

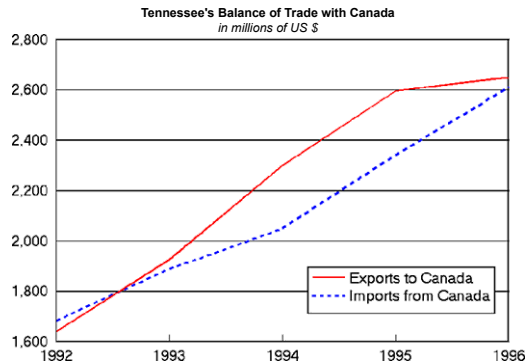
Still Number 1: Canada's Share of State Trade Continues to Grow

Tennessee's most important trade partner may well be its least talked about. In spite of the attention lavished on newer markets around the globe, Canada remains by far the largest market for the state's exports and the largest source of its imports. One-third of all Tennessee exports go to Canada, and more state firms buy from or sell to Canada than to any other country. Let's look more closely at Tennessee's trade with our nation's northern neighbor.

A Soaring Market...

In 1997 Tennessee exports to Canada will break the \$ 3 billion mark. This will exceed sales to the next seven biggest foreign markets combined. It will also be double the amount exported in 1991. In the 1990s exports to Canada have grown better than fifteen percent per year, a tremendous performance given the large base from which this growth began. Canada has also been among the most consistent of the state's markets. Even in 1996, when state export growth markedly slowed, the increase in exports to Canada exceeded that of Tennessee's other top ten markets (3.8 to 2.2 percent). The result is that while various experts are touting the EU, Japan, or the "emerging markets," Canada has been quietly expanding its share of total Tennessee exports by a half a percentage point a year.

Imports into our state from Canada are rising just as rapidly. Purchases from Canada have grown almost 75 percent over the past five years. With total sales well over two and a half billion dollars in 1996, Canadian exports average some \$500 for every Tennessean. Yet we might note that, while the US runs a significant trade deficit with Canada (nearly \$30 billion in 1996), Tennessee as been able to maintain a favorable state balance of trade throughout the 1990s.

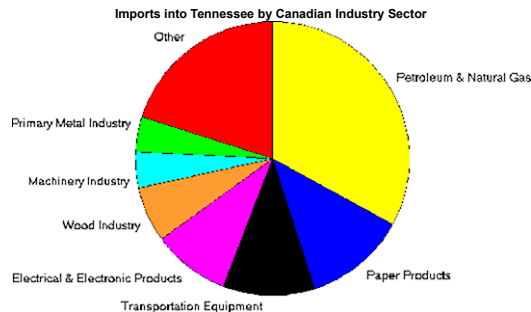


What accounts for this tremendous growth? One important factor is the implementation of the US-Canada free trade agreement (now expanded to NAFTA) on January 1, 1989. This is eliminating most bilateral trade restrictions of any kind. Though trade disputes between the two countries will not disappear, as the Canadian objections to CMT reminds us, transborder trade is becoming ever easier, and cheaper. A second factor is that Canada has been the ideal first foreign market for most state exporters or importers. As state businesses are increasingly drawn into the global economy, the proximity, long-standing cultural affinities, and similar business environment of Canada has made it the logical place to first dip one's toes into foreign trade. The third reason, discussed below, is Tennessee's growing role in the global automotive industry.

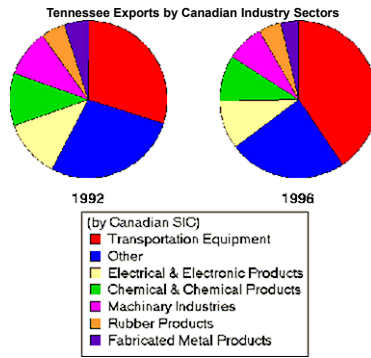
...And the Deepest Market

Trade between Canada and Tennessee is not only sizable, it is broadly based. Virtually every type of product made in Tennessee is sold to Canadian firms, and an equally wide range of Canadian goods find their way to the Volunteer State. In many respects trade with Canada more resembles trade with the other American states than with other foreign lands. Not only are many products both imported and exported, but the state's relatively strong industry sectors are the same vis-a-vis Canada as they are with the other states. Perhaps this should not surprise us, Nashville, after all, is closer to Toronto than it is to Philadelphia.

