

Global Commerce

Tennessee and the International Economy

Tennessee's Economic Stake in a Troubled Region

by Steven G. Livingston

With a war against terrorism underway, the nature of America's relations with the nations of the Middle East has been a constant topic of conversation. Does the U.S. have too high a profile in that part of the world, or have we been insufficiently involved with its problems? Though much of the discussion has been focused upon America's diplomacy and foreign policy goals, the fact is that, as elsewhere in the world, it is American business that has the largest day-to-day presence in the Middle East and the greatest impact on the daily life of ordinary citizens there. It is no accident that businesses like McDonald's are so readily identified as representing America itself.

How involved are Tennessee's businesses in this region, and how important is their activity there to this state's economy? Many might be surprised at the extent of local firms' involvement in the Middle East. More than 300 Tennessee companies have business relationships in the Middle East.¹

Figure 1. Quarterly Exports to the Middle East
(in Millions)

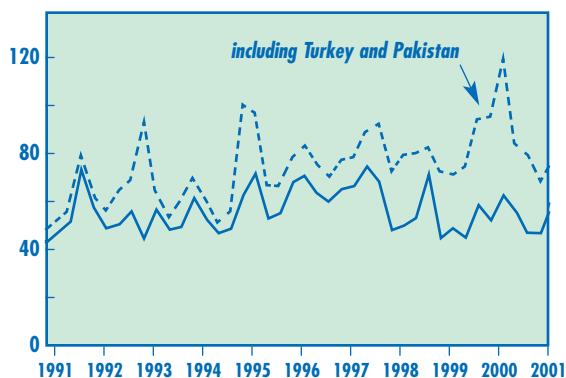
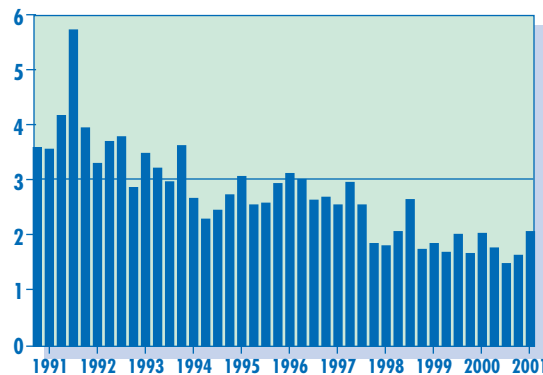


Figure 2. A Small Market Getting Smaller
Percent of Tennessee Exports Going to the Middle East



These relationships take a number of forms. Many firms import from the region, in particular from Israel, though the dollar amount is modest. The largest American import from the Middle East is obviously oil, but little comes directly to Tennessee. (An exception is Mapco, which has imported Saudi Arabian oil to its refinery in the Memphis area.) There has been little Middle Eastern foreign investment in the state. Pershield, an Israeli-owned firm that produced and sold military apparel in Sweetwater during the 1990s, is the single case. Foreign investment from Tennessee is also small, though there is a growing investment in the Gulf States from Tennessee healthcare firms.

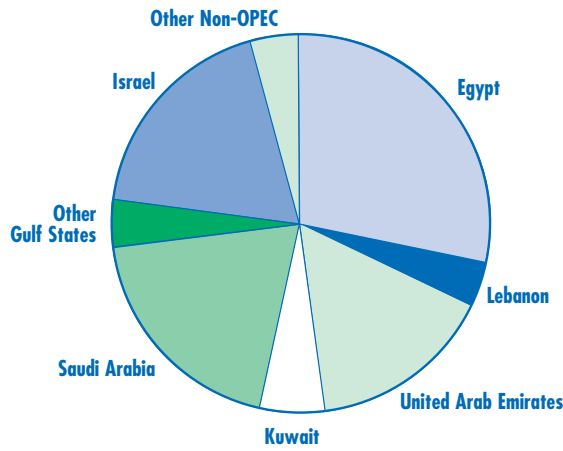
The most common business relationships are exporting and the provision of services. Tennessee construction, engineering, and architectural firms have been very active in the region, securing large projects in the Gulf States, especially in Kuwait in the aftermath of the Gulf War. They are also active, though to a lesser degree, in Israel. Nashville area building firms, in particular, have been involved in building hospitals and other

Tennessee construction, engineering, and architectural firms have been very active in the region.

