



# Global Commerce

## Tennessee and the International Economy

### HOW BAD WAS IT?

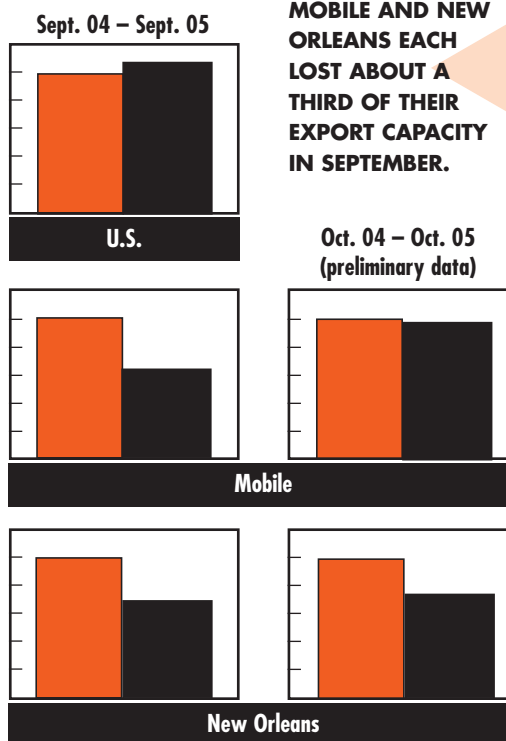
#### HURRICANE KATRINA (PART 1)

by Steven G. Livingston

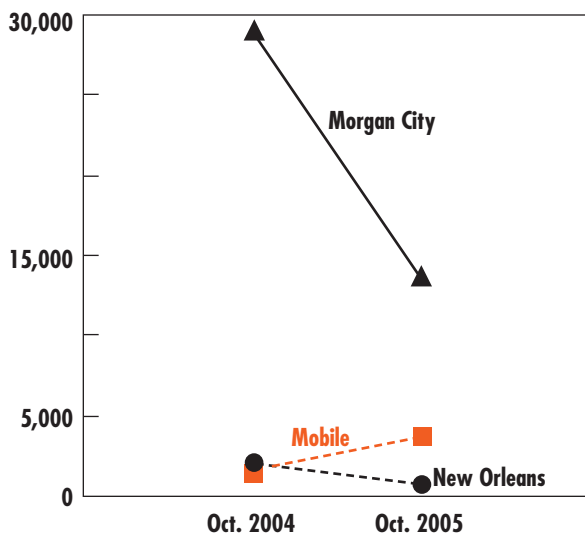
**H**urricane Katrina was a disaster in every sense of the word. For those in international trade, the destruction in the Gulf ports was among its significant consequences. New Orleans is America's 11th largest port (seventh in ocean-borne shipping), and the Louisiana and Gulf Coast ports together account for about 10 percent of America's ocean-borne exports. Tennessee exporters shipped about \$745 million of goods through New Orleans in 2004, making it the state's sixth largest port. The food products, paper products, chemicals, apparels, and electrical machinery sent from Tennessee out of New Orleans are typical of the products that are shipped out of that port. Gulfport, Mississippi, accounted for another \$100 million of Tennessee exports, primarily in the textile and apparel sectors. The loss of these ports is thus of great concern.

Data released by the Census Bureau show the extent of the damage to shipping during September and October, the first two months after Katrina. The two most affected Customs Districts, New Orleans and Mobile (which together include all of the Louisiana, Mississippi, and Alabama ports), each lost about a third of their export

