

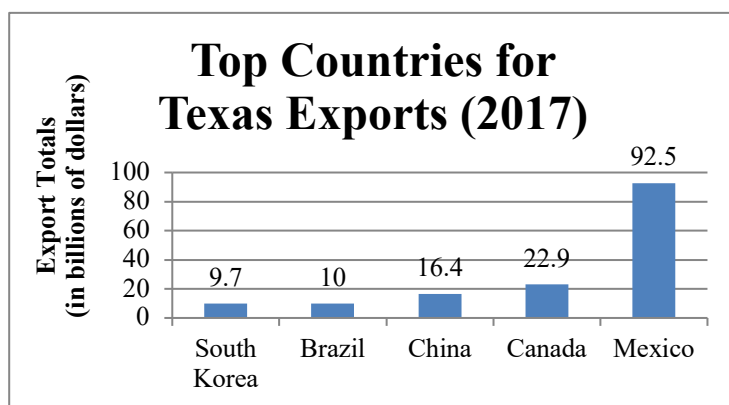


CHINA POLICY BRIEF

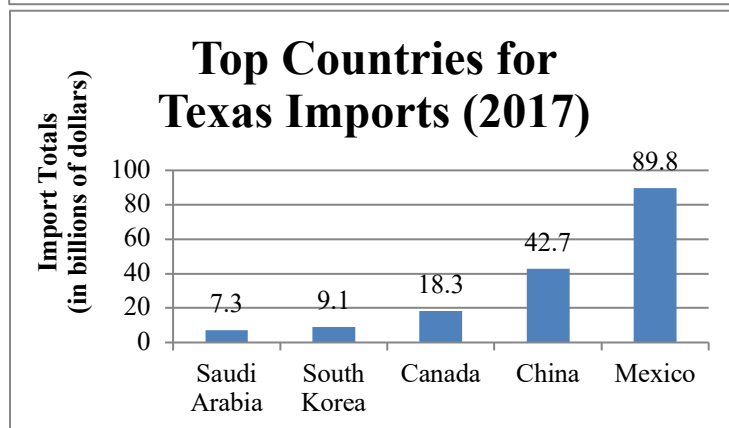
MAINTAINING STRONG ECONOMIC RELATIONS BETWEEN TEXAS AND CHINA

Introduction to the Texas-China Economic Relationship

Since the admission of the People's Republic of China into the World Trade Organization in 2001, the economies of the United States and China have become increasingly intertwined. This relationship between two of the world's leading economies has had a major impact on both countries. Within the United States, Texas has been a major beneficiary of this relationship and has gained significantly from increased economic cooperation with China.



Texas has been the number one exporting state in the United States for approximately the past 15 years, exporting more than \$264 billion in goods in 2017.ⁱ That same year, China was the third-highest recipient, by total value, of Texas exports, behind only the two NAFTA countries, Canada and Mexico.



Texas exports to China in 2017 were worth approximately \$16.4 billion and consisted of various high-value products, including computers and electronic products; petroleum and coal products; chemicals; oil and gas; and transportation equipment.ⁱⁱ Conversely, Texas received about \$42.7 billion worth of Chinese imports in 2017, making China the second largest origin of Texas imports, behind only Mexico.ⁱⁱⁱ

Texans benefit from trade with China in two main ways. First, both exports and imports create trade-related jobs in areas such as shipping and handling, assembly of imported goods, production of export goods, and jobs around the ports of entry and exit.^{iv} Second, low cost imports keep the cost of living down in Texas, while providing Texans with an elevated quality of life.

Impact of U.S.-China Trade Tensions

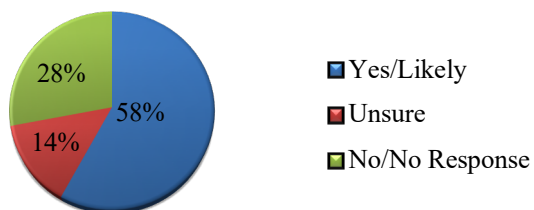
Since the election of Donald Trump as U.S. president in 2016, tensions in the U.S.-China trade relationship have been a frequent subject of news coverage in both countries and around the world. Tensions escalated significantly in 2017 and 2018, especially during the latter half of 2018. As of January 2019, the United States has imposed tariffs on more than \$250 billion worth of Chinese goods, and China has responded with its own tariffs on more than \$100 billion worth of American products. On December 1, 2018, the two countries agreed to a 90-day truce in the trade war, and negotiations are currently in progress. Although Chinese Vice Premier Liu He is expected to visit Washington, DC at the end of January for negotiations,^v many remain pessimistic about how quickly the two countries can agree on a deal that will end current trade frictions. U.S. Commerce Secretary Wilbur Ross, for example, observed that “[t]here’s been a lot of anticipatory work done but we’re miles and miles from getting a resolution,” sparking fears among investors that the end is not yet in sight.^{vi}

