



# Global Commerce

Tennessee and the International Economy

## TENNESSEE

### ▶ SIGNIFICANT LINKS TO THE MIDDLE EAST?

by Steven G. Livingston

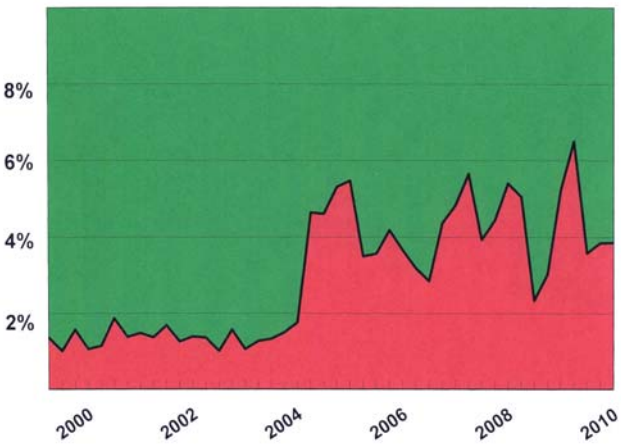
The Middle East dominates the news. Events there give us optimism but also worry. Instability in the region could have major economic consequences around the world. This is, of course, primarily because of oil. But what about other economic ties with the region? In the case of Tennessee, how significant are the countries of the Arabian world to the state and its economy? What might be the economic fallout of the dramatic events we are witnessing?

In 2010, the state exported just over \$1 billion in goods to the Arab world. That compares with \$160 million in 2000. From that perspective, the state has a much greater stake in the region now than it had even a decade ago. However, from another view, the region remains peripheral to the state economy. Last year, only about 4% of Tennessee exports went to the Arab Middle East—roughly proportional to the size of the population of the region. The percentage of state exports has grown over the past 10 years, though it is today no greater than it was in the mid-1990s.

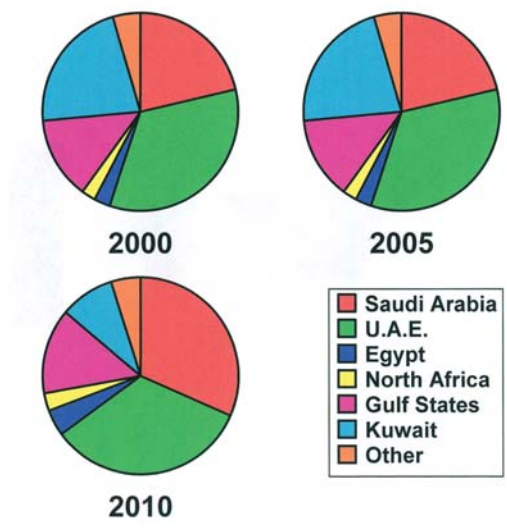
Moreover, Tennessee exports to the region are actually rather narrow:

■ *Narrow geographically.* The vast majority of shipments are to Saudi Arabia and the Gulf States (Kuwait, the United Arab Emirates, Bahrain, Qatar). At the start of the decade, two-thirds of the state's exports to the Arab world went to the Gulf. By 2010, that was up to 87%. In fact, exports to Arab countries outside of the Gulf have increased by only about \$33 million over the past 10 years. Quite simply, except for the Gulf, the Arab world has been a stagnant market for state exporters.

Percent of TN Imports That Go to the Middle East



2 Nations Dominate State Sales in the Middle East



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# MIDDLE EAST

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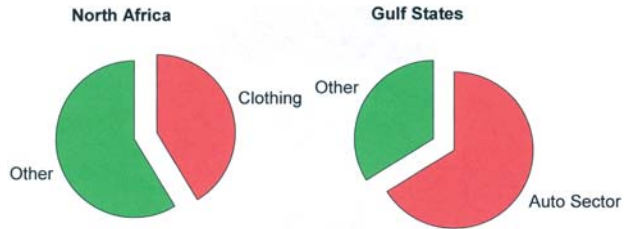
■ *Narrow sectorally.* Tennessee exports to the Middle East are overwhelmingly one product: the automobile. Cars account for 60% of the state's shipments to the region (\$639 million) and auto parts another \$30 million. This is new; it began in 2005 when Nissan started shipping automobiles tailored to the region. The result is that automotive sales are now the one and perhaps only product for which the region is a truly significant market.