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¹ We use the traditional definition of the Middle East: the Arab-speaking world and Israel. Inside we consider Turkey, Pakistan, and Central Asia as well.

Figure 3. Destinations (through July 2001)



Troubled Region

continued from front

Turkey dwarfs all other markets. Even after economic troubles in 2000, Turkey still purchased \$147 million of Tennessee goods that year.

health facilities, and this has intersected with the second major Tennessee service industry active in the region, that of healthcare. The latter includes the export of antibiotics, medicines, and medical instruments, but also some consulting and staffing of Middle Eastern healthcare facilities. Tennessee-based providers of financial services have also financed purchases of goods by firms in Middle Eastern states.

Over the past decade, Tennessee has exported about \$200 million a year to the Middle East. If we add Turkey and Pakistan, countries often associated with the region, this rises to about \$320 million. Turkey dwarfs all other markets. Even after economic troubles sharply reduced its imports in 2000, Turkey still purchased \$147 million of Tennessee goods in that year.

However, this has been one of the least dynamic areas of the world for state exporters. It is the only part of the globe where the level of exports today is roughly the same as it was 10 years ago. In part this is due to Tennessee's product mix. Neither of Tennessee's largest export sectors, chemicals and transportation, does much

Table 1. Top 10 Exports to the Arab Middle East (2000)

Product	Value
Potato Chips	\$13,156,233
Refrigeration Equipment	\$8,740,940
Construction Sets and Toys	\$6,832,952
Motor Vehicle Parts	\$5,188,738
Aluminum Non-alloy Plates	\$4,953,580
Boiler Parts	\$4,378,506
Refrigeration Compressors	\$3,862,166
Artificial Filament Tow	\$3,736,847
Wooden Bedroom Furniture	\$3,664,222
Surgical Instruments	\$3,516,323

business in the Middle East. Indeed, Tennessee accounts for less than one percent of America's exports to these countries. In larger part, the low figures are due to the low economic growth that characterizes this region. As the accompanying chart shows, the share of Tennessee's exports that are going to the Middle East has been slowly falling since the early 1990s.

Most of the exports go to the region's OPEC members. Saudi Arabia buys more Tennessee products than any other state in the Middle East. The Gulf States are steady purchasers of Tennessee auto parts and refrigeration equipment, as well as the state's top Middle Eastern export, potato chips. One-time purchases (such as a large sale of toy construction sets to Saudi Arabia in 2000) account for most of the rest of exports here. The Gulf States have been a reliable market, but not a growing one. Other than gains in Kuwait in the early 1990s, the export picture here looks just about the same as it did in 1991.

Table 2. Top 10 Exports to Israel (2000)

Product	Value
Potato Chips	\$2,613,521
Artificial Fiber Strips	\$2,495,627
Insulated Coaxial Cable	\$1,960,744
Pyrotechnic Articles	\$1,911,168
Electrical Machinery Parts	\$1,533,115
Halogenic Derivatives of Cycloaliphatic Hydrocarbons	\$1,265,506
Automatic Data Processing Equipment	\$1,258,070
X-Ray Tubes	\$923,412
Rope or Cable-Making Machines	\$707,923
Aluminum Alloy Tubes and Pipes	\$702,459

Among the non-OPEC states, almost all of the exports go to Egypt, Israel, and Lebanon. Tennessee's exporters have made slow but steady gains in all three of these countries. Lebanon is probably a special situation. War-torn and near economic collapse, it bought virtually nothing at the beginning of the decade, but by 2000 it was buying some \$10 million of Tennessee goods a year. Corn, potato chips, and refrigeration equipment are the leading exports to Lebanon. Exports to both Egypt and Israel have grown by around a third over the past decade and appear to be the region's best markets for the future. (Jordan, though much smaller, is the only other market to have grown this much.) A wide array of products is sent to these countries. In 2000, refrigeration equipment was the leading export to Egypt, while artificial textile fibers held first place in Israel. Due to a very large purchase of textile filaments, exports to Egypt will probably outstrip those to Israel in 2001. A sign of the times is a rather sizable

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2nd Quarter 2001

The chemical sector was the state's strongest.

