

# Colorado Business Economic Outlook Forum 2006

## International Trade

### PROSPECTS FOR COLORADO EXPORTS IN 2006

Colorado exports rose to a new high of \$6.65 billion in 2004, an 8.9% increase over 2003. However, this growth has not been sustained in 2005. Through August, exports from Colorado have increased by 1.6% versus a U.S. increase of 11.1%. The glaring weak spot in export growth from Colorado in 2005 has been a \$387 million, 47% decrease in semiconductor exports, historically Colorado's number one export. Meanwhile U.S. exports of semiconductors were also down, but only by 11%. High oil prices, health concerns in Asia and Europe with Avian flu, an ongoing ban on beef exports to Japan and Korea, growing U.S. trade and budget deficits, and natural disasters in the U.S. and other parts of the world all factor into prospects for growth through 2005 and 2006.

On the positive side Colorado exporters continue to benefit from existing and new free trade agreements. Since 1985 the United States has successfully negotiated nine free trade agreements starting with Israel in 1985 and most recently completing CAFTA with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. A review of Colorado exports to Israel, Canada and Mexico from 1996 to 2004 (1996 data is the oldest available comparable data) shows increases of 37%, 818% and 259% respectively for exports to these three countries. In

### VALUE OF COLORADO EXPORTS FISCAL YEARS 2000-2006

*(Value in US Million Dollars)*

YEAR	TOTAL EXPORTS	PERCENTAGE CHANGE
2000	6,593.0	11.2
2001	6,125.5	-7.1
2002	5,521.7	-9.9
2003	6,109.1	10.6
2004	6,651.0	8.9
2005	6,810.6 <sup>(1)</sup>	2.4 <sup>(1)</sup>
2006	7,014.9 <sup>(2)</sup>	3.0 <sup>(2)</sup>

(1) Estimated

(2) Forecast

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addition, Colorado exports to Jordan were up 47% since an agreement was signed in 2000, while exports to Chile were up 98% and exports to Morocco were up 15% since agreements were signed in 2003. Only Singapore and Bahrain have shown a decline since signing agreements in 2003 with the U.S. One of the most striking increases is the 89% increase in Colorado exports to Australia since the U.S.-Australia Free Trade Agreement went into effect in January 2005.

optimistic that free and fair trade will continue to grow and that Colorado businesses that choose to enter the global marketplace will benefit from this growth. The committee is forecasting an increase in exports from Colorado by 3% in 2006.

Despite the many challenges facing the global economy in 2006, the International Trade Committee is

## **REGIONAL FORECASTS**

### **Asia**

Higher oil prices, a reorientation in China's economy, growing health concerns, and geopolitical instability will slow growth in the Asian region in 2006. The high price of oil has hampered both business and consumer purchasing power of many U.S. and Asian trading partners. China's growth away from import-intensive investment spending, as well as its revaluation of the yuan by 2%, are actions that could dampen imports from the U.S. Due to a stabilization of global prices for raw materials and its industrial structure change, China's import growth has slowed sharply, falling from 35.8% in 2004 to 13.9% in late May 2005.

In addition to a global slowdown in IT business, China's development of domestic sources of parts and intermediary goods has had an import substitution effect, resulting in a significant decline in IT imports. The de-linking of the yuan from the U.S. dollar exclusively and tying it to a basket of currencies appears to be too small of an adjustment to make a dent in the U.S.'s \$160 billion deficit with China.

Growth in technology exports to an improving Japanese economy is tempered by the continuing ban on U.S. beef due to concerns surrounding mad cow disease, as well as increasing anxiety of a global pandemic from a mutating Avian Flu virus in Southeast Asia. Additionally, North Korea's nuclear weapons issue, China's escalating military build-up against an independent Taiwan, and Indonesia's terrorist activity all serve as geopolitical-instability wildcards for increasing commercial activity with Asia.

### **Europe**

The eurozone remains in the grips of sluggish economic growth. Recent indicators point to real growth of only 1.4% for 2005 and 2% in 2006. Political and financial market developments in 2005 underscore the difficulties the eurozone is having in crafting long-term strategies on top of difficult and unsettling economic realities. Earlier in 2005 French and Dutch voters rejected the EU constitution, a move some herald as the beginning of the end of the common area, while others note that the public is still committed to the idea of a united Europe but is deeply dissatisfied with the structure of the constitutional document and its impact on a country's ability to protect jobs, wages and living conditions.

