall in value of currencies in the region (Table 10).
- (3) Underlying the fall in trade in East Asia was the decline in trade routed through Hong Kong and Singapore. Exports from Hong Kong grew in tandem with those of China until 1996, but in 1997, growth in Chinese exports outstripped that of Hong Kong, and then exceeded it in 1998 in terms of value (Table 11). This seems to have been due to China increasing its direct export trade in recent years. The proportion of Malaysian exports being routed through Singapore has also been falling (Table 12). Transit trade is counted twice in world trade figures: once as imports and again as exports. Thus the decline in trade routed through Hong Kong and Singapore has a greater statistical impact on world trade than it would at first appear. Re-exports from Hong Kong in 1998 accounted for 2.8% of world trade (greater than the R.O.K.'s contribution), and re-exports from Singapore comprised 0.9% of world trade (equivalent to the value of Danish exports). The decline in transit trade thus had a not insignificant impact on world trade.
- (4) A comparison of East Asian trade in the first quarter of 1999 with the corresponding period in the previous year reveals that Taiwanese and Malaysian exports bounced back to post positive year-on-year growth. On the import side, both the R.O.K. and Thailand recovered to register positive growth, while growth of imports into China accelerated. The signs are, then, that the worst is over for trade in East Asia (Table 9-2).

Table 9-1. Real GDP Growth Rates in East Asia

(Unit: %)

Country/region	1997	1998	Q1 1999
R.O.K.	5.5	-5.5	4.6
Hong Kong	5.3	-5.1	-3.4
Taiwan	6.8	4.9	4.3
Singapore	8.0	1.5	1.2
Thailand	-0.4	-8.0	0.9
Indonesia	4.7	-13.7	-10.3
Malaysia	7.7	-6.8	-1.3
Philippines	5.2	-0.5	1.2
China	8.8	7.8	8.3

Note: Figures for the first quarter of 1999 indicate percentage change on the same period a year earlier.

Source: Prepared by JETRO from *WEO Database* (IMF).

Table 9-2. Value of East Asian Imports and Exports (1st Quarter 1999)

(Units: US\$ million, %)

	Exports				Imports			
	Q1 1998	% Annual change	Q1 1999	% Annual change	Q1 1998	% Annual change	Q1 1999	% Annual change
East Asia	217,695	0.9	205,876	-5.4	192,321	-15.2	183,935	-4.4
Asian NIEs	126,834	-1.4	119,378	-5.9	121,632	-14.7	112,541	-7.5
R.O.K.	32,232	8.4	30,330	-5.9	23,655	-36.2	25,571	8.1
Taiwan	26,869	-6.6	27,783	3.4	26,965	0.1	25,126	-6.8
Hong Kong	40,162	-0.9	36,534	-9.0	44,368	-5.1	38,202	-13.9
Singapore	27,571	-7.0	24,731	-10.3	26,644	-16.2	23,642	-11.3
ASEAN4	50,405	-2.3	49,278	-2.2	41,117	-25.8	38,410	-6.6
Malaysia	17,332	-12.2	18,276	5.4	15,054	-20.3	14,135	-6.1
Thailand	13,741	-1.5	12,983	-5.5	10,956	-37.3	11,413	4.2
Philippines	6,816	23.8	7,853	15.2	7,901	-5.9	7,305	-7.5
Indonesia	12,516	0.9	10,166	-18.8	7,206	-32.4	5,557	-22.9
China	40,456	13.9	37,220	-8.0	29,572	2.6	32,984	11.5

Source: Prepared by JETRO from statistics for individual countries and regions.

Table 10. Impact of Currency Crisis on Exports from Six Main Economies of East Asia

(Units: US\$ million, %)

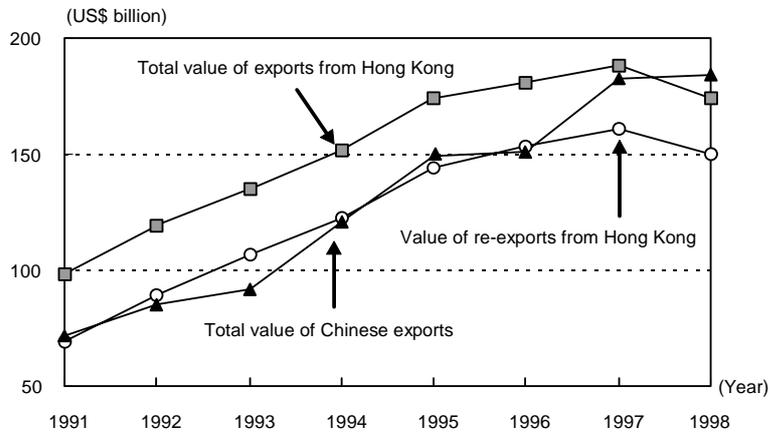
	Value of exports 1997	Value of exports 1998	Actual % annual change 1998	Est. value of exports 1998	% change based on est. value	Difference from actual value
Asian NIEs	570,942	526,793	-7.7	588,349	3.0	61,556
R.O.K.	136,164	132,313	-2.8	159,174	16.9	26,861
Taiwan	121,304	110,453	-8.9	122,654	1.1	12,201
Hong Kong	188,059	173,990	-7.5	179,959	-4.3	5,969
Singapore	125,414	110,038	-12.3	126,563	0.9	16,525
ASEAN (Thailand, Indonesia)	111,069	103,186	-7.1	111,846	0.7	8,660
Thailand	57,626	54,339	-5.7	62,179	7.9	7,840
Indonesia	53,443	48,847	-8.6	49,667	-7.1	820
Total for all six economies	682,010	629,980	-7.6	700,195	2.7	70,216

Notes: (1) The estimated values of exports in 1998 were calculated assuming that each economy's exports grew in volume as they did in 1998 but that dollar export prices were the same as in 1997. As the volume of exports includes the increase due to improved price competitiveness, the figures overestimate the effect of changes in the exchange rate.

(2) Figures on exports by Taiwan, Singapore and Thailand converted from local currencies to U.S. dollars.

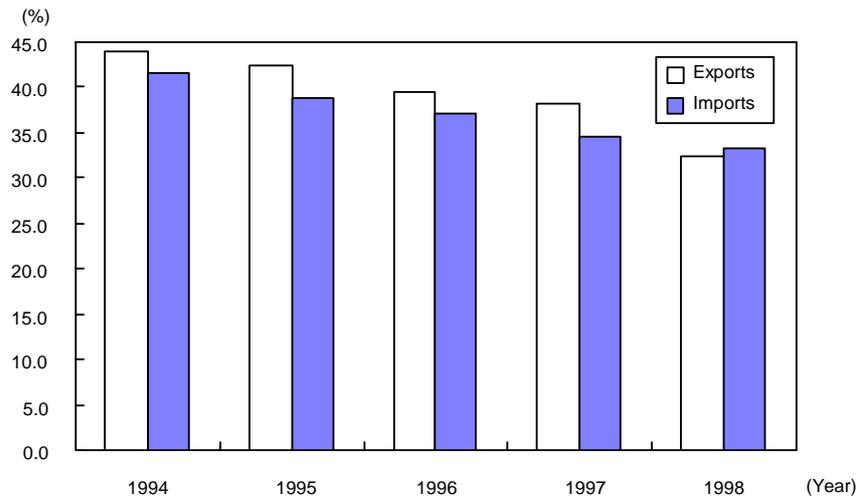
Sources: Prepared by JETRO from *IFS* (IMF) and *Financial Statistics* (The Central Bank of China).

Table 11. Trends in Exports by China and Hong Kong



Sources: Prepared by JETRO from *Hong Kong Annual Digest of Statistics 1997, 1998*, and *China Monthly Exports and Imports* (General Administration of Customs of the People's Republic of China).

Table 12. Proportion of Malaysian Trade Routed through Singapore



Source: Prepared by JETRO from *Monthly External Trade Statistics*, December 1998 (Department of Statistics, Malaysia).

3. Widespread Decline in Export Prices

A feature of world trade in 1998 was the decline in prices in a wide variety of product categories from various regions. Oil prices fell by their largest margin since the oil price collapse of 1986, and other primary commodity prices registered their steepest decline since 1975. Even in East Asia, where manufactured products account for a large proportion of exports, export prices fell (Table 13) as a result of the depreciation of currencies in the region, and export prices in U.S. dollar throughout Asia registered double-digit negative annual growth for the first time since 1953.

- (1) In 1998, the fall in oil prices caused oil-producing countries' exports to drop, which in turn held back growth in world trade. As crude oil prices collapsed amid a decline in global demand, the fall in oil producers' exports had a considerable impact on world trade in 1998. This contrasts with the situation at the time of the collapse in oil prices in 1986, when world trade was growing, and the fall in oil producers' exports due to the collapse in oil prices had little noticeable effect (Tables 14 - 15). If oil prices had been the same in 1998 as in 1997 and the volume of exports had remained unchanged, world trade would have increased 0.4% on the previous year. Given that world trade actually fell 1.8%, it is evident that the fall in oil prices severely depressed world trade in 1998.
- (2) In Asia, export prices in U.S. dollar fell 11.6% in 1998 from the previous year, the first double-digit decline since 1953. A breakdown by country reveals that the decline was the greatest in the R.O.K. since record keeping began in 1963. Although prices soared in the immediate aftermath of the crises in the R.O.K. and Thailand, both of which were bailed out by the IMF, the increase was less than the percentage drop in the rates of exchange of the won and baht against the U.S. dollar (Table 16). It would seem that in the case of the R.O.K. in particular, the fall in wages in won terms held down domestic prices (Table 17). In Thailand too, the fact that the minimum wage rose only 3% appears to have helped to curb domestic inflation. The situation in both countries contrasts with what happened in Mexico immediately after the currency crisis there in 1994, where both wholesale prices and wages rose and inflation continued.
- (3) Worthy of note is the strong likelihood that Chinese export prices fell despite maintenance of the renminbi exchange rate. Though China releases no official figures on export prices, Japanese import prices from China fell 10.1% in 1998 on a dollar basis, and estimates also indicate that the dollar price of China's world exports also fell (Table 18).
- (4) Most countries and regions in East Asia saw exports grow in volume terms due to enhanced competitiveness because of the decline in dollar export prices. Because of the economic slump in East Asia and Japan, however, the volume of exports did not grow as much as the fall in prices had led people to expect, and failed to raise the dollar value of East Asian exports overall. (Table 18)

Table 13. Percentage Year-on-Year Change in Dollar Export Prices of Developing Countries

