

Is Globalization Dividing Tennessee?

by Steven G. Livingston, Editor

I ncreasingly, the successful American companies are those that can compete globally. We see this in Tennessee, where the robust economy of the 1990s has developed hand-in-hand with the growing international presence of the state's major businesses. The best evidence of this is that state exports, which have more than doubled in the last six years, now amount to around one-ninth of Tennessee's total value of shipments. Globalization is, by now, a fact. But to many, this raises new worries. One is a concern over the breadth of the state's success in foreign markets. Are the rewards of global competitiveness going to but a few large state exporters? A second is whether some parts of the state are being left behind. In particular, are rural areas losing out as globalization progresses?

Easiest to put to rest is the view that exporting is limited to the state's giant firms. While some Tennessee exporters, such as Eastman Chemical or Nissan, are indeed huge, most are in fact medium- and small-sized manufacturers. Today there are over 1,500 exporting firms in the state. This is nearly one-third more than just ten years ago and 600% more than 25 years ago. The most recently published Annual Survey of Manufacturers shows that while the number of state manufacturers has grown by 10% over the late 1980s and early '90s, the number of new state exporters has grown by better than 27%. A fifth of all Tennessee manufacturing firms are now exporting. In short, state exporting is broadly based,

Tennessee's Most Export-Intensive Counties

| | # Exporters | Export Intensity |
|----------|-------------|------------------|
| Perry | 5 | 42% |
| Cocke | 10 | 40% |
| Anderson | 31 | 40% |
| Unicoi | 7 | 35% |
| Roane | 11 | 33% |
| Clay | 4 | 33% |

(among those with more than 12 manufacturers)

Tennessee Exports By Division

| West | \$4158m | Middle | \$2186m | East | \$2986m |
|------------|---------|-----------|---------|--------------|---------|
| Jackson | \$155 | Nashville | \$1446 | Chattanooga | \$212 |
| Memphis | \$3351 | | | Knoxville | \$764 |
| (non-farm) | \$1726 | | | Johnson City | \$1311 |



1996 data from Bureau of the Census exporter location series and BERC calculations

and a very large number of firms are today active in foreign markets.

But is international activity largely limited to specific regions within the state? And, in particular, is it mostly benefiting urban areas? We have several ways of measuring this. The simplest is just to look at the distribution of exports across the state. Our first map shows the dollar value of 1996 foreign sales in each of the state's three Grand Divisions and in the metropolitan areas within the Divisions. (For metro areas spanning more than one state, the figures given are estimates for the Tennessee portion only.) Unfortunately statistics for one metro area, Clarksville, are not available. At first blush, the western part of the state seems to be the most export oriented. West Tennessee is the source of 45% of state exports. However, this is a little misleading, because most state agricultural exports are brokered through, and hence credited to, Memphis. Almost one-half of Memphis's exports are agricultural goods, and these, obviously, were not grown in the city! If we

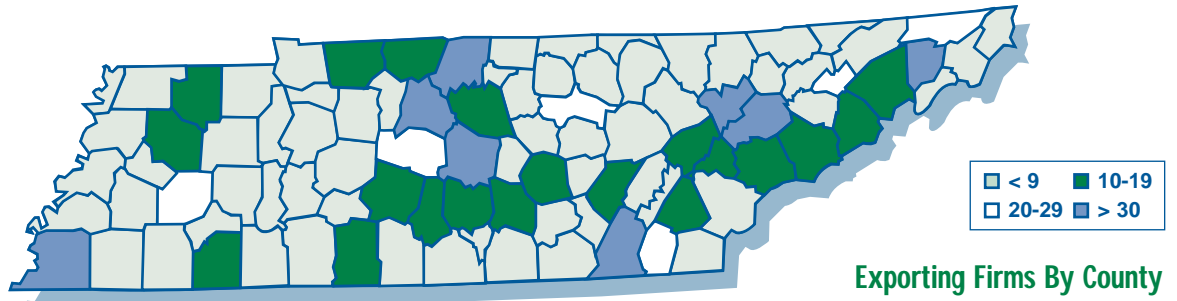
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Are the rewards of global competitiveness going to but a few large state exporters? Are rural areas losing out as globalization progresses?

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While differences among counties certainly exist, globalization is occurring all across the state, and in not widely disparate measure.



