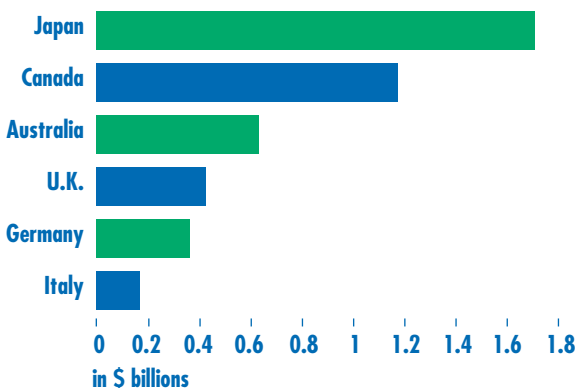


Is Tennessee Sharing in the Foreign Investment Boom?

by Steven G. Livingston

Foreign investment in the U.S. has been surging. Nineteen ninety-eight was a record year—\$201 billion in foreign purchases and acquisitions—and the numbers for 1999 were even higher. An unusually large number of mega-investments and the rising American stock market, which makes acquisitions much more expensive, are part of the story. But the increasing rate of global mergers, along with the ever greater desire of foreign firms for a presence in U.S. markets, are the more important underlying factors. However, not every investing nation has shared equally in this expansion. Japan, once the top American investor but suffering from its continuing recession, has not participated in the stampede.

Foreign Direct Investment (FDI) since 1995



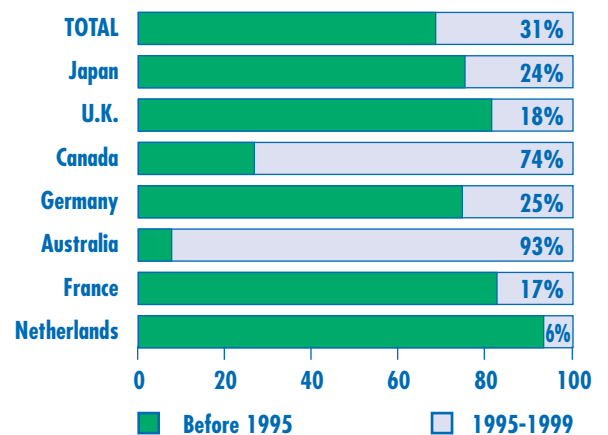
Annual Japanese investment has fallen to one-seventh of its 1990 level.

For Tennessee, so reliant upon Japanese investment, this may be worrisome news. Is the state being bypassed in the current investment boom? *Global Commerce* last surveyed foreign investments in Tennessee in 1995. Let's look at the past five years and see what has been happening.

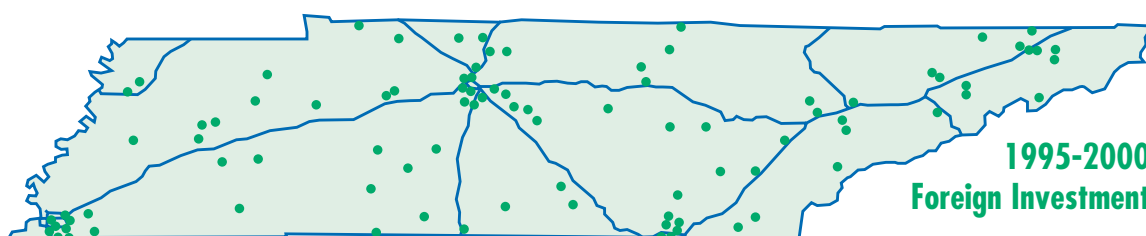
Before beginning, let's review how important foreign investment is to this state. Tennessee's major metro areas all have economies disproportionately reliant upon foreign firm investment. Nashville, the site of the most foreign-owned investment in the state, is the seventh largest metro area in the nation ranked by the number of foreign-owned establishments (as opposed to twenty-first in domestic establishments). It is ranked number 13 in foreign greenfield investments. Ranked at number 21, Memphis is virtually right behind, and half of the newest manufacturing plants in Knox County are foreign owned. According to a recent *Survey of Current Business*, Knoxville and west Tennessee both feature "unusually concentrated greenfield [foreign] investments." In the state's key auto parts industry, half the top twenty firms, whether ranked by revenue or employment, are foreign owned. Total overseas investment in the state now tops \$15 billion, and better than six percent of the state's workforce is employed by foreign-owned firms.

continued on next page

Percent of FDI in the Last Five Years



A map of new investments across the state reveals an important factor in new investment location decisions: foreign firms like to be near interstates.



