

# Global Commerce

Tennessee and the International Economy

## Tennessee's Trade with China

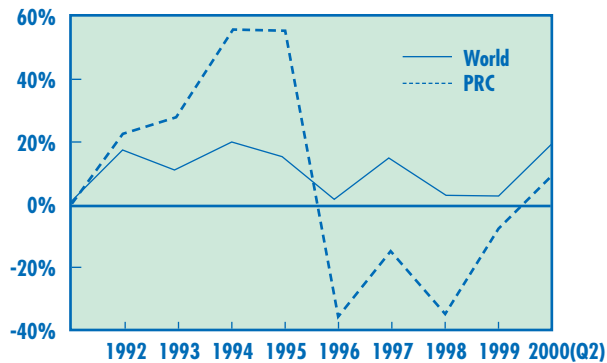
### The Effect of the PNTR Legislation

by Steven G. Livingston

On October 10, President Clinton signed legislation extending permanent normal trade relations (PNTR) to the Peoples' Republic of China. Committing the U.S. to support China's accession to the World Trade Organization (WTO), it was the year's most contentious bill. To secure passage, the U.S. negotiated an extensive trade agreement with China in which the latter has promised to significantly open its market to American exporters. Most economic and trade experts believe this package of concessions, along with WTO membership, will increase American exports by anywhere from \$3 billion to \$13 billion by 2005. The USDA expects U.S. agricultural exports alone to grow by \$2 billion over the next five years because of the agreement. Against this are renewed fears of job losses from increased Chinese imports or relocation of U.S. plants to China.

Tennesseans, like the rest of the nation, were divided over the bill. In the House of

### Tennessee Annual Export Growth: China and the World



Representatives, for example, the state's Congressional delegation split 5-4 in favor, with Republicans and Democrats on both sides of the vote. (In the Senate, Frist and Thompson joined 81 others in supporting the bill.)

What can this state expect, now that the PNTR legislation has passed? The most reasonable projection is for the bill to produce positive but modest gains for the Tennessee economy.

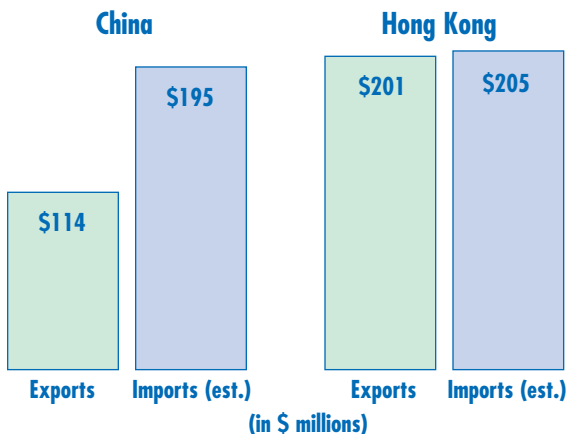
### Tennessee's Trade with China

In 1999, Tennessee exported just over \$114 million in goods to China, making the PRC the state's 16th largest foreign market. If we add Hong Kong, today an entrepot for much of the trade with China, state exports stood at \$261 million, making it the seventh largest market. We currently appear to run a small trade deficit with Hong Kong, but a much larger one with China itself. These are large numbers but, relatively, China is not a major destination for Tennessee exports. State foreign sales to China and Hong Kong together constitute only 2.4 percent of Tennessee's total exports, and Tennessee is the origin of less than one percent of all of America's exports to China.

China has not been a particularly good market for the state over the past few years, either.

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### 1999 Tennessee Trade



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## China

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Tennessee's sales to China actually peaked in 1995 and have been going down ever since. Only in the past few quarters have exports stabilized and again begun to rise. (Hong Kong has been a better market, but even here sales have been flat since 1995). The accompanying chart of export growth rates tells the tale: after an explosive start, the Chinese market has significantly underperformed the rest of the world over the last decade.

