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Exporting Tech from Texas

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From the days when the oil and cattle industries reigned in Texas to the current dominance of the information technology and manufacturing sectors, the state export environment has been historically rich. The second largest exporter in the United States, Texas accounts for more than 13 percent of all U.S. exports and lists third among all states in per capita exports.

Further, the outlook remains bright for Texas companies looking to market their products and services internationally. The information technology industry tops the list of exporters from Texas (table 1). With NAFTA partners Mexico and Canada accounting for more than half of the state's exports, new and growing Texas companies need not travel far to begin their global expansion. As table 2 illustrates, East Asia, the European Union, and Latin America have also proven to be strong trading partners with Texas.

Trends in Exporting

Technology and the Internet have revolutionized export practices. Off-the-shelf software, online submissions for export compliance, and the strategic use of the Internet as a market research tool are just a few of the major trends affecting the export world today. By

accessing critical information about foreign markets via the Worldwide Web, a sales executive can target the market, research the competition, find a list of potential customers, and gather the necessary background information on a company—all before ever even meeting the potential client.

More and more companies rely on e-commerce to increase their revenues, and sales of technology products and services are managed on-line in seconds. At this lightning fast pace, export regulations are often ignored. The potential harmful effects – litigation, fines, and negative publicity – should not be underestimated. To export successfully, companies must comply with U.S. government regulations, and, as many businesses have learned, compliance is not necessarily achieved at Internet speed.

The federal government plans some major changes in export compliance laws and regulations in order to accommodate the high-speed world of information technology and to address the changing nature of national security threats in the aftermath of the Cold War. Congress is in the process of updating the Export Administration Act of 1979, which expires in August 2001. Now-pending legislation, the Export Administration Act of 2001, and the likely ensuing regulations will continue to focus on current national security issues

Table 1
Top Ten Export Industries in Texas, 1998 and 1999

Industry	Export value (in \$US millions)		Percentage change
	1998	1999	
Electronic equipment & components	19,661.7	22,381.1	13.6
Industrial machinery & computers	17,551.6	16,833.5	-4.1
Chemicals & allied products	12,605.4	13,225.5	4.9
Transportation equipment	9,069.8	9,985.1	10.1
Fabricated metal products	3,104.2	3,670.7	18.3
Scientific instruments	3,572.5	3,469.3	-2.9
Rubber & plastic products	2,288.4	2,978.5	30.2
Petroleum refining & related industries	2,899.6	2,765.1	-4.6
Primary metal industries	2,640.8	2,531.9	-4.1
Processed foods & beverages	2,499.4	2,346.4	-6.1
Other industries	10,959.6	10,853.6	-1.0
All industries	86,852.9	90,987.8	4.8

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Table 2
Top Ten Export Destinations for Texas Companies, 1998 and 1999

Country	Export value (\$U.S. millions)		Percentage change
	1998	1999	
Mexico	36,328.4	41,412.9	14.0
Canada	10,326.9	10,684.6	3.5
Taiwan	2,003.8	3,129.9	56.2
Japan	2,479.8	2,924.6	17.9
United Kingdom	2,610.7	2,155.7	-17.4
Singapore	2,309.1	2,054.7	-11.0
Korea (South)	1,388.3	1,806.7	30.1
Brazil	1,801.0	1,756.3	-2.5
Netherlands	1,788.3	1,495.2	-16.4
Venezuela	1,760.5	1,361.8	-22.6
Rest of world	24,056.2	22,205.4	-7.7
All countries	86,852.9	90,987.8	4.8

Source: Business and Industry Data Center, Texas Department of Economic Development.

For Texas technology firms hoping to export products or services, the news is good. Export sales prospects are promising, the Texas export environment is strong, U.S. regulations are more “user friendly” than ever before, and access to information has never been easier.

and terrorism threats, but will also render the export compliance system more efficient for businesses.

