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**PORT OF HOUSTON**

Houston’s international roots can be traced most directly to the November 1914 christening of the Houston Ship Channel, an event that transformed Houston from a domestic river port to a deepwater port with a window on the world. By 1929, Houston was the nation’s eighth largest port and by 1930, the nation’s leading exporter of cotton.

There are many ways to describe port activity: by tonnage, by dollar value of product moved or by tanker vs. liner cargo traffic. How a port ranks in comparison with others often depends on the measure we choose.

- In 1998, Houston was the nation’s second largest port based on total tonnage, only behind the Port of South Louisiana. New Orleans ranked No. 4 behind third-place New York. Miami was a distant No. 68.
- Houston ranked No. 1 in foreign tonnage handled in 1998, but in terms of the dollar value of foreign exports and imports, Houston ranked No. 4 behind Long Beach, Los Angeles and New York.

This article looks at linkages between Texas and the rest of the world, with a particular focus on Houston. Houston has long been one of the state’s most important commercial centers. Built originally on cotton and oil, it has become the key passageway for Texas’ global commerce. It draws specific comparisons between Houston, Dallas, New Orleans and Miami and with other U.S. cities as appropriate. The comparisons provide perspectives on both Houston’s assets and liabilities as an international city.
In 1997, Houston was No. 1 in the United States for tanker traffic, with 12 of the top 15 tanker destinations based on cargo tonnage located on the Gulf Coast. Corpus Christi and Texas City were the No. 2 and No. 3 ranked ports, respectively.

In 1997, Houston ranked No. 6 in tonnage of scheduled cargo service and No. 7 in unscheduled or tramp cargo service.

Houston’s top trading partners (exports plus imports) ranked by tonnage are all major oil exporters: Mexico, Venezuela, Algeria, Iraq and Saudi Arabia. Based on the value of product, the list changes: Mexico, Germany, Venezuela, Brazil and the UK.

**MERCHANDISE EXPORTS**

In 1998, Houston ranked No. 7 among U.S. metropolitan areas in local merchandise exports, with $19.1 billion. These are exports of agricultural, mineral or manufactured products produced by local companies within the metro area and exported to other countries.

- Cities that ranked ahead of Houston in 1998 were Seattle ($34 billion), Detroit ($27 billion), New York ($26.6 billion), San Jose ($26.1 billion), Los Angeles ($25.6 billion) and Chicago ($22.9 billion).

- Miami ranked directly behind Houston at No. 8, but with only $12.9 billion in exports. Dallas was No. 14, with $8.4 billion, and New Orleans was No. 45, with $2.8 billion.

- Houston’s exports are dominated by oil-related products; industrial machinery ($7.9 billion), chemicals ($4.2 billion) and refined products ($1.7 billion) make up 72 percent of exports. Most of the industrial machinery category is intended for the oil fields, with probably less than $1 billion of machinery exports made up of computer equipment.2

- Dallas’ exports are dominated by electrical machinery such as computers, semiconductors and telecommunications equipment. The largest share of exports—just over one-third—goes to Asia, also demonstrating a link between trade and its high-tech base. Just under one-third of Dallas’ exports go to NAFTA trading partners in Canada and Mexico.

- If Houston has a niche in oil, Miami’s niche is clearly regional, with 81.2 percent of local exports going to the Caribbean and South America.

- Houston’s 1998 export destinations were widely dispersed around the world, with 26.7 percent going to NAFTA trading partners. The rest is more or less equally divided among Europe, Asia, South America and the Caribbean, and the rest of the world.

**AIR TRAFFIC**

In 1998, the top four U.S. airports were Atlanta Hartsfield (73.5 million passengers), Chicago O’Hare (72.5 million), Los Angeles International (61.2 million) and Dallas/Fort Worth International (60.5 million). Miami ranked seventh (33.9 million), Houston Bush Intercontinental 12th (31 million) and New Orleans 39th (9 million).

- The ranking changes radically, however, if the standard is international traffic (Table 1). Measured this way, New York JFK, Miami and Los Angeles stand out from the pack in the number and percentage of international passengers moving through their airports.

- Houston, with nearly 4.6 million international passengers, lies near the bottom of a second tier of airports having annual traffic of roughly 4 million to 8 million passengers and 15 percent to 25 percent of their passengers headed out of the country. This list also includes Chicago O’Hare, Newark, San Francisco and Honolulu.