Cars basically go to the Gulf (though there are some sales in Lebanon and Jordan). Few go to North Africa. Trade with the latter region, though, is also predominately packed into one sector, that of apparel. Cotton, yarns and fibers, and apparel products constitute \$31 million of Tennessee's \$75 million in 2010 exports to the North African countries. The rest of the state's trade is concentrated in a handful of other products: medical instruments, medicaments, and telephone set parts. Exceptionally, Iraq has become a major destination for the state's exports of chicken meat.

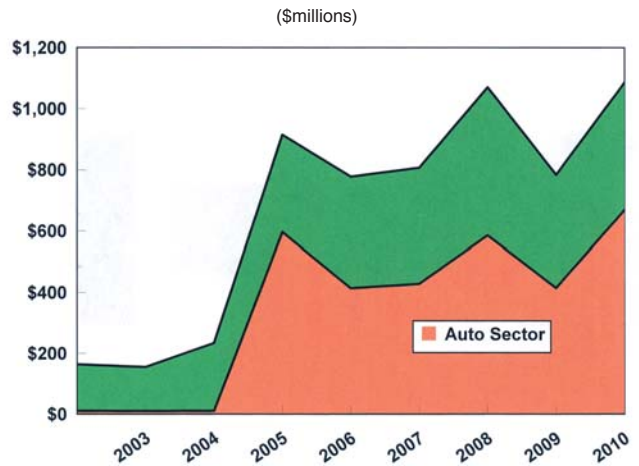
The countries currently most affected by political events are generally among Tennessee's smaller markets in the region. There are essentially no exports to Libya or Yemen (\$2.5 and \$0.5 million, respectively, last year), while the Tunisian market is only about \$8 million. Sales to Bahrain, almost all cars, are larger (\$41 million), as are sales to Egypt (\$46 million), but both are still rather modest figures.

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## A Tale of Two Middle Easts



## "Engine of Growth": The Auto Sector in Middle East Exports



What's Changed in 10 Years?			
(Tennessee Exports in \$ millions)			
	2000		2010
Potato Chips	13.2	SUVs and Cars	639.3
Refrigeration Equipment	8.7	Medical Instruments	46.7
Construction Sets and Toys	6.8	Chicken	36.4
Motor Vehicle Parts	5.1	Motor Vehicle Parts	30.2
Aluminum Plates	5.0	Artificial Filament Tow	23.1
Boiler Parts	4.4	Medicaments	18.5
Refrigeration Compressors	3.9	Pigment Preparations	18.0
Artificial Filament Tow	3.7	Telephone Sets and Parts	17.5
Wooden Bedroom Furniture	3.7	Aluminum Plates	16.7
Medical Instruments	3.5	Elect. Switches and Connectors < 1kW	16.4

4th Quarter 2010



### Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Medical Equipment & Supplies	\$732,709,709	3.9%	18.7%
Motor Vehicle Parts	\$657,702,779	35.4%	10.0%
Basic Chemicals	\$494,005,470	16.6%	6.2%
Computer Equipment	\$456,329,752	20.9%	-7.6%
Resins, Synthetic Rubber, & Fibers	\$373,895,874	30.6%	-2.0%
Industrial & Medical Instruments	\$305,745,129	0.8%	13.3%

