

Global Commerce

Tennessee and the International Economy

JETRO: Your Gateway to Japan

by Toshinari Ishii,
JETRO Senior Trade Advisor

When people fly into Nashville, they see GM/Saturn and Nissan/Altima advertised at the Nashville airport. Saturn was born in the U.S., and Altima was created in Japan, and both cars are being sold in both countries. Today most consumers have the power to make their own purchasing decisions and aren't forced to choose only domestic products. They can consider a variety of elements when making a choice. It's quite a privilege we have today when you consider the market conditions of a not-so-distant past. Choices have been enhanced through the development of the global market.

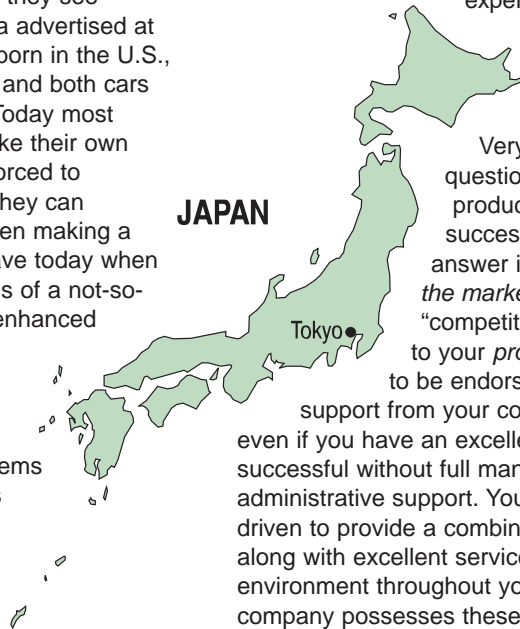
Recently, you have read and heard about Japanese financial institutions and their current problems in Japan. It is true the economy is suffering. However, imported products are still extremely popular and well accepted in the Japanese market. Moreover, they are already integrated into the Japanese consumers' expectations. So, I can say with confidence that no matter how bleak economic conditions may appear at times, there will remain many business opportunities in Japan and with

Japanese companies.

The Japan External Trade Organization (JETRO) rejoined the Tennessee Export Office in March 1995 when it began working as part of Tennessee's Department of Economic and Community Development. It has been almost three years since the JETRO office's reopening, but many business people are still unfamiliar with JETRO and its products. I will share my

experiences in Tennessee as a means of introducing JETRO and the services it can provide you.

Very often I get the question: "What type of products and services will be successful in Japan?" My answer is *anything competitive in the market!* However, the word "competitive" does not refer only to your *product*. That product has to be endorsed by very strong support from your company. In other words, even if you have an excellent product, it will not be successful without full management and administrative support. Your company must be driven to provide a combination of good products along with excellent service in an export-friendly environment throughout your company. If your company possesses these features, it is very likely your product will be successful in Japan.



JETRO is a nonprofit, Japanese government-supported organization dedicated to promoting mutually beneficial trade and economic relationships between Japan and other nations.

How Can JETRO Help Your Company?

An entrepreneur came to me two years ago. He had good ideas but did not have a product. My JETRO office worked with him very closely, and we finally developed a specific idea. The entrepreneur came up with a commodity which he now successfully sells in Japan. He makes it a point to visit his customers regularly in Japan, and he has now been able to expand into other business opportunities. In this particular case, my office provided consultation services.

continued on page 2

INSIDE...

- The "Asian" Flu and Tennessee 3
- Environmental Opportunities in Japan 5
- Tennessee International Trade Report 6

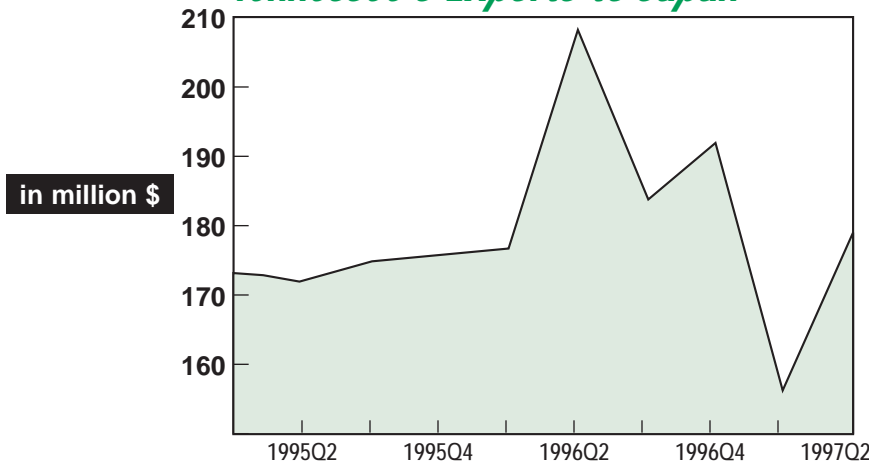
[If your company is] driven to provide a combination of good products along with excellent service in an export-friendly environment.... it is very likely your product will be successful in Japan.

