

Global Commerce

Tennessee and the International Economy

Part II

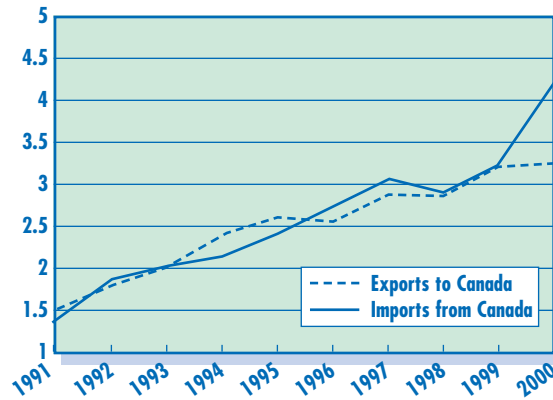
NAFTA's Continuing Impact on Tennessee

by Steven G. Livingston

NAFTA is easily Tennessee's biggest and best foreign market. State trade with Canada and Mexico has soared over the last decade, and that trade has diversified and deepened across many different goods and services. Last issue, *Global Commerce* looked at the astonishing growth in Tennessee's trade with Mexico. This issue, we turn to Canada. What is the current trade picture north of the border?

More than \$4.3 billion of Tennessee products were exported to Canada last year. This is considerably more than double the amount of exports to Mexico, the state's second biggest market (though

Tennessee's Canadian Trade Balance
(in constant 1995 \$ billions)



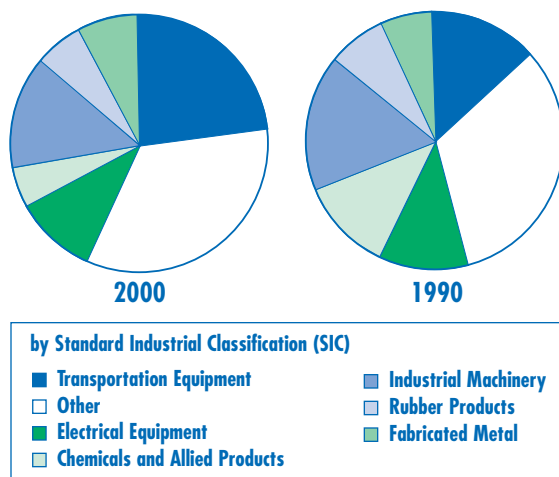
Mexico has been gaining rapidly!), and more than six times the amount of exports to the third largest destination, the United Kingdom. Canada continues to be

continued on page 2

Last year Tennessee exported goods worth more than \$4.3 billion to Canada, the state's biggest market. Combined trade with Canada now equals more than four percent of Tennessee's gross state product.



Products Sold to Canada



NAFTA

continued from front

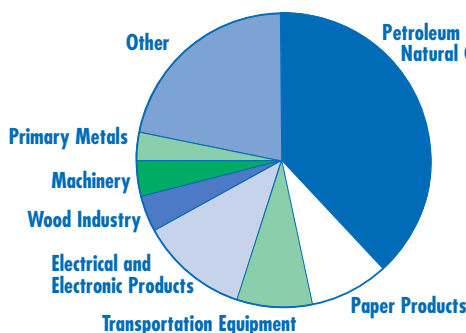
Natural gas sales dwarf imports of all other Canadian goods into Tennessee.

a very dynamic market. Tennessee sales have grown more than 40 percent in just the past five years. Combined trade with Canada now equals more than four percent of Tennessee's gross state product. Compared to other states, Tennessee has done well in the Canadian market. In the past 10 years, the state has moved up a notch and now ranks 12th among American states in the amount of its sales to Canada. The state's share of the Canadian market has increased by a third during this period. On the other side of the coin, Tennessee now ranks as the 12th largest destination for Canadian goods among the American states. In 1991 it was 17th.

Telecommunications equipment is the fastest growing export from Canada to Tennessee.