Steps to Successful Exporting

Exporting represents a significant step in plans to accelerate a company’s growth. Benefits to a firm can include increasing revenues, preempting domestic competition, and making earnings resistant to domestic economic cycles. For Texas technology firms hoping to export their products or services, the news is good. Export sales prospects are promising, the Texas export environment is strong, U.S. regulations are more “user friendly” than ever before, and access to information has never been easier. With that in mind, how can a technology company ensure a successful export strategy?

Make the commitment to go global. An international marketing campaign consumes large amounts of a company’s time and capital. A firm’s leadership must allocate the necessary resources at the outset and establish realistic milestones to ensure that the export strategy complements the company’s mission and goals.

Choose foreign markets. Researching potential markets is the keystone of any export strategy. With today’s easy access to information, companies can quickly and effectively establish criteria and explore market possibilities. Key questions include:

- Who is the foreign competition?
- What is the business and political climate?
- What are some of the barriers—strict foreign regulations, language barriers, localization costs?

After rank ordering top markets, a company must decide on a distribution strategy, prioritize the list of potential clients, design a promotion/advertising strategy, and localize the product.

Determine a financial strategy. Before setting course in foreign markets, a company must answer some basic questions:

- What would be a competitive price?
- Who will bear the foreign currency risk, the company or the consumer?
- Will buyer financing be offered? (Potential sources include the ExIm Bank and the Small Business Administration.)
- Can the company’s product or service be procured under a foreign aid program or through multilateral development bank funding?
- What kinds of insurance—shipping, political risk, etc.—will be necessary?

While developing its export strategy, a company must also determine payment methods—e.g., bank drafts, wire transfers, letters of credit—and possible means of maximizing profits, such as tax treaties, U.S. tax credits, or tax exemptions.

Establish export compliance procedures. Executives should also determine whether their firm’s products and services require an export license from the U.S. government. As mentioned, all U.S. companies must conform to federal regulations that determine whether products or services can be exported with or without a license. After obtaining the mandatory product classification, a company can legally export products and services to authorized countries and clients. (Many companies, both large and small, have foregone the classification and licensing process, only to be fined—in one case \$2 million dollars—for noncompliance.) Export compliance, however, means more than just obtaining export licenses. U.S. exporters must also adhere to the provisions of the U.S. anti-boycott laws and the Foreign Corrupt Practices Act.

Enter the market successfully. In summary, the prepared company obtains commitment from management, allocates the necessary resources, finds the best location and potential client base,

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creates a solid financial strategy, and procures a license from the U.S. federal government. Before establishing its export practices, however, a company has also researched taxes, levies, shipping costs, language barriers, and foreign laws regarding its products and services. Foreign laws embody a country's culture, and superficial similarities can be misleading. (For instance, in some countries, a check is a bearer instrument: if the check is lost or stolen, anyone can cash it.) These factors are all part of any successful financial and management strategy.

National and Local Resources

No successful export initiative is developed in a vacuum. Many resources are available to potential exporters, including:

Federal programs. The U.S. Department of Commerce supports many programs designed to help companies sell to foreign markets. These range from local export assistance centers to trade missions. The Commerce Department also makes available on-line research via the National Trade Data Bank and funds the Cooperator Program, which provides grants to trade associations for export promotion.

Multilateral development banks and organizations. These organizations finance projects and programs in foreign countries to buy goods and services from Texas exporters. For example, the North American Development Bank provides loans and grants to finance environmental projects in a zone extending 100 kilometers on both sides of the U.S.- Mexico border.¹

State programs. Texas state government offers trade missions, matchmaking programs, and research information. The International Office of the Texas Department of Economic Development has local resources available for Texas companies.

Trade associations. Practically every industry in Texas can claim an association. These groups sponsor trade shows, foreign trade missions, and specific export programs.

Single engagement consultants and export management companies. Single engagement consultants specialize in specific countries and possess contacts for that marketplace. A firm can also outsource the development of an export strategy to an export management company. These companies target foreign markets, assist with financing issues, and manage export licensing processes.

