

BACKGROUND

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Trade and Prosperity in the States: The Case of Texas

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Abstract

Texas leads the nation in economic growth and in international trade. Were Texas a country, it would have the world's 10th-largest economy—a ranking achieved in no small part by the state's deep involvement in international trade and investment. Specialization and trade are the drivers of all modern economies. The benefits of specialization apply to capital as well as labor. Local, national, and international trade provide the ability for more extensive specialization, and each is an important component of Texas's economy.

The state of Texas leads the nation in economic growth and in international trade.¹ Were it a country, Texas would have the world's 10th-largest economy—a ranking achieved in no small part by the state's deep involvement in international trade and investment.

Specialization and trade are the drivers of all modern economies. Though the scale of specialization varies from product to product, firm to firm, and industry to industry, when workers can each focus on a specific part of the production process, the total output goes up. This is as true today as it was when Adam Smith wrote about specialization in London pin factories in 1776.² The benefits of specialization apply to capital as well as labor. Local, national, and international trade provide the ability for more extensive specialization, and each is an important component of Texas's economy.

International trade opens up opportunities for producers to sell to a broader market, for consumers to have more choices, and for investment to find its best return. The critical importance of access to broader, international markets is easiest to understand for categories such as petroleum products and cotton, whose outputs are too great for

KEY POINTS

- Texas is the country's leading exporter of computers and electronics, and one of the top three states for foreign direct investment.
- If Texas were a country, it would have the world's 10th-largest economy—a ranking achieved in no small part through international trade and investment.
- Specialization and trade are the drivers of all modern economies. Though the scale of specialization varies from product to product, firm to firm, and industry to industry, when workers can each focus on a specific part of the production process, the total output goes up.
- Good jobs depend on a robust economy. Data in the Heritage Foundation's *Index of Economic Freedom* point to a strong relationship between economic freedom and a growing, healthy economy.
- Texas's delegation to Congress anticipated these benefits of trade and voted with an overwhelming, bipartisan majority for the passage of NAFTA in 1994.

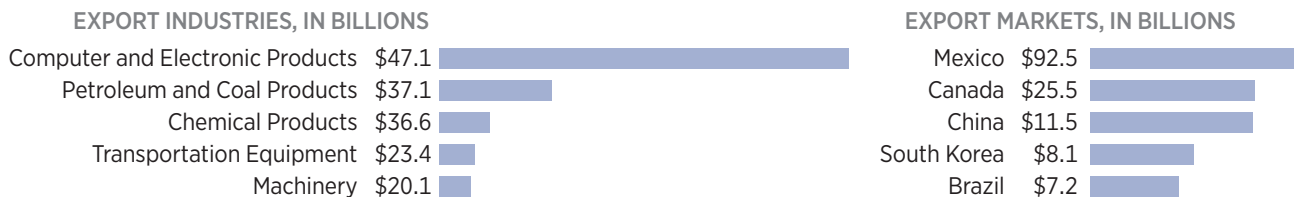
This paper, in its entirety, can be found at <http://report.heritage.org/bg3259>

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CHART 1

Texas's Leading Exports in 2016



SOURCE: U.S. International Trade Administration, "Texas Exports, Jobs, and Foreign Investment," <http://www.trade.gov/mas/ian/statereports/states/tx.pdf> (accessed September 20, 2017).

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the state-only demand, but this international access is important for most other goods and services, as well.

The benefits of foreign investment to the domestic economy are widely understood. However, it is not widely appreciated that international investment cannot be separated from international trade. The trade in goods and services provides the finance for job-creating investment. The back-and-forth flows of goods and services match the return flows of finance for investment. International trade allows foreigners to invest in Texas, and allows Texans to invest abroad.

As is only fitting, Texas does it all in a big way.

Exports

Texas leads all states in the value of exports. In 2016, Texas exports rang up to more than \$230 billion.³ The United States' North American Free Trade Agreement (NAFTA) partners were the largest buyers of the state's exports. In 2015, Mexico imported over \$90 billion of goods and services from Texas. Canada imported over \$25 billion worth.⁴

Widely known as a world leader in petroleum production and refining, Texas actually exported more computer and electronic products in 2016 than it did petroleum and coal products, though these rankings can change from year to year.⁵

Headquarters for companies like Dell Computers and Texas Instruments, the state hosts scores of information technology companies that have research, development, or production facilities there. These companies read like a *Who's Who* of the tech world.⁶ Texas's \$47 billion of computer and electronics exports in 2016 were the most from any state.

