# **LATIN AMERICA**

# A BOOMING MARKET FOR TENNESSEE EXPORTS

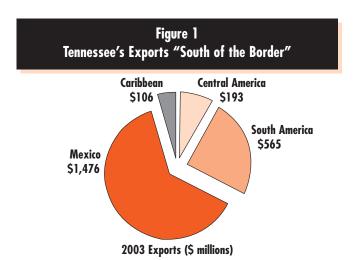
by Steven G. Livingston

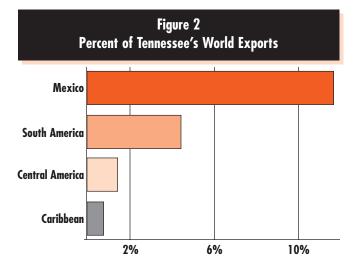
one of the continuing bright spots in Tennessee's trade picture is the steady increase in exports to Latin America. While other markets have posted flashier numbers—and suffered more dramatic reversals—Latin America has been the scene of almost unbroken export growth for the past 15 years. Even the wave of financial difficulties that successively struck Mexico, Brazil, and Argentina has not put a brake on this progress. *Global Commerce* has previously examined the state's trade with Mexico (and will do so again when we look at NAFTA's 10th anniversary later this year). But what's going on in the rest of the region?

Let's make the traditional division of Latin America into Mexico, the Caribbean, Central America, and South America. Together, they account for more than one in every six dollars of Tennessee exports. Exports to the region have grown substantially, whether viewed in dollar terms or as a percentage of the state's global exports. Mexico is, of course, the largest market by far. After NAFTA it has become the state's second largest global market. But both Central America and South America have increased their purchases of Tennessee goods by fivefold over the past decade and a half. And even the small Caribbean market has doubled the amount of goods that it imports from Tennessee over the same period.

For Tennessee, the Caribbean market primarily means the Dominican Republic and Jamaica. These two nations account for two-thirds of the region's exports. As is well known, a number of special U.S. trade laws, most prominently the Caribbean Basin Initiative, heavily influence the nature of trade with these countries. As a result, Tennessee's exports are concentrated in the apparel and textile sectors, which receive special tariff treatment in this region. These countries are also sizable recipients of that strange export, charitable goods, which we discussed in a previous issue. The small population in the Caribbean probably limits the extent of future export growth, and after more than a decade of substantial increases, Tennessee exports have reached a plateau of \$100 to \$120 million annually.

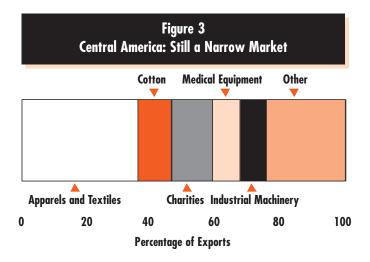
The Central American market, on the other hand, continues to grow. Exports from Tennessee through this July





already exceed the annual totals for 2001 or 2002. They are up 28 percent over 2003. Fifteen years ago, Central America was a smaller market than the Caribbean for Tennessee, but it now buys about as many Tennessee exports as France or Taiwan! Honduras, Guatemala, and Costa Rica purchase the most state goods, but export flows within the Central American market actually fluctuate substantially. This is because for Tennessee the largest exports are in the apparel sector and charitable goods. Apparel exports are, for the most part, goods that are being shuttled around at various stages of the manufacturing process. They are highly sensitive to short-term contracts and to where production capacity is available. Charitable goods are also, perhaps obviously, subject to sudden shifts in des-

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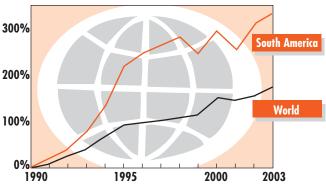


Figure 4

Tennessee Export Growth: South America and the World

**LATIN AMERICA** 

continued from front

tination. The focus on apparels is perhaps the one weakness of the state when it comes to this market. American exports overall to this region are much more diverse than are Tennessee's and thus appear to be better poised for long-term gains.

This brings us to South America, where Tennessee has actually outperformed the nation in its export growth. As shown in the accompanying chart, Tennessee exports to South America have increased faster than its foreign sales to the rest of the world. As a consequence, over the past 15 years the percentage of state exports to South America has risen from 3.84 to 4.48 percent. Through July of this year, this share has grown again to 5.33 percent. This exceeds the 5.12 percent of total U.S. exports that go to South America.

