



Global Commerce

Tennessee and the International Economy

RECENT FOREIGN INVESTMENT

IN TENNESSEE: A SURVEY*

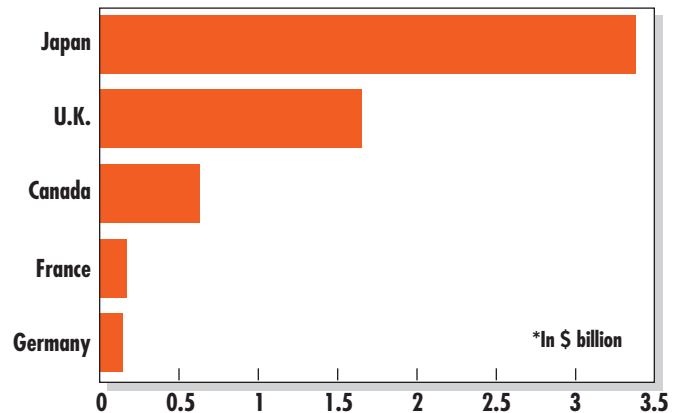
by Steven G. Livingston

Foreign direct investment (FDI) into Tennessee has doubled over the past 10 years. According to the state's Department of Economic and Community Development, foreign companies have brought or reinvested \$22.4 billion into the state as of May 2006. This is part of a national trend. FDI into the U.S. has grown tenfold in the past 20 years, and with the dollar sliding and the American economy growing, there is little reason to expect the pace to slow anytime soon. FDI is not only increasing but also coming from an ever broader array of countries. Not too many years ago, virtually all of this investment came from the advanced industrial countries. Asian investment, for example, came only from Japan. But today, companies from China, Korea, Taiwan, Thailand, and Singapore have all made investments in Tennessee. An increasing amount of this new investment is also going into the service sector as foreign investors diversify out of the manufacturing-based investment that first brought them to America in the 1970s. Only about a third of the new FDI coming into America is now destined for manufacturing.

It's been five years since *Global Commerce* examined the foreign investment coming into Tennessee. What has been happening?

Five years ago there seemed to be some slackening in foreign investment coming into the state. Tennessee was

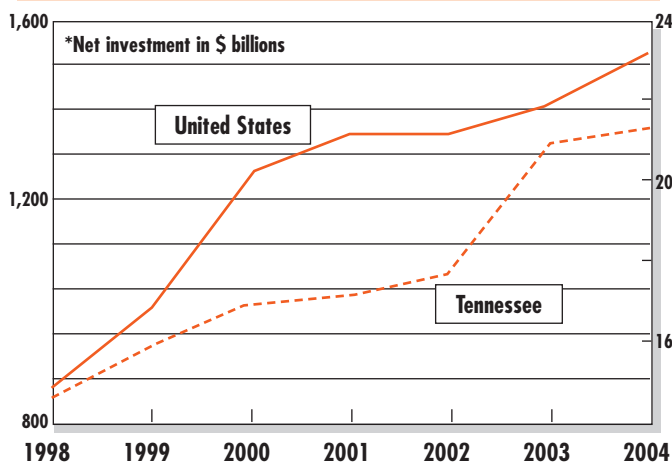
Foreign Direct Investment in Tennessee since 2000*



attracting a smaller portion of the total FDI coming into the U.S. We suggested that one reason for this was artificial, the fact that several huge purchases of American companies were inflating the American totals, but another reason was more worrisome, a falloff in Japanese investment that was presumably related to the strong dollar and Japan's economic difficulties. As shown by the chart, this slackening has ended. Tennessee has caught up, and its FDI is now growing at roughly the same rate as that of the rest of the U.S. A big part of this reversal is indeed the return of Japanese investment. Japanese investors have invested almost \$3.5 billion in Tennessee since 2000, double the rate at which they were investing in the late 1990s. As of this May, there are 159 Japanese operations in this state, 21 more than in 2000. Total Japanese investment in the state is now just over \$10 billion, about 45 percent of global FDI into Tennessee. The lion's share of this investment remains in electronics and, especially, in automotive-related manufacturing. Denso's December announcement that it was expanding its Maryville plant, at a cost of \$185 million, is but one of several large automotive investments made recently by Japanese companies. Nissan continues to be the state's biggest single foreign investor.

