

## The Down Side of Globalization

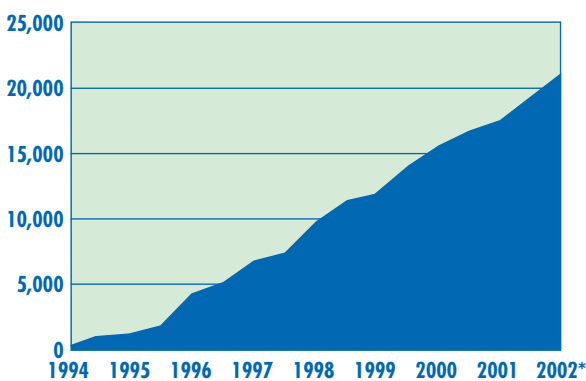
### Who Has Been Hurt by NAFTA?

by Steven G. Livingston

The North American Free Trade Agreement (NAFTA) is as controversial as ever. Proponents focus on sizable increases in exports and the jobs associated with them, while opponents point to workers who have been laid off because of increased imports and business relocations. *Global Commerce* has already looked at the sectors of Tennessee's economy that are gaining from NAFTA—most importantly, the state's auto industry—but agriculture, electronics, industrial machinery, and precision instruments are also clearly benefiting from increased trade within the NAFTA region. Who has been losing? What parts of the state have been damaged by the increased competition that has resulted from the treaty?

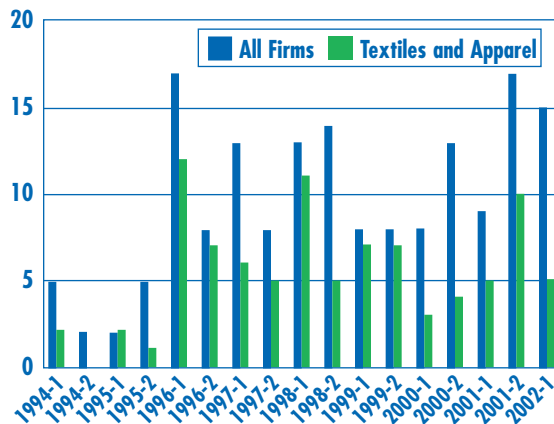
Both sides in the NAFTA debate overstate their case. The relatively small size of the state economy that is exposed to international trade, and the economic adjustments that would follow (such as a shift in the value of the dollar) should a dramatic change in the trading environment occur, ensure that the effect of NAFTA on the total number of state jobs is going to be quite small. The best evidence for this is that until the recent economic slowdown, the state's

### Total NAFTA Certified Job Losses



\* through June 2002

### NAFTA-TAA\* Certifications in Tennessee



\* Transitional Adjustment Assistance

unemployment rate has remained virtually unchanged since 1994, the first year of NAFTA.

Nevertheless, can we tell who has been hurt? A program included as part of the NAFTA ratification package in fact allows us to at least make a stab at this question. Under U.S. law, firms or workers believing themselves harmed by NAFTA trade can appeal for financial assistance from the government. They must petition the Department of Labor for such assistance and then must be certified as eligible by the department after an investigation of the merits of the petition. NAFTA activists, whether pro or con, believe the process to be flawed, but by examining the certifications issued by this NAFTA transitional adjustment assistance (TAA) program we can get a relatively unbiased picture of where NAFTA competition has damaged the Tennessee economy.

In February 1994, Steward, Inc., a computer component manufacturer in Chattanooga, became the first Tennessee firm to be certified as harmed by NAFTA. Forty-five employees were affected. Since that time, 163 other businesses have been certified under the program. Together, they account for more than 21,000 lost jobs.\* To place this in perspective,

*continued on page 2*

\* Some firms have been certified on two different occasions. Typically, firms are certified over a period of time. For some firms, that time period has not yet expired. Thus the number of lost jobs is still open, and would rise modestly even no further petitions were certified. Obviously not all job losses that might be traced to NAFTA are in one of these certified firms. However, there is no reason to think that any heavily affected firm, or its workers, would fail to apply for relief.