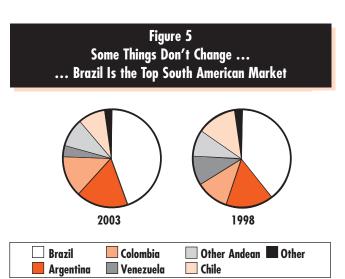
Brazil has long been the largest South American market. This dominance has only been increasing over the years. In the early 1990s, about a third of the state's South American sales were in Brazil. That has risen to 46 percent thus far in 2004 (45 percent for all of 2003). As in so many other places, a good deal of this recent success is due to cotton. Cotton and auto parts account for a third of

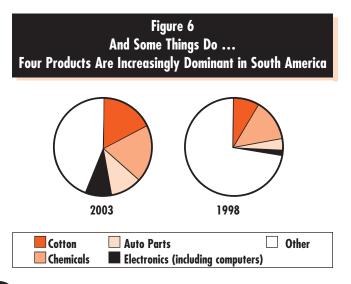
exports to Brazil. But the array of the state's exports to this huge market is very diverse. In 2004, 23 different Tennessee commodities have racked up sales of more than \$1 million in Brazil.

Argentina, the state's second largest market, has been amazingly strong in light of that country's recent economic problems. Though there was a pronounced dip in 2000 during the height of the Argentine financial meltdown, state exports have not only recovered but nearly broke \$100 million in 2003 and almost certainly will do so this year (through July, exports stood at \$70 million). The simple reason is that Argentina is one of the most important destinations for Tennessee's chemical industry. Chemicals have long been one of the state's largest export products, and Argentina is one of that industry's oldest markets. Three-quarters of Tennessee's exports to Argentina are chemicals. The relatively small levels of consumer goods in this mix probably insulated Tennessee from most of that country's terrible economic collapse.

Argentina and Brazil are, of course, half of MERCO-SUR, Latin America's most important regional trading arrangement. Combined with Uruguay and Paraguay (which together purchase a rather negligible \$3 million a year in Tennessee goods), the MERCOSUR nations are

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### 2nd Quarter 2004

IT WAS A GOOD QUARTER FOR ALL THE STATE'S LEADING EXPORTS.

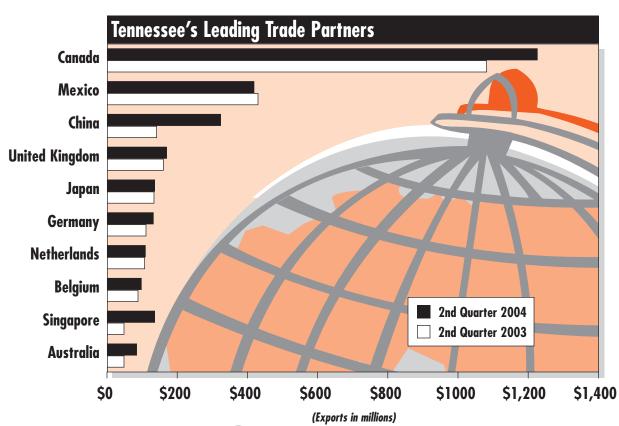
#### Tennessee's Largest Export Sectors **Change from Change from Exports** Last Year **Last Quarter** 19.1% 27.9% **Transportation Equipment** \$840,326,461 \$525,725,432 22.0% 4.4% Chemicals Agriculture -29.9% \$515,548,325 53.1% **Computer and Electronic Products** 15.0% \$496,838,409 -1.6% **Nonelectrical Machinery** \$368,075,273 10.8% 6.4% **Miscellaneous Manufactured Goods** \$271,502,139 86.3% 10.6%

### 2nd Quarter 2004

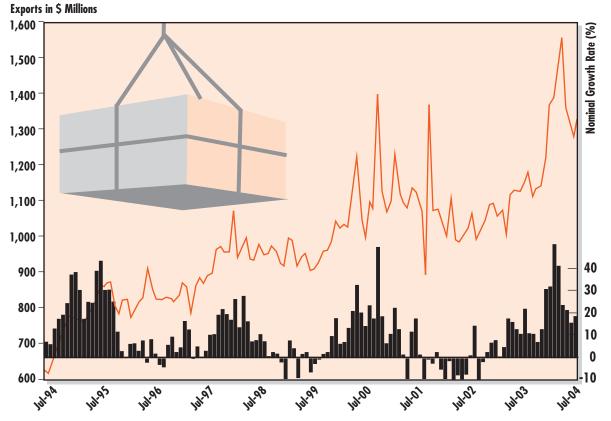
CARS WERE
DOWN, BUT SPORT
UTILITY VEHICLES
AND VANS WERE
STRONG.

