

"Anti-Americanism" and International Trade

The Fate of Tennessee's Whiskey Exports

by Steven G. Livingston

The global acrimony over the Iraq War has produced many attempted consumer boycotts. American groups have encouraged their fellow citizens to stop buying products from nations that actively opposed the war. In other parts of the world, similar efforts have been launched against American products. Stories are rife of restaurants offering Afri-, Mecca-, or any number of other colas in place of Coke and of bars removing American liquors from their shelves. The products most associated with the target nation naturally attract most of the attention. French wine and cheese are matched by American soft drinks, fast food, and bourbon. But how effective have these would-be boycotts been? Are they actually a threat to exporters?

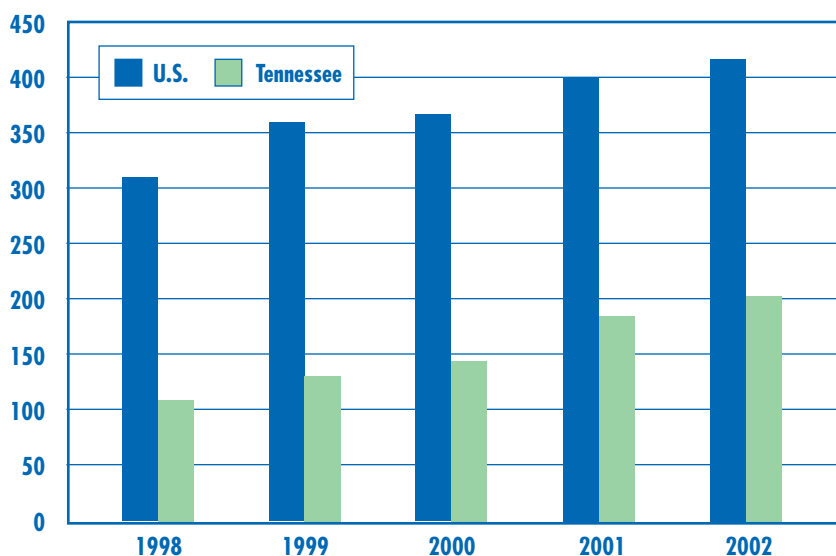
Tennessee is a major exporter of American whiskey (bourbon and Tennessee sour mash, both of which are classified as "bourbon" by U.S. Customs). The state has become America's largest exporter of bourbon (we will use the Customs designation for these whiskies, offensive as it may be to Tennessee producers!) and, in recent years, it has shipped about \$200 million worth of whiskey annually.¹ Tennessee is thus an excellent case study of the effects of an international consumer boycott.

The Remarkable Rise of "Bourbon" Exports

During the past decade, American whiskey has been one of America's, and Tennessee's, fastest growing exports. In the last five years, national bourbon exports have grown by 35 per-

American Whiskey Exports, 1998-2002

(\$ millions)



cent (to \$419 million in 2002), making this one of the U.S.'s most successful export industries. Tennessee sports even more remarkable numbers. Over this same period, state whiskey exports have nearly doubled, from \$109 million in 1998 to \$207 million in 2002 (89.9 percent). This substantially exceeds the state's overall export growth rate (21.7 percent). Whiskey exports were completely unaffected by the global economic downturn that depressed the sales of so many other Tennessee products over the past several years. In 1999, Tennessee passed Kentucky as the leading whiskey exporter and today sells nearly twice as much bourbon overseas as Kentucky. (Jack Daniels and Jim Beam are by far America's leading brands in foreign markets.)