NAFTA has provided the state real benefits, but there are costs as well.

### Most Affected Counties

#### Number of Certified Firms

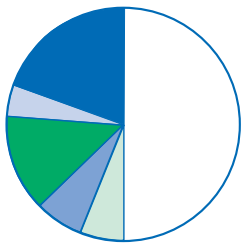
	# Firms
Knox	11
McMinn	7
Putnam	7
Giles	6
Maury	5

### Most Affected Counties

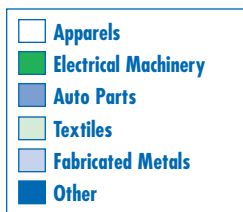
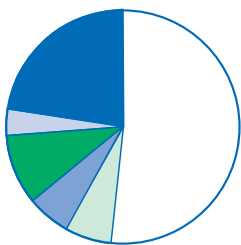
#### Job Losses

	# Workers
Knox	1,930
Shelby	1,024
Dyer	1,006
Obion	965
Putnam	822

## Affected Industrial Sectors by Firm



## Affected Industrial Sectors by Lost Jobs



# NAFTA

continued from front

in 2001 there were more than 130,000 firms and 2.7 million workers in Tennessee. There were around 475,000 workers in more than 7,000 firms in the manufacturing sector.

The first two charts show that the incidence of jobs lost has proceeded at a steady pace since NAFTA began. There is nothing to indicate that things will get worse or better.

## Why Are Businesses Hurt?

The creation of an integrated North American market poses two potential threats to the Tennessee economy. First, it is easier for businesses in Canada and Mexico to sell here. Second, it is easier for local firms to move all or part of their production to Canada or Mexico. Thus far, 73 establishments were certified because of competition from NAFTA imports. These imports cost Tennessee 9,625 jobs. The remaining certifications were due to moving plant operations to one of the other NAFTA countries. Between the two countries, Mexico accounts for by far the most difficulties. One hundred twenty-one certifications involved Mexico, as opposed to 19 involving Canada. (The other cases involved import competition from both countries.) However, these figures may give a false impression of the threat between the two markets, as Canada enjoyed free trade with the U.S. well before Mexico. Firms that then faced severe Canadian competition had to do so before the advent of the NAFTA-TAA program.

## Which Industries Are Being Hurt?

The most cursory examination is enough to indicate that one industrial sector is bearing the lion's share of NAFTA-induced pain—the apparel industry. Whether measured by firms (82) or jobs (10,894), about half of all NAFTA-based losses are in this industry. The dramatic decline of this industry was examined in an earlier issue of *Global Commerce*. The situation is complex, for this sector is also buffeted by imports from non-NAFTA countries. It is

unclear that, in the absence of NAFTA, it would be doing much better. Between 1994 and 2001, the state's apparel companies have shed 38,000 jobs. So NAFTA can be said to have accounted for one-quarter of this drop. NAFTA losses amount to one-sixth of all the apparel jobs in 1994.

The textile industry has been in similar difficulty over this period. It has lost more than 40 percent of its jobs in the last seven years. NAFTA losses amount to 1,383 of those jobs, about 17 percent of all the lost jobs.

No other sectors have absorbed anything close to this level of punishment. While the transportation sector has "lost" 1,245 jobs because of NAFTA, it employs more people today than it did in 1994. The other sectors with the largest certified NAFTA losses, the electrical machinery (in this case, mostly firms making motors and household appliances) and the fabricated metal sectors, show steady overall employment. It is fair to conclude that the NAFTA hit is largely in the apparel and textile industries, unfortunately two already troubled manufacturing sectors.