4th Quarter 2010

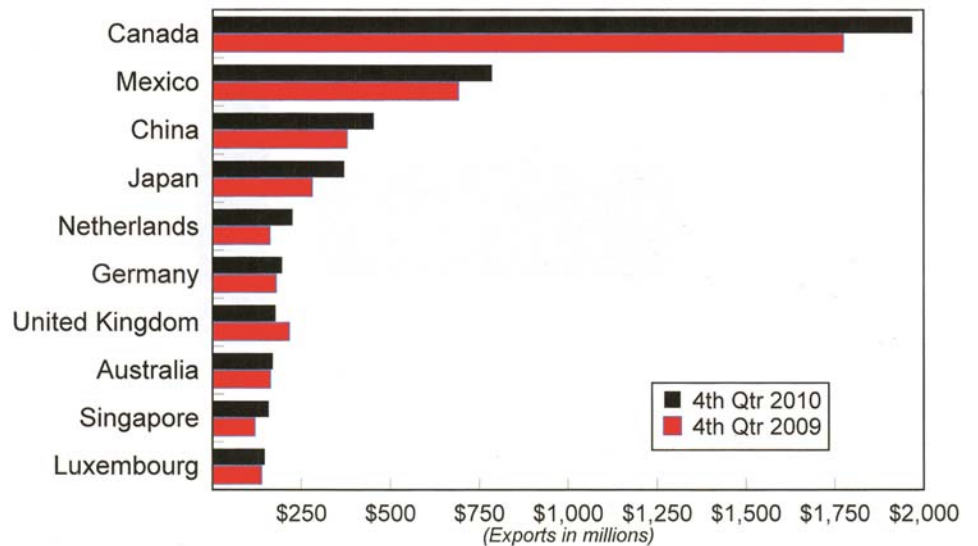


### Fastest-Changing Export Destinations

	Value of Exports	Gain	Decline
<b>COUNTRIES WITH THE GREATEST GROWTH</b>			
Philippines	\$72,075,311	203.6%	
Pakistan	\$16,503,941	178.8%	
Portugal	\$7,993,591	176.1%	
Qatar	\$13,925,951	164.2%	
Sweden	\$33,768,668	129.5%	
<b>COUNTRIES WITH THE GREATEST DECLINE</b>			
Latvia	\$757,894		-84.4%
Nigeria	\$14,155,682		-37.9%
Greece	\$7,091,903		-27.6%
Bermuda	\$3,101,681		-21.0%
Romania	\$2,991,656		-17.9%

(Among countries averaging more than \$3 million in sales per quarter)