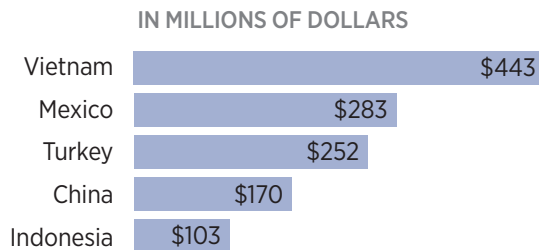
Agricultural Exports

Texas ranks near the top among states exporting agricultural products. In 2015, the state's agricultural exports exceeded \$6 billion.⁷ The leading agricultural export is cotton. Texas exports more cotton than the next four states combined.⁸ In 2016, Texas exported \$1.7 billion of cotton.⁹ Vietnam is the largest buyer of Texas's cotton, taking one-quarter of the total.

1. Texas Wide Open for Business, *Texas Foreign Direct Investment 2016*, https://businessintexas.com/sites/default/files/06/17/16/fdireport_1.pdf (accessed October 12, 2017).
2. Adam Smith, *The Wealth of Nations* (London: Printed for W. Strahan; and T. Cadel in the Strand, 1776).
3. U.S. International Trade Administration, "Texas Exports, Jobs, & Foreign Investment," February 2017, <http://www.trade.gov/mas/ian/statereports/states/tx.pdf> (accessed October 12, 2017).
4. Texas Wide Open for Business, *Texas Foreign Direct Investment 2016*.
5. U.S. International Trade Administration, "Texas Exports, Jobs, & Foreign Investment."
6. Texas Wide Open for Business, *The Texas IT Services Industry*, 2013, https://businessintexas.com/sites/default/files/11/13/14/it_report.pdf (accessed October 12, 2017).
7. Bryce Cooke and Kamron Daugherty, "State Export Data," U.S. Department of Agriculture, March 29, 2017, <https://www.ers.usda.gov/data-products/state-export-data/> (accessed October 12, 2017).
8. Ibid.
9. U.S. Census Bureau, "State Exports by HS Commodities," 2017, <https://usatrade.census.gov/data/Perspective60/View/dispview.aspx> (accessed October 12, 2017).

CHART 2

Five Largest Importers of Texas Cotton in 2016



SOURCE: U.S. Bureau of Economic Analysis, "Activities of U.S. Affiliates of Foreign Multinational Enterprises: Preliminary 2015 Statistics," https://bea.gov/international/fdius2015_preliminary.htm (accessed September 11, 2017).

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There is a good chance that a given shirt or pair of jeans imported to the U.S. is made from Texas cotton.

Texas is a major exporter of other agricultural products as well. Nearly one-quarter of Texas's agricultural production (by value) is exported.¹⁰

Employment and Foreign Investment

Good jobs depend on a robust economy. Data in the Heritage Foundation's *Index of Economic Freedom* point to a strong relationship between economic freedom and a growing, healthy economy.¹¹ In broad terms, the *Index* measures how much freedom people have to make their own investment, purchasing, and employment decisions without burdensome red tape, mandates, or high taxes.

The strong Texas economy is well served by these values and well served by its involvement in the international economy. Separating jobs according to which ones depend on trade and which do not is very difficult, but some facts help give an idea of the importance of international trade and international investment to the labor market in Texas.

The U.S. International Trade Administration estimates that over one million U.S. jobs are supported by exports from Texas.¹² Over a half million Texans (5.5 percent of private-industry employment) are employed by foreign-owned companies. Nearly 42,000 companies exported from locations in Texas.¹³

From 2011 through 2016, foreign direct investment in Texas exceeded \$40 billion, adding 84,000 jobs.¹⁴ Over those years, the top three sources of foreign direct investment in Texas were France, Japan, and Germany.¹⁵ Recent examples of foreign direct investment include Toyota's \$300 million for its new North American headquarters in Plano; INEOS Oligomers' \$400-million investment in its petrochemical complex in Alvin; and IKO Industries' new \$80-million plant in Hillsboro.¹⁶

Benefits of Imports

Though it is easier for some to see the benefits of exports than to see the benefits of imports, the benefits of imports are at least as important. Imports fall into two broad categories: (1) inputs to production (intermediate and capital goods) and (2) consumption goods.