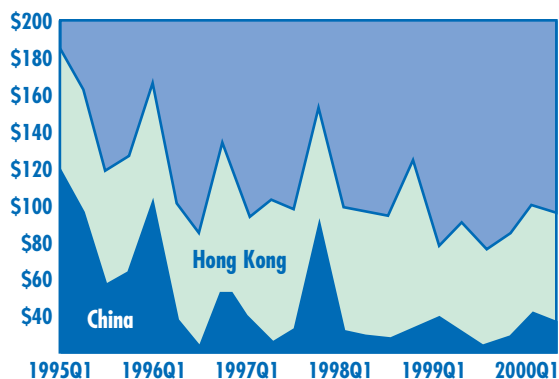
Part of the reason for this is that several large cotton sales out of Memphis in the mid-1990s produced a temporary spike in state exports in 1994 and 1995. Indeed, in the first part of the '90s, agricultural crops accounted for almost 60 percent of Tennessee's exports to China. They have since virtually vanished. In the second quarter of 1995, for example, exporters shipped \$57 million of Tennessee cotton to the PRC, while, in the second quarter of this year, total state crop exports to China were only about \$1.6 million. A second part of the story is in the chemical sector, the state's largest non-agricultural export to China. Here the numbers are off not as dramatically, but they are off. Using the same quarters as the benchmark, chemical exports to the PRC have fallen by a third, from \$24 million to \$16 million, and have dropped a further \$15 million in Hong Kong (from \$36 million to \$21 million). While other industries have been increasing their exports modestly, they have been unable to take up the slack from cotton and chemicals. Most of Tennessee's remaining exports to China are in heavy industry. Industrial machinery exports, in particular, are making steady progress in both markets, but the absolute numbers are still rather small: around \$40 million in industrial exports in 1999.

China is granting deep tariff cuts in many sectors: textiles and apparels, truck and auto parts, chemicals, air conditioning equipment, and industrial instruments.

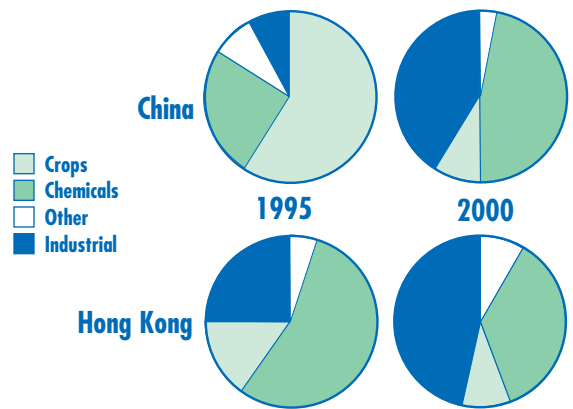
## The Impact of the PNTR

China has clearly made broad and deep trade concessions in its deal with the U.S. (The full text may be found at <http://www.uschina.org>.) China is

## Tennessee Exports to China and Hong Kong: 1995Q1 to 2000Q2 (\$ millions)



## What's Exported?



granting deep tariff cuts to the U.S. in many sectors, including textiles and apparels (27.11 percent to 11.7 percent duty), truck and auto parts (23 percent to 10 percent), chemicals (11.1 percent to 6.9 percent), air conditioning equipment (24.3 percent to 15.2 percent), and industrial instruments (12.1 percent to 6.1 percent), to name several of interest to Tennessee. Computer and high-tech goods are singled out, with tariffs in this sector eliminated altogether. The PRC is reducing tariffs to nominal amounts and ending or expanding import quotas for many agricultural crops. Also, China promises to improve intellectual property protection and open protected service sectors for things such as software, telecommunications, and insurance.

The USDA argues that concessions on soybeans, cotton (China is the world's largest importer), poultry (where it is the second largest importer), and wood will significantly increase Tennessee's exports. One has to be careful here, however, because while much of the Southeast's soybeans and cotton trade may be brokered through Memphis, they are not crops grown in Tennessee itself. Recent history suggests that Tennessee farmers are opportunistic, rather than steady, exporters to China, and thus it is unclear to what extent they will reap the advantages of these trade concessions. Over the past year, the state has sold only about three percent (\$5.3 million) of its crops to China. It thus appears likely that at least in the near future, barring events such as those of 1994-95, gains in this sector will be modest.

Concessions in the high-tech and service sectors will have little short-term impact here, as these are small economic sectors for this state. Presumably the music industry will gain from copyright protection, but China is not yet a major destination for that Tennessee industry.