Bourbon sales are up over almost the entire world. However, the bulk of exports are to the richer countries. Europe is by far the largest market for American bourbon. The pie chart (page 2) shows the geographical distribution of Tennessee's whiskey exports. In a bit of an oddity, Kentucky has kept most of America's exports to Canada and Mexico.

continued on page 2

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Whiskey

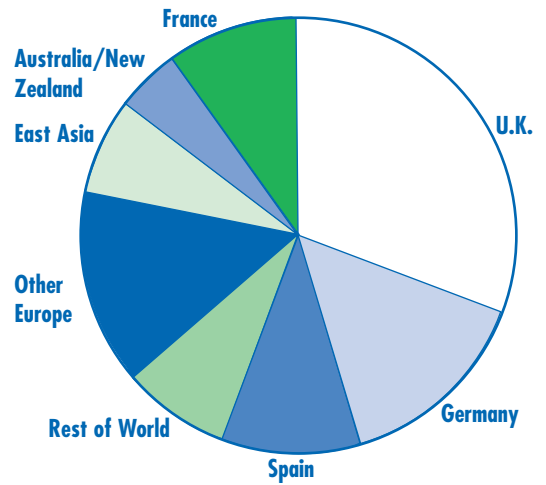
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Is There Evidence of a Boycott?

Into this rosy picture came the international controversy over the war with Iraq. Did that controversy and the anti-American sentiment that ensued erode global bourbon sales?

To examine this question, we looked at every nation that buys more than \$50,000 worth of bourbon a year. (Eighty countries meet this criterion.) We then compared bourbon sales over the months of March–July for the past five years. Companies such as Coca-Cola have already reported that global sales were not down over the first quarter of 2003, but most of that quarter was before hostilities began. We thus chose to focus on the months just after the start of the war. July is the last month for which we have data.

Where Does It Go?



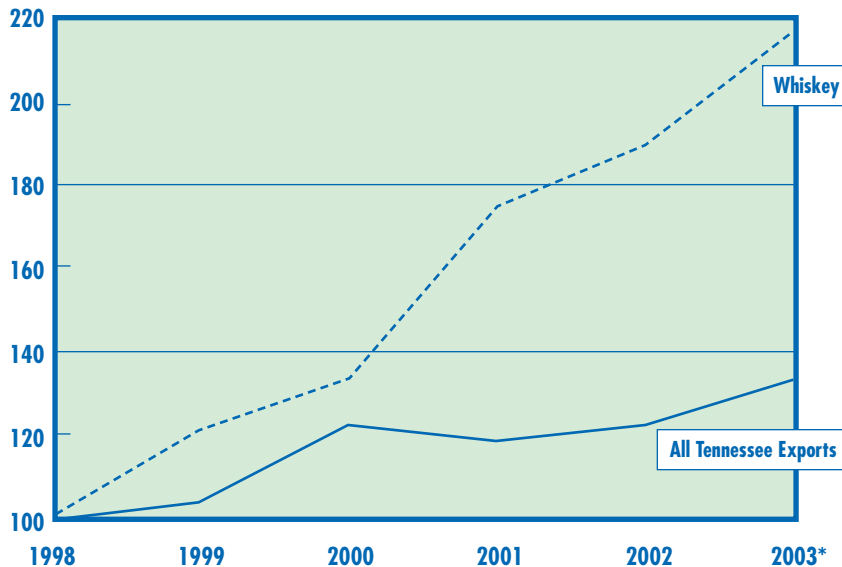
Are there nations that actually bought less bourbon during March–July 2003 than in previous years? Since we are focusing on Tennessee, we asked this question first for Tennessee exports. If state exports were down, we demanded that U.S. exports be down as well, to make sure that we really weren't observing a shift in brands or shippers. We then eliminated countries for which bourbon exports already had been falling before the start of 2003. Finally, we omitted countries for which bourbon exports have fluctuated greatly over the years. In other words, we focused upon those countries where bourbon exports had been consistently rising since the late 1990s. This is the large majority of the world.

We found that Tennessee bourbon exports fell in seven countries. Three other countries bought significantly less American whiskey, but this had no impact on Tennessee, either because the country had not been buying Tennessee-shipped whiskey (Dominican Republic, Colombia) or, in the case of India, it had not bought any whiskey in 2002 but made a small purchase this year.

That is not a very large number. A look at some of these countries raises further doubts. The Burmese market is hardly a free one, and the U.S. has placed additional trade sanctions on that country during the course of this year. Exports to Hong Kong quadrupled between 2000 and 2002, and the decline of 2002 could be a boycott but could also be a natural correction in a very hot market. Colombia is a similar story. It purchased no American whiskey in 2000 and then exports soared in 2001 and 2002.

