



# Global Commerce

## Tennessee and the International Economy

Volume 15 Number 2 Fall 2009

## WHO'S NEXT IN LINE?

### TRADE AFTER THE CHINESE TIRE DECISION

by *Steven G. Livingston*

The recent decision to protect American-made tires from Chinese competition signals a new toughness on the part of the Obama Administration. Can we expect other Chinese imports to be similarly targeted for protection? If so, how will the Chinese react? Indications are that China will play tit-for-tat. In response to the tire tariffs, it has announced its own new tariffs on American frozen chicken imports. It also sanctioned imports of adipic acid, a chemical used in the production of nylon and PVC, though it has not publicly linked this to any U.S. action. Rumors abound that automotive imports may be sanctioned as well. For this state, what might be the impact of these, and future, actions?

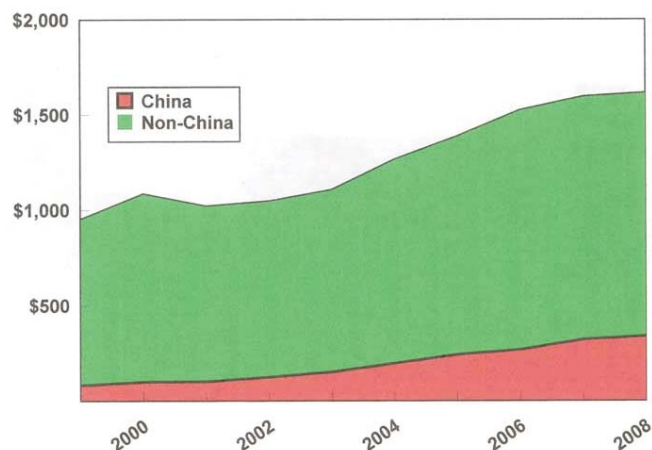
This September, an International Trade Commission (ITC) investigation found for American advocates wishing to reduce damaging levels of Chinese tire imports. The investigation took place under the safeguard provisions of the 1974 Trade Act. These provisions aim to limit imports that are increasing so rapidly as to harm an American

industry. Such investigations are to determine (1) whether imports from the target country are increasing rapidly, (2) if the domestic industry has been materially injured (or threatened with such injury), and (3) if it is in fact the imports that are producing the injury. Incredibly enough, none of the key terms in the Trade Act (“increasingly rapidly,” “domestic industry,” “materially injured,” or “threatened”) are defined in the statute. The results are long investigations and, in this case, a divided vote. Nevertheless, the end result was the imposition of a tariff of 35 percent on Chinese passenger-tire imports.

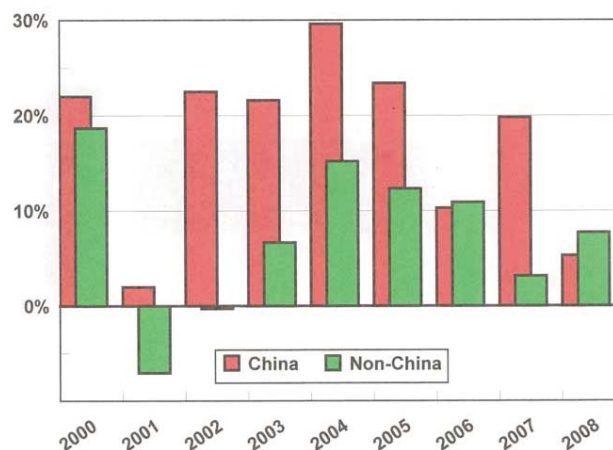
This case, of course, really grows out of the rapid increase in imports from China of a very large assortment of manufactured goods. China is hardly the source of most American imports, contrary to what many seem to think these days, but it is clearly a growing source, and has been for the last decade. With regard to tires, we can see the broad outlines of the American case. The value of American-produced tires has stagnated over the past decade, at about \$6 trillion, whereas imported tires have doubled in value. Given the trends of the past decade, foreign-sourced tires would exceed American made tires within a year or two. As we can see, China is not yet a dominating importer, though its exports of tires to the U.S. have indeed grown rapidly over the past four years. China

