



# Global Commerce

## Tennessee and the International Economy

### TENNESSEE AND FTAs

#### “THE EARLY RETURNS”

by Steven G. Livingston

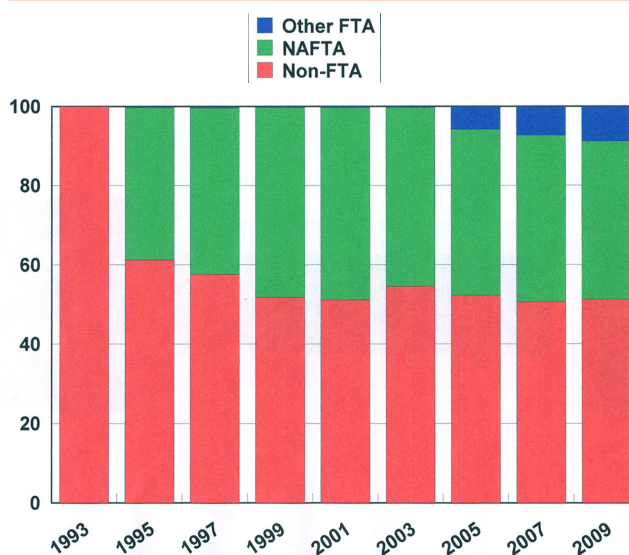
The United States recently announced a free trade agreement with South Korea, the largest such agreement since the NAFTA. The administration estimates that the U.S. will gain an extra \$1.8 billion in annual exports because of this deal. (Tennessee is the 19th largest exporter to Korea among the American states. If these estimates are correct, it should expect an increase of exports in the neighborhood of \$160 million.) In conjunction with the Obama administration's efforts to double U.S. exports, the agreement suggests that we may expect further free trade agreements in coming years. Colombia and Panama appear next in line. Below we look at the “early returns” on the impact of these FTAs on Tennessee's trade.

The U.S. currently has FTAs with 17 nations. Beyond NAFTA, the most significant agreements are with Australia and Singapore. These countries are the state's eighth and ninth largest markets for 2010. If the South Korean agreement is ratified, five of Tennessee's 10 largest markets will be under FTAs. Forty-eight percent of the state's 2010 exports have gone to an FTA-partner country. (These numbers exclude the FTA with the very small market of Jordan. The U.S. has had an FTA with that country since late 2001, but many of its trade barriers were not lifted until the end of 2009.)

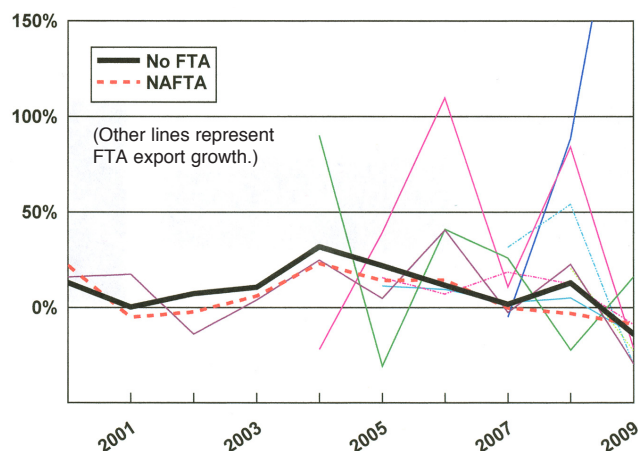
But can we yet see any impact of these agreements on the state's trade? We have only a few years of data, but it might be worth taking a look. Outside of the NAFTA, America's oldest free trade agreement is with Israel (1995). Most of the other FTAs have only come on line in the past three or four years. Given the disastrous trade picture of 2008 and 2009, it might be better to look at their impact by comparing them to non-FTA markets over the same period rather than by just looking at their export numbers alone.