On the other hand, a few countries are more difficult to explain away. Bourbon sales suffered steep declines in South Korea, Turkey, and the Dominican Republic. The first two are indeed nations where there has been popular anger over American actions (though in Korea, of course, for a different crisis). South Korea had been Tennessee's 17th largest whiskey market, while

Export Growth Index: Whiskey versus Total Exports



1998 = 100. *2003 Jan-July only

Boycotting? Markets Buying Less Whiskey

	Tennessee Lost Exports	Percent	U.S. Lost Exports
South Korea	\$974,527	-57.65%	\$1,197,709
Turkey	\$756,038	-59.40%	\$806,630
Portugal	\$363,006	-69.41%	\$131,060
Burma	\$94,218	-100.00%	\$94,218
Austria	\$83,895	-9.21%	\$54,645
Hong Kong	\$52,022	-33.73%	\$108,223
India	\$15,342	*	\$160,018
Dominican Republic	\$0	0%	\$891,839
Colombia	\$0	0%	\$86,155

continued on page 6

2nd Quarter 2003

Cotton has been king in 2003.

2nd Quarter 2003

Heavy machinery and precision instruments powered a strong quarter.

China continues as the fastest growing large market.

Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$704,691,171	-10.1%	28.1%
Computer and Electronic Products	\$431,523,692	37.7%	20.6%
Chemicals	\$430,663,775	1.8%	2.6%
Agriculture	\$337,286,005	90.0%	50.4%
Non-Electrical Machinery	\$332,367,367	0.3%	-1.3%
Miscellaneous Manufactured Goods	\$146,095,115	7.1%	8.6%

What's Hot and What's Not

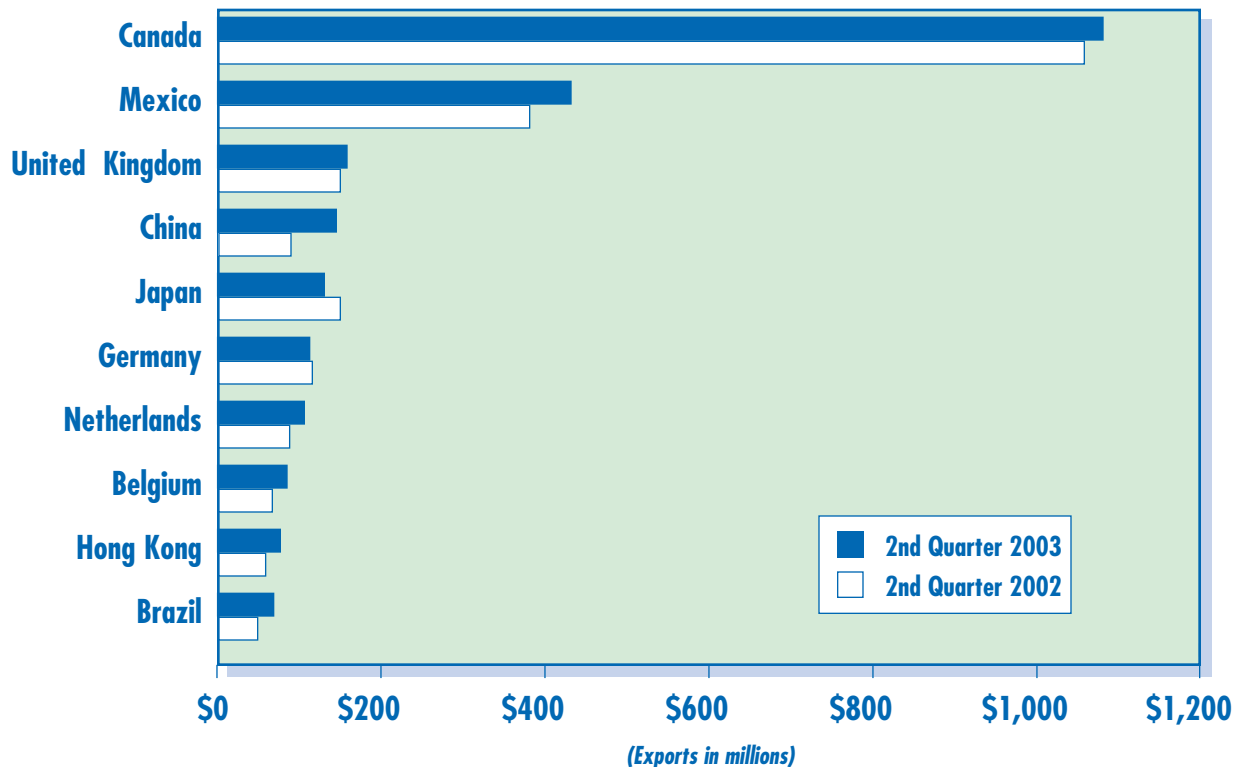
(among Tennessee's top 100 exported goods)