Trade tensions between the two countries directly impact most, if not all, U.S. states and will certainly affect some more so than others. As the leading export state in the country, the impact on Texas stands to be considerable. With an estimated total of \$8 billion in tariff-eligible goods, representing half of the state’s \$16.4 billion worth of exports to China, Texas is the state with the highest value of export products that could be directly impacted by Chinese retaliatory tariffs.^{vii} The largest impacts would be felt in the crude oil and propane industries, which represent approximately \$3.7 and \$1.7 billion worth of exports to China, respectively. Unless U.S. and Chinese officials can reach a deal before the 90-day moratorium concludes at the end of February, these tariffs will resume, and the effects in Texas will be felt immediately.

Interviews with Texas Businesses

Despite the importance of the economic relationship between Texas and China, there is still a dearth of specific data about this relationship, making analysis of the Texas-China trade and investment relationship and the impact of tariffs

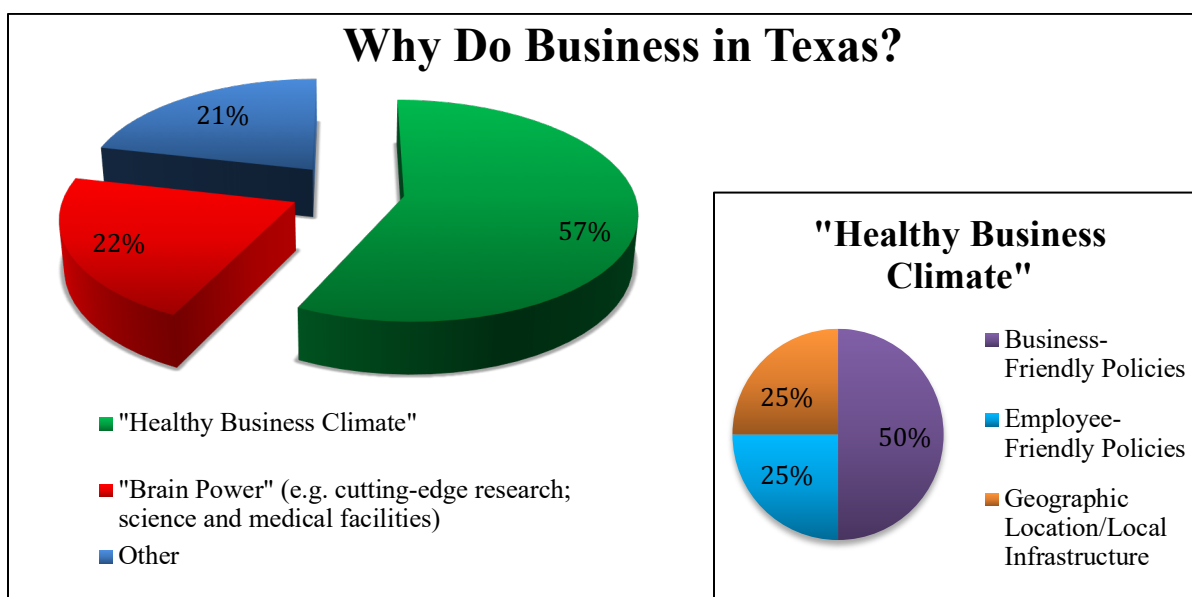
Will Tariffs on Chinese Goods Negatively Impact Your Business?



very difficult. Thus, in order to better understand the potential impact of the U.S.-China trade tensions on jobs in the state and the concerns of Texas businesses, interviews were conducted with select Texas companies during the summer of 2018. Interviewed businesses included large international corporations with headquarters in Texas (such as Dell), key local and regional companies (such as HEB), and companies in industries that will likely be most heavily affected by the tariffs (such as oil and gas companies). Most respondents indicated concern about the trade tensions and stressed the need for Texas to do everything in its power to make sure that Texas and China maintain amicable and mutually beneficial relations, with 58 percent stating specifically that they expected tariffs to negatively impact

their business.

When asked what makes Texas a good place to do business despite any negative impacts of the trade tensions, more than half the factors listed fell into the category of Texas’ “healthy business climate,” with respondents citing various incentives such as low corporate tax rates, the lack of a state income tax on individuals, and an advantageous geographic location.