Top Five Cities for FDI

	Firms
Memphis	74
Nashville	66
Chattanooga	28
Knoxville	17
Morristown	17

Metro Exports

continued from front

In the last five years, new foreign investment has continued to pour into the state. In January 2000, announced investment stood at better than \$15.9 billion, almost \$5 billion higher than in 1995. In other words, a shade under a third of all foreign investment in Tennessee has occurred in just the past half-decade. Eighty-six new firms located in the state. The new investment has come from all parts of the world. A quarter has come from the nations of the European Union, and another quarter from Canada, while about a third originated in Japan and an eighth in Australia. Even firms from the nations of the developing world kicked in nearly \$200 million. Increasingly, this investment has been in the form of buyouts and business expansions (generally, a third of all operating profits stay in the U.S.), which is to be expected given the larger number of existing foreign owned establishments in the state. However, more recently, there have been signs of a slowdown. The annual amount of investment has been pretty consistent, about a billion

dollars a year, but this indicates that the rate of investment has been slowing over the five-year period. This is confirmed by examining the declining number of new firms locating in Tennessee in recent years.

The most dynamic sources of new investment have been, without doubt, Canada and Australia. Both countries' firms invested in Tennessee at rates much higher than the global average. Among the state's large investors, only Dutch firms have been failing to invest much new money in the state. Japan, in many respects, proves the most interesting story. In spite of that nation's

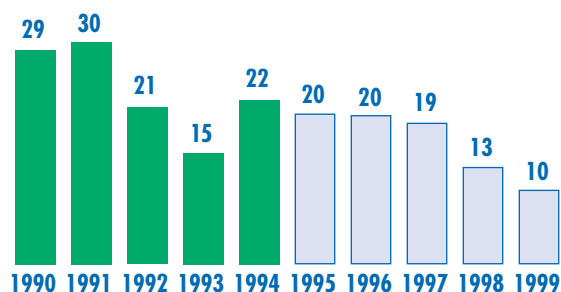
economic difficulties, Japanese firms remain the state's biggest investors. These firms invested more money over the last five years, \$1.707 billion, than anyone else. In fact, their new investment just during this period exceeded the *total* investment of any other country except the U.K. Almost a quarter of the new foreign-owned firms entering the state have been from Japan. That said, there is also evidence that Japanese investment is finally beginning to flag. The total number of Japanese firms operating in Tennessee has not grown since mid-1998, and only about \$150 million of the last billion dollars of new investment in the state has been from these firms, well below the rate of the past two decades (though still above the rate of overall foreign investment!). Whether this decline is a temporary blip, or the first evidence of a change in Japanese investment behavior borne of its economic problems, is an important question for Tennesseans over the next few years. In fact, Britain has come to rival Japan in new investment over the past two years. The U.K. is the home of ten of the state's fourteen most recent new foreign firms.

Though investment over the past five years has been in virtually every economic sector, the automotive industry has continued to attract the most foreign money. More than a quarter of the new firms that have come to the state since 1995 have been auto related. Japan is still the primary country of origin of these firms. The dominance of the auto sector explains why Davidson and Rutherford counties, the home of much of that industry, have been two of the five most successful counties in attracting new foreign firms. Shelby, Hamblen, and Knox round out the top five. Hamblen and Knox have also benefitted from auto related investment, while Shelby, which gained more new firms than any other county (11), attracted a wide range of new investments (interestingly, none of them from Japan). A look at the map of new investments across the state on the previous page reveals another very important factor in new investment location decisions: foreign firms like to be near interstates.

In sum, the state has continued to receive large inbound foreign investment over the past five years. That investment continues to transform the Tennessee economy—among other things, increasing foreign firm employment by almost twenty thousand people. However, on the other side of the ledger, that investment has not increased at the same rate as the nation's and has shown signs of wearying over the past two years. In part, this is merely a result of global mega-mergers, such as the purchase of Chrysler by Daimler-Benz, which inflate total U.S. foreign investment. But in the past two years, it also reflects the drop in new investment by Japanese firms, who have long been the most dynamic investors in Tennessee. The revival of the Japanese economy and the ability of the state to diversify its foreign investment are thus the two major issues as we look ahead to the future of foreign investment in this state. ■

Thanks to Steve Wirth and Rob Ikard of the Tennessee Department of Economic and Community Development for assistance in obtaining the data.