On the other hand, major tariff reductions are offered for chemicals, this state's third largest export sector. Eastman Chemical was one of Tennessee's strongest supporters of the bill, and with good reason: the chemical industry appears to be the state's major gainer from the PNTR. State chemical exports

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## 2nd Quarter 2000

The auto sector continues to boom.

## Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$647,230,346	18.2%	8.1%
Industrial Machinery	\$417,808,106	15.2%	1.2%
Chemicals	\$351,518,528	-5.9%	1.9%
Electronics	\$307,490,505	10.3%	1.5%
Industrial and Medical Instruments	\$180,788,215	9.5%	-12.1%
Fabricated Metals	\$166,879,408	27.4%	-13.5%

## 2nd Quarter 2000

Farmers made the biggest export gains for the quarter.

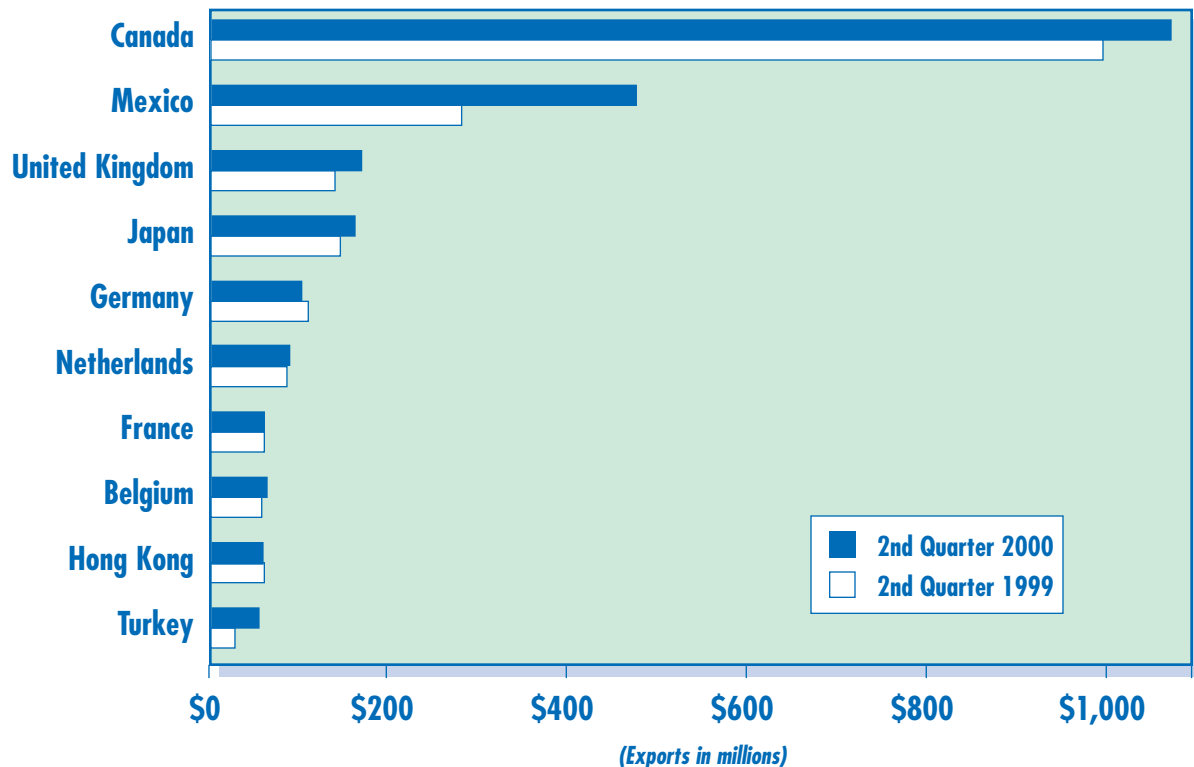
## Greatest Growth and Decline in Exports by Industry

(among sectors averaging exports of more than \$2 million per quarter)