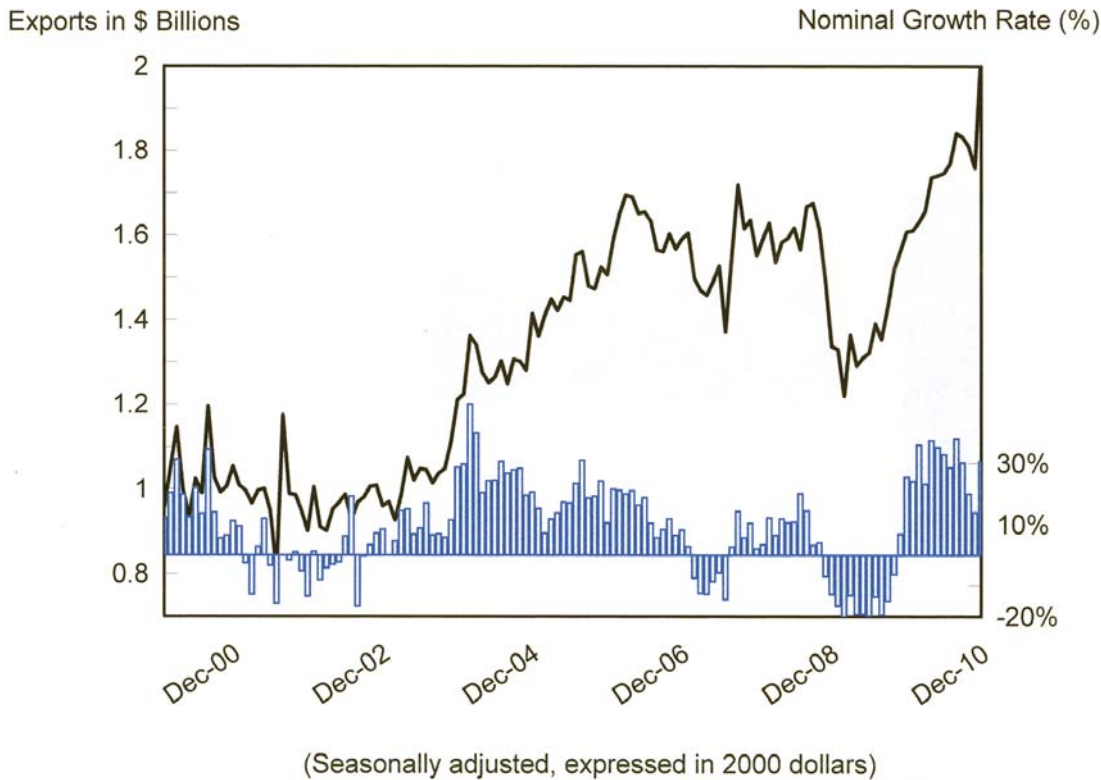
### Tennessee's Leading Trade Partners



**EXPORTS TO THE U.K. HAVE NOW FALLEN 7 CONSECUTIVE QUARTERS.**



## Tennessee Monthly Exports



4th Quarter 2010

### What's Hot and What's Not\*

	Value of Exports	Growth	Decline
<b>SECTORS WITH THE GREATEST GROWTH</b>			
Compression Ignition Engines	\$61,652,808	469.9%	
Advertising Material & Catalogs	\$14,561,492	436.1%	
Video Games	\$132,856,506	276.9%	
Mechanical Excavators	\$22,461,881	221.7%	
Steering Wheels, Columns, & Boxes	\$33,507,320	174.3%	
<b>SECTORS WITH THE GREATEST DECLINE</b>			
Newspapers (non-daily)	\$6,092,622		-71.9%
Aluminum Plating > .2mm thick	\$24,547,948		-64.9%
Coated Paperboard Weighing > 150g/sq meter	\$10,129,446		-50.3%
Raw Tobacco	\$7,219,880		-49.3%
Car Engines > 3,000 cc	\$144,520,783		-49.2%

**VIDEO GAMES  
HAVE BECOME  
A MAJOR STATE  
EXPORT.**

\*Among Tennessee's top 100 exported goods. Aircraft exports were recoded this year and so are not included.

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**A** strong international economy propelled Tennessee exports to new highs. The state shipped just under \$7 billion in goods to foreign markets this past quarter, 15% higher than in the fourth quarter of 2009. For the year, exports crossed the \$25 billion threshold, \$5.5 billion dollars ahead of 2009. This is the largest absolute gain in annual exports in the state's history. In only two global regions did exports not increase. A huge drop in car and SUV exports to Saudi Arabia led sales to the nations of the Middle East to fall 14% for the quarter. Sales were also off to Africa, though this is more the result of several large, one-time purchases of aircraft parts and foodstuffs in 2009 that were not repeated this year. Elsewhere, foreign shipments were up strongly.

As might be expected, some of the biggest gains were to the emerging markets. Exports to Southeast Asia grew by more than 50% over last year's fourth quarter. Aircraft (to Singapore), cellular phone products (to the Philippines), and cotton (to Thailand and Indonesia) were the major growth items in Tennessee's \$382 million of exports to that region. South America was not far behind, with the state's exports up 39% (to \$428 million) to that region. Brazil and Chile each purchased an additional \$30 million of Tennessee goods during the quarter, but exports were strong to just about every Latin American nation. Laptops, chemicals, auto parts, and medical equipment were at the heart of these gains. Indeed, total Tennessee exports to the somewhat artificial poster child of the emerging markets, the BRICs (Brazil, Russia, India and China), rose 20% to \$699 million last quarter. (In Tennessee's case, though, the BRIC might be more accurately termed "China + the rest," because two-thirds of its BRIC exports went to that one nation.)