Globalization

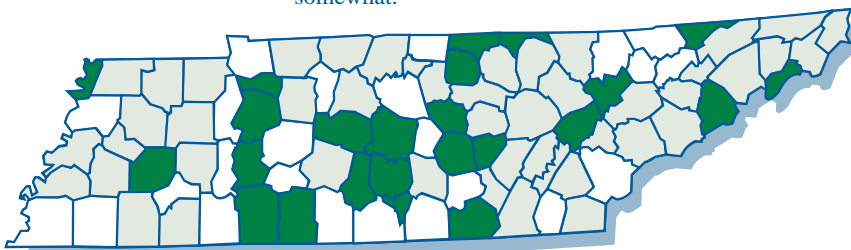
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subtract agriculture, 35% of all state exports come from West Tennessee, 27% from Middle Tennessee, and 38% from East Tennessee. This is a remarkably even distribution. However if we adjust for population, West Tennessee again emerges as the most export-oriented part of the state. Excluding farm products, West Tennesseans exported \$1,752 per capita, followed by East Tennessee's \$1,395, and \$1,032 from the middle part of the state. The fact that the western Division exports two-thirds again per capita as much as the middle Division shows the lasting importance of Memphis's role as the state's premier port city.

Exports from all three Divisions are growing rapidly. The west and middle portions of the state have almost identical growth rates over the period 1993-96: 47.3 and 43.8%, respectively. At 28.9%, eastern Tennessee lags somewhat.

Counties With No Exporters

| |
|---------|
| Cannon |
| Grundy |
| Haywood |
| Stewart |



Export Intensity By Tennessee Counties

| |
|-----------------------------|
| ■ Higher than State Average |
| ■ +/- 5 % of State Average |
| □ Below State Average |

Another way to examine this is to look not at the value of exports, but at the geographical distribution across the state of firms selling in foreign markets. Our second map shows the number of identified exporting firms in each county. As might be expected, the most populous counties have the most exporters, so a more interesting chart might be of export intensity: the percent of all manufacturing firms in a county that are exporting. This is our third map, which identifies whether this percentage is above, at, or below the state average for each Tennessee county. It turns out that counties vary quite a bit in their export intensity, in Anderson County, for example, 40% of all manufacturers export, while several counties have no exporting firms. But is there a pattern to export intensity across the state? Not really. The most export-intensive counties appear clustered in the middle part of the state, but so are the least export-intensive counties. Two areas of the state do appear to be underexporting using this measure: a group of Appalachian counties bordering eastern Kentucky, and, surprisingly, Shelby county and the southwest part of the state. But on the whole, both measures of export performance suggest that, while

differences among counties certainly exist, globalization is occurring all across the state, and in not widely disparate measure.

It's hard to find a pattern which proves any one region of the state is having unusual difficulties, or, for that matter, unusual success, in entering the global economy. However we have yet to consider a second important issue: whether exporting activity, across the state, is really mostly occurring in metro areas, while rural parts of the state are being left behind. Using the same measures as before, it may surprise many to find that the state's more rural areas are only slightly less export oriented than its urban areas. Rural West Tennessee is exporting only a little less than its two metro areas, Memphis and Jackson. (Rural areas export around \$1,602 per capita, 89% of the level of urban West Tennessee.) And, with 19% of its manufacturers exporting, rural West Tennessee is just as export intensive as urban West Tennessee, where export intensity is 18%. East Tennessee, at first glance, appears to have a pretty sizable gap between its metro and rural areas. Rural areas export \$1,075 per capita, only 63% of the level of the region's urban areas; but this is complicated by the location of the state's exporting giant, Eastman Chemical, in Johnson City. Rural areas actually out-export Chattanooga and Knoxville; it's just that they can't match the output of Eastman. Again, the export intensity of the region's rural and urban areas is almost the same; 21 and 24%, respectively. It's Middle Tennessee that shows the clearest case of a significant rural/urban divide, as rural exports are only \$934 per capita. Not only is this the poorest rural performance of the state's three Divisions, it is only three-quarters of the level of Nashville's exporting. Yet firms in rural Middle Tennessee are every bit as likely to be exporting as firms in the Nashville or Clarksville metro areas. The difference in dollar values is best explained by the presence of Nissan and several other major firms in suburban Nashville. Overall, we conclude that generally firms in rural areas are almost as likely to be exporting as metro areas across the state, but on average, at somewhat lower volumes. This is probably only because the state's handful of "superexporters" are almost all in suburban areas. At worst, only in Middle Tennessee can we make much of an argument that a significant metro/rural gap exists in export performance.

