

## The Effects of Trade and NAFTA on the Texas Economy

Members of the Commission, thank you for holding this hearing on U.S.-Latin American trade and the role played by U.S. participation in NAFTA, and inviting the Texas Department of Economic Development's executive director, Jeff Moseley to appear here this afternoon. On behalf of Jeff Moseley, who was unable to attend today's hearing, I would like to extend a sincere welcome to the great state of Texas.

The topic for today's public hearing, U.S.-Latin American trade and NAFTA, could not have been located in a more appropriate location than Texas. At the center of the North American continent, Texas is perhaps more affected by the dynamics of free trade than any other state in the country. An industrial powerhouse in its own right, Texas is situated directly between the industrial heartlands of northern and central Mexico and the U.S. Midwest. Few people may be aware that Brownsville and McAllen, two of Texas's major border cities for processing imports and exports, are as close to Mexico City as they are to Dallas.<sup>1</sup> The state's proximity to the population centers of Mexico and the United States has made Texas the principal conduit of U.S. trade with Mexico. In fact, over 70 percent of all U.S. exports to Mexico are handled by Texas ports, bridges, and airports.<sup>2</sup> The border crossing at Laredo alone processes well over one-third of U.S. exports to Mexico.<sup>3</sup>

Since the advent of NAFTA six years ago, the magnitude of trade that Texas conducts with trading partners Mexico and Canada has grown tremendously, increasing from \$24.7 billion in 1993 to \$46.7 billion in 1998. These two countries are the leading destinations for Texas exports, accounting for well over half of the state's total exports in 1998. Between them, Mexico and Canada's share of Texas exports increased by more than six percentage points since 1993, representing a net increase of some \$22 billion.<sup>4</sup> Even in an economy the size of Texas's, this dollar value is not insubstantial, and it should be emphasized, once again, that growth in trade with Mexico and Canada is outpacing the state's exports to other parts of the world.

The six years since the inception of NAFTA have not been without their share of economic turbulence, including the Mexican peso crisis, the Asian financial problems, and fluctuations in energy prices. Despite these obstacles, the Texas economy has achieved remarkable growth. There's no doubt that the state's economic expansion since 1994 has been buoyed by a strong domestic market. But the pace of trade growth during the same period is exceptional and has been a major contributor to the greater prosperity realized by this state over the past decade.

For the remainder of this presentation, I will discuss the state's economic achievements since NAFTA, looking at how the state has changed since January 1, 1994. While I will

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<sup>1</sup> Brownsville, Texas is approximately 500 miles away from Mexico City and Dallas.

<sup>2</sup> U.S. Census Bureau and Massachusetts Institute for Social and Economic Research (MISER), 1998.

<sup>3</sup> Ibid.

<sup>4</sup> Massachusetts Institute for Social and Economic Research (MISER), "Origin of Movement" series of export data.

not offer a causal relation between NAFTA and the state's growth, the data present a compelling image of Texas's economic success since the trade agreement's inception.

## The Role of Foreign Trade in the Texas Economy

Texas has enjoyed a sustained period of economic growth since NAFTA was implemented, a trend that is reflected in the state's exports. Between 1993 and 1998, the state's exports increased from \$52.2 to \$86.9 billion, a two-thirds increase. By comparison, U.S. exports increased by less than 50 percent during the same period. In 1998, while the state's exports *increased* by only 3.0 percent, U.S. exports **declined** by 1.0 percent.<sup>5</sup> Texas outperformed the United States largely due to the strength of exports to Mexico.

Foreign trade plays an important role in the Texas economy—a larger role, in fact, than that for the nation as a whole. While Texas accounts for slightly over 7 percent of the U.S. population, the state's share of the nation's exports is almost 13 percent.<sup>6</sup> In 1998, the state's \$86.9 billion in total exports was equivalent to 13.3 percent of the Texas gross state product, the value of all goods and services produced in the state. In contrast, total U.S. exports equated to about 8.0 percent of the nation's gross domestic product.<sup>7</sup> In per capita terms, Texas exports are nearly 75 percent higher than those for the United States.<sup>8</sup>

## Employment

Overall employment levels in Texas have increased markedly since NAFTA began. Between December 1993 and October 1999, Texas employment increased by 22.3 percent, far exceeding the 15.4 percent gain recorded by the nation during the same period.<sup>9</sup> During this period, Texas accounted for 10 percent of all jobs added to the U.S. economy. Several sectors directly tied to the logistics of trade—including trucking and warehousing and transportation services—have exhibited particularly strong growth. Other fast growing sectors of the Texas economy include business/professional services (includes computer, engineering, management, and help supply services), construction, communications, electronics, and industrial machinery and computers. Two of these sectors, electronics and industrial machinery and computers (the sector that includes both computers **and** oil and gasfield equipment) also rank among Texas's leading merchandise exporters and account for about one-half of the net increase in Texas exports between 1993 and 1998.<sup>10</sup> NAFTA trading partners, Mexico and Canada, are by far the leading markets for Texas exports in both of these industries.

