

Date of Hearing: January 9, 2018

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sharon Quirk-Silva, Chair

AB 1715 (Quirk-Silva, Berman, Cervantes, and Rodriguez) – As Amended January 4, 2018

SUBJECT: International Trade and Foreign Investment Office

SUMMARY: Establishes a process and timeline for submitting proposals to the Governor's Office of Business and Economic Development (GO-Biz) on the establishment of a partnership agreement to operate an international trade and foreign investment office. Specifically, **this bill:**

- 1) Expresses legislative findings and declarations, which include:
 - a) California's \$2.6 trillion economy is supported by a diverse set of dominant and emerging industry sectors, many of which are recognized as global leaders in their field;
 - b) With over 95% of the customer purchasing power located outside the U.S. having a globally connected economy is essential for the state's long-term economy growth;
 - c) In 2016 exports from California were valued at \$163.5 billion and represented 11.3% of total U.S. exports. California's largest export market is Mexico, where the value of exports totaled \$25.2 billion in 2016. After Mexico, California's top export markets were: Canada (\$16.2 billion); China (\$14.3 billion); Japan (\$11.7 billion); Hong Kong (\$9.6 billion); South Korea (\$8.2 billion); Taiwan (\$6.9 billion); the Netherlands (\$5.4 billion); the United Kingdom (\$5.4 billion); and Germany (\$5.3 billion);
 - d) In 2015, 706,969 jobs were supported by goods exported in California. This represents 11% of all U.S. jobs supported by the export of goods. In 2014, California had the highest number of small and medium-sized exporting companies at 72,591, followed by Florida with 58,404 exporting companies; and
 - e) In 2015, global foreign direct investment (FDI) reached \$1.7 trillion, with the U.S continuing to receive the largest amount of FDI in the world, totally \$384 billion (23% of global FDI). Japan, Canada, Switzerland, and the EU contributed over 80% of FDI inflows to the U.S.
- 2) Requires GO-Biz to establish a process for accepting letters of interest from public and private entities that are interested in partnering with the State of California in operating a trade and investment office in a foreign country. At a minimum, the letter of interest is required to include:
 - a) The proposed location of the trade and investment office;
 - b) A preliminary market analysis of the proposed location, including export and import opportunities that would benefit California businesses;
 - c) A list of resources and services which could be made available to California businesses and potential California investors at this location;

- d) A description of how the activities of the trade and investment office are aligned with the international trade and foreign investment strategy, as specified;
 - e) An outline of a proposed management structure, including a description of staffing levels and the positions needed to operate the international trade and investment office;
 - f) A list of potential key stakeholder partnerships that will support the operations and activities of the international trade and investment office;
 - g) Potential funding opportunities; and
 - h) A preliminary first and second year budget.
- 3) Requires letters of interest be reviewed by GO-Biz and determined to be complete within 30 days of submittal. Missing information may be submitted to GO-Biz, as specified.
 - 4) Authorizes GO-Biz to facilitate discussions between key stakeholder groups in order to support the development of a letter of interest and other trade and investment purposes, as specified.
 - 5) Requires GO-Biz to meet with each entity that submits a complete letter of interest. GO-Biz is authorized to request additional information prior to, during, or following this meeting.
 - 6) Requires GO-Biz to make a determination within 90 calendar days of receiving a complete letter of interest as to whether to request a full proposal.
 - 7) Requires GO-Biz, after receiving the full proposal, to make a determination as to whether to move forward with the establishment of the trade and investment office, as specified.
 - 8) Authorizes a prospective donor to submit letters of interest more than once.

EXISTING STATE LAW:

- 1) Establishes GO-Biz within the Governor's Office for the purpose of serving as the state's principal entity for issues relating to international trade and foreign investment, excluding agricultural issues. GO-Biz is led by a director, which is appointed by the Governor.
- 2) Authorizes the Director of GO-Biz to establish and terminate trade offices outside the U.S., as he or she determines as appropriate and specific requirements are met. These requirements include:
 - a) Making a determination that the country where an international trade and investment office would be located is among those with the greatest potential for direct foreign investment in California, export growth, or both;
 - b) Inclusion of the new international trade and investment office in GO-Biz' annual program budget, strategy, and business plan, as specified.
- 3) Authorizes trade offices to be funded in whole or in part by nonstate funds.

