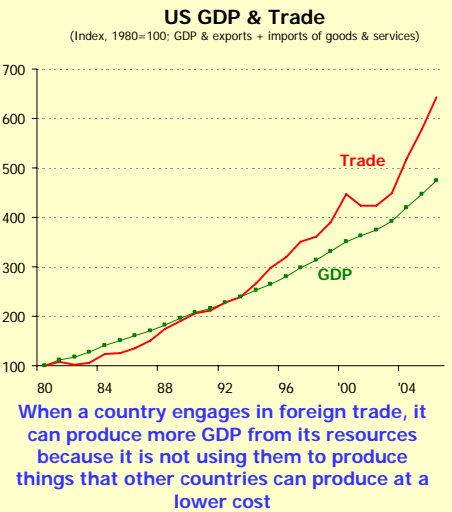
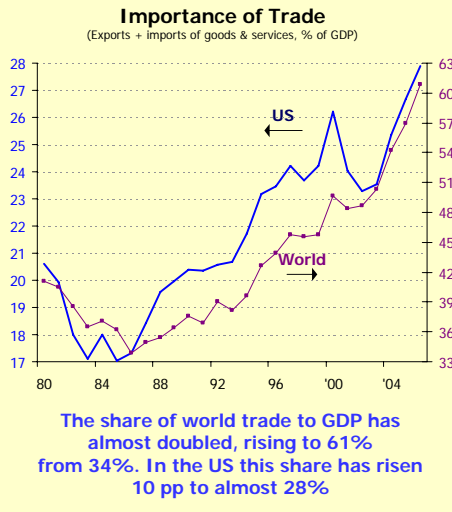




# Cross Border Trade

In the past 20 years, world trade has grown significantly while its importance for the US economy has increased steadily



Mexico is the third largest US trade partner with almost 12% of total, which is similar to China's



### 2006 Exports of Goods, US\$bn

	Total	Canada	China	LATAM*	Mexico
Total exports	1,037.3	230.6	55.2	204.9	134.2
Total imports	1,855.4	303.4	287.8	312.9	198.3
Balance	-818.1	-72.8	-232.6	-108.0	-64.1
Trade (X+M)	2,892.7	534.0	343.0	517.8	332.4
% of total	100.0	18.5	11.9	17.9	11.5
Rank		1	2		3

• Trade with Latam accounts for almost 18% of total and is 51% greater than that of China and similar to that of Canada, the major trade partner

\* Mexico, Central and South America

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For Texas, Mexico is even more important as it accounts for almost 40% of its exports



### 2006 Exports of Goods, US\$bn

	Total US	Share (%)	Texas	Share (%)	Share (%) Texas / US total
Total	1,037.1	100.0	150.9	100.0	14.5
Canada	230.3	22.2	15.6	10.4	6.8
China	55.2	5.3	6.6	4.4	12.0
LATAM	204.9	19.8	69.3	46.0	33.8
Mexico	134.2	12.9	54.9	36.4	40.9

• Mexico is by far Texas major trade partner: 36% of its exports are sent to Mexico; Latam accounts for 46% of the total  
 • Of US exports to Mexico, Texas contributes with almost 41%, while of those to Latam Texas contributes with one-third

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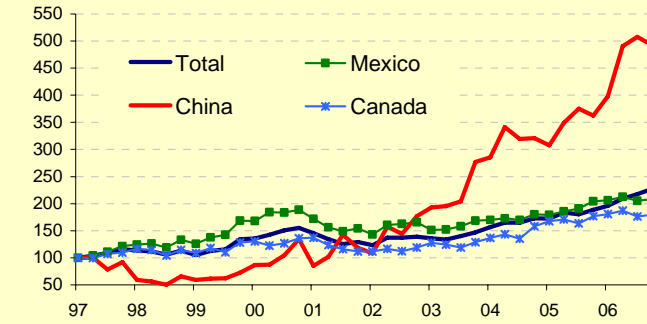
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Although recently exports to Mexico and Canada have slowed, they remain dynamic boosted by the rest of the world, especially China



- Texas exports remain solid. The main drivers are chemicals, petroleum and coal products, machinery, computers and transportation.
- However, exports are likely to remain on a moderating trend as the US and world economies slow down

