

Date of Hearing: April 9, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 412 (Allen) – As Amended: March 19, 2013

SUBJECT: International trade

SUMMARY: Requires the Governor's Office of Business and Economic Development (GO-Biz) to undertake a study of the potential roles for the state in global markets. Specifically, this bill:

- 1) Requires GO-Biz to submit a study to the Legislature by October 1, 2015 on the state's role in supporting international trade and foreign investment including issues related to infrastructure, workforce development, investor incentives, and business development.
- 2) Requires the study to include, at a minimum, the following:
  - a) A discussion of California's economy and its relationship to global markets, including, but not limited to, identification of current and emerging trends, industries, services, and areas of comparative advantage.
  - b) An inventory and gap analysis of existing programs and services provided by local, state, federal, and private entities, that serve, or could serve, businesses in opening new foreign markets for their products, attracting foreign investment to their businesses, or generally assisting California businesses in global markets;
  - c) An assessment and gap analysis of the current and future physical and human infrastructure related to foreign trade and investment markets.
  - d) The results of a survey of businesses on their needs and priorities related to foreign trade and investment.
  - e) An examination of how best to coordinate and leverage existing local, state, and federal organizations, programs, and services related to international trade and investment.
  - f) An assessment of unique opportunities and challenges in developing businesses and attracting investment along the border and in historically underserved urban and rural areas.
- 3) Requires the study to make recommendations on policies, programs, and funding needs for the next three years, seven years, and over the long term.
- 4) Authorizes the study to make general recommendations on the administration, oversight, and mission or missions of those kinds of offices.
- 5) Requires the study to recommend priorities for state activities and funding related to international trade and investment based on an assessment of current and emerging market trends, the inventory and gap analysis of programs and services, the assessment of current and future infrastructure and workforce needs, and input by the business community.

- 6) Requires the study to recommend an organizational structure for the state administration of international trade and investment policies, programs, and services.
- 7) Requires the study to review relevant prior research and reports on the state's role in global markets.
- 8) Requires GO-Biz to consult with other relevant agencies, boards, and commissions that have statutory responsibilities related to workforce development, infrastructure, business, and international trade and investment.

EXISTING LAW

- 1) Requires GO-Biz to provide the Legislature with an International Trade and Investment Strategy (ITI Strategy) by February 2014.
- 2) Requires the ITI Strategy to, at a minimum, include the following:
  - a) Policy, goals and objectives;
  - b) Measurable outcomes and timelines for meeting the goals and objectives;
  - c) Identification of key stakeholder partnerships that will be used to implement the goals and objectives;
  - d) Identification of impediments for achieving the goals and objectives;
  - e) Identification of options for funding recommended action; and
  - f) Identification of an international trade and investment organizational structure.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "California's economy has slipped from ranking 5<sup>th</sup> in the world to now barely clinging to a spot in the top 10 economies based on GDP. With unemployment above the national average and hovering around 10%, we need to begin to take legitimate proactive steps to provide economic growth opportunities in California.

Our state is poised to expand its crucial role in global trade with the recent Free Trade Agreements and other pending Agreements that will open up market access to the United States in the Pacific. We need to not only focus on marketing and business development, but the necessary infrastructure improvements to facilitate the economic growth available to California. This bill will start the conversation to review what, if anything, the state has actually done to foster more economic developments through international trade in California."

- 2) Framing the Policy Issue: The measure proposes the state undertake a comprehensive study of California's position within the global marketplace and consider the state's strengths, weaknesses, and possibly economic opportunities. At its core, the bill addresses the importance of economic analysis when setting goals and objectives for future expenditures and activities. The analysis includes a discussion of the role of the trade study, a summary of the current ITI Strategy, and highlights of California's trade economy.
- 3) The Role of a Trade Study: AB 412 proposes to reinstate the statutory requirement for the bifurcated development of the ITI Strategy. First, an analysis and assessment would be undertaken and then

goals and actions would be set for state funds and actions. The current ITI Strategy statute is silent as to whether an economic assessment is necessary. It should be noted that some state plans are simply a collection of projects deemed worthy by the state agency.

AB 412 would require that a comprehensive study be undertaken and outlines specific areas to be addressed. Among other things, there would be an inventory of existing resources and an assessment of workforce, infrastructure, and existing state programs. The study is designed to serve as the foundation to the state's overall trade program providing a platform to examine regional competencies and unique industry sector needs. By emphasizing the understanding of these deeper economic relationships within core and emerging industry sectors, the ITI Strategy can better align with economic development activities at the local and regional levels. This tighter alignment should also result in increasing the impact of the state activities and investments.

This is the same approach taken in the development of the 2009 ITI Strategy. In the prior study, the University of California committed its Sacramento Semester Program and coordinated the participation of leading researchers from around the state. Much public policy at the state level is still based on this initial work.

- 4) The ITI Strategy: Between 2003 and 2006, California had no trade and international marketing authority. After years of debate, the Legislature and the Governor began an unprecedented collaboration on the development of a new international trade and investment program. Agreements on the new program were codified in SB 1513, Chapter 663, Statutes of 2006 and further refined in AB 2012, Chapter 294, Statutes of 2012. The first ITI Strategy under the new rules was completed in 2008 and the next strategy is due in February of 2014.

Based on a trade and investment study, like the one proposed in AB 412, the current ITI Strategy takes an industry sector approach based on the state's core and emerging industries. Below is the list of dominant and emerging industries from the 2008 ITI Study.