JETRO

continued from page 1

The head of another company asked me how he could sell his product in Japan. At this point, his product had been very successful in the U.S. We sat together and reviewed his business plan, marketing plan, and previous contacts in the Japanese market. Then we decided to revisit one of his earlier Japanese contacts who had shown an interest in the product. During this period of partnership building, my JETRO Nashville office sat on the sidelines and provided translation services, but it was not linguistic translation that was needed. We provided the *business and cultural translation* that was necessary at that point. Even when American and Japanese business people say the same word, it is often comprehended in different ways. After a period of successful, intensive discussions, this company now distributes its product in Japan. My JETRO office was able to provide a service that broke down communication barriers.

Tennessee's Exports to Japan



A communication software company interested in introducing its software to Japan believed in the product's potential there. The JETRO Nashville Office agreed to assist the company with this opportunity. In this particular situation, we applied to JETRO headquarters for a special program that invites companies to come to Japan and meet potential partners. The CEO of the business was selected to participate in this program. He visited Japan and met potential partners which JETRO had selected and prepared. While there, this CEO learned about specific issues his company would need to address and apply to his company's product in order for it to work correctly in the Japanese communication environment. Right now, representatives of a Tennessee environmental company, utilizing this same JETRO program, are in Japan studying their opportunities. Upon their return, we will put together a new strategic plan for the company and take up the challenge of entering the Japanese market together. With these

examples, JETRO was able to provide valuable matchmaker services and research-assistance services.

In all these cases, these Tennessee companies extensively studied the Japanese market and used JETRO's data, resources, and trade databases. Hopefully, these cases have given you a good indication of what services JETRO can provide you.

What is JETRO?

JETRO — the Japan External Trade Organization — is a nonprofit, Japanese government-supported organization dedicated to promoting mutually beneficial trade and economic relationships between Japan and other nations. JETRO was formed in 1958, and its mission then was to assist exports from Japan. However, in the 1970s and 1980s, Japan's exports were very successful, and a strong need was recognized to work with foreign businesses. JETRO then received a new mission to assist foreign businesses with the exporting of their products and services into Japanese markets.

However, JETRO also focuses its efforts on industrial cooperation, technology exchange, and investments. Over the years, JETRO has become a valued resource for thousands of American companies, particularly small and medium-sized businesses new to the Japanese market. In addition to directly assisting private companies, we cooperate closely with national, state, and local economic development agencies, as well as with industrial and trade organizations seeking to promote exports to Japan.

JETRO can offer you:

- individual consultations
- product representation in Japan
- complimentary temporary office space in Japan
- seminars for American exporters
- trade shows and exhibitions

You can also use JETRO as a comprehensive information resource since JETRO has databases and directories, newsletters, market reports, and walk-in libraries. Please note that the JETRO Nashville Office has some limitations. Please feel free to contact the JETRO Nashville Office at 615-741-4815. If you have Internet access, you can also learn more about JETRO and the Japanese markets through JETRO's website at <http://www.jetro.org>.

JETRO's services are a component of your state export office's services. I am looking forward to working with you. ■

Toshinari Ishii is Senior Trade Advisor of JETRO within the Tennessee Export Office. After a career in banking and telecommunications, including an earlier posting in Nashville as Northern Telecom's Vice President of Industry Marketing-Multinational, Mr. Ishii joined JETRO in 1995 and returned to Nashville.

The 'Asian Flu': A Problem for Tennessee?

by Steven G. Livingston, Editor

The crash of the high-flying East Asian economies was the top story in the global economy for 1997. The extent of the damage is still uncertain, as is whether other countries will yet enter this maelstrom, but its effects will appreciably dampen the American economy in 1998. The sharp decline in East Asia's economic growth will erode these nations' capacity to purchase goods and services. This will hurt U.S. exports. But a now vastly stronger dollar will redouble the difficulties of American exporters. The same strong dollar should lead to large increases of East Asian imports into the U.S., often at the expense of American suppliers. Finally, American firms dependent on Asian sales will be suffering lower profits, and hence lower share prices, and these losses will work themselves through the economy. Through this combination of factors, the East Asian difficulties will enter the U.S. A modest estimate is that about one-half percent of projected American economic growth — something in the range of \$50 billion — will be lost.