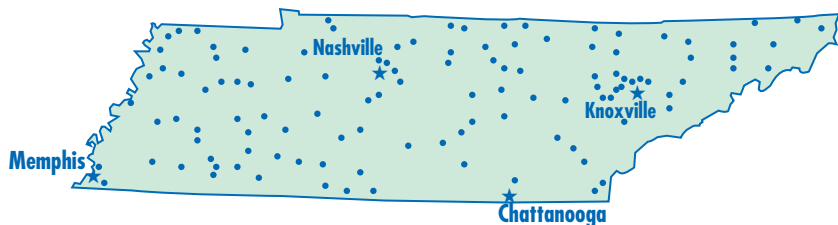
## What Part of the State is Most Affected?

Five counties have been home to five or more certified firms. (Twenty-five counties have had no certified firms.) Knox County stands out with 11 certified firms, far more than any other. Eleven counties have lost more than 500 jobs due to NAFTA. Knox substantially leads this undesirable category, having almost twice as many certified job losses as any other county in the state. Another way to examine this, however, is to compare a county's NAFTA certified losses against the number of new jobs that have been created during the same period. No Tennessee county was certified as losing more jobs to NAFTA than it gained to general economic growth over the same period of time. The poorest ratio of certified job losses to job gains is that of Weakley County, which gained 1,233 new jobs in the past decade and lost 522 other jobs to NAFTA competition—a ratio of .42. Putnam County had the second highest ratio, .40. Dyer and Knox counties (both .31) and Warren County (.26) were among others with high ratios.

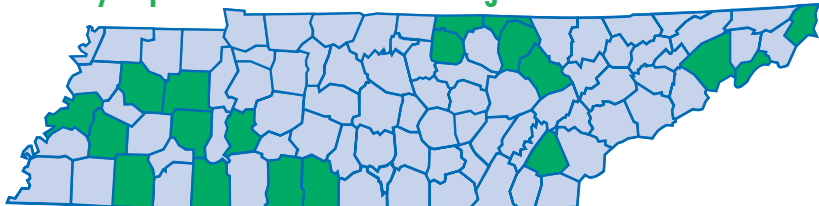
The map of certified firms gives a general indication of the geography of NAFTA competition in this state. Not surprisingly, it mirrors the location of the state's apparel and household appliance industries—a broad swath through the rural western part of the state and concentrations in Knox county and the traditional apparel-producing areas of East Tennessee.

A second map shows the counties that have been declared eligible for assistance under a second NAFTA program. The Community Adjustment and Investment Program enables government grants to counties that have at least 300 certified job losses and an unemployment rate at least one percent higher than the national average. (Requirements are sterner for urban counties, and no urban Tennessee county has met them.) The two maps reinforce a conclusion that NAFTA's negative impact is rather concentrated in specific geographic regions of this state.

## NAFTA-TAA Certified Firms



## Community Adjustment and Investment Program Counties



## 1st Quarter 2002

## Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$671,015,766	14.9%	7.1%
Chemicals	\$343,021,031	-10.2%	-2.7%
Computer and Electronic Products	\$334,291,692	-0.0%	-17.5%
Non-Electrical Machinery	\$280,542,363	-14.3%	0.9%
Agriculture	\$158,916,540	20.2%	41.6%
Miscellaneous Manufactured Goods	\$134,222,259	-3.5%	-8.0%

## 1st Quarter 2002

The transportation industry posted by far the quarter's best numbers.

## What's Hot and What's Not?

(among Tennessee's top 100 exported goods)