- 4) Authorizes GO-Biz to contract with a nonprofit entity to operate an international trade and investment office. The contract shall, among other provisions, require the nonprofit entity to provide GO-Biz with information sufficient to satisfy the donor reporting requirements, as specified. Appropriate reporting is required within 30 days of receipt by the nonprofit entity of each donation used to fund an international trade and investment office.
- 5) Requires that the International Trade and Investment Program's annual budget, strategy and business plan, and review of the prior year's activities be submitted to specified legislative offices in the Assembly and the Senate, including the Chief Clerk in each House, the Office of the Speaker and pro Tempore, and the standing committee in each House with international trade oversight responsibilities.

FISCAL EFFECT: Unknown

POLICY FRAME: Trade and foreign investment play an important role within California's \$2.6 trillion economy. Since the elimination of the state's foreign trade offices in 2003, the public and Members of the Legislature have expressed interest in their re-establishment. Current law provides GO-Biz with the authority to establish foreign offices and specifies which actions GO-Biz is to take once a determination to move forward has been made. Existing law, however, is silent as to how outside economic development entities can recommend and propose the establishment of jointly administered foreign trade offices. While GO-Biz has testified that they are very flexible in how proposals can be brought forward, stakeholder groups testify that confusion remains and that more structure would be useful.

AB 1715 provides a framework for filing an initial letter of interest, discussing its applicability with GO-Biz, and then receiving a determination as to whether a full proposal should be developed and submitted. In doing so, the bill clarifies the level of specificity and funding commitments that need to be in place in order to engage with GO-Biz. Nothing in the bill limits the authority of GO-Biz to select partners, locations, or open foreign trade and investment offices.

The Comment section of this analysis includes information on GO-Biz, the establishment and demise of California trade offices, and the importance of trade to the California economy. Technical amendments are suggested in Comment 6.

COMMENTS:

- 1) **The Governor's Office of Business and Economic Development:** In California, the primary state agency responsible for state trade and foreign investment activity (excluding agriculture) is GO-Biz. Initially established in 2011, international trade responsibility was transferred from the Business, Transportation, and Housing Agency to GO-Biz in 2012. Among GO-Biz' business development assets are the Office of the Small Business Advocate, the Permit Assistance Unit, the Office Foreign Trade and Investment, and the Business Investment Services Unit. [*AB 29 (John A. Pérez), Chapter 475, Statutes of 2011 and AB 2012 (John A. Pérez), Chapter 294, Statutes of 2012*]

A Governor's Reorganization Plan transferred a number of additional economic development related entities under the purview of GO-Biz in 2012, including the California Travel and Tourism Commission, the California Infrastructure and Economic Development Bank (IBank), and the California Film Commission. In 2013, the Innovation Hub Program, the California Competes Tax Credit, and the EB-5 investment visa program were codified under the administration of GO-Biz. Also in 2013, a Small Business Finance Center was established within the IBank, and debt and credit

enhancement programs administered through a network of 11 small business financial development corporations were transferred to GO-Biz under the auspices of the new Center. The Office of Permit Assistance was codified in 2016. [AB 93 (*Assembly Committee on Budget*), Chapter 69, *Statutes of 2013*; AB 250 (*Holden and V. Manuel Pérez*), Chapter 530, *Statutes of 2013*; AB 1067 (*Medina*), Chapter 535, *Statutes of 2013*; AB 1247 (*Medina and Bocanegra*), Chapter 537, *Statutes of 2013*; AB 2605 (*Nazarian*), Chapter 78, *Statutes of 2016*.]

As the state's lead agency on trade and foreign investment, GO-Biz is tasked with the development of a state International Trade and Investment Strategy, which sets policies and priorities for the state's activities. GO-Biz also operates a number of key programs to facilitate business development, in general, and trade and foreign investment, specifically, including the State Trade and Export Promotion (STEP) Program, EB-5 investment visa activities, export finance support through the Small Business Finance Center, data reports and tracking of foreign trade trends, and the China Trade Office.

STEP has been provided through a trade and investment initiative authorized by the federal Small Business Jobs Act of 2010. The program is regionally administered through a partnership between GO-Biz and the California Community Colleges through a network of Centers for International Trade and Development (CITDs). The primary purpose of the program is to create jobs by increasing the number of, and the volume of, small businesses exporting.