Dominant industry clusters include:

- Professional business and information services
- Diversified manufacturing
- Wholesale trade and transportation
- High-tech manufacturing

Emerging industry clusters include:

- Life science and services
- Value-added supply chain manufacturing and logistics
- Cleantech and renewable energy
- Nanotechnology

Using the lessons learned in the study, the ITI Strategy identified the following five program objectives:

- Leverage existing services to provide export assistance to companies by the state's primary and emerging clusters;
- Develop a foreign direct investment program prioritized by the state's primary and emerging clusters;
- Promote and leverage the California brand;
- Monitor and engage the federal government in regard to U.S. trade policy; and
- Integrate international trade and investment into the state's overall economic development strategy.

The ITI Strategy includes a set of specific actions, including timelines, priority levels, and measurable outcomes under each of the program objectives. One example of a recommended action includes facilitating export trade promotion through participation in key industry trade shows and encouraging business match-making activities during visits of foreign trade delegations. The ITI Strategy also strongly relies on coordinated efforts with existing federal and local public and private stakeholders.

- 5) California's Global Economy: International trade and foreign investment are very important components of California's \$1.9 trillion economy. California receives more foreign direct investment (FDI) than any other state in the U.S., which is significant since the U.S. is the largest receiver of FDI in the world. The California economy benefits from FDI in many ways, some of which include assisting in the creation of jobs, boosting worker wages, increasing exports, bringing in new technology and skills, and generally strengthening the state's manufacturing base.

The federal International Trade Administration estimates that over 562,700 California workers benefit from jobs with foreign-owned firms, which accounts for 5.1% of all private sector jobs in the state. Approximately 11% of all U.S. workers at foreign-owned firms are located in California, which has had the highest level of employment in foreign-owned firms since at least 1997. Along with employment, foreign-owned firms own more property, plants, and equipment in California than in any other state.

If California were a country, it would be the 11th largest exporter in the world. Exports from California accounted for over 10.5% of total U.S. exports in goods, shipping to over 220 foreign destinations in 2012.

California's land, sea, and air ports of entry serve as key international commercial gateways for products entering the country. California exported \$161 billion in goods in 2012 (up from \$159 billion in 2011), ranking only second to Texas with \$265.3 billion in export goods. Computers and electronic products were California's top exports in 2012, accounting for 27.6% of all state exports, or \$44.5 billion.

<b>2012 Exports From California to the World</b>		
<b>Product</b>	<b>Value (\$ billions)</b>	<b>Percent</b>
334 Computers & Electronic Prod.	44.5	27.6 %
333 Machinery (except electrical)	14.8	9.2 %
336 Transportation Equipment	16.1	10.0 %
325 Chemical Manufactures	12.7	7.9 %
339 Misc. Manufacture Commodities	13.8	8.6 %
111 Agricultural Products	11.9	7.4 %
All Others	47.2	29.3 %
Total	\$161	100 %

Source: Tradestates.com

Manufacturing is California's most export-intensive activity. Overall, manufacturing exports represent 9.4% of California's gross domestic product. More than one-fifth (21.9%) of all manufacturing workers in California directly depend on exports for their jobs.

Small- and medium-sized firms generated more than two-fifths (43%) of California's total exports of merchandise. This represents the seventh highest percentage among states and is well above the 29% national average export share for these firms.

Mexico is California's top trading partner, receiving \$26.3 billion (16%) in goods in 2012. The state's second and third largest trading partners are Canada and China with \$17.3 billion (10.7%) and \$13.9 billion (8.6%), respectively. Other top-ranking export destinations include Japan, South Korea, Taiwan, the United Kingdom, Hong Kong, Germany, and Singapore.

- 6) Federal Actions: Since being elected as President of the United State in 2008, President Obama has implemented significant trade initiatives including gaining U.S. Congressional support for three pending international trade agreements and announcing a national goal of doubling U.S. exports within five years. By 2015, U.S. exports are proposed to increase to \$3.14 trillion. In accomplishing this goal, the federal government will be proposing new programs, targeting existing trade related activities, and increasing funding and technical assistance within current programs.

Since the announcement of the new national goal at the start of 2010, exports from California were up \$ 41 billion over 2009. For California, the second largest exporter of products in the U.S. and the largest receiver of foreign direct investment in the nation, this federal goal could result in significant new economic opportunities. California has already received nearly \$4 million in federal funds to administer a state export assistance program for small businesses and in the President's 2013 State of the Union address he announced a trade agreement with the European Union. The author may want to consider reflecting key federal actions as part of the trade analysis.

- 7) Technical Amendments: AB 412 requires a one-time study to be completed in 2015. The author may want to offer amendments to more closely align the timing of the report with the five-year ITI Strategy. Further, it may be appropriate to be more specific on the importance the economic assessment plays in developing the ITI Strategy.

- 8) Related Legislation: Below is a list of related legislation.

- a) AB 337 (Allen) ITI Strategy and Ports: This bill adds a required element to the state's ITI Strategy. The new requirement is an evaluation of the ports of entry to the state and their capacity for handling international trade, including industrial and postconsumer secondary materials, originated in or destined for other states. Status: Pending in the Assembly Committee on Jobs, Economic Development and the Economy.
- b) AB 1081 (Medina) Moving Goods to Market: This bill integrates goods movement within the states infrastructure planning including the Five-year Infrastructure Plan, the ITI Strategy, and State's interregional planning. Status: Pending in the Assembly Committee on Jobs, Economic Development and the Economy.
- c) 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 in 2012.
- d) AB 2012 (John A. Pérez) Economic Development Reorganization: This bill transferred the authority for undertaking international trade and foreign investment activities from the Business, Transportation and Housing Agency to the GO-Biz. 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.

REGISTERED SUPPORT / OPPOSITION:

Support

California Asian Pacific Chamber of Commerce

Opposition

None received

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