2nd Quarter 2001

Calculators were the state's star export.

Exports to Mexico fell significantly.

Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$611,961,073	-7.8%	4.7%
Chemicals	\$414,576,669	25.2%	20.8%
Electronics Products	\$386,527,516	34.7%	3.2%
Non-Electrical Machinery	\$379,240,110	20.2%	15.9%
Electrical Equipment and Appliances	\$126,804,515	5.0%	-2.7%
Paper	\$124,355,288	17.3%	-4.2%

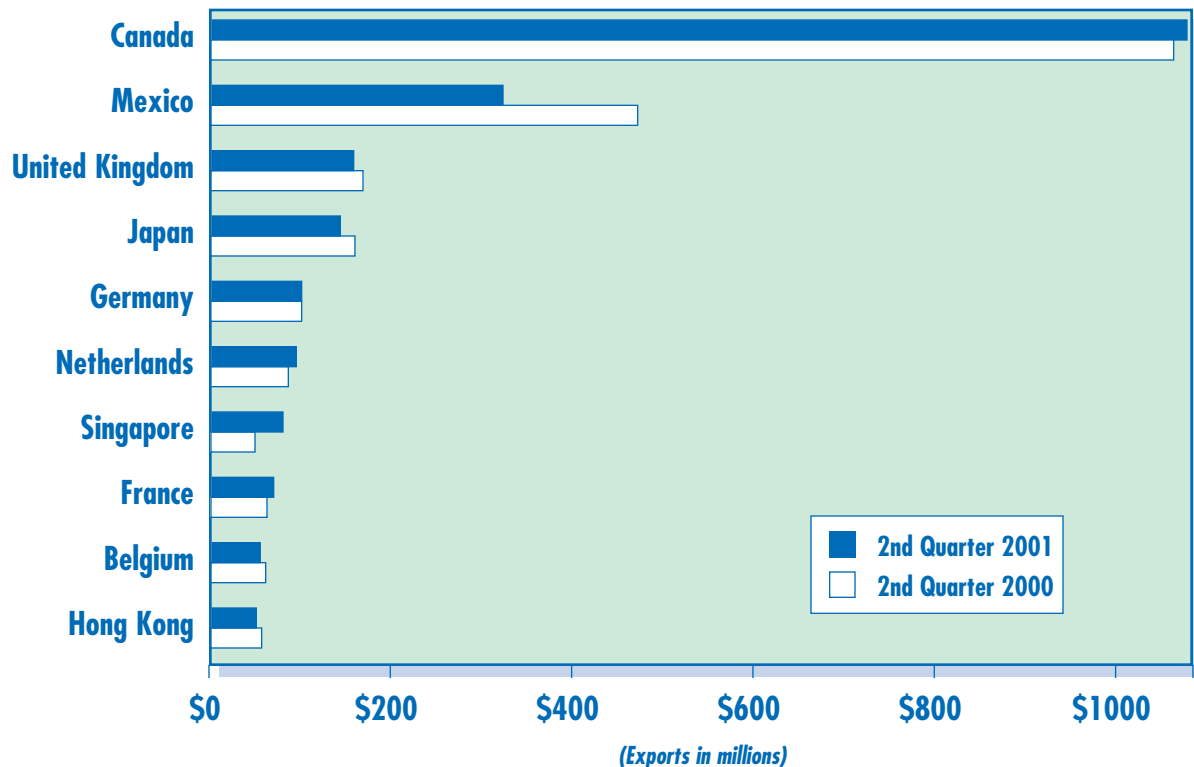
What's Hot and What's Not?