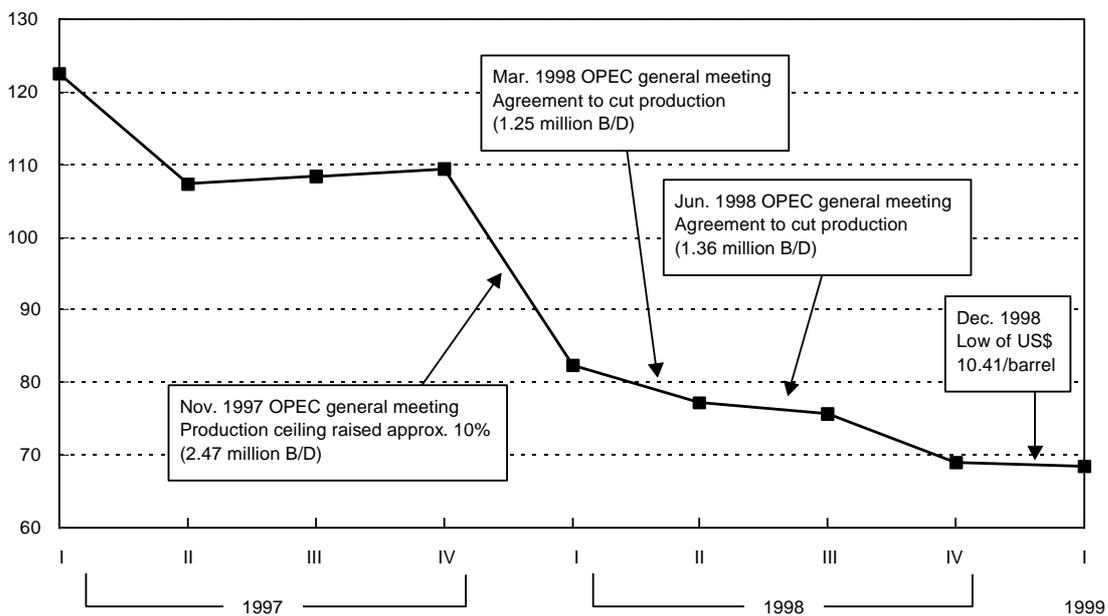
(Unit: %)

	1991	1992	1993	1994	1995	1996	1997	1998
Developing countries	-5.9	1.3	-2.9	2.7	8.2	-0.4	-4.3	-12.3
Africa	-1.3	1.2	-7.4	-0.6	19.6	-4.2	NA	NA
Asia	1.1	1.0	-0.1	2.4	7.6	-3.2	-3.2	-11.6
Middle East	-12.5	1.5	-9.7	0.3	9.2	13.0	-5.2	-27.8
Latin America	-29.3	1.5	-5.7	6.6	8.1	8.4	-10.1	NA

Note: The countries making up each region are as defined in *IFS*.

Source: Prepared by JETRO from *IFS* (IMF).

Table 14. Index of Average Spot Oil Price (1995 = 100)



Notes: (1) Oil prices are average spot prices (U.K. Brent, Dubai, WTI). 1995 = 100.

(2) B/D shows barrels production per day. US\$/B indicates the price per barrel.

Source: Prepared by JETRO from *IFS* (IMF).

Table 15. Comparison of Influence on World Trade of Major Oil Exporters (1986/98)

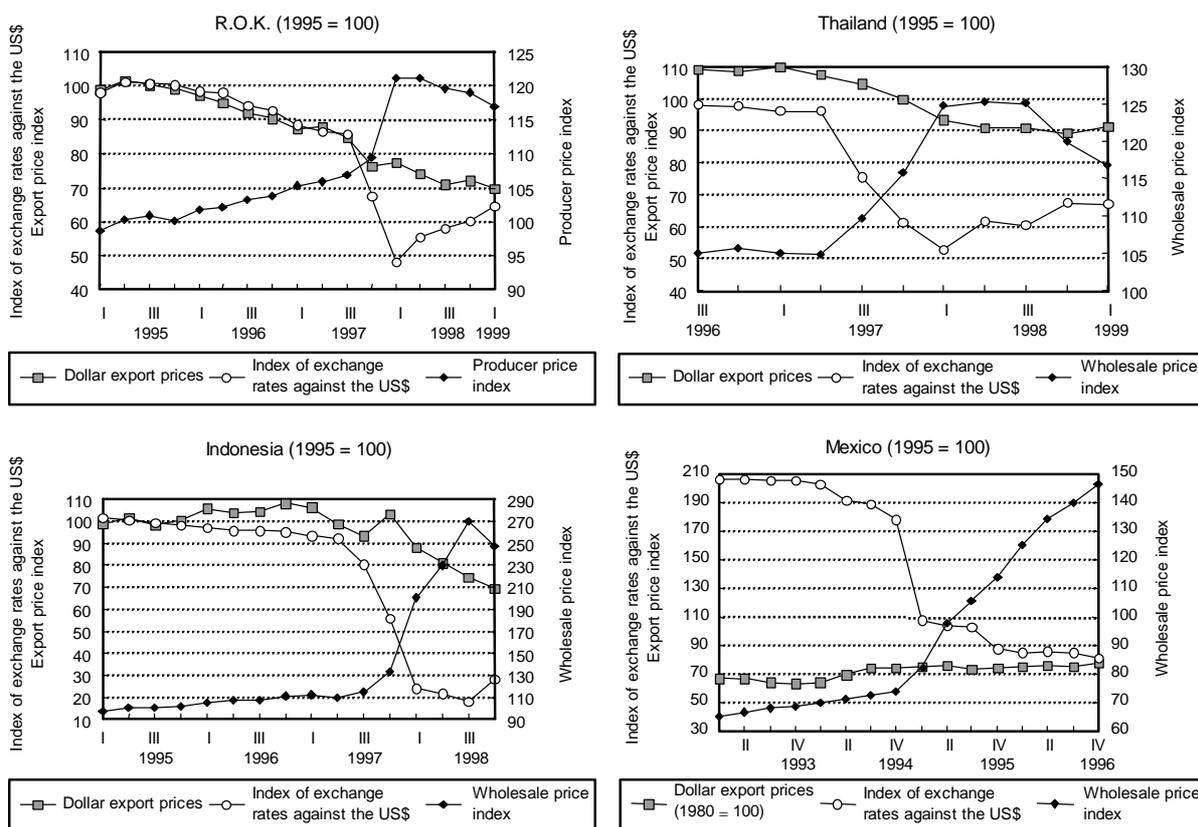
(Units: US\$ million, %)

	1985	1986	% change	% point contribution
World	1,872,000	2,046,400	9.3	-
Main exporters	67,400	44,898	-33.4	-12.9
	1997	1998	% change	% point contribution
World	5,535,700	5,438,100	-1.8	-
Main exporters	165,712	136,685	-17.5	29.7

Notes: (1) The figures for main exporters in 1985 and 1986 are the totals for the top four oil exporters in value terms in 1986 (Saudi Arabia, Nigeria, Iran and UAE).
 (2) The figures for main exporters in 1997 and 1998 are the totals for the top four oil exporters in value terms in 1995 (Saudi Arabia, Iran, Norway and UAE).

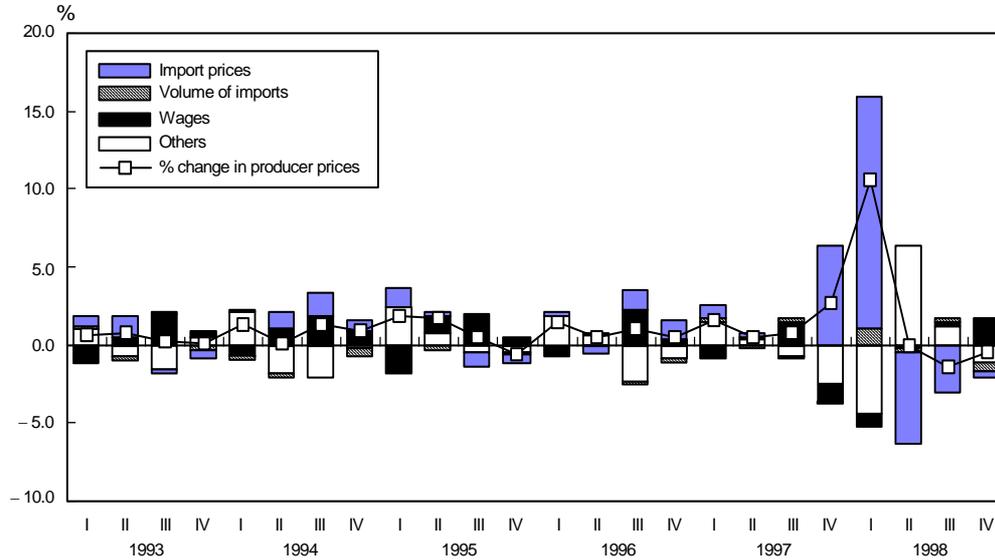
Sources: Prepared by JETRO from *World Statistics 1989, 1999* (Management and Coordination Agency, Japan), *IFS* (IMF), *DOT* (IMF).

Table 16. Trends in Export and Wholesale Prices of Main Asian Economies and Exchange Rate Fluctuations



Sources: Prepared by JETRO from *IFS* (IMF), Banco de Mexico statistics, *Monthly Statistics of Korea* (Bank of Korea), *Monthly Bulletin* (Bank of Thailand).

**Table 17. Factor Analysis of Changes in R.O.K. Producer Prices
(Percentage Year-on-Year Change)**



Notes: The producer price functions on which the factor analysis was based are as follows (figures in brackets indicate t-values):

$$\ln(\text{PPI}) = 1.96295 + 0.435426 * \ln(\text{VAI}) - 0.036956 * \ln(\text{VOI}) + 0.175430 * \ln(\text{WAG})$$

(18.2670) (14.0918) (- 1.09166) (3.79432)

Period of analysis: Q1 1992 to Q4 1998

PPI: producer price index (all categories), VAI: index of import prices (all categories), VOI: index of volume of imports (all categories), WAG: index of hourly wages, Adjusted R²: 0.963775, DW ratio: 1.17340

Source: Prepared by JETRO from IFS (IMF).