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TN Exports to FTAs (%)



Export Growth to the FTA Markets





If we look at the export performance to the individual FTA markets over the past several years, we don't yet see a clear pattern. There is a lot of volatility, as the chart of all the FTA export growth lines shows, but we can see that almost all the various FTA countries are above that of the non-FTA markets taken as a whole. If we break out the major agreements, we see the same picture. The U.S. signed two major FTAs in 2004, with Chile and Singapore. If we graph Tennessee's relative export performance to these two nations, we find that the state's exports have indeed grown more rapidly to Chile since before the inauguration of its FTA. Since that time exports to Chile have also grown more rapidly than they have to the rest of the world.<sup>1</sup> The effect of the FTA on Tennessee exports appears to be clear. Singapore is a closer call, and we have to conclude that in this case the FTA doesn't yet appear to be a significant factor in exports to that country. The U.S. then signed a second set of agreements in 2005, this time with Australia and the Central American nations (CAFTA). Australia has been a better market than most after its FTA, but then it was a better market before as well. It's difficult to see that the FTA has significantly changed its relative performance. Central America is a similar story. There has not yet been much change after CAFTA came into force. On a country by country basis, then, the evidence is mixed.

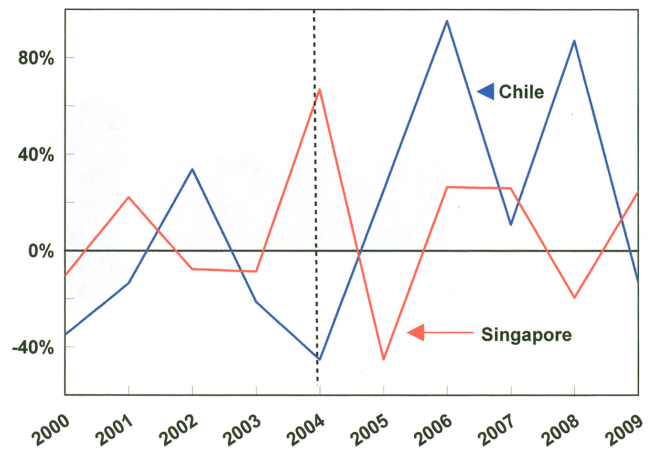
Yet a second examination of the question provides more support for the importance of FTAs. If we create an index that compares Tennessee's exports to the combined FTA markets to the state's exports to other markets, the more rapid growth of the FTA markets becomes clear. In fact, the gap is considerable.<sup>2</sup> If exports to the non-FTA markets had grown at the same rate as they did to the FTA markets (excluding NAFTA), Tennessee businesses would have had more than \$4 billion in additional foreign sales in 2009.

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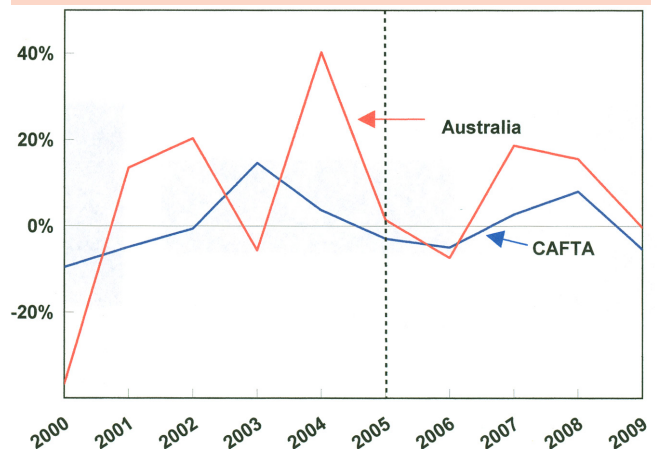
<sup>1</sup> Relative export performance is determined by subtracting Tennessee's global export growth from the growth of its exports to the nation in question. A positive number indicates that exports to that nation are growing more rapidly than to the rest of the world. We have excluded the NAFTA market in making these calculations.

<sup>2</sup> The FTA markets shown in the chart are adjusted to take into account the different years that the FTAs came into force.