The California Trade and Investment Office in Shanghai is self-funded through private contributions and operates under a cooperative agreement between GO-Biz and the Bay Area Council, a San Francisco-headquartered nonprofit business organization. Opened in October 2012, the purpose of the Trade Office is to provide California companies with increased access to Chinese business contacts, Chinese investors with access to California projects, and to spur new investment and trade growth between California and China. In order to expand the Offices' outreach, GO-Biz later entered into a memorandum of understanding (MOU) with additional California-China trade partners including the California Asian Pacific Chamber of Commerce; World Trade Center Los Angeles; and the City of Sacramento.

- 2) **Establishment of Foreign Trade Offices:** Over the past several decades, the state has used a variety of methods for establishing trade offices. In 2003, when the Legislature and the Governor agreed to eliminate the Technology, Trade, and Commerce Agency (TTCA), the state directly operated or contracted for the operation of 12 trade offices including offices in Shanghai, Mexico City, Buenos Aires, London, Frankfurt, Jerusalem, Johannesburg, Seoul, Tokyo, Hong Kong, Taipei, and Singapore. With the closure of TTCA, nearly all related programs were removed from statute including the authority to engage in international trade activities and operate trade offices. One trade office remained, that being a "self-supporting" office in Armenia, which had been established through a separate statute, *SB 1657 (Scott)*, Chapter 863, *Statutes of 2002*, and later extended through *SB 897 (Scott)*, Chapter 604, *Statutes of 2005*.

It was not until 2006, that the Governor and Legislature were able to come to agreement about a new trade framework, which was included in *SB 1513 (Romero)*, Chapter 663, *Statutes of 2006*. As a condition for re-granting the Governor's authority to open trade offices, the Legislature required the Governor to obtain its pre-approval in the form of a resolution or statute and to have the five-year International Trade Investment Strategy be reviewed by the Legislature prior to its implementation. With the 2012 enactment of *AB 2012*, however, the Legislature's pre-approval authority and mandatory strategy review were eliminated.

In April 2013, Governor Brown opened a trade office in Shanghai, China, which is the first trade office opened under the AB 2012 rules. The Shanghai trade office was established pursuant to a public-private partnership between the state and the Bay Area Council. The operation of the China Office is dependent on private donations and the collection of those donations is the responsibility of the Bay Area Council and other nonprofit partners that are parties the MOU with GO-Biz.

- 3) **Path Forward for New Offices:** AB 2012 made significant changes to California statute from the perspective of what actions GO-Biz was to take once a decision was made to open a trade office. Statute is relatively silent, however, as to how an outside public or private organization would approach GO-Biz about establishing a new trade office.

While this lack of specificity was likely designed to encourage innovation and flexibility, the current statutory structure has not resulted in a vibrant public process nor new trade offices (*aside from the initial office for which AB 2012 had been crafted to authorize*). Every session, legislation is introduced to open one or more trade offices. Beyond legislation, various constituency groups approach Members of the Legislature to help present their case to GO-Biz about opening trade offices.

AB 1715 is consistent with the process used to establish the China Office and advances policy objectives discussed at several committee hearings about the need to make the application process better understood by stakeholders. Nothing in the bill limits GO-Biz' existing authority to make a determination as to whether the opening of the office is of benefit to California.

- 4) **State's Diverse Population as a Trade Advantage:** New globally-based models for innovation and technology have brought great changes in how world economies work. The emerging economies of China, India, and Singapore, just to name a few, have been and are committed to continuing massive investments in research and development. While these dynamics may pose challenges to some existing technology centers, California's diverse population provides the state with a key trade and investment advantage over other states and nations.

Due to strong past immigration from other nations, more than one-in-four of California's current residents (9.5 million people) were born outside the U.S., compared to just over one-in-ten nationally. About half of foreign-born Californians are from Latin America, and another third are from Asia. Regionally, 36% of the population in Los Angeles is foreign-born, as is 27% of the Bay Area. It is estimated that 40% of the entrepreneurs in the Silicon Valley are foreign born. For many immigrant groups, California represents the single largest gathering of their brethren outside their native lands.

