



Global Commerce

Tennessee and the International Economy

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STATE TRADE WITH AFRICA

RECENT GROWTH

by *Steven G. Livingston*

Africa has truly been the “lost continent” when it comes to global commerce. It has defied the worldwide trend of rapidly expanding international trade. Until recently, its imports and exports have grown at a snail’s pace. Over the past two decades, while Tennessee’s exports were making record gains throughout the rest of the world, in Africa, they barely increased—by only \$5 million, for example, between the years 1997 and 2003. The story was the same for the rest of the U.S. But is this finally beginning to change? Over the past three years, Tennessee’s sales in Africa have begun to grow substantially. They have more than doubled (from \$110 to \$253 million) over that period, with an annual growth rate of more than 20 percent. This is substantially better than the state’s recent global export growth rate.

Africa, though, remains a very small part of Tennessee’s trade picture, buying less than 2 percent of all of the state’s exports. In 2007, Tennessee exported no more to the entire African continent than it did to the United Arab Emirates. But compare this to 10 years ago, when the continent as a whole would not have been able to crack the list of the state’s top 10 *national* markets. So it is becoming, albeit slowly, a more important market for the state.

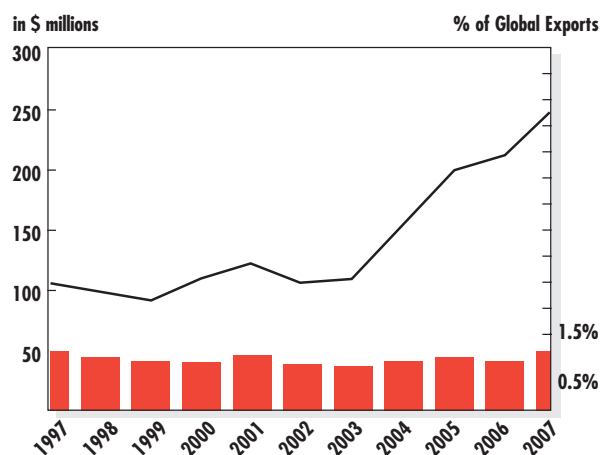
Substantial Increase in State Exporters

Recently released census statistics indicate the number of Tennessee firms that export increased by 4.4 percent in 2006. A total of 5,715 Tennessee businesses were identified as exporting that year, an additional 337 firms over 2005. These firms averaged about \$3.6 million in exports each. This is an 8 percent gain from a year earlier. Tennessee currently ranks 19th among all American states in its number of exporters.

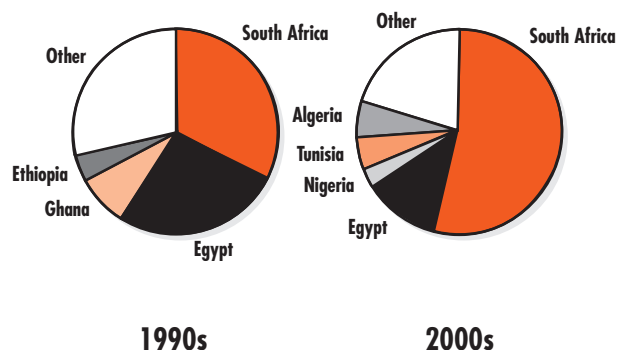
Historically, Africa has consisted of two major export regions: the Maghreb and the Arab north African nations on one hand, and sub-Saharan Africa on the other. The former purchased mostly foodstuffs and products with which to make textiles, while the latter was an opportunistic market in which most exports were one-time sales of various goods. This division still holds, though decreasingly so. About 40 percent of Tennessee’s exports to Africa go to North Africa, with the vast majority of this being to Egypt. This is about the same percentage as for the rest of the U.S. In Tennessee’s case, these exports are now concentrated in the textile sector, in particular the sales of artificial filament tow. The state also sends a substantial amount of vegetable oil to that region. The overall American profile is a little different because it includes sizable exports