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<sup>5</sup> Ibid.

<sup>6</sup> U.S. Census Bureau population estimates for July 1, 1998 and MISER.

<sup>7</sup> Estimates of Gross State Product from The WEF Group, Winter 1998/1999 Forecast.

<sup>8</sup> Per capita exports for Texas and the U.S. were \$4,395 and \$2,517, respectively, in 1998.

<sup>9</sup> Bureau of Labor Statistics (BLS), seasonally adjusted figures.

<sup>10</sup> Electronic equipment and industrial machinery/computers accounted for \$17.9 billion of the \$34.7 billion net increase in Texas exports between 1993 and 1998.

## Manufacturing

With the incremental reduction of tariffs prior to and following the North American Free Trade Agreement in 1994, Mexico's economy has gradually become more closely integrated with that of the United States. Its manufacturing sector has prospered, with U.S. consumers buying more Mexican-produced cars, computers, and television sets. The growth in Mexican manufacturing is also benefiting Texas industry, which has added over 100,000 manufacturing jobs since December 1993.<sup>11</sup> By comparison, the United States, overall, added only about a quarter million manufacturing jobs during the same period.

Much of the growth in Texas manufacturing employment has been in industries that build intermediate goods that are assembled into finished products by maquiladoras—the majority of which are located in northern Mexico. Both fabricated metals and plastics products have grown by over 20 percent in Texas during the past six years.<sup>12</sup> These Texas industries supply maquiladoras with components to be used in the assembly of products ranging from computers to household appliances. In El Paso, the plastics products industry has grown in concert with the maquiladoras in the Mexican state of Chihuahua.<sup>13</sup> Plastics products employment in El Paso has nearly doubled since 1993, creating jobs which pay about 11 percent higher than the average for the El Paso area.<sup>14</sup>

## Per Capita Income

The sharp growth in Texas exports and employment since NAFTA began has corresponded with a recovery in Texas's per capita income levels relative to the nation's. Prior to NAFTA, in 1993, Texas's per capita income was less than 92 percent of the national average. After several years of strong economic growth, the state's per capita income reached 94.5 percent of the U.S. average in 1998.<sup>15</sup>

The recovery of Texas's per capita income levels demonstrates a reduced dependence on energy and comes on the heels of a volatile period between the early 1970s and late 1980s which saw Texas incomes rise and drop drastically in comparison to the nation.<sup>16</sup> In the early 1980s, for the first time in the state's modern history, Texas's per capita income actually exceeded the national average. But as energy prices fell in the 1980s, the state's per capita income relative to the nation's plummeted. The Texas economy in the 1990s was much less dependent on fossil fuel production and the state's per capita income began catching up with the national average despite the prevalence of relatively

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<sup>11</sup> Bureau of Labor Statistics (BLS), seasonally adjusted figures.

<sup>12</sup> Ibid.

<sup>13</sup> The WEFA Group and the Texas Workforce Commission, ES202 employment and wage data.

<sup>14</sup> County *Business Patterns*, 1997. U.S. Census Bureau. The average payroll per employee for workers in the plastics products industry in El Paso County was \$23,636 in 1997—11 percent higher than the \$21,336 average for the county.

<sup>15</sup> Bureau of Economic Analysis.

<sup>16</sup> Bureau of Economic Analysis. Historically lower than the U.S., Texas per capita income climbed above the U.S. average in the early 1980s only to fall below 90 percent of the U.S. average by the late 1980s.

low oil prices during the decade. Contributing factors to Texas's per capita income growth include the expansion of technology-based businesses, including electronics and industrial machinery/computer manufacturing. Wage and employment growth in both these relatively high-paying and export-intensive industries significantly outpaced state averages between 1994 and 1998.<sup>17</sup>