The accompanying graph shows just how fast Canadian trade is growing. For most of the 90s, that trade was roughly balanced. Exports and import grew apace. However, this changed in 1999, and for the last two years the state has run a large trade deficit. The recent run-up in natural gas prices explains this development. The province of Alberta is a major source of Tennessee's natural gas. The state today is importing almost \$150 million of natural gas per month from Alberta. Thanks to rising prices, this is a 70 percent increase in cost from 1998. The result is a large gap in trade. This gap should close, assuming energy prices eventually fall.

Products Purchased from Canada: 2000



While energy prices explain the recent spike in imports, the decade-long growth in trade is better explained by the increasing cross-border integration of production in major manufacturing sectors. For Tennessee this means, most significantly, automobiles. Combined trade in motor vehicles (including parts) passed the \$1.5 billion

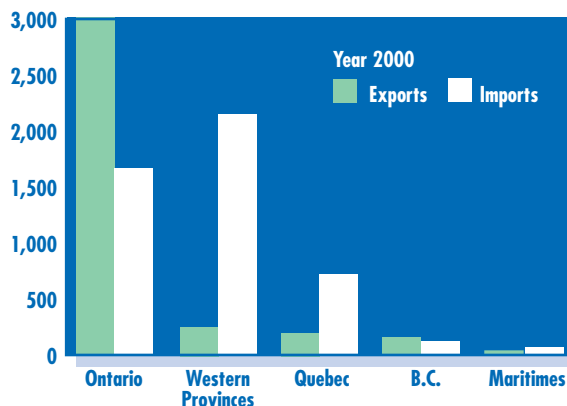
mark last year. This trade runs heavily in the state's favor. Year 2000 motor vehicle sector exports were \$1.286 billion, about 350 percent higher than 10 years ago (in constant dollars). Ancillary industries such as rubber and fabricated metals show similarly sized growth. The auto sector constitutes around a third of all state exports to Canada.

The largest non-automotive export is chemicals. Chemical exports have risen about 15 percent in constant dollars over the past 10 years, today standing at \$232 million a year. Exports have generally done well across the board. Agricultural exports, for example, have risen by two-thirds since the early 1990s. Only three industries have not shared in the good news: the leather and tobacco industries, where exports to Canada have generally been flat; and the furniture industry, which has sustained very serious losses over the past decade. The latter industry has lost around half of its exports north of the border.

Natural gas sales dwarf imports of all other Canadian goods into Tennessee. Canadian natural gas sales have grown 300 percent in the last 10 years. Sixty percent of that growth occurred before the recent large price increases.

Tennessee Trade by Province

(in \$ millions)



Another import that has gained dramatically is that of pulp and paper products. Canadian fine paper sales have grown 400 percent over the last decade. At \$260 million, total paper sales rival that of automotive exports to Tennessee, and this does not include another \$68 million in wallpaper sold in Tennessee.

The telecommunications revolution has had a big impact on Tennessee's link with Canada. Telecommunications equipment is the fastest growing export of any size from Canada to Tennessee. In the last 10 years, sales of this equipment, including telephone equipment, cellular phones, modems, optical fiber, and similar products, have gone from \$11 million to more than \$300 million. Needless to say, some of these products were not even in existence 10 years ago. At present trends, these sales should easily supplant automotive-related exports as Canada's second largest export to Tennessee within the next few years.

continued on page 6

4th Quarter 2000

Gains were concentrated in the electronics sector.

4th Quarter 2000

Tennessee more than doubled its exports of primary metals.

Mexico continues to be the state's fastest growing market.

Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$544,597,798	-8.5%	-23.4%
Electronics	\$425,707,837	40.7%	8.8%
Industrial Machinery	\$406,795,562	2.4%	-0.7%
Chemicals	\$380,935,710	0.5%	4.0%
Fabricated Metals	\$164,616,355	14.2%	4.1%
Industrial and Medical Instruments	\$161,258,526	-14.0%	-5.3%