**Texas Exports**  
(1997=100)



Source: WISER

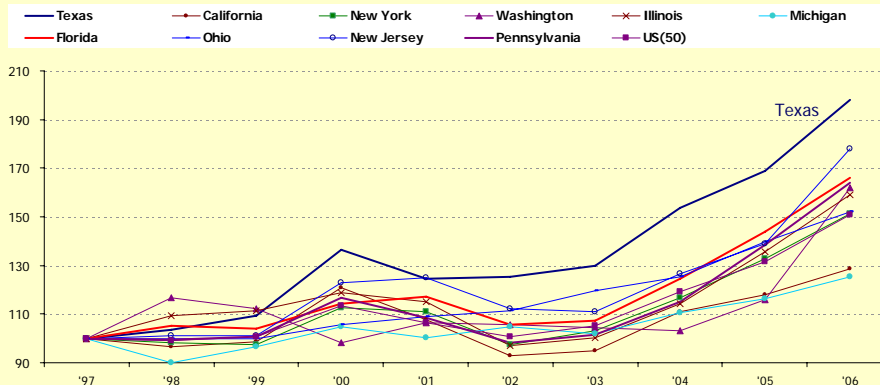


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Texas has been by far the most dynamic of the ten major exporter states over the past ten years



**Total Exports of 10 largest US state exporters**  
(1997=100)



- Texas has been able to better reap the benefits of globalization
- State's exports have almost doubled in the past ten years

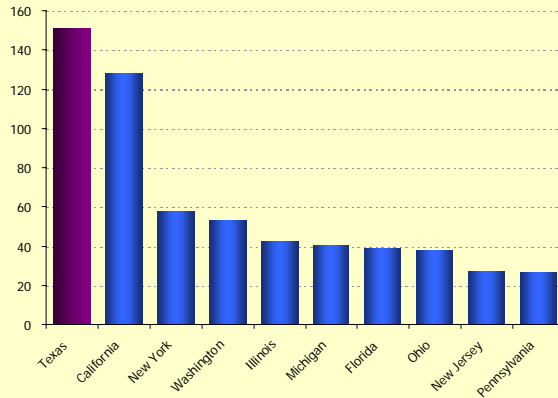


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## Texas is the major exporter of the US accounting for 15% total



**State Exports**  
(Goods, 2006, US\$bn)



Rank State US\$bn % of total  
**2006**

Rank	State	US\$bn	% of total
	<b>All</b>	<b>1,037.1</b>	<b>100.0</b>
1	TX	150.9	14.5
2	CA	127.7	12.3
3	NY	57.4	5.5
4	WA	53.1	5.1
5	IL	42.1	4.1
6	MI	40.4	3.9
7	FL	38.5	3.7
8	OH	37.8	3.6
9	NJ	27.0	2.6
10	PA	26.3	2.5

- Texas ratio of exports of goods to GDP represents 15%, while that of the US accounts for 8%
- Total exports are larger than the individual GDP of 25 states

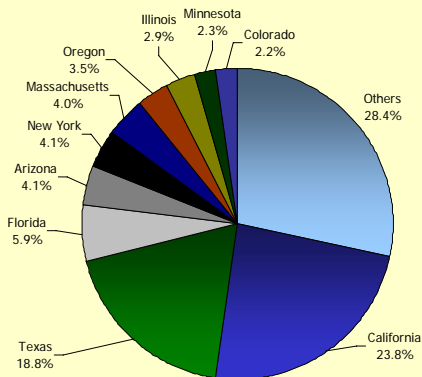
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## This dynamism has been driven by high-tech exports. Texas contributes with 19% of exports of computer and electronic products, second only to California



**Exports of Computer and Electronic Products**  
(% of total, 2006)



Between 1997 and 2006, US exports of computers and electronic products rose 22.5%, equivalent to \$34.4bn. Almost fifty percent of that was originated in Texas

Texas registered an increase of 84.5% in this kind of exports in the same period

Texas participation gain had been at California's expense, which has lost 7 pp of relative importance in the same period

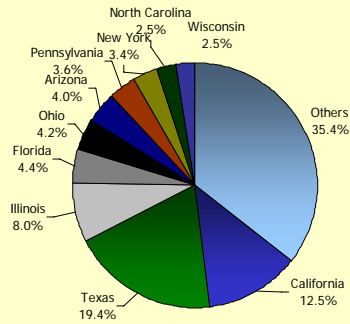
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... as well as 19% of exports of electrical equipment and appliances (ranked 1<sup>st</sup>) and 8% of transportation equipment (ranked 3<sup>rd</sup>)