The Japan Factor

Indonesia, Thailand, and Malaysia are not huge economies. Korea, the fourth victim of the Asian flu, is bigger but still not large enough to seriously affect the U.S. economy. Japan, however, is another story. Already mired in its own economic difficulties, Japan will be significantly harmed by the problems of its neighbors. It is really the Asian flu's impact on Japan that will most affect America in 1998.

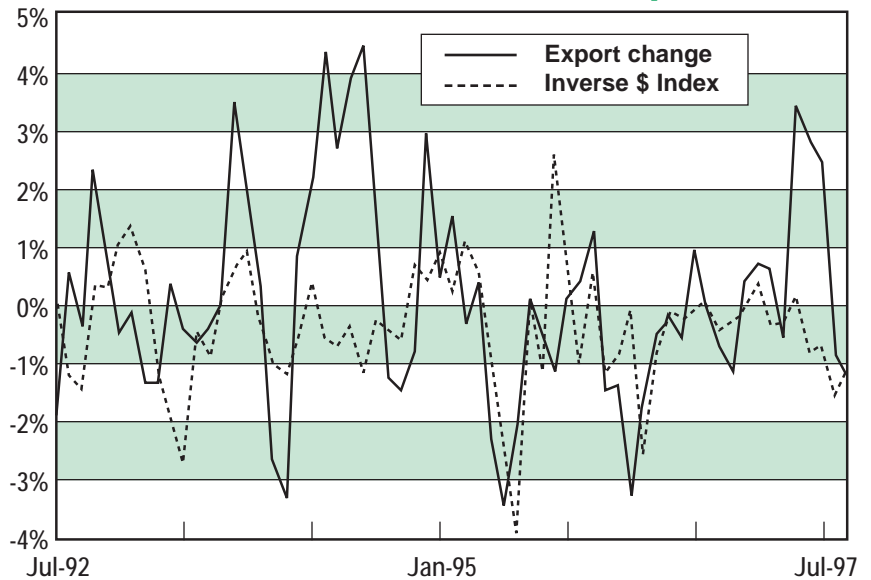
How will Tennessee fare in this environment? A moderate projection is that the state economy will lose around \$750 million in growth as a result of East Asian troubles.

State Exports

Tennessee sends a little under four percent of its exports to the Asian flu's victims, about two-thirds of the level of the entire U.S. In 1996, Tennessee exported \$185 million in products to Korea (the state's 13th largest market), \$98 million to Indonesia (17th), \$55 million to Thailand (24th), and \$40 million to Malaysia (35th). In the case of

Southeast Asia, much of the exports are concentrated in the agricultural and chemical sectors. Japan, of course, is a much larger market, but Tennessee is still somewhat less reliant upon it than the rest of the nation. Japan takes about 8.5 percent of the state's exports against just under 10 percent for the whole U.S. The bad news is that most of state exports are in the capital goods sectors most likely to be affected by the economic slowdown.

The Value of the Dollar Affects Exports



(The inverse \$ index is lagged six months.)

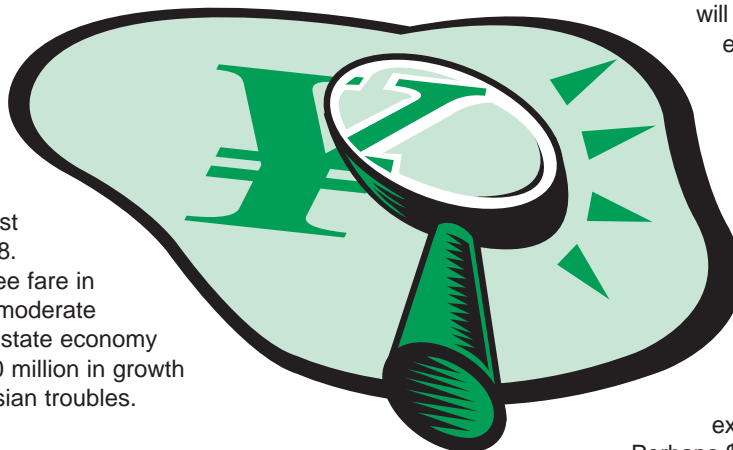
How much of Tennessee's exports will be lost? Simple forecasting models suggest the worldwide strengthening of the dollar will significantly affect

export growth by mid-1998 and, over the next year, Tennessee firms will ship around \$300-340 million less in exports than they would have under more favorable exchange rates.

