

The View from San Antonio

Blake Hastings, who became vice president in charge of the Dallas Fed's San Antonio Branch in December, discusses how international connections are paying off for the San Antonio and South Texas economies.

Q: Start by telling us a little about yourself and what you bring to the Dallas Fed.

A: I received an M.B.A. in international business, and most of my career has been focused on trade, starting with two years at the U.S. Trade and Development Agency in Washington, D.C., working mostly in the Asia-Pacific region. After a stint at a food services export company, I came to the Free Trade Alliance (FTA) San Antonio in 1995. It's a business organization that promotes foreign investment and trade for the San Antonio region. I was its executive director from 2001 until I joined the Dallas Fed.

Q: How did the North American Free Trade Agreement change the environment for trade?

A: Before NAFTA took effect in 1994, Latin America didn't get the same priority as our other trading partners. But that all changed with NAFTA, and the agreement's impact has been felt well beyond our neighbors to the north and south.

Not only did trade with Canada and Mexico boom, trade with the rest of the world started to grow by leaps and bounds. It wasn't because of NAFTA directly; it was more about companies changing their mindsets to be more trade-oriented as a result of NAFTA coming online.

Q: How did this new mind-set manifest itself in and around San Antonio?

A: San Antonio is an example of that new mind-set at its best. Prior to NAFTA, San Antonio's trade numbers were minuscule, but that's not to say the city hadn't already recognized that its future was linked with trade. When NAFTA became a political issue, San Antonio became a lobbying machine to get it passed. The business community really rallied behind the legislation, a move that paid off. By 1999, the region's international



trade had increased fivefold.

Some companies have really taken advantage of NAFTA. The San Antonio-based H-E-B grocery chain now has more than 30 stores in northern Mexico and a Monterrey distribution center. Just like in Texas, everything they sell is within a day's drive of that hub. Because of NAFTA, they've been able to copy the business model that has worked so well in Texas.

San Antonio remains committed to internationalization. Years ago, former Mayor Henry Cisneros set up sister cities around the world to prepare San Antonio to be a more global player. In fact, those forward-looking actions directly resulted in Toyota coming to San Antonio. A city committing itself over the long haul was rewarded 20 years later with a \$1 billion home run.

Q: So what comes next for the city?

A: Interestingly, just as trade with Mexico really started to take off, new opportunities arose in China. The FTA recognized that Chinese companies were going through the same metamorphosis as Japanese companies did a generation ago but on a grander scale and at an accelerated pace.

So the organization is pursuing China as a trading partner in the same spirit that it earlier pursued Japan. The question with the Chinese was not a matter of how but of how quickly we could get a relationship up and running. Today, we have a representative office for San Antonio in Guangzhou, which opened in February 2006.

Q: What about the rest of the South Texas region?

A: San Antonio certainly isn't the only community that has deliberately projected itself on the global stage. Corpus Christi, McAllen and Laredo have also accepted that they don't have the same name recognition as Dallas, Houston, New York, San Francisco and other trade centers. They, too, have overseas representatives and ongoing initiatives.

All of these communities are learning that you can't just wait for trade to come to you; you've got to get out there and grab it for yourself. McAllen, for example, is aggressively pursuing Chinese investment through its economic development corporation, and Laredo's mayor led a delegation to China last year. You see similar efforts from these communities and San Antonio in other parts of the world—like Brazil, Canada and Europe.

Q: Has South Texas felt any repercussions from slowdowns in U.S. manufacturing and housing?

A: Laredo is in the midst of a significant slowdown. Though we've yet to see anything play out in the hard data, we do know cross-border retail sales and sales tax revenues have taken hits in recent months. And we know that commercial truck crossings are down so far this year. Remember, though, that all these declines are coming off the double-digit gains posted last year, so the region is still in relatively good shape.

As for the other side of the border, it's still too early to tell. I'm hearing anecdotally that retail sales are slowing in northern Mexico. Remittances are down in the first half of 2007. What we do know is that what's starting to happen has the potential to be

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big when you consider how important remittances are to the Mexican economy, coming in third to oil and maquiladora exports as a source of foreign revenues.

Q: Has NAFTA been beneficial on both sides of the border?

A: You get a lot of antitrade types who say that NAFTA hasn't had the desired impact on the Mexican economy. But most of what I've seen has been tremendously positive. Trade has manifested itself in a burgeoning middle class, and the cross-border shopping fueled by this middle class has become an economic engine in and of itself in South Texas.

It might have been even more beneficial. Mexico missed a huge opportunity presented by NAFTA by not investing more of the gains in the infrastructure and education that would have moved it up the value-added chain to more successfully compete. They didn't invest in their future back then, and they've come to regret it.

Q: What are the potential threats to trade?

A: I recall my experience with CAFTA, now known as the Dominican Republic–Central America Free Trade Agreement. While at the FTA, I lobbied hard to get CAFTA passed in Washington, recognizing that it was a key domino in striving to establish a free trade area of the Americas. Though we won that

battle, I learned a lot about trade's opponents in the process.

As Congress takes a more protectionist posture, our trade negotiators are increasingly perceived to have less clout in their deliberations with other nations. This has the effect of delaying or even preventing future negotiations.

Special interests, such as U.S. agriculture, make us appear more hypocritical still. Our inability to put our own subsidy programs on the table and protection of such products as sugar rob our ability to negotiate trade liberalization with developing nations like Brazil.

Trade opponents will undoubtedly blame any economic slowdown on globalization and foreign competition. The challenge is to help policymakers see the whole story.

Q: Why do we see a swing toward protectionist thinking?

A: We pay lip service to taking care of those displaced by trade, but we never seem to appropriately fund programs to retrain and find new jobs for workers who have been impacted. The retraining programs that were in place have run out of money and unnecessarily created anti-free-trade sentiment. We have to be careful to not create a vocal group of opponents.

In addition, we can't let the fear of terrorism create an isolationist mentality. We can negotiate new trade deals but effectively make them impotent if we erect barriers related to security. Examples are onerous rules for car-

go, making it more expensive and less efficient to ship goods.

It also doesn't help that many Americans only get the protectionist viewpoint on trade. They rarely hear how protectionism distorts the economy, leads to higher prices, breeds mediocrity in service and product quality, and reduces variety.

Q: Are we our own worst enemy?

A: As anti-Americanism grows around the world, other countries' political willingness to negotiate trade liberalization with us has waned.

It can't help that we're tightening the rules dictating foreign travel to the U.S. In doing so, we not only hurt tourism but trade as well. If our customers and business partners can't get visas to visit our businesses, trade will undoubtedly suffer. Examples already exist of foreign investment not coming to the U.S. because foreign executives don't want to wait in three-hour lines to get visas at our embassies and consulates.

Q: What is the best route to ensuring we continue to reap trade's rewards?

A: The businesses and workers who are benefiting most from trade and a more globalized economy are too busy to take the time to advocate for continuation and expansion of open markets. The key to trade's future is resisting the urge to sit on our laurels.