Japanese companies accounted for slightly more than half of all the new FDI in Tennessee since the start of 2000. Another quarter came from the United Kingdom. British investment in Tennessee has actually grown rather dramatically in the past few years. Forty percent of the sum total of *all* British investment into Tennessee has come in the past five years. Unlike Japanese investment, British FDI tends to be more focused in the major metro areas and spans a wider range of economic activities. However, it is

Trend in the Growth of FDI: U.S. versus Tennessee*



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FOREIGN INVESTMENT

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also more likely to come through the acquisition of an existing company rather than from starting a new operation. To that extent, it may have a smaller economic impact than what is coming from Japan. In addition, despite the large rise in British investment, the *number* of U.K.-owned operations in the state remains the same as in 2000, and total employment in these firms has actually decreased.

The third large source of the state's FDI has been Canada. However, unlike the above countries, the rate of Canadian investment has slowed over the past several years. Nevertheless, Canadian companies have invested \$600 million in Tennessee in the years after 2000. This investment is spread across a number of industries, although the nine Quebecor World printing operations, located around the state, stand out. These plants employ 5,418 workers, more than a fifth of the 25,114 people employed in Canadian-owned firms.

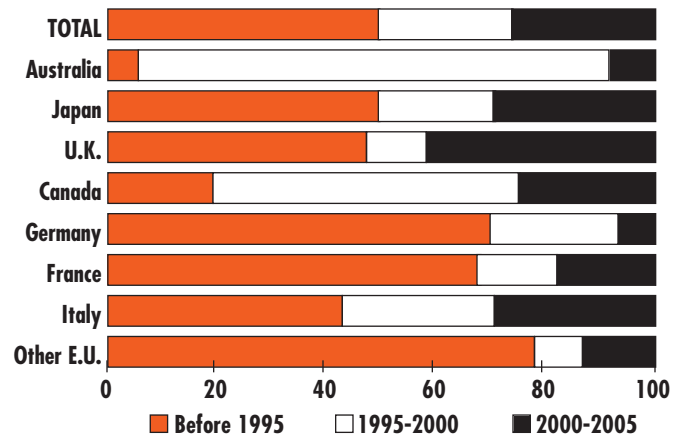
Most remaining investment still comes from the European Union countries. Investment from France and Germany has been strong during the past five years. German FDI increased by \$164 million as German operations increased by 25 with almost 2,000 new employees. French FDI increased by \$143 million with 10 new operations. Two companies, Hutchinson FTS (with three plants and over 1,000 employees) and Square D (four operations, with over 1,100 employees), continue to be the major French presences in this state. The growth of Italian investment has been, in percentage terms, the most impressive of all, increasing almost by half to \$591 million. A large portion of this is accounted for by the 2004 takeover of Cole Vision and its three Tennessee plants by the Italian firm, Luxottica. Investment from Belgium has grown by \$74 million while Swedish investment increased by a little over \$100 million. Sweden, though, is also an example of how much churn there is in FDI activity. Today there are 12 Swedish-owned operations in Tennessee; only five were here in 2000. But in this time, Swedish companies have established or purchased seven new operations and closed or sold six others. Tennessee attracted virtually no new investment from the final large E.U. investor, the Netherlands. Thanks to the opening

of many new Randstad Staffing outlets (there are now 35 in the state), the number of Dutch-owned operations has grown rapidly, but these operations are obviously not capital intensive, and so the amount of investment hasn't grown much.

