

Prairie View International Business Digest

Center for International Business Education

Prairie View A&M University - College of Business

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Globalizing Texas (Part I)

(Adopted from *Southwest Economy*, Federal Reserve Bank of Dallas, Issues 5 & 6, 2007)



The economy of Texas is fairly well integrated with the global economy. Texas exports more of its output than the nation and employs more of its workers in export-related jobs. It also scores higher on export sophistication. But, Texas's exports are less diversified than U.S. exports, and the state hasn't done as well in seizing opportunities in such fast-growing emerging economies as Brazil, Russia, India and China. While Texas still has a large stock of assets

owned by foreign affiliates, it has recently slipped back to the national average with the decline of FDI as a share of state GDP.

The Kauffman Foundation's *2007 State New Economy Index* ranked Texas the third most-globalized state in the nation. A key factor in globalization has been expanding trade, which has made Texas the top exporting state. Compared with the nation, Texas exports a larger share of its output, depends on exports for more of its jobs, sends more sophisticated products overseas, employs more higher-skilled workers in export-related jobs, and its port activity has grown more than twice as fast as the nation's in the past decade. Texas also scores higher on export sophistication, suggesting the state maintains a competitive edge in the high-tech sector.

Texas performed quite well as an exporting state even before it surpassed California in 2002 as the top exporting state in the U.S. Over the past decade, the state has maintained a significant lead over the nation in exports as a share of total output. In 2006, exports accounted for 14 percent of state economic activity, compared with 8 percent for the U.S. As economies globalize, workers' livelihoods are more likely to be tied to foreign markets. According to Census Bureau and International Trade Administration data, export-related jobs account for 5.5 percent of all private-sector employment in Texas, compared with the nation's 4.5 percent. Twenty percent of the state's manufacturing jobs depend on exports, versus 17 percent for the U.S.

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Editor's Note



Editor, Dr. Rahim Quazi

Greetings. It gives us immense pleasure to present to you the 15th issue of the *Prairie View International Business Digest*, an electronic quarterly newsletter produced by the Center for International Business Education at Prairie View A&M University.

This issue features three sections. The first section (*Globalizing Texas – Part 1*) is the first part of a two-part narrative of the growing significance of globalization to the Texas economy, which is fairly well integrated with the global economy. The forces of trade, foreign investment and global competition have created many exciting opportunities and challenges for the state's economy, which would likely continue in the near future. The second section (*Event Updates*) presents brief updates on our recent and upcoming events, and the third section (*Trade News Updates*) provides brief updates on trade news.

We hope you continue to find this e-newsletter a valuable channel for important information relating to international business. We do hope our efforts will inspire greater number of local firms to seek out new opportunities in international business. Should you have any questions or suggestions, please feel free to contact us. We would also like to hear from you on the content of future issues of this newsletter. Thank you for your support.

Sincerely,

A handwritten signature in black ink, appearing to be 'R. Quazi'.

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Event Updates

- The Center has co-sponsored six breakout sessions at the 21st annual NASBITE (North American Small Business International Trade Educators) International Conference. The Conference was held in March 6-8, 2008 in Washington DC.
- The Center has recently purchased many new books and video cases on international business, which raises the current collection to over 100 books and 30 video cases. These materials are available for free public use.
- The Center will organize a one-day training workshop for high school educators on March 29, 2008 (Saturday, 9-5 pm). All participants will receive teaching tips and materials suitable for course and curriculum design, unit and lesson planning, a letter certifying participation in the workshop that will satisfy 8 hours of CPE, and travel stipends.
- The Center will organize a week-long summer field trip to the Universidad de las Americas at Puebla, Mexico, on May 18-25, 2008. The participants will include PVAMU students and faculty members, and high school educators.

Globalizing Texas (Part I)

(Continued from page 1.)