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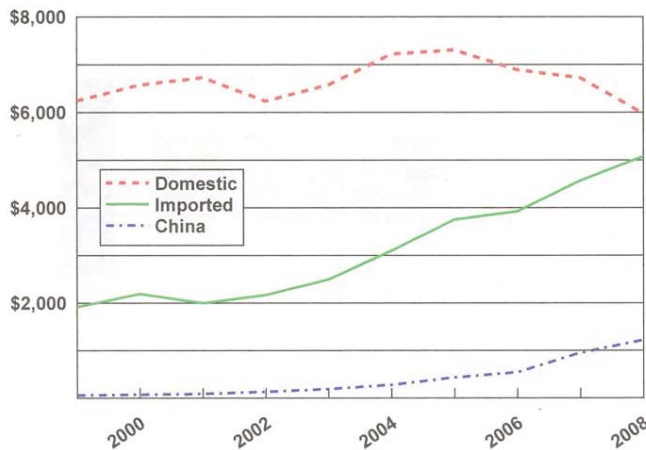
**U.S. Imports 1998-2008 (in \$billions, excluding oil)**



**Import Growth Rates: China vs. the World**



## Value of American Tire Purchases



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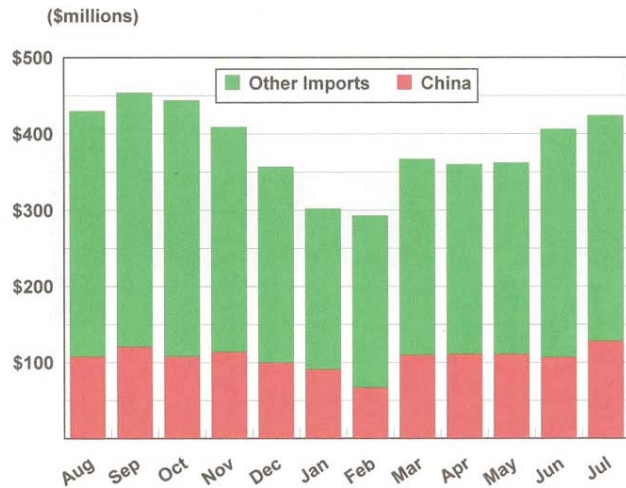
accounted for about half of the increase in tire imports since 2004. Only in 2007 did it become the largest single tire exporter into the U.S.

The safeguards decision may have economic ramifications for Tennessee, the home of about 10% of America's tire production. More than 20 Tennessee rubber and plastics manufacturers have won help under the U.S. trade adjustment assistance program over the past two years, suggesting real hurt in the industry. Six of these cases directly involved tires (or components). However, help will come only if car and truck sales rebound and if other importers do not step into the breach. Moreover, Tennessee's largest tire manufacturers, Bridgestone and Goodyear, also have operations in China and presumably would suffer from any production losses there.

Going forward, what can we glean from this investigation about likely future trade decisions involving China? Will other Tennessee industries be affected? Let's apply the criteria used in the tire case to locate other imports that may be targeted for safeguard protections. If we filter Chinese imports by the rapidity of their import growth since 2004 (the beginning date used in the tire case) and by the health of the American-sourced production, we can arrive at those products most susceptible to falling under the same safeguard provisions as passenger tires. Are these products, or industries, of particular importance to Tennessee?

About 10 manufactured goods have experienced Chinese import growth at levels similar to the tire sector. Half of these are apparels. We show those goods, and their Chinese import profiles, in the accompanying charts. (We show only the most heavily affected among the five apparel goods: cotton sweaters and pullovers. The other apparels have similar profiles.) Domestic production is stagnant or shrinking in all of these goods except the chemical compounds. We would predict that the most likely future trade cases are going to involve these other products. We have some verification that this will be the