## **Conclusion**

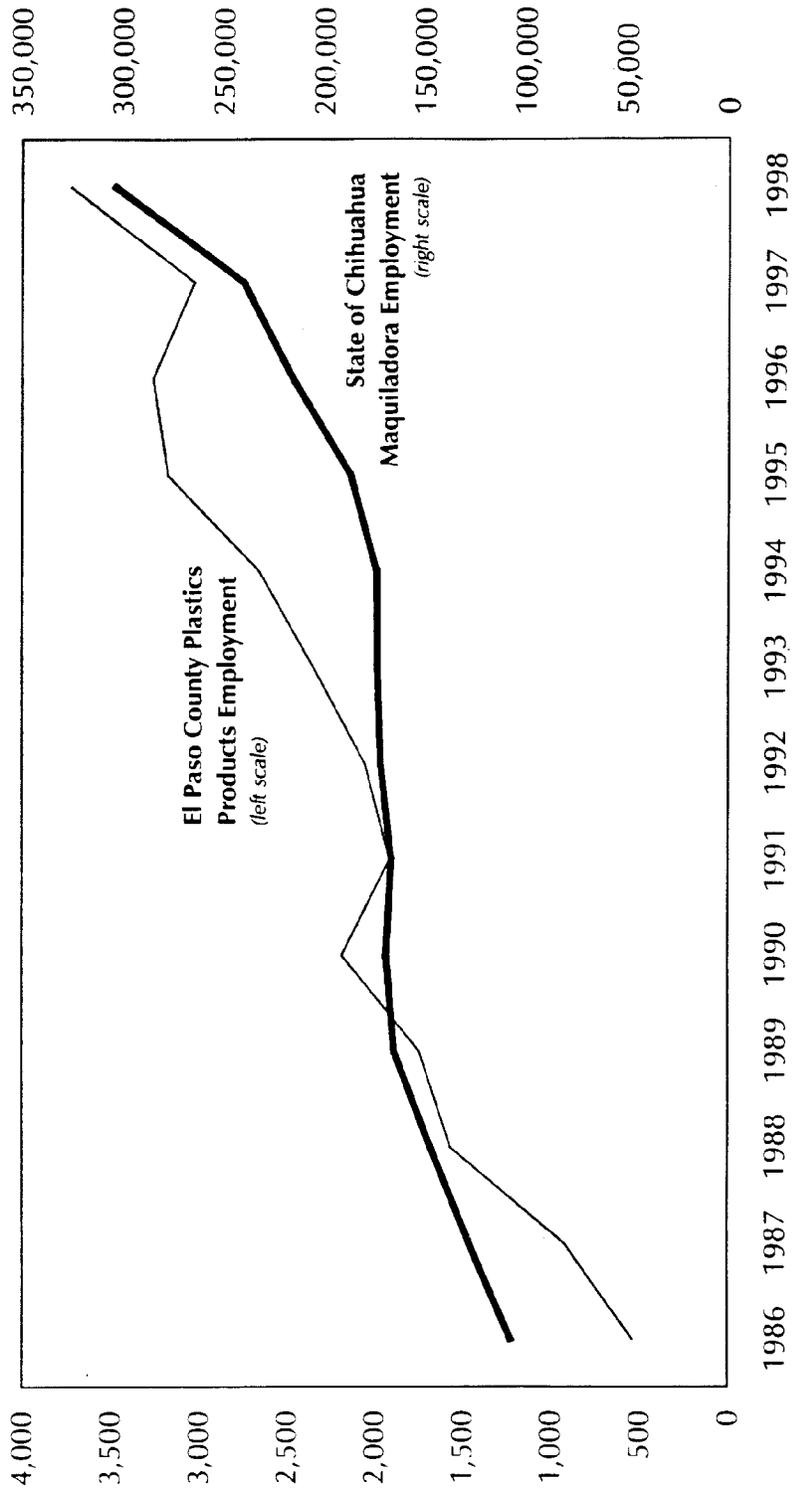
While Texas and the United States have expanded dramatically during the past six years, the Texas economy shows even stronger growth than the nation overall in such factors as total employment, manufacturing employment, and per capita income. Remarkably, this impressive growth record was achieved during a time of declining energy prices. Along with volatile energy prices, however, the last six years were also marked by the impressive growth of Texas exports. This growth in trade, in conjunction with an expanding domestic economy and high technology industry, was more than sufficient to offset declines in Texas's traditional fossil fuel sectors. Although increases in international trade and NAFTA were not singularly responsible for the state's recent growth, they have occurred in a time of impressive accomplishments within the Texas economy.

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<sup>17</sup> Texas Workforce Commission, ES202 employment and wage data. Calculated by the Texas Department of Economic Development based on first quarter averages.

*Bruce Stewart*

**Plastics suppliers have located in El Paso as maquiladoras across the border have boomed...**



Sources: The WEFA Group and the Texas Workforce Commission