



Global Commerce

Tennessee and the International Economy

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TENNESSEE TRADE & THE BRIC

BRAZIL, RUSSIA, INDIA, & CHINA

by Steven G. Livingston

The hottest acronym in international economics must be “BRIC.” This refers to Brazil, Russia, India, and China: the largest and most influential countries of the developing world. The term was coined by a Goldman Sachs analyst back in 2001, but it has taken on a life of its own. The BRICs even held their own international summit in Russia in June. If ever there was an example that the global economy has entered the post-modern era, it must be when an analytic construct decides to become an actor!

The BRIC is important because many assert the lion’s share of global growth over future years will be in these four markets. In the case of international trade, the four already account for 14% of world imports outside of the U.S. Projections are that this figure will become much greater in future years. These nations will of necessity become much bigger targets for U.S., and Tennessee, exporters.

Like most constructs, BRIC hides differences behind similarities. The four BRIC nations are hardly the same. The chart shows their substantial divergences. Russia is the smallest of the four, and in another generation it will be quite a bit smaller. It is also a mono-economy, heavily oriented to oil, gas, and mineral production. India is, by quite a bit, the poorest and the youngest. Its economic needs remain more basic than those of the other three. Brazil is perhaps the most internally diverse, with portions of the country essentially fully developed while other regions remain poor. And China, of course, is economically almost on a different planet than the others. It has by far the largest and fastest-growing economy. In fact, the BRIC might remind some of the old joke from the 1960s, when the dictator of China’s small, solitary European ally announced that “together, the 803 million people of China and Albania cannot be defeated.” Maybe China doesn’t need the BRIC!

But despite these differences the BRICs share two important features. They are very sizable economies, each potentially among the world’s 10 largest, and they are growing rapidly. The current global crash has certainly affected them (although China’s growth still continues at around

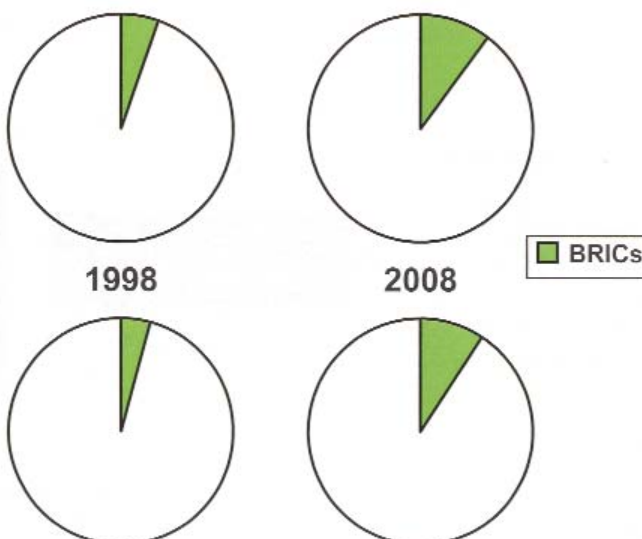
	Brazil	Russia	India	China
Population (millions)	140	199	1,165	1,339
Median Age	28.6	38.4	25.3	34.1
GDP (trillions)	1.99	2.225	3.267	7.8
GDP/Capita	\$10,100	\$15,800	\$2,800	\$6,000
2008 GDP Growth	5.20%	6.00%	6.60%	9.80%
10-yr Avg. Annual GDP Growth	2.60%	7.00%	7.00%	8.50%
Exports (billions)	200	476	175.7	1,465
Imports (billions)	176	302	287.5	1,156
% of Imports from U.S.	15.70%	4.80%	7.80%	7.30%

7% this year), but comparatively they have fared better than much of the world and continue to have remarkable potential for future growth. It is quite correct to presume that these economies are in the forefront of future trade and foreign investment possibilities.