## 2008-09 Tire Imports, by Month



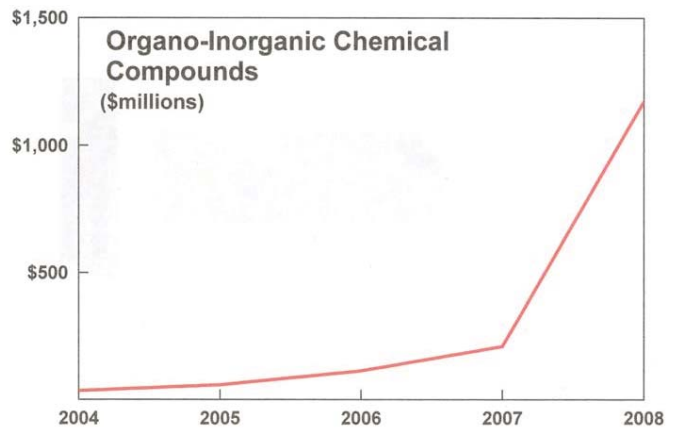
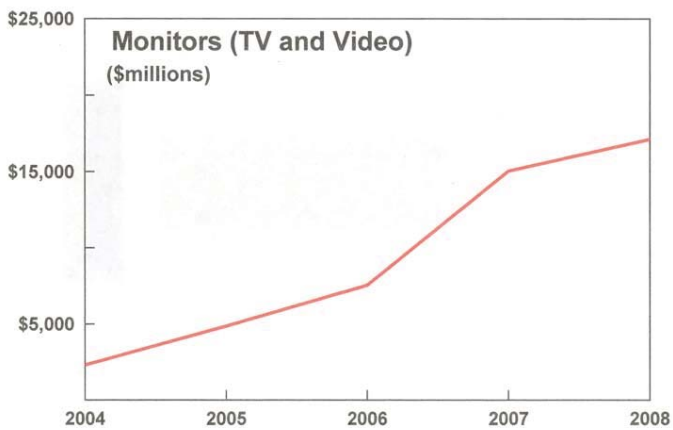
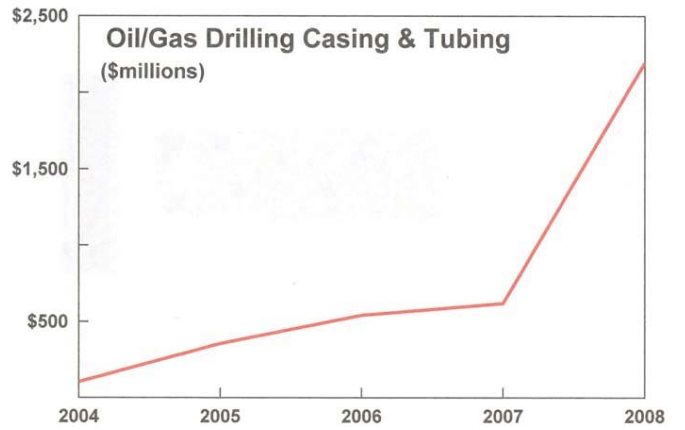
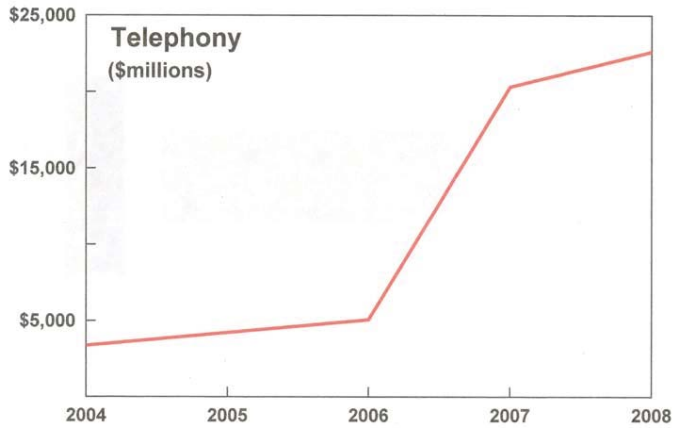
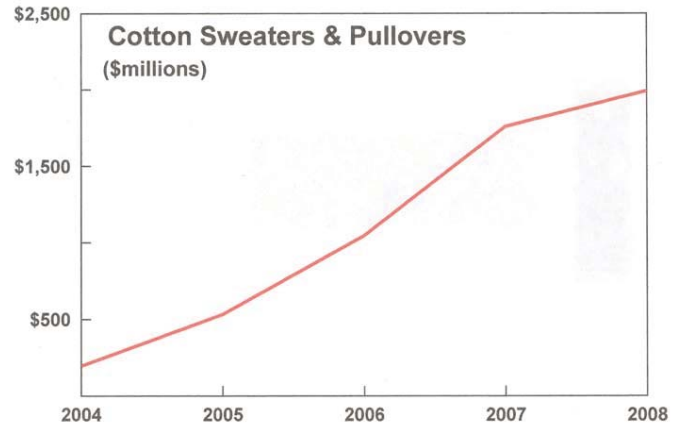
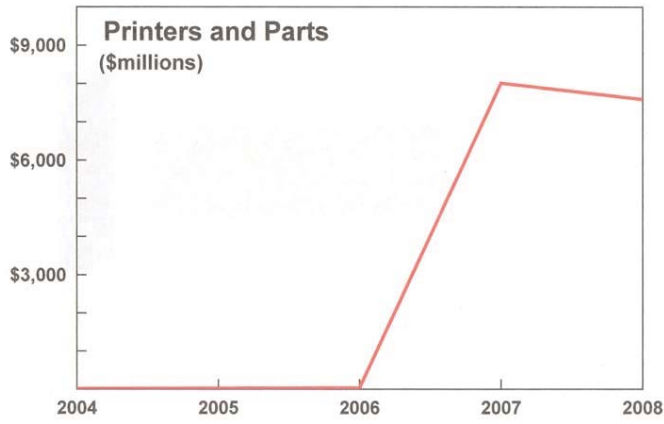
case. Just a little over a month ago, the U.S. ITC did in fact open a safeguard investigation of oil and gas tubing imports from China.