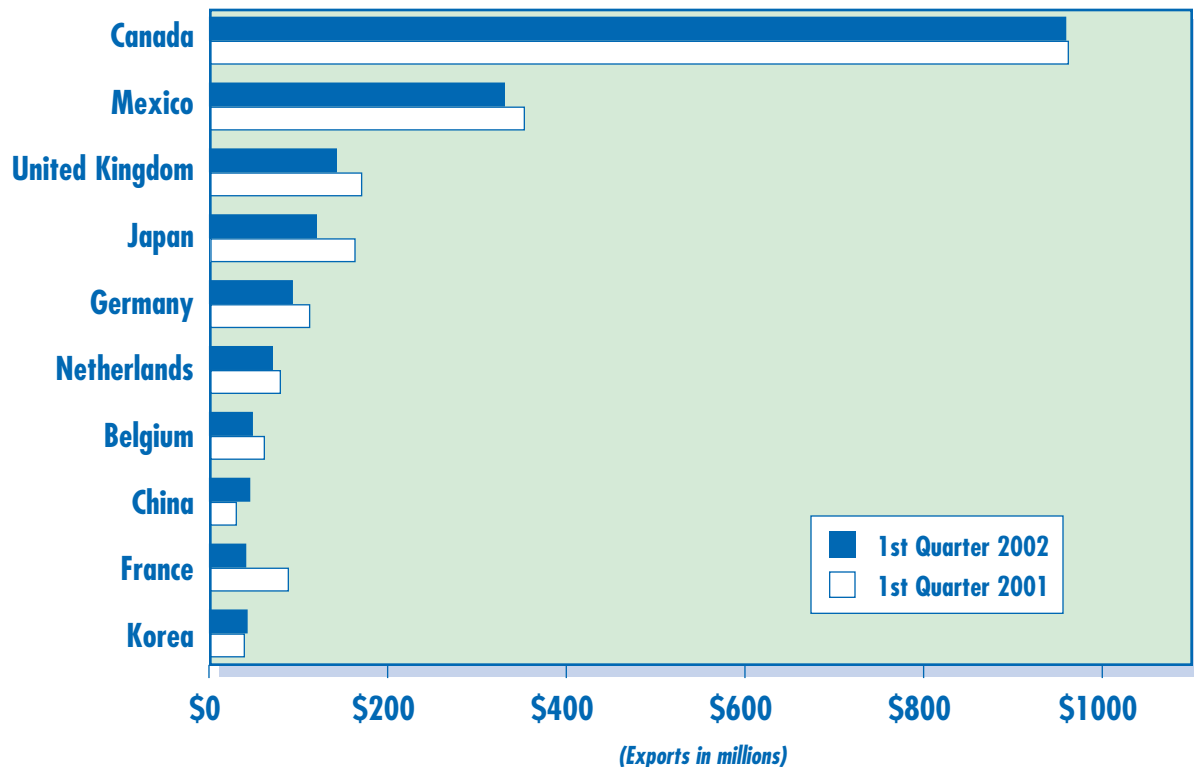
	Value of Exports	Growth	Decline
<b>PRODUCTS WITH THE GREATEST GROWTH</b>			
Orthopedic Parts	\$22,737,563	*	
Artificial Joints and Accessories	\$9,012,483	*	
Digital Monolithic Integrated Circuits	\$8,504,364	*	
Helicopters	\$4,715,000	*	
Video Games	\$5,953,139	16,990.0%	
<b>PRODUCTS WITH THE GREATEST DECLINE</b>			
Special Canadian Re-exports**	\$6,609,026		-80.4%
Speedometers and Tachometers	\$4,976,021		-57.9%
Polyethylene Terephthalate	\$7,810,929		-48.9%
Turbojet and Turboprop Parts	\$1,993,033		-46.4%
Automatic Data Processing Units	\$10,096,236		-42.3%