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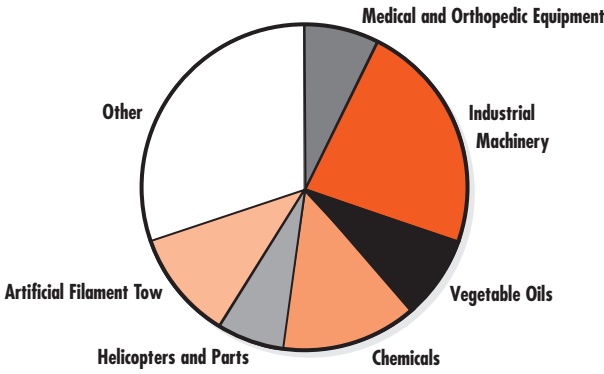
Tennessee Exports to Africa



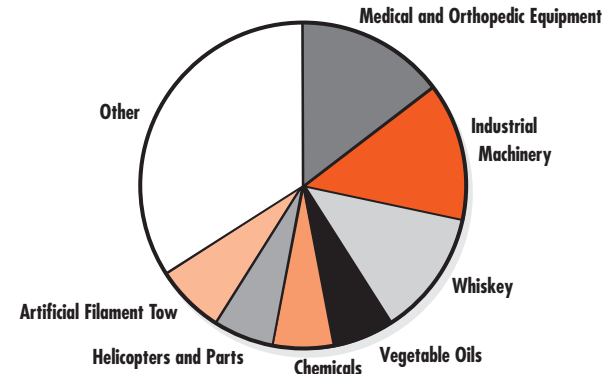
Changing Export Destinations



1996–98 Top Exports



2005–07 Top Exports



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of wheat, corn, and other grains. Tennessee, of course, does not export these products.

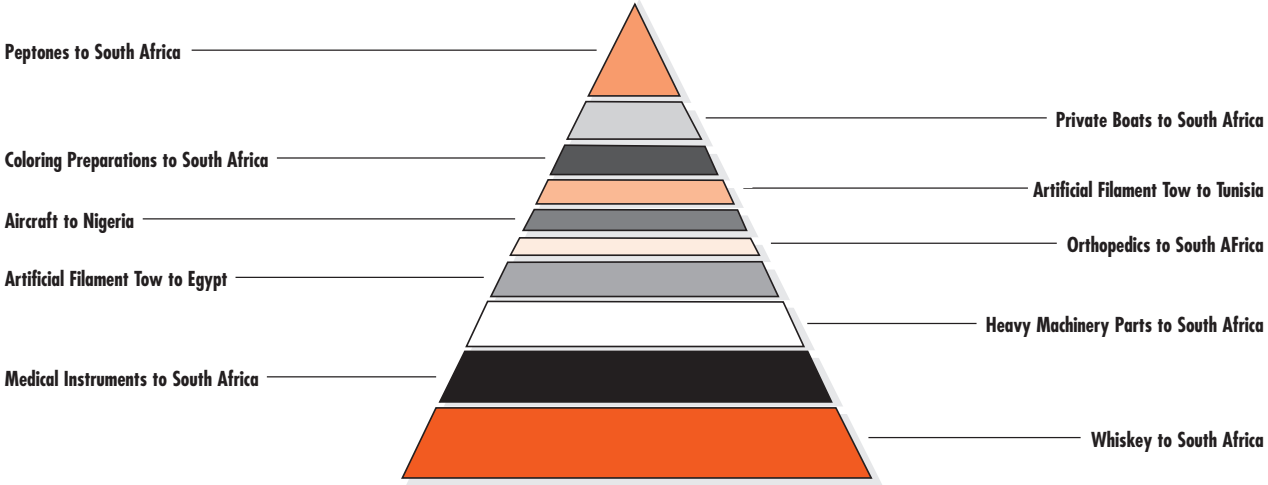
For both Tennessee and the rest of the U.S., trade to Sub-Saharan Africa has been growing faster, and becoming more diversified, than that to the northern part of the continent. However, this is almost entirely because of one country: the Republic of South Africa. America now sends almost a quarter of all its African exports to South Africa. For Tennessee, the concentration of its trade is even more remarkable. Ten years ago about a third of the state’s foreign sales to Africa went to South Africa; today more than 56 percent of these exports go there. Nigeria is a distant second, taking about 5 percent of the state’s exports. (Nigeria, however, is a much more important market for the rest of the U.S. It purchases about 12 percent of overall American exports to Africa.) No other individual country accepts a significant percentage of Tennessee exports. This is a bit of a change from a decade ago, when Ghana and Ethiopia were both substantial markets within Africa.