#### Change in the Value of Exports (2004 = 100)



#### Change in Oil Imports (in barrels)



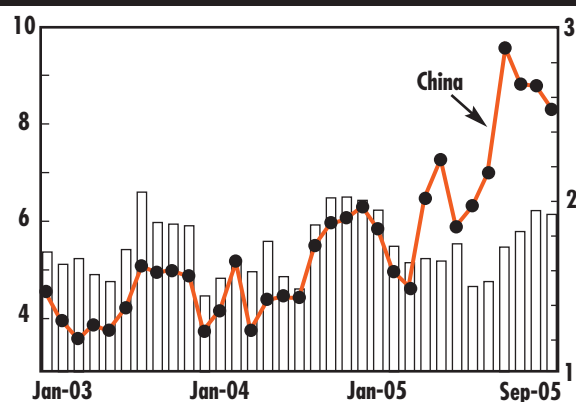
capacity during this period. In the Mobile District, shipments of paper products, fabrics, and apparel essentially came to a halt. Meat products were also heavily affected. The good news here is that October figures indicate that the ports in this district, which were not as heavily damaged by Katrina, have made a substantial recovery and appear to have all but resumed normal shipping levels.

The situation is more serious in New Orleans, though the October figures show improvement. Among Tennessee products, agricultural goods and organic chemicals have been the most severely affected, but shipments of machinery, computer products, and fuel out of New Orleans have also fallen substantially. The port added back about 15 percent of its shipment volume in the month of October, and this probably gives some indication of the speed of its recovery. The Port of New Orleans is estimating between 80 percent and full recovery by March of next year.

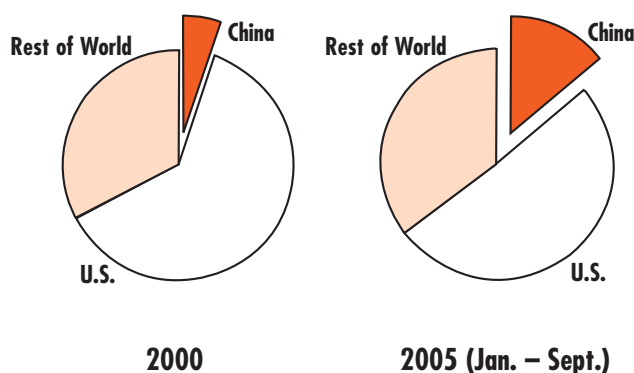
Another aspect of the damage to these ports is, of course, the effect on vital oil and natural gas imports

*continued on page 6*

**China versus the World:  
Monthly Imports of Textiles and Apparels (in \$ Billions)**



**Source of American Textile and Apparel Consumption**



## CHINESE APPAREL INVASION

### HOW BAD IS IT? (PART II)

by Steven G. Livingston

One of the biggest trade stories of the year has been the incredible rise of Chinese textile and apparel exports. In Europe, an effort to halt this rise with import quotas led to a fiasco as tons of already purchased clothing items were caught in a legal no-mans-land. The U.S., after first ending its textile and apparel quotas this year, reversed course and negotiated a set of import restraints with China, a somewhat better outcome.

How fast are these imports actually growing, and what is the effect? Through September, China has exported over \$20 billion in yarn, fabrics, and clothing to the U.S., more than double its exports over the same period of 2000. However, the explosion really began in 2005, after global quotas were ended. Month-to-month exports then rose steeply until June, when seasonal factors and diplomatic friction put on the brakes. Even so, during the month of September, imports of textiles and apparel from China were \$640 million higher than a year ago—a remarkably rapid ascent!

Most of the growth has been in the apparel sector. So far in 2005, China has sold America \$8.67 billion in women's and girl's clothing (an increase of 115 percent in two years) and \$2.912 billion in men's and boy's clothing

(an increase of 128 percent over the same period). For a few products, resistance has not been futile. Chinese carpet and rug sales have increased only modestly, and China has yet to make much of an inroad into the yarn and thread trade. But these are the exceptions. (You may recall that an argument for CAFTA was that it would help American yarn and thread producers withstand future Chinese production.)

Perhaps the major effect of this storming of the American market has actually been felt by other would-be exporters. Imports of textiles and apparel from the rest of the world are now essentially flat. In fact, they have actually fallen 2.5 percent during 2005. In other words, much of the Chinese gain has been at the expense of other countries.

