

Global Commerce

Tennessee and the International Economy

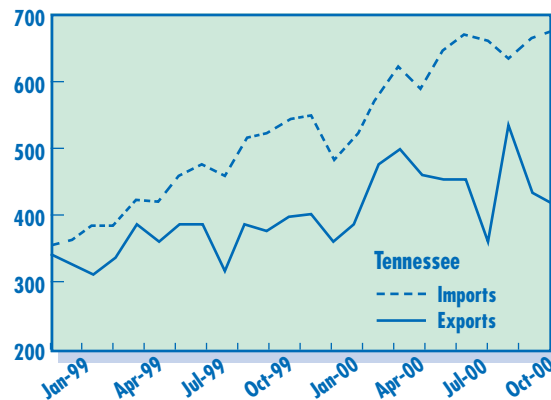
NAFTA's Continuing Impact on Tennessee

by Steven G. Livingston

The NAFTA treaty is now entering its eighth year. Though it no longer receives the attention that attended its birth, it is quietly shaping a new North American economy. Production and trade decisions are increasingly made on a continental scale. Though far from either border, Tennessee is sharing in this development. The remarkable rise in both exports and imports to Canada and Mexico attests to the continuing integration of the state into this larger, continental economy. Today, Tennessee buys and sells over \$450 million worth of goods every month from its NAFTA neighbors. However, it also runs an increasingly substantial trade deficit in these markets. The trade surplus that existed with Canada for most of the past decade has ended, while the trade gap with Mexico, though narrowing, is still significant.

In this issue of *Global Commerce*, we focus on Tennessee's trade with Mexico, updating our analysis of Summer 1997. We reexamine some of the major issues identified then: the importance of automotive trade and the slow shift in trade to the manufacturing sector, as well as the explanation for the state's large trade deficit with Mexico.

Tennessee's NAFTA Trade Balance
(in \$millions)



Let's begin with the simplest fact: Mexico is Tennessee's most dynamic foreign market. Both imports and exports are skyrocketing. Imports from Mexico stood at better than \$3 billion for the 12 months ending in October 2000. This is almost 50 percent higher — \$1 billion — than the equivalent period five years ago. Exports for the same period were about \$1.5 billion. This is an astonishing increase of 225 percent from five years ago. Presently, monthly exports are averaging 50 percent higher than just a year ago! These very large

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NAFTA

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increases in trade extend to virtually every sector of the Tennessee economy. Of the 48 economic sectors that have annually bought or sold more than \$1 million of goods in Mexico, only four have seen their exports drop over the past five years.

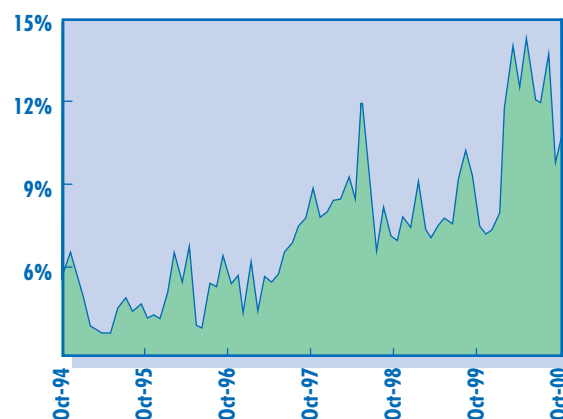
The heart of this trade continues to be automotive-related. There have been huge increases in automotive trade in recent years. Automotive imports from Mexico for 2000 will approach \$2.8 billion, a one-fifth increase over the last five years. Export gains are even more impressive. They should reach the neighborhood of \$900 million for the year, a 280 percent increase from 1994-95. These big numbers reflect this key industry's integration across the three NAFTA countries. A significant portion of Tennessee's auto trade figures, for example, is composed of Nissan and its suppliers' intra-firm shipments. That said, there is evidence that trade is diversifying between Tennessee and Mexico. The percentage of total trade that is automotive based has fallen modestly over the past five years. This is particularly true of state exports, which were never as automotive-reliant as are Mexican imports into Tennessee.