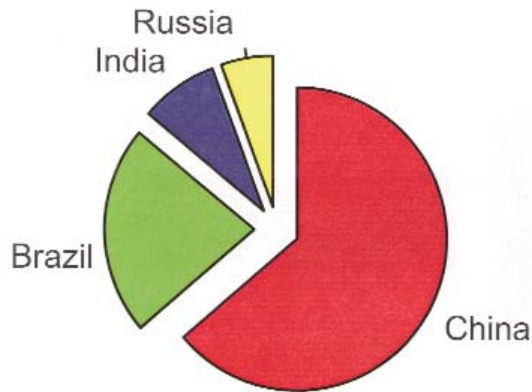
Here we focus on trade. As we can see, the U.S. is a substantial, though not overwhelming, exporter to each of the BRICs. Russia remains the smallest market. This is because it is one in which it is most difficult to do business (i.e., the

continued on page 2

BRICs' Share of Exports



Tennessee's BRIC Exports (2008)



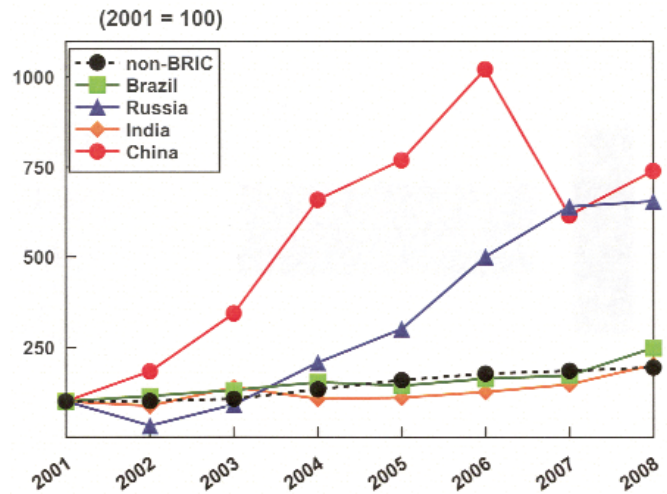
BRIC

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least open) and because it has the most narrow economy. From the U.S. perspective, total exports to the BRIC have risen rapidly over the past decade. In 1998, these four nations bought about \$24.5 billion of U.S. goods. Ten years later that grew to \$132.4 billion: a doubling of the share of total U.S. exports that go to the BRIC markets. The story is largely the same for Tennessee. The four BRIC nations purchased \$2.14 billion in state-produced goods in 2008, or 9.2 percent of total state exports, about double the percentage of a decade ago. If we thought of the BRIC as a single market, for Tennessee exporters it would approach in size that of Mexico's. However, Tennessee does somewhat lag the nation in its export growth to the BRIC. This is primarily because of a relatively poorer performance in India. A look at the trend of Tennessee's BRIC exports shows that two markets, India and Brazil, have grown roughly in line with its non-BRIC exports. (Though each has grown a bit faster.) Russia and China have been the most dynamic for this state.

State exports reflect these markets. The largest category of exports pertains to textiles and apparel production (including cotton). Last year this amounted to more than \$540 million, about a quarter of total BRIC exports. Chemicals

BRIC Export Performance



accounted for about \$160 million in state sales and base metals another \$200 million. Plastics, electronics and computer equipment, and medical instruments are the other sizable export sectors to this "region," each with exports well over \$100 million in 2008.

What does the future hold? Of course, much of that future will be made in the four countries concerned. Each has obstacles to overcome, and reforms that must be made, to maintain their continued growth. But the evidence of the past decade is that they will be increasingly important markets for state exporters. Just a quick look at the largest import sectors for each of the BRICs reveals sizable opportunities for Tennessee businesses. Many of the products these countries are buying are made in this state. The most problematic might be the very large opportunities in the automotive sector, given the intense global competition in that sector. But Tennessee automotive parts exporters have already shown they can crack the Brazilian market. Heavy machinery also offers excellent possibilities across all four BRIC states. Indeed a look at these "top 10s" shows only a few products that are not made by any Tennessee exporters.

It will be interesting to see if the four BRIC nations succeed in becoming anything more than an acronym. Either way, this acronym is very likely to become increasingly important to businesses in Tennessee and around the world. ■

Top 10 BRIC Imports

Brazil	Russia	India	China
Passenger Cars	Passenger Cars	Gold	Electronic Integrated Circuits
Motor Vehicle Parts	Telephonic Switching Apparatus	Diamonds	Iron Ore
Potassic Fertilizers	Medicaments	Aircraft	Optical Instruments
Telephonic Switching Apparatus	Motor Vehicle Parts	Coal Products	Computers
Electronic Integrated Circuits	Commercial Vehicles	Phosphate Fertilizer	Soybeans
Coal Products	Computers	Copper Ore	Telephonic Switching Apparatus
Medicaments	Tractors	Transmission Apparatus for Radiotelephony	Refined Copper and Alloys
Phosphate Fertilizer	Television Receivers	Computers	Semiconductor Devices
Turbojets	Bulldozers and Graders	Flat-Rolled Iron and Steel Products	Computer Parts
Nitrogenous Fertilizers	Beef	Potassic Fertilizers	Motor Vehicle Parts

1st Quarter 2009

MEDICAL EXPORTS (MISCELLANEOUS MANUFACTURED GOODS) WERE THE SINGLE STAR.



Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$754,561,986	-27.1%	-25.0%
Chemicals	\$624,906,163	-28.0%	-11.6%
Computer and Electronic Products	\$693,124,098	-18.0%	-15.9%
Miscellaneous Manufactured Goods	\$704,005,237	18.2%	-3.8%
Nonelectrical Machinery	\$369,843,031	-23.1%	-20.3%
Primary Metal Manufacturing	\$201,820,316	11.3%	-12.3%

1st Quarter 2009

WAR ACCOUNTS FOR SEVERAL OF THE STATE'S TOP MARKETS.



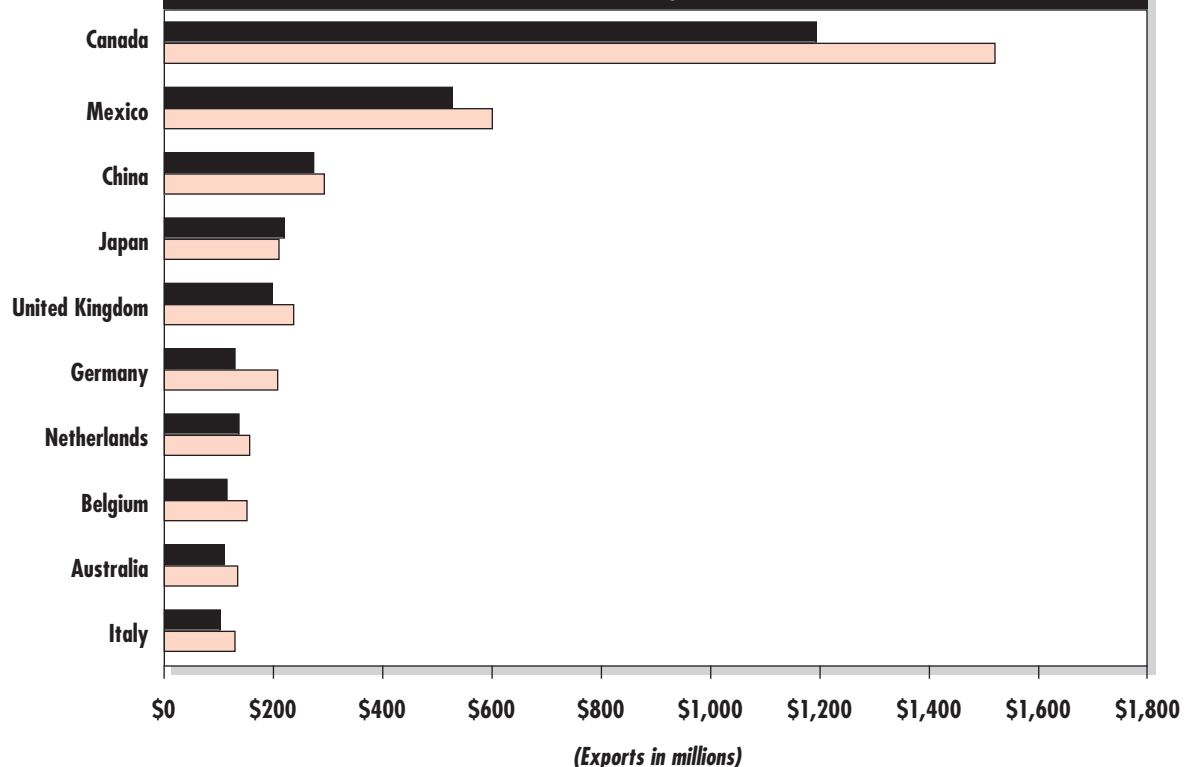
Fastest-Changing Export Destinations

	Value of Exports	Gain	Decline
COUNTRIES WITH THE GREATEST GROWTH			
Luxembourg	\$67,286,949	421.7%	
Iraq	\$20,2324,997	195.8%	
Lebanon	\$6,469,577	180.5%	
Nigeria	\$5,305,872	141.1%	
Afghanistan	\$11,085,513	68.3%	
COUNTRIES WITH THE GREATEST DECLINE			
Macao	\$135,644		-98.5%
Haiti	\$1,975,664		-61.5%
Sweden	\$14,163,451		-60.6%
Oman	\$9,034,402		-59.4%
Portugal	\$11,098,305		-58.1%