- Atlanta and Dallas/Fort Worth are not far behind Houston, with 4.3 million and 3.7 million international passengers, respectively. But their share of international traffic is far lower than other cities, since the huge volume that moves these cities to No. 1 and No. 4 in overall traffic is dominated by domestic operations. Some international flights in these airports may be based more on convenient domestic con-

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**Table 1**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Airport</th>
<th>Number of passengers (millions)</th>
<th>International (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New York J FK</td>
<td>17,901</td>
<td>56.9</td>
</tr>
<tr>
<td>2</td>
<td>Miami</td>
<td>15,486</td>
<td>45.6</td>
</tr>
<tr>
<td>3</td>
<td>Los Angeles</td>
<td>14,187</td>
<td>23.2</td>
</tr>
<tr>
<td>4</td>
<td>Chicago O’Hare</td>
<td>8,757</td>
<td>14.3</td>
</tr>
<tr>
<td>5</td>
<td>Newark</td>
<td>6,736</td>
<td>20.7</td>
</tr>
<tr>
<td>6</td>
<td>San Francisco</td>
<td>6,698</td>
<td>16.7</td>
</tr>
<tr>
<td>7</td>
<td>Honolulu</td>
<td>5,480</td>
<td>24.2</td>
</tr>
<tr>
<td>8</td>
<td>Houston Bush</td>
<td>4,554</td>
<td>14.7</td>
</tr>
<tr>
<td>9</td>
<td>Atlanta</td>
<td>4,263</td>
<td>5.8</td>
</tr>
<tr>
<td>10</td>
<td>Dallas/Fort Worth</td>
<td>3,689</td>
<td>6.1</td>
</tr>
<tr>
<td>…</td>
<td>…</td>
<td>…</td>
<td>…</td>
</tr>
<tr>
<td>31</td>
<td>New Orleans</td>
<td>115</td>
<td>1.3</td>
</tr>
</tbody>
</table>

SOURCE: Airport Council International.
nnections for international travelers than on business ties in the cities themselves.

**INTERNATIONAL BUSINESS COMMUNITY**

In addition to having global transportation links, an international business community is integral to any city connected to the rest of the world. You should find local businesses working abroad, foreign companies operating in the city, foreign banking and diplomatic representation. All are present and well represented in Houston.

- In 1996, the Texas Department of Economic Development published a study that showed the eight-county Houston Consolidated Metropolitan Area is home to 52 percent of the state’s foreign companies with Texas offices and 56 percent of Texas companies with operations abroad.\(^3\)
  - Of the remainder, about 60 percent of both categories are found in Dallas/Fort Worth. The presence of foreign business in the D/FW metroplex was more heavily weighted to Mexico and Canada, while Houston’s economic ties were more widely distributed around the globe.
  - In 1998, Houston’s 71 consular offices made it No. 4 among U.S. cities, behind New York (95), Los Angeles (81) and San Francisco (76). Houston has consistently ranked among the top five cities in recent years. Houston’s long-standing niche in globally important commodities—oil, oil products and chemicals—is a major attraction for consular representation. Ranking directly behind Houston are Chicago (64), Miami (60), Atlanta (43) and Dallas (28).
  - Foreign banking activity in Texas is centered in Houston, with nine of the state’s 11 foreign agencies and 16 of the state’s 22 representative offices operating in the city. These foreign institutions provide loans and stand-by letters of credit to very large corporations and finance foreign trade. Despite their relatively small numbers, they had just over $100 billion in loans on their books at year-end 1999, or 6.3 percent of statewide lending activity.
  - Among the countries represented in Houston banking, we find France, Canada, Bahrain, Scotland, Japan, Switzerland, Taiwan, Netherlands, Mexico and Saudi Arabia. However, Houston’s scale of operations is much smaller than some other major U.S. cities. For example, New York, Los Angeles, Chicago, Miami and Atlanta all have larger foreign banking communities than Houston.

**CONCLUSION**

The easiest conclusion from the data above is that Houston is the key international city on the Third Coast. It is the major port and the major exporter, and it has the largest international business community and the most extensive ties to the rest of the world.

Across the Gulf of Mexico, however, Houston faces Latin America and the Caribbean, which gives rise to two key observations. First, being king of the Third Coast does not put Houston in the same league as cities such as New York, facing Europe across the Atlantic, and Los Angeles, with ties to Asia across the Pacific. These cities have transportation links and international business communities that at least match—and in many cases dwarf—the international community found in Houston.