Though the emerging markets grew most rapidly, there were substantial increases to developed markets as well. Japan was the site of the biggest gains among the mature markets last quarter. Tennessee exports were up a third. Perhaps consistent with Japan's aging population, the state greatly increased shipments of medical instruments, orthopedics, and pharmaceuticals! Here it might be useful to remember that, for all the excitement about the newer markets, Japan still imports as much Tennessee production by

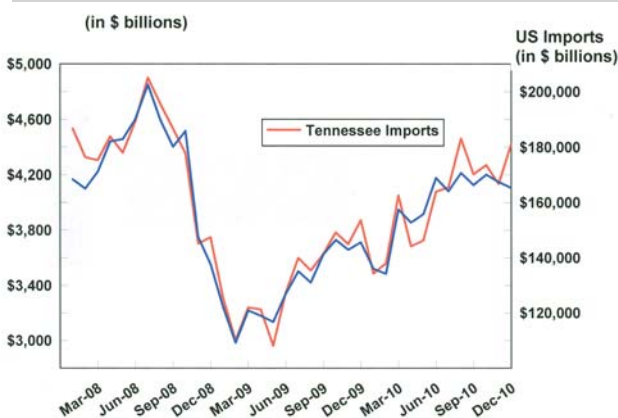
itself as does all of Southeast Asia. Exports to Europe were also strong, despite a very large drop in shipments of medications to the U.K. and solar panel products to Germany. Exports to Europe gained more than \$100 million (12%) this past quarter. About half of this gain was in the medical equipment sector. It is perhaps surprising that there were not large declines in those countries afflicted with recent sovereign debt woes, such as Ireland or Greece.

Tennessee's shipments were similarly strong to the NAFTA nations. Exports to Mexico stood at \$789 million (a 20% increase), while those to Canada grew to \$1.971 billion (10%) for the quarter. The growth in Mexico resulted from large increases in auto parts and compression-ignition engine shipments. Engines and auto parts were also the backbone of the gains in Canada, though they were joined by significantly higher sales of video games and aircraft parts.

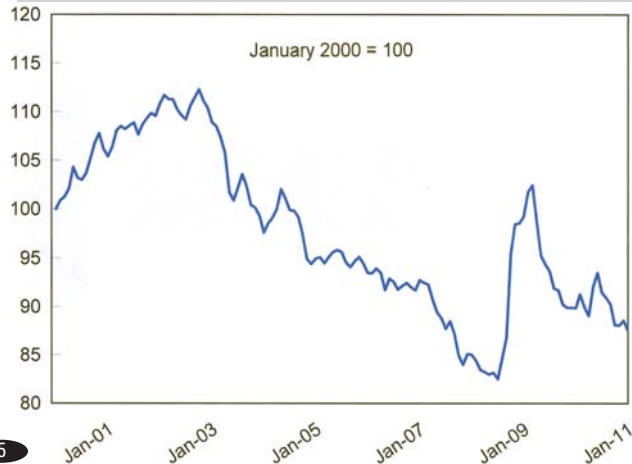
As this survey suggests, most Tennessee industries had a very good quarter. The state's exports of engines and chemicals each increased by around \$100 million, while medical equipment shipments gained \$140 million. Cotton exports surged by over \$100 million; thanks in part to record global cotton prices. Most of this cotton went to China. Only a few sectors didn't share in the fun. The pharmaceutical industry, thanks to the above-mentioned drop in Great Britain along with a similar decline in Canada, suffered a \$22 million loss in exports for the quarter. Heavy machinery shipments were off \$10 million, and the aluminum industry was down \$35 million (all to two countries, Mexico and China). The toughest quarter, though, was that of the automobile industry. Most auto part exports had a very solid quarter, but shipments of cars and SUVs dropped by nearly \$170 million. These losses came primarily in Canada, where exports fell \$125 million, and in the Middle East, where they declined \$50 million.

