

Date of Hearing: April 25, 2017

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sharon Quirk-Silva, Chair

AB 923 (Ridley-Thomas) – As Amended April 19, 2017

SUBJECT: State government: trade

SUMMARY: Requires the Governor's Office of Business and Economic Development to include an analysis of dominant and emerging foreign markets within the already mandated state international trade and investment strategy (ITI Strategy). More specifically, the bill requires an analysis and identification of dominant and emerging foreign markets for California goods and services, including, but not limited to, the state's top trade partners of Mexico and Canada and potential new markets in countries located in Africa and the Caribbean.

EXISTING LAW:

- 1) Establishes GO-Biz to serve as the state's primary agency for issues of economic and business development. Among other entities within GO-Biz' oversight are the California Business Investment Services Program, the Office of the Small Business Advocate, the International Trade and Investment Program, and the California Infrastructure and Economic Development Bank.
- 2) Establishes the California Business Investment Services Program within GO-Biz to serve employers, corporate executives, business owners, and site location consultants who are considering California for a business relocation or expansion.
- 3) Authorizes GO-Biz to undertake international trade and investment activities and, as a condition of that authority, directs the development and implementation of a comprehensive international trade and investment strategy (ITI Strategy). All international trade and foreign investment activities and funding are required to be consistent with the ITI strategy.
- 4) Requires the GO-Biz to provide the Legislature with an ITI Strategy by February 2014 and update it at least once every five years.
- 5) Requires the ITI Strategy to, at a minimum, include the following:
 - a) Policy, goals, objectives and recommendations;
 - b) Measurable outcomes and timelines for meeting the ITI Strategy goals, objectives, and actions;
 - 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 actions; and
 - f) Identification of an international trade and investment organizational structure.

FISCAL EFFECT: Unknown

POLICY FRAME:

International trade and foreign investment are very important components of California's \$2.4 trillion economy supporting 4.4 million California jobs. 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.

This measure proposes expanding the statutory framework of the ITI Strategy to include an evaluation of the dominant and emerging foreign markets. Below are additional details about the state's trade economy, the existing ITI Strategy, and current economic growth within Africa and the Caribbean nations.

COMMENTS:

- 1) **The Current 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 (Romero/Figueroa), Chapter 663, Statutes of 2006 and further refined in AB 2012 (John A. Pérez), Chapter 294, Statutes of 2012.

Under California's new trade and foreign investment framework, state activities are required to be directed through the development and implementation of the ITI Strategy. The ITI Strategy is prepared every five years based on current state and regional economic research and a public vetting with the Legislature to ensure the inclusion of jointly agreed upon goals and measurable objectives. The initial strategy was finalized in August