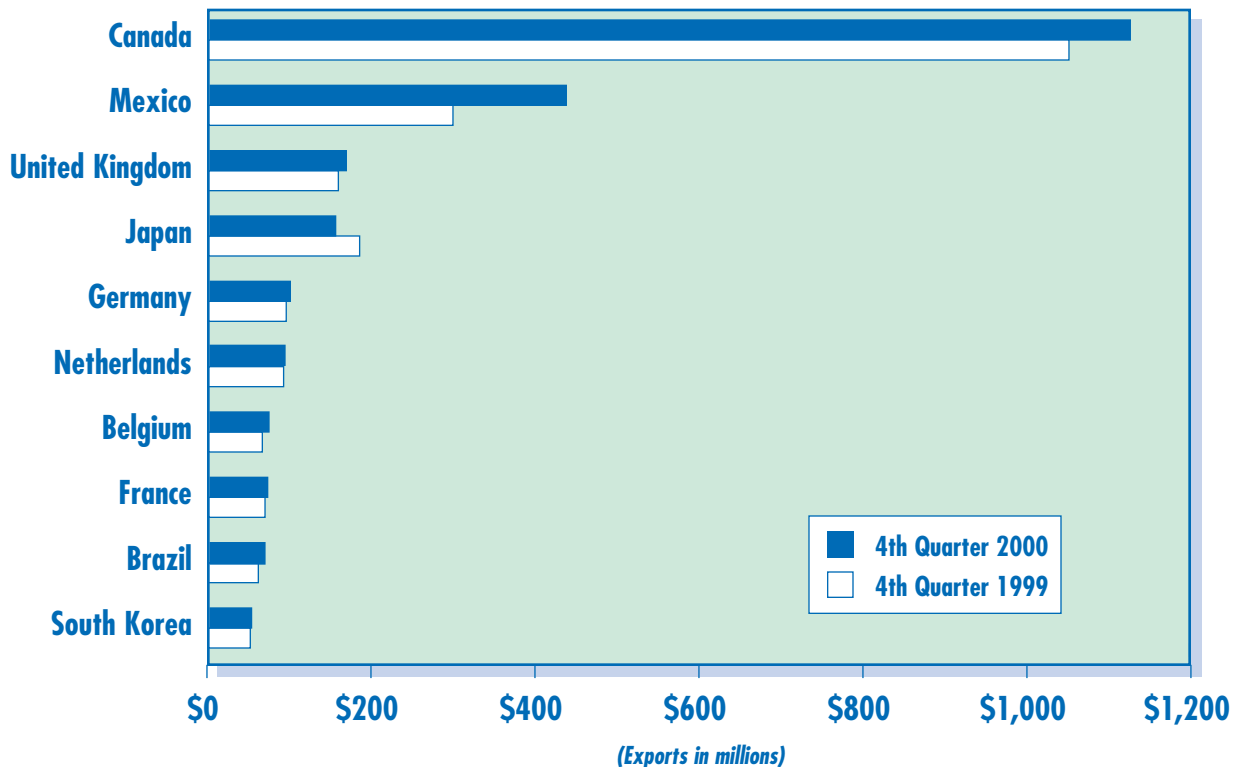
Greatest Growth and Decline in Exports by Industry