A recent study determined that 60 percent of U.S. imports are purchased by factories and farms.¹⁷ That is, most imports to the U.S. are used to produce other goods. These intermediate and capital goods range

10. U.S. Department of Agriculture, "2016 State Agricultural Overview: Texas," September 19, 2017, https://www.nass.usda.gov/Quick_Stats/Ag_Overview/stateOverview.php?state=TEXAS (accessed October 12, 2017), and Cooke and Daugherty, "State Export Data."

11. Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2017), <http://www.heritage.org/index/>.

12. U.S. International Trade Administration, "Texas Exports, Jobs, & Foreign Investment."

13. Ibid.

14. Texas Wide Open for Business, *Texas Trade and Foreign Direct Investment 2016*.

15. Ibid.

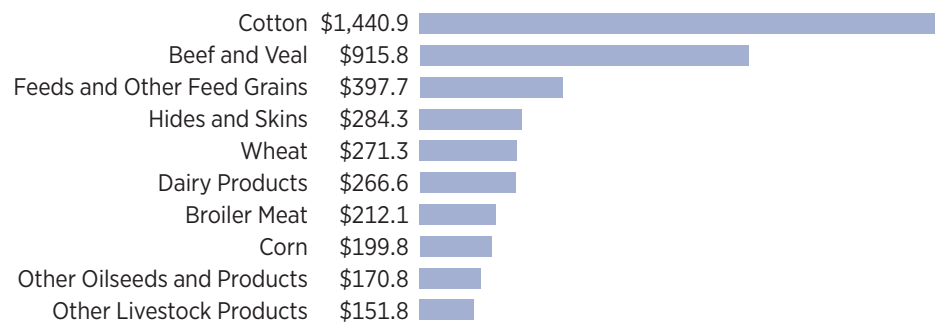
16. Ibid.

17. Laura M. Baughman and Joseph F. Francois, *Imports Work for America*, Consumer Electronics Association, National Retail Federation, U.S. Chamber of Commerce, and American Apparel and Footwear Association, May 2013, https://www.uschamber.com/sites/default/files/documents/files/ImportsWork_FIN.pdf (accessed October 12, 2017).

CHART 3

Texas's Leading Agricultural Exports in 2015

EXPORT INDUSTRIES, IN MILLIONS OF DOLLARS



SOURCE: U.S. International Trade Administration, "Texas Exports, Jobs, and Foreign Investment," <http://www.wtrade.gov/mas/ian/statereports/states/tx.pdf> (accessed September 20, 2017).

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from raw materials unavailable in the U.S. to goods with superior features or more competitive pricing.

When it comes to valuing the imports of consumption goods, one should not forget that the point of earning an income is to be able buy things. In the same way, there would be no point in exporting if nothing were gained in exchange. As with the intermediate and capital goods, imports allow Americans to have goods they are unable to produce, or that provide variety, quality, or prices unavailable in the U.S. For instance, the U.S. is unlikely ever to produce bananas in a quantity demanded by consumers. In addition, inventiveness, innovation, and competitiveness are spread around the globe. Trade allows consumers to benefit from these qualities regardless of where they occur.

The benefits to consumers are too numerous to list—from the year-round variety of fresh fruit and vegetables to the broad choice of automobile performance, features, and style. Still, one example provides an illustration not only of improved consumer choice, but also the difficulty in assigning country of origin.

Ten prominent Texas jazz saxophonists were queried by this author about the brand of saxophone they played. Five were kind enough to respond.¹⁸ Table 1 shows the musicians and the brand of their saxophones.

Musicians are frequently sensitive to the smallest details of their instruments. In addition, the feel of an instrument can be very personal. An instrument loved by one musician may be harshly disparaged by

another. The variety of instruments below is a testimony to this variation in preferences and how trade helps satisfy those preferences.

Selmer is perhaps the best-known saxophone brand and is made in France. RS Berkeley is a relatively new brand and is made in China. Paul Mauriat saxophones are made in Taiwan. The Tenor Madness and the Cannonball saxophones are perhaps the most interesting from a supply-chain perspective. Tenor Madness saxophones are assembled and adjusted in Iowa using parts manufactured in Taiwan. Cannonball saxophones are manufactured in Taiwan, but designed, customized, and given their critical final adjustments in Utah. All of these brands have their die-hard adherents and all cost thousands of dollars. In short, saxophones are not interchangeable commodities. Musicians and their fans benefit from the rich choices that trade provides. Of course, this list is far from exhaustive as there are dozens of other manufacturers from other countries with equally enthusiastic followers.