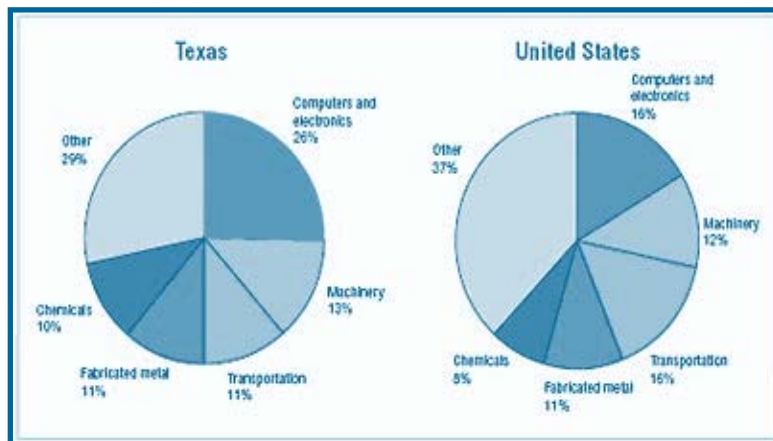
Texas's trade with emerging economies remains solid, although the state depends heavily on the Mexican market and lags the U.S. in tapping into the fast-growing emerging economies. Texas's top three foreign markets account for more than half of its exports, compared with 40 percent for the U.S. and 37 percent for California. In recent years, Texas has become somewhat more diverse, with fast export growth to Latin America, Asia and the European Union. Even so, Texas still depends heavily on its southern neighbor as an export market. Although Mexico is the top export destination for both Texas and California, Texas relies on the Mexican market for 36 percent of overseas sales, substantially higher than California's 15 percent.

The principle of comparative advantage encourages trade based on greater specialization, but a diversified export portfolio can help sustain economic growth by lending stability to overseas sales. The greater is a state's range of products and markets, the more likely it will be able to withstand shocks to particular industries or countries. Several times in the 1980s and early 1990s, Mexico's economic turmoil spilled over into Texas, hitting the border region particularly hard. Over the past decade, Mexico has achieved a long stretch of economic stability, which lessens concerns about Texas's reliance on a single market for its exports.

As a high-wage country, the U.S. can't compete effectively with low-wage countries like China and India in markets that rely on cheap labor. America's edge in global markets is more likely to be found in goods and services that embody a high degree of advanced technology and skilled labor. Texas's high-tech workers help put the state ahead of the nation in exporting technologically sophisticated goods.

In both Texas and the U.S., relatively skill-intensive industries are more globalized and employ a larger concentration of export-related workers. Of these, the computer and electronics sector is the most skill-intensive, with industrial R&D expenditures of 11 percent of net sales. The sector also ranks No. 1 in share of jobs tied to exports. As much as 48 percent of Texas's computer and electronic equipment jobs depend directly or indirectly on exports, compared with 35 percent for the nation. The high level of skill intensity in exports and export-related jobs reflects Texas's competitive edge in computer and electronic equipment manufacturing, which accounts for 26 percent of all export-related jobs, compared with 16 percent for the nation (see Chart 1). (Continued on page 4.)

Chart 1: Industrial Distribution of Export-Related Jobs in Texas and U.S.



Globalizing Texas (Part I)

(Continued from page 3.)

Exports to BRICs (Brazil, Russia, India and China)

In the 21st century, several large developing economies have emerged as major drivers of global economic growth. Brazil, Russia, India and China (collectively known as the BRICs) are likely to continue their rapid economic growth in coming decades, creating markets for goods and services from more advanced nations. Today, the BRICs produce just 15 percent of the combined output of the U.S., Japan, Germany, France, U.K. and Italy (collectively known as the G6 countries). According to Goldman Sachs, however, the BRICs will reach half the G6's GDP in 2025 and surpass the G6 in 40 years.