The leading imported products perhaps will not surprise anyone. Natural gas is the largest valued commodity purchased from Canada. In 1996 Tennessee bought slightly over \$850 million of Canadian gas, one-third the value of all Canadian imports into the state. Wood and paper follow. Of the major importing industries, wood again (47 percent), along with textiles (67 percent), posted the highest growth rates this past year. Though the number of imported products is large, a relative handful make up the lion's share. Twenty-five commodities account for 70 percent of the imports. This concentration has been rising slightly over the 1990s. The accompanying chart shows the state's largest import industry sectors (by 2-digit Canadian SIC code). Among manufactured imports, paper products (mostly newsprint), electrical and electronic products (mostly telecommunications equipment), and transportation equipment (mostly auto parts) are the most important. The most dynamic import commodities by far are auto parts. These have more than doubled in the last five years, and many individual items have posted 300-400 percent growth rates.



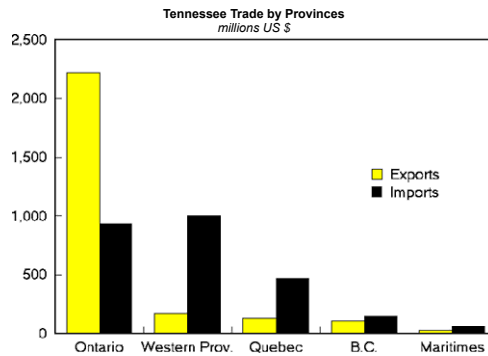
Automobile trade is also the major story on the export side of the ledger. Nowhere is the transformation of Tennessee into a major global automotive center more apparent than in its trade with Canada. Forty percent of Tennessee exports to Canada are either automobiles or automobile parts. In 1996 car exports were valued at \$ 330 million, and auto parts sales at \$ 709 million. Automotive exports have grown 148 percent in the last five years. The transportation equipment sector's share of exports has increased by a full third since 1992. It now surpasses the second largest of the state's export sectors by some \$ 700 million. (Note that using U.S. SIC codes slightly alters our numbers - according to the U.S. classification, these figures are "only" \$500 million.) To round off the picture, six of Tennessee's ten top specific export products to Canada will eventually be attached to a car!



The automotive trade may overshadow Tennessee's other exports, but this should not hide the fact that exports are growing rapidly from virtually all of the state's industries. The state's non-automotive sales to Canada still dwarf total exports to any other part of the world. Tennessee's other giant export industries include electrical and electronic products (primarily TVs and major appliances), chemicals (largely polyethylenes), machinery industries (led by refrigeration and air conditioning units and parts), and rubber (tires). Each of these industries sold more than \$ 100 million of products to Canada in 1996, and each has compiled double-digit export growth rates over the last five years. Indeed, using the Canadian SIC classification, only four of the 22 major manufacturing sectors (tobacco products, leather goods, furniture, and primary metals) suffered declines in sales during this time. We might especially note the success of Tennessee's food product industry; its Canadian sales have more than doubled since 1992, making its export growth rate among manufactures second only to the automotive industry. Exports of nonmanufactures have fared similarly well. In fact neither of the two fastest growing Tennessee exports is a manufactured good: agricultural crop exports increased 156 percent in the last five years, and, in what may be a harbinger of the future, Tennessee's audio/video industry reached sales of \$3.5 million in 1996, an expansion of 295 percent over this same period. This made it the state's fastest growing exporter of them all.