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

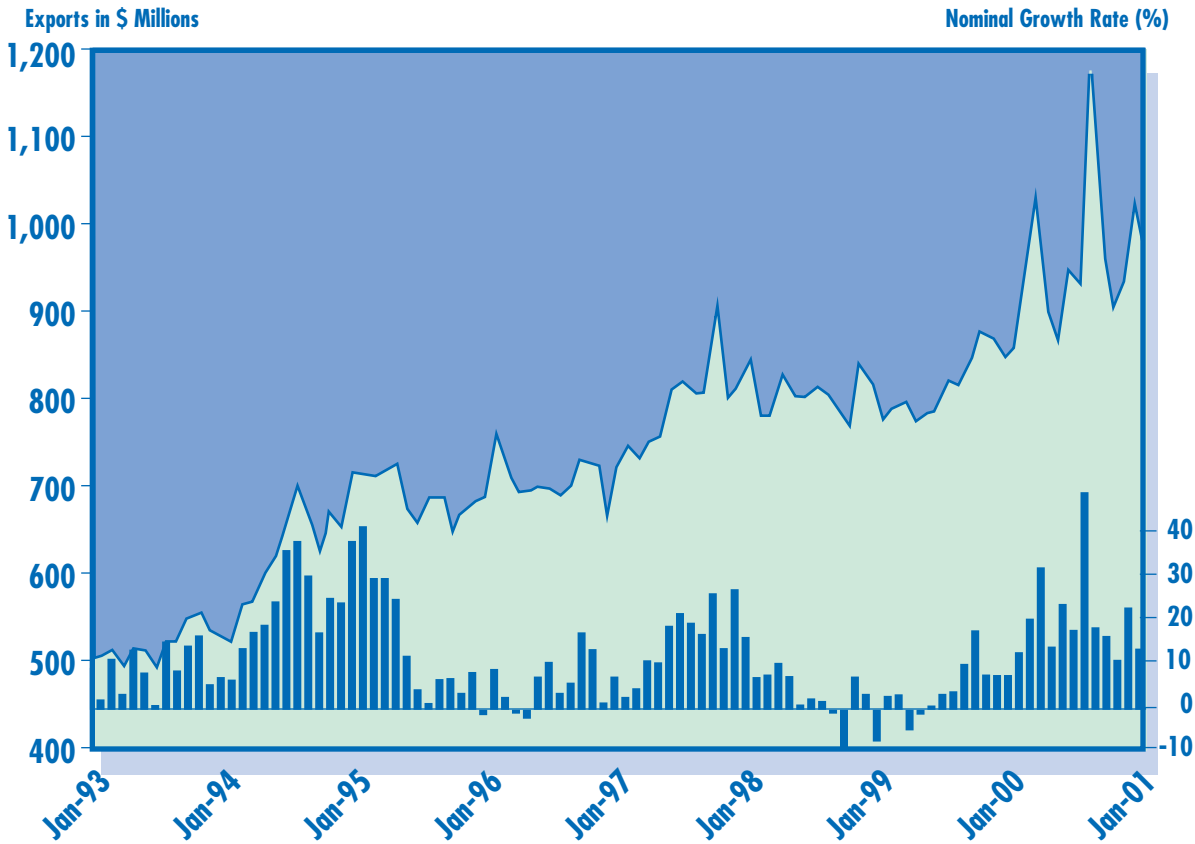
	Value of Exports	Growth	Decline
SECTORS WITH THE GREATEST GROWTH			
Goods Returned to Canada	\$134,148,907	370.7%	
Primary Metals	\$98,000,415	151.3%	
Scrap and Waste	\$10,107,942	110.8%	
Electronics	\$425,707,837	40.7%	
Special Classification*	\$33,762,733	33.4%	
SECTORS WITH THE GREATEST DECLINE			
Livestock	\$2,315,296		-42.4%
Metal Mining	\$4,324,474		-37.8%
Furniture and Fixtures	\$15,452,867		-32.8%
Petroleum and Coal Products	\$859,247		-30.2%
Leather Products	\$7,969,118		-26.4%

* includes exports related to national security

Tennessee's Leading Trade Partners



Tennessee's Monthly Exports



Exports have grown more than 10 percent for twelve straight months.

(Seasonally adjusted, expressed in 1993 dollars)

4th Quarter 2000

GlobalCommerce

Global Commerce: Tennessee and the International Economy, published quarterly by Middle Tennessee State University's Business and Economic Research Center, is available free of charge to interested individuals and institutions.

Editor: Steven G. Livingston

Publications Editor/Designer, College of Business:
Sally Ham Govan

Phone: 615-898-2610

On-line:
http://www.mtsu.edu/~berc/trade_database



AA259-0401
A Tennessee Board of Regents Institution
MTSU is an equal opportunity, non-racially identifiable educational institution that does not discriminate against individuals with disabilities.