The range of Tennessee’s exports to the Republic of South Africa is quite broad, but three industries dominate: chemicals, medical equipment, and whiskey. Perhaps the most remarkable ascent among these products has been that of Tennessee’s whiskey exports, which have increased from \$1 million to \$33 million over the past decade and now account for a quarter of the state’s exports to that country. As a result, about 13 percent of Tennessee exports to all of Africa is whiskey!

The rise in whiskey exports is the single biggest change in Tennessee’s African export profile over the past decade. The other leading export goods are largely unchanged, although the percentage of exports coming from the medical and orthopedic sector has grown quite a bit, again thanks to South Africa. Helicopters and parts as well as industrial machinery are the other major products Tennessee exports to sub-Saharan Africa. Probably the most widely dispersed significant export is industry machinery—mostly machine parts for heavy industry (derricks, cranes, moving equipment, etc.)—shipped to a number of countries across the continent, although the

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The 50 Percent Solution (Top 10 Exports by Market, 2007)



4th Quarter 2007

ELECTRONICS IS GAINING ON TRANSPORTATION AS THE STATE'S LARGEST EXPORT SECTOR.



| Tennessee's Largest Export Sectors | | | |
|------------------------------------|-----------------|-----------------------|--------------------------|
| | Exports | Change from Last Year | Change from Last Quarter |
| Transportation Equipment | \$1,023,621,662 | -19.7% | 2.8% |
| Computer and Electronic Products | \$969,988,887 | 15.7% | 15.1% |
| Chemicals | \$876,519,820 | 18.6% | 12.6% |
| Miscellaneous Manufactured Goods | \$671,884,478 | 4.0% | 16.4% |
| Nonelectrical Machinery | \$475,877,790 | 16.6% | 1.8% |
| Primary Metals | \$211,492,938 | -8.8% | -6.4% |

4th Quarter 2007

IT WAS A TOUGH QUARTER IN THE CARIBBEAN.