The impact on America's own production is more uncertain. There is little doubt that this is an industry under stress, though the pain is now mostly felt in the apparel sector. American production has fallen by more than a fifth during the past five years. Tennessee's production has fallen by more than half. The chart shows the trajectories of local production and Chinese imports across Tennessee's most important textile and apparel sectors. However, the Tennessee numbers are for the five years preceding the burst of Chinese imports, indicating that China isn't really the problem. There's nothing uniquely damaging about Chinese textiles or apparels; the problem has been that any number of countries have been able to take production from Tennessee firms.

Looking more closely at Tennessee, several parts of the industry are still doing quite well. For example, fiber and yarn production is up from five years ago. So are nonwoven fabrics, carpet and rug production, and textile and canvas bags. Successes are fewer among apparels, but knitted socks remain a sizable industry, and men's work clothing is actually increasing its production. Generally speaking, these are goods that have not been subject to great Chinese pressure (with the exception of hosiery, where Chinese imports have risen eightfold since 2002). Imports of fibers and yarn, though growing rapidly, are still very small. In certain other niche

**China versus Tennessee: Textile and Apparel Imports versus State Production**

|                              | Tennessee                      |                           | China                          |                               |
|------------------------------|--------------------------------|---------------------------|--------------------------------|-------------------------------|
|                              | Value (2002)<br>(\$ thousands) | 5-Yr. Growth<br>1997-2002 | Value (2004)<br>(\$ thousands) | 1-Yr. Growth<br>YTD 2004-2005 |
| Fiber, Yarn, and Threads     | \$438,947                      | 0.93%                     | \$16,252                       | 37.32%                        |
| Fabrics                      | \$934,724                      | -11.64%                   | \$589,272                      | 39.93%                        |
| Coated and Finished Textiles | \$185,717                      | -29.85%                   | \$69,746                       | 73.16%                        |
| Carpets and Rugs             | \$272,852                      | 38.18%                    | \$287,252                      | 4.41%                         |
| Other Textile Products       | \$429,752                      | -12.15%                   | \$1,530,295                    | 32.59%                        |
| Hosiery and Socks            | \$215,053                      | -33.06%                   | \$253,532                      | -3.59%                        |
| Men's and Boys' Clothing     | \$734,402                      | -48.02%                   | \$1,903,554                    | 105.47%                       |
| Women's and Girls' Clothing  | \$116,092                      | -84.30%                   | \$6,435,064                    | 77.12%                        |
| Other Clothing               | \$56,928                       | -78.85%                   | \$2,191,422                    | 3.37%                         |
| Accessories                  | \$41,453                       | -80.20%                   | \$2,361,291                    | 23.27%                        |

continued on page 6

3rd Quarter 2005

COTTON WAS BEHIND  
THE HUGE GROWTH  
IN AGRICULTURAL  
EXPORTS.



3rd Quarter 2005

FOR THE THIRD  
CONSECUTIVE  
QUARTER SURGICAL  
CATGUT IS  
TENNESSEE'S  
MOST RAPIDLY  
GROWING EXPORT.