But none of these potential cases would have a large, direct impact on Tennessee. The once-large apparel industry has all but vanished, and none of these other goods are significant parts of the Tennessee economy. The largest is organo-inorganic chemical compounds, which is also the least likely to be implicated under a safeguard action, as it is the industry in which domestic production continues to grow. Several thousand workers are involved in Tennessee's TV and video monitor industry, making it the most sizable of the sectors that could see more import protection under the safeguards clause.

Of course, the state could also be affected by any retaliation taken by the Chinese. China has already targeted American frozen chicken imports, and it has threatened action on U.S. automotive imports. Tennessee has long been a major automotive exporter and has recently seen a tremendous expansion in chicken exports, too. In the former case, however, only a very small amount of the state's automotive exports go to China. Any Chinese action here will have only a secondary impact on the state. Tennessee chicken exports to China, on the other hand, have been growing rapidly. They have increased in value from about \$75,000 in 2004 to just under \$8 million in 2008. In 2008, China took one-third of Tennessee's chicken exports. Restricting the Chinese market would thus have a significant impact on the state's chicken processors. However, the crash of 2009 has already reduced sales in China by three-quarters, so any additional damage may be limited. We should also bear in mind that chicken meat makes up far less than one percent of Tennessee's sales to China, so the overall impact on the state's economy is going to be limited.

But this threatened Chinese retaliation signals the potential contours of future Chinese actions. The Chinese government has aimed at two rapidly growing American

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2nd Quarter 2009

CHEMICAL EXPORTS  
APPEAR TO HAVE  
TURNED THE CORNER  
AFTER LAST YEAR'S  
CRASH.



2nd Quarter 2009

MEDICAL SALES  
ACCOUNT FOR  
LUXEMBOURG'S  
REMARKABLE  
GROWTH.



### Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Chemicals	\$771,951,216	-17.7%	23.5%
Miscellaneous Manufactured Goods	\$730,293,609	7.3%	3.7%
Transportation Equipment	\$724,105,030	-25.8%	-4.0%
Computer and Electronic Products	\$690,161,638	-16.8%	-0.4%
Nonelectrical Machinery	\$353,947,437	-37.4%	-4.3%
Agricultural Products	\$143,385,548	-13.6%	-29.0%
Electrical Equipment	\$165,265,258	-15.9%	11.8%

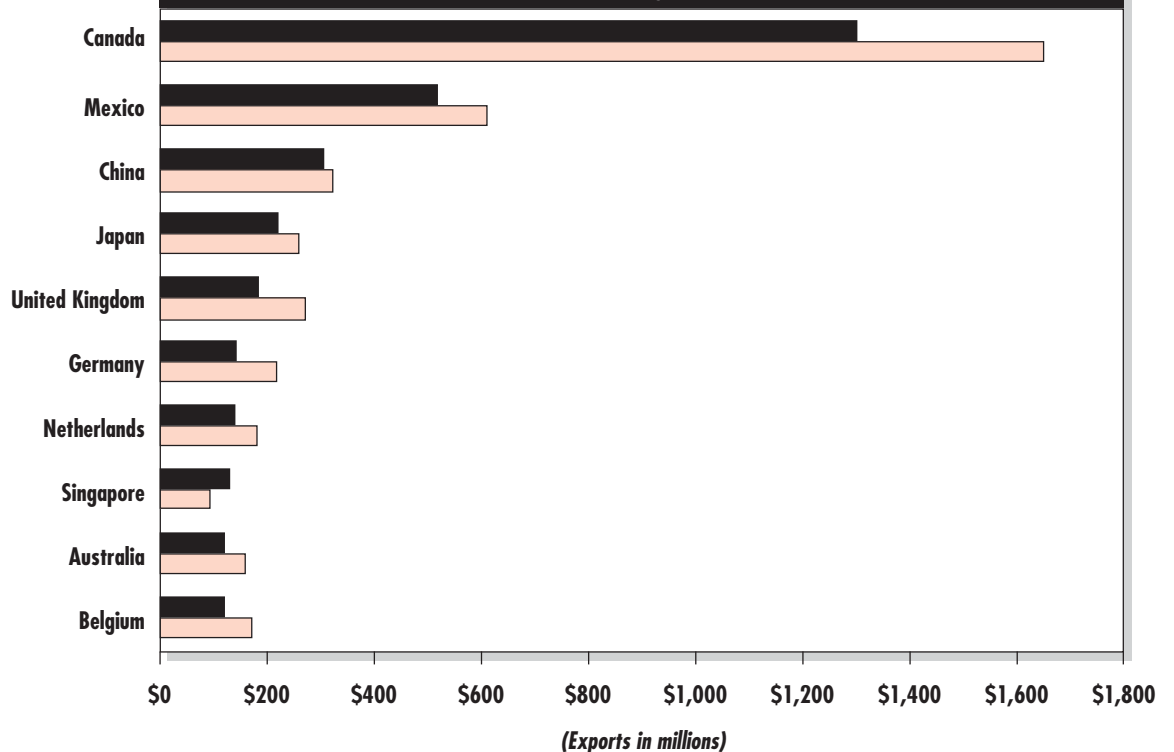
### Fastest-Changing Export Destinations

	Value of Exports	Gain	Decline
<b>COUNTRIES WITH THE GREATEST GROWTH</b>			
Luxembourg	\$118,526,628	868.2%	
Nigeria	\$14,924,215	331.1%	
Bermuda	\$2,626,126	119.0%	
Iraq	\$11,829,953	52.0%	
Latvia	\$2,339,474	47.5%	
<b>COUNTRIES WITH THE GREATEST DECLINE</b>			
Oman	\$3,766,088		-79.1%
Bahrain	\$1,914,184		-77.5%
United Arab Emirates	\$24,529,759		-73.4%
Nicaragua	\$1,478,776		-71.3%
Haiti	\$2,324,589		-64.6%