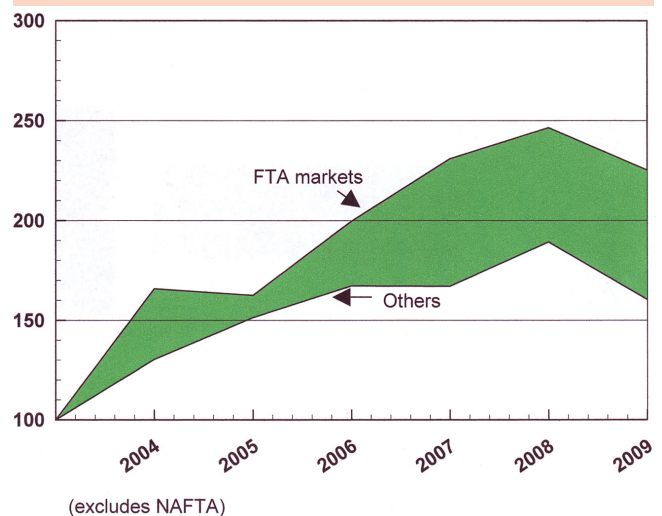
## "The Class of 2004": Relative Export Performance



## "The Class of 2005": Relative Export Performance



## The FTA Difference? Export Growth in FTA & Non-FTA Markets



3rd Quarter 2010



3rd Quarter 2010

MOTOR VEHICLE  
SALES GAVE  
AFGHANISTAN THE  
QUARTER'S BEST  
NUMBERS.



THE U.K. HAS FALLEN  
TO #7 AMONG THE  
STATE'S MAJOR  
MARKETS.



## Tennessee's Largest Export Sectors

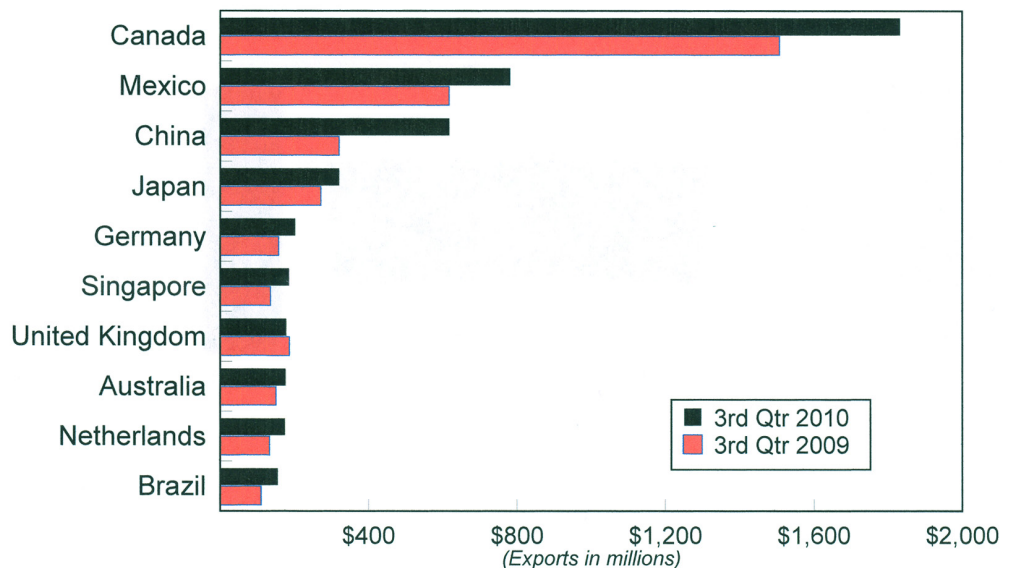
	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$1,276,611,564	31.3%	6.3%
Chemicals	\$1,003,242,302	18.9%	-2.1%
Computer and Electronic Products	\$984,359,292	24.7%	10.8%
Miscellaneous Manufactured Goods	\$736,429,555	13.9%	-1.2%
Nonelectrical Machinery	\$558,273,941	42.9%	-9.0%
Agricultural Goods	\$470,985,641	291.5%	125.1%
Fabricated Metal Products	\$208,229,118	44.0%	2.2%