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

1st Quarter 2009
1st Quarter 2008

Tennessee's Leading Trade Partners



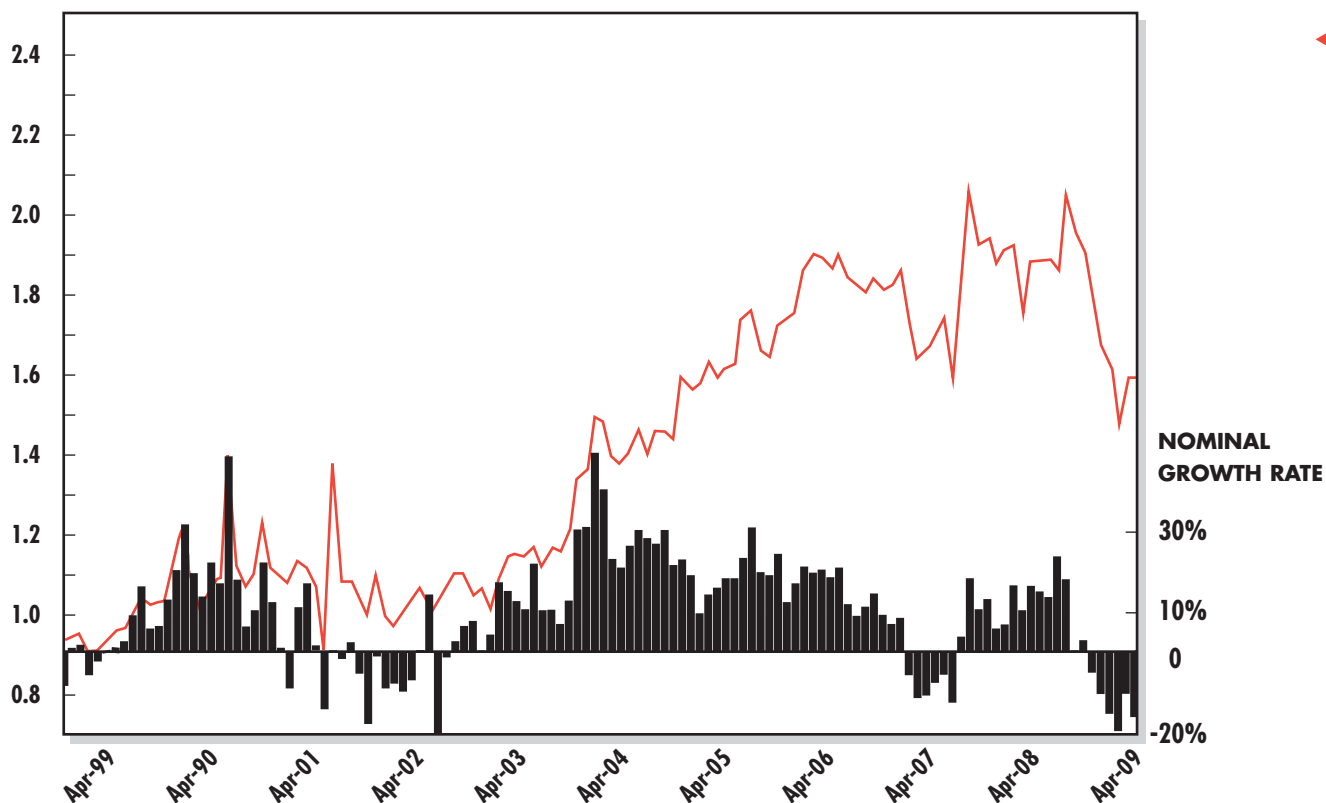
THE ONLY LARGE MARKET TO GROW WAS JAPAN.