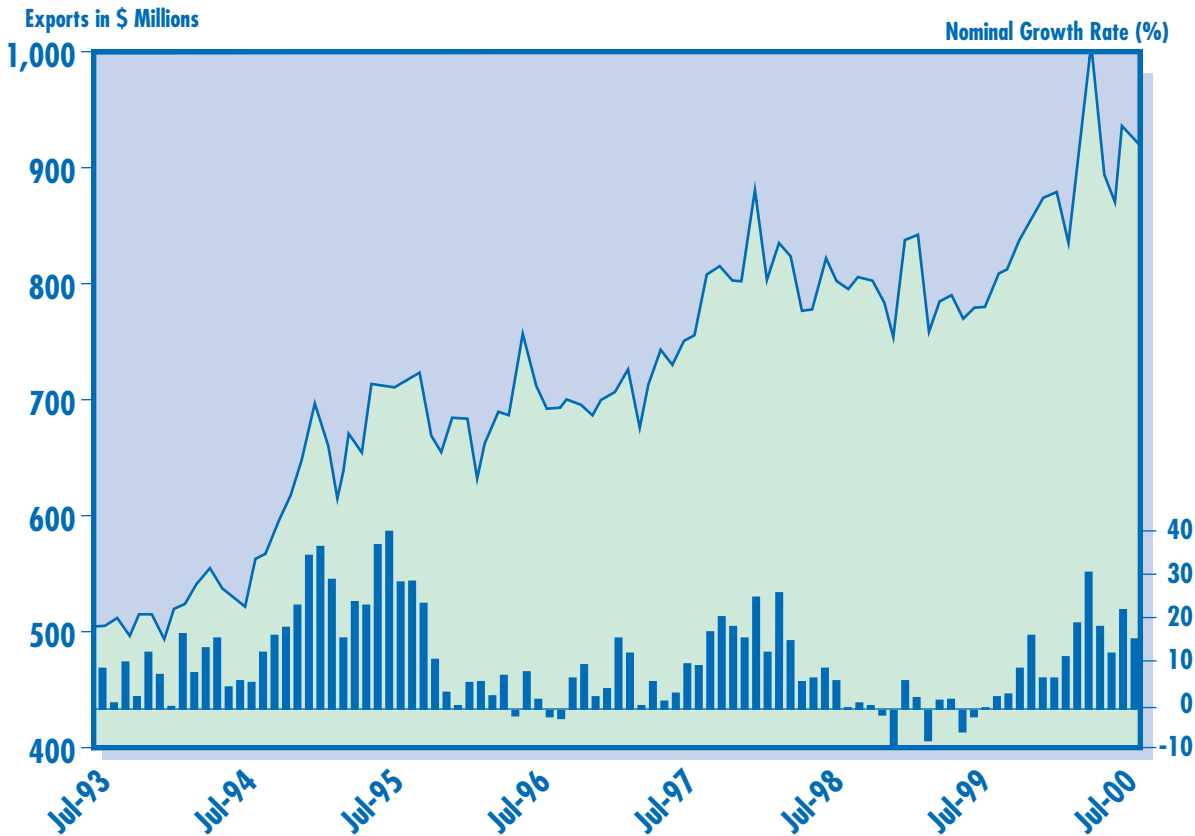
	Value of Exports	Growth	Decline
<b>SECTORS WITH THE GREATEST GROWTH</b>			
Agricultural Crops	\$123,316,166	135.3%	
Scrap and Waste Materials	\$7,686,922	52.9%	
Environmental Quality	\$11,380,065	44.1%	
Primary Metal Products	\$77,814,763	43.6%	
Stone, Clay, Glass Products	\$52,734,697	37.9%	
<b>SECTORS WITH THE GREATEST DECLINE</b>			
Printing and Publishing	\$35,950,447		-20.3%
Livestock	\$2,023,438		-13.3%
Furniture	\$19,790,217		-9.5%
Chemicals	\$351,518,528		-5.9%
Apparels	\$64,054,164		-5.3%

Turkey joins Tennessee's "top ten."

## Tennessee's Leading Trade Partners



# Tennessee's Monthly Exports



(Seasonally adjusted, expressed in 1993 dollars)

**2nd Quarter 2000**

## GlobalCommerce

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## Fastest Changing Export Destinations

(among countries averaging more than \$2 million in sales per quarter)

	Value of Exports	Gain	Decline
<b>COUNTRIES WITH THE GREATEST GROWTH</b>			
Ecuador	\$5,491,673	522.0%	
Austria	\$8,011,054	163.8%	
Costa Rica	\$10,450,801	154.0%	
Turkey	\$56,194,740	149.2%	
Guatemala	\$11,394,350	119.9%	
<b>COUNTRIES WITH THE GREATEST DECLINE</b>			
Ireland	\$7,054,631		-50.9%
Norway	\$2,390,876		-43.5%
United Arab Emirates	\$5,842,323		-42.8%
Honduras	\$9,519,062		-42.4%
Switzerland	\$9,901,793		-42.4%