### Tennessee's Largest Export Sectors

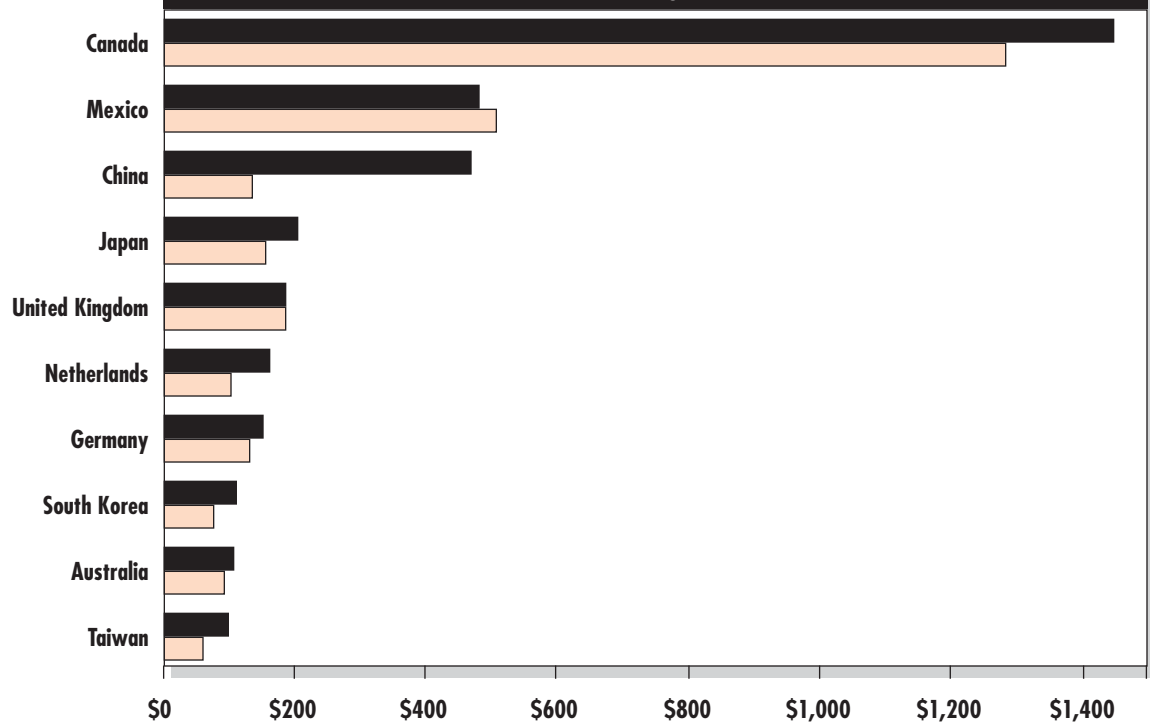
|                                  | Exports         | Change from<br>Last Year | Change from<br>Last Quarter |
|----------------------------------|-----------------|--------------------------|-----------------------------|
| Transportation Equipment         | \$1,013,245,419 | 16.7%                    | -6.8%                       |
| Computer and Electronic Products | \$708,211,922   | 18.8%                    | 16.2%                       |
| Chemicals                        | \$627,037,280   | 20.5%                    | 3.0%                        |
| Agriculture                      | \$516,839,743   | 79.1%                    | 16.5%                       |
| Miscellaneous Manufactured Goods | \$376,874,358   | 46.7%                    | -11.3%                      |

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

|   | Value of Exports | Growth    | Decline |
|---|------------------|-----------|---------|
| <b>SECTORS WITH THE GREATEST GROWTH</b>   |                  |           |         |
| Surgical Catgut                           | \$37,155,759     | 81,681.4% |         |
| Acetic Anhydride                          | \$25,156,132     | 31,375.1% |         |
| Pen and Pencil Parts                      | \$9,110,096      | 5,183.7%  |         |
| Balloon and Spacecraft Parts              | \$23,449,336     | 1,521.4%  |         |
| Plastic-Covered Paperboard                | \$36,660,387     | 894.5%    |         |
| <b>SECTORS WITH THE GREATEST DECLINE</b>  |                  |           |         |
| Rolling Machine Cylinders                 | \$3,297,349      |           | -84.9%  |
| Polyamide-6,-11,-12,-6,6,9,-6,10 or -6,12 | \$2,697,731      |           | -51.1%  |
| Charitable Donations                      | \$8,589,994      |           | -50.2%  |
| Oil or Fuel Filters                       | \$11,134,329     |           | -41.6%  |
| Esters of Methacrylic Acid                | \$11,749,377     |           | -36.5%  |

(Among Tennessee's top 100 exported goods)