(among Tennessee's top 100 exported goods)

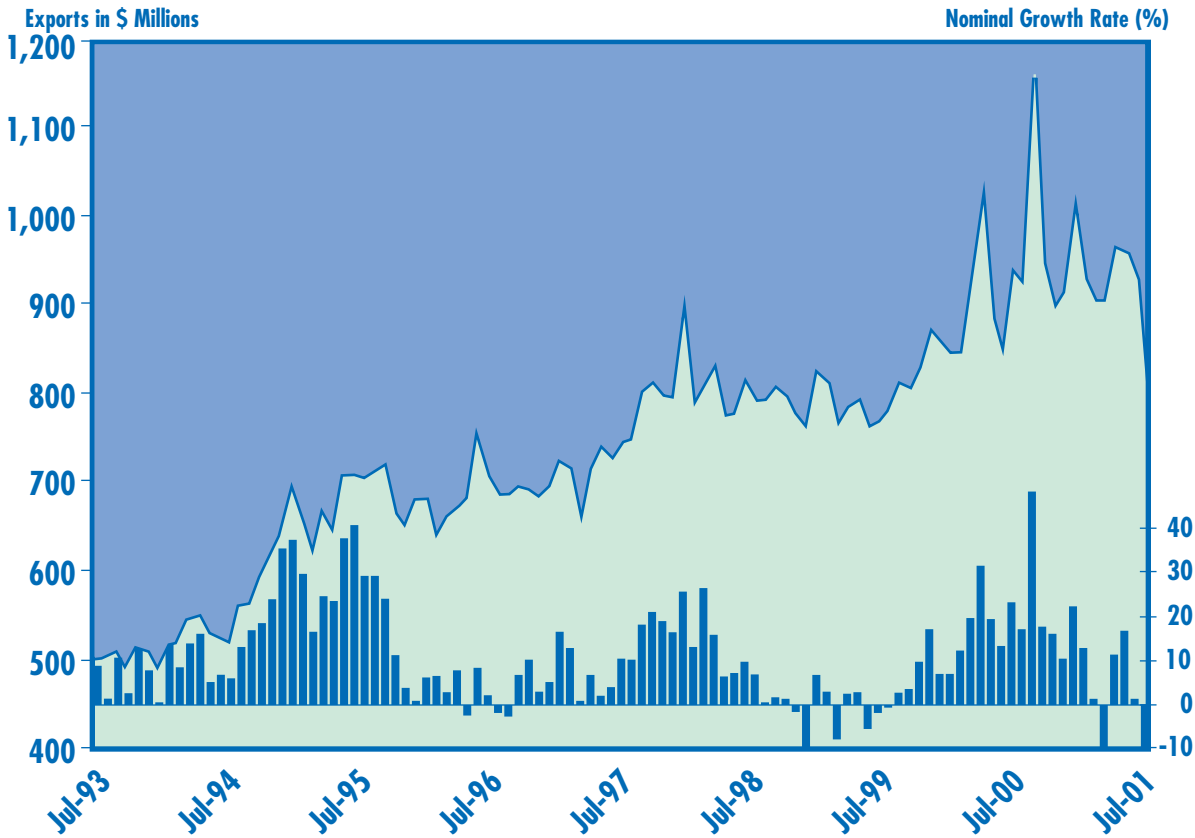
	Value of Exports	Growth	Decline
PRODUCTS WITH THE GREATEST GROWTH			
Terephthalic Acid and Its Salts	\$3,945,457	*	
Electric Calculators	\$74,272,563	492,245.0%	
Electric Telephonic Apparatus	\$13,863,714	4,138.5%	
Sanitary Napkins and Diapers	\$29,592,691	849.6%	
Postage Machines	\$8,601,830	441.6%	
PRODUCTS WITH THE GREATEST DECLINE			
Aluminum Non-alloy Plates	\$4,735,985		-74.6%
Air Conditioning Machinery	\$10,322,279		-65.1%
Auto Regulating Instruments	\$4,446,002		-64.8%
Chemical Woodpulp	\$5,236,985		-64.4%
Prepared Potatoes	\$16,318,096		-49.9%

* = not exported last year

Tennessee's Leading Trade Partners



Tennessee's Monthly Exports



Exports fell sharply as the summer began.