# Tennessee International Trade Report

**The year 2000 is turning out to be one of the best years ever for Tennessee exports. The third quarter appears likely to continue showing strong numbers.**

The year 2000 is turning out to be one of the best years ever for Tennessee exports. In the second quarter, state businesses exported \$3.086 billion in goods. This was a gain of better than 16 percent over last year and follows the 20 percent gain in the year's first quarter.

Huge gains in the NAFTA market were the backbone of the export growth. This market accounted for half of all state exports in the second quarter. Sales to Canada were up a solid 7.5 percent. If Canada was good, Mexico was spectacular. Here, exports were up almost \$200 million for the quarter, a remarkable 70 percent gain. The automotive sector accounted for about \$120 million of this increase.

Non-NAFTA sales were also strong, gaining 11 percent for the quarter. Among the larger markets, Tennessee's best performance was in Latin America. Exports gained better than 16 percent in this region, 21 percent in the largest country, Brazil. Almost as good, and perhaps more unexpected, were the numbers in Japan. For the third quarter in a row, Japanese firms substantially increased their purchases of Tennessee goods. This quarter's 13 percent gain was primarily due to increased sales in the transportation sector.

State exports gained also in the European Union (EU) and East Asia. Both regions were up six to

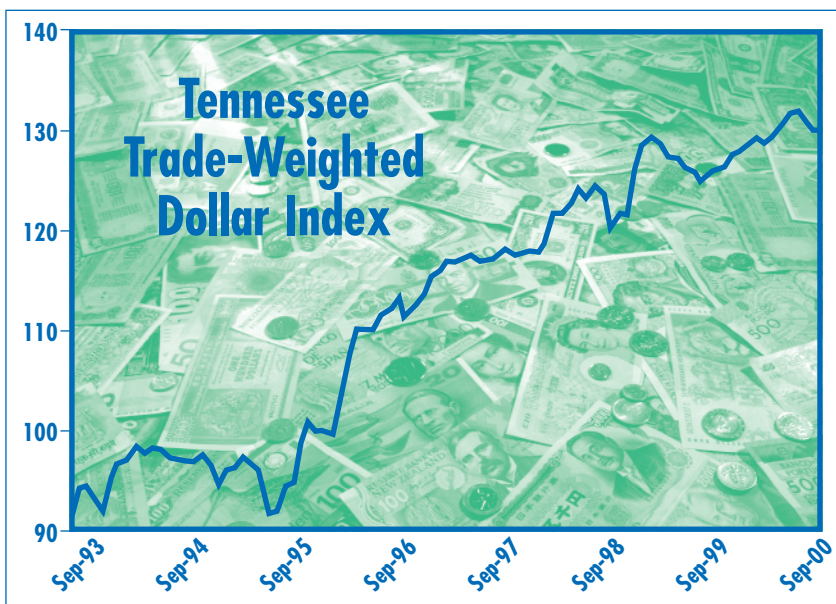
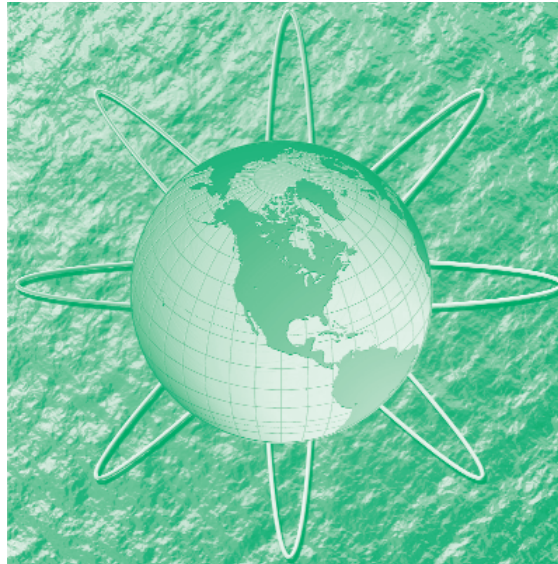
seven percent. The common denominator was gains in the industrial machinery sector. Tennessee also did well in the world's smaller markets. The exception was Australasia, where, due to a sizable drop in transportation sales to New Zealand, exports were down eight percent. However, foreign sales were up 35 percent in the oil-producing Middle East markets, 25 percent in South Asia, 29 percent in Africa, and 13 percent in Eastern Europe.