### Tennessee's Leading Trade Partners

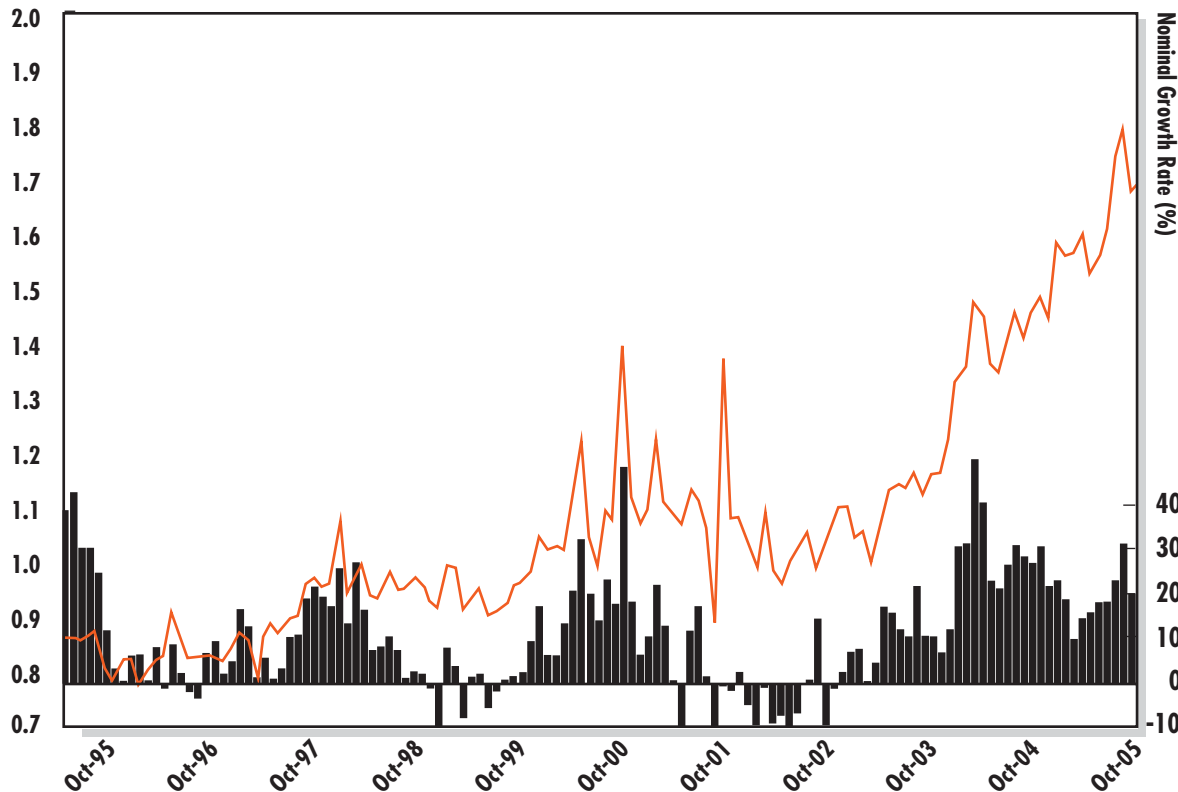


CHINA NEARLY  
PASSED MEXICO AS  
THE STATE'S SECOND  
LARGEST MARKET.



## Tennessee Monthly Exports

Exports in \$ Billions



3rd Quarter 2005

### Fastest-Changing Export Destinations

|  | Value of Exports | Gain   | Decline |
|--|------------------|--------|---------|
| <b>COUNTRIES WITH THE GREATEST GROWTH</b>  |                  |        |         |
| Kuwait                                     | \$53,103,472     | 826.1% |         |
| Oman                                       | \$6,842,653      | 741.9% |         |
| Bahrain                                    | \$4,325,198      | 513.8% |         |
| United Arab Emirates                       | \$86,275,919     | 476.5% |         |
| China                                      | \$476,509,459    | 239.0% |         |
| <b>COUNTRIES WITH THE GREATEST DECLINE</b> |                  |        |         |
| Haiti                                      | \$147,213        |        | -76.4%  |
| Bangladesh                                 | \$1,630,346      |        | -68.4%  |
| Singapore                                  | \$60,081,452     |        | -49.2%  |
| Pakistan                                   | \$5,539,948      |        | -48.1%  |
| Philippines                                | \$18,264,099     |        | -36.7%  |

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

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Editor: Steven G. Livingston  
 Publications Editor/Designer,  
 Jennings A. Jones College  
 of Business: Sally Ham Govan  
 Phone: 615-898-2610