\* No exports in the first quarter, 2001

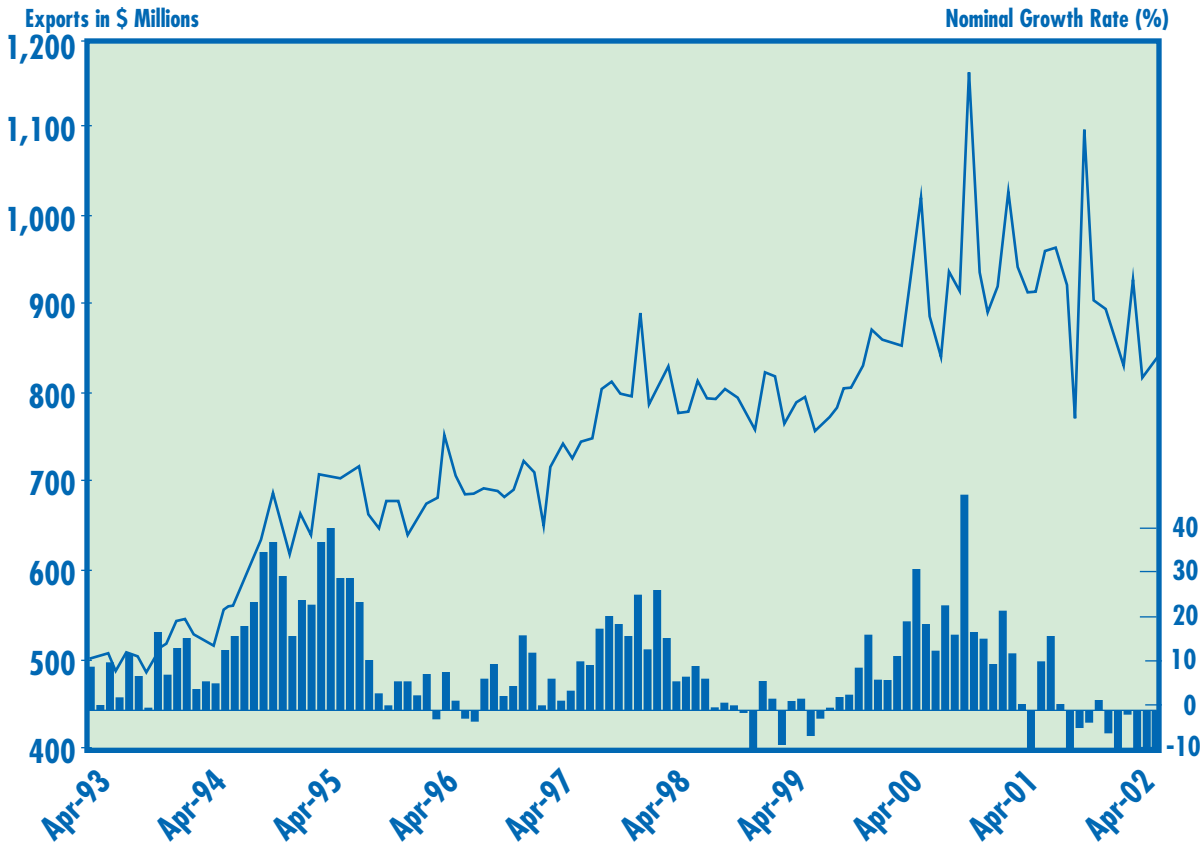
\*\* Includes software and goods returned for repairs or other reasons

## Tennessee's Leading Trade Partners

Only two of the state's top markets grew last quarter.



# Tennessee's Monthly Exports



(Seasonally adjusted, expressed in 1993 dollars)

1st Quarter 2002

## 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
<b>COUNTRIES WITH THE GREATEST GROWTH</b>			
Turkey	\$51,950,195	168.5%	
Malaysia	\$29,453,546	103.4%	
Saudi Arabia	\$16,335,373	74.5%	
India	\$20,120,735	71.9%	
Thailand	\$16,849,101	58.2%	
<b>COUNTRIES WITH THE GREATEST DECLINE</b>			
Russia	\$1,358,091		-89.5%
El Salvador	\$2,950,384		-79.2%
Israel	\$7,216,419		-49.5%
France	\$54,270,181		-44.5%
Guatemala	\$5,881,327		-39.5%

**It was another tough quarter for state exporters.**

It could have been worse. Suffering through a continued global economic slowdown, Tennessee exporters shed some \$90 million in foreign sales during the first quarter of 2002. At \$2.720 billion, state exports were down 3.24 percent from a year ago. What could be worse? Total American exports were down more than 15 percent over this same period. A robust growth in auto industry exports made Tennessee almost look good by comparison. Nevertheless, there is little doubt it was a very tough quarter for state exporters.