Turning to industry sectors, the biggest percentage gains were made by the state's farmers. Crop exports were up 135 percent, with substantial increases in sales to Canada, Italy, and the Netherlands. The largest absolute gains in sales were made, once again, in the transportation and industrial machinery sectors. The \$100 million gain in transportation sales was concentrated in Mexico (\$62 million), the U.K. (\$27 million), and Canada (\$17 million), overcoming losses in Germany and France. Industrial machinery

sales were up \$56 million, \$37 million of which was in the NAFTA market. It was another strong quarter for the electronics industry, where, largely thanks to sales in Mexico, Germany, Singapore, and Taiwan, export gains exceeded 10 percent. Both the fabricated and the primary metal industries also had very good quarters. Each had gains in the neighborhood of \$30 million, spread almost equally throughout the world.

Unfortunately, not every sector could report rosy numbers. The chemical industry lost six percent of its exports from a year ago. A \$13 million drop in Canada constituted the lion's share of the sector's \$21 million dollar loss. The apparel sector lost five percent of its sales, as gains of better than \$10 million in most of Central America were outweighed by losses of \$17 million within NAFTA, the Caribbean, and Honduras. The two most disappointing sectors, however, were the furniture industry and the printing and publishing sector. The state's furniture makers, who have not recovered from the collapse in exports that occurred in late 1998, suffered multimillion-dollar losses in Canada and the U.K. Printing and publishing lost a fifth of its sales last quarter, easily the worse performance of any state industry. One quarter of this was in the U.K., but losses were global.

The third quarter appears likely to continue showing strong export numbers. July state exports were just over a billion dollars, a 17 percent increase from 1999. ■





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## China

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to China are likely to rise an additional \$25-30 million because of the treaty.

Tariff concessions in the heavy industry sector are likely to give Tennessee firms another \$12-15 million in exports. Much of these gains will be concentrated in the primary metal, electrical machinery, and precision instruments sectors. The latter two sectors have excellent opportunities for sizable long-term gains in China. Significant concessions were given in the truck and automotive sector, and Tennessee will gain perhaps \$5 million in additional exports, though this is not a particularly large amount given the size of this sector's foreign sales (\$2.2 billion in 1999).

Two other sectors should increase their exports as well. The state's food industry should pick up another \$2 million in Chinese sales, and the furniture industry may gain as much as \$4-6 million from the PNTR. In total, the state should gain in the neighborhood of \$50 million from China's concessions and accession to the WTO. Note that these are direct exports only, and the state will likely see an increase of \$75 million in its indirect exports, products made in Tennessee that are incorporated into final goods shipped from other states. Aircraft parts are one of the most important of the state's indirect exports that will gain from the treaty.

Losses are more difficult to quantify. Since the

U.S. made no trade concessions, the only potential losses would be due to increased purchases from China as a result of confidence growing out of the PNTR, the removal of Tennessee production to China, or competition with Tennessee goods in third markets. The former can only be a guess, but it is difficult to believe that this would be very much. Moreover, almost all Chinese goods (95 percent according to one study) compete with other imports, not with domestic production, indicating that if imports did rise, it would be at the expense of other countries and not with local firms. Similarly, it is difficult to identify state firms ready to move their production to China. The one exception may be chemicals, where, given the size of the market and the success in penetrating it, there may be some desire to produce there. Chinese products, with the major exception of textiles and apparels, are quite different from what is produced in Tennessee and are thus unlikely to compete with state firms. Finally, Tennessee's most import-sensitive sector, textiles and apparel, is unlikely to be further affected by the legislation. China's imports *are* increasing, but this increase long predates the treaty and is not affected by it.

In sum, the PNTR with China legislation appears to offer real, though modest, benefits for Tennessee. It will marginally contribute to the economic health of several sectors, while it disadvantages none. It may increase state exports to China by an additional third by 2005, but this amounts to less than half a percent of today's total exports. ■