By any measure, globalization is proceeding rapidly all across Tennessee. Worries that this process benefits only a few winning firms or a few favored parts of the state seem misplaced. Though we can certainly identify underperforming counties, there is little evidence that particular regions of the state, or the less populated parts of the state, are being shut out of this new economy. n

Sourcing in China

by Phebe X. Grah, Ph.D.
General Manager, PI Worldwide

China, a civilization of many names and of many guises, has fascinated outsiders over the centuries. They have viewed her with a whole spectrum of feelings from fear to admiration....

— All China, *Passport books*,
1986. p. 11

For centuries, the People's Republic of China has been closed to the majority of western countries. Only in the past 20 years, with the initiation of "Open Door and Reformation" policy, has China started to engage in cultural, social, and economic exchanges with the outside world. Given its gigantic population, rich resources, and relatively inexpensive labor market, foreign trade and investment in China have been seen as a great advantage to many foreign companies. Sourcing in China is a major part of foreign trade activities.

In order to ensure successful trade in China, one needs to understand China's political, social, cultural, and geographical system. After all, business transactions in China are much influenced by its cultural, social, political, and geographical context.

Since the Revolution of 1949, the political system in China has been communist. Even though much private business sprouted in the 1980s and continues to do so in the 1990s, many companies are still owned by the government. Most Chinese trading companies belong to the government. These official trading companies serve as gateway agencies for all import and export activities in China. For example, if Company A in the U.S. is interested in importing crafts and gifts from Company B in China, Company B has to go through the branch government trading company in its city or province to ensure legal export procedures. Similarly, if company A in the U.S. is interested in exporting to Company B in China for distribution of a certain product, the Chinese government trading company also has to be involved in the transaction. Often, contacting these government trading companies directly is a good way for beginning the sourcing process, since they already have an established network of various suppliers.

Socially, China is a people- and family-oriented society. Business dealings have much to do with how the "connections" are made. "Guanxi" — the Chinese word for "connection" — plays an important part in all aspects of business. If you know the right people, you will get the right price. If you know the right people, you will gain favor. If you know the right people, you will get preferential treatment. In China, there are many rules; however, in China, many rules are flexible if you have "Guanxi" — the right connection. To westerners, bending rules for personal relationship may seem



unreasonable or unprofessional, but to the Chinese, when "connection" exists, all things are possible. For instance, if the head of Company A in the U.S. is related to a local Chinese government official, or is a long-term friend (LAO GUAN XI or Old Connection) with the official, Company A will have a much easier time in foreign trade in that Chinese local province. As to sourcing, the Chinese official will not hesitate to link all his/her sources and connections for the American company.

Culturally, China is very different from the U.S. in many areas. The biggest differences are language and custom. In business, formal relationships are usually preferred over informal relationships. Titles and last names are emphasized in addressing. The "fame" of a company is often considered more important than anything else. It is not unusual for Chinese companies to boast about famous people's visits and state awards. When an American company attempts to source in China, it helps if the American company shows some kind of official recognition, awards, and so forth. The Chinese suppliers will also take the American company more seriously if they are convinced that the American company has good "fame" and is an established company.

Geographically, China is roughly divided into northern and southern parts, with the Long River as the division line. Due to its warm climate, seaports, convenience of river transportation, and especially the Special Economic Zone, Southern China has been more developed economically. There is more free enterprise in southern China than in the northern counterpart. Generally, when sourcing a product, one has a better chance of sourcing in the southern part of China. Meanwhile, the majority of the western part of China, compared to the eastern part of China, is rather desolate.

In conclusion, China offers great potential for foreign trade and investment. However, China is unique in its historical, political, social, cultural, and geographical characteristics. Understanding these characteristics helps one to source and trade successfully with China. n

If you know the right people, you will get a good price. If you know the right people, you will gain favor. If you know the right people, you will get preferential treatment.

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Here are some useful resources to contact if you are interested in sourcing and initiating foreign trade or investment in China.