Table 18. Volume of Exports by Main Asian Economies by Region

		Exports to East Asia				Exports to U.S.				Exports to Japan				Exports to World					
		Value index	(% change)	Volume index	(% change)	Value index	(% change)	Volume index	(% change)	Value index	(% change)	Volume index	(% change)	Value index	(% change)	Volume index	(% change)	Price index	(% change)
R.O.K.	1997	158.3	(7.5)	191.2	(19.3)	89.6	(-0.2)	108.3	(10.7)	86.6	(-6.3)	104.7	(3.9)	108.9	(5.0)	149.6	(24.9)	82.8	(-9.9)
	1998	130.9	(-17.3)	177.4	(-7.2)	94.5	(5.5)	128.1	(18.3)	71.8	(-17.2)	97.3	(-7.1)	105.8	(-2.8)	174.9	(16.9)	73.8	(-10.8)
Taiwan	1997	281.6	(5.4)	235.5	(7.6)	136.3	(10.2)	114.0	(12.5)	140.7	(-14.2)	117.7	(-12.4)	181.0	(4.8)	152.8	(7.8)	119.6	(-2.0)
	1998	227.4	(-19.2)	206.8	(-12.2)	135.5	(-0.6)	123.2	(8.1)	112.2	(-20.2)	102.1	(-13.3)	164.8	(-8.9)	154.5	(1.1)	110.0	(-8.0)
Hong Kong	1997	110.8	(4.8)	113.0	(6.6)	108.2	(6.7)	110.3	(8.6)	107.7	(-3.5)	109.9	(-1.8)	108.2	(4.0)	111.2	(6.1)	98.1	(-1.7)
	1998	98.1	(-11.5)	104.0	(-7.9)	107.6	(-0.6)	114.1	(3.4)	86.1	(-20.1)	91.3	(-16.9)	100.1	(-7.5)	106.4	(-4.3)	94.3	(-3.9)
Singapore	1997	105.7	(-0.2)	112.9	(6.4)	106.6	(-0.1)	113.9	(6.4)	95.9	(-13.8)	102.4	(-8.1)	105.8	(-0.0)	114.0	(7.5)	93.6	(-6.1)
	1998	83.1	(-21.5)	102.0	(-9.6)	101.2	(-5.1)	124.3	(9.2)	78.4	(-18.3)	96.3	(-6.0)	92.9	(-12.2)	115.0	(0.9)	81.4	(-13.1)
Thailand	1997	396.9	(3.4)	328.9	(7.3)	216.3	(12.9)	179.3	(17.2)	217.7	(-7.9)	180.4	(-4.4)	249.9	(3.4)	207.6	(7.6)	120.7	(-3.7)
	1998	324.1	(-18.3)	308.8	(-6.1)	231.7	(7.1)	220.8	(23.2)	188.1	(-13.6)	179.2	(-0.7)	235.7	(-5.7)	224.0	(7.9)	105.0	(-13.0)
Indonesia	1997	125.6	(12.5)	124.9	(18.3)	113.1	(5.2)	112.5	(10.7)	101.6	(-3.1)	101.1	(1.9)	117.7	(7.3)	135.0	(28.5)	100.5	(-4.9)
	1998	118.4	(-5.7)	151.0	(20.9)	111.2	(-1.6)	141.8	(26.1)	74.2	(-27.0)	94.6	(-6.4)	107.6	(-8.6)	125.5	(-7.1)	78.4	(-22.0)
China (Ref.)	1997	122.7	(29.2)	126.6	(34.8)	132.3	(22.5)	136.5	(27.8)	111.8	(3.1)	115.4	(7.5)	122.9	(21.0)	126.8	(26.3)	96.9	(-4.2)
	1998	106.3	(-13.4)	122.1	(-3.6)	153.7	(16.2)	176.4	(29.2)	104.3	(-6.7)	119.8	(3.8)	123.5	(0.5)	141.8	(11.8)	87.1	(-10.1)

- Notes: (1) IMF and national central bank statistical data are used for figures on the volume of world exports.
(2) As no statistics are released on volumes of exports by region, volume index of exports by region is obtained by indexing the value of exports for each region against the base year for the price index of exports and dividing by the price index of exports as follows:

$$\text{volume index of exports by region} = \frac{\text{value index of exports by region}}{\text{price index of exports}}$$
(It is assumed that export prices are the same for all regions.)
(3) As China releases no data on the index of export prices, the price of Japanese imports from China is used as the export price for China instead, and the volume index of exports calculated as described in (2).
(4) The base year for indices for individual economies is 1990 (= 100) in the case of Taiwan and Thailand and 1995 (= 100) in the case of all other economies.

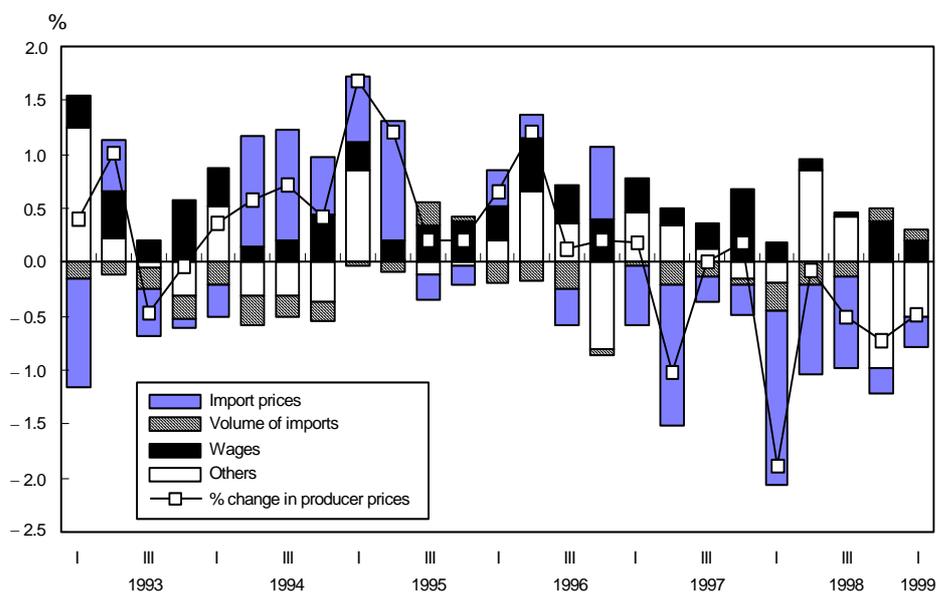
Sources: Prepared by JETRO from *IFS* (IMF) and national statistics.

4. Drop in Import Prices Contributes to Price Stability in Industrialized Countries

Although the unemployment rate fell below the NAIRU (the non-accelerating inflation rate of unemployment that does not cause price hikes), the U.S. economy continued to expand without encountering inflation in 1998. One factor behind the expansion of the U.S. economy was the fall in import prices and the consequent improvement in terms of trade.

- (1) Although the U.S. economy posted 3.9% growth and its unemployment rate fell below the NAIRU (approximately 5.3% according to the *Economic Report of the President 1999*) to 4.5% in 1998, the producer price index fell 2.5% from the previous year, and the economy achieved low-inflation/high-employment growth. It was the first year that producer prices fell by at least 2.0% year on year since 1986, when they fell 2.9%. U.S. import prices fell by 6.0% on the previous year—the biggest drop of the postwar period—and the fall in import prices contributed to price stability in the economy. A factor analysis of changes in U.S. producer prices indicates that the fall in import prices exerted a particularly strong downward pressure on producer prices in the first half of 1998, and more than offset the rise in wages (Table 19).
- (2) The drop in energy prices had a major impact on prices in the U.S. The U.S. consumer price index rose 1.5% in 1998, but estimates suggest that it would have risen 2.4% if energy and foodstuffs were excluded. One characteristic of the U.S. economy is the fact that changes in oil prices are immediately reflected in petroleum product and energy prices (Table 20).
- (3) An improvement in the terms of trade has a positive effect on a country's economic growth. In the case of the U.S., the terms of trade with East Asian countries severely hit by the currency crisis improved substantially. The currencies of five East Asian economies affected by the crisis (Thailand, the R.O.K., Indonesia, Malaysia and the Philippines) fell by an average of 34% (import weighted average), and the terms of trade for the U.S. with these countries improved by an equivalent amount. As these five accounted for 8.5% of U.S. imports in 1998, this produced an extra gain from trade equivalent to 2.9% of the value of U.S. imports. This is equivalent to 0.3% of the U.S.'s nominal GDP and 3.9% of the total GDP of these five countries. In 1998, not only the U.S. but most other industrialized countries enjoyed an improvement in the terms of trade (Table 21) as a result of the fall in export prices of developing countries, making 1998 a year of shifts in income from the developing to the industrialized countries.

Table 19. Factor Analysis of Changes in U.S. Producer Prices (Percentage Year-on-Year Change)



Notes: The producer price functions on which the factor analysis was based are as follows (figures in brackets indicate t-values):

$$\ln(\text{PPI}) = -0.364929 + 0.546628 * \ln(\text{VAI}) - 0.059874 * \ln(\text{VOI}) + 0.595949 * \ln(\text{WAG})$$

(- 1.36652) (22.1437)
(-2.33219) (7.78801)

Period of analysis: 1Q 1992 to 1Q 1999

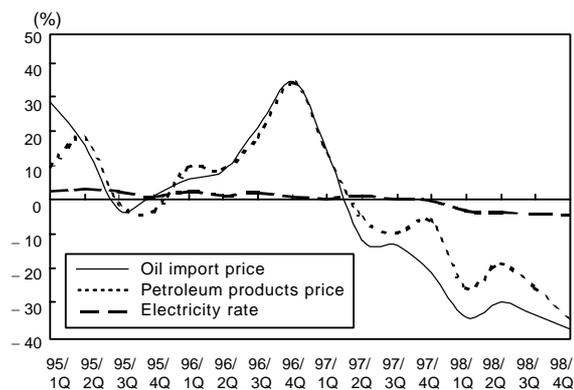
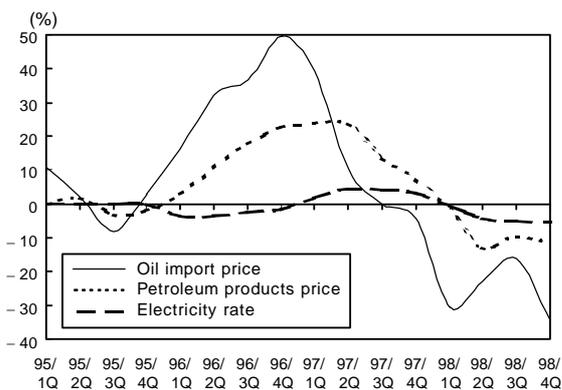
PPI: producer price index (all categories), VAI: index of import prices (all categories), VOI: index of volume of imports of industrial raw materials, WAG: non-agricultural wage index, Adjusted R^2 : 0.979391, DW ratio: 1.51847

Sources: Prepared by JETRO from OECD statistics and *IFS*.

Table 20. Trends in Energy Prices (Percentage Year-on-Year Change)

(1) Japan

(2) U.S.



Source: Prepared by JETRO from Energy Prices & Taxes Quarterly Statistics (IEA).