Perhaps \$120-140 million of these "lost" exports will be in the affected East Asian Newly

Industrialized Countries (NICs), another \$60-80 million in Japan, and the rest elsewhere (the dollar has been rising around the world, and sales will be lost to cheaper Asian competition). A caveat: currency depreciations of this scale have not been

The bad news is that most of state exports are in the capital goods sectors most likely to be affected by the economic slowdown.



continued on page 4

A moderate projection is that the state economy will lose around \$750 million in growth as a result of East Asian troubles.

'Asian Flu'

continued from page 3

seen in some years, and these projections, made from smaller swings, may overestimate their impact.

More difficult to estimate is the impact of Asia's economic slowdown. Current estimates of the slowdown range widely, but a safe figure is that growth will be halved in the East Asian NICs and will be virtually nil next year in Japan. If so, export losses stemming from the economic slowdown might amount to another \$10-20 million among the NICs and upwards of another \$40 million to Japan. However, several recent quarters of sharply dropping Tennessee sales to Japan and other East Asian markets suggest that a portion of this contraction has already occurred. Altogether, the state looks likely to forego in the neighborhood of \$380 million in sales because of the Asian crashes. One-third of this loss will be in the transportation sector, and another \$15 million or so in apparel sales. The machinery industry and agricultural goods look to be the other sectors taking bit hits.

in any great quantity. The impact on electrical components and machinery sales, however, is more problematic. Tennessee's robust electrical equipment and machinery sectors may feel the domestic effects of the strong dollar as much as any of the state's industries. One would think that the textile and clothing sectors would bear the main burden of cheap Asian imports but for one fact: much of this trade is heavily protected and subject to quotas, so it may escape. In sum, Tennessee may be better insulated from a surge in imports than many other states. But adding Japan changes the story. The Japanese auto industry and portions of its machinery industries compete directly with Tennessee. Fears of a renewed Voluntary Export Restraint may restrain auto and truck exports, but the same cannot be said for auto parts. Early analyses suggest this portion of the auto industry is likely to bear the brunt of the enhanced import competitiveness stemming from the strong dollar. Based on U.S. projections, it is reasonable to assume that something on the order of \$100 to 150 million of potential Tennessee production will be displaced by East Asian imports over 1998.

A Regional Perspective

The economic fallout of the East Asian crisis will be significant, but it will not be felt equally across the state. A quick glance at the accompanying table shows that Knoxville, and especially Nashville, will bear the brunt of the Asian crisis within this state. In a nutshell, this is because of the auto industry and its ties to Japan. Knoxville also is home to a significant apparel industry that will likely suffer losses. Memphis figures may be a little misleading. The port of Memphis brokered large sales of out-of-state crops to Korea and Indonesia, which inflate its percentages. However, in-state agricultural goods and food products from the Memphis area will be hurt. Chattanooga looks to lose relatively little in the way of exports, although its textile plants may face increased pressure from imports. It, along with the Jackson area, may actually be among the less affected areas of the U.S. The tri-cities' exports (where country data is not available) will ultimately depend on the severity of the price declines Eastman Chemical is already reporting in its chemical sales, though its textile firms may also be vulnerable to cheap East Asian competition.

Before hitting the panic button, we should again stress that what we will be seeing is a reduction in the *growth* of the state economy. Given a booming economy in Canada, our largest market, and solid growth in Europe and Latin America, we should not expect large losses in foreign sales — instead we will probably see the recent burst in state exports falter and then sales remain flat for the rest of 1998. However, that the collapse of several mid-sized economies thousands of miles away can produce a shock wave of about three-quarters of a billion dollars in Tennessee reminds us how globally integrated this state's economy has become. ■

Percentage of Exports to Selected Asian Countries

	Japan	S. Korea	Indonesia, Malaysia, and Thailand
U.S.	10.81%	4.25%	3.15%
Tennessee	9.35%	3.44%	2.48%
Chattanooga	5.98%	1.21%	2.07%
Jackson	1.27%	0.13%	0.41%
Knoxville	7.96%	5.25%	2.58%
Memphis	6.62%	5.18%	4.81%
Nashville	18.16%	0.95%	0.62%
Other TN	4.06%	2.31%	0.50%

State Imports

A double-digit surge in U.S. imports from East Asia is already occurring, but the lack of good data on imports by state makes anything more than a seat-of-the-pants analysis difficult. East Asian exports are concentrated in several areas:

- electronics (especially computers), toys, electrical components, machine tool accessories, and textiles and apparel. Tennessee does not have much of a computer industry, and its consumer electronics sector is already almost completely reliant on imported parts. Nor does it produce toys

Environmental Opportunities in Japan

by Mark Chernisky
Environmental Systems Corp., Knoxville

Recent domestic and international developments have compelled Japan to institute changes not only in its trade and business practices but also in its environmental practices and regulations. These changes indicate openings for foreign suppliers of environmental products and services to the Japanese market, where U.S. environmental technologies and expertise are reported by the Department of Commerce to be highly regarded.