Foreign-Related Government Departments and Agencies

Ministry of Foreign Affairs
225, Chaonei Street, Beijing 100701
Tel: 65135566, 65135980
Fax: 65255110

Ministry of Foreign Trade and Economic Cooperation
2, Dongchangan Street, Beijing 100731
Tel: 65198114, 65198203
Fax: 65129568

General Administration of Customs
6, Jiangguomennei Street, Beijing 100730
Tel: 65194114, 65195215
Fax: 65195170, 65126020

State Administration for the Inspection of Import and Export Commodities
15, Fangcaodixi Street, Chaoyang District, Beijing 100020
Tel: 65007744, 65004042
Fax: 65002387

Peoples Bank of China
32, Changfang Street, Beijing 100800
Tel: 66015522, 66016710
Fax: 66016724

State Administration of Foreign Exchange Control
8, Beichendong Road, Beijing 100101
Tel: 64915738
Fax: 64914783

State Administration of Taxation
68, Zaolingqian Street, Beijing 100053
Tel: 63543388
Fax: 63269664

Ministry of Public Security Administrative Bureau for Exit and Entry
14, Dongchangan Street, Beijing 100741
Tel: 65121176, 65122831, 65121476
Fax: 65122779, 65241596

Internet Resources

China Council for the Promotion of International Trade
<http://www.ccpit.org/home.html>

Asian Trade Promotion Forum
<http://www.jetro.go.jp/atpf/>

Embassy of the People's Republic of China in the U.S.
<http://www.china-embassy.org/>

China Daily
<http://www.chinadaily.net/>

Chinascape Café Forum Chat
<http://chinascape.com/forums/chinascape/chat.html>

Regulations of Shanghai Municipality for Encouragement of Foreign Investment
<http://www.sh.com/district/appendix.html>

Guangdong Today
<http://www.guangdongtoday.com/>

Foreign Trade and Economic Cooperation Chambers and Associations

ICC China
1, Fu Xing Men Wai, St.100860
Add: Beijing, China, P.R.
Tel/Fax: 86 10 68573554
E-Mail: Lianluo@public.bta.net.cn
Web Site: <http://www.ccpit.org/icc.html>

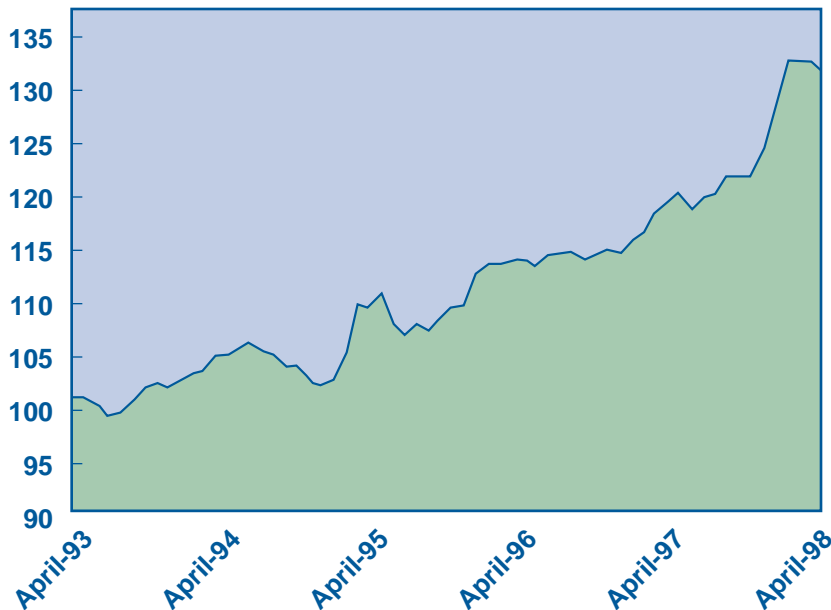
China Chamber of Commerce for Import and Export of Light Industrial Products & Arts & Crafts
11, Xinghua Road, Hepingli, Beijing 100013
Tel: (010)64204150
Fax: (010)64204154

China International Contractors Association
28, Donghousiang, Andingmenwai, Beijing, 100710
Tel: (010)64211159, 64216661
Fax: (010)64213959

China Association of Enterprises With Foreign Investment
8/F, Part A, Poly Plaza, 14, Dongzhimennan Street, Beijing 100027
Tel: (010)65001188
Fax: (010)65019361

1st Quarter 1998

Tennessee Trade-Weighted Dollar Index



volatile, with the *rupiah* continuing its free fall against the dollar. It lost 46% of its dollar value during the first quarter. Korea and Thailand, on the other hand, partially offset this drop by posting 5.7 and 8.1% gains, respectively, against the dollar. But no one is suggesting that any of these currencies have ended their potential for wild fluctuations, as last fall's financial crisis is far from over.