This diversification is primarily into other manu-

Exports of textiles and apparels to Mexico are actually rising at a faster rate than exports overall, but this is one area where imports are growing much faster than exports.

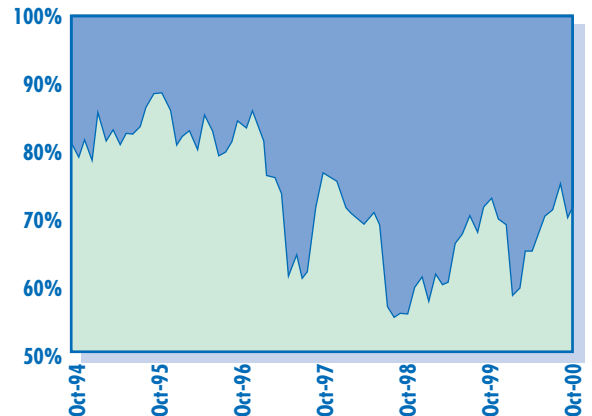
An Increasingly Important Market

Exports to Mexico as Percent of All State Exports



Is Tennessee's Trade with Mexico Diversifying?

Auto Trade as Percent of Total Trade



facturing sectors. Except for large gains in chemical sales and in sales of ores and slag, the most dynamic export sectors are all manufactured-goods sectors.

Similarly, as seen in the table, the sectors in the most difficulty are foodstuffs and primary goods.

Manufactured products as different as tools, furniture, and optical equipment are making great strides in the Mexican market. In many cases, products with strong export figures also have strong import figures, indicating the extent of the intra-industry trade that is occurring. Many of Mexico's strongest export sectors are clearly ancillary to the transportation sector (goods such as glass, rubber, and plastic products that are intended to be placed in a car or truck). But, to take two other examples, the strong growth in Tennessee exports of optical goods and furniture is matched by similar increases in Tennessee imports of these same goods from Mexico.

One of the most controversial issues in the ratification of NAFTA involved textile and apparel trade. Many feared that opening markets with Mexico would doom these industries. In Tennessee, the figures show the impact of industry reorganization to take advantage of NAFTA. Tennessee exports of textiles and apparels to Mexico are actually rising at a faster rate than its exports overall. Exports now

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Most Dynamic Trade Sectors: 1995-2000

(Among Harmonized Tariff System Classifications over \$2m)

| | Exports | | Imports |
|------------------------------|-------------|---------------------------------|------------|
| Fastest Growth | | | |
| Apparel (not knitted) | 7,184% | Man-Made Filaments | 33,577% |
| Copper Articles | 4,186% | Optical Products | 13,599% |
| Glass | 3,070% | Worn and Miscellaneous Textiles | 9,234% |
| Largest Decline | | | |
| Pulp and Paper Scrap | -33% | Electrical Machinery | -42% |
| Oil Seeds, Fruits, and Grain | -49% | Toys, Sporting Goods | -51% |
| Sugar | -90% | Chemicals | -86% |
| AVERAGE | 226% | | 49% |

3rd Quarter 2000

Big gains in electrical equipment sales continue.

Tennessee's Largest Export Sectors

| | Exports | Change from Last Year | Change from Last Quarter |
|------------------------------------|---------------|-----------------------|--------------------------|
| Transportation Equipment | \$710,949,719 | 35.9% | 9.8% |
| Industrial Machinery | \$409,640,901 | 6.5% | -2.0% |
| Electronics | \$391,316,989 | 40.0% | 27.3% |
| Chemicals | \$366,372,931 | -4.8% | 4.2% |
| Industrial and Medical Instruments | \$170,245,091 | 4.6% | -5.8% |
| Fabricated Metals | \$158,166,723 | 27.3% | -5.2% |

3rd Quarter 2000

Woes continued for state publishers and printing presses.