Top Five Cities for FDI	
	Firms
Memphis	91
Nashville	66
Chattanooga	34
Knoxville	31
La Vergne	21

Largest Foreign-Owned Operations in Tennessee, Ranked by Employment			
Nissan	6,200	Smyrna	Japan
Electrolux	3,000	Springfield	Sweden
Denso	2,250	Maryville	Japan
Quebecor World	1,700	Kingsport	Canada
Mahle	1,423	Morristown	Germany

Percent of Foreign Direct Investment in the Past Five Years



The number of Mexican-owned operations has tripled (to 18) since 2000. This might be expected, post-NAFTA. Most of the new operations are sales offices or distribution centers, so the dollar amount of Mexican investment remains modest (\$3.5 million). Yet this investment is a harbinger of the future. Since 2000, the number of establishments owned by companies in what we used to call "the Third World" has doubled, from 19 operations to 38. Every continent but Africa now invests in this state.

Foreign companies continue to place most of their investments in Tennessee's major urban areas. The top five cities for FDI together account for 40 percent of the foreign-owned operations in Tennessee. But during the past five years, Memphis has outstripped the rest of the state in attracting these operations. In 2000, Memphis and Nashville were home to roughly the same number of foreign operations (74 versus 66), but today, with 91 foreign operations, Memphis is far in the lead. The number for Nashville, in fact, has not changed, though this disguises the significant number of new operations that have come to its metro area, in particular La Vergne, Gallatin, and Murfreesboro.

It is difficult to assess the true impact of total FDI into Tennessee because much of it comes in the form of the purchase of existing plants and companies. However, according to state estimates, about a quarter of all investment in Tennessee over the period from 2000 to 2004 came from foreign sources. This is substantial. The U.S. Bureau of Economic Affairs estimates that 5.5 percent of all private employment in Tennessee is in foreign-owned companies. This is one out of 18 working Tennesseans, 12th highest among the states. FDI is also increasingly responsible for the maintenance of much of the manufacturing in Tennessee. One out of six manufacturing jobs is at a foreign-owned plant. Only seven other states have a higher percentage.

In sum, Tennessee has done rather well in attracting foreign investment over the past five years. With more than 135,000 employees, foreign-owned operations are a significant player in the state economy. Though still primarily dependent on Japanese investment, the state continues to diversify both sources of investment and the economic sectors into which it goes. FDI will continue to be a very

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1st Quarter 2006

MISCELLANEOUS
MOSTLY MEANS
MEDICAL.



Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$1,172,086,528	7.4%	8.0%
Computer and Electronic Products	\$805,855,851	19.6%	-3.8%
Chemicals	\$681,040,552	21.9%	10.1%
Agriculture	\$571,692,118	61.5%	92.6%
Nonelectrical Machinery	\$418,005,931	12.0%	14.2%
Miscellaneous Manufactured Goods	\$453,921,272	24.2%	-2.0%

1st Quarter 2006

SALES OF AIRCRAFT
PARTS EXPLAIN
LUXEMBOURG'S
GROWTH.