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

■ 2nd Quarter 2009  
■ 2nd Quarter 2008

### Tennessee's Leading Trade Partners



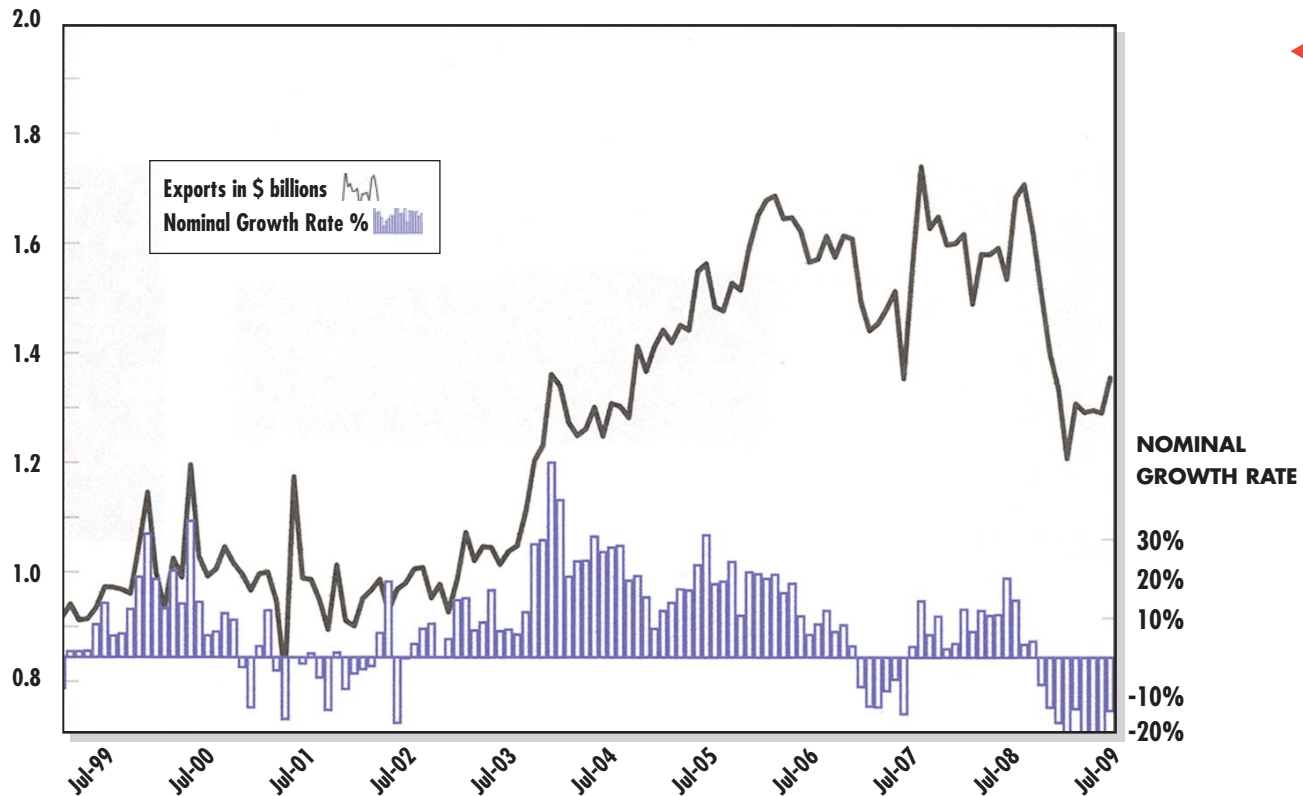
NINE OF THE TOP  
10 MARKETS WERE  
DOWN FOR THE  
QUARTER.



## Tennessee Monthly Exports

Exports in \$ billions —

(Seasonally adjusted, expressed in year 2000 dollars)



2nd Quarter 2009

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

	Value of Exports	Growth	Decline
<b>SECTORS WITH THE GREATEST GROWTH</b>			
Drawing or Calculating Instruments	\$8,480,970	5,067.5%	
Amplified Music Instruments	\$12,039,245	491.9%	
Spark Plug Piston Engines > 100cc	\$27,158,627	479.4%	
Frozen Chicken	\$11,034,363	289.1%	
Antisera and Other Blood Fractions	\$12,562,590	182.9%	
<b>SECTORS WITH THE GREATEST DECLINE</b>			
Miscellaneous Electronic Integrated Circuits	\$3,851,027		-91.1%
Compression Ignition Engines	\$5,422,861		-90.7%
Esters of Methacrylic Acid	\$4,769,956		-86.2%
Non-Outboard Motor Boats	\$12,307,629		-80.0%

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

**Global Commerce**, published quarterly by the Business and Economic Research Center, Jennings A. Jones College of Business, Middle Tennessee State University, is available free of charge to interested individuals and institutions.