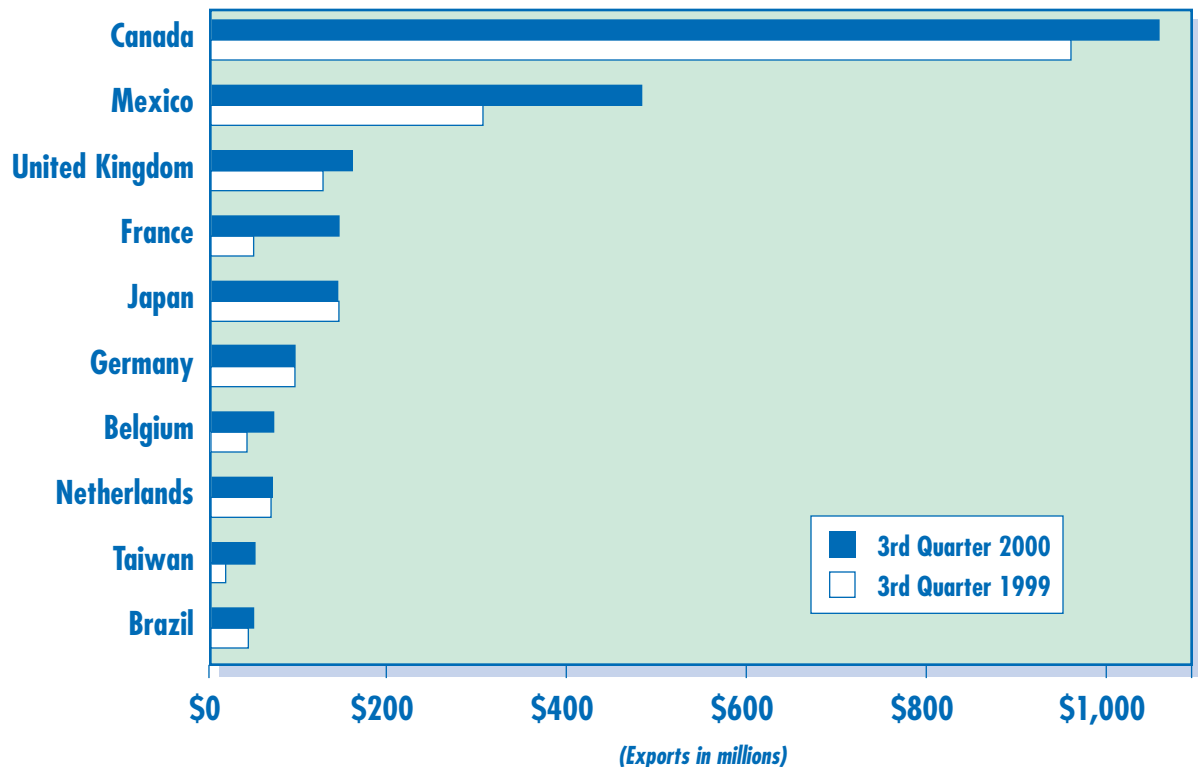
Greatest Growth and Decline in Exports by Industry