New Foreign Establishments, by Year



3rd Quarter 1999

This was the first quarter of 1999 that state exports rose.

Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$523,168,924	8.1%	-4.4%
Chemicals	\$384,702,416	5.7%	3.0%
Industrial Machinery	\$384,644,129	6.1%	6.0%
Electronics	\$281,459,001	20.1%	0.9%
Medical and Industrial Instruments	\$162,751,679	-4.7%	-1.4%
Paper and Paper Products	\$130,714,849	17.6%	14.9%

3rd Quarter 1999

The fabricated metals sector continued its astonishing growth.

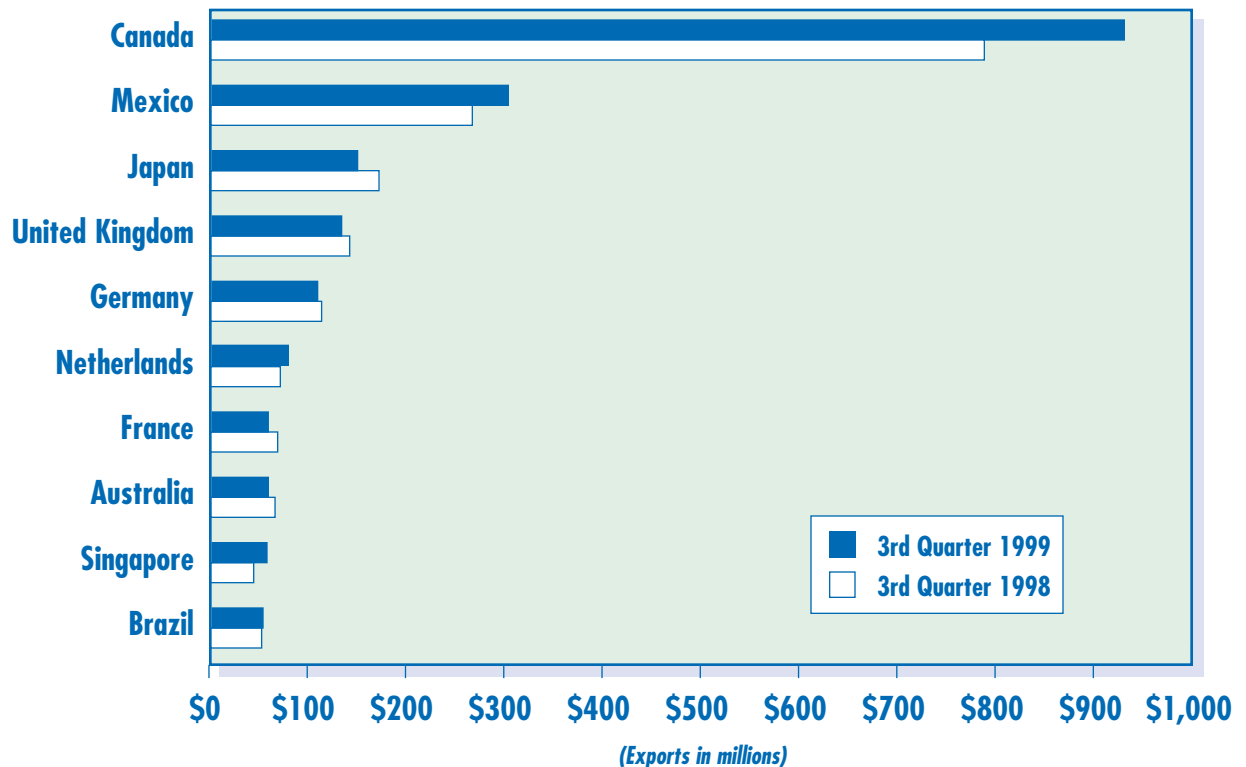
Greatest Growth and Decline in Exports by Industry

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

	Value of Exports	Growth	Decline
SECTORS WITH THE GREATEST GROWTH			
Fabricated Metals	\$124,210,483	83.0%	
Environmental Quality	\$45,082,146	31.1%	
Electronics	\$45,082,146	20.8%	
Printing and Publishing	\$45,082,146	17.8%	
Leather Goods	\$45,082,146	17.7%	
SECTORS WITH THE GREATEST DECLINE			
Agricultural Crops	\$38,395,442		-63.1%
Furniture and Fixtures	\$22,549,645		-51.1%
Apparel	\$52,836,356		-34.0%
Livestock	\$1,526,506		-32.1%
Non-Metallic Minerals	\$3,533,321		-26.8%