The early implementation and enforcement of the World Trade Organization agreement by the Government of Japan should particularly benefit environmental firms that cater to the Japanese government, as the focus of implementation is on government offices and the electric power sector. Prohibitive government procurement practices and procedures will be scrutinized and forced open to foreign suppliers. Both U.S. and Japanese government offices will now field complaints and monitor agencies' compliance with WTO rules. Since 1997 government offices have been reporting their compliance with former Prime Minister Murayama's environmental action plan, which is geared toward the purchase of environmentally responsible office and operational products.

The Japanese government's pressure to emphasize the environment results from domestic health and environmental crises and its commitment to "Agenda 21" and leadership in the development of the global economy. Japan recently hosted the "Global Partnership Summit on the Environment" in Kyoto, while the Ministry of International Trade and Industry sponsored "ECO Japan '97," an international environmental products/services trade fair.

Though Japan's population is half that of the U.S., its area is only as large as California, resulting in very intense energy and waste problems. Municipal and industrial waste incineration is a commonly accepted practice due to the severe lack of space for landfills. Moreover, Japan imports a tremendous amount of oil and coal for electric power generation, exposing Japan to such risks as the crash of a Russian oil tanker on its coast, which pressured the transportation/maritime industry to improve its procedures and preparedness for environmental, safety, health, and oil spill crisis prevention and clean-up. Japan's nuclear energy

sector is under increased pressure to reform its environmental safety and health procedures after a serious explosion and disclosure of a 30-year-old leak in a spent nuclear fuel facility last year.

The environmental regulatory system in Japan is fairly new; the Basic Environmental Law was passed in November 1993, and the Basic Environmental Plan was released in November 1994. National implementation of environmental regulatory activities is shared primarily by the Environment Agency (EA), which serves as the primary promoter, coordinator and clearinghouse, and the MITI and the Ministry of Health and Welfare (MHW), which perform regulatory enforcement and implementation.

Japan is still developing uniform national guidelines and regulations for soil and groundwater standards, environmental assessment, and stronger dumping penalties. To reduce groundwater contamination, in March 1997 the

EA's Central Council for Environmental Pollution Control recommended discharge limits for 23 chemical substances. Although Japan is the only major industrial country not to have an environmental impact assessment law, one has been submitted to the legislature. A department exists within the EA to coordinate and support government agencies' independent impact assessment activities.

Japan's municipalities and industry employ an estimated 1,600 to 2,000 waste incinerators. The discharge of toxins into the air, soil, and water from incineration of plastics has been publicized.

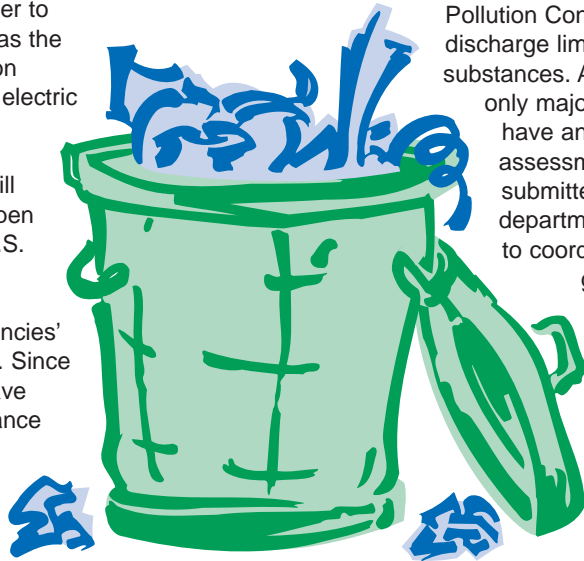
According to recent figures, incinerators compose the fastest growing group of air pollution equipment purchases and installations.

The penalties for illegal dumping of hazardous waste will soon be multiplied by a factor of 100 if the Diet accepts the MHW's 1997 proposal. Yet Japan has no specific "waste" bureau. National waste regulation and enforcement are shared by the EA's Water Quality Bureau, the MHW, and MITI.