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

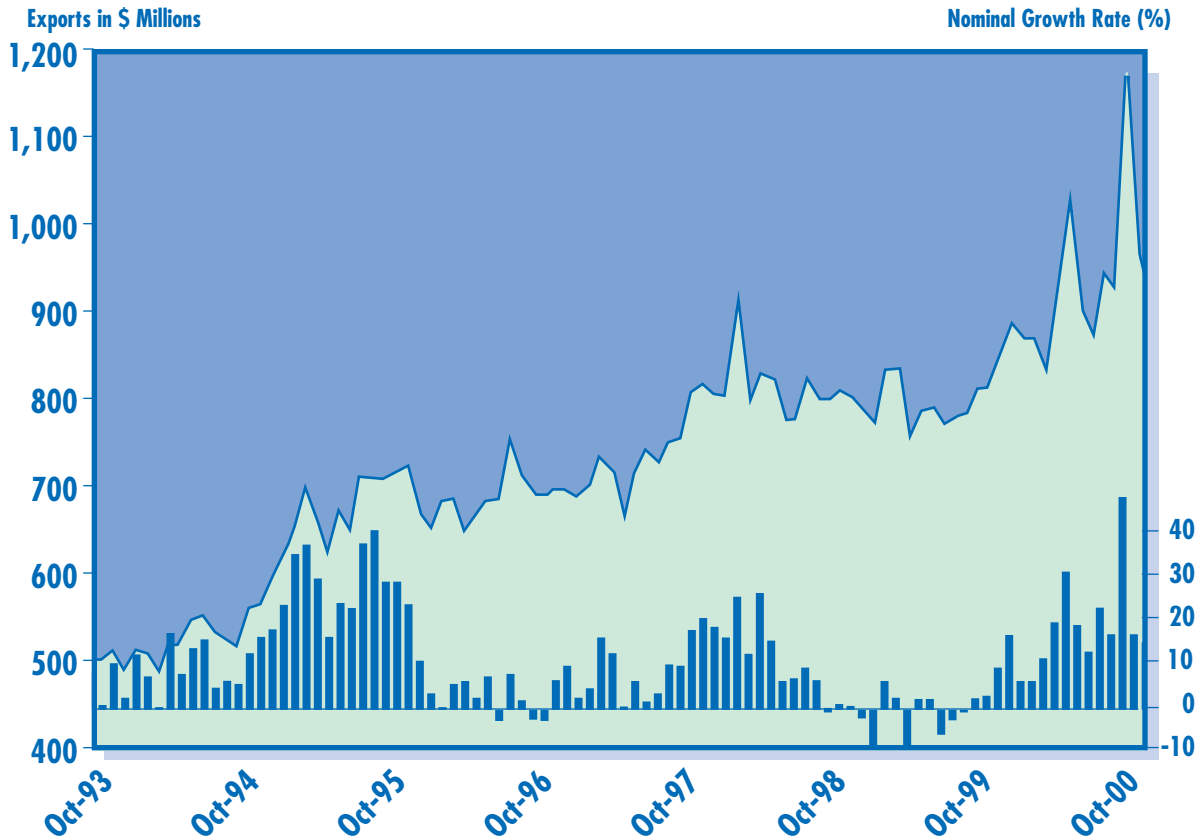
| | Value of Exports | Growth | Decline |
|--|------------------|--------|---------|
| SECTORS WITH THE GREATEST GROWTH | | | |
| Primary Metal Products | \$108,785,312 | 145.3% | |
| Agricultural Crops | \$80,226,372 | 109.0% | |
| Scrap and Waste Materials | \$5,530,642 | 99.2% | |
| Petroleum and Coal Products | \$3,777,317 | 57.7% | |
| Electronics and Electronic Equipment | \$391,316,989 | 39.0% | |
| SECTORS WITH THE GREATEST DECLINE | | | |
| Printing and Publishing | \$38,213,276 | | -12.9% |
| Apparels | \$49,430,800 | | -6.5% |
| Food Products | \$117,168,815 | | -5.6% |
| Chemicals | \$366,372,931 | | -4.7% |
| Paper Products | \$132,561,975 | | 1.4% |

Exports grew in nine of the state's ten top markets.

Tennessee's Leading Trade Partners



Tennessee's Monthly Exports



October is the 15th consecutive month of growing foreign sales.