Tennessee's Leading Trade Partners

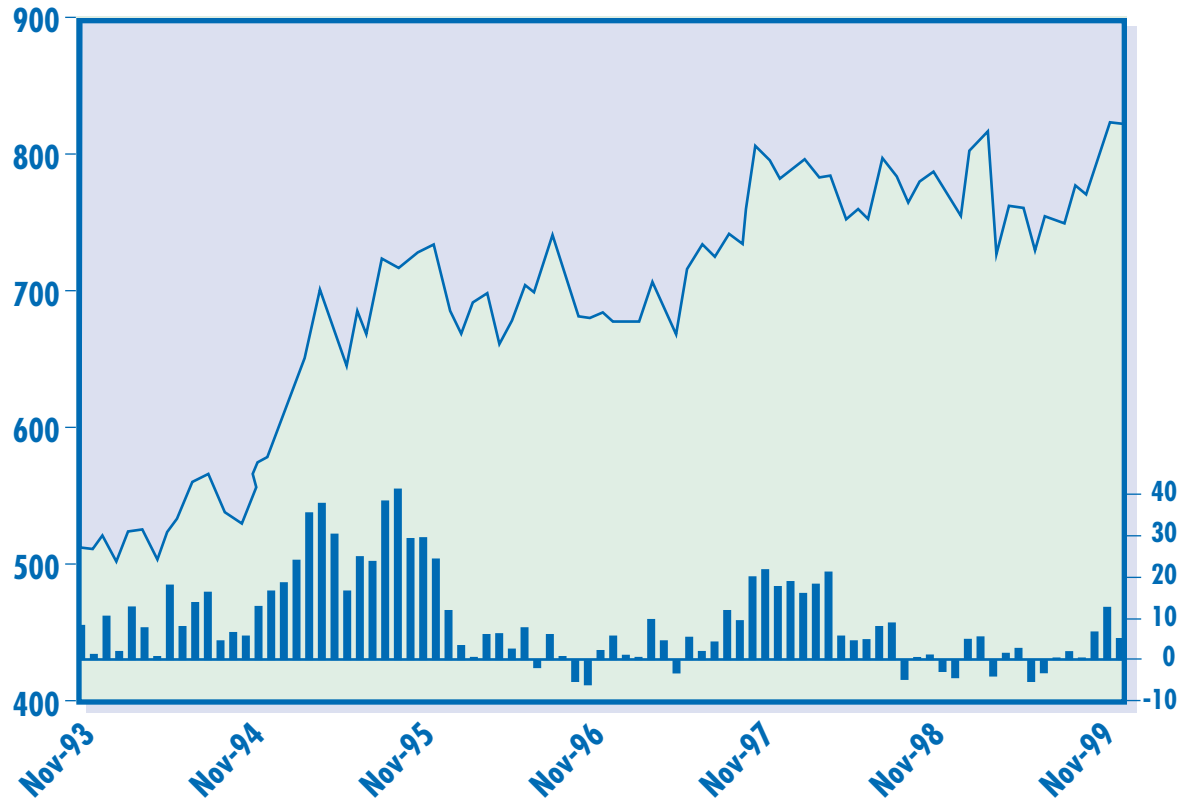
Singapore is quietly becoming the state's second largest Asian market.



Tennessee's Monthly Exports

Exports in \$ Millions

Nominal Growth Rate (%)



State exports picked up as the year ended.

(Seasonally adjusted, expressed in 1993 dollars)

3rd Quarter 1999

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.

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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			
Hungary	\$5,526,722	164.1%	
Switzerland	\$16,059,533	59.8%	
Venezuela	\$15,884,875	52.3%	
Philippines	\$21,811,817	44.0%	
Thailand	\$9,370,843	43.3%	
COUNTRIES WITH THE GREATEST DECLINE			
Portugal	\$2,686,957		-57.5%
Colombia	\$9,309,193		-49.1%
Peru	\$3,693,900		-48.6%
Guatemala	\$6,908,223		-47.0%
India	\$10,034,879		-46.0%

It was the first time in 1999 that the state saw its export numbers in the black.

The percentage of state exports going to the NAFTA market reached its highest level ever.

Tennessee's exports continued to rebound in the big Asian emerging markets.

The most disappointing results were in Europe.