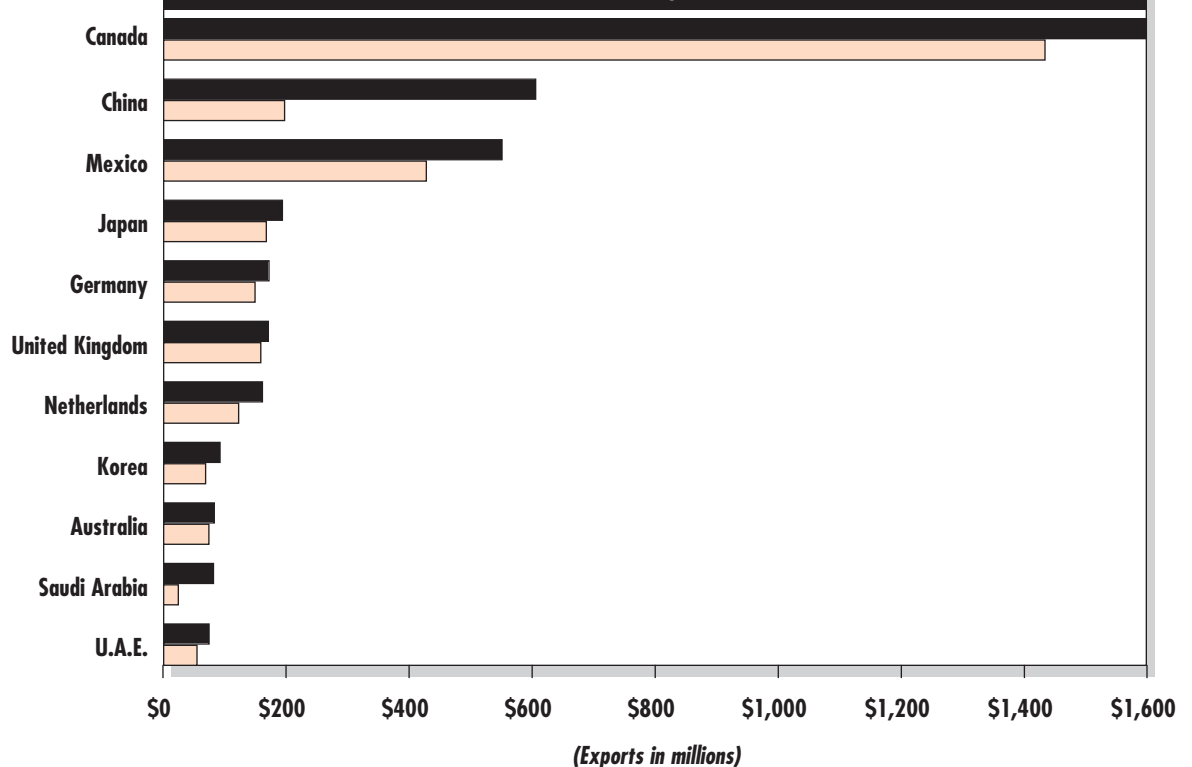
Fastest-Changing Export Destinations

	Value of Exports	Gain	Decline
COUNTRIES WITH THE GREATEST GROWTH			
Luxembourg	\$11,237,835	951.0%	
Qatar	\$19,032,339	150.1%	
Saudi Arabia	\$100,192,797	137.8%	
Portugal	\$8,130,723	124.8%	
Venezuela	\$24,860,548	120.2%	
COUNTRIES WITH THE GREATEST DECLINE			
Haiti	\$2,394,346		-63.8%
Pakistan	\$12,693,976		-56.6%
Oman	\$10,279,084		-54.6%
Indonesia	\$32,977,308		-47.8%
Singapore	\$69,027,436		-45.0%