(Seasonally adjusted, expressed in 1993 dollars)

3rd 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 |
|--|------------------|--------|---------|
| COUNTRIES WITH THE GREATEST GROWTH | | | |
| Kuwait | \$11,331,025 | 213.6% | |
| France | \$159,880,442 | 159.0% | |
| China | \$48,796,699 | 102.1% | |
| Taiwan | \$65,645,834 | 100.9% | |
| Guatemala | \$12,172,191 | 76.2% | |
| COUNTRIES WITH THE GREATEST DECLINE | | | |
| Poland | \$865,906 | | -80.9% |
| Argentina | \$16,465,004 | | -45.7% |
| Switzerland | \$17,110,336 | | -45.3% |
| Philippines | \$14,138,262 | | -35.2% |
| Chile | \$11,404,929 | | -34.6% |

Gains in the NAFTA market were the underpinnings of a strong performance, but big increases were posted around much of the rest of the world as well.

The third quarter continued the year's string of remarkably strong performances by state exporters. Quarterly Tennessee exports were up \$540 million from a year ago. This is the largest single quarter gain since the first quarter of 1995. The \$3.179 billion in exports bests last year's third quarter by a full fifth.

As usual, gains in the NAFTA market were the underpinnings of the strong performance. At \$1.054 billion, exports to Canada were up a little over 10 percent from 1999—this while the Mexican market continued its torrid growth, with state sales up 53 percent to just over \$481 million this past quarter. Mexican automotive exports alone grew over \$100 million, the lion's share of Tennessee's gains for the quarter.

Perhaps more gratifying to state exporters, big increases were posted around much of the rest of the world as well. In fact, for once Tennessee exports to non-NAFTA markets increased at roughly the same rate as to Mexico and Canada. Only sales Down Under (off about six percent), to Latin America (down 2.4 percent), and in the volatile East European markets (down 42 percent) resisted the trend. Latin America's biggest market, Brazil, actually turned in a solid eight percent increase in purchases, but this was swamped by problems in Argentina, Chile, and Central America generally.

Sales in Asia were very strong for the quarter. Exports to the Chinese economic area were up better than 50 percent. Chemical sales to the People's Republic of China and industrial machinery gains in Taiwan formed the core of gains in this region.

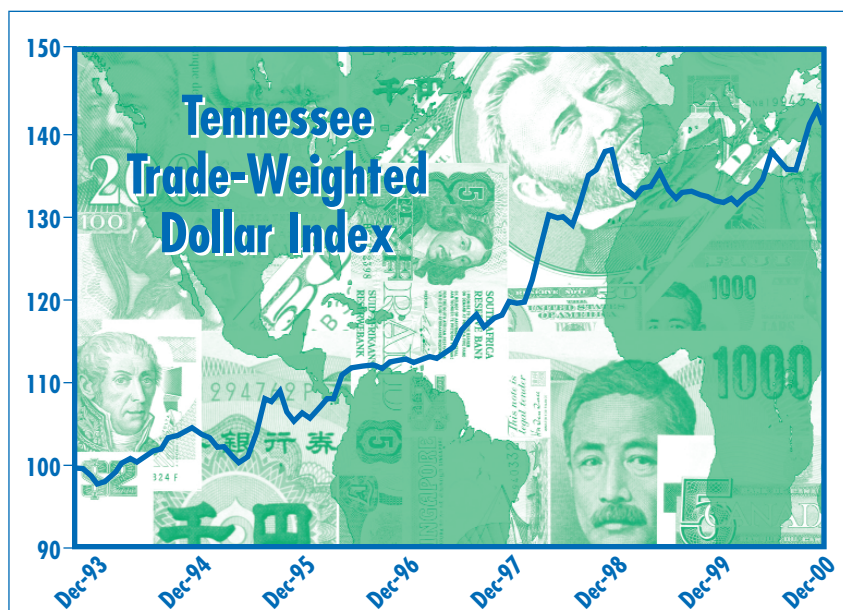


Exports to the so-called "Asian Big Emerging Markets" were up some 31 percent. The leader here was South Korea. Sales there increased by more than half to \$58.9 million and were spread across a number of products. Sales in South Asia gained 30 percent, while exports to the OPEC Middle East were up nearly 39 percent. Japan alone posted rather sluggish numbers, up about one percent to \$165 million for the quarter. Here gains in paper and chemical exports were erased by small losses elsewhere.