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## IT WAS THE WORST SECOND-QUARTER PERFORMANCE IN FIVE YEARS.

Just as everyone expected, this past quarter was very difficult for state exporters. At \$4,725,150,346, Tennessee's foreign sales were more than a billion dollars (19.5%) lower than in the second quarter of last year. It was the worst second-quarter performance in five years. The good news, if you wish to call it that, is that the state's losses were more modest than that experienced by the U.S. as a whole (down 27%), let alone by many other nations that saw their exports off by 30% or more.

Losses were nearly worldwide. The biggest dollar declines, of course, were in the NAFTA markets. Canadian purchases were off by over \$300 million—almost one-third of the state's total drop in exports. The losses were concentrated in the automotive and computer sectors, but nearly every Tennessee export industry saw a decline in Canadian sales for the quarter. Mexico fared a bit better, though exports still fell by \$77 million. Here losses centered in the industrial machinery, auto parts, and aluminum plating (intended for auto production) sectors. State exports to South America fared even more poorly. The 35% drop in exports to South America was the biggest to any continent. Argentine chemical purchases (traditionally the largest Tennessee export to that country) were off precipitously. Sales to Brazil fell by one-third. Chile experienced a loss of the same magnitude. In the latter cases, industrial machinery bore the brunt of the lost sales.

Tennessee exports to Europe fell 19 percent, roughly mirroring the state average. The poorest-performing markets were Spain and Great Britain, both down by more than 30%. The losses to Spain were mostly in the automotive sector, while Britain saw big declines in medical instrument, industrial machinery, and even whiskey sales. Plastics and chemical exports were down significantly across the European continent. One sector able to buck the trend was the aircraft industry, which saw gains in France, Britain, and Italy. The medical instrument industry had by far the strangest quarter. Down across most of Europe, Tennessee's sales of medical instruments and needles to tiny Luxembourg absolutely soared—growing by more than \$100 million. This was the most impressive single export performance of the quarter. As a result, the medical instrument industry was actually able to post a 7% gain in European exports for the quarter.

Tennessee exports to the Middle East suffered a loss of more than \$100 million, more than half the value of the state's sales to that region in the second quarter of 2008. Almost the entire decline stemmed from a large drop in car sales to Saudi Arabia and the Gulf states. India's reversal wasn't quite that bad, but a huge drop in chemical exports lay behind that country's 25% drop in Tennessee purchases.

In the context of these numbers, East Asia's performance seems almost rosy. Exports to China were off but \$14 million (4.3%) thanks to increases in apparel industry

imports (man-made fibers and cotton) and medical instruments. (Basic metal industries bore the brunt of the losses in China.) Hong Kong and Taiwan suffered more significant declines, 34% and 30% respectively, but state exporters actually eked out a three million dollar gain (to \$273.3 million) in Southeast Asia. The latter was mostly due to a large Boeing-related sale to Singapore that led that nation's total purchases of Tennessee goods to increase by more than \$40 million for the quarter. This was more than enough to make up for poor quarters in Indonesia and Malaysia. The South Korean and Japanese markets performed much as did their developed country counterparts in Europe. Japanese purchases were down 14%, while Korean exports dropped about 20%. Most of the losses were in the transportation and plastics sectors.

An odd silver lining in Tennessee's otherwise cloudy quarter was the continent of Africa. Though it's still by far the smallest of the state's markets, Tennessee's exports to Africa gained 13% last quarter. Exports to South Africa accounted for about a third of the increase. But there were also significant gains in exports to Nigeria (aircraft), Morocco (cotton and boats), the Gambia, and Liberia (vegetable oils in both cases).