All the Way From the Atlantic to the Pacific and to the Arctic too

Tennessee's trade reaches all corners of Canada. State firms buy products from all twelve of Canada's provinces and territories, and sell to all but the two territories (the Yukon and Northwest Territories). Not surprisingly, the bulk of trade is with the two largest provinces, Ontario and Quebec, though British Columbia and the prairie provinces are considerable trade partners as well. If counted on its own, Ontario would be Tennessee's largest market, exceeding that of all other countries, while Quebec, British Columbia, and Manitoba would all rank among the state's top twenty export destinations. However Tennessee's exports are quite a bit more geographically concentrated than its imports. Eighty-four percent of all its exports go to Ontario. That is because it is the center of Canada's automotive industry. Meanwhile the province accounts for only a little over a third of Canada's sales to Tennessee. The size of its sales is actually exceeded, though barely, by Alberta, the source of the natural gas that is Tennessee's biggest Canadian import.



Tennessee's Trade in Perspective

Even this brief survey should convince one that Canada is far and away this state's most important foreign trading partner now, and for the foreseeable future. And in fact our state's trade with Canada is actually growing faster than the nation's. While U.S. imports from Canada have increased nearly 59 percent since 1992, Tennessee's imports have, as noted above, grown 75 percent. Tennessee ranks fifteenth among American states in the value of goods purchased from Canada. Tennessee has been an unusually successful exporter too. Over the past five years the growth of Tennessee's exports has come close to doubling that of the nation (83 to 45 percent). The state recently rose to being the thirteenth largest exporting state to Canada, and now sells more than three percent of all American goods exported there. This may be compared to Tennessee's position as the twenty-first largest state in total global exports, indicating it is relatively even more reliant upon the Canadian market than many other states.

Whether measured by absolute volume, relative share, range of products, or simply in comparison to the US or to the other American states, Canada is a uniquely important trading partner for Tennessee. Though it doesn't gain the publicity of other markets, it remains the core of Tennessee's involvement in the larger world economy. It will remain, too, the initial point of entry for the bulk of Tennessee firms wishing to take advantage of the opportunities provided by that economy.



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Canada: Trade Event Schedule

Please note that because Trade Event Schedules are subject to change, interested companies should consult the U.S. Department of Commerce Export Promotion Calendar available on the National Trade Data Bank or contact the Commercial Section of the U.S. Embassy in Ottawa, Canada at (613) 238-4470 ext. 217.

Western Canada Farm Progress Show

Event Type: Matchmaker
Date: June 18-21, 1997
Location: Regina, Saskatchewan
Contact: Sharon Atkins, Tel: 403-265-2116

Comdex Canada '97

Event Type: Certified Trade Fair - Catalog Exhibition
Sector: Computers, software
Date: July, 1997
Location: Toronto, Ontario

Aerospace North America Exhibition (Airshow Canada '97)

Event Type: Certified Trade Fair
Date: August 6-10, 1997
Location: Abbotsford, British Columbia
Contact: John Award, Tel: 604-685-3382

Equifair '97

Event Type: Trade Fair - USA Pavilion
Date: September, 1997
Location: Calgary, Alberta

PAC-EX '97

Event Type: Matchmaker
Sector: Packaging
Date: September, 1997
Location: Toronto, Ontario

Technology in Government Exhibition

Event Type: Trade Fair - USA Pavilion
Date: October 20-22, 1997
Location: Ottawa
Contact: Richard Tachuk, Tel: 613-238-1278

U.S.A. Trade and Investment Days

U.S.A. Trade and Investment Days are outreach events organized by the Commercial Service's Canada staff designed to increase awareness of CS Canada programs and services available to Canadian companies. Some events may be organized in cooperation with Canada's Department of Foreign Affairs and International Trade.

1. Date: June, 1997 Location: Kanata, Ontario
 2. Date: July, 1997 Location: Medicine Hat, Alberta
 3. Date: July, 1997 Location: Windsor, Ontario
 4. Date: July, 1997 Location: Sherbrooke, Quebec
 5. Date: September, 1997 Location: Truro, Nova Scotia
 6. Date: September, 1997 Location: Nanaimo, British Columbia
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Making Trade Fairs Work For You

by Bob Pawlick and the U.S. Department of Commerce

SOURCE: Document ID: 3621, National Trade Data Bank and Economic Bulletin Board - products of the U.S. Department of Commerce.