## Fastest-Changing Export Destinations

	Value of Exports	Gain	Decline
<b>COUNTRIES WITH THE GREATEST GROWTH</b>			
Afghanistan	\$37,894,879	473.5%	
Slovenia	\$4,181,403	284.8%	
Philippines	\$52,006,694	193.9%	
Russia	\$45,132,843	188.0%	
Peru	\$36,531,215	177.9%	
<b>COUNTRIES WITH THE GREATEST DECLINE</b>			
Bolivia	\$4,140,198		-53.8%
Kuwait	\$9,382,510		-44.3%
Nigeria	\$4,694,989		-39.9%
Bangladesh	\$4,787,874		-31.6%
Bahrain	\$4,949,086		-17.7%

(Among countries averaging more than \$3 million in sales per quarter)

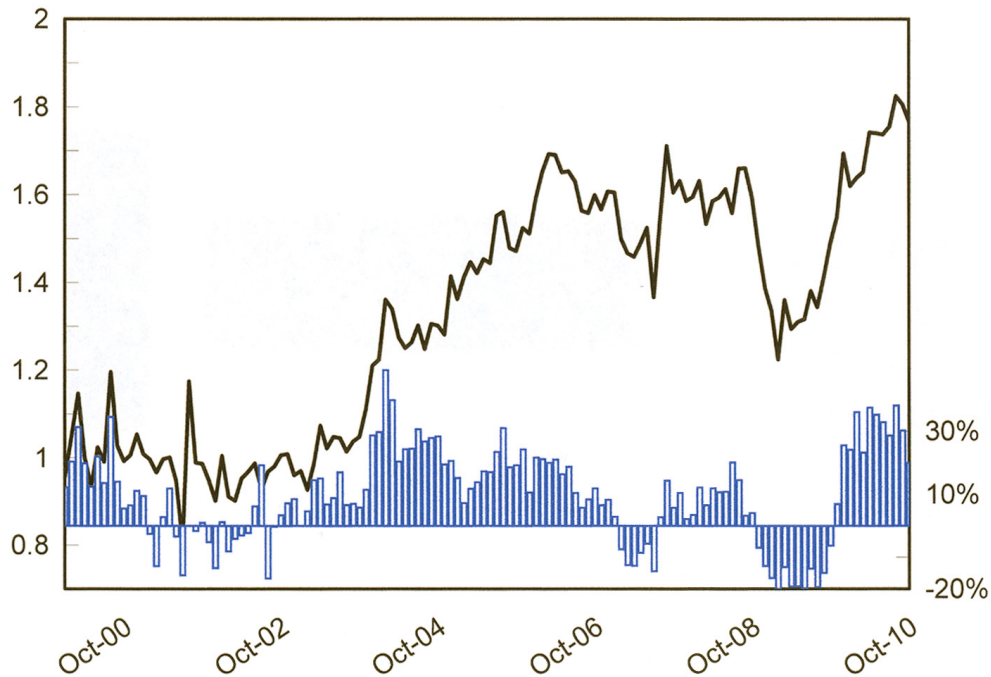
## Tennessee's Leading Trade Partners



## Tennessee Monthly Exports

Exports in \$ Billions

Nominal Growth Rate (%)



(Seasonally adjusted, expressed in 2000 dollars)

3rd Quarter 2010

### What's Hot and What's Not\*

	Value of Exports	Growth	Decline
<b>SECTORS WITH THE GREATEST GROWTH</b>			
Advertising Material	\$12,145,846	779.0%	
Compression Ignition Piston Engines	\$47,531,601	531.1%	
Miscellaneous Special Purpose Vehicles	\$39,824,326	406.5%	
Tobacco	\$10,445,085	363.6%	
Cotton	\$456,351,041	356.7%	
<b>SECTORS WITH THE GREATEST DECLINE</b>			
Antisera and Blood Fractions	\$10,022,224		-65.6%
Car Tires	\$21,230,401		-38.0%
Newsletters	\$13,666,861		-31.5%
Covered Paper and Paperboard > 150g / square meter	\$15,609,773		-29.3%
Miscellaneous Motors	\$4,454,399		-27.8%

**COTTON WAS  
THE QUARTER'S  
BIGGEST GAINER.**

\*Among Tennessee's top 100 exported goods. Aircraft exports were recorded this year and so are not included.