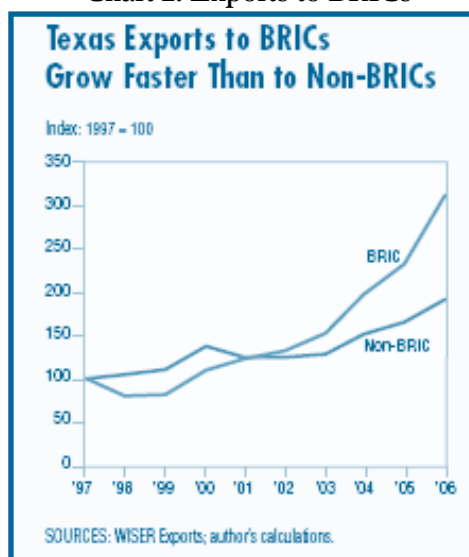
Texas's exports to the BRICs have shown impressive growth, more than doubling over the past decade (see the right chart). Since 2001, when the BRIC growth rate eclipsed the non-BRIC growth rate, the dollar value of sales has risen by 320 percent to China, 217 percent to India, 76 percent to Russia and 42 percent to Brazil. Even with high growth rates, however, the share of Texas exports going to the BRICs hasn't increased relative to the U.S. exports over the past decade. Texas has however traditionally done much better than the U.S. in selling to a group of 21 emerging economies (including the BRICs), a fact that largely reflects Mexico's prominence as a market for the state.

Over the past decade, Texas has trailed the U.S. in the share of its total exports to the BRICs, but is closing the gap. In 2006, the BRICs accounted for a relatively small 8 percent of the state's total exports, and 9 percent of total U.S. exports. Texas's exports relative to the U.S. are larger to Russia and Brazil and smaller to India and China. The performance difference probably reflects other nations' needs as well as what Texas firms supply at competitive prices.

(To be continued in next month's issue.)

*Adopted from: Anil Kumar, "Globalizing Texas: Exports and High-Tech Jobs," *Southwest Economy* (Federal Reserve Bank of Dallas), Issue 5, September/October 2007.

Chart 2: Exports to BRICs



Trade News Updates

Texas is the No. 1 Exporting State in the Nation for 6th Consecutive Year.

Houston is No. 2 Exporting Metro Area in the Nation.

Texas has been ranked again as the number one exporting state in the nation – for the 6th consecutive year. Houston-Sugar Land-Baytown area ranks as the 2nd largest metro export market after New York City. Texas exports in 2007 totaled \$168.2 billion, a \$17.3 billion increase over 2006 exports, representing an 11.4 percent increase. The state's leading sectors were chemicals, computer and electronic products, machinery (not electrical), transportation equipment and petroleum & coal products. Mexico and Canada were the two leading export destinations, followed by China and South Korea. Houston ranked second in 2006 export sales with a total of \$53.3 billion of merchandise exports. Houston area exporters benefited from the NAFTA (North American Free Trade Agreement) and CAFTA-DR (Central American and Dominican Republic Free Trade Agreement) by exporting \$13.7 billion to Canada and Mexico, and \$1.4 billion to the Central American region in 2006, respectively.

China's Second-Tier Cities: A Frontier of Opportunities for U.S. Exporters

Thirteen of China's second-tier cities account for 8% of China's population, but 53% of its total imports – which is why the untapped markets of China's second-tier cities provide some of the most exciting and lucrative opportunities for U.S. exporters. A video presentation on these markets is available at:

http://www.export.gov/articles/vid_launch_china.asp.



(Source: *Export News*, Newsletter published by the U.S. Export Assistance Center, Houston)

In the next issue:

More in the world of
International Business.

Available in
June 2008



PRAIRIE VIEW A&M UNIVERSITY
COLLEGE OF BUSINESS
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Vision and Mission Statements

The vision of the College of Business is to be a premier business institution that empowers students to realize their dreams through an excellent education.

The mission of the COB is to provide a diverse student body with a business education that produces readily employable professionals who are productive, ethical, entrepreneurial, and prepared to succeed in a competitive global economy. The College is committed to the pursuit of excellence in teaching, research and service. We will achieve these through an outstanding faculty and alliances with stakeholders. While undergraduate education remains our primary focus, the COB aspires to expand its graduate programs. The student experience will be distinguished by personal attention, teamwork, leadership training, and an understanding of the link between business and society.

If you would like to receive an electronic version of this newsletter, please contact Dr. Rahim Quazi in the College of Business at 936-261-9225 or via e-mail at rmquazi@pvamu.edu.

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