Third quarter 1999 Tennessee exports were up 3.9 percent, to \$2.65 billion. Though the gain was modest, it was the first time in 1999 that the state saw its export numbers in the black. A strong performance in the NAFTA markets and by the state's major industrial sectors accounts for the turnaround.

As noted in previous reports, much of the recent softness in the state's trade figures has been due to declines in the Mexican market, but this changed dramatically in the third quarter. Sales to Mexico zoomed 14.5 percent, largely due to sizable increases in the automotive and electronics sectors. Combined with another very strong performance in Canada, where Tennessee exports rose more than 18 percent, overall NAFTA exports reached \$1.28 billion, just a shade under half of all the state's foreign sales. (But note that the Canadian numbers, while certainly strong, are a little exaggerated because of an unusually weak third quarter last year.) Canadian gains were also concentrated in automotive and electronics, but the chemical sector also had an outstanding quarter, increasing its Canadian sales by better than a third (\$78.2 million). As a result of these gains, the percentage of state exports going to the NAFTA market reached its highest level ever.

Of course the modest overall growth, combined with the robust NAFTA figures, tells us that state exports did not fare as well throughout the rest of the world. Indeed, the quarter's non-NAFTA exports fell more than 6 percent from last year. Tennessee exports continued to rebound in the big Asian emerging markets, as their recovery from the "Asian flu" progressed, but in every other part of the world the state's sales were down. Latin American sales fell by better than a tenth, as a quarter drop in Central American markets was matched by similar losses in Colombia and the Andean region. This was far more than enough to wash away small gains in Argentina (1.3 percent) and Brazil (4.7 percent). At \$155.7 million, exports to Japan were off 12.3 percent. Losses in transportation and apparel sales accounted for much of this decline. The Chinese economic area, always volatile, fell 14 percent for the quarter, as both Hong Kong and China itself posted very weak numbers even in the face of strong chemical sales to the region. The most disappointing results, however, were in Europe. Exports to the EU were down 3.9 percent. Losses were spread across France (down 11.3 percent), Germany (-6.64 percent), the U.K. (-5

percent), and Scandinavia (-11.7 percent). Except for Hungary, the much smaller markets of East Europe performed just as poorly. Even the usually reliable markets of Australia and New Zealand tumbled 11 percent. Finally, the Middle East and South Asia proved the most inhospitable to state exporters, as sales in these regions dropped by a third. Fortunately these areas remain fairly small markets for the state, accounting for only about 1 percent of exports.

Turning to industry sectors, we find that most Tennessee industries had a fairly solid quarter. Losses were restricted to five major sectors. Agricultural crop and furniture sales were the industries suffering the most serious reverses this quarter. The latter was mostly due to a poor quarter Canada, while the former saw significant declines in a number of countries, especially in Mexico and Turkey. Textile and apparel exports were also very weak (down 16 and 34 percent, respectively). For textiles

there were problems across many markets, while apparel losses were more concentrated in Mexico, Central America and the Caribbean, and Japan. Sales of instruments were also off some 6 percent.

Elsewhere, however, sales were solid. The state's three major exporting sectors, transportation, industrial machinery, and chemicals, all grew 5 to 8 percent.

Industrial machinery exports did very well across the globe, with gains in places as removed as Singapore, the Netherlands, and Japan, while the bases of gains in transportation and chemicals were strong sales in Mexico and Canada. Three other sectors posted increases in exports of better than 20 percent. Foreign sales of fabricated metals continued their recent spectacular growth, rising to \$124 million because of large gains in North America. Electronics sales were up a fifth, to \$281 million, with gains in almost all the state's major markets. And environmental quality products expanded their sales by almost a third (31.1 percent), to \$9 million for the quarter. In all, sixteen of the state's twenty-one manufacturing sectors increased their exports over the quarter.

In sum, the third quarter was Tennessee's best in quite a while, and there is every indication that the fourth quarter will be even better. Trade figures for the first two months of the quarter are up nearly 10 percent from a year ago. State exporters may justly claim that they have finally gone from famine to feast. ■





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The Tennessee International Trade Database contains extensive information on virtually all facets of Tennessee's global involvement. It includes statistics on the state's international trade; Global Commerce: Tennessee in the International Economy - a quarterly report; sources of local, state, and federal trade assistance; and links to other Internet sites that contain valuable information on international trade and investment.

The database will better allow businesses, academics, local and state governments, and interested individuals to better understand and analyze the economic impact of international trade and investment flows on the region.

Email questions, comments, or suggestions to slivings@mtsu.edu.

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