Elsewhere the story is by now an old one: the continuing weakening, albeit at a modest pace, of most world currencies against the dollar. Twelve of the index's 22 currencies fell during this past quarter, while only half a dozen appreciably strengthened. In particular, the dollar rose against all eight of the European currencies in the index, though in each case by only a couple of percentage points. Among the state's largest trading partners, the biggest change occurred in Mexico. The peso fell some 5% against the dollar, making it the only non-Asian currency which changed significantly over the quarter. Both the Japanese *yen* and Canadian dollar, however, rose slightly.

Though the apparent break in the dollar's relentless rise is good news for state exporters, they are still hampered by a currency that remains at its highest level in years. The next few months should give us some indication of how big a dent this is making in Tennessee's foreign sales. n

The skyrocketing dollar finally may have paused for a breather. After peaking in January, the Tennessee trade-weighted dollar index leveled at 129.91, a 2.7% rise from last quarter. As expected, the major currency movements were concentrated among the state's trading partners in Asia. Indonesia was by far the most

Tennessee International Trade Report

4th Quarter 1997

Nineteen ninety-seven was a very good year indeed for the state's exporters. Foreign sales rose 14% last year, breaking the \$10 billion mark. And the best was saved for last. Shrugging off a strong dollar and Asian economic difficulties, Tennessee firms sold \$2.7 billion worth of goods abroad during the fourth quarter, the best performance in the state's history. Both the state's fourth-quarter growth rate (20%) and 1997 annual rate easily exceeded the national rates.

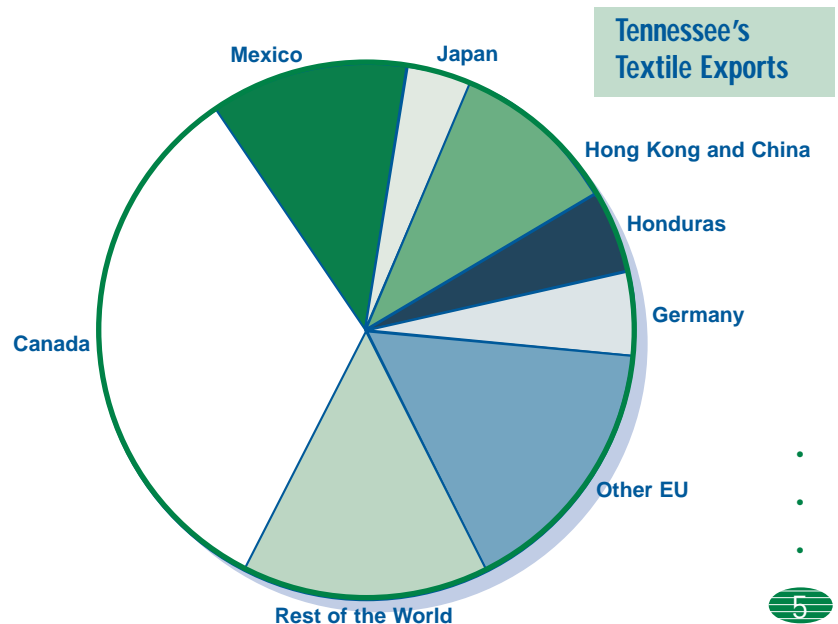
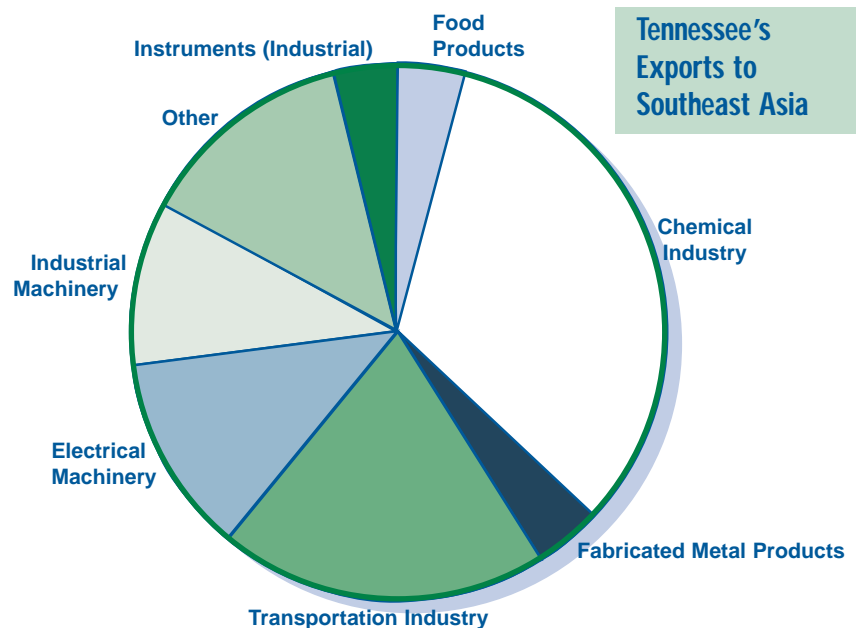
All of the state's six largest export sectors performed strongly. Three — the electronics, the medical and scientific instruments, and the paper industries — posted gains of better than 25%. These three sectors also led the fourth-quarter surge, expanding their exports even faster, in the neighborhood of 30% each. In 1997 two-thirds of all state exports came from one of the six dominant industries, as the sectoral concentration of state exports continued. However, most other sectors also did very well. The textile and apparel sector, for example, gained over 25% this past year, while the primary metals sector expanded exports by a full third. Indeed, 25 of the state's 33 industrial sectors produced export gains this past year. Data for the entire year and for the fourth quarter show another clear trend: while Tennessee manufacturing exports are growing by leaps and bounds, their robust numbers are disguising a much weaker performance by the state's nonmanufacturing sector. The latter has almost uniformly seen significant export declines over the past several quarters. Fortunately, with the exception of agricultural crops, the nonmanufacturing industries have not traditionally been large state exporters, and so their poor numbers have not greatly affected the state's positive export performance.