NAFTA Helps Texas

Though it is difficult to identify all of the jobs that are created by trade, the overall picture of employment since the enactment of NAFTA is positive. Since NAFTA went into force in January 1994, non-farm employment in Texas has risen from 7.6 million to 12.2 million.¹⁹ Regardless of whether a significant portion of the increase is due to NAFTA, it is clear that the agreement did not lead to the catastrophic

18. That these musicians responded to an e-mail in no way implies that they endorse this *Backgrounder* or any of its policies.

19. Federal Reserve Bank of Dallas, "Texas Employment Data: Texas-State Level, Total Nonfarm Payroll Employment," January 1990 to August 2017, <https://www.dallasfed.org/research/econdata/tx-emp.aspx> (accessed October 12, 2017).

TABLE 1

Saxophonists and Their Preferred Saxophone Brands

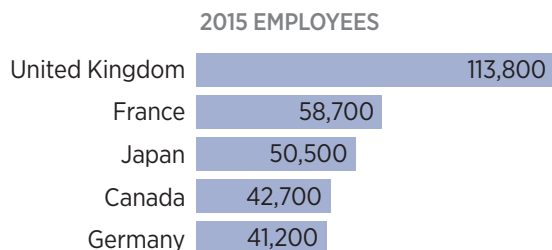
Player	Brand	Origin
Quamon Fowler	Tenor Madness	Taiwan/Iowa
Edmond Baker, Jr.	Cannonball	Taiwan/Utah
Ken Mondshine	Paul Mauriat	Taiwan
Zach Spruill	RS Berkeley	China
Cedric L. Barrett	Selmer	France

SOURCE: Correspondence between author and musicians.

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CHART 4

Texas's Top Five Sources of Foreign Investment Jobs



SOURCE: U.S. Bureau of Economic Analysis, "Activities of U.S. Affiliates of Foreign Multinational Enterprises: Preliminary 2015 Statistics," https://bea.gov/international/fdius2015_preliminary.htm (accessed September 11, 2017).

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job losses some predicted.²⁰ In addition, as noted above, NAFTA partners Canada and Mexico are the biggest buyers of Texas's exports.

Texas's delegation to Congress anticipated these benefits and voted with an overwhelming, bipartisan majority for the passage of NAFTA. (In fact, 29 of Texas's 34-member delegation voted for NAFTA).²¹ There was similar overwhelming, bipartisan support for subsequent free trade agreements, including the 1994 Uruguay Round Agreement Act, the 2005 Central American Free Trade Act, the 2011 U.S.–Columbia Free Trade Act, and the 2011 Korea–U.S. Free Trade Act.²²

Conclusion

Trade is not a zero-sum contest where one side's gain comes at the expense of the other side. Instead, trade is a big-picture, win-win process. With trade, consumers and producers receive expanded opportunities for their labor and their products, as well as expanded choices for consumption goods, investment opportunities, and sourcing inputs.

If trade were a contest, though, Texas would be winning.

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20. Gary Hufbauer, "Ross Perot Was Wrong About Nafta," *The New York Times*, November 25, 2013, <https://www.nytimes.com/roomfordebate/2013/11/24/what-weve-learned-from-nafta/ross-perot-was-wrong-about-nafta?mcubz=3> (accessed October 12, 2017).

21. North American Free Trade Agreement Implementation Act of 1993, Public Law 103-182, <https://www.govtrack.us/congress/votes/103-1993/h575> (accessed October 12, 2017).

22. Uruguay Round Agreements Act of 1994, Public Law 103-465, <https://www.govtrack.us/congress/votes/103-1994/h507> (accessed October 12, 2017); Dominican Republic–Central America–United States Free Trade Agreement Implementation Act of 2005, Public Law 109-53, <https://www.govtrack.us/congress/votes/109-2005/h443> (accessed October 12, 2017); United States–Columbia Trade Promotion Agreement Implementation Act of 2011, Public Law 112-42, <https://www.govtrack.us/congress/votes/112-2011/h781> (accessed October 12, 2017); and United States–Korea Free Trade Agreement Implementation Act of 2011, Public Law 112-41, <https://www.govtrack.us/congress/votes/112-2011/h783> (accessed October 12, 2017).