Table 21. Terms of Trade of Industrialized Countries (1995 = 100)

(Upper rows: Index of terms of trade)
(Lower rows: % change)

	1995				1996				1997				1998				1999
	I	II	III	IV	I												
U.S.	99.8	99.5	100.2	100.5	100.2	100.4	100.1	97.8	98.9	100.6	101.3	101.2	102.9	103.6	104.1	103.9	104.2
	-1.4	-0.2	1.8	1.7	0.4	0.9	-0.1	-2.7	-1.2	0.2	1.3	3.4	4.0	2.9	2.7	2.8	1.3
U.K.	101.5	100.3	98.5	99.8	100.4	99.7	101.5	101.4	102	101.5	101.1	101.6	102.3	102	101.9	102.4	NA
	-2.0	-3.8	-3.5	-1.7	-1.1	-0.6	3.0	1.6	1.6	1.8	-0.4	0.2	0.3	0.5	0.8	0.8	NA
Germany	99.2	100.1	100.5	100.4	100.1	99.8	99.9	98.8	97.9	97.9	97	97.7	98.8	99.9	101.3	102.9	103.1
	0.0	1.3	1.7	1.5	0.9	-0.3	-0.6	-1.6	-2.2	-1.9	-2.9	-1.1	0.9	2.0	4.4	5.3	4.4
France (1980 = 100)	116.4	116.6	115.2	115.1	114.6	115.5	113.4	116.5	114.5	116.5	113.7	113.6	113.2	117.8	117.5	118	NA
	1.2	1.6	-1.5	0.0	-1.5	-0.9	-1.6	1.2	-0.1	0.9	0.3	-2.5	-1.1	1.1	3.3	3.9	NA
Italy	76.6	75.9	78.6	NA	81.1	80.2	81.7	80.9	81.0	80.6	80.5	80.3	82.7	83.8	85.4	NA	NA
	-5.2	-5.2	-2.1	NA	5.9	5.6	3.9	NA	-0.1	0.6	-1.4	-0.7	2.1	3.9	6.1	NA	NA
Canada	98.3	99.7	101.0	101.0	100.4	100.8	101.0	101.9	101.9	99.5	99.7	98.5	97.0	97.5	95.9	94.1	95.3
	2.8	4.8	4.7	4.2	2.1	1.0	-0.0	0.9	1.5	-1.2	-1.3	-3.3	-4.8	-2.0	-3.8	-4.5	-1.7
Japan	99.9	103.6	98.0	97.4	95.5	94.6	92.8	92.7	89.7	92.4	89.5	92.3	92.1	94.7	97.0	99.2	101.5
	1.3	3.7	-1.2	-1.2	-4.4	-8.7	-5.3	-4.9	-6.1	-2.3	-3.5	-0.3	2.7	2.5	8.3	7.4	10.3

Notes: (1)Percentage change indicates percentage change on the same period a year earlier.
(2)March, June, September and December figures used as quarterly figures for Germany, France and Japan.
(3)Terms of trade index = index of export prices / index of import prices.

Sources: Prepared by JETRO from *IFS* (IMF), *Monthly Digest of Statistics* (Office for National Statistics), Deutsche Bundesbank data, *BMS* (INSEE) and customs clearance statistics (Ministry of Finance).

5. Signs of a Recovery in Japanese Trade in 1999

On a customs clearance basis, Japanese exports in 1998 totaled \$386.3 billion, down 8.7% from the year before due to the decline in East Asia. Imports were down 17.9% to \$279.3 billion due largely to sluggish domestic demand and worldwide declines in prices for crude oil, primary commodities and manufactured goods. As a result, the trade surplus grew by 29.7% to exceed the \$100 billion mark for the first time in three years at \$107 billion (Tables 23-1, 25-1, 28).

In the first five months of 1999, both Japanese imports and exports vis a vis many East Asian countries have improved despite the overall year-on-year decline in Japanese international trade for this period. Topping the list of improvements in bilateral trade are exports to the R.O.K., which were up by 26.7% on a customs clearance basis over the same period in 1998, followed by increases in exports to China, Thailand and the Philippines. Although imports from Indonesia and Hong Kong did not increase, imports from all other countries in the region did, contributing to the overall increase in trade with East Asia after the previous year's overall decline (Tables 23-2, 25-2).

- (1) In 1998, both imports and exports of goods fell for the first time since 1982 on a customs clearance basis. On a yen basis, imports and exports registered their first decrease in five years. The trade surplus grew to a record high of 13.99 trillion yen. With regard to Japan's trade in services (on a balance of payments basis), exports (receipts) fell 10% from the previous year and imports (payments) fell 9.5%. This marked the first decline in service exports since 1985 (the first comparable year) and the second consecutive annual decline in imports. The trade deficit in services shrank for the second year running to US\$49.4 billion (Table 27).
- (2) The principal reason for the decline in exports of goods was the situation in East Asia. As a result of the currency and economic crises, exports bound for East Asia slumped 25.3% (the third yearly decline in a row) due in the main to a fall in exports of intermediate and capital goods. Buoyed by strong growth in exports of transportation equipment, etc., exports to the EU rose 8.1%. Although steel and auto exports to the U.S. increased, sluggish growth in exports of office equipment and electronic components caused exports there to grow by just 0.2% overall (Tables 23-1, 24).
- (3) In 1998, Japanese imports suffered their first double-digit decline on the previous year since 1958. This was largely due to both volume- and price-related factors, i.e. the decline in domestic demand and the slump in world oil and primary commodity prices. Though imports fell almost across the board, the decline was sharpest in the case of imports from the U.S., EU, Asia and the oil-exporting countries (Tables 25-1, 26). Imports of manufactured products fell 14.1% in value terms to US\$173.3 billion (the third year they failed to reach the US\$200 billion mark), but due to the decline in the value of crude oil imports, the ratio of imports of manufactured goods was 62.1% (the first year the ratio has exceeded 60%).
- (4) A regional breakdown of Japan's balance of trade in 1998 reveals that the trade surplus with the U.S. and EU grew. Of particular note is the fact that the surplus with the EU was the largest since EU membership increased to 15 in 1995. The surplus with East Asia fell, on the other hand, due to sluggish exports; the surplus with the Asian NIEs fell below that with the U.S. for the first time since 1991, and trade with the ASEAN4 went into deficit for the first time since 1991. However, the trade deficit with China fell for the first time since 1993 (Table 28).

Table 22. Trends in Japanese Trade

(Units: US\$ million, billion yen, %)

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999 Jan - May
Exports	Dollar basis	286,947	314,525	339,650	360,911	395,600	442,937	412,433	422,881	386,271	160,966
		4.3	9.6	8.0	6.3	9.6	12.0	-6.9	2.5	-8.7	-0.4
	Yen basis	41,457	42,360	43,012	40,202	40,498	41,531	44,731	50,938	50,645	18,936
		9.6	2.2	1.5	-6.5	0.7	2.6	7.7	13.9	-0.6	-9.5
Imports	Dollar basis	234,799	236,737	233,021	240,670	274,742	336,094	350,654	340,408	279,316	119,504
		11.4	0.8	-1.6	3.3	14.2	22.3	4.3	-2.9	-17.9	-0.6
	Yen basis	33,855	31,900	29,527	26,826	28,104	31,549	37,993	40,956	36,654	14,057
		16.8	-5.8	-7.4	-9.1	4.8	12.3	20.4	7.8	-10.5	-9.7
Balance	Dollar basis	52,149	77,789	106,628	120,241	120,858	106,843	61,779	82,474	106,955	41,462
		-18.9	49.2	37.1	12.8	0.5	-11.6	-42.2	33.5	29.7	0.1
	Yen basis	7,602	10,460	13,485	13,376	12,393	9,982	6,738	9,982	13,991	4,879
		-14.0	37.6	28.9	-0.8	-7.3	-19.5	-32.5	48.1	40.2	-9.1

Notes: (1) As Japan has only released trade statistics in yen since April 1998, dollar trade figures were calculated by JETRO based on rates announced by the Customs and Tariff Bureau (same below).

(2) Bottom row figures indicate percentage change on a year earlier.

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

Table 23-1. Japanese Exports by Region

	Value of exports (US\$ million)				% Annual change				Contribution			
	1996	1997	1998	1999 Jan - May	1996	1997	1998	1999 Jan - May	1996	1997	1998	1999 Jan - May
World	412,433	422,881	386,271	160,966	-6.9	2.5	-8.7	-0.4	-6.9	2.5	-8.7	-0.4
U.S.	112,277	117,669	117,866	50,137	-7.1	4.8	0.2	2.4	-1.9	1.3	0.0	0.7
EU	63,166	65,820	71,152	30,288	-10.1	4.2	8.1	2.9	-1.6	0.6	1.3	0.5
East Asia	174,925	171,591	128,157	54,513	-6.2	-1.9	-25.3	-0.3	-2.6	-0.8	-10.3	-0.1
Asian NIEs	101,792	101,592	78,013	32,602	-8.3	-0.2	-23.2	-3.6	-2.1	-0.0	-5.6	-0.8
ASEAN4	51,243	48,214	30,122	13,151	-4.4	-5.9	-37.5	2.0	-0.5	-0.7	-4.3	0.2
China	21,890	21,785	20,022	8,759	-0.2	-0.5	-8.1	10.3	-0.0	-0.0	-0.4	0.5
Middle East	9,708	10,453	12,386	3,792	11.3	7.7	18.5	-20.0	0.2	0.2	0.5	-0.6
Latin America	17,989	21,260	20,777	7,751	-8.7	18.2	-2.3	-12.7	-0.4	0.8	-0.1	-0.7
Russia, Central and Eastern Europe	2,146	2,435	2,379	803	3.5	13.4	-2.3	-29.4	0.0	0.1	-0.0	-0.2
Africa	5,882	5,544	5,862	2,387	-21.6	-5.7	5.7	2.7	-0.4	-0.1	0.1	0.0

Notes: (1)Regions (Middle East, Latin America, Russia, Central and Eastern Europe, and Africa) are as defined by the Ministry of Finance, Japan.

(2)1999 figures are for January-May year-on-year change.

Source: Same as Table 22.

Table 23-2. Japanese Exports to East Asia

(Units: US\$ million, %)

	Value of exports		% Annual change	
	1998	1999 Jan - May	1998	1999 Jan - May
East Asia	128,157	54,513	-25.3	-0.3
Asian NIEs	78,013	32,602	-23.2	-3.6
R.O.K.	15,337	8,161	-41.5	26.7
Taiwan	25,497	10,582	-7.9	-3.9
Singapore	14,724	5,911	-27.6	-8.4
Hong Kong	22,455	7,950	-17.9	-19.8
ASEAN4	30,122	13,151	-37.5	2.0
Thailand	9,312	4,153	-36.5	4.5
Malaysia	9,297	4,025	-36.2	-0.7
Indonesia	4,280	1,615	-58.2	-13.4
Philippines	7,232	3,358	-17.2	12.1
China	20,022	8,759	-8.1	10.3

Note: 1999 figures are for January-May year-on-year change.

Source: Same as Table 22.

Table 24. Japanese Exports by Category of Goods

(Units: US\$ million, %)

	Value of exports				% Annual change			
	1996	1997	1998	1999 Jan - May	1996	1997	1998	1999 Jan - May
Grand total	412,433	422,881	386,271	160,966	-6.9	2.5	-8.7	-0.4
Foodstuffs and direct consumer	1,742	1,961	1,822	733	-1.7	12.6	-7.1	8.7
Industrial supplies	76,140	77,688	69,304	28,181	-6.7	2.0	-10.8	-2.0
Industrial chemicals	28,420	29,445	26,521	11,546	-4.2	3.6	-9.9	3.7
Metals	19,279	20,349	18,918	6,813	-11.5	5.6	-7.0	-12.9
Capital equipment	253,277	252,666	223,676	92,568	-7.2	-0.2	-11.5	-2.2
Non-electric machinery	102,030	100,877	87,244	35,163	-4.6	-1.1	-13.5	-4.9
Electric equipment	88,105	88,283	79,070	33,307	-10.1	0.2	-10.4	0.3
Transport equipment	41,927	40,994	37,480	15,299	-8.1	-2.2	-8.6	-3.4
Consumer goods	70,203	78,138	78,616	34,083	-8.1	11.3	0.6	5.0
Consumer non-durable goods	3,089	3,183	2,934	1,270	-11.7	3.0	-7.8	4.9
Consumer durable goods	67,115	74,956	75,682	32,813	-7.9	11.7	1.0	5.0
Domestic electric equipment	3,400	3,061	2,560	900	-28.4	-10.0	-16.4	-13.6
Passenger cars	40,079	47,951	49,977	22,330	-3.8	19.6	4.2	7.4

Note: Same as Table 23-2.