- 5) **California's Global Economy:** International trade and foreign investment are important components of California's \$2.6 trillion economy supporting over 4 million California jobs. The importance of trade to the California economy is increasing as reflected in the percentage of California jobs tied to trade more than doubled from 1992 to 2011, 10.6% vs. 22.0%.

California's largest industry sector by employment is Trade, Transportation, and Utilities, which encompasses everything from major retail outlets, to import-export businesses, to transportation and warehousing. Workers in trade-related jobs earn on average 13% to 28% higher wages than the national average. California leads the nation in export-related jobs. The U.S. Department of Commerce estimates that 775,320 jobs were directly supported by the export of products in 2014, including 665,000 manufacturing jobs.

California's land, sea, and air ports of entry served as key international commercial gateways for the \$573.5 billion in products entering and exiting the U.S. in 2016. If California were a country, it would be the 28th largest exporter and the 10th largest importer in the world, based on 2016 trade numbers. Exports out of California were valued at \$163.5 billion and represented 11.3% of total U.S. exports in 2016. Imports into California were valued at \$410 billion and represented 18.7% of total U.S. imports in 2016.

The *Chart* below shows export data on the state's top six trade partners, based on origin of movement. Mexico has been California's top trade partner since 1999. Other top-ranking export destinations, not shown on the chart, include Hong Kong, Taiwan, Germany, the Netherlands, and the United Kingdom.

California Exports 2011 to 2016 (billions of dollars)							
	<i>Partner</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
	World	159.4	161.7	168.0	174.1	165.3	163.5
1	Mexico	25.8	26.3	23.9	25.4	26.7	25.2
2	Canada	17.2	17.4	18.8	18.2	17.2	16.1
3	China	14.2	13.9	16.2	16.0	14.3	14.3
4	Japan	13.1	13.0	12.7	12.2	11.7	11.7
5	Hong King	7.6	7.8	7.7	8.5	8.7	9.6
6	South Korea	8.4	8.2	8.3	8.6	8.6	8.2

Source: International Trade Administration, accessed 04/11/2017

In today's globally linked economy, manufacturing utilizes products from across the U.S., as well as from other nations. In 2012, 61% (\$1.3 trillion) of the products imported into the U.S. were inputs and components intended for use by American producers. In addition, U.S. exports often include components. The Wilson Center estimates that Mexican imports contain 40% U.S. components, respectively. The Chart below shows the top 16 California exports from California to Mexico in 2016, many of which include components and partially assembled items.

California Trade with Mexico 2016 (Top 16 Products)			
<i>NAICS Code – Product Type</i>	<i>Export Value in Dollars (\$)</i>	<i>NAICS Code – Product Type</i>	<i>Export Value in Dollars (\$)</i>
334-Computer And Electronic Products	\$5,476,371,388	331-Primary Metal Mfg	\$1,193,660,535
336-Transportation Equipment	\$3,117,953,937	339-Miscellaneous Manufactured Commodities	\$1,124,692,912
333-Machinery, Except Electrical	\$2,015,808,955	324-Petroleum & Coal Products	\$850,162,918
325-Chemicals	\$1,729,665,250	322-Paper	\$710,612,810
335-Electrical Equipment, Appliances & Components	\$1,690,572,638	111-Agricultural Products	\$644,940,769
326-Plastics & Rubber Products	\$1,504,925,195	315-Apparel Manufacturing Products	\$486,734,238
332-Fabricated Metal Products, Neso	\$1,314,190,485	313-Textiles & Fabrics	\$459,895,716
311-Food Manufactures	\$1,267,539,270	321-Wood Products	\$318,459,088
<i>Total Exports - All Products</i>	\$25,266,104,804		

Source: International Trade Administration <http://tse.export.gov/TSE/ChartDisplay.aspx>

In addition to exporting goods and services, the California economy benefits from foreign-owned firms. The federal International Trade Administration estimates that in 2013 over 631,500 California workers benefit from jobs with foreign-owned firms, which accounts for 10.3% of all jobs in foreign-owned firms in the U.S. California has had the highest level of employment in foreign-owned firms in the nation since at least 1997. In 2013, jobs in California foreign-owned firms represented 4.1% of all private sector jobs in the state. Along with employment, foreign-owned firms own more property, plants, and equipment in California than in any other state.