Within the EU, several countries are experiencing different phenomena with respect to their various economic sectors. Cooling retail sales, housing prices and manufacturing activity hint at easing growth in the United Kingdom. Germany struggles with labor issues, as well as with the unclear results of September parliamentary elections, and the same pressures from rising oil prices as the rest of the world, although they are enjoying a healthy foreign trade surplus. In Italy, joblessness fell in Q2 of '05, bringing it to 1 percentage point below the Eurozone average, while tax cuts fueled a surge in higher capital spending and real GDP.

### **Latin America**

Much of Latin America should continue experiencing good economic times through 2005 and into 2006. Forecasters predict a 4.6% economic growth rate for Latin America and the

Caribbean in 2005. The Inter-American Development Bank is forecasting strong performance in 2005 stock markets, better employment rates and increased investment. These positive economic changes are in part due to a commodity price boom in Latin America stemming from increased demand from China and also from the U.S. dollar depreciation. The economic improvements are also the result of various fiscal adjustments and increased attention to financial soundness shown by Latin American countries.

Predictions for economic growth can be broken down specific to country as follows: over 6% growth in a recovering Argentina, 5.5% in Chile, 5.3% in Venezuela, 4.4% in Peru, 4% in Brazil and Mexico, and 3.6% in Colombia. The leading market sectors for these countries are automotive parts and supplies, electronic components, the energy sector, travel and tourism services, plastic materials/resins, telecommunications equipment, the environmental sector, hotel and restaurant equipment, education and training services, agriculture, industrial chemicals, medical equipment supplies, and mining machinery and equipment.

### **Canada**

The Canadian economy is in rebound mode, with unemployment at 6.8% in 2005, the lowest it has been since 1976. The Canadian dollar has been strengthened by the impact of the hurricane season in the U.S., and economists predict it will continue to strengthen into 2006, expecting it to peak at 87 U.S. cents by early 2006, before drifting back to 83 cents at the end of the year. Canada is a net exporter of petroleum and also exports building products, and economists predict that net exports will rise in 2006. Canadians are cautious, however, about the U.S. housing market taking a downturn, which would dampen consumer spending in the U.S., in turn slowing both economies. Nonetheless, national economic growth rates of 2.9% and 3.0% are predicted for '05 and '06.

### **Australia**

Through early 2005, Australia was experiencing unprecedented economic growth, fueled mostly by China's importing of Australian commodities, particularly minerals, for their manufacturing plants. However, in the third quarter of 2005, consumer confidence slumped to a two-year low, exports fell, building approvals dropped to the lowest level since 2001, and the IMF cut Australia's growth forecast. Overall, the economy should expand 2.2 % in 2005 and accelerate to 3.2% in 2006.

### **COLORADO'S MANUFACTURED EXPORTS**

Colorado exports of manufactured, mineral and agricultural products rose 8.9% in 2004, to a record \$6.65 billion. A significant drop in semiconductor exports, down 47% through August, has inhibited similar growth during 2005. However, other categories have continued to increase, causing exports as a whole to grow 1.6% through August over the same period last year. In 2005, advanced technology products again dominated Colorado's top export categories. Major export categories included computers and peripherals, semiconductors (still Colorado's second-largest export), computer components, telecommunications equipment, photographic film, medical instruments, beef, and aviation/aerospace related products.