Source: Same as Table 22.

Table 25-1. Japanese Imports by Region

	Value of imports (US\$ million)				% Annual change				Contribution			
	1996	1997	1998	1999 Jan - May	1996	1997	1998	1999 Jan - May	1996	1997	1998	1999 Jan - May
World	350,654	340,408	279,316	119,504	4.3	-2.9	-17.9	-0.6	4.3	-2.9	-17.9	-0.6
U.S.	79,724	76,051	66,797	28,513	5.7	-4.6	-12.2	-3.4	1.3	-1.0	-2.7	-0.8
EU	49,521	45,199	38,895	16,868	1.5	-8.7	-13.9	2.4	0.2	-1.2	-1.9	0.3
East Asia	123,398	118,267	97,568	43,742	6.8	-4.2	-17.5	6.3	2.3	-1.5	-6.1	2.1
Asian NIEs	41,006	35,389	28,686	13,674	-0.5	-13.7	-18.9	10.5	-0.1	-1.6	-2.0	1.1
ASEAN4	41,841	40,812	31,986	14,046	9.0	-2.5	-21.6	2.9	1.0	-0.3	-2.6	0.3
China	40,550	42,066	36,896	16,023	12.9	3.7	-12.3	5.9	1.4	0.4	-1.5	0.7
Middle East	35,335	38,354	25,442	9,804	11.7	8.5	-33.7	-13.9	1.1	0.9	-3.8	-1.3
Latin America	11,537	11,573	9,164	3,755	-3.2	0.3	-20.8	-6.8	-0.1	0.0	-0.7	-0.2
Russia, Central and Eastern Europe	4,837	5,069	3,754	1,608	-12.9	4.8	-26.0	6.7	-0.2	0.1	-0.4	0.1
Africa	5,081	4,925	3,902	1,614	8.0	-3.1	-20.8	-4.2	0.1	-0.0	-0.3	-0.1

Notes and Source: Same as Table 23-1.

Table 25-2. Japanese Imports from East Asia

(Units: US\$ million, %)

	Value of imports		% Annual change	
	1998	1999 Jan - May	1998	1999 Jan - May
East Asia	97,568	43,742	-17.5	6.3
Asian NIEs	28,686	13,674	-18.9	10.5
R.O.K.	12,062	5,783	-17.7	12.2
Taiwan	10,202	5,013	-18.8	13.2
Singapore	4,697	2,163	-20.5	7.5
Hong Kong	1,726	715	-23.7	-8.8
ASEAN4	31,986	14,046	-21.6	2.9
Thailand	8,135	3,509	-15.5	2.9
Malaysia	8,650	4,048	-24.4	7.7
Indonesia	10,791	4,555	-26.6	-0.9
Philippines	4,411	1,934	-12.6	2.2
China	36,896	16,023	-12.3	5.9

Note: Same as Table 23-2.

Source: Same as Table 22.

Table 26. Japanese Imports by Category of Goods

(Units: US\$ million, %)

	Value of imports				% Annual change			
	1996	1997	1998	1999 Jan - May	1996	1997	1998	1999 Jan - May
Grand total	350,654	340,408	279,316	119,504	4.3	-2.9	-17.9	-0.6
Foodstuffs and direct consumer	51,195	46,765	41,297	17,560	0.9	-8.7	-11.7	2.1
Industrial supplies	147,261	147,323	109,338	44,553	0.7	0.0	-25.8	-8.6
Crude materials	26,916	25,804	18,552	7,878	-9.4	-4.1	-28.1	-3.8
Industrial equipment	22,421	22,565	19,856	8,693	-5.6	0.6	-12.0	1.5
Capital equipment	79,929	81,748	74,078	33,867	16.1	2.3	-9.4	6.6
Non-electric machinery	32,833	33,233	29,441	13,017	18.4	1.2	-11.4	4.5
Electric machinery	35,092	34,769	30,744	13,683	15.1	-0.9	-11.6	5.4
Transport equipment	5,576	6,850	7,767	4,537	1.0	22.8	13.4	23.0
Consumer goods	63,758	56,779	47,459	20,378	4.8	-10.9	-16.4	3.7
Consumer non-durable goods	31,144	27,559	23,588	10,003	5.3	-11.5	-14.4	3.4
Consumer durable goods	32,614	29,219	23,871	10,375	4.2	-10.4	-18.3	4.0
Domestic electric equipment	4,130	3,703	3,362	1,487	1.8	-10.4	-9.2	11.7
Passenger cars	10,308	7,870	5,567	2,497	3.5	-23.7	-29.3	1.8

Source: Same as Table 22.

Table 27. Japan's Balance of Trade in Goods and Services

(Unit: US\$ million)

	1991	1992	1993	1994	1995	1996	1997	1998
Balance of trade in goods and services	54,336	80,738	96,509	96,354	74,698	21,185	47,318	73,112
Balance of trade in goods	96,188	124,706	139,597	144,422	132,144	83,420	101,474	122,521
Balance of trade in services	-41,852	-43,968	-43,088	-48,068	-57,446	-62,235	-54,156	-49,409
Transport	-8,882	-8,685	-9,971	-11,383	-13,428	-12,025	-9,288	-7,102
Travel	-20,555	-23,249	-23,303	-27,238	-33,565	-32,965	-28,716	-25,036
Other private-sector services	-12,411	-12,032	-9,811	-9,446	-10,448	-17,251	-16,147	-17,274
Telecoms	-352	-599	-523	-319	-343	-488	-345	-431
Construction	1,288	2,622	2,748	2,627	3,378	1,135	2,390	2,195
Insurance	64	-1,086	-1,822	-2,209	-2,223	-1,426	-1,683	-2,326
Finance	-1,403	-967	-922	-368	-154	-144	-846	-547
Information	-	-	-	-	-	-1,214	-2,062	-2,198
License fees from patents, etc.	-3,193	-4,136	-3,300	-3,106	-3,411	-3,148	-2,320	-1,557
Other commercial services	-9,266	-8,250	-6,351	-6,316	-7,495	-10,983	-10,211	-11,074
Culture and entertainment	-244	-350	-436	-369	-425	-1,029	-853	-833

Note: Dollar trade figures were calculated by JETRO using the dollar exchange rate (monthly average market rate) determined in accordance with the Ordinance on Foreign Exchange Transactions, etc.

Source: Prepared by JETRO from *Balance of Payments Monthly* (Bank of Japan).

Table 28. Japan's Trade Balance by Region

(Unit: US\$ million)

	1992	1993	1994	1995	1996	1997	1998	1999 Jan - May
World	106,628	120,241	120,858	106,843	61,779	82,474	106,955	41,462
U.S.	43,563	50,169	54,901	45,451	32,553	41,617	51,069	21,624
EU	31,194	26,263	22,000	21,479	13,645	20,621	32,257	13,420
East Asia	41,942	53,988	62,205	71,026	51,527	53,324	30,589	10,770
Asian NIEs	46,470	53,536	62,443	69,818	60,786	66,203	49,327	18,929
ASEAN4	476	3,744	8,646	15,200	9,402	7,402	-1,864	-895
China	-5,004	-3,292	-8,884	-13,991	-18,660	-20,281	-16,874	-7,264
Middle East	-14,999	-15,181	17,929	-22,901	-25,626	-27,901	-13,057	-6,013
Latin America	7,120	8,556	9,150	7,772	6,452	9,687	11,613	3,996
Russia, Central and Eastern Europe	-1,173	-1,152	2,166	-3,478	-2,691	-2,635	-1,374	-805
Africa	3,130	3,568	2,842	2,800	801	619	1,960	774

Notes: (1) EU12 up to 1994, EU15 from 1995.

(2) Same as Table 23-1.

Source: Same as Table 22.

6. Issues Facing Japan

- (1) The criticism that Japan triggered the Asian economic crisis is unfounded. It is true, however, that after the outbreak of the economic crisis, Japan was unable to contribute to the recovery due to the stagnation of its own economy. East Asian countries had been highly dependent on exports to Japan, and Japan's imports from the region are more responsive to Japan's economic growth than to price fluctuations. East Asian economic recovery is therefore intimately tied to economic recovery in Japan, which, it is hoped, will be speedy and lead to ongoing economic growth.
- (2) The Japanese government has established a wide range of economic assistance programs for Asian countries. In particular, the New Miyazawa Initiative announced in October 1998 encourages the provision of credit in order to foster a smooth flow of capital in the region. JETRO's efforts have included dispatching emergency import delegations to help Asian exporters find markets in Japan. JETRO has also expanded its work on technology transfer and programs that foster supporting industries. Although there are signs of recovery from the Asian economic crisis, aid must be continued and even expanded over the mid- and long term in order to prevent a relapse.
- (3) The decline in prices of dollar-denominated exports in 1998 has helped provide a resurgent U.S. economy with inflation-free growth. The deregulation of its markets has allowed the declines in import prices to reflect itself in the stabilization of U.S. domestic prices. Japan, too, should continue to liberalize the regulated areas of its economy, such as the service sector, in order to improve the quality of life of its people and help industry become more competitive.
- (4) In order to make a success of the new round of World Trade Organization negotiations expected to be held next year, the forward-looking participation of developing countries will be essential. To this end, talks on measures to accelerate textile trade liberalization—which is of great importance to developing nations—and on plans to introduce rigor to antidumping regulations should be included in the agenda of comprehensive negotiations. Although Japan does not have MFA (Multi Fibre Arrangement) import quotas in place, progress in withdrawing quotas in the United States and European Union has made virtually no progress at all. This is a source of great dissatisfaction among developing nations.
- (5) Private industry associations in Europe and the United States are actively exchanging opinions and lobbying their governments on such issues as service trade, which is already scheduled to be included in the upcoming WTO round of talks. Japanese industry, too, should be deepening its involvement in private-sector exchanges of views with foreign business associations. It should set up channels of communication with government to accurately convey its demands and thereby enthusiastically involve itself in the process of establishing new WTO rules.
- (6) Japan has placed great importance on establishing multilateral trade rules based on the GATT-WTO framework and will continue to do so. Since 1998, however, it has also broadened the scope of its efforts to include possible enhancement of bilateral cooperation. As part of this new development in policy, Japan has begun coordinated government-private research programs including JETRO that may lead to the eventual conclusion of bilateral free trade agreements with the R.O.K and Mexico. Since the advancement of bilateral free trade can be a point of departure for multilateral trade liberalization, such efforts should be continued and expanded in the future.

PART 2. SUMMARY OF REGIONAL TRENDS

1. North America: Growth in Imports into U.S. and Canada due to Strong Domestic Demand

(1) Economic and Trade Trends

1998 saw the U.S. continue to enjoy its second longest period of postwar economic expansion which began in March 1991, as robust personal consumption, capital and housing investment and other aspects of domestic demand all helped push growth up to 3.9%.