The breadth of the export gains suggest that the state's recent performance has more to do with a rising tide lifting all boats than with any factors relating to Tennessee or its particular export sectors. This means that the fragility of the global economic recovery probably remains the single biggest cloud on the state's export horizon. ■

Tennessee Monthly Imports



Tennessee Trade-Weighted Dollar Index





# MIDDLE EAST

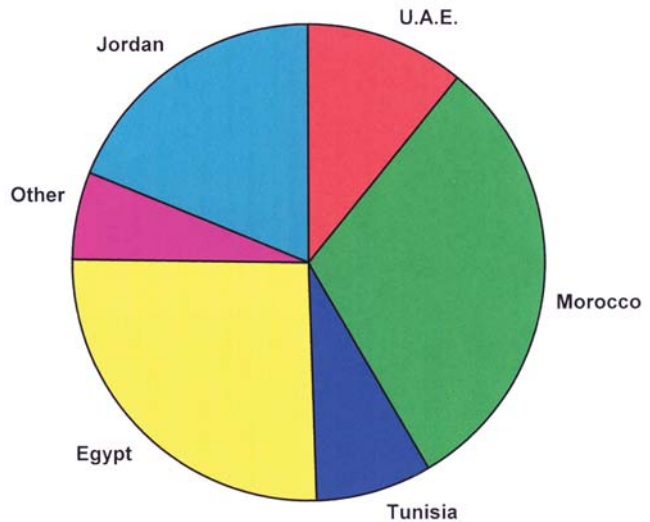
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## What of Imports?

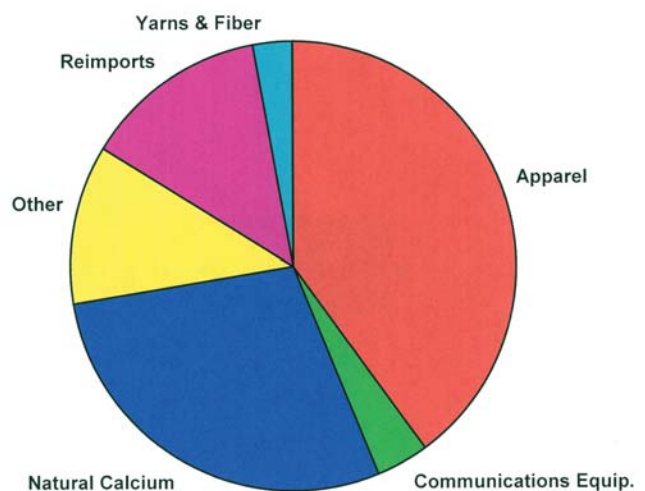
Tennessee, as it turns out, directly imports very little from the Middle East. In 2010, less than a quarter of 1% of the state's imports came from the region. And that percentage has been falling. Generally the state is not the destination of Middle East oil or gas imports (though there are occasional exceptions, such as a sizable purchase of Algerian natural gas in 2008). Since the region does not feature suppliers or intermediary manufacturers for much of anything produced in Tennessee, it simply is not a factor in the state's global purchases. Apparels are the largest import from the region and make up about 40% of its total imports to Tennessee. The only other product of much importance is natural calcium, all of which comes from Morocco. In 2010, some \$30 million of calcium was shipped into the state.

This survey indicates that economic connections between Tennessee and the Arab Middle East remain rather thin. One exported good (autos) is the difference between a small but growing market and virtually no market at all. Imports are all but nonexistent. Of course, we are bracketing oil, which will obviously have a major impact on the state even though it is not directly shipped here. But absent that link, the trade picture suggests that while the Arab Middle East may be a promising market in the future, especially if reformist, democratic regimes are able to take power, the region today is of little economic significance to Tennessee beyond that oil. For this state, the economic repercussions of the events that are unfolding in the region appear limited to that one all-important product. ■

**2010 TN Imports from the Middle East: Countries**



**2010 TN Imports from the Middle East**



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