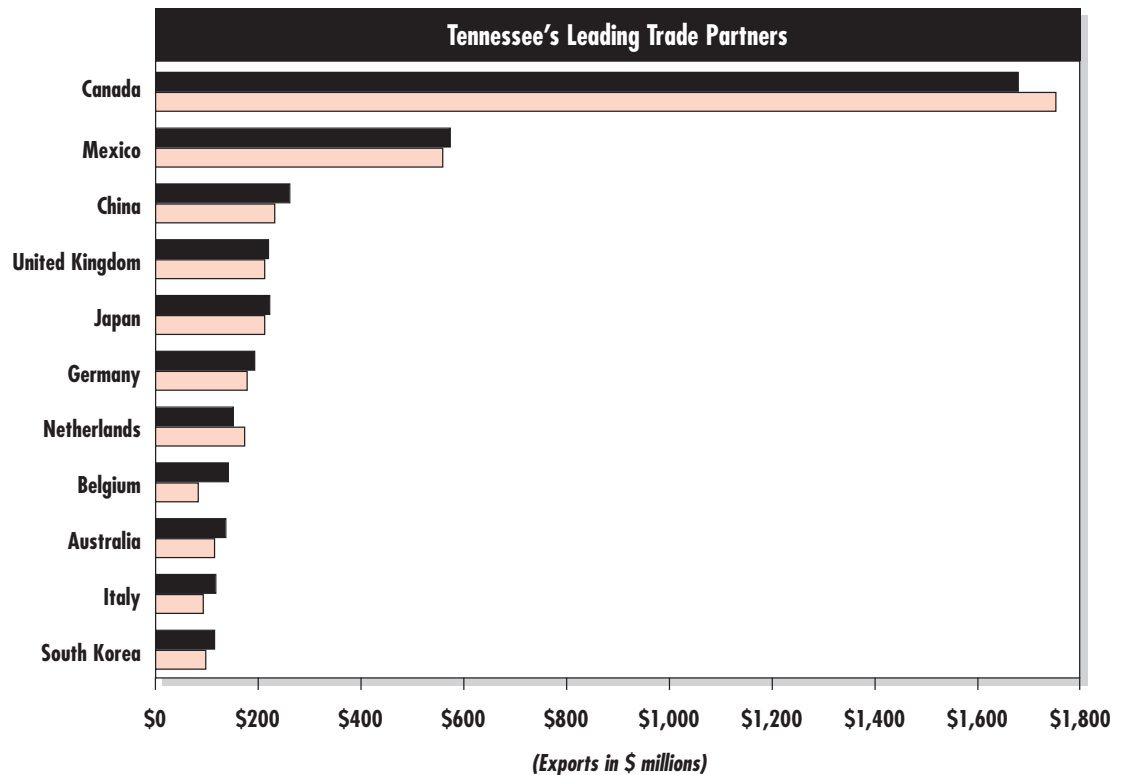


| Fastest-Changing Export Destinations | | | |
|--|------------------|--------|---------|
| | Value of Exports | Gain | Decline |
| COUNTRIES WITH THE GREATEST GROWTH | | | |
| Iraq | \$9,002,931 | 415.4% | |
| Pakistan | \$22,686,360 | 242.9% | |
| Poland | \$11,338,139 | 217.1% | |
| Vietnam | \$20,338,623 | 176.7% | |
| Macao | \$7,674,361 | 169.2% | |
| COUNTRIES WITH THE GREATEST DECLINE | | | |
| Guyana | \$616,035 | | -88.5% |
| Afghanistan | \$870,408 | | -84.0% |
| Nicaragua | \$2,595,292 | | -72.6% |
| Jamaica | \$8,164,552 | | -47.5% |
| Tunisia | \$2,041,454 | | -43.2% |

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

■ 4th Quarter 2007
■ 4th Quarter 2006

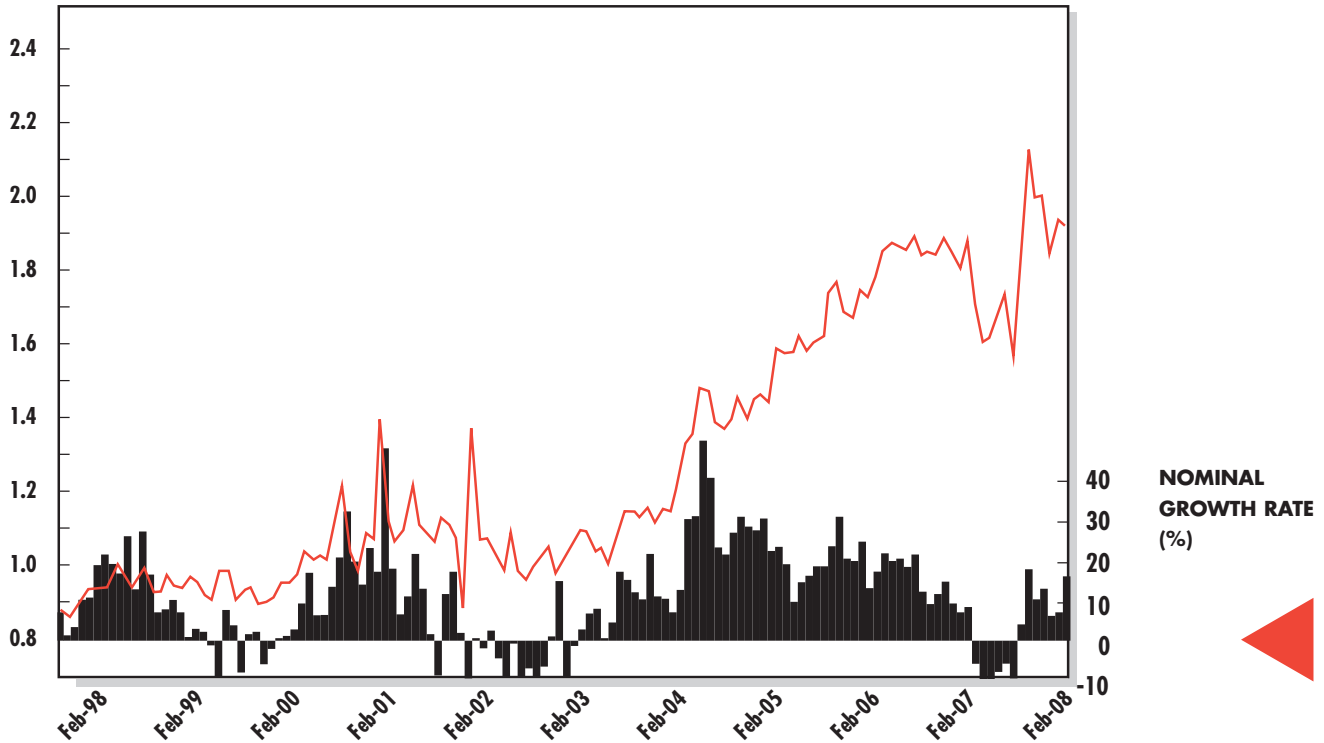
EXPORTS TO CANADA FELL—A RARE OCCURRENCE.