	Value of Exports	Growth	Decline
PRODUCTS WITH THE GREATEST GROWTH			
Generating Sets with Output > 375KVA	\$14,457,857	*	
Gas Turbines over 5000kw	\$10,000,000	*	
Medical Radiation Apparatuses	\$7,887,618	8,524.8%	
Excavators	\$5,459,354	4,955.0%	
Parts for Instruments Measuring Ionizing Radiation	\$29,001,578	2,649.2%	
PRODUCTS WITH THE GREATEST DECLINE			
Parts for Elec. Apparatus for Line Telephony	\$11,002,601		-74.9%
Mechanical Machinery Parts	\$4,623,304		-55.7%
Potato Chips	\$7,984,449		-53.9%
Road Tractors for Semi Trailers	\$6,303,541		-52.0%
Beverage Vending Machines	\$1,579,569		-51.8%

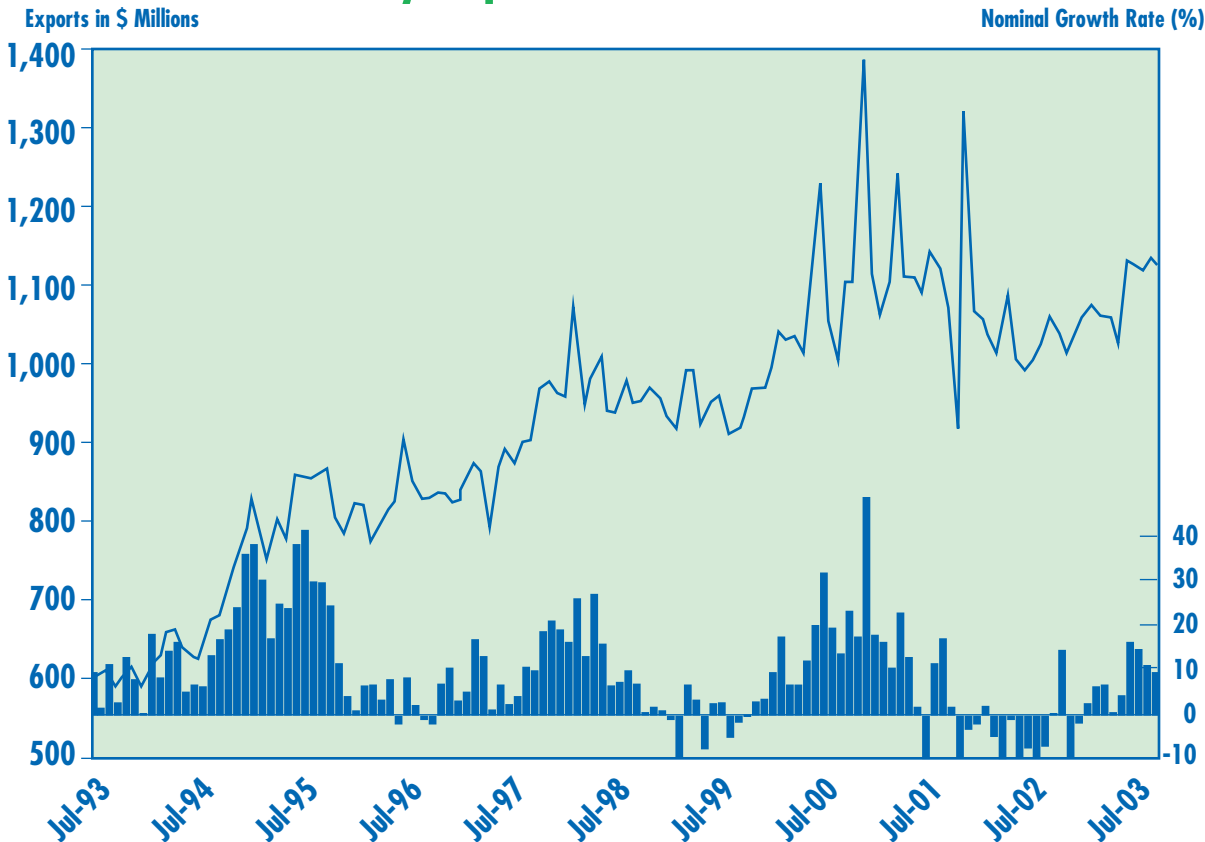
* No exports in the first quarter, 2002

** Includes software and goods returned for repairs or other reasons

Tennessee's Leading Trade Partners



Tennessee's Monthly Exports



2nd Quarter 2003

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			
Pakistan	\$12,330,579	479.1%	
El Salvador	\$7,619,530	149.6%	
Honduras	\$18,329,394	140.3%	
Russia	\$4,472,233	105.5%	
Jamaica	\$9,158,481	96.6%	
COUNTRIES WITH THE GREATEST DECLINE			
Austria	\$2,984,178		-69.3%
Saudia Arabia	\$10,144,275		-58.6%
Venezuela	\$5,001,903		-54.6%
Switzerland	\$9,452,125		-45.0%
Panama	\$2,731,429		-35.6%

Tennessee International Trade Report

The state posted a record \$3.3 billion in exports. An old stalwart and a surging newcomer accounted for most of this dynamism: cotton and computers.

Tennessee broke out of its recent export doldrums in dramatic fashion this past quarter. The state posted a record \$3.3 billion in exports. This is nearly \$300 million higher than in any previous quarter and a gain of 9.1 percent from last year. An old stalwart and a surging newcomer accounted for most of this dynamism: cotton and computers. Tennessee cotton exporters had a sensational quarter. Cotton exports nearly doubled from a year ago (\$174 to \$340 