<b>Export Commodity Category - Largest Gain by Dollar Value</b>				
	Description	Aug 2004 YTD	Aug 2005 YTD	Gain
1	COLOR TV STS,WITH/WITHOUT RADIOS OR PLAYRS, RECORDR	\$1,994,324	\$86,181,503	\$84,187,179
2	MEAT OF BOVINE ANIMALS, BONELESS, FRESH OR CHILLED	\$52,711,210	\$96,707,244	\$43,996,034
3	PARTS & ACCESSORIES FOR ADP MACHINES & UNITS	\$376,977,999	\$418,996,688	\$42,018,689
4	ACYCLIC AMIDES AND THEIR DERIV ETC, NESOI		\$34,014,720	\$34,014,720
5	AUTOMATIC DATA PROCESSING STORAGE UNITS, NESOI	\$81,207,669	\$109,320,693	\$28,113,024
<b>Export Commodity Category - Largest Decline by Dollar Value</b>				
	Description	Aug 2004 YTD	Aug 2005 YTD	Loss
1	DIGITAL MONOLITHIC INTEGRATED CIRCUITS	\$616,341,729	\$244,295,825	-\$372,045,904
2	AUTOMATIC DATA PROCESSING UNITS, NESOI.	\$236,646,504	\$196,334,310	-\$40,312,194
3	STATIC CONVERTERS; ADP POWER SUPPLIES	\$49,623,246	\$29,837,040	-\$19,786,206
4	MONOLITHIC INTEGRATED CIRCUITS, OTHER THAN DIGITAL	\$168,961,951	\$151,135,912	-\$17,826,039
5	PARTS OF AIRPLANES OR HELICOPTERS, NESOI	\$100,814,707	\$87,642,348	-\$13,172,359

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## **EXPORT MARKETS BY REGION IN 2005**

### **Western Hemisphere**

Shipments to Canada, Latin America and the Caribbean made up nearly 42% of all Colorado exports through August of 2005. At over \$1.8 billion, exports to the other countries of the Western Hemisphere grew 33% from the same period last year. The dominant markets in this group were Canada, with \$1.2 billion in Colorado exports, and Mexico, at \$541 million. Other countries in the region also showed strong growth, with the next largest market, Brazil, up 48% to \$51 million.

### **Asia**

At almost 33% of Colorado exports, the countries of the Pacific Rim and South Asia made up Colorado's second largest regional export market. Exports to South Asia grew 47%, led by a strong demand for telecom equipment. However, this increase was not enough to offset the 50% drop in the much larger semiconductor category in most Pacific Rim markets. Overall, exports to Asia declined 14%. The comeback of Colorado exports to Japan was a major highlight in sales to the region, with companies shipping products valued at \$267 million through August of 2005, a 23% increase.

## Europe

Exports to Europe representing 22% of Colorado's total exports stood at \$967 million through August of 2005, a 2% drop from their levels of a year ago. Shipments of medical instruments and aviation/aerospace equipment increased, but not enough to make up for declines in some computer and electronics related sectors, including semiconductors. There were wide swings in exports to many European countries from August of 2004. Sales to Belgium and Switzerland grew 76% and 21% respectively, while exports to Italy decreased by 21% and sales to France declined 8%.

## Australia and Oceania

The January 1, 2005 beginning of the U.S.-Australia Free Trade Agreement created new opportunities for American companies, and the Australian market dominated Colorado's trade with this region. Almost \$147 million of the \$166 million in products that Colorado companies sold to the area went to Australia, an increase of 89%. Together, sales to Australia, New Zealand and the other islands of this region made up almost 4% of Colorado exports in 2005. Companies in the state shipped \$18 million in products to New Zealand, an increase of 84%.

## The Middle East and Africa

Combined sales to the Middle East and Africa made up just over 2% of Colorado's exports. Exports to the Middle East rose 25% in 2005, to \$79 million through August. Israel was Colorado's largest market in the region at \$28 million – an increase of 58%. Colorado companies sold \$26 million to Africa during the same period, for a decrease of 41%. Colorado's largest African market was the Republic of South Africa at \$11 million.

## PROSPECTS FOR COLORADO AGRICULTURAL EXPORTS

Colorado's agricultural exports decreased in 2004 due to the closed markets in Asia for Colorado and U.S. beef. The loss of the largest export market for U.S. beef (Japan) in December 2003