What's Hot and What's Not			
	Value of Exports	Growth	Decline
SECTORS WITH THE GREATEST GROWTH			
Miscellaneous Cellulose Ethers	\$7,320,479	20,703.3%	
Autos (engine > 3000CC)	\$54,721,359	3,972.5%	
Turbojet and Turboprop Parts	\$56,664,876	713.2%	
X-Ray and Radiation Equipment	\$20,928,644	515.5%	
Miscellaneous Electro-Diagnostic Apparatus	\$38,586,017	471.9%	
SECTORS WITH THE GREATEST DECLINE			
Trucks (weight < 5 metric tons)	\$7,850,005		-71.0%
Transmission Apparatus for TV and Telephony	\$4,928,460		-67.1%
Miscellaneous Laser Discs	\$18,772,298		-46.0%
Aluminum Plates > .2mm thick	\$16,168,005		-37.1%
Autos (engine < 3000CC)	\$99,855,687		-37.1%

(among Tennessee's top 100 exported goods)



# Tennessee's Monthly Exports



(Seasonally adjusted, expressed in year 2000 dollars)

2nd Quarter 2004

Fastest-Changing Export Destinations					
	Value of Exports	Gain	Decline		
COUNTRIES WITH THE GREATES	T GROWTH				
Vietnam	\$11,294,680	312.3%			
Switzerland	\$29,076,095	207.6%			
Singapore	\$138,467,184	180.4%			
Venezuela	\$12,811,529	156.1%			
China	\$328,767,538	122.0%			
COUNTRIES WITH THE GREATES	T DECLINE				
Hungary	\$872,748		-94.0%		
India	\$18,489,193		-60.2%		
Jamaica	\$4,819,720		-47.4%		
Chile	\$7,249,836		-45.2%		
Malaysia	\$18,219,957		-39.2%		

(among countries averaging more than \$2 million in sales per quarter)

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## TENNESSEE INTERNATIONAL TRADE REPORT



JULY FIGURES WERE VERY STRONG AND INDICATE THAT THIS WILL CONTINUE TO BE ONE OF THE BEST EXPORT YEARS IN THE STATE'S HISTORY.

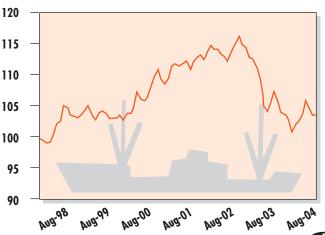
In the second quarter, Tennessee exported more than \$4 billion in goods. This is the first time in its history that the state has crossed this benchmark (it first broke \$3 billion in the second quarter of 2001). This amounted to an impressive 21 percent gain over last year. But perhaps the best news is that the export gains were as broad as they were deep, extending to many products and many markets. Early reports on the third quarter (July exports are up almost 30 percent from a year ago) suggest the state is poised for further substantial growth in exports.

Asia and Europe were the sites of the largest growth in exports, but South America, Australia, and Africa also posted some very good numbers. Surging exports in medical instruments, along with continuing sizable increases in cotton sales, account for much of this good news.

The NAFTA market remained by far Tennessee's largest. Sales to Canada grew about 14 percent to \$1.23 billion, primarily because of increased shipments of personal computers and a substantial rise in auto exports (mostly vans and SUVs). Exports to Mexico were essentially flat (\$424 million) as a big increase in auto parts exports was matched by a fall in automobile exports.

Two Asian nations, China and Singapore, posted the most spectacular numbers for the quarter. Exports to China more than doubled. At \$329 million, it is now firmly in place as the state's third largest market. However, this growth continues to be concentrated in the cotton and textile fiber sectors. In percentage terms, Singapore was more impressive than even China. America's newest free trade partner bought 182 percent more Tennessee goods than it did a year ago. At \$138 million, it became the state's ninth largest market. Though a number of products were responsible for this, sales of turbojets





and turboprops were the prime movers. Taiwan (33 percent gain to \$64 million) and Vietnam (267 percent gain to \$11 million) were the other Asian stars for the quarter. The poorest Asian markets were primarily the result of shifts in cotton sales. Both India and Bangladesh fell sharply due to smaller cotton purchases.