Online:  
[www.mtsu.edu/~berc/trade\\_database.html](http://www.mtsu.edu/~berc/trade_database.html)

**MIDDLE  
 TENNESSEE**  
 STATE UNIVERSITY

**THE THIRD QUARTER OF 2005 WAS THE EIGHTH CONSECUTIVE QUARTER OF DOUBLE-DIGIT EXPORT GROWTH FOR TENNESSEE.**

Tennessee exports jumped 23.4 percent to \$4.854 billion this past quarter. This is yet another record high for the state. Tennessee's export growth was roughly double the rate of the entire U.S. Though there were gains throughout the world, the bulk of the state's new exports were to East Asia, Europe, and Canada.

The performance in East Asia was spectacular. Sales to China increased 239 percent from \$140.6 to \$476.5 million. China, in fact, nearly edged out Mexico as Tennessee's second largest market. Much of this gain was due to a huge increase in cotton exports (up \$261.5 million) to China this quarter, but shipments of magnetic tape, medical instruments, organic chemicals, TV equipment, and numerous other products grew substantially. The rest of East Asia was not far behind. Thanks to cotton and gas turbine sales, Tennessee exports to Taiwan nearly doubled, making it the state's 11th largest market. Japanese companies increased their purchases from Tennessee by more than 31 percent to about \$210 million. Exports to Korea were up 38 percent, and those to Hong Kong were up 29 percent. These latter markets did not have to rely on cotton since a wide variety of Tennessee products made substantial gains in all three. Indeed, Tennessee shipments to this region crossed the billion-dollar mark this quarter for the first time ever, making these five markets the site of more than one-fifth of the state's entire foreign sales.

Exports to Europe did not shatter the billion-dollar barrier, but at \$883 million they were not far off. Sales to the E.U. were up 15.6 percent for the quarter. Though there were some reversals—calendaring machines and aircraft parts both had a rough quarter in Europe, for example—most manufactured goods made strong gains. Medical instruments and diagnostic apparatuses continued as perhaps the best performers in Europe. These

products accounted for the particularly large gains made in Germany (up 17 percent) and the Netherlands (up 58 percent). Spain continued its recent trend of substantial increases in imports of Tennessee auto parts. The U.K. remained the largest E.U. market for the state although, in spite of a large gain in whiskey sales, exports to Great Britain were flat this quarter.

Canada was the third leg of the state's strong quarter. At \$1.457 billion, 13 percent more Tennessee products went north of the border than last year. Once again, laptop sales and motor vehicle parts led the way. However, rubber and paperboard products both had very good quarters as well. The toy and game industry suffered an \$8 million dollar loss, making it about the only Tennessee sector with a poor showing for the quarter.

The rest of the Americas were not as kind as Canada. Sales to Mexico actually declined (\$511 to \$485 million), mostly due to a steep loss in cotton exports along with a drop in car shipments. These declines were enough to wipe out large gains in exports of aluminum plates and pen and pencil parts. Exports to Central America were flat, and those to the Caribbean fell modestly. The latter, however, was the result of a decline in charitable goods shipped to Jamaica. South America was better, with the state posting an 18 percent gain in foreign sales to 13 markets on that continent, in spite of a small drop in exports to Brazil. Instead it was Argentina (organic chemicals), Venezuela (paperboard) and Chile (derrick parts) that produced the growth.