Where have these growing exports been going? With one exception, Tennessee exports gained significantly in all major export regions. That exception, as one might guess, is East Asia. Sales to China, Hong Kong, and Japan all declined in 1997. China reversed course by the fourth quarter, with exports to that market increasing 59% during the last three months of 1997, but sales elsewhere in the region remained essentially flat. Given all the news from Southeast Asia, one might have expected that Tennessee exports to that region would have collapsed, but this has not happened yet. In fact, due to remarkable gains in Singapore and the Philippines, the region actually accepted 22% more Tennessee goods in 1997 than in 1996. However, the Asian flu victims are clearly signaling future difficulties: fourth-quarter sales to Thailand were off 37%, and sales to Malaysia and Indonesia increased a relatively meager eight percent each.

Elsewhere trends were extremely positive. Exports to Mexico gained a stunning 44% last year (and 74% in the fourth quarter!). A diverse group of industries has massively increased its Mexican sales, with the electronics and transportation sectors doing particularly well. The Canadian market, where Tennessee sales gained 12%, was its usual reliable self. Weaker European currencies didn't seem to bother state exporters: sales to

the EU were up 17%. The strongest market there was the U.K., where exports increased by \$100 million, some 26%. Perhaps the most interesting trend is the state's dynamic growth in the Latin American markets. Tennessee exports to every single country in South America grew last year, and sales to the continent were up 37% for the year, a performance second only to that in Mexico. When combined with Mexico, Tennessee exports "south of the border" now exceed those to East Asia and have risen to two-thirds the amount going to Europe.

Nineteen ninety-eight is opening on a mixed note. January's state exports were up 5.5% and February's by 4.7% over last year, but these increases are well below the stratospheric recent gains and reflect the relatively weak export numbers across the nation in the wake of the "Asian flu." n



The sectoral concentration of state exports continued in 1997.

Tennessee's manufacturing industries have been its most dynamic exporters.