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

■ 1st Quarter 2006
■ 1st Quarter 2005

Tennessee's Leading Trade Partners

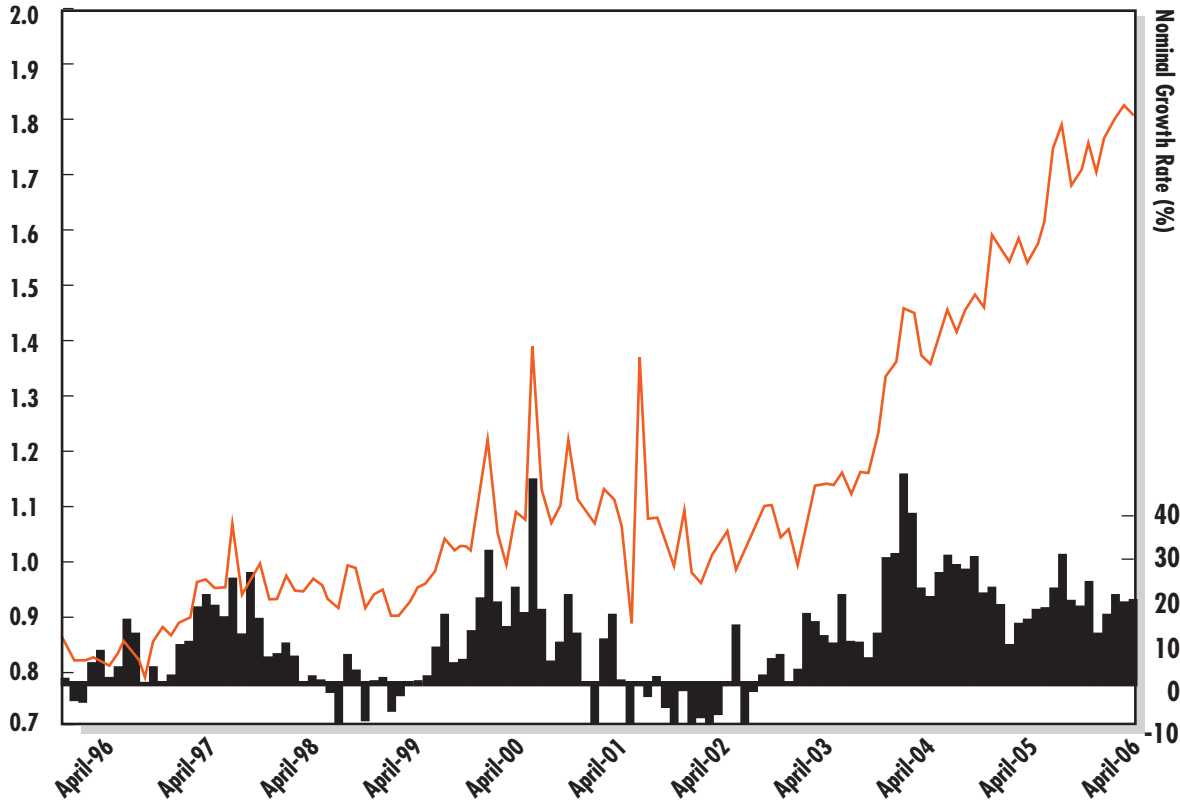


CHINA IS NOW
TENNESSEE'S
SECOND-LARGEST
MARKET.



Tennessee Monthly Exports

Exports in \$ Billions



(Seasonally adjusted, expressed in year 2000 dollars)

1st Quarter 2006

What's Hot and What's Not*

	Value of Exports	Growth	Decline
SECTORS WITH THE GREATEST GROWTH			
Acetic Anhydride	\$10,935,138	23,818.2%	
Engines and Motors (not automotive)	\$27,834,170	11,084.5%	
Coated Paperboard	\$16,237,238	7,345.1%	
Synthetic Yarn > 500 Decitex	\$11,472,098	1,031.0%	
Wooden Seats	\$9,452,986	776.6%	
SECTORS WITH THE GREATEST DECLINE			
Gas Turbines > 5,000 kw	\$21,235,928		-78.7%
Digital Processing Units (miscellaneous, not PC)	\$14,762,106		-38.4%
Nondigital Integrated Circuits	\$9,129,869		-37.9%
Rolling Machine Cylinders	\$18,826,967		-34.2%
Commercial Trucks < 5 Metric Tons	\$11,593,179		-32.1%

*Among Tennessee's top 100 exported goods.

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Online:
www.mtsu.edu/~berc/trade_database.html

**MIDDLE
 TENNESSEE**
 STATE UNIVERSITY

IN MARCH, FOR THE FIRST TIME EVER, STATE EXPORTS EXCEEDED \$2 BILLION FOR A SINGLE MONTH.

Tennessee exports grew by a very robust 20 percent for the first quarter of 2006. Total exports were valued at \$5.432 billion, an increase of almost one billion dollars over 2005. This compares very favorably to the national export growth rate of just over 14 percent. In March, for the first time ever, state exports exceeded \$2 billion for a single month.

Exports were up nearly everywhere, but the strongest markets, once again, were Europe (up \$100 million), NAFTA (up \$300 million), and China (up \$400 million). China's growth, primarily due to a huge increase in cotton exports, was enough to make it the state's second largest national market, behind only Canada. The quarter's fastest-growing exported products, acetic anhydride and motors, also owed their stellar performances largely to China.

Cotton, in fact, was Tennessee's strongest export measured by the dollar amount of increased exports. However, reflecting the incredible growth of the Chinese apparel industry, foreign sales of cotton were *down* in almost all other markets except China. Cotton exports to Southeast Asia dropped by half, to Turkey by 60 percent, and to Pakistan by two-thirds.

