

Having surpassed California as the top exporting state in 2002, Texas today sells \$150 billion worth of goods overseas. If Texas were a nation, it would rank among the top 20 exporting countries in the world.

Who are Texas' best customers? Mexico has traditionally been the state's preeminent trading partner—not at all surprising, given its proximity. Geography and the North American Free Trade Agreement (NAFTA) of 1994 helped make Mexico the destination for 35 percent of Texas exports in 2006 (*Chart 1*). Laredo has become the nation's fourth busiest port district.

Last year, Texas sent 20 percent of its exports to Asia, excluding China; 12 percent to the European Union; and 11 percent to Latin America, excluding Mexico. To a lesser extent, geography and NAFTA also allowed Texans to sell to Canada, which received 10 percent of the state's exports.

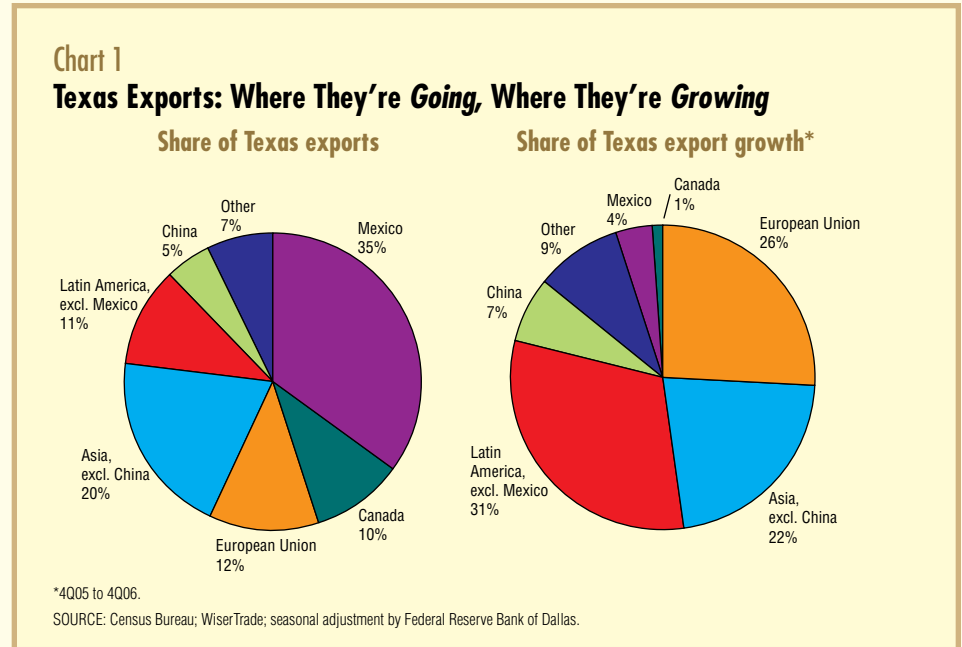
Simply looking at a single year's export shares doesn't give a complete picture of what's driving Texas' overseas sales. Export growth provides a surprisingly different view of how state companies are faring in the global marketplace.

Most important, North America's dominance declines. Mexico, for example, accounted for just 4 percent of Texas' export growth last year. Canada's contribution was a mere 1 percent.

Other major markets meant more to the state's export growth in 2006. Latin America, excluding Mexico, accounted for a whopping 31 percent. The EU's share was 26 percent. Asia, excluding China, logged in at 22 percent. China accounted for 7 percent, even though it had half of Canada's overall market share.

Last year's patterns aren't new. Since 2000, Mexico's share of Texas exports has ebbed from 46 percent to 35 percent, while other parts of the world have seen their shares rise (*Chart 2*). Latin America, excluding Mexico, has increased from 7.5 percent to 12.6 percent. China, the fastest growing single market for Texas exports, has gone from 1.3 percent to 4.3 percent.

The distribution of exports depends to a large extent on Texas firms' ability to



supply global markets at competitive prices. Larger economic forces, such as growth and exchange rates, may also be at work.

Sales to China may be up as a result of the country's double-digit growth rates as well as its deepening economic ties to the U.S. A sharp depreciation in the dollar's value against the euro in the past year has

made U.S. products more attractive to Europeans, helping fuel Texas exports to the 25-nation EU.

Globalization has also helped diversify Texas' export markets. Advances in technology, transport and communication have made geographical proximity less important to international trade. Dallas-Fort Worth's top six export markets are across the Pacific, led by China.

For Mexico and Canada, NAFTA's effects may be waning. The two countries' tariffs on most U.S. products are already low, and Texas companies have had years to take advantage of them.

Texas' exports have been a source of economic strength, accounting for 15 percent of state output and one in five manufacturing jobs, according to the U.S. International Trade Commission. Geography dictates that Mexico will continue to be the state's most important trading partner, but Texas companies have proven they can take advantage of markets all over the world.

—Anil Kumar and Ragbav Virmani