Much environmental responsibility and authority is delegated to prefectures and municipalities. Tokyo and Yokohama municipal governments recently implemented volume-based "pay as you throw" trash disposal programs. Japanese law empowers prefectural governors to require permits and review applications for facility construction, order specific preventive/corrective action, require monitoring and reporting, and conduct surprise inspections of environmental equipment and practices of new project petitioners and existing polluters.

Japan recently granted approval to a U.S. firm to supply up to seven refuse-incinerating electric

Public pressure, international commitments, and necessity require Japan to further implement environmental policies and open its doors to foreign suppliers.



continued on page 6

Environmental

continued from page 5

power generation facilities, the first time any foreign power engineering/construction firm has been granted this level of access. As of 1995, fifty-eight electric power generating plants were planned for construction by 2000. Electric power generation units constitute the largest purchases of air pollution equipment.

Public pressure, international commitments, and necessity require Japan to further implement

environmental policies and open its doors to foreign suppliers. The currency rate (\$US 1 = ¥130 vs. ¥80 eighteen months ago) renders U.S. products less competitive, but as Japan is one of the largest U.S. trading partners and Japanese space/land problems are becoming more severe, opportunity now exists for U.S. environmental companies to position themselves and promote their products and services in the Japanese market. ■

Mark Chernisky is pursuing a master's degree in planning at UT/Knoxville. His e-mail address is marche@envirosys.com.

3rd Quarter 1997

Tennessee International Trade Report

Though in 1997 Tennessee continued to run a trade deficit within NAFTA, the good news is that this deficit is shrinking.

In back-to-back quarters, Tennessee firms have posted some remarkable export figures. After a sterling second quarter, third quarter foreign sales again increased nearly \$420 million dollars over last year. This was better than 19 percent, well ahead of the national 12 percent gain in exports. State exports continued their surge in October and November, promising an equally rosy fourth quarter report. *Global Commerce* is still awaiting extremely late statistics on the sectoral and geographic breakdown of third quarter exports; we will instead focus on the state's recent performance under NAFTA.

Though in 1997 Tennessee continued to run a

trade deficit within NAFTA, the good news is that this deficit is shrinking. More specifically, there has been very strong export growth to both Canada and Mexico. Indeed, this is the explanation for much of the state's powerful recent trade performance. Exports within NAFTA grew at better than twenty-one percent over the third quarter, exceeding the growth of sales elsewhere in the rest of the world.

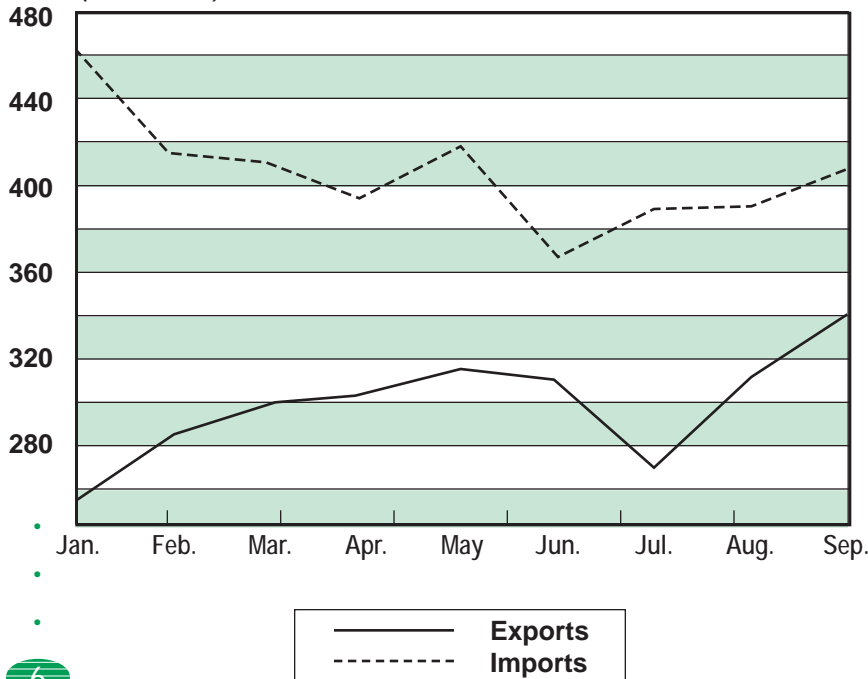
These overall statistics disguise some important differences in the state's trade with the two NAFTA partners. The state actually has been running a modest surplus with Canada over 1997 (a little over \$100 million through October), while it continues to rack up a sizable deficit with Mexico. Tennessee trade with Mexico was nearly one billion dollars in the red through the first three quarters of this year. However, state exports to Mexico are growing at an astonishing rate: better than fifty percent a quarter. As noted in a previous article, the deficit with Mexico is entirely due to the pattern of the state's auto trade. Auto-related exports to Mexico are not exactly small potatoes, reaching over \$276 million through last September (48 percent of all state exports), but they are dwarfed by the state's automotive imports, which are well over a billion dollars and account for nearly eighty-two percent of Tennessee's purchases from Mexico. Apparel imports have grown more rapidly than those of any other industry, although this state's apparel makers have maintained solid export sales south of the border.