Trade shows are offered throughout the world. While many reputable overseas shows are sponsored in part by the U.S. Department of Commerce, there are numerous private sector organizations that also sponsor quality shows. It is always wise to research those trade events that interest you and make certain that they support your company's marketing plan.

Just as with any transaction, there are varying degrees of risk associated with each trade event. Some shows are free, some are local, and some can be attended at a very low cost to you; and thus, are low risk. Others require weeks of preparation, may entail weeks out of the country, and may be very expensive to attend. And in the end, you may not end up making even \$1 as a result of your participation in a trade show. Any trade event must be evaluated based on your business' ability to assume risk.

There is no magic formula that will determine the return you will receive. To help minimize the risk, do your homework. You must develop a plan; whether it be to make immediate sales or to enhance your presence in that market. Make your booth appealing to the market you are targeting. Maintain a professional appearance whenever you are out on the booth floor. Create lead sheets that ask specific questions of the people coming into your booth. If you give a premium item away in your booth, give it to the person AFTER they answer the questions on your lead sheet. Don't just leave premiums out on a table for anyone to grab. It may sound corny, but when you think it through, you should make people work for that premium. Premiums are another cost you incur. How you maximize your return on all the costs is your measure of success.

As soon as you get back to your office after the show, FOLLOW UP ON EVERY SINGLE LEAD and DO IT NOW. It is too easy to return from a show and toss all the business cards and lead sheets into a drawer...to be addressed later. In the majority of cases, these opportunities are never investigated further and can be lost forever if not acted upon quickly. This is a common mistake and one that negates all of the positive effects of your preparation.

After all is said and done, orders are entered, and all leads are followed-up on, create a summary of your impression of the event and include recommendations for the next time you work this show. Analyze the show's budget against it's actual costs and don't forget to analyze the answers to the questions from your lead sheets. It's all research that will enable you to determine this trade event's performance for your business.

What follows is contact information concerning the U.S. Department of Commerce's trade events along with a short list of resources.

U.S. Department of Commerce Trade Fairs and Exhibitions:

About 80 international worldwide events are selected annually for recruitment by the Commerce Department or by the private sector under Commerce's Certification Program. Exhibitors receive pre- and post-event logistical and transportation support, design and management of the USA Pavilion, and extensive overseas market promotional campaigns to attract appropriate business audiences. Contact: Trade Show Liaison office (202) 482-2525.

U.S. Department of Commerce Catalog and Video Exhibitions:

These events provide a low-cost, low-risk vehicle to generate leads, whether the company is looking for sales or representation overseas. Using the resources of U.S. embassies worldwide, product catalogs or videos are shown by Commerce commercial officers to potential agents, distributors or buyers in selected world markets. Contact: Export Promotion Services (202) 482-3973.

U.S. Department of Commerce Foreign Buyer Program:

The FBP supports major domestic trade shows featuring products and services of U.S. industries with high export potential. Qualified foreign buyers worldwide are recruited to attend the shows. The shows are extensively publicized through embassies, government agencies, travel agents, regional commercial newsletters, catalogues and magazines, and foreign trade associations. An international business center is sponsored at each foreign buyer show, providing interpreters, multilingual brochures, counseling and private meeting rooms. Contact: Export Promotion Services (202) 482-0871.

Other Resources

The Internet offers several sites that list trade shows. Using any Internet search engine with the phrases "trade event", "trade show", or "trade seminar", you can find hundreds of sources for shows.

TradeshowWeek Data Book

\$299 for U.S. and Canada, \$190 for International version.

Reed Reference Pub. 12233

W. Olympic Blvd., Suite 236

Los Angeles, CA 90064-9956

(310) 826-5695

A weekly source of statistics and new trade shows.

Tradeshow Report International DM.50

M and A Verlag fuer Messen Ausstellungen und Kongresse GmbH

Postfach 101528, 6000 Frankfurt A.M.1, Germany

069-759502

A trade magazine for international fairs and exhibitions.

Trade Shows Worldwide \$205

ISBN: 0-8103-8079-X ISSN: 1046-4395

Gale Research Inc.