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			
Panama	\$10,593,190	270.2%	
Jamaica	\$5,010,749	163.0%	
Russia	\$8,852,735	97.6%	
El Salvador	\$12,657,833	87.1%	
Ireland	\$15,664,180	72.9%	
COUNTRIES WITH THE GREATEST DECLINE			
Portugal	\$4,828,474		-50.7%
United Arab Emirates	\$5,944,271		-44.3%
New Zealand	\$5,368,201		-38.3%
Argentina	\$16,815,259		-30.8%
India	\$9,949,976		-24.6%

Tennessee International Trade Report

Mexico was once again the major story. Our NAFTA partners continue to be the primary reason for the state's strong trade numbers.

The last quarter of 2000 saw a 7.1 percent increase in state exports. Though a solid performance, Tennessee's \$3.149 billion in foreign sales was a decided slowing from the first three quarters of the year. For the full year, Tennessee exports stood at a record \$12.5 billion, a 15.8 percent gain from 1999.

Mexico was once again the major story. At a shade under \$482 million, fourth-quarter exports to Mexico were up 44 percent from last year. Indeed, our NAFTA partners continue to be the primary reason for the state's strong trade numbers. Sales to Canada rose more modestly than those south of the border, but they still grew at a healthy 7.2 percent. By contrast, non-NAFTA exports were actually slightly down (-.021 percent) for the quarter.

The Mexican gains were widely distributed. Sales of crops doubled to \$48 million, for example, while huge increases were posted in primary metals (tripling to \$40 million) and electronics (\$71.7 million, a \$44 million increase). Canadian gains were more narrowly concentrated in these two latter sectors. Electronics sales grew 40 percent (\$165.5 million), while primary metal sales were up 55 percent (\$19.9 million).

Very strong sales in Brazil and Central America overcame weakness in the rest of non-NAFTA Latin America, and the state ended the quarter with a rather modest 2.4 percent gain in its foreign sales to that region. Argentina, reflecting its worsening economic situation, was the toughest market for the state. Here Tennessee saw significant losses in sales of food

products, electronics, and chemicals. Total Argentine exports fell by almost a third.

Tennessee exports to the European Community also grew by 2.4 percent. In the fourth quarter, the state sold \$659 million in goods to EU member states. The state's numbers were actually fairly strong throughout most of Northern Europe and the British Isles, but large drops in apparel and electronic sales to Italy and transportation sales to Portugal resulted in much more modest numbers overall.

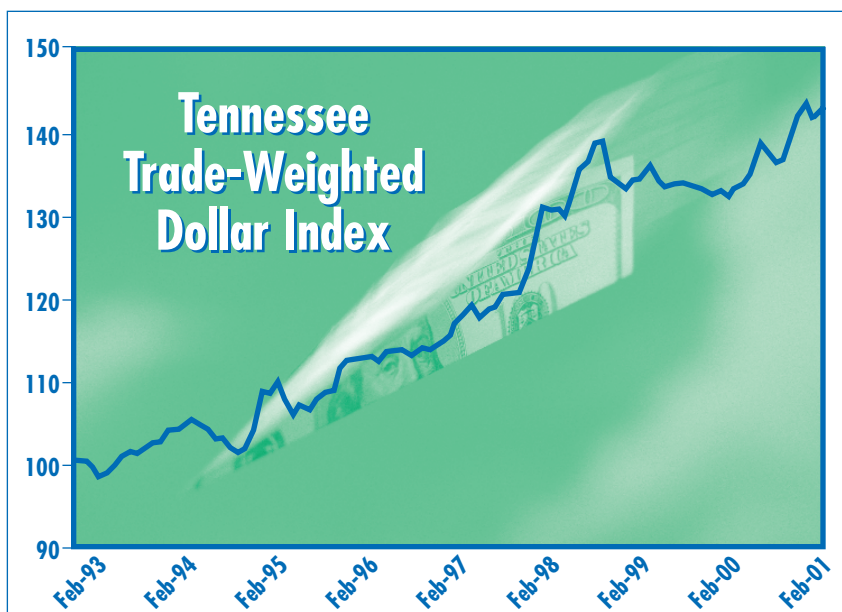
With the exception of Indonesia, the developing markets of East Asia turned in some very good numbers for the state last quarter. Tennessee sales to the Chinese Economic Area were up better than a third, while exports to the entire region (excepting Japan) grew by a hefty 20 percent. The chemical industry, whose East Asian sales grew by over \$20 million, led the way, but the industrial machinery and electronics sectors also did very well. Japan, unfortunately, was another story. Tennessee

exports to Japan fell by 15 percent, as that market, once second only to Canada for state exporters, slipped to fourth behind the U.K. Japanese sales were off almost across the board; however, half of the \$30 million lost was in the transportation and industrial machinery sectors.