The automotive industry also dominates exports to Canada. Through October, about \$1.9 billion of the state's \$3.48 billion in Canadian exports were in this sector. Chemicals and agricultural goods are two other major sectors posting big numbers in 1997. At one billion dollars through October, oil and gas still account for a third of the state's Canadian imports, but at \$800 million, transportation sector imports are closing the gap. Wood products and paper constitute the lion's share of the rest of Canada's 1997 sales to Tennessee, and both have grown strongly.

It's worth remembering that, while Asia attracts the attention, in 1997 Tennessee has been exporting as much to its NAFTA neighbors in a month as it does in a year to the four sufferers of the Asian flu. ■

Tennessee's 1997 NAFTA Balance of Trade

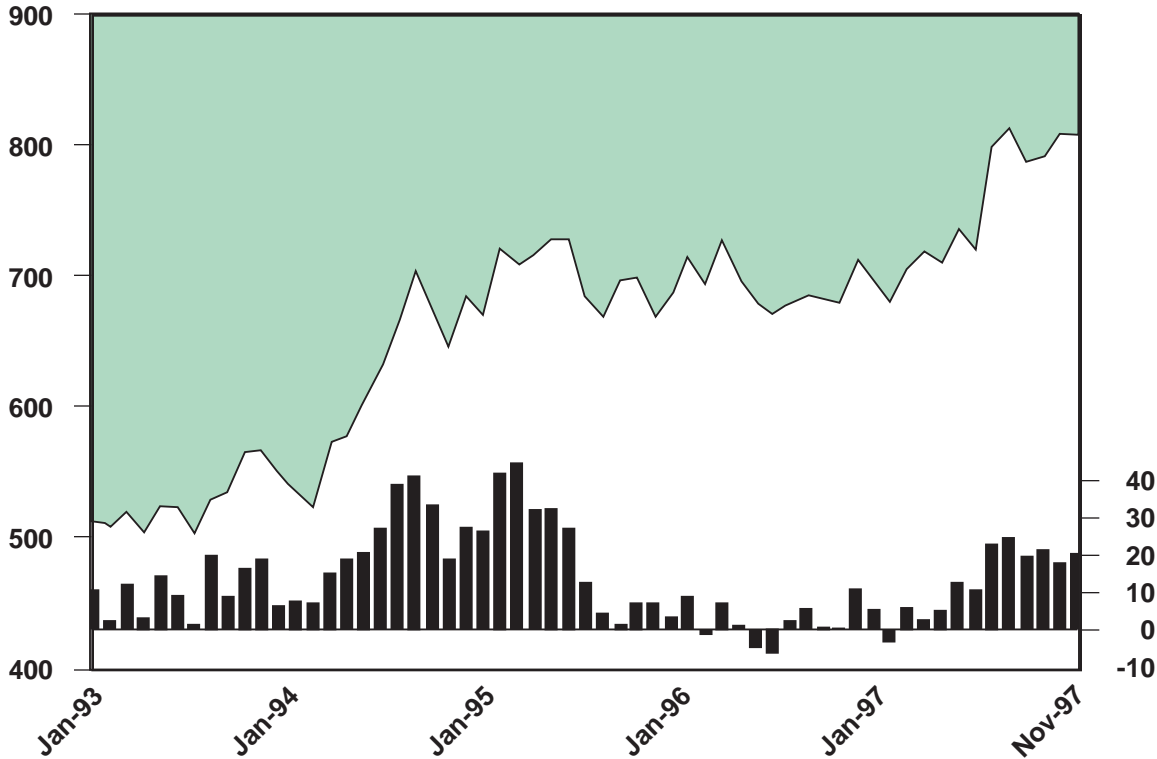
(in \$ millions)



Tennessee Monthly Exports

Exports in \$Million

Nominal Growth Rate (%)



State exports are growing at their fastest pace in three years.