835 Penobscot Building

Detroit, MI 48226-4094

(800) 347-GALE or (313) 961-2242

(313) 961-6815 (Fax)

Trade Show & Convention Guide \$85

BPI Communications Amusement Business

Box 24970

Nashville, TN 37202

(615) 321-4250

(615) 327-1575 (Fax)

Includes dates for 5 years.



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How The State of Tennessee Export Office Can Assist Your Business' Export-Trade Efforts
From the Tennessee Export Office, Tennessee Department of Economic and Community Development

Tennessee businesses are discovering that exports create opportunities for growth and profitability. The Tennessee Export Office (TEO) helps these companies reach international markets. With its goal of facilitating competitive international trading for Tennessee, the TEO delivers a variety of services:

- Overseas Promotions: The TEO organizes participation in export-related events and activities such as catalog shows, trade shows, trade missions and foreign buying missions.
 - Information Dissemination: We respond to specific export questions on overseas markets, research sources, and technical and regulatory requirements.
 - Educational Awareness Programs: In conjunction with a network of experienced export assistance professionals, the TEO co-sponsors educational seminars and workshops on topics such as export basics, agent/distributor relationships, export documentation, and opportunities in specific overseas markets.
 - Referrals: Our relationships with knowledgeable international trade experts connect you to solutions for virtually all of your export needs.
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**Currency Exchange Risk Management:
Setting up a strategy to hedge on foreign exchange markets**
by Guy J. Engon

Doing business abroad has never been an easy feat. You have to be able to conclude the transaction. Then you have to make sure you get paid, which as many exporters can attest, is not a given. As if this was not complicated enough, exporters now run the risk of losing revenue due to fluctuations on the foreign exchange market when the transaction is conducted in a foreign currency. Slight fluctuations in the value of a currency relative to the dollar can translate into losses of thousands of dollars or more, according to the size of the transaction. Last February for instance, one dollar was worth 1.6406 DMark. On May 6, it was exchanged for 1.7325 DMark. An American exporter selling products in Germany for an amount of 100,000 DM would receive \$57,720 instead of \$60,953 had he received the payment 4 months ago. The loss would amount to a little more than three thousand dollars.

Evidently, the fluctuation would have resulted in a gain had the dollar fallen relative to the foreign currency. But even that means you have to keep an eye on the foreign exchange market.

If the transaction partner is located in a country with a currency that is difficult to track, the problem can become even more acute.

The foreign exchange markets now being more unstable than they used to be, companies that deal with international markets will have to design strategies to manage foreign exchange risk and hedge against the fluctuations. How do you do that? First of all, it's all a matter of which party will bear the risk, and that will depend on the different bargaining positions. Of course, the best solution for the US exporter is to get paid in US dollars, but most foreign clients will probably be reluctant to comply. Moreover, the transaction currency increasingly becomes a crucial element of the offering package. Insisting on a US dollar payment can therefore make you lose customers. Another solution is to do nothing, which amounts to speculation, with all the risks involved.

Besides those two options, companies can now use a broad range of financial arrangements to reduce or eliminate their exposure, and the choice between those instruments will depend on the nature of the exposure and how the company manages risk. The most widely used financial arrangements are the forward market and the options. The forward market allows the exporter to exchange two currencies on a future date at an agreed rate, therefore enabling it to cover itself, were any fluctuation to occur. In an option contract, the exporter agrees to buy foreign exchange on any date between a set period of time, at a rate set conjointly with the bank. Companies generally use options when they need to cover their exposure over a very long period ranging from 6 months to one year.

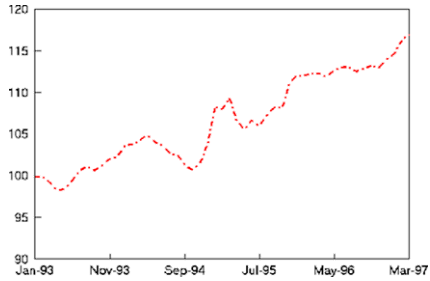
Numerous (and more complicated) instruments exist, but before deciding among all of them, you will have to determine whether you handle the risk management yourself or have somebody do it for you. Larger companies tend to have their own risk management strategy, with people dedicated to that single task, mainly because of the size of the contracts they have to deal with. However, inexperienced exporters or those who have to deal with a currency or a market they are not familiar with, will be well advised to use banks or export management companies. Most larger banks have international risk management groups that conduct research on a country-by-country-basis and can provide exporters with the expertise and resources that tracking foreign exchange fluctuations usually requires. The bank fee is evidently an additional cost, but it's usually money well spent.