The state's second largest export was passenger vehicles. Here too, growth was very strong, though the overall numbers disguise the different fates of cars (up \$163 million) and SUVs and vans (down \$43 million). For yet another quarter, the Middle East, surprisingly, provided most of the growth. Export of cars to Saudi Arabia grew from \$10 to \$68 million, while those to the United Arab Emirates grew from \$31 to \$84 million. This surge in automotive exports was enough to move both Saudi Arabia and the U.A.E. into the top 10 state export markets. Indeed, Middle East imports of Tennessee cars increased by more than \$100 million for the quarter. (The shift out of SUVs was also most apparent in this region; the decline in SUV sales to these nations amounted to just about all of the global loss in SUV and van exports.)

The situation in auto parts was more complicated. Thanks to increased shipments to Canada, exports of auto body parts were up strongly. But engine and interior auto parts fell quite a bit (off \$28 million). Spain, of all places, was the culprit for the latter as it failed to repeat the large purchases it made a year ago.

Canada also continued to increase its purchases of electronics from Tennessee. Laptop exports to Canada almost reached \$100 million for the quarter. Sales of desktop computers were similarly strong, as were exports of TV video games and color TVs. About a third of the growth in the Canadian market was due to these items. But not everything going to Canada is high-tech: exports of wooden seats and ketchup both grew more than 100 percent during the first quarter as well.

Canada accounted for two-thirds of the NAFTA market growth. Mexico, obviously, added the last \$120 million with purchases of more cars and computers along with an incredible increase in aluminum alloy plating. Aluminum plate exports to Mexico increased by a factor of 10 this quarter, from \$7 million to \$70 million.

It was another very strong quarter for the state's medical sector. Surgical catgut was again the star performer, with big gains in Europe, Japan, and Australia. Medical instrument sales for the quarter stood behind only those of cotton and cars. Europe, particularly Germany, the Netherlands, and Italy, accounted for the lion's share of the gains. Italy's large medical instrument sales boosted that country into 11th place as a destination for the state's exports. In fact, the only other product that could match the medical sector's performance in Europe was Tennessee whisky. European whisky sales grew to \$67 million, with Italy and Spain accounting for most of the increase.

Total chemical sales were also very strong for the quarter, growing by more than 20 percent. Latin America led the way. Although terephthalic acids remain the largest chemical export to that region, cellulose acetates accounted for a large portion of the new sales. The latter also made major gains in South Korea and Russia.

The Latin American market overall was up strongly for the quarter. Exports grew by 25 percent. Brazil increased its purchases of Tennessee goods by \$20 million (to \$83 million) while Argentina, Chile, and Venezuela were the other strong performers. The only country posting a significant decline was Haiti, due to a drop in charitable donations.

THE STATE HAS NOW HAD ABOUT THREE YEARS OF EXTREMELY STRONG EXPORT GROWTH.

Among the state's smaller export products, perhaps the most impressive performance of the quarter was by cardboard and paperboard firms, which opened new markets in East Asia and expanded their coated paperboard exports from virtually zero to more than \$20 million.

Of course it was not good news everywhere. As noted above, the shift in cotton sales to China led to some poor numbers among other cotton-importing countries such as Indonesia, Turkey, and Pakistan. A \$40 million decline in cotton sales to the Southeast Asian countries was at the heart of a poor performance in that region. Due largely to this loss and a big decline in sales of gas turbines to Singapore (a loss of \$70 million), state exporters finished the quarter with an \$89 million decline in overall sales among the countries of this region.

The state has now had about three years of extremely strong export growth. Although fueled by the fall of the dollar as well as several years of solid global economic growth, this also reflects the emergence of new and dynamic export industries in the state of Tennessee. This gives us reason for optimism as we continue through 2006 and beyond. ■

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FOREIGN INVESTMENT
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important element in a healthy Tennessee economy. ■

**Data for this article compiled by the Tennessee Department of Economic and Community Development and the U.S. Bureau of Economic Affairs (Department of Commerce)*