Regarding U.S. trade in goods in 1998, exports fell 1.0% and imports rose 4.9% on the previous year. The trade deficit grew 27.3% to reach a record US\$229.8 billion as a result of a fall in exports to recession-hit Japan and the rest of Asia, and growth in imports because of strong domestic consumption. A breakdown by product type shows that exports of semiconductors, computers, automobiles and auto parts declined, while imports of consumer goods such as cotton goods, toys, games and sports equipment all rose dramatically. There was also an increase in imports of capital goods such as computers, telecommunications equipment and aircraft.

The Canadian economy, meanwhile, grew by 3.0% in 1998 largely as a result of strong domestic demand and growth in exports to the U.S. Exports and imports were up 5.5% and 9.3% respectively on the previous year, and the 1997 trade surplus turned into a deficit of C\$1.6 billion. This was due to greater growth in imports than exports because of strong domestic demand. Export growth was almost entirely due to growth in exports to the U.S., reflecting the Canadian economy's increasing dependence on trade with its neighbor, which accounted for 85.1% of Canadian trade in 1998.

(2) Changes in Trade Environment

The Clinton Administration is continuing with its policy of opening up foreign markets through trade negotiations and agreements. Domestically, however, there are growing calls in some quarters, such as the steel industry and the unions, for imports to be curbed due to the growing trade deficit. In an attempt to strengthen the framework for free trade, the administration is actively preparing for the start of the new round of WTO talks, but has still failed to obtain the fast-track negotiating authority indispensable to conducting fruitful negotiations with other countries.

In order to encourage further trade liberalization and broaden the range of destinations for its exports, the Canadian government is turning its attention to emerging markets in regions such as Asia and Latin America. The government is also emphasizing the importance of trade with the U.S., upon which the economy is highly dependent, while at the same time seeking to reduce its dependence on any single country.

(3) Developments in Trade with Japan

The U.S. trade deficit with Japan grew 14.2% in 1998 to US\$64.1 billion, once again making it the largest of any of the United States' trade partners. Exports to Japan plummeted 11.8% from a year earlier due to the effects of the economic recession in Japan, the weak yen and the strong dollar, while imports grew just 0.1%. Looking at the main categories of products, it can be seen that exports of computers and peripherals, integrated circuits, autos and auto parts fell, while imports of steel, telecommunications equipment, autos and auto parts grew. The main reason for the increase in the trade deficit with Japan was the economic recession. As a consequence, the U.S. continued to call on the Japanese government to

pursue domestic demand-led recovery, deregulation and market liberalization, as well as financial reform.

Canada's deficit with Japan ballooned 3.8-fold on the previous year to C\$5.8 billion. This was due to the 26% slump in exports because of the recession in Japan and 11.4% growth in imports.

Basic Economic Indicators of U.S. and Canada

	Real GDP growth (%) (1)		Rise in CPI (2)		Unemployment (%)		Exports of goods		Imports of goods		Balance of trade	
	U.S.	Canada	U.S.	Canada	U.S.	Canada	(US\$ billion)		(C\$ billion)		(US\$ billion) (C\$ billion)	
							U.S.	Canada	U.S.	Canada	U.S.	Canada
1994	3.5	3.9	2.6	0.2	6.1	10.4	512.6	213.3	663.3	202.7	-104.4	8.6
1995	2.3	2.2	2.8	2.2	5.6	9.5	584.7	248.4	743.5	225.7	-99.9	24.5
1996	3.4	1.2	3.0	1.6	5.4	9.7	625.1	259.3	795.3	232.6	-104.3	32.6
1997	3.9	3.8	2.3	1.6	4.9	9.2	689.2	281.2	869.7	272.9	-104.7	15.5
1998	3.9	3.0	1.6	0.9	4.5	8.3	682.1	296.7	911.9	298.3	-164.3	11.0

Notes: (1) Base years are 1992 for the U.S. and 1986 for Canada. Figures are percentage changes on previous year or quarter.

(2) Figures are yearly percentage changes on previous year or quarter.

(3) U.S. exports are FAS and imports are customs value. Canadian imports and exports are FOB. The balance of trade includes trade in both goods and services.

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

2. Latin America: Economic Slowdown but Growth in Regional Economic Integration in 1998

(1) Economic and Trade Trends

Although the Mexican and Central American economies performed relatively well due to the buoyant state of the U.S. economy, the sharp slowdown among the main economies of South America, such as Brazil, caused Latin America's overall real GDP growth rate to slump from 5.2% in 1997 to 2.3% in 1998. Average unemployment edged up to 7.9% due to the economic slowdown, while inflation remained in excess of 10%.

On the financial and trade front, conditions faced by the countries of the region took a nosedive due to jitters in the international financial markets. In addition to the slowdown in economic growth, the region's trade deficit swelled from US\$31.65 billion in 1997 to US\$50.45 billion in 1998. As a result, the current account deficit also rose from US\$63.67 billion to US\$83.95 billion. The capital account surplus, on the other hand, fell from US\$80 billion in 1997 to US\$62.0 billion in 1998. The overall balance of payments consequently went from surplus to a deficit of US\$22.0 billion, though this was covered by international financial assistance in the form of rescheduling and loans from the IMF and others.

(2) Changes in Trade Environment

Latin America's trade in goods and services in 1998 saw the total value of exports fall by a mere 0.02% from the previous year to US\$327.31 billion, while imports grew 5.2% to US\$377.72 billion. The reasons for the poor export performance were the slump in international prices of exported goods following the Asian currency and economic crises, and the impact of natural disasters, such as hurricanes and the El Nino effect, that wracked the region.

1998 also saw considerable moves toward further regional economic integration as members of existing economic blocs strengthened their internal ties while also developing links with other blocs. Brazil and Argentina agreed to scrap tariffs on bilateral trade on January 1, 1999, and the Andean Community agreed to develop a common foreign policy and consolidate itself as a customs union. Moves such as an agreement on preferential tariffs between MERCOSUR and the Andean Community also took the region a step closer to the creation of the Free Trade Area of the Americas (FTAA) in 2005, and forward-looking negotiations on free trade between MERCOSUR and Mexico and the EU strengthened ties with economies outside the region.

(3) Developments in Trade with Japan

According to Japanese customs statistics on trade with Latin America in 1998, Japanese exports fell by only 2.3% from the previous year in dollar terms to US\$20.78 billion, while imports sagged 20.8% to US\$9.16 billion. As a result, Japan enjoyed a large trade surplus of US\$9.69 billion with the region. Latin America's share of Japan's world trade increased 5.4% in terms of export destinations (up from 5.0% in 1997) and decreased to 3.3% in terms of countries of origin (down from 3.4% in 1997). Japan's main exports to the region were transportation equipment (54.8% of all exports), machinery (13.8%), and electrical machinery (13.3%). Imports, on the other hand, largely consisted of foodstuffs (38.0%), raw materials (34.6%) and manufactured goods (23.9%).

Main Economic Indicators of Latin America

Year	Real GDP growth (%)	Exports of goods and services (US\$ billion)	Imports of goods and services (US\$ billion)	Trade balance (US\$ billion)	Increase in CPI (%)	Unemployment (%)
1993	3.9	157.7	166.1	-8.4	882.2	6.2
1994	5.8	183.0	197.3	-14.3	335.1	6.3
1995	1.0	264.4	272.8	-8.4	25.9	7.2
1996	3.6	296.5	304.4	-7.9	18.4	7.7
1997	5.2	327.4	359.0	-31.6	10.3	7.3
1998	2.3	327.3	377.7	-50.4	10.2	7.9

Source: *Preliminary Overview 1998, ECLAC.*

3. Asia and Oceania

(1) Economic Trends

<Signs of Recovery from Currency and Economic Crises>

There is a growing perception among the crisis-hit economies of the ASEAN4 and the R.O.K. that the economic situation has bottomed out and that a recovery is now under way. A loosening of tight monetary and fiscal policy in the latter half of the year caused exchange rates and share prices to improve from around the third quarter of 1998, and signs of recovery—such as an upturn in manufacturing output and imports by the R.O.K. and Thailand—emerged in the first quarter of 1999.

National statistics on GDP growth in the first quarter of 1999 show that although Indonesia and Malaysia registered negative growth rates, the R.O.K., the Philippines and Thailand all enjoyed positive growth. In Indonesia, the June 1999 general election passed smoothly, and although the future remains uncertain ahead of the November 1999 presidential and vice-presidential elections, the country appears to

have taken its first steps toward economic recovery. What these economies need if they are to really recover, however, are financial reform (including bank shakeups and the elimination of the burden of bad debt), a revival of personal consumption and private-sector investment, and a recovery in exports. The proportion of non-performing loans remains high in Indonesia and Thailand in particular, and numerous issues such as the privatization and restructuring of nationalized banks remain to be addressed.

Although China's GDP is forecast to grow in the region of 7% in 1999, the pace of growth has been decelerating since 1996 due to factors such as a slowdown in growth of consumption and cuts by businesses in their capacity utilization ratios due to overinvestment. In addition, the ranks of the unemployed, swelled by the reform of state-owned enterprises, are a growing social problem.

(2) Trends in Trade

<Active Steps to Expand Exports>

National statistics on exports (in dollar terms) in 1998 indicate that although China's exports edged up by 0.5%, exports were otherwise depressed across the board: Taiwan's exports fell 9.4% from the previous year, Hong Kong's fell 7.5%, Singapore's fell 12.2%, and the R.O.K.'s fell 2.8%. Among ASEAN members, the Philippines posted 16.9% export growth, but Malaysia and Thailand registered respective declines of 6.9% and 6.6%.

Looking at trends in trade in the first quarter of 1999 as evidenced by national statistics, Malaysian exports (in dollar terms) recovered from a 6.9% fall in 1998 to grow 5.4% on the first quarter of 1999, and Thailand's also bounced back from a 6.6% fall in 1998 to post growth of 4.0%. In Malaysia, which adopted a fixed exchange rate regime in September 1998, the elimination of the effects of exchange rate fluctuations was welcomed by exporters, and exports have followed an upward trend since October 1998. China's exports, however, declined 8.0% in the first quarter of the year.

A breakdown by region and country reveals double-digit declines in imports in 1998 in the R.O.K. (-35.5%), Hong Kong (-11.6%), Singapore (-23.3%), Thailand (-32.8%), Malaysia (-26.2%), the Philippines (-18.8%) and Indonesia (-34.4%), and a 1.6% fall from the previous year in the case of China. In the first quarter of 1999, however, a recovery in manufacturing output caused Thai imports to grow by 5.8% on the first quarter of 1999, and the R.O.K., too, saw imports turn around to grow by 8.1%.

The crisis-hit economies of the ASEAN4 and the R.O.K. are attempting to export their way to recovery, and China, too, which is experiencing sluggish export growth, has moved to shore up exports by, for example, raising the refund rate for value-added tax in July 1999. Japanese businesses that have expanded into ASEAN, meanwhile, are switching to exporting their products outside the region in response to the decline in intra-regional demand.