million). Nearly every part of the globe was buying more cotton from Tennessee. (To be fair, a good portion is actually grown in Mississippi and Arkansas but brokered by Tennessee firms in Memphis.) China alone purchased nearly \$100 million more cotton than a year ago. Sales to Mexico and Turkey, which combine with China to equal about half of the state's cotton market, were up by another \$30 million. The state's fourth largest cotton market, India, doubled its cotton purchases, while Brazil bought nearly 10 times the dollar value of cotton that it had imported in 2002. Cotton accounted for more than one of every ten dollars in Tennessee exports for the quarter.

The newcomer is personal computer exports. PCs accounted for \$174 million of the quarter's foreign sales. This was twice the amount of 2002. Most of the growth was in laptop PCs. Canada (\$42 million), Malaysia (\$14.5 million), Hong Kong (\$13 million), and Ireland (\$9 million) were the best markets. In fact, about a fifth of all American laptop exports came out of this state. Presumably much of this performance is due to Nashville's (relatively) new Dell assembly plant. Desktop PCs also had a very good quarter with sales growing from \$25 million in the second quarter of 2002 to \$44 million this past quarter. This market is quite a bit narrower than that for

laptops, however, with the large majority of these computers going to Canada.

While these two products were the quarter's star performers, the medical instrument industry was not far behind. Its foreign sales of \$223 million were 50 percent higher than a year ago. Exports of orthopedics, artificial joints, and x-ray and radiation technologies all grew robustly in many parts of the world. The Philippines, Costa Rica, Japan, Hong Kong, and France are among the disparate countries that significantly increased their purchases of these items.