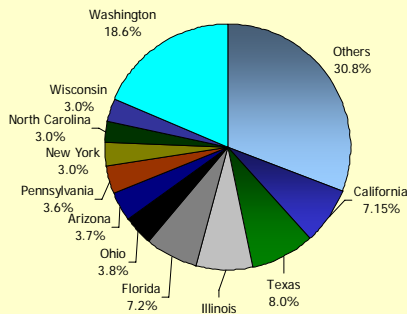


**Exports of Electrical Equipment, Appliances, and Comp**  
(% of total, 2006)



Between 1997 and 2006, US exports of electrical equipment and appliances rose 55%, equivalent to \$12.6bn; 25% that was originated in Texas, followed by California with 10%

**Exports of Transportation Equipment**  
(% of total, 2006)

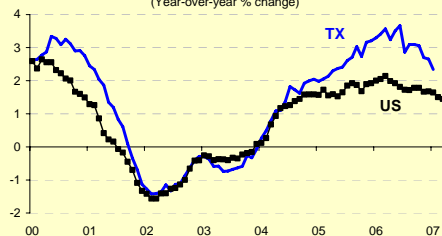


Between 1997 and 2006, US exports of transportation equipment rose 60%, equivalent to \$70.5bn; Texas contribution was the second highest

Texas insertion in the globalization process has resulted in a steadily higher rate of job creation than US average

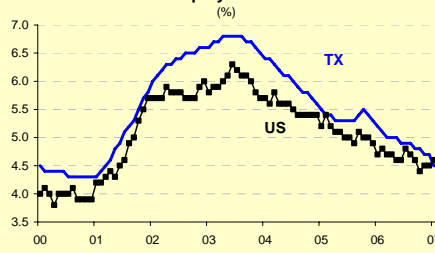


**Nonfarm Payroll**  
(Year-over-year % change)



Source: Dallas Fed & BLS

**Unemployment Rate**  
(%)

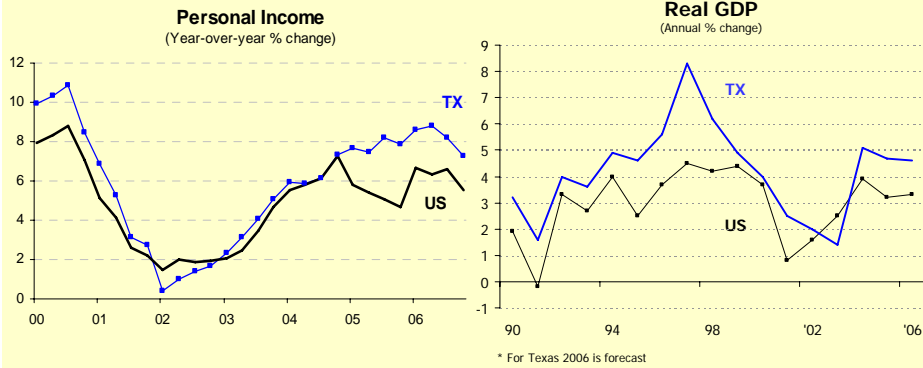


Source: Dallas Fed & BLS

• In 2004-06 Texas employment growth contributed with 11.1% of total US job creation, as it outpaced national average by 0.8 pp

• As a result, notwithstanding a higher labor force participation rate, there has been a catching-up in the unemployment rate, which has fallen to 4.3% from almost 7% in 2003

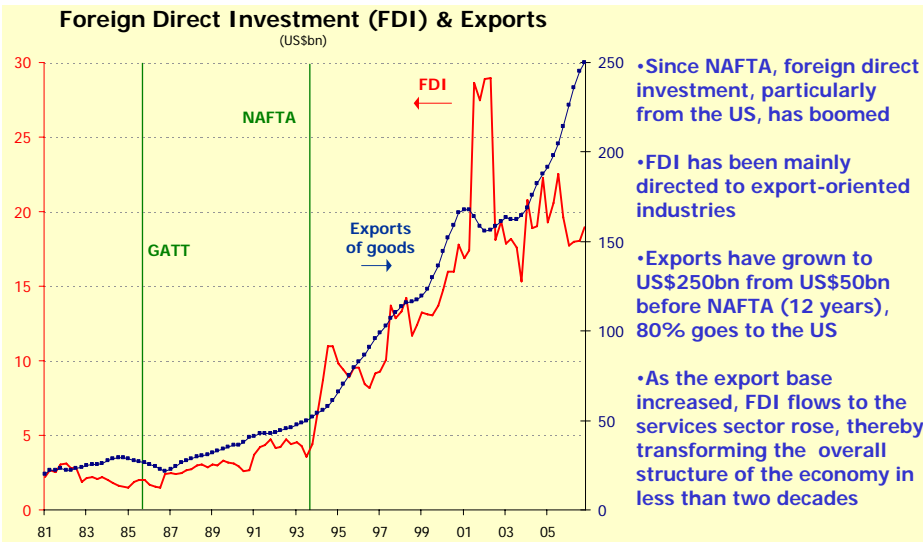
Texas trends represent a textbook case highlighting the benefits of foreign trade