## THE ONE EXCEPTION—THE MEDICAL INDUSTRY—CONTINUED TO FORGE GAINS.

Very few Tennessee industries avoided the effects of the global crash. With one exception, Tennessee's largest export industries all suffered large reverses. Chemical sales fell more than \$185 million to \$772 million for the quarter. Transportation sector exports dropped \$250 million to \$724—in spite of a solid quarter for aircraft sales. Those gains were overwhelmed by large losses in auto and truck exports and an even steeper drop in boat exports. In percentage terms, industrial machinery fared the worst of the major export sectors, falling by more than \$200 million. The computer and electronics industry also fared poorly, down almost 17%. DVD, CD and integrated circuit shipments were the most affected. The one exception was the medical industry sector, which continued to forge gains even in this environment. Medical instrument sales were up a bit (from \$361 to \$370 million), but there were larger percentage gains almost across the board. Sales of medicaments, medical needles, and orthopedic equipment, for example, all posted at least solid gains.

Among smaller export sectors, the only winner was the food industry. Exports of wheat, frozen chicken, and vegetable oils led to a \$17 million gain. The paper and primary metal sectors were the most severely hit. Paper exports fell from \$173 to \$115 million for the quarter, while primary metal shipments were down by more than one-half (to \$108 million).

All in all, not the best of times. The question now is when, and how fast, will be the recovery? July exports were roughly flat from a year ago, which at least provides some evidence that the fall has stopped. We now wait for the turnaround. ■

*continued from page 3*

imports into China, and they are imports that are not primary or intermediate products needed for the continued growth of China’s manufacturing sector. If we presume that this will be the criterion for future decisions, we arrive at a list of “most likely targets” for future Chinese restrictions. We can characterize these targets as automotive, chemical, or other. As already mentioned, Tennessee exports virtually no automotive-related products to China. It similarly sends very few chemicals to China, somewhat surprising in light of the state’s large chemical industry. In our miscellaneous category, even though the state exports tens of millions of dollars worth of soybean oil and off-road dumpers, practically none of either goes to China. The bottom line is that Tennessee exporters don’t appear first in line to absorb significant hits from any Chinese response to American trade actions. A caveat is if China should decide to shoot itself in the foot and aim at goods used in its own industrial production. Its recent imposition of tariffs on adipic acid, though unrelated apparently to the tires case, suggests that we can’t rule this completely out. (Tennessee, by the way, is again pretty unaffected by this action.)

Trade relations between China and the U.S. resemble a carnival ride, with sudden ups and downs—and sometimes a lot of screaming! Even if more individual industries should begin to be affected by trade actions, those in Tennessee generally do not appear to be first in the line of fire. ■

<b>Other Rapidly Growing Exports</b>		
	<b>\$Exports</b>	<b>Growth Rate</b>
<b>Optical Fibers</b>	\$100,280,824	1,996.19%
<b>Dumpers</b>	\$98,660,688	41,219.79%
<b>Photo Film</b>	\$63,634,888	6,727.86%
<b>Glass Rods</b>	\$41,895,310	34,252.28%
<b>Raw Soybean Oil</b>	\$33,423,559	3,530,354.71%

<b>Chemicals, Elements, &amp; Dyes</b>		
	<b>\$Exports</b>	<b>Growth Rate</b>
<b>Para-Xylene</b>	\$71,196,832	1,786.95%
<b>Liquid Lustres</b>	\$41,424,063	2,550.49%
<b>Rhodium</b>	\$39,407,830	33,161.33%
<b>Ethylene Dichloride</b>	\$39,105,670	5,268.55%

<b>Automotive Exports</b>		
	<b>\$Exports</b>	<b>Growth Rate</b>
<b>SUVs/Light Trucks</b>	\$157,069,484	1,084.81%
<b>Compression Ignition Engines</b>	\$154,296,897	1,053.63%
<b>Cars</b>	\$38,944,025	2,926.85%
<b>Other Passenger Vehicles</b>	\$35,455,611	1,554.93%