Losses were posted in eight of Tennessee's top 10 foreign markets. In other words, trade difficulties spanned industries as well as continents. Among the world's major trading regions, only Southeast Asia produced positive numbers. Thanks to very good performances in Thailand and Indonesia, Tennessee boosted its Association of Southeast Asian Nations (ASEAN) exports to \$122 million, a 16 percent increase from 2001. Even here it wasn't all good news, as Singapore—the region's best market—fell by 10 percent. The specific problem in Singapore, as in so many other places around the world, was the dramatic decline in Tennessee's aerospace-related sales. Overseas sales of airplanes, turbojets, and their engines and parts dropped nearly \$60 million for the quarter. This is about a full third of their 2001 exports and two-thirds the size of the state's total losses against a year ago.

By far the worst market was Europe. Tennessee exports to the EU fell 17 percent to \$575 million. Only in Ireland (thanks to computer sales) and Austria did state exporters produce positive numbers. Sixty-two million of the \$117 million fall were due to declines in the aerospace sector. These losses were particularly pronounced in France, where state exports were down by more than 40 percent. To be fair, aerospace sales were unusually good in 2001 and could not reasonably have been expected to meet their 2001 numbers again. The problem is that no other industry was able to pick up the slack.

South American exports were virtually unchanged, perhaps a positive given the economic problems in Argentina and now Uruguay. Brazil was actually one of Tennessee's best markets for the quarter, growing by close to a third. Though South Asia is still a much smaller market than Latin America (\$32 million versus \$167 million), large cotton sales to India made for a very good quarter there as well. Though exports were flat to both Hong Kong and Taiwan, China turned in some great numbers. The mainland became one of Tennessee's top 10 markets for the quarter. What is most encouraging is that this performance was not due to a one-time sale of a single product. A number of industries made solid gains in China during the first quarter.

Closer to home, sales to Canada were virtually unchanged. Still by far the state's largest market at \$959 million, the export figures actually belie a turbulent picture. Auto and auto-related exports were up dramatically. The \$86.5 million in new auto and auto parts sales alone matches, for example, Tennessee's

total exports to the entire Middle East. Needless to say, if overall sales were flat, that means many other industries were down, and the pain was spread widely among them. Telephone line equipment exports, largely associated with Nortel, were the exception to the rule. Here the pain was concentrated, as two-thirds of this sector's Canadian exports were lost over the quarter. Mexican sales fared more poorly than Canada's, falling some \$16 million. The pattern was similar to its NAFTA partner. Sizable gains in the auto trade—auto part exports were up an astounding 150 percent—were more than matched by broad-based losses elsewhere.

Mention must be made of Japan. The combination of an American economic slowdown and the interminable Japanese recession was deadly for state exporters. Tennessee lost nearly a quarter of its exports to Japan this past quarter. Japan has fallen another notch on the list of the state's top markets. Once second only to Canada, it is now fourth behind the NAFTA countries and the U.K.

Several countries saw dramatic gains or reversals in their Tennessee purchases. Usually this was because of a single product. Turkey was the star performer of the quarter. Its 173 percent gain, however, was almost entirely due to a \$40 million purchase of cotton. A large-scale purchase of aluminum plates led to a sizable gain in exports to Saudi Arabia, and \$7 million in new ball bearing exports account for most of Korea's 10 percent increase in Tennessee sales. On the other hand, huge drops in apparel exports led to disastrous figures in El Salvador (its \$3 million in total sales were a three-quarters decline from 2001), Guatemala, and the Dominican Republic. Tennessee's inability to ship another \$9 million in harvesting combines all but ended the state's exports to Russia. The end of weapons shipments to Israel halved that country's purchases of Tennessee's goods (if weapons can be called "goods!").