- 6) **Proposed Amendments:** Below is a technical amendment the Committee may wish to consider:
- a) Make a technical correction to subdivision (g) of section 13996.43, which should relate to a "potential partner in the operation of a foreign trade and investment office" and not a "donor."
- 7) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- a) **AB 29 (John A. Pérez, Feuer and V. Manuel Pérez) Office of Business and Economic Development:*** This bill establishes the Governor's Office of Business and Economic Development (GO-BIZ), to be administered by a director appointed by the Governor. The bill would also move the Office of the Small Business Advocate to the Office of Economic Development. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
 - b) **AB 337 (Allen) Economic Development: International Trade and Investment Strategy:** This bill adds specificity to the development and content of the state international trade and investment strategy (ITI Strategy), which is an existing report requirement of the Governor's Office of Business and Economic Development (GO-Biz). This bill requires the ITI Strategy to be based on current and emerging market conditions and the needs of investors, businesses, and workers. Specific new content requirements include the addition of a framework, which can be used by GO-Biz to evaluate the changing needs of business during the five-year term of the ITI Strategy. Status: Signed by the Governor, Chapter 776, Statutes of 2014.
 - c) **AB 1137 (V. Manuel Pérez) Small Business Assistance and Attracting Private Investment:** This bill would have facilitated local economic development and job creation by assisting small businesses to access new export markets for their goods and services, updating the law relating to free trade zones, and authorizing the use of new federal funds under the Small Business Jobs Act of 2010. Status: Held in Senate Committee on Appropriations, 2012.
 - d) **AB 1409 (Jobs, Economic Development and the Economy Committee) International Trade and Investment Strategy:** This bill, as it passed JEDE, would have required that the next update by Business, Transportation and Housing Agency, of the international trade and investment strategy to include policy goals, objectives and recommendations from the state Goods Movement Action Plan. The measure was amended in the Senate related another subject matter. Status: Held in Senate Rules Committee, 2012.
 - e) **AB 1727 (JEDE) Trade Omnibus Bill:** This bill makes technical changes to update the content and the statutory placement of the codes relating to Foreign Trade Zones and the California Foreign Investment Program. Status: Signed by the Governor, Chapter 13, Statutes of 2017.
 - f) **AB 2012 (John A. Pérez) Economic Development Reorganization:** This bill transfers the authority for undertaking international trade and foreign investment activities from the Business, Transportation and Housing Agency to the Governor's Office of Business and Economic

Development. In addition, the bill transfers the responsibility for establishing an Internet-based permit assistance center from the Secretary of the California Environmental Protection Agency to GO-Biz. Status: Signed by the Governor, Chapter 294, Statutes of 2012.

- g) **SB 357 (Hueso and De León) Mexico Trade Office:** This bill would have required the establishment of a California foreign trade and investment office in Mexico City, Mexico. Status: Vetoed by the Governor, 2017. The veto message stated: *"This bill directs the Governor's Office of Business and Economic Development to establish and operate a trade and investment office in Mexico City. California and Mexico have a proven partnership of trade, commerce, and the exchange of culture that runs long and deep. Our relationship with Mexico is fundamental to our mutual prosperity. Through memorandums of understanding, we are directly working with the Mexican government and business community on climate change, trade, transportation, tourism, and education. As I stated in 2014 when I vetoed a nearly identical bill, I remain unconvinced that California needs a legislatively-mandated trade office to continue our ongoing and enduring partnership with Mexico."*
- h) **SB 460 (Price) International Trade Marketing and Promotion:** This bill would have required the Secretary of the Business, Transportation and Housing Agency to convene a statewide business partnership for international trade marketing and promotion. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2011.
- i) **SB 928 (Correa and Huff) Mexico Trade Office:** This bill would have required the establishment of a trade and investment office in Mexico City by January 1, 2016. Status: Vetoed by the Governor, 2017. The veto message stated: *"This bill requires the Governor's Office of Business and Economic Development to open a trade and investment office in Mexico City. I agree that trade with Mexico is of significant economic importance which is why I led a trade mission to Mexico City in August and hosted the President of Mexico in Sacramento shortly afterwards. We are working directly with the Mexican government and the business community on increasing bilateral trade and other initiatives. I am not convinced we need a legislatively-mandated trade office to continue our growing partnership with Mexico."*

REGISTERED SUPPORT / OPPOSITION:

Support

None on File

Opposition

None on File

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