Elsewhere the numbers were generally down. South Asia and the Middle East were particular problems, each with double-digit export declines. Russia and Eastern Europe, however, finally reversed their recent downward trends. Thanks largely to processed foods, Russian exports nearly doubled.

Most Tennessee industries had a strong fourth quarter. The major exceptions were the furniture sector, again hit hard in Canada; livestock, suffering losses in Mexico and Brazil; and metal mining, heavily reliant on lost sales in Belgium. Among the state's largest export sectors, a \$47 million drop in transportation sales to Canada produced a rare decline in that industry, while a combined \$92 million gain in the NAFTA markets made the electronics industry the quarter's star performer. Two rather unusual sectors, the scrap and waste industry and trade assigned to "special classification," also posted very good numbers. The former was concentrated in sales to East Asia, while the latter, which generally refers to national security-related trade, was primarily due to a big gain in Canada.

While there is evidence of export growth cooling in both Mexico and Canada, 2001 has opened with fairly strong numbers. At \$835 million, Tennessee's January exports were up 13 percent from the first month of last year. ■



See our Web site

http://www.mtsu.edu/~berc/trade_database.html

NAFTA

continued from page 2

Just as with Tennessee's exports, very few Canadian industries are having difficulty expanding their sales into this state. It is this depth of products being exchanged that separates Canada from Mexico, and indeed from every other Tennessee trade partner.

The Geography of Trade

It's interesting to see exactly which parts of Canada trade most with the state. The chart of Tennessee trade by Canadian province shows that the locales to which the state exports and from which it imports are quite different. State exports are heavily concentrated in Ontario, the heart of Canadian manufacturing generally, and the auto industry specifically.

About four of every five dollars worth of Tennessee exports to Canada go to Ontario. The remaining dollar is spread fairly evenly among Quebec, British Columbia, and the western provinces.

Imports are also rather concentrated, this time in Alberta, the home of the natural gas industry. Close to 40 percent of all Tennessee's Canadian imports come from that province. As a consequence, the state runs a large surplus with Ontario and a large deficit with Alberta. Somewhat surprising is the large deficit with Quebec. At some \$500 million dollars in 2000, this deficit has slowly expanded over the decade, not because of any particular product, but rather the expansion in sales of such disparate goods as paper, aluminum, airplanes, and telecommunications equipment. Though Tennessee has stepped up its exports of motor vehicles and parts to Quebec, this hasn't been enough to offset the rise in sales of so many products from the province.

Most Dynamic Trade Sectors: 1995-2000 (Among Harmonized Tariff System Classifications over \$2m)

	Exports		Imports
<i>Fastest Growth</i>			
Industrial Use Textiles	525%	Aircraft Parts	5,148%
Special Classification	457%	Precious Metals and Stones	1,303%
Precision Instruments	444%	Meat and Meat Offal	1,262%
<i>Largest Decline</i>			
Tobacco	-98%	Headgear	-92%
Prepared Vegetables, Fruits, and Nuts	-90%	Pyrotechnics and Explosives	-88%
Musical Instruments and Parts	-87%	Art and Antiques	-87%
ALL SECTORS	41%		74%

Canada: A Uniquely Important Partner

No matter how you measure it, Canada is the bedrock of Tennessee's international trade. It is the largest and most varied market for Tennessee, and it continues to expand vigorously. Just as important is its reliability. While markets and sales in other parts of world can be cyclical, quarter after quarter, year after year, Canadian trade just keeps growing. Canada will long remain this state's most important international trading partner, and the point of entry for Tennessee firms wishing to establish an international presence. ■