(Seasonally adjusted, expressed in 1993 dollars)

2nd Quarter 2001

GlobalCommerce

Global Commerce: Tennessee and the International Economy, published quarterly by the Business and Economic Research Center, Jennings A. Jones College of Business, Middle Tennessee State University, 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			
Egypt	\$31,001,578	256.6%	
Ireland	\$18,956,066	181.6%	
Trinidad and Tobago	\$2,663,944	131.5%	
Malaysia	\$18,638,592	84.8%	
Singapore	\$86,161,770	70.8%	
COUNTRIES WITH THE GREATEST DECLINE			
Turkey	\$23,441,820		-54.8%
Costa Rica	\$4,840,959		-48.8%
Saudi Arabia	\$12,181,781		-40.5%
Indonesia	\$9,195,978		-39.1%
Lebanon	\$1,656,845		-38.2%

Tennessee International Trade Report

The chemical industry posted the quarter's best numbers and recaptured its old spot as the state's second largest export sector.

Tennessee exported goods valued at \$3.026 billion during the second quarter. This was a record amount—the first quarter of foreign sales to top \$3 billion—and it exceeded last year's exports by a little more than six percent. In April and May, state export growth was extremely strong, as exports grew more than 10 percent in each month, but June figures were much more modest, presaging the export slowdown that occurred over the summer.

Robust sales in the chemical, industrial machinery, and electronics sectors accounted for this relatively strong performance. The chemical industry posted the quarter's best numbers. With its foreign sales up a full quarter, it recaptured its old spot as the state's second largest export sector. Increased sales to the Association of Southeast Asian Nations (ASEAN), especially to Singapore, in Canada, and in Egypt, account for this performance. The \$25 million in additional sales in Egypt were sufficient to make that country the state's fastest growing market for the quarter, and the \$5 million increase in Malaysia made it the fourth best market for the quarter.

The computer and electronics sector also made strong gains during the quarter. Here gains were concentrated in Canada (some \$70 million), but Singapore and Mexico saw healthy increases as well. Tennessee's paper manufacturing industry also turned in very good numbers. This was due to the new exports of toilet paper and sanitary napkins that began last quarter. Toilet paper, in fact, was again the fastest growing export product for the state.

Elsewhere, the news was not as good. Transportation, the state's largest sector, continued to slow.



Large gains in aircraft and aircraft part sales, particularly in Europe, were not enough to outweigh losses in automotive-related sales, and the sector lost 7.8 percent. Automotive industry losses—concentrated in Canada and especially Mexico—reflected the weakening American economy, where most automobiles are eventually sold. Automotive losses in Mexico were actually quite severe. Total Tennessee exports fell by a quarter to that market (to \$332 million), almost all of it automotive related.

The problems in the automotive industry led to poor export numbers in ancillary sectors. The electrical equipment sector was still able to produce a five percent gain, overcoming large losses in Mexico due to the decline of air conditioning sales. The plastics and rubber sector, as well as the fabricated metal sector, experienced export losses (12 and 17 percent, respectively) due to declines in automotive products within those sectors. Tire sales to Mexico, for example, were down by half.

