

I. EXECUTIVE SUMMARY

This study presents a picture of South Dakota's export performance through two sets of data- the Harmonized System (HS) commodity classification, for both manufactured and non-manufactured exports combined, and the North American Industrial Classification System (NAICS) for a separate accounting of manufactured and non-manufactured exports.¹ The two series are similar in most points since reported non-manufacturing exports represent only about 10% of the state's total international sales.

Overall, 2003 was a good year for South Dakota exporters. High tech exports in the computer and electric machinery sectors returned to positions of strength; important state markets such as Japan, Germany and the UK made a comeback; and the surging Mexican market continued to surge. The state logged a better export performance than both the West North Central region and the US.

According to NAICS data, manufacturing industries outperformed non-manufacturing industries in 2003. Manufactured exports climbed a solid 14% compared a gain of only 1.5% for non-manufactured goods. (The impact of the mad cow crisis is not reflected in the data until early 2004.)

The highlights of this year's report are presented below in the form of a SWOT analysis. The Strength and Weakness sections distinguish between HS and NAICS related comments. It should be noted that service exports are not covered by either HS or NAICS and are not part of this report.

Strengths

(Derived from HS Data for all Commodities)

- Industrial machinery, including computers, was the state's top export sector by total dollar value in 2003 *and* accounted for the state's biggest dollar increase in export sales. After a slow year in 2002 in which industrial machinery exports were close to flat, exports in 2003 were up 24.4% driven by solid increases in shipments to Japan and Mexico.
- Electric machinery exports also rebounded in 2003 after a poor performance in 2002. Shipments advanced 31.8% on the back of rising sales to markets like Canada, Mexico, Singapore and France.
- Among the state's top 10 export sectors by total dollar volume, animal or vegetable fats, oils, etc. enjoyed the largest percentage increase in export sales in 2003. Shipments shot up 114.1% thanks primarily to a sharp rise in imports from Mexico.
- Cereal exports, specifically corn, were strong in 2003, rising a healthy 43%. This continues a rising export curve from 1998-2003 in which shipments have climbed 623%.
- Toys, games and sports equipment also continued its steady advance as an export of importance to South Dakota, gaining 24.3% in 2003. Shipments to the UK and Belgium were the source of much of the sector's growth last year.

¹ The state of origin of movement data are more accurate for manufactured exports than for non-manufactured. Non-manufactured exports are under-reported for interior states and over-reported for the major port states. The actual export values of South Dakota grain and other non-manufactured commodities are likely higher than those shown in this report.

- Mexico saw the biggest dollar increase in imports from South Dakota in 2003, rising by \$48.5 million. It was also the state's second largest export destination after Canada. The state shipped 18.4% of all of its exports to Mexico last year. A mix of industrial machinery and livestock products comprised most of the state's export base there.
- Japan was also a market of strength for South Dakota in 2003. Exports to Japan – mostly industrial machinery, including computers – jumped 37.1%. Despite its own run of economic problems in recent years, Japan has imported a steady stream of products from South Dakota. From 1998-2003, state shipments to Japan grew 188.3%. This compares to a decrease of 10.1% from the US overall.

(Derived from NAICS Manufacturing Industry Data)

- Computer and electronic products *and* machinery, except electrical, notched the biggest export increases in 2003 among NAICS manufactured exports. Shipments rose by \$50.7 million and \$12.4 million, respectively.
- Paper and fabricated metal products also continued a strong run of export performances in 2003. Paper exports increased by \$6.9million (or 80.1%) and fabricated metal shipments went up \$5.6 million (or 38.5%).
- Mexico was also the state's best growth market for manufactured exports in 2003 led by increased shipments of food & kindred products *and* computer and electronic products.

Weaknesses

(Derived from HS Data for all Commodities)

- Food industry residue and waste exports dropped by \$5.9 million in 2003 and represented the state's biggest export loss for a single sector. Within the sector the bulk of the losses were split rather evenly between soybean oilcake and other solid residue *and* preparations used in animal feeding. Most of the decline came from falling sales to Canada.
- Oil seeds etc. continued to fall in 2003. Shipments were down 38% in 2003 and fell 83.8% from 1998 to 2003. Exports from the US, in contrast, rose by 31.4% in 2003 and 51.2% from 1998-2003.
- While meat and edible meat offal reported the strongest growth of any industry by value since 1998, state product sales fell by \$1.9 million or 1.6% in 2003, while US sales gained 14.7%. South Dakota beef exports dropped 13.7% while US exports rose 20.7%.
- Thailand is the only country among the state's top 10 export destinations where state exports fell significantly both in 2003 and from 1998-2003. Thailand was the state's top loss market in 2003, dropping by 34%, or \$4.8 million. From 1998-2003, South Dakota exports to Thailand were down 45.2% compared to a growth rate of 11.6 for the US overall.

(Derived from NAICS Manufacturing Industry Data)

- Chemicals were the top loss sector among manufacturing industries for South Dakota in 2003. Shipments tumbled 27.1%, or \$13.1 million, as a result of import cuts from Germany, Japan and China.
- Under the non-manufactured goods category, the biggest export declines came in minerals and ores *and* used or second-hand merchandise. The latter commodity dropped precipitously, falling 64.5% from the previous year.

- Country destinations with falling manufactured exports generally mirror the HS rankings with Thailand as the market showing the greatest decline in 2003.

Opportunities

- Asian countries will present dynamic growth opportunities in 2003 as the region is expected to reach 6% average GDP growth in 2004. China is predicted to have in excess of 8% GDP growth. In Japan, there are signs that the current economic rally may last this time.
- South Dakota fortunes in Asia should be further boosted by the now signed bilateral trade agreement between the US and Singapore which went into effect on January 1, 2004. Singapore is already the state's 9th largest trading partner. All US exports to Singapore will now enjoy a zero percent tariff rate.
- The US-Chile Free Trade Agreement, which also took effect on January 1, 2004, may give a boost to the state's slow advance into Latin American markets. Although the base on which it occurred was extremely small, shipments to Chile increased 82.1% last year.
- A Japanese safeguard on beef imports was lifted in March of 2004. A safeguard raises the minimum price at which foreign beef can be imported in to Japan.
- Improved market access for agricultural products in Europe and the developing economies is possible if the Doha Round of ongoing WTO negotiations is completed before summer when changes in EU representation will occur and the US presidential campaign will reach its most intensive stage.
- Rumors continue to circulate that an upward revaluation of the Chinese yuan is possible in 2004. Chinese officials have stopped issuing outright denials of a currency change and have instead begun stating their goal is "basic stability," implying there may be some room for adjustment.

Threats

- GDP growth in the European Union is likely to remain below 2% in 2004 and may put a damper on imports. The Euro has strongly appreciated against the dollar and rigidities in the EU labor markets will further constrain growth and export opportunities.
- Although confidence has started to return to the US fresh meat market as the initial mad cow shock has faded, the continued closure of key markets like Japan cast a cloud over the export beef market. The \$1.5 billion market for US beef in Japan is at risk in the tense negotiations between the US and Japan over animal testing differences.
- US beef exports could be further tested by the sharp drop in the Argentine currency last year making beef products from that country even more competitive in the international marketplace.