(Seasonally adjusted, expressed in 1993 dollars)

GlobalCommerce

Global Commerce: Tennessee and the International Economy is published quarterly by the Business and Economic Research Center in cooperation with the Tennessee Export Office as part of Project International, an MTSU partnership with BellSouth Telecommunications and the World Trade Council of Middle Tennessee Inc. Publication is supported by a grant from the U.S. Department of Education. *Global Commerce* is available free of charge to interested individuals and institutions.

Editor: Steven G. Livingston
Publications Editor,
College of Business: Sally Ham Govan
Phone: 615-898-2610

Tennessee Department of Economic and Community Development

Tennessee Export Office
 320 Sixth Avenue North, 7th Floor
 Nashville, Tennessee 37243-0405

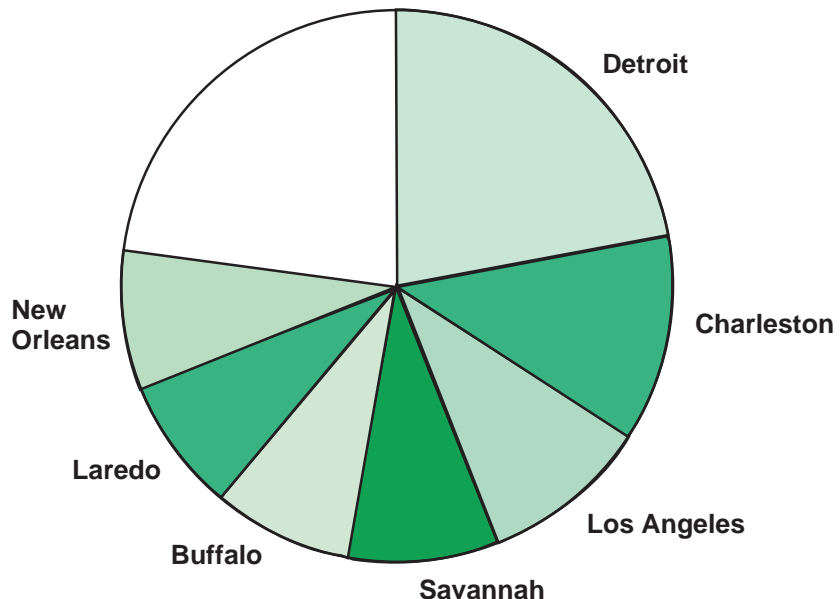
Governor: Don Sundquist
Commissioner: William A. Dunavant, Jr.
Export Director: Andy Pelych
Associate Editor: Bob Pawlick.



A Tennessee Board of Regents Institution
 MTSU is an equal opportunity, non-racially identifiable educational institution that does not discriminate against individuals with disabilities.

Tennessee Exports by Port District

Three-quarters of all state exports go through seven port districts.



Address correction requested

State exporters have done amazingly well in the face of one of the worst foreign exchange environments in some time.

Tennessee Trade-Weighted Dollar Index

The hard part is finding the silver lining. The East Asian financial crises and the dollar's continuing strength in Europe, combined with year-end slides by the Mexican peso and Canadian dollar, produced a dramatic rise in the state's dollar index over the last half of 1997. In December the index stood at 126.5, over 7 percent higher than in June. December alone produced a 3.32 percent (4.07 point) increase, the highest in a single month since January 1995.

While East Asia gained all of the attention, the currencies of nineteen of the twenty-two countries composing the index fell against the dollar during the past six months. China, Hong Kong, and Saudi Arabia, where currencies are more or less linked to the dollar, were the only holdouts. For much of 1997, the dollar strengthened primarily against European currencies. This momentum finally stalled in early autumn, but there was no respite for exporters, for then came the financial crashes in Southeast Asia and Korea. These countries are not huge markets for Tennessee, but the massive declines of the Indonesian rupiah, Thai baht, and Korean won accounted for half of the rise in the dollar index since June.

The bulk of the rest was due to Canada, Mexico, and Japan. Canadian and Mexican currencies did not fall that much (around three percent each), but these countries are the state's largest markets. The yen fell much more — almost thirteen percent — and accounted, singlehandedly, for over a tenth of the rise in the index.

State exporters have done amazingly well in the face of one of the worst foreign exchange environments in some time, but history suggests the soaring dollar *will* eat into state export growth, probably by this spring. If the invincible greenback does have a silver lining, it must be the tremendous opportunities made available for the state's importers. ■