- Engaging in foreign trade increases households' real purchasing power
- On the one hand, foreign trade allows income to stretch further as consumers can get goods and services at a lower cost

- On the other hand, foreign trade boosts productivity growth which in turn increases job creation and thus, wages and income
- Not surprisingly, Texas' GDP growth has consistently outpaced that of the US

As in Texas, trade liberalization and globalization have benefited Mexico notoriously

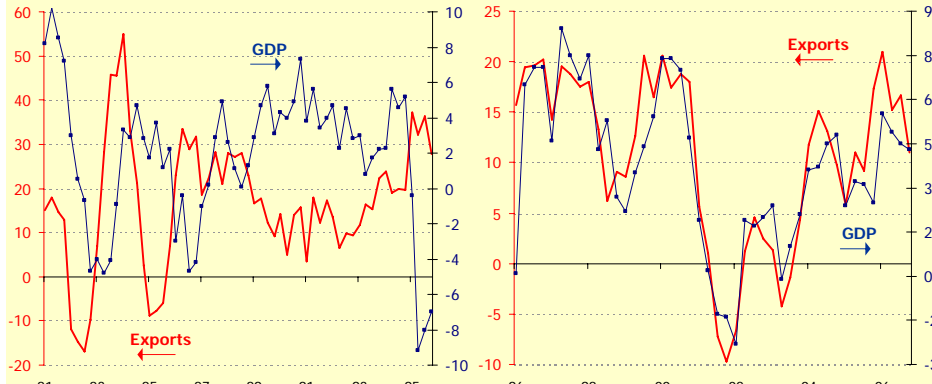


- Since NAFTA, foreign direct investment, particularly from the US, has boomed
- FDI has been mainly directed to export-oriented industries
- Exports have grown to US\$250bn from US\$50bn before NAFTA (12 years), 80% goes to the US
- As the export base increased, FDI flows to the services sector rose, thereby transforming the overall structure of the economy in less than two decades

With foreign trade Mexico's economic integration with the US increased significantly, while its business cycle became more stable



**Mexico's GDP & nonoil exports**  
(YoY % change)

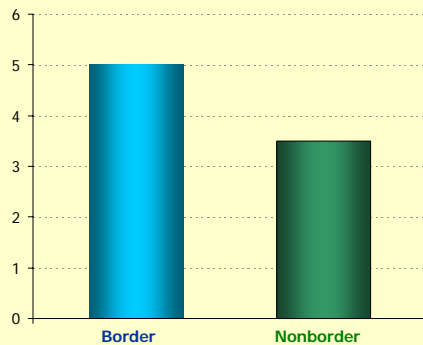


- Before the mid-90's exports had little effect on overall economic growth, which was linked to the political cycle and affected by deep financial crises
- Since then, exports have been the main driver for economic growth, with important second-round effects in the services sector

Mexico's border states have benefited the most from international trade

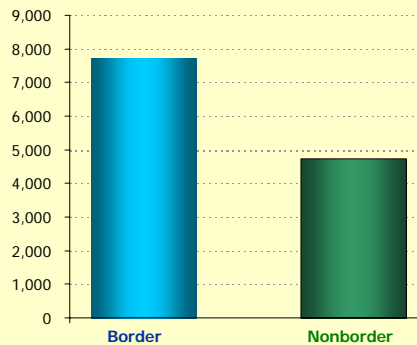


**GDP Growth**  
(CGAR, 1995-2004)



- GDP growth in border states has averaged 1.5 pp more per year than in nonborder states. If this difference remains, GDP in the border region would have grown 66% more than in the nonborder region

**GDP per capita**  
(US\$, 2004, nonborder excludes Mexico City)



- Foreign trade clearly has positive effects on living standards
- GDP per capita in border states is around 70% higher than in nonborder states