However, in choosing a bank, exporters should look at much more than the fees it charges. Ask questions. Make sure the bank is ready to meet your particular needs (not all are) and will provide you with the proper support when needed. Export management companies also provide such services and can be as effective as the banks. On the whole, the technique exporters use and how they use it will depend on the particular transaction they have to deal with and their corporate policy. And it is important not to lose sight of those financial instruments: to hedge, not to speculate. It may be a conservative approach, but it will save you a whole lot of trouble and money in the long run.

Guy J. Engon is an international trade intern at the Tennessee Export Office. A native from Cameroon and an international business major, he comes from the Business Administration School of Normandy, in France. He has worked in the international operations of several midsize French companies, dealing with the European and African markets.

Tennessee Trade Weighted Dollar Index

A surging dollar has lifted the Tennessee trade-weighted dollar index to 116.92, a five-year peak. The dollar strengthened virtually everywhere. Of the twenty-two currencies comprising the index, only the Canadian dollar and the Chinese yuan gained against the dollar since the end of 1996. The rise in the Canadian dollar was minute. There was also little movement in the Mexican peso, which fell slightly. The action, rather, was in the European currencies, and it was significant. Led by 12.3 percent drop of the Deutschmark, European currencies typically fell by some 10 percent over the quarter. The Japanese yen also dropped over 8 percent. The other Asian countries depreciated too, although at a much smaller rate. The 2.61 percent rise in the index is the largest since the 4th quarter of 1995. The 1995 rise heralded the much slower Tennessee export growth rates of 1996, and, if past trends hold, this quarter's increase should also begin biting into state exports during the middle of this year.



Tennessee International Trade Report 4th Quarter 1996

Tennessee exporters saved the best until last: 4th Quarter exports rose to \$2.24 billion, 5.6 percent above a year ago. This was the largest quarterly increase of the year, and partially salvaged an otherwise lackluster 1996. The state was unable to repeat the sterling performances of the past several years, as its exports grew but 0.6 percent in 1996, well below the 6.8 percent national average.

In many ways the 4th quarter repeated the same pattern as earlier in the year. The state's major markets continued strong, with exports to Canada increasing by 12.5 percent, to Mexico 22.22 percent, and to Japan 9.6 percent. But much of these gains were undercut by losses in sales elsewhere. Among the regions of the world, only on the Indian Subcontinent and in the Caribbean and Central America did Tennessee see significantly increased exports. Egypt and Israel also grew dramatically. Indeed Governor Sundquist's trade mission to Israel was matched by a doubling in that country's exports. On the other hand, exports to the entire Middle East were flat, and sales to Africa fell markedly. Exports to South America were off slightly. Brazil, however, continued its steady growth and looks poised to soon become one of the state's ten top markets. Problems continued in the China economic area, where a solid gain in Hong Kong could not cover the loss of almost one third of sales to Taiwan as well as the continuing decline in exports to China itself. Sales to the rest of Asia dropped some \$20 million for the quarter.

It was Europe which accounted for the improved 4th quarter results. Though net exports to Europe were essentially flat from last year, this was a big improvement from the 3rd quarter's multimillion dollar loss in sales. Even here the news was mixed: a \$15 million increase in exports to Ireland and the U.K. was almost exactly offset by losses in the other E.U. states.