<b>Colorado Agricultural Exports</b>					
<i>(Value in US Million Dollars)</i>					
<b>Commodity</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005*</b>	<b>2006**</b>
Beef and meat products	317.5	295.9	210.1	220.8	217.9
Hides and furs	148.2	149.2	156.5	150.9	150.9
Course grains/feed/fodder	174.7	130.7	153.4	131.6	164.7
Wheat, flour & products	148.7	119.9	200.3	161.3	157.3
Fruit, vegetables-fresh/proc	76.3	74.0	69.2	75.4	82.7
Misc. Processed foods & ag prod.	44.6	44.5	46.8	47.4	46.5
Dairy	13.1	13.0	16.9	22.5	22.5
Animal fats/oils	29.5	36.8	34.6	34.4	35.2
<b>TOTAL</b>	<b>965.8</b>	<b>956.4</b>	<b>895.4</b>	<b>851.7</b>	<b>855.1</b>
*USDA Projection					
**USDA Forecast					

drastically reduced Colorado's total agricultural exports for 2004 and for the first eight months of 2005.

Despite the loss of key export markets, Colorado's top agricultural export category in 2005 continues to be beef and meat products. Mexico opened its market to

selected U.S. beef products in the spring of 2004 and is providing a strong outlet for Colorado beef. In the fall of 2005 some Asian markets began to open and the industry remains hopeful that the Japanese market will open by year-end 2005. With the opening of the Japanese market

we anticipate that the remaining closed Asian markets in will also open. Unfortunately, with these markets having been closed for 2 years, it will require several years to regain the confidence of the consumers and reach past export levels. Colorado's other agricultural export sectors have held their global market with wheat growing due to increased world prices and global demands.

The closed markets for Colorado beef have had a significant impact on the state's top export markets for agricultural products. Mexico continues as the strongest market driven by their

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Mexico	190.5	225.7	236.3	237.6
Canada	174.7	163.1	165.1	117.6
Japan	199.3	153.5	165.3	91.7
Taiwan	74.4	78.1	60.7	55.0
China	30.9	35.4	39.8	53.2
Korea	90.8	103.5	108.0	42.8
Europe	41.9	38.0	30.3	34.9
Hong Kong	32.1	28.2	29.8	16.7

continued import of beef as well as all other product categories. Japan, Korea and Taiwan have not imported U.S. beef since 2003 and a drop in exports to each of these markets is attributable to the lost beef sales.

Mexico continues to grow as Colorado's most important agricultural export market. Since NAFTA went into effect in 1994, Colorado agricultural exports to Mexico have shown strong growth. U.S. beef exports to Mexico have experienced impressive growth of over 590% since

1995, while vegetable exports have grown 380% and wheat exports have grown 270%.

Colorado agricultural exports are projected to decrease by 4.9% in 2005 with only a 0.5% increase in 2006.

#### **TRENDS IN INTERNATIONAL EDUCATION IN COLORADO**

There were 572,509 international students in the U.S. in 2003-2004, a drop of 2.4% from 2002-2003. Colorado had 5,943 international students during that period, a drop of 5.6%, according to the Institute of International Education's annual report on International Academic Mobility.

The University of Colorado at Boulder was the only school in Colorado that had more than 1,000 students from foreign countries. CU Boulder had 1,082 international students out of 27,000 in the year 2003-2004 and was number 131 on the list of schools that have international students attending. The most recent estimate (2002/2003) of expenditures by foreign students in Colorado was \$140.1 million.

Initial data for the school year 2005-2006 show that the number of foreign students studying at Colorado universities and colleges continues to decline. The University of Colorado reported 912 international students, down from 1,165 in 2004-2005. Colorado School of Mines reported a similar decline from 417 in 2001 to 278 this fall. Colorado State University had 915 international students in 2001 and is now at 819 for this fall semester of 2005 and Colorado College had 37 international students down from 41 international students in 2004. The University of Denver has reported a steady decline over the years from 261 in 2000 to 197 in 2004. This fall has seen a slight increase at DU to 210 international students.

The annual fall census of foreign students shows that the United States remains by far the most popular destination for overseas students. But the latest figures in 2004 also show sharp declines in key groups such as graduate students from India. One clear area for concern is whether tighter visa rules enacted after the 2001 terrorist attacks serve the nation's interest if they dissuade foreign students from choosing to study in the U.S. International students brought over \$13 billion dollars to the U.S. economy in money spent on tuition, living expenses, and related costs, according to the Department of Commerce, ranking higher education among the top 10 largest service sector exports for the United States.