A Tale of Two Companies

Consider the contrasting approaches adopted by two high-tech companies entering the export market. In the success story, the management of a fast-growing telecommunications company researches and targets their markets, discovering in the process that their products had encryption algorithms that necessitated an export license. The company outsources its licensing work to a local export management company and is able to sell its products and services (albeit with a license) to foreign customers. As the company continues to grow at a fast pace, it also sees a need for internal policies and procedures to ensure that all its employees conform to U.S. export regulations. Again, it outsources the work to their export management services provider and begins implementing internal policies and procedures.

In the cautionary tale, a start-up software company sells its product over the Internet. A European firm expresses interest in purchasing the software company's product. Without meeting the client or qualifying the company, the U.S. firm immediately begins on-line and telephone negotiations, signs an agreement, and sends their technology overseas. The European company then

incorporates the U.S. company's technology into its own products and services, thus taking the market away from the U.S. company, which soon goes out of business.

Conclusion

Access to the global market has never been easier. The barriers to exporting are lower, and the potential for in-

creased revenues is tremendous. The many steps necessary for successful foreign market penetration may seem overwhelming, but many support services are available to assist Texas companies in crafting an export strategy.

Note

1. Many other U.S. government entities have programs to assist U.S. exporters. ♦

An Interesting Addendum . . .

Among the top destinations for electronic equipment and components from Texas, Mexico leads the list by a wide margin. In fact, Texas sends four times more electronic goods to Mexico than it does to the second country on the list, Canada (see table on page 6). What accounts for this large gap?

To answer this question, it is important to understand the source and methods used to produce these statistics. The source of the data is the Shippers Export Declaration (SED), which is the document that exporters must submit to U.S. Customs when a good is exported. The exporter of record may be a manufacturer or a wholesale trader; the SED only shows where the "export journey" began. Therefore, a product that was manufactured in Oklahoma but began its export journey from a Texas warehouse in Laredo would be listed as a Texas export. (See "Technical Documentation for the Texas Export Database" at www.bidc.state.tx.us/exportdb/exportdo.htm for more details.) Moreover, the category "electronic equipment and components" is an abridged description of Standard Industrial Classification (SIC) 36, "electronic and other electrical equipment and components, except computer equipment," a very broad

category that includes items ranging from electric lamps to motors and generators to semiconductors.

Undoubtedly, the maquiladora industry in Mexico absorbs a large share of these exports. Under the maquiladora system, Mexico imports components from the United States and transforms them into higher-value goods, which are then shipped back to companies in the United States. The U.S. and Mexican economies are well suited for this kind of manufacturing and intra-industry trade because they are so complementary. Mexico benefits from the creation of jobs and the transfer of manufacturing know-how and, in many cases, U.S. companies gain a source of cost-competitive sub-assemblies, which become part of a higher value-added good produced in the United States. ♦

--- *Bianca Walker, David Luft,
and Bruce Kellison*

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**Top Ten Export Destinations for Texas
 Electronic Equipment and Components, 1999 and 2000**
(millions of U.S.\$)

1999		2000	
Mexico	11,377	Mexico	14,370
Canada	2,517	Canada	2,904
Philippines	1,017	Japan	1,861
Malaysia	973	Philippines	1,823
Taiwan	934	Taiwan	1,373
Japan	887	Malaysia	1,048
Singapore	583	Korea (South)	766
Korea (South)	497	Hong Kong	687
Hong Kong	434	Singapore	601
Brazil	424	United Kingdom	522

Source: Business and Industry Data Center, Texas Department of Economic Development.

Announcement

The 2000 Census Data are now available from the Bureau of Business Research. Visit the BBR website (www.utexas.edu/depts/bbr) for the recently released data. We have city- and county-level data that are not currently available from the U.S. Bureau of the Census. Please contact Rita Wright, the BBR's Professional Librarian, at 888-212-4386, or e-mail her at rjwright@mail.utexas.edu. ♦