Tennessee Monthly Exports

Exports in \$ billions

(Seasonally adjusted, expressed in year 2000 dollars)

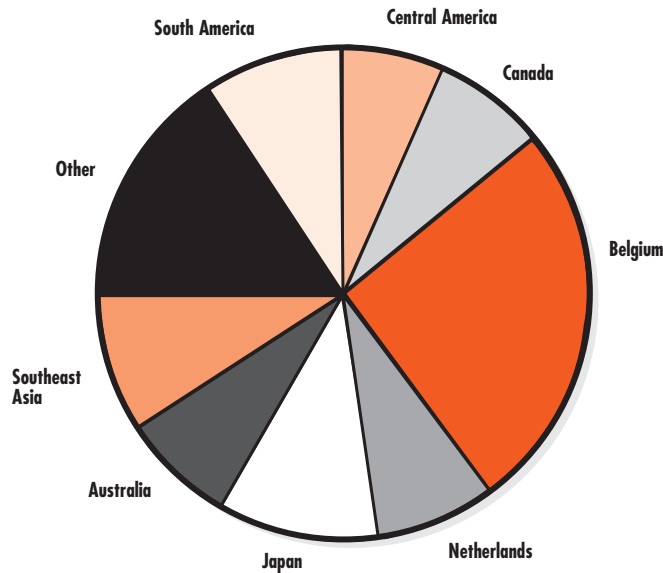


Tennessee's Peptones (and Derivatives) Market

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PEPTONES ARE A MAJOR EXPORTED CHEMICAL.

MIDDLE TENNESSEE
 STATE UNIVERSITY

THE FOURTH QUARTER WAS THE BEST OF 2007 FOR STATE EXPORTERS BUT SUBSTANTIALLY BEHIND THE U.S.

Tennessee exported products valued at \$5.861 billion during the fourth quarter of 2007. This was a gain of 6.54 percent over 2006, making it the best quarter of the year for state exporters. That's a very modest positive, however. The state substantially lagged behind the nation in its export performance. Total U.S. exports for the fourth quarter grew more than 14.3 percent, more than double that of Tennessee. The year 2007 itself was the weakest in memory for the state. Tennessee was one of only seven states that saw an actual decline in exports for the year (-.093 percent)—this while the nation's exports were increasing by 12 percent.

The good news, if you wish to call it that, is that most of the state's troubles are now found in one sector. Unfortunately that export sector is the state's largest: the transportation industry. Automotive exports continue to fall. Car sales were off \$55 million, SUV sales \$130 million. Auto body parts lost another \$50 million. Tire exports fell by more than 25 percent. Even the nonautomotive transportation exports had problems. Foreign sales of both road tractors and helicopters (and parts) were down by two-thirds. Total transportation-related exports fell by \$250 million for the quarter. This performance accounts for the very unusual decline in exports to Canada. Tennessee exports to its largest market dropped 3.8 percent last quarter. It also accounts for losses in Middle East markets. Tennessee exports to Saudi Arabia and the United Arab Emirates also fell last quarter, whereas national exports gained 83.9 and 19.8 percent, respectively.

Fortunately, the state's other major export sectors performed roughly at the national average. Dispute a continuing decline in desktop computer and parts exports, the computer sector still posted solid numbers. Its 15 percent growth was due to very strong laptop sales along with increases in DVD, VCR, video game, and similar exports. The chemical and plastic sector increased its exports by more than 18 percent for the quarter. Artificial filament tow gained nearly \$61 million (increasing to \$145 million), making it the star performer among these products. Medical equipment continued its steady growth, with medical instrument exports up another 15 percent and large gains in foreign sales of electrodiagnostic equipment. An exception to the upward trend was the state's aluminum sales. These lost more than \$17 million (decreasing to \$110 million) during the quarter.