(3) Changes in Trade Environment

<Commitment to Intra-Regional Free Trade Clouded by Moves to Protect Domestic Industries>

At the ASEAN Summit heads of state in Hanoi in December 1998, ASEAN members clarified their positive commitment to liberalize trade within the region. At the same time, however, some countries have adopted a more protectionist approach to domestic industries. The Philippines, for example, increased tariffs on eight categories of products (such as textiles and petrochemical products) in January 1999, while Malaysia imposed a 25% tariff on imports of hot-rolled steel sheets and introduced an import approval system for imports of hot and cold-rolled steel sheets in April. The Vietnamese government, meanwhile, has accorded permanent preferential tariff treatment for imports from Japan since May 1999.

The R.O.K. government, on the other hand, in effect completely abolished its system for diversifying sources of imports at the end of June 1999, and New Zealand has also opened up its markets more by, for example, lifting import duties on autos in May 1998. Progress on the issue of possible Chinese membership in the WTO, however, has not been at a standstill since the accidental bombing of the Chinese Embassy in Belgrade by NATO forces.

(4) Developments in Trade with Japan

<Trade with East Asia Plummeted in 1998>

Japanese statistics on trade with East Asia in 1998 indicate that both imports and exports declined sharply. Exports in dollar terms to the ASEAN4 plummeted 37.5% in comparison with a 5.9% drop in 1997, and exports to the Asian NIEs, too, fell 23.2% compared with a 0.2% fall in 1997. There were particularly sharp declines in exports to Indonesia (-58.2%), the R.O.K. (-41.5%) and Thailand (-36.5%), where there was a contraction in domestic demand due to the effects of the currency crisis. The decline in exports to China also grew from 0.5% in 1997 to 8.1% in 1998.

Reflecting the weak state of the Japanese economy, the 2.5% decline in imports from the ASEAN4 in 1997 increased to a 21.6% fall in 1998. Hardest hit was Indonesia, whose exports to Japan slid by 26.6% due to the slump in the international price of petroleum products, and Malaysia also registered a decrease of 24.4%. Imports from the Asian NIEs, which were down 13.7% in 1997, fell 18.9% in 1998, and those from China, which grew 3.7% in 1997, shrank by 12.3% in 1998.

The decline in Japanese exports to the Asian NIEs began to level off in the first five months of 1999, when they fell by just 3.6% as against a fall of 23.2% in 1998. There was also growth in exports to the ASEAN4 and China, which rose 2.0% and 10.3%, respectively.

With the Japanese economy showing signs of recovery, imports also improved: imports were up 10.5% from the Asian NIEs, up 2.9% from the ASEAN4, and up 5.9% from China. Taiwanese and R.O.K. imports in particular registered respectable double-digit growth of 13.2% and 12.2%, respectively.

Basic Economic Indicators of Main Asian Economies

	Real GDP growth (%)			Rise in CPI (%)		Approved foreign investment (US\$ billion)		Balance of trade (US\$ billion)		Current account (US\$ billion)	
	1997	1998	1999	1997	1998	1997	1998	1997	1998	1997	1998
China	8.8	7.8	7.0	2.8	-0.8	51.00	52.10	46.2	49.2	29.7	25.0
Hong Kong	5.3	-5.1	-0.5	5.9	2.8	-	-	-21.1	-10.9	-	-
R.O.K.	5.5	-5.5	2.0	4.5	7.5	6.97	8.85	-3.2	41.2	-8.2	40.0
Taiwan	6.8	4.8	4.9	0.9	1.7	4.27	3.29	14.4	9.0	7.7	4.6
Singapore	7.8	1.5	1.0	2.0	-1.5	4.02	3.12	-9.3	-4.3	14.8	15.4
Indonesia	4.9	-13.7	0.0	6.6	58.2	33.83	13.56	13.5	18.7	-1.7	1.4
Malaysia	7.7	-6.2	0.7	4.0	5.2	4.02	3.33	3.9	11.6	-4.8	-5.1
Philippines	5.2	-0.5	2.4	6.0	9.7	3.78	1.81	-11.1	-0.2	-4.4	-1.3
Thailand	-0.4	-8.0	0.0	5.6	8.1	10.62	6.59	-4.6	11.5	-3.1	13.5
Vietnam	8.2	4.0	3.7	3.6	9.2	4.74	3.66	-1.4	-0.8	-1.8	-1.1
Cambodia	2.0	0.0	4.0	9.1	12.0	0.38	0.17	-0.3	-0.2	-0.3	-0.3
Laos	6.9	4.0	-	19.3	90.1	0.11	NA	-0.3	-0.2	-0.3	-0.1
Myanmar	4.6	4.0	3.0	29.7	50.0	0.78	0.05	-0.8	-	-0.4	-
Bangladesh	5.9	5.7	3.6	2.6	7.0	0.61	2.89	-2.7	-2.4	-0.5	-0.4
India	5.0	5.8	5.9	6.9	14.4	15.12	12.71	-16.3	-18.5	-6.8	-8.3
Pakistan	1.3	5.4	3.4	11.8	7.8	0.95	0.76	-3.1	-1.9	-3.6	-1.8
Sri Lanka	6.4	5.3	5.0	9.6	9.4	0.80	1.76	-1.2	-1.3	-0.4	-0.5

Notes: (1) Approvals statistics for the Philippines are BOI plus export processing zone approvals.

(2) Approved foreign investment figures for Cambodia in 1998 are for January-June 1998.

(3) Myanmar: 1997/98 figures are for April-March.

(4) Pakistan and Bangladesh: 1997/98 figures are for July-June.

Sources: ADB, *Asian Development Outlook 1999* and national statistics.

4. Europe

(1) Western Europe

A. Economic Trends

<Economic Slowdown Worsens>

Although the European economy entered a demand-led expansionary phase in 1998, signs emerged of a slowdown in growth in the latter half of the year, and the slowdown worsened in 1999. Although there are signs of an improvement in exports, the outlook remains cloudy. According to the European Commission's *1999 Spring Economic Forecasts* released in March 1999, the EU15's real GDP growth rate increased from 2.7% in 1997 to an estimated 2.9% in 1998, and is forecast to slow to 2.1% in 1999.

Considered individually, the economic performances of EU members were mixed. While growth in the core economies was sluggish, peripheral economies continued to enjoy high-speed growth. On April 8, 1999, the European Central Bank (ECB) lowered the repo rate (equivalent to the policy rate for euroland) half a point from 3.0% to 2.5%. The *Spring Economic Forecasts* suggest that average inflation in the EU15 will be stable, edging down from 1.5% in 1998 to 1.3% in 1999. The unemployment rate is expected to fall to single figures, dropping from 10.0% in 1998 to 9.6% in 1999.

<Newly Launched Euro Performs Weakly>

Eleven of the EU members (the EU15 minus the U.K., Sweden, Denmark and Greece) formed the first wave of countries to join the euro—the single European currency—when the third stage of Economic and Monetary Union (EMU) was launched on January 1, 1999. (Euro notes and coins will go into circulation on January 1, 2002.) After an initially solid performance on the foreign exchange markets, the euro subsequently fell, and skepticism concerning the new currency has grown in the U.K. especially. In euroland, however, the weakening of the euro has had a positive impact on exports.

The first elections in five years in the European Parliament, now with greater powers, were held in June 1999. The center-left governing parties of Germany, the U.K. and France were all defeated, suggesting that a change in the direction of European politics, hitherto dominated by the center-left, may be underway. Negotiations with Poland and five other countries began in March 1998 concerning their accession to the EU. But there are concerns about how relations between the new European Commission, which enters office in the fall headed by former Italian Prime Minister Romano Prodi, and the European Parliament, where conservative parties now form the largest group, will affect accession negotiations and trade issues.

B. Trends in Trade

<Severe Slowdown in Export Growth due to Slump in Foreign Markets>

An examination of the EU trade in 1998 reveals that yearly export growth slumped to 1.2% due to the deterioration in the export environment because of the economic slump in Southeast Asia (impaired by the currency and economic crises), Russia, Latin America and Japan, while imports grew by only 5.5% despite the comparatively firm tone of personal consumption. According to preliminary estimates by Eurostat of extra-regional trade of the EU15 in 1998, exports were worth 729.3 billion ECU and imports came to 709.3 billion ECU. The trade surplus was 20.0 billion ECU, a 58% decrease from the 48.5 billion ECU surplus in 1997. With the slump in foreign markets expected to continue in 1999, exports are forecast to remain depressed. The current account surplus, which was 1.5% of GDP in 1997, fell to 1.2% in 1998 and is forecast to shrink to 1% in 1999.

<Growth in Trade Deficit with Japan>

According to Eurostat statistics on trade with Japan in 1998, exports fell 13% from the previous year to 31.4 billion ECU, imports rose 10% to 65.5 billion ECU, and the trade deficit grew to 34.1 billion ECU. Calls are growing in the EU for Japan to expand domestic demand in order to kick-start the economy. Japanese customs statistics show that of the EU15, three countries—Italy, Sweden and Denmark—had surpluses with Japan.

Main Economic Indicators of EU

	Real GDP growth (%)	Increase in CPI (%)	Unemployment (%)	Exports (billion ECU)	Imports (billion ECU)	Balance of trade (billion ECU)
1992	0.9	4.2	9.2	411.0	461.8	-50.8
1993	-0.5	3.4	10.7	471.9	470.7	1.2
1994	2.9	3.1	11.1	526.1	518.9	7.2
1995	2.5	3.0	10.8	572.2	544.8	27.4
1996	1.8	2.7	10.9	625.1	581.5	43.6
1997	2.7	2.1	10.6	720.8	672.3	48.5
1998	2.9	1.5	10.0	729.3	709.3	20.0

Notes: (1) All figures are for the EU15.
 (2) Figures for 1998 are estimates.
 (3) Figures for imports and exports are for extra-regional trade.

Sources: European Commission, *1999 Spring Economic Forecasts*; Eurostat statistics.

(2) Central - Eastern Europe and CIS

A. Central and Eastern Europe: Slowdown in Economic Growth

In the decade since the revolutionary changes of 1989, symbolized by the collapse of the Berlin Wall, the countries of Central and Eastern Europe have moved from planned (socialist) economies toward market (democratic) economies. Differences in the transition process, however, have widened social and economic gaps between the countries of the region. The overall economic growth rate of seven economies (Poland, the Czech Republic, Slovakia, Hungary and Slovenia in Central Europe, and Romania and Bulgaria in Eastern Europe) peaked at 5.9% in 1995, and thereafter declined to 1.9% in 1997 and 1.0% in 1998. Of the five Central European economies, Hungary's robust 5.1% rate of growth in 1998 was up on the previous year's, while the Czech Republic suffered serious negative growth (-2.7%). In Eastern Europe, Bulgaria recovered from two years of negative growth to register 3.5% growth, while prospects remained gloomy in Romania as the economy registered its second consecutive year of negative growth (-7.3%). In 1999, the two-month Kosovo conflict that began in April had a damaging economic impact on neighboring countries, and the Vienna Institute for Comparative Economic Studies (WIIW) forecasts that the economies of Central and Eastern Europe will grow by just 0.4% overall in 1999.