Tennessee's Largest Export Sectors

| | Exports | Change from Last Year | Change from Last Quarter |
|----------------------------------|---------------|-----------------------|--------------------------|
| Transportation Equipment | \$569,702,753 | 21.7% | 5.6% |
| Chemicals | \$425,884,213 | 10.0% | -2.4% |
| Industrial Machinery | \$331,522,488 | 5.2% | 0.6% |
| Electronics | \$244,385,104 | 34.7% | 11.9% |
| Medical & Industrial Instruments | \$158,469,217 | 28.5% | 4.0% |
| Paper & Allied Products | \$125,205,770 | 33.0% | -0.2% |

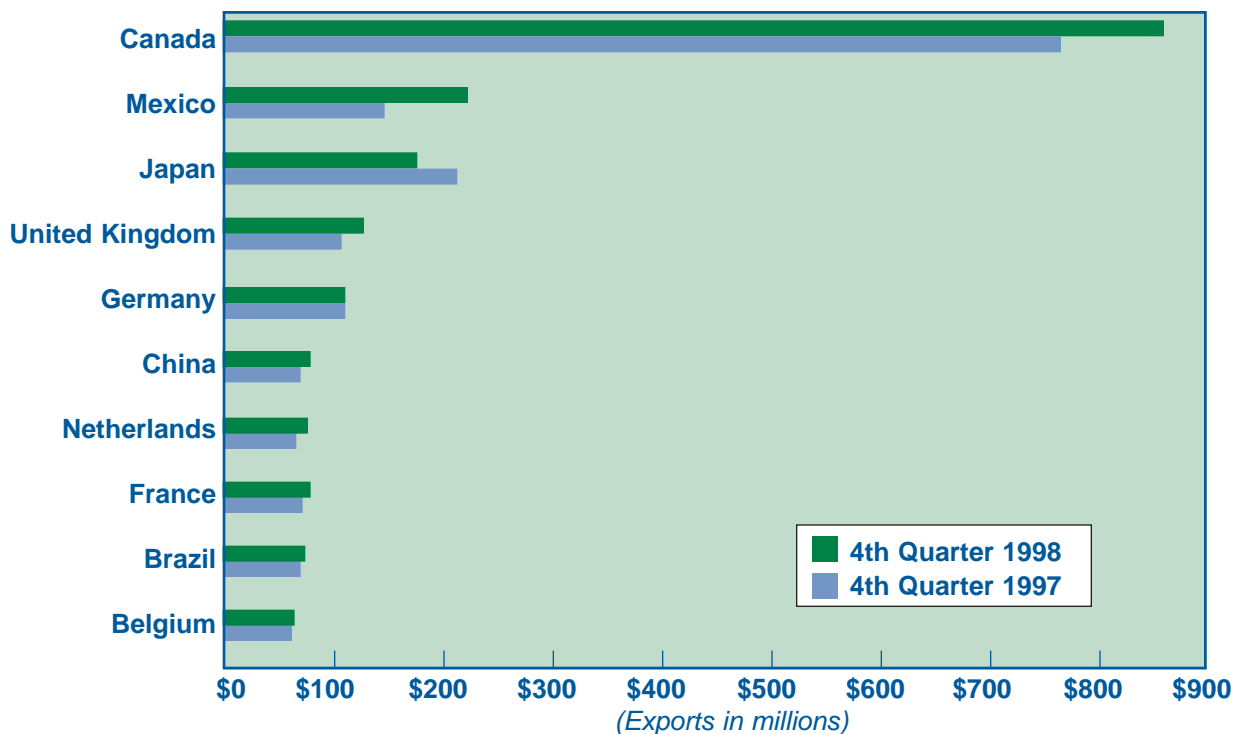
Greatest Growth and Decline in Exports by Industry

(among sectors exporting more than \$1m per quarter)

| | Value of exports | Growth % | Decline % |
|--|------------------|----------|-----------|
| Sectors With the Greatest Growth | | | |
| Petroleum & Coal Refining | \$2,417,904 | 152.0% | |
| Scrap & Waste | \$7,152,319 | 63.2% | |
| Primary Metal Industries | \$72,278,766 | 52.5% | |
| Textiles | \$42,608,214 | 40.9% | |
| Electronics | \$244,385,104 | 34.7% | |
| Sectors With the Greatest Decline | | | |
| Metal Mining | \$6,925,193 | | -55.1% |
| Fishing, Hunting, & Trapping | \$2,461,503 | | -52.2% |
| Leather Products | \$8,781,941 | | -26.6% |
| Lumber Industry | \$25,816,973 | | -19.1% |
| Food Products | \$119,815,538 | | -0.6% |