The gains in these products were enough to outweigh another disappointing performance by the state's largest export industry, automobiles. Autos and auto part exports lost a net \$80 million from a year ago (to \$451 million) primarily due to a decline of nearly \$100 million in auto exports to Canada. Canada was also the reason for yet another drop in the state's line telephony industry. Exports of parts for telephony apparatuses are now down to about \$23 million, half of what they were a year ago and less than the *monthly* exports of two years ago. This continues to be the most hard-pressed of the state's export industries.

Geographically, it was a good quarter almost everywhere. The NAFTA market up was up by \$64 million on the strength of a 13.5 increase in exports to Mexico. Latin America was even better. There the state increased its sales by 19.5 percent (to \$216.5 million). Brazil accounted for virtually all of this increase. Most of Asia was equally strong. Thanks first and foremost to cotton, exports to China were up 62 percent, the best performance among the state's major markets. But Hong Kong (38%) and Taiwan (15%) were also very strong. In Europe, sales to the U.K. were up 7.5 percent on the strength of auto parts and organic chemicals, while Belgium (pigments and car engines) and the Netherlands (medical equipment and polyethylene terephthalate) both forged double-digit export gains. The euro area market as a whole gained about 7.5 percent; big increases in the Benelux countries were countered by small losses in Germany and France. A loss in turbojet sales accounted for these latter declines. Only one region of the globe refused to participate in the general good news—northeast Asia. There both the Korean and the Japanese markets fell by about 10 percent. The South Korean performance was to a large extent a fluke—the poor figures were really the result of a one-time sale of a particle accelerator last year—but the Japanese figures were broad-based and reflect the continued sluggishness of that economy.

The state's strong export performance appears to be continuing as the third quarter gets under way. In July Tennessee's exports were up 9.1 percent. Another large increase in cotton sales is behind these numbers. ■

Tennessee Trade-Weighted Dollar Index



Except for a few prominent exceptions, there is as yet no convincing evidence that a successful boycott of American whiskey is occurring.

Whiskey

continued from page 2

Turkey ranked 19th. The decline in the Dominican Republic is more difficult to explain, but much of its purchases are actually transshipped elsewhere so it is undoubtedly a complicated story. Are these the nations that are successfully boycotting bourbon?

An affirmative answer is still premature. A search such as this ought to turn up several countries at random that would meet the criteria of a successful boycott. The remarkable thing here is that the search turned up even fewer countries than one would expect in such a random search.

We could cast our net more widely by considering countries that continue to buy more bourbon but at a substantially lower rate of increase than before. The overall growth rate of bourbon sales has indeed been a little lower in 2003 than it was in 2002 (16 percent versus 20 percent), but not a single country other than those mentioned shows a large fall in the rate at which it has been increasing its bourbon purchases. If we include countries where bourbon sales have historically fluctuated but for which recent sales have been down, we can add another three (Thailand, Sweden, the Philippines). But that's it.

What if we look at the Middle East? For obvious reasons, bourbon sales have always been modest in this region, but, perhaps surprisingly, they have actually been rising in recent months.

Whiskey exports to the Arab world were up about 15 percent over the period we studied, and only two small markets (Morocco and Lebanon) saw significant declines.

The bottom line? Except for a few prominent exceptions, there is as yet no convincing evidence that a successful boycott of American whiskey is occurring. If we were to incorporate currency shifts or use even more severe criteria, such as *any* decline in the bourbon growth rate, we might uncover at least a little more ambiguity. But any way you look at it, the global bourbon market is still growing rapidly. Bourbon and sour-mash whiskey are poised to continue as one of this state's most promising export products.

(A last word: French bashers may be disappointed to discover that France remains one of Tennessee's best whiskey markets. After a slow January and February, sales of bourbon are up 10 percent in France.)

¹ Government data are supposed to assign exports to the state in which a product was made. But in the case of whiskey, a good portion of Tennessee exports are actually from Kentucky distilleries and either handled or shipped through Tennessee.