Second, Houston’s historical and current role is still built largely on a commodity niche in oil and chemicals. If the next logical step in Houston’s development as an international city is to form regional business ties with Latin America and the Caribbean, Miami stands as a formidable competitor. Miami’s extensive international air connections are heavily geared to Latin America, and over 80 percent of its merchandise exports are sold to this region. Chipping away at a substantial Miami lead may be slow and tedious, but proximity (if not history) favors Texas and Louisiana, at least outside the Caribbean Basin. Commercial inroads into the Americas is one of Texas’—and especially Houston’s—most promising avenues for growth.

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1 The Port of South Louisiana is a group of eight facilities located on the Mississippi River between New Orleans and Baton Rouge. Except for one intermodal facility in Reserve, La., all facilities are privately owned and operated by companies such as Cargill, Archer Daniels Midland, MFI/Sm Elmo Grain Co. and Occidental Chemical Corp.
2 Merchandise export data are a product of the U.S. Department of Commerce International Trade Administration (ITA). A relic of the era when calculators were mechanical rather than electrical, computers are still counted as machinery rather than electrical equipment. Insufficient data are available to break out computers from other industrial machinery in the ITA data, but a separate survey of Houston export activity by the Greater Houston Partnership indicates about 11.2 percent of industrial machinery (perhaps $880 million) comprises computers.
3 Texas Department of Economic Development, Texas Directory of Multinational Companies (November 1996).
After dipping to a 1 percent annual pace late in 1999, Houston-area employment growth has resumed and is now running at a 2 percent rate over the past 12 months. Big-ticket auto and housing sales continue to set records, manufacturing and energy are reviving nicely from last year’s setbacks and the stage is set for stronger job growth later this year.

RETAIL AND AUTO SALES

A late Easter in 2000 makes sales comparisons with last year difficult, and retailers are hoping a holiday surge will pull them back even with 1999. Most respondents reported moderate retail growth in line with prior plans and expectations.

In contrast, auto sales continue at a blistering pace in Harris County, up 17 percent in March from last year and up 38 percent in the first quarter. Neither higher gasoline prices nor stock market volatility is affecting local auto and truck sales.

ENERGY PRICES AND DRILLING ACTIVITY

Crude oil prices fell from a peak of $34 per barrel on March 7 to $24–$25 by mid-April, based on an OPEC agreement to increase supply by 1.45 million barrels per day. The announced OPEC price target ranges from $22 to $28 per barrel, and the $25 midpoint seems to be spurring energy companies to draw up business plans for near-term drilling activity.

Drilling activity in the United States strengthened in early April, partly reflecting a seasonal gain but also including a long-awaited increase in oil-directed drilling. Natural gas-directed drilling remains strong, with gas prices near $3 per thousand cubic feet in April.

Natural gas prices were propped up by a late snowstorm in the Northeast and a number of electric utility outages, as well as strong gas fundamentals. International drilling projects— lucrative and important to the bottom line of local oil service companies— also picked up in March, led by Latin America and Europe.

PETROCHEMICALS AND REFINING

Lower oil prices represent welcome relief to petrochemical producers, although profits remain under pressure with crude prices at $25 per barrel. Chemical price increases continue to be passed through, especially for polystyrene and polypropylene, but excess capacity for many basic petrochemicals limits overall profits for the industry.

Refiners cut back on production in February in response to low profit margins for oil products, then enjoyed a big improvement in margins as cold weather hit the Northeast. Margins remained good through March as crude feedstock prices fell and as refiners hesitated to build crude inventories and increase output with crude prices falling rapidly. Now that crude has stabilized near $25 per barrel, output should rise and gasoline prices should fall quickly.

FINANCIAL SERVICES

Lending remains stable. Rising rates are not affecting mortgage or auto lending, although some respondents report slower commercial and industrial demand. Rising interest rates are negatively affecting margins, however, because deposits reprice faster than loans.

REAL ESTATE

Existing home sales continue to soar in Houston— the March sales total is the highest in 20 years— and prices are still rising sharply. New home sales also surged throughout the first quarter as inventory became available in recent months for the first time in two years. Material and labor shortages have eased substantially in the housing market.

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