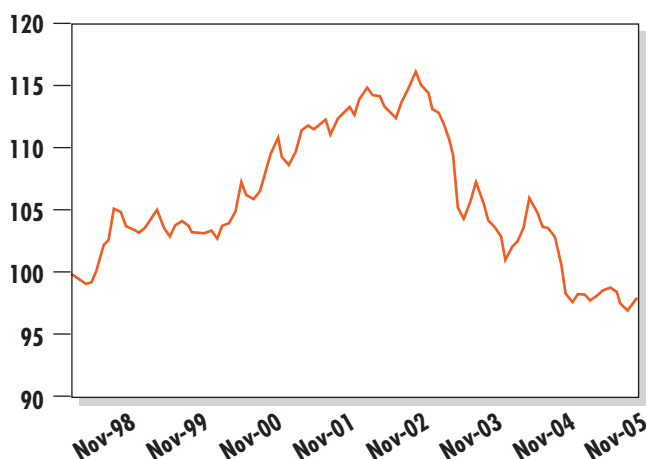
The ASEAN nations of Southeast Asia were the most difficult third quarter markets. Exports to Singapore were down severely (\$119 to \$60 million) as a result of declines in aircraft part and gas turbine sales. (The latter is a little unfair since it was really a one-time sale of these turbines in 2004 that was the cause.) But Indonesia, Thailand, and the Philippines also purchased fewer Tennessee goods.

Once again, the most dramatic gains in the world were in the Gulf States. Gigantic increases in sales of SUVs and aluminum plates meant that four of Tennessee's five fastest growing markets were in the Gulf.

In terms of products, cotton has returned to star billing. Cotton exports grew from \$291 to \$515 million. Some of the state's best markets, including China and Turkey, were substantially the result of cotton sales. Laptop computers, SUVs, auto parts, organic chemicals, aluminum plating, paperboard, and surgical catgut rounded out the list of Tennessee products with strong export sales for the quarter. Fortunately, very few products suffered major reverses, perhaps the largest being that of aircraft parts (\$123 to \$85 million). Smaller losses were suffered in the inorganic chemical sector and by that odd export, "charitable donations."

The third quarter of 2005 was the eighth consecutive quarter of double-digit export growth for Tennessee. Five of those quarters have seen growth in excess of 20 percent, making this one of the most sustained periods of high export growth in the state's history. ■

**Tennessee Trade-Weighted Dollar Index**



**Business and Economic Research Center**

P.O. Box 102  
Middle Tennessee State University  
Murfreesboro, TN 37132  
615-898-2610

 **HOW BAD (I)**  
*continued from page 1*

destined for Tennessee and the rest of the U.S. The accompanying chart indicates the huge impact of the hurricane on the fuel imports these ports are able to handle. Because of the very steep rise in prices, the chart shows the change of fuel imports in barrels rather than dollars. Though Mobile has been able to ramp up its volume, New Orleans and Morgan City were able to accept less than half of their customary fuel imports this past October. (Morgan City is on the coast of Louisiana and is the site of most fuel tanker offloadings.)

It appears that a good portion of the apparel shipments have been rerouted to Tampa and other Gulf region ports, but many of the other affected products do not show up in the shipments reported by other American ports, suggesting that they either are being widely dispersed or, more unfortunately, have been stalled or slowed in their exit from the U.S.

It certainly could have been worse, but the events of this August caused one of the biggest disruptions in the logistics of American trade in many years. Many exporters and importers will have to scramble as the Gulf ports return to normal operations. We will not see how severely the hurricane might have disrupted international trade for a number of months to come. ■

 **CHINESE (HOW BAD II)**  
*continued from page 2*

products, such as tire cording, Chinese imports are increasing but are still not a major presence in the American market. In many of these cases, there is every reason to expect growing pressure as new Chinese capacity comes on line. In a few, however, such as carpets or cotton shirts and work clothing, Chinese sales have flattened at about \$250 million per year, and it may be that these imports have reached their maximum impact.

In drawing up the balance sheet of this Chinese invasion, it is worth remembering that for some American industries the growth of Chinese production has been a boon. Tennessee cotton sales to China have grown by a factor of 10 in just the past two years (to \$794 million in 2004), making cotton the state's largest export. Artificial filament sales have more than doubled to nearly \$100 million in 2004, an amount already exceeded by September 2005. Specialty textiles, such as nonwoven yarns, felt, and wadding, have also staged significant export growth to China. In many other industries, and for consumers, the drop in prices accompanying the increased imports has been a major advantage. So we are not looking at an unalloyed trade disaster. We are, however, looking at a number of years of difficult diplomacy and thorny trade issues as the Chinese textile and apparel industry continues to develop. ■