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## MORE THAN 36 COUNTRIES AT LEAST DOUBLED THEIR PURCHASES OF TENNESSEE GOODS FROM A YEAR AGO.

Tennessee exporters had one of their strongest quarters in recent memory. Third-quarter exports were almost one-third higher than a year ago. The state's foreign shipments increased in value by over \$1.6 billion from 2009, making the quarter's exports the highest in state history at \$6.78 billion. One eye-popping figure might best express the breadth of this growth: more than 36 countries at least doubled their purchases of Tennessee goods from a year ago.

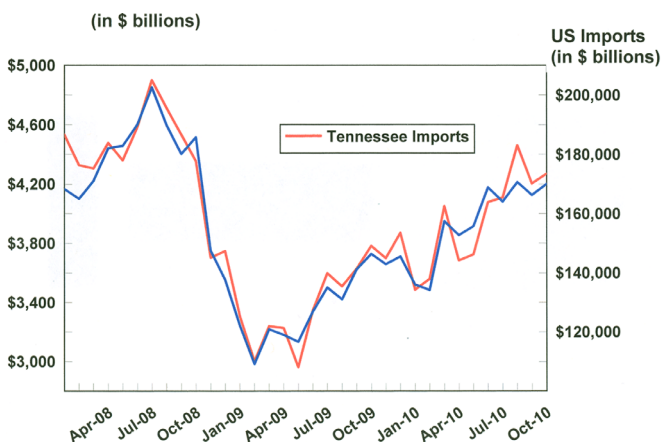
The star sectors were led by the auto parts industry, where exports increased 55 percent (to \$598 million). Canada and Mexico accounted for 80% of this gain. The computer industry also increased its shipments by more than \$100 million (to \$494 million). Canada again was the major market, but Latin America was the destination of 40% of that growth. The aerospace sector was a third large gainer. Major increases in exports to Singapore (up \$37 million), India (\$13 million), Brazil (\$20 million), and China (\$51 million) led to a 30% growth in global exports. We can keep going. Chemical sales were up nearly \$100 million worldwide, as were synthetic fibers. Car exports gained \$92 million (mostly to the Middle East), and shipments of engines and motors grew 69% to \$186 million. The single most dynamic export, however, was cotton. The value of cotton exports quadrupled from last year. In part this was due to its record prices over the summer. (The price of cotton this summer was twice what it was in 2009). China was the major destination for these shipments. Indeed, it was a good quarter for virtually anything made in Tennes-

see. A handful of industries saw declines, such as pharmaceuticals (down 18 percent), tires (8%), and DVDs (33%), but they were the distinct minority.

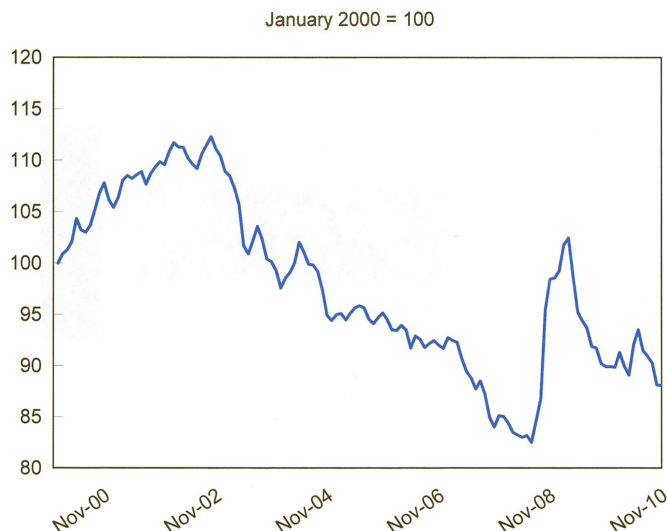
As might be anticipated from these numbers, the export gains were truly worldwide. Shipments to both Canada and Mexico grew by over 20%. China, thanks mostly to that cotton, was up 93.8%. Its fellow BRIC member, India, grew by 98.9%. The other two BRIC states, Russia (up 188%) and Brazil (44%), were equally strong for the quarter. The Middle East market grew from \$166 to \$262 million. The ASEAN (Association for South East Asian Nations) region also grew by about \$100 million, to \$386.2 million for the quarter. Japan and Korea were also robust markets (growing by 18.5% and 31.6%, respectively). The Latin American market, led by sales to Peru, Ecuador, and Colombia, increased 48% to just under \$600 million. In Europe, sizable gains in Germany and the Netherlands produced a 14% increase in Tennessee exports. Only Greece among the imperiled euro debt-crisis nations reduced its Tennessee purchases for the quarter. However, not all European states showed gains. Exports to the U.K. were basically flat, and exports to France declined. Outside of Europe, the only region of the globe where sales were weak was Sub-Saharan Africa, where Tennessee exports fell from \$66 to \$62 million.