Large gains in Europe may have been the most welcome of all. After a number of disappointing quarters, Tennessee sales to the EC jumped by a third last quarter. A big chunk of this—60 percent—was due to \$106 million in new aeronautics sales in France. This still leaves \$75 million in gains for other state industries. These included the paper, industrial machinery, and transportation sectors. Finally, although much smaller, the African markets turned in their best numbers in years with \$2.2 million in sales, almost a third higher than a year ago.

Looking at exports by industry, the best numbers belonged to the agricultural, primary metals, electrical equipment/electronics, and transportation sectors. Farmers' gains came primarily in Mexico and Turkey and were enough to overcome some big losses in Europe. The electrical equipment sector posted large gains around the world, but Belgium, the U.K., Australia, and Mexico were particularly good markets for the quarter. The transportation sector gained almost \$200 million from a year ago. As noted, much of this was in France, but the U.K., Singapore, and (yet again) Mexico also saw large gains in Tennessee sales. Chemicals, apparels, food, and printing and publishing were really the only sectors to encounter trouble for the quarter. The latter was mostly due to losses in the U.K., while the chemical industry's biggest decline was in Canada.

The fourth quarter appears as though it, too, will be a strong one, albeit not at last quarter's blazing pace. State exports for October were up a little over six percent. ■



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The deficit is entirely due to automotive trade (largely intra-firm), a function of the state's success in attracting a significant portion of the auto industry.

NAFTA

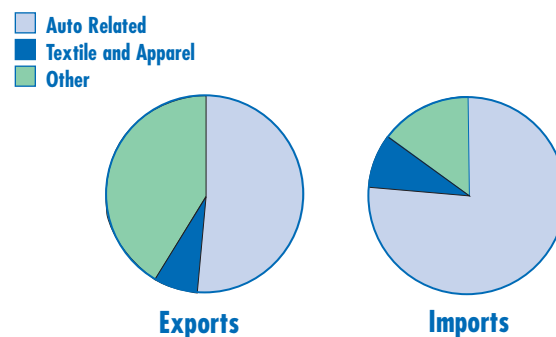
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range from \$7-8 million a month. Areas such as industrial textiles and footwear are stagnant, but non-knitted apparel products are actually the fastest growing export sector. Nevertheless, this is one area where imports are growing much faster than exports. Over the past five years, Mexican sales of textile and apparel goods to Tennessee have risen by 615 percent to \$257 million a year. Those arguing that NAFTA would place tremendous pressure on these industries were correct, although negative trends in both the apparel and textile sectors were apparent well before NAFTA negotiations had even begun. It will be interesting to see how this trade evolves following the new permanent normal trade relations (PNTR) treaty with China.

Finally we turn to the trade deficit. Tennessee has run a sizable trade deficit with Mexico since the early 1990s. Through the first 10 months of 2000, state businesses were in the red to the tune of \$1.5 billion. Should we be alarmed? Two statistics suggest we should not. First, since 1995 both exports and imports have increased about \$1 billion a year. In other words, the absolute amount of the deficit is unchanged, but its size relative to total trade is decreasing. Second, and more important, that deficit is entirely due to automotive trade. Take this sector out of the picture, and Tennessee actually runs a trade surplus of around \$30

A Two-Way Street?

Tennessee-Mexico Trade by Industry



million with Mexico. As noted above, auto trade is largely intra-firm trade; thus the deficit with Mexico is nothing more than a function of the state's success in attracting a significant portion of the auto industry to Tennessee. This deficit is not a sign of economic weakness, but of economic strength.

In sum, NAFTA has contributed to a significant increase in Tennessee's international trade. The new trade with Mexico, in absolute terms, is equally divided between imports and exports, but relatively, Tennessee exporters have seen the biggest growth rates and have been the biggest beneficiaries. Mexico is growing ever more important to the economic health of this state and virtually every industry within it. Look for this trend to continue for quite some time. ■

See our Web site

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