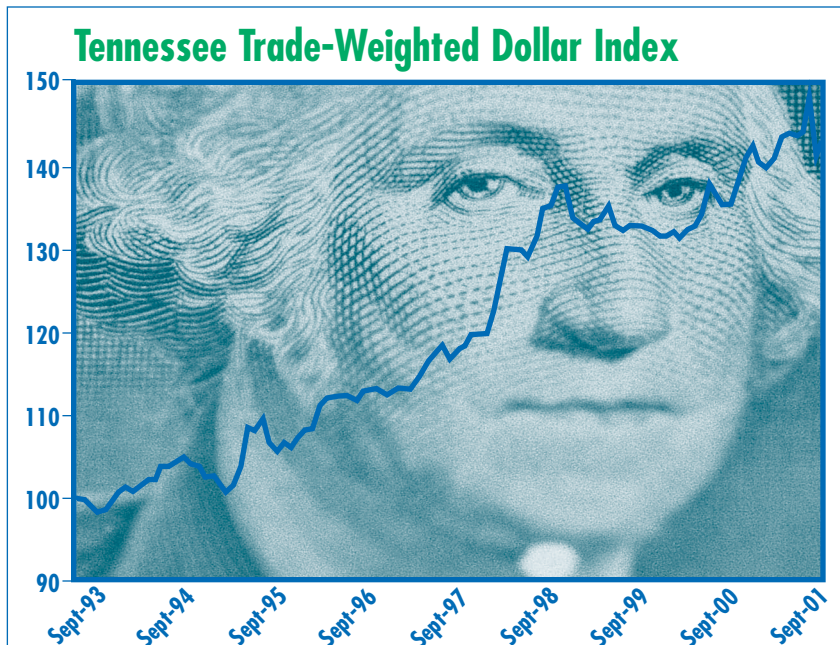
The food industry cannot blame car sales for its problems. Prepared food exporters could not make up for \$6-7 million losses in Turkey and Japan and consequently saw their foreign sales fall by 35 percent for the quarter. Much of the problem in the sector, however, is specific to prepared potato sales, which dropped by nearly half from a year ago. Agricultural crop numbers, on the other hand, are actually better than they look. Though crop exports were down around eight percent, this is mostly because of an unusually large cotton shipment to Turkey last year. Absent that shipment, the numbers for the quarter would have been modestly positive.

The furniture sector continued its free fall. Exports were once again off dramatically, this time by around 50 percent. Unfortunately, at \$9.5 million, there's not much more to lose.

The poorest performer for the quarter was the apparel sector. It lost another 45 percent of its foreign sales. In large part this was due to a major decline in auto seat exports to Mexico. Mexico counted for a third of the sector's losses, intra-industry trade in Central America and the Caribbean account for most of the rest.

We have noted before that Tennessee exports are increasingly concentrated in a few large industrial sectors. The results of this quarter follow this trend. A number of smaller sectors once again did not do well. That is the bad news. Most of the large sectors, however, have remained very healthy, and that is the good news.

The third quarter has not opened on a good note. State exports dropped 13 percent. State manufacturers posted their worst numbers since January, 1997. Early indications are that the automotive sector accounts for most of this loss. ■



Troubled Region

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increase in the state's weapon exports to Israel. The rest of the Middle East buys very little from Tennessee. There are sanctions, of course, against

Libya and Iraq, but so far Tennessee firms have done very little business in North Africa.

Readers may also be interested in Tennessee's economic involvement with Afghanistan and the other Central Asian states. In a word, it is nil. Last year, the state sent about \$6,000 worth of medicines and some wood valued at \$19,000 to Afghanistan. That's it. The neighboring states of Uzbekistan, Tajikistan, and Turkmenistan buy small amounts of soybean oil and occasionally some chemicals and machine parts. Pakistan, given its sizable population, is a surprisingly small market for the state. Exports to Pakistan run a little more than \$1 million a quarter. Textiles, motor vehicle parts, and chemicals account for virtually all of it. Adjusted for inflation, Tennessee exports to Pakistan are smaller now than at the start of the 1990s.

To claim Tennessee is closely tied to the Middle East would be a great exaggeration. Except for imported oil, few firms or industries in this state are terribly reliant upon the Middle East or Middle Eastern markets. The size of the state's stake in the Middle East is not growing very rapidly, but the state does sell \$200 million of goods and many millions of dollars more in services to the Middle East annually. It would be an equally great mistake to think that state firms, or the state economy, have no stake in the future of this region. ■

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The screenshot shows the BERC (Business and Economic Research Center) website. The header includes the BERC logo and navigation links: what's new, publications, staff, resources, studies, databases, and about us. The main content area is titled "INTERNATIONAL" and features a globe icon. The text describes the Tennessee International Trade Database, which contains extensive information on Tennessee's global involvement, including statistics on international trade, a quarterly report on the state's international economy, and federal trade assistance. It also provides a link to the database: http://www.mtsu.edu/~berc/trade_database.html. A sidebar on the left contains several links: Trade Links, State of Tennessee, Online Trade Leads, Tennessee Trade Contacts, Global Commerce, Tennessee Trade Statistics, and About This Database. At the bottom, there are links for email berc and mtsu home.