Tennessee Monthly Exports

Exports in \$ billions —

(Seasonally adjusted, expressed in year 2000 dollars)



1st Quarter 2009

What's Hot and What's Not*

	Value of Exports	Growth	Decline
SECTORS WITH THE GREATEST GROWTH			
Semiconductor Media Storage Devices	\$16,517,878	67,880.4%	
Special Purpose Vehicles	\$13,533,770	4,460.0%	
Soybeans	\$36,548,889	759.1%	
Medical Needles and Catheters	\$44,638,440	364.1%	
Frozen Chicken	\$15,589,099	287.2%	
SECTORS WITH THE GREATEST DECLINE			
Integrated Circuits	\$6,578,846		-86.3%
Plastic Coated Paperboard > 150g/m2	\$4,841,015		-82.7%
Engines	\$8,819,511		-74.2%
Mufflers and Exhaust Pipes	\$4,132,625		-74.1%
Aluminum Waste and Scrap	\$4,791,097		-70.9%

*Among Tennessee's top 100 exported goods

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**MIDDLE
 TENNESSEE**
 STATE UNIVERSITY



HOW BAD WAS IT? OVER THE PAST 10 YEARS, NOTHING ELSE COMPARES.

How bad was it? That seems the best question to ask in the middle of a worldwide recession. Trade has borne the brunt of the global economic slowdown, and Tennessee exporters were not immune. State exports fell more than \$600 million dollars from the first quarter of last year. At \$4.59 billion, this amounts to an 18% drop in foreign sales. (For what it's worth, this was not quite as bad as America's overall 22% decline.) Over the past 10 years, nothing else compares. The third quarter of 2001 (the quarter of 9/11), the second-worst quarter of the past decade, saw a drop in trade only half as large as what we are now experiencing.

As might be expected then, almost all products to almost all countries saw significant declines in their foreign sales. Only one of the state's large markets, Japan, actually grew over the quarter. This was because of substantial increases in medical sales: medical instruments, pharmaceuticals, and orthopedic goods. Medical instrument sales also account for the spectacular, if fluky, increases in exports to Luxembourg, the state's single best-performing market for the quarter. Tennessee increased its exports to exactly 11 out of the state's top 50 markets. Two other strong markets, Iraq and Afghanistan, owed their success to the American war efforts in those two countries.

Southeast Asia was arguably the worst-hit region. There exports dropped by a third. Computer equipment and electronics sales suffered terribly. As a result, only Indonesia, which primarily purchases apparel-related products, was spared. It managed just an 8% decline in exports. The Middle East was nearly as bad. Very large declines in automotive sales, along with sales of aluminum plating, led to a 15% fall in exports (from \$305 to \$219 million). The Chinese economic area also posted double-digit percentage losses. China itself saw a drop of "only" \$17 million in trade, thanks to a continuing increase in cotton and filament tow purchases from Tennessee. But the region's overall losses were also on the order of 15%, concentrated in chemicals and electronics. The story in Latin America was similar: a 13% decline, with the chemical and electronics industries again bearing the brunt.

Unfortunately, things were no better close to home. Tennessee exports to Canada were down a full 21%. Heavy machinery, auto parts, and electronics (including video games) all took large losses. In Mexico, large losses across the chemical and automotive sectors led to an 11% drop in exports. These losses were mitigated a bit by increases in cotton and soybean sales. Soybean exports were in fact one of the few bright spots for the quarter. Tennessee's global sales of soybeans increased from \$4.2

million in the first quarter of 2008 to \$36.5 million this past quarter.

Europe was the comparative bright spot (if we do not count the small African market, which remained virtually unchanged for the quarter, at \$65 million). Losses were held to 8%, although this in fact amounts to a loss of about \$250 million in sales. The relatively good performance was due mostly to strong medical-sector and orthopedic-goods sales to the region.

In fact, medical equipment is the one genuinely bright story here. Medical instrument sales actually rose by 12% for the quarter (to \$362 million). This vaulted the industry into the top spot among the state's export sectors. Orthopedic exports were up by 25% and artificial joints another 62%. Medical needle and catheter exports gained a dramatic 364%. Medicaments grew by 57%, and surgical catgut a robust 200%: a remarkable achievement under current conditions!

The state's traditional big-export industries, on the other hand, fared worse. The auto, electronics and computer, and chemical industries all suffered 20+% declines, more or less spread across the globe. Industries intimately connected to economic growth, such as metal scrap and waste, fell dramatically. Even Tennessee whiskey, normally impervious to slowdowns, saw its exports reduced by 11%.

April exports were down another 16%, indicating that we are still far from seeing the bottom of this crash in exports. It is unreasonable to expect to see better numbers while the recession continues. Given the cyclical nature of several of the state's largest industries (transportation and electronics), we can only hope that the turnaround will be quick and decisive when it finally arrives. Until then, expect to see continued difficulties for Tennessee's exporters. ■