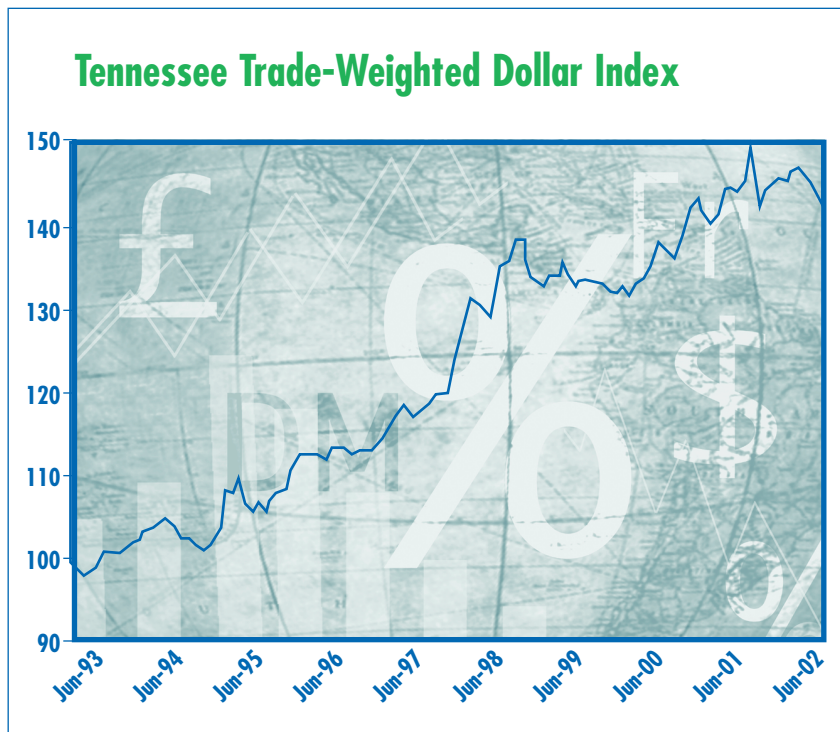
As this survey suggests, there was a star industrial sector this quarter. Thanks to very large gains in the NAFTA market, the transportation industry boosted its exports by nearly 15 percent (\$671 million). The chemical industry moved back into its historic position as the state's second largest export sector by simply not losing any ground (\$343 million). The large cotton sales noted above account for the agricultural sector's good numbers. It saw its exports grow by some \$50 million (to \$158 million). That's it for the good news. In dollar terms, the industrial machinery sector racked up the worst losses. Exports in that industry fell \$46 million, but the apparel industry posted by far the poorest numbers on a percentage basis. The loss of 57 percent of its exports (2002 first-quarter sales were only \$16 million) indicates an industry in very serious trouble indeed.

How long will state exporters face such a difficult environment? The weakening dollar provides some hope for relief, but exports will probably not pick up substantially until a stronger U.S. recovery is underway. April's state export figures—down another three percent—bear this out. ■

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## NAFTA

*continued from page 2*



### What Does It All Mean?

Supporters and foes of NAFTA are equally guilty of over-dramatizing its impact, but that there is an impact cannot be denied. We have seen, and will continue to examine, the benefits of NAFTA to Tennessee, yet the costs of the treaty are also real. Thousands of workers have lost their jobs at least indirectly because of NAFTA—disproportionately in several globally uncompetitive industries and concentrated across several regions of the state. It is very difficult to summarize or compare their pain against others' gains. In the years of NAFTA's existence, the Tennessee Department of Economic and Community Development has identified slightly more than 178,000 newly created jobs in this state. The 21,000 jobs lost to NAFTA must be weighed against this figure—and we must remember that this is not *net* jobs lost; we are not adding back the jobs that NAFTA has created in the state. Even the most fervent admirer of capitalism cannot help but sympathize with those caught in its forces of “creative destruction.” ■