The European Union accounted for \$791 million of Tennessee's exports, a gain of 17 percent from last year. A substantial portion of this gain was due to sales of medical instruments. At \$153 million, sales of these products were up a dramatic 125 percent. Plastics and aircraft part sales also did very well in the E.U. Electrical machinery was the only major industry that saw a significant decline in European sales for the quarter. The two best E.U. markets were Italy and Spain, mostly due to medical instrument shipments, although Italy was also the site of a large aircraft sale this past June. The largest E.U. market continues to be the U.K., which posted a healthy 10 percent increase for the quarter. British gains were mostly in turbojets and whiskey. Outside the E.U., Switzerland's purchases of Tennessee goods rose from \$9 to \$29 million. Oddly enough, much of this was in cotton. The only really poor European market was Hungary, and this was a bit of a fluke. A sizable one-time purchase of computer parts in 2003 was not repeated this past quarter.



PERHAPS THE BEST NEWS IS THAT THE EXPORT GAINS WERE AS BROAD AS THEY WERE DEEP, EXTENDING TO MANY PRODUCTS AND MANY MARKETS.

In the Americas, the state overcame a sluggish Brazilian market to still post some pretty good numbers. Exports to South America grew 17 percent to \$162 million. Electrical machinery and radio/TV transmission apparatus were two particularly strong industries in this region. Argentina was the locale of the biggest gains, growing from \$20 million to \$34 million, thanks in large part to purchases of Tennessee organic chemicals.

Looking at the state's major export commodities, industrial machinery (\$750 million), cotton (\$513), automotive goods (\$457), and medical instruments (\$379) were the leading performers. All except the automotive industry made major gains. Plastics, aircraft, chemicals, rubber, fibers, and whiskey were among the quarter's other strong performers. After a number of slow quarters, the furniture industry made quite a comeback, seeing its exports rise from \$45 to \$60 million. However, much of this was in automotive seating, something we don't normally think of as furniture!

Unfortunately, a few sectors did buck the trend, seeing their foreign sales fall over the quarter. The biggest losses were recorded in sales of cooking oils (down 27 percent to \$19 million), base metal objects (off 40 percent to \$11 million), and apparels (losing 30 percent to \$16 million).

As noted above, July figures were very strong and indicate that this will continue to be one of the best export years in the state's history.



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home to just under two-thirds of all Tennessee exports to South America.

Colombia, Venezuela, and Chile are the other three South American countries that make significant purchases of Tennessee goods. Each, however, is heading in a different direction. Cotton and computers have combined to produce steady growth in the Colombian market. But the range of Tennessee products going to Colombia is actually quite broad. So, for example, when computer sales took a dip in 2004 (at least thus far), exports of centrifuges, knitted fabrics, and chemicals combined to more than make up the losses. Colombia has grown to be 13 percent of Tennessee's South American market. Chile, on the other hand, has been a bit like Colombia in reverse. Exports to Chile peaked in 1997 and have been declining since, in spite of rising computer and cotton sales. Exactly the opposite of Colombia, a wide range of products have seen sales dive in this market. Once the recipient of 13 percent of Tennessee's South American exports, it has fallen to only five percent in 2004. It is difficult to identify a specific problem, for the country is not in any political or economic crisis. We can note, though, that overall U.S. exports to Chile, while not falling as have Tennessee's, have not grown over the past five years, either.

Venezuela has been the most uncertain of these three markets, thanks to a great deal of political and economic uncertainty. American exports to Venezuela have dropped by half over the past five years, though they are rebounding somewhat this year. Tennessee exports over the same period were essentially flat at about \$40 million a year. However, they too took a dive in 2003, falling by nearly 50 percent. The fall was across the board with few commodities spared. A sharp rise in chemical, plastics, and rubber exports in 2004 has brought the state back to the level of previous years, but the future of this market is probably more dependent upon political events than any other in the region.

The remaining South American markets are still quite small. About half of Tennessee's exports to Peru and Ecuador, which together account for about \$50 million of exports, are concentrated in cotton with the remainder scattered over many products.

As we can see, there are individual stories with each of these markets. But the big picture is one of steady growth in a number of export goods. Four goods in particular—cotton, chemicals, auto parts, and electronics—are expanding their sales across these various markets.

There seems little doubt that Tennessee will become ever more economically integrated with the Latin American market in the years to come. The broad range of products that have demonstrated success in this market ought to make it a region of particular interest to state exporters.