Overall, Central and Eastern European economies enjoyed robust growth in both exports and imports. Exports grew 12% on the previous year to US\$109.9 billion and imports grew 11% to US\$141.5 billion, but the trade deficit grew 9% on 1997 to US\$31.6 billion. At the top of the list for growth in exports were Hungary (20%) and the Czech Republic (18%), where exports of passenger cars helped lift overall exports. Hungary also topped the list for growth in imports (21%).

Japanese customs statistics on Japan's trade with eight countries in Central and Eastern Europe (the above seven plus Croatia) show that both imports and exports fell back slightly after a big increase in 1997. Exports grew 3% on the previous year in 1998 to US\$1.23 billion (compared with 36% in 1997), and imports fell 6% to US\$ 613.2 million (compared with an increase of 29% in 1997). The ratio of exports to imports was 2:1 in Japan's favor, and Japan's trade surplus with the region grew 2% on 1997 to US\$615.5 million (compared with an increase of 45% in 1997).

B. Commonwealth of Independent States: the intricacies of Integrationist and Secessionist Tendencies

The GDP growth rate of the Commonwealth of Independent States (CIS) fell from 0.7% in 1997 to -3.0% in 1998, the first decline in two years, due mainly to the fact that the Russian economy, which accounts for 70% of the total GDP of the 12 member-states of the CIS, shrank by 4.6% as a result of the financial crisis. Ukraine, Moldova and Kazakhstan also registered negative growth. Belarus, Georgia, Uzbekistan and Kyrgyzstan maintained positive growth, albeit at lower rates than in 1997. Azerbaijan and Armenia, on the other hand, achieved high growth. The slump in the international price of primary commodities (which form the region's main exports), the consequent deterioration of their current accounts and the increasing burden of foreign debt are expected to cause the economic management of these economies to grow increasingly difficult in 1999.

Within the CIS, there was a mixture of integrationist and secessionist tendencies. In February 1999, Tajikistan joined a CIS customs union and common economic area comprising Belarus, Kazakhstan, Kyrgyzstan and Russia. Belarus expressed an interest in strengthening its ties with Russia, and in December 1998 signed a political declaration on increasing integration at the state level with its eastern neighbor. May 1999, however, saw the establishment of the Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova (GUUAM) group, which has stated its interest in strengthening defense ties with the U.S. and EU and reducing dependence on Russia. In April 1999, the first oil pipeline bypassing Russia to export oil from Azerbaijani waters in the Caspian Sea to the port of Supsa on Georgia's Black Sea coast entered operation. Although there are also ambitious plans for a trans-Georgia oil pipeline from Baku to the port of Ceyhan on the Turkish Mediterranean coast, this project is now widely thought to be less commercially attractive due to the slump in oil prices.

Basic Economic Indicators of Russia and Major Central-Eastern European Economies (1997-1998)

	Real GDP growth (%)		Inflation (%)		Unemployment (%)		Exports (US\$ billion)		Imports (US\$ billion)	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
Poland	6.8	4.8	13.2	8.6	10.6	9.6	25.75	28.23	42.31	47.05
Hungary	4.6	5.1	18.3	14.3	10.4	9.1	19.10	23.01	21.23	25.71
Czech Republic	1.0	-2.7	8.5	10.7	5.2	7.5	22.39	26.36	26.71	28.82
Slovakia	6.5	4.4	6.4	5.6	12.5	15.6	8.79	10.67	10.26	12.96
Romania	-6.6	-7.3	151.4	40.6	8.8	10.3	8.43	8.30	11.27	11.82
Bulgaria	-6.9	3.5	578.6	1.0	13.7	12.2	4.94	4.29	4.93	5.00
Slovenia	4.6	3.9	9.4	6.5	7.4	7.9	8.37	9.05	9.37	10.10
Croatia	6.5	2.7	3.6	5.7	9.9	11.2	4.17	4.54	9.10	8.38
Russia	0.8	-4.6	14.8	27.7	11.2	11.8	88.93	74.75	71.41	57.45

Sources: Government and central bank statistics from the countries concerned.

5. Middle East and Africa

(1) Middle East

A. Economic and Trade Trends

The real GDP growth rate of the Middle East (including Cyprus, Malta, Egypt and Libya but excluding Israel) grew by 2.9% against the previous year in 1998, a marked slowdown from growth of 4.7% in 1996 and 4.4% in 1997. This was caused by the contraction in the GDP of the Gulf oil exporters due

to the slump in oil prices. 1998 also saw the region's exports fall 13.2% in value (-1.9% in volume), though imports grew 2.4% in value (5.1% in volume). The decline in exports was mainly due to the fall in demand as a result of the economic downturn among oil-importing countries and to the slump in oil prices. The low growth rate of imports, on the other hand, was due to the decline in demand as a consequence of the slump in the economies of oil exporters.

B. Changes in Trade Environment

The slump in oil prices and the decline in demand for oil due to the economic recession in Asia had a severe impact on exports from the Gulf oil-exporting countries. Exports of non-petroleum products, too, leveled off, as the appreciation of the currencies of oil producers against those of the Asian economies reduced their price competitiveness in third-country markets.

C. Developments in Trade with Japan

Japan's trade with the Middle East in 1998 saw exports rise 18.5% against the previous year to US\$12.39 billion and imports fall 33.7% to US\$25.44 billion. Exports of machinery and equipment, which make up over 80% of exports to the region, grew a healthy 20.1%. This was because the depreciation of the yen made transportation equipment (which accounts for almost 50% of exports to the region) more price competitive again, resulting in strong growth in passenger car exports. The figures were also bolstered by the export of 10 new container vessels to Gulf Cooperation Council (GCC) members. The fall in imports, on the other hand, was caused by the sharp fall in imports of mineral fuels (which make up over 90% of imports) because of the slump in oil prices.

(2) Africa

A. Economic and Trade Trends

The real GDP growth rate of the African region (including the countries of North Africa but excluding Egypt and Libya) rose 0.3 percentage points against the previous year to 3.4%. With the exception of the economies of North Africa, however, where Morocco and Tunisia, for example, registered high growth of 6.3% and 5.5%, respectively due to steady growth in agricultural production, the overall growth rate of the sub-Saharan region was down 1.0 point from the previous year to 2.9%. This was due to the fall in demand in Asia because of the currency and economic crises there, and the fall in international commodity prices, which hindered growth. As a result, exports fell 9.1% from the previous year to US\$117.8 billion. Imports, however, edged up by 1.4% to US\$129.2 billion.

B. Changes in Trade Environment

Factors such as the fall in export prices for oil and other primary commodities and declining demand in Asia had a severe impact on exports from African countries. In addition, the fall in the value of Asian currencies raised the export competitiveness of the Asian region's products, which put a damper on exports of primary commodities from Africa such as cocoa, pulses, timber, rubber, coffee and tea.

With regard to the region's trading partners, China continues to emphasize its ties with the Third World, while Malaysia and Indonesia are strengthening trade links with the region in the hope of developing new export markets. Having announced a new policy on Africa in November 1998, France is developing its ties with the entire region and expanding trade with non-Francophone countries such as South Africa.

C. Developments in Trade with Japan

Regarding Japan's trade with Africa in 1998, exports rose 5.7% on 1997 to US\$5.86 billion, imports fell 20.8% to US\$3.92 billion, and the balance of trade registered a surplus of US\$1.96 billion. The increase in exports was principally due to an increase in exports of tankers from 4 to 18 (an increase of US\$3.9 billion) to Liberia. Exports of station wagons declined as a result of changing demand in Africa, but this was offset by the increase in exports of passenger cars. Imports fell in all fields, reflecting the downturn in the Japanese economy. The biggest declines were seen in imports of crude oil and petroleum products mainly from Nigeria, Algeria and Egypt, which shrank US\$3.0 billion from the previous year due to the effects of the fall in oil prices, and imports of gold (unprocessed) and platinum from South Africa, which fell US\$2.0 billion and US\$700 million, respectively. Accounting for 30% of exports and 60% of imports, South Africa had the biggest share of the region's trade with Japan.

Basic Economic Indicators of Middle Eastern and African Countries

(Units: US\$ million, %)

Country	Real GDP growth		Increase in CPI		Exports		Imports		Current account		External debt
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	End 1997
Iran	2.6	1.7	17.3	19.7	18,381	10,006	14,123	10,551	2,213	-1,884	11,816
Saudi Arabia	1.9	1.8*	-0.4	-0.2	60,732	NA	28,743	NA	0.27	NA	NA
U.A.E.	1.9	-7.0	2.0	1.6	33,559	29,735	26,995	27,447	6,581	NA	NA
Oman	2.9*	-10.2*	NA	-0.5	7,631	5,507	5,026	5,682	-21	NA	3,602
Turkey	8.3	3.8	99.1	69.7	26,261	26,881	48,559	45,921	-2,638	2,692	91,205
Israel	2.7	2.0	7.0	8.6	20,869	21,185	28,684	27,011	-1,228	-574	14,200
Egypt	5.3	5.7	4.8	4.5	3,862	3,154	13,249	16,547	119	-2,772	29,849
Kenya	2.3	1.6	11.2	6.6	1,949	1,896	3,246	3,276	-377	-406	6,486
Tanzania	3.3	4.0	16.1	12.8	717	676	1,338	1,454	-544	-491	7,177
Zimbabwe	2.0	1.5	18.8	31.7	1,926	1,668	2,805	2,476	-770	-900	4,961
South Africa	1.7	0.1	8.6	6.9	28,590	26,770	27,542	25,931	-1,913	-2,436	25,222
Nigeria	3.2	2.4	8.5	10.0	15,207	8,971	9,501	9,211	502	-4,298	28,455
Côte d'Ivoire	6.6	6.0	4.2	4.5	4,134	4,395	2,673	2,992	-420	NA	15,609

Notes: Iran: Figures on consumer prices, imports, exports and the current account are for the Iranian fiscal year (March 21 - March 20).

Saudi Arabia: * indicates estimates.

Oman: * indicates nominal figures.

Israel: External debt at the end of 1998.

Egypt: All figures for Egyptian fiscal year (July 1 - June 30), FY1996/7 and FY1997/8.

Zimbabwe: Figures on imports and exports are for the first eleven months of 1998. Forecasts for current account in 1998.

Saudi Arabia, UAE, Oman, Egypt, Kenya, Tanzania, Zimbabwe, South Africa, Côte d'Ivoire: Local currencies converted to U.S. dollars at IMF's average annual rate.

Sources: National statistics and *IFS*, August 1999 (IMF). Figures on external debt from *Global Development Finance 1999* (The World Bank).



JAPAN EXTERNAL TRADE ORGANIZATION

International Communication Dept.
2-5 Toranomom 2-Chome, Minato-ku Tokyo 105-8466 Japan

(For Distribution in the U.S.) This material is distributed by the U.S. offices of JETRO (Atlanta, Chicago, Denver, Houston, Los Angeles, New York, and San Francisco) on behalf of the Japan External Trade Organization (JETRO), Tokyo, Japan. Additional information is available at the Department of Justice, Washington, D.C.

Printed in Japan