Tennessee's Leading Trade Partners

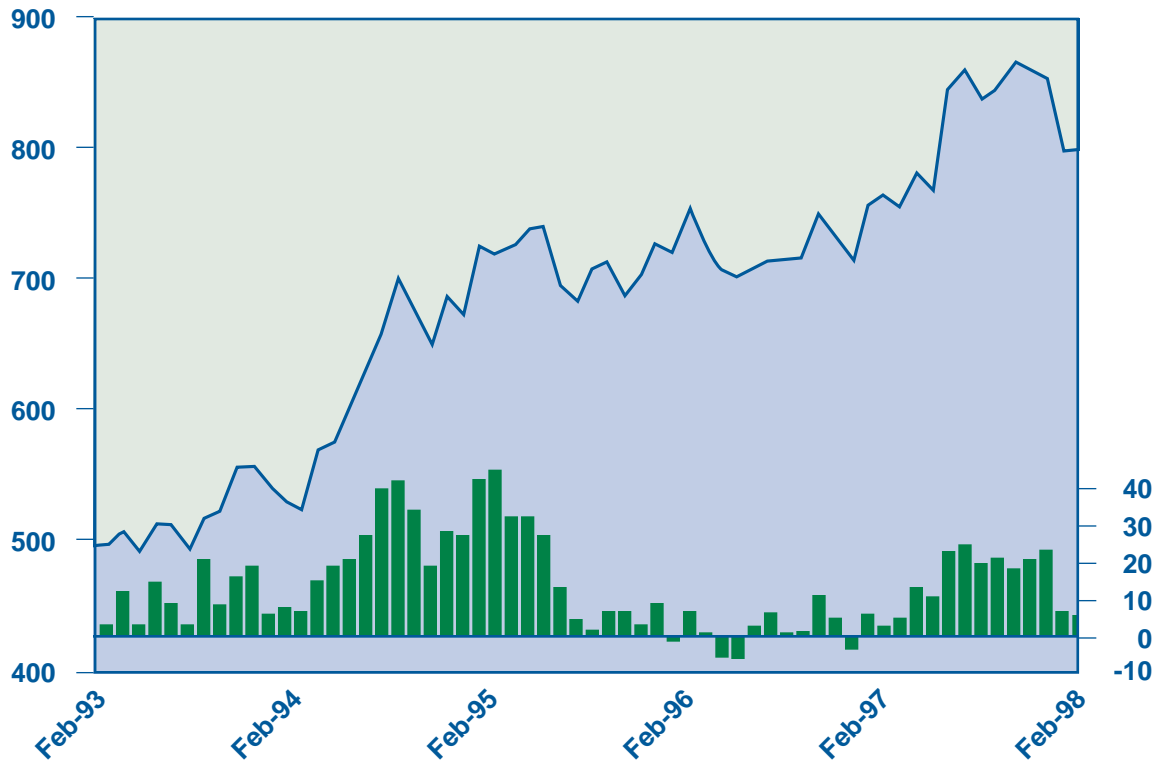
The top ten markets take 73% of all state exports.



Tennessee Monthly Exports

Exports in \$Million

Nominal Growth Rate (%)



After surging through 1997, export growth is beginning to flag.

(Seasonally adjusted, expressed in 1993 dollars)



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Editor: Steven G. Livingston
Publications Editor/Designer,
College of Business: Sally Ham Govan
Phone: 615-898-2610
On-line: www.mtsu.edu/~berc/intl/intlmain.html

Tennessee Department of Economic and Community Development

Tennessee Export Office
 320 Sixth Avenue North, 7th Floor
 Nashville, Tennessee 37243-0405

Governor: Don Sundquist
Commissioner: Bill Baxter
Associate Editor: Bob Pawlick



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4th Quarter 1997

Fastest-Changing Export Destinations

| | Value of exports | Gain % | Decline % |
|--|------------------|--------|-----------|
| Countries With the Greatest Growth | | | |
| Russia | \$3,599,771 | 394.4% | |
| Turkey | \$22,451,973 | 170.4% | |
| Peru | \$6,139,198 | 116.6% | |
| Chile | \$27,579,604 | 97.9% | |
| Ecuador | \$3,610,854 | 88.2% | |
| Countries With the Greatest Decline | | | |
| Ghana | \$1,424,414 | | -55.0% |
| Jamaica | \$1,784,419 | | -51.3% |
| Finland | \$2,401,802 | | -48.9% |
| Thailand | \$8,705,596 | | -37.3% |
| New Zealand | \$8,525,178 | | -30.2% |

(among countries averaging more than \$2m per quarter)

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Business and Economic Research Center

P.O. Box 102
Middle Tennessee State University
Murfreesboro, TN 37132
615-898-2610

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