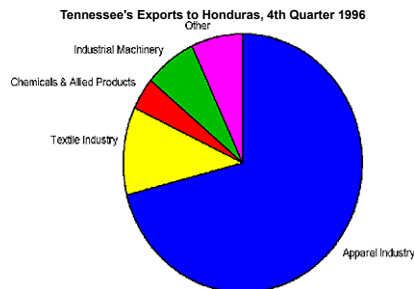
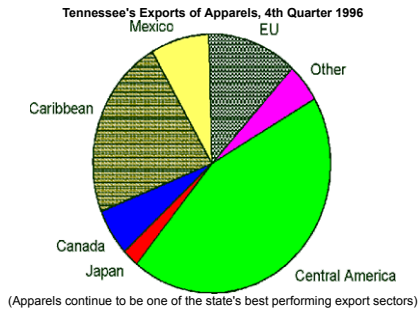
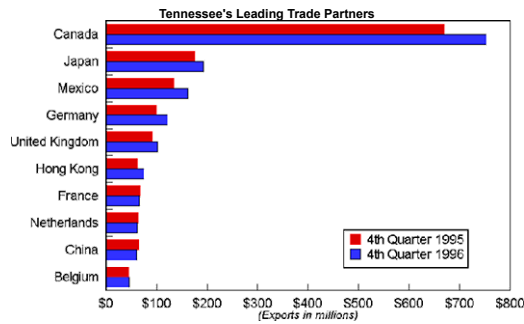
Once again, export declines were concentrated in several industries. Exports of the state's agricultural crops fell by almost one half, down \$30 million dollars. Sales to China and elsewhere in Asia were particularly weak. The primary metals industry suffered similar problems, with its exports dropping by a quarter from a year ago. The weakness of these two sectors was in fact the major cloud in Tennessee's 1996 export picture. Together their foreign sales fell \$370 million from 1995, a sizable drop difficult to make up elsewhere.

But Tennessee's three largest exports sectors, transportation, chemicals, and industrial machinery, again all made healthy gains. The small metal mining industry soared: up better than 7000 percent! But perhaps the most remarkable performance was the continuing robust export growth of the medical and scientific instrument sector. Here exports were up almost 40 percent for the quarter, and better than 27 percent for the year.

1997 is off to a fair start. January 1997 exports were up a solid 5.1 percent from a year ago, though this still lagged America's overall export growth rate.

Tennessee's Largest Export Sectors, 4th Quarter 1996

	Exports	Change from Last Year
Transportation Equipment	\$462,025,988	15.50%
Chemicals	\$382,641,206	7.22%
Industrial Machinery	\$312,985,411	12.33%
Electronics & Electrical Equip.	\$180,747,080	-4.09%
Instruments & Related Products	\$124,049,483	39.88%
Food and Food Products	\$119,067,198	-7.01%



Largest Growth and Decline in Exports by Industry, 4th Quarter 1996

	Value of Exports	Growth%	Decline%
SECTORS WITH THE GREATEST GROWTH			
Metal Mining	\$14,910,349	70535.03%	
Forestry	\$1,127,031	678.33%	
Tobacco Manufactures	\$243,531	151.07%	
Industrial, Scientific & Medical Instruments	\$124,049,483	39.88%	
Apparel	\$46,384,685	35.40%	
SECTORS WITH THE GREATEST DECLINE			
Petroleum & Coal Products	\$946,722		-76.49%
Agricultural Crops	\$63,097,012		-45.98%
Nonmetallic Minerals	\$4,196,517		-38.03%
Coal Mining	\$586,576		-37.24%
Fishing, Hunting, & Trapping	\$4,812,075		32.06%

Fast Changing Export Destinations, 4th Quarter 1996
Among countries averaging more than \$2 million in sales per quarter.

	Value of Exports	Gain %	Decline %
COUNTRIES WITH THE GREATEST GROWTH			
Honduras	\$5,588,886	229%	
Egypt	\$8,343,153	194%	
India	\$19,911,955	134%	
Israel	\$1,252,907	105%	
El Salvador	\$9,035,388	78%	
COUNTRIES WITH THE GREATEST DECLINE			
Nigeria	\$249,204		-94%
Bolivia	\$348,187		-80%
Russia	\$596,340		-74%
Poland	\$1,840,379		-47%
Greece	\$2,001,394		-45%

Tennessee Monthly Exports

(Seasonally adjusted, expressed in 1993 dollars)