Policy Recommendations for Texas Policymakers

With tensions in the trade relationship at the national level, respondents pointed to both a natural shift in trade and investment deals from the federal to the local level as well as an increased need for more state- and municipal-level involvement in sustaining a healthy economic relationship between Texas and China and, consequently, the preservation of jobs in the state. Drawing on the interviews with Texas companies, below are four concrete recommendations for Texas policymakers:

- 1) **The Texas state government should allocate more resources to the collection and analysis of international trade data, particularly that of trade with China.** Thanks to data collected and analyzed by the U.S. government and its NAFTA partners, Texas already has detailed information about its trade with its top two trading partners, Mexico and Canada. Texas even has an entire governmental office (the State of Texas Mexico Office) dedicated to promoting trade and investment with Mexico in order to generate jobs in the state. However, nothing along these lines has been done regarding trade with Texas' number three trading partner, China. A better understanding of the importance and impacts of trade with China on the Texas economy, as well as the impacts of the trade tensions, would enable businesses and workers in Texas to take full advantage of the trade relationship. Government, businesses, and workers in Texas could use the data and analysis to prepare for the impacts of current and future tariffs, invest in education and training for sectors of the economy that are growing in importance, and strategize for a long-term relationship with China that benefits both workers and businesses. As one Dell representative put it: There is a "huge story not being told in Texas" about the state's economic relationship with China.

- 2) **The Texas state government, in partnership with local governments, should work to promote Texas internationally as a premier destination for business, trade, and investment.** For example, both the state and municipalities should encourage more sub-national trade missions abroad and provide resources for such missions as well as offer assistance to foreign capital and corporations seeking to learn about opportunities in Texas. Programs that create enduring connections between cities in different countries, such as Sister Cities International, can be used as platforms to promote local Texas brands abroad. Furthermore, the Texas state government should explore the feasibility of opening a Texas trade and investment office in China to promote the Texas investment environment and to serve as a conduit to create jobs and paychecks for Texans through

trade and foreign direct investment. **Both the Texas state government and municipal-level governments need to play an active role in encouraging increased inbound investment by promoting the state's "healthy business climate" to investors and corporations interested in sectors of the economy where Texas has a competitive advantage**, such as advanced technologies, high-tech manufacturing, energy, and agriculture.

- 3) **The Texas Workforce Commission (TWC) should work to anticipate the negative impacts on the Texas workforce created by the disruption in trade due to Chinese tariffs and take steps to proactively redistribute and retrain displaced workers from jobs and industries negatively affected by the tariffs.** Utilizing the data recommended above to identify the jobs and sectors that rely on trade with China, TWC should proactively develop programs to mitigate the short- and long-term effects of tariffs and reduced trade with China on the Texas workforce. Furthermore, TWC should coordinate closely with agencies commissioned by the state government to collect and analyze data on Texas trade with China and the impacts of trade tensions to share information and data with local economic development and workforce training agencies. At the same time, TWC should allocate resource to training programs that ensure industries benefitting from reduced trade with China have sufficient sources of qualified workforce.
- 4) **The Texas state government should commission a task force, consisting of private and public representatives, to evaluate the Texas business landscape and recommend additional policies to fully leverage and optimize the economic relationship between Texas and China.** Although Texas already enjoys a reputation for having a healthy business climate, as mentioned by numerous businesses interviewed, the state should consider new policies to attract investment, in part to counterbalance the possible negative effects of trade tensions with China. Especially during times of shifting U.S. trade policy, the task force should proactively develop new strategies to keep Texas competitive and preserve its healthy business climate.

Conclusion

In summation, Texas' economic relationship with the People's Republic of China has been highly beneficial to the state economy, and, as Texas Governor Abbott wrote in a letter to President Trump in June 2018, the U.S. and Chinese "tariffs could jeopardize the livelihoods of hundreds of thousands of Texans and other Americans."^{viii} Given the importance of the trade relationship with China to Texas jobs, Texas needs to ensure that its economy and business climate are conducive to continued and even increased cooperation and collaboration with China, notwithstanding the tensions at the national level. Promoting and bolstering pro-business policies and worker education programs should be a top priority for Texas state lawmakers moving forward. In the words of one interview respondent, "capital and people flow to where they're best treated." If Texas policymakers take steps to mitigate the negative impacts of U.S.-China trade tensions, the Texas-China trade and investment relationship will continue to be a significant source of job creation in Texas.

ⁱ United States Census Bureau

ⁱⁱ United States Census Bureau

ⁱⁱⁱ United States Census Bureau

^{iv} www.texaswideopenforbusiness.com

^v *South China Morning Post*; January 16th, 2019

^{vi} <https://www.scmp.com/economy/china-economy/article/2182160/chinas-vice-premier-liu-he-accepts-invitation-washington-month>

^{vii} *Business Insider*; January 24th, 2019

^{viii} <https://www.businessinsider.com/trump-trade-war-wilbur-ross-us-china-deal-miles-away-2019-1>

^{viii} *Business Insider*; June 23rd, 2018

^{ix} <https://www.businessinsider.com/states-affected-by-chinese-tariffs-on-u-s-goods-trump-2018-6>

^x *Dallas Morning News*; June 28th, 2018

^{xi} <https://www.dallasnews.com/news/donald-trump-1/2018/06/28/gov-greg-abbott-urges-trump-reconsider-tariffs-threaten-future-economic-growth-texas>