In sum, this was the second consecutive very strong quarter. The state's exporters have more than recovered from the 2008-2009 crisis and are selling more in global markets than ever before. The broad-based nature of this recovery, both geographically and sectorally, suggests that the state is well poised to make continued gains in the quarters ahead. ■

## Tennessee Monthly Imports



## Tennessee Trade-Weighted Dollar Index





If we examine the impact of FTAs by industry, we observe the same variegated performance. Most of the state's larger export sectors do not exhibit overwhelming evidence of an FTA effect. Yet the balance suggests there is an impact, and that it is growing. The charts of the titanium dioxide, whiskey, and plastics industries show perhaps the strongest impact among the larger exporters. Note that the impact is most clear in the most recent years. This is true across many industries. This provides evidence that FTAs are becoming a more significant, and positive, contributor to the state's export growth.

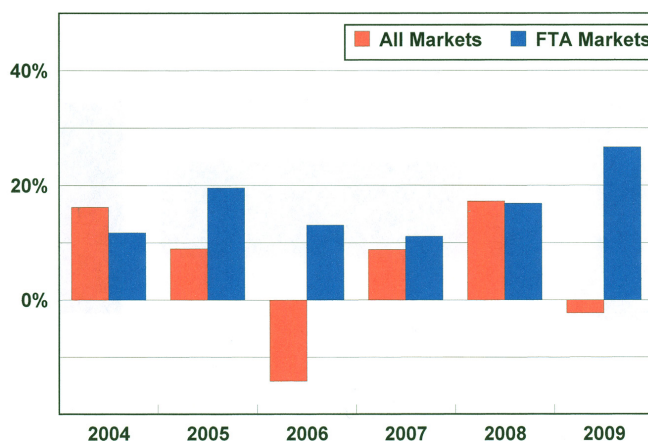
Because only a minority of the state's trade is within an FTA framework, and because most of the agreements are less than a decade old, these are just "the early returns." The evidence is not without qualifications, but it is on balance quite positive. It is no surprise that the nations for which the impact is the largest are those that had the most barriers (probably the reason for the ambiguous evidence for Singapore and Australia). This tells us that the most difficult FTAs to negotiate are probably the ones with the greatest value to our exporters! ■

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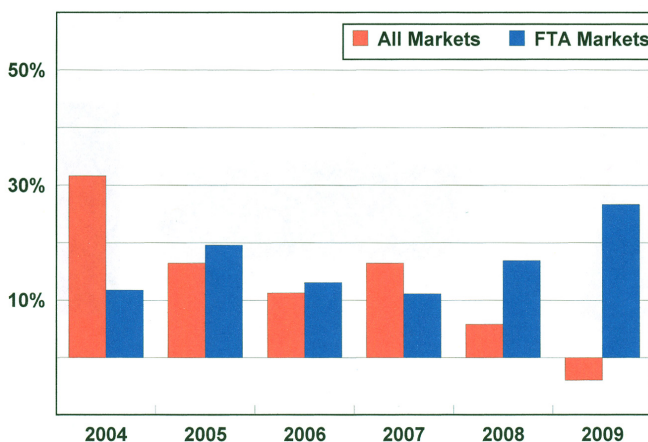
### Business and Economic Research Center

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#### Titanium Dioxide Preparations



#### Whiskey



#### Plastics