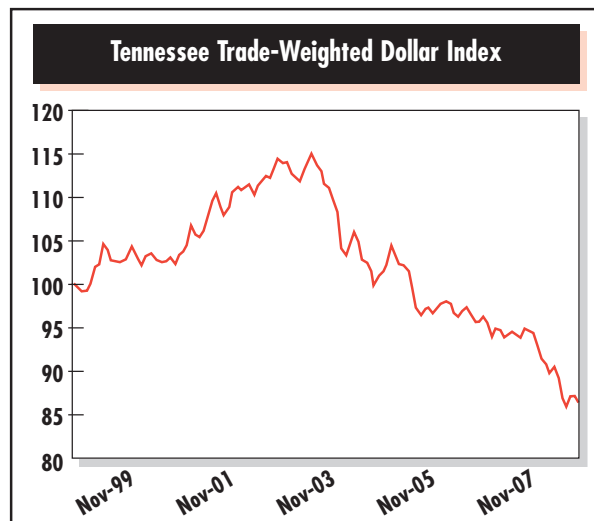
As for cotton, all one can say is that the bleeding has stopped. Cotton exports fell by more than one billion dollars over the year 2007. But in the fourth quarter, exports actually increased about \$40 million over the fourth quarter of the previous year. The fact remains that the quarter's \$140 million total of exported cotton was smaller than the value of the average *monthly* export in 2006.

Canada and the Middle East were undoubtedly the poorest performing regions for the state. As noted, cars

were the basic problem. The state also did not share in the rapid growth of exports to China. Tennessee exports to the Chinese economic area (which includes Taiwan and Hong Kong as well as the People's Republic) grew at half the rate of the nation. In part this was because much of the national growth was in soybean exports, in which Tennessee did not share, but in part it was because the state's primary metals industry was not able to replicate the numbers of the rest of the country. U.S. primary metal exports to China were up 40 percent, whereas sales from Tennessee were essentially flat.

Elsewhere, the picture was brighter. Exports to Latin America were up 16 percent (to \$437 million). Computer sales led the way. (A large drop in charitable giving accounts for the poor performances in Guyana, Nicaragua, and Jamaica.) Sales in Southeast Asia gained 10 percent, shrugging off a sizable drop in turbine sales to Singapore. Gains were more modest in Japan (8.14 percent, to \$239 million), but they included an extremely strong growth in chemical exports. The U.K. was relatively flat, but Tennessee exports to euro countries were quite strong. Led by chemicals, computers, and nonelectrical machinery, foreign sales were up 14 percent. Here is the one region where Tennessee exporters were able to take advantage of the falling dollar and meet the export numbers posted by the rest of the U.S.

The year 2008 has begun with this same good news/bad news story. State exports were up in January and February by more than eight percent—not bad, and certainly better than last year. But total *American* exports are up more than 20 percent. Until automotive exports are able to bounce back, Tennessee will likely continue to find it difficult to match the export numbers of the rest of the country. One should, however, be thankful that the falling dollar has provided so many of the state's other industries with such a strong tailwind, which at least promises to continue Tennessee's overall export growth, albeit at much lower numbers than we would like. ■



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lion’s share goes to South Africa. Sub-Saharan Africa continues to receive a number of one-time exports of all kinds of items, so there is substantial fluctuation from year to year in what the state is selling, but the sectors that appear in the pie charts are the “old reliables” that dominate Tennessee’s trade to Africa.

In fact, the market remains small enough that we can identify the handful of specific export transactions that make up much of Tennessee’s total trade with the continent. Ten specific products exported to 10 specific countries account for 50 percent of all the state’s exports to Africa. They are shown in the export pyramid. The pyramid confirms the importance of the Republic of South Africa as the state’s premier export market in the region.

Because Africa is not a particularly sizable market, not many state products rely upon it. However, there are a few that depend on the continent for much of their foreign sales. Five Tennessee products send more than 10 percent of their exports to Africa, as shown in the chart at right. None of these are particularly large state exporters, but they show that the region has become critical for some state goods.

As international trade becomes a larger factor in the American economy, and to some a more controversial factor, some stories get lost. Amid the major debates over

trade and trade agreements, one of those stories is the recent takeoff in trade with Africa. Though still small compared to other regions, it’s a story well worth keeping an eye on. Increasing trade with Africa may bring great opportunities to businesses and entrepreneurs in Africa—and to Tennessee, too. ■

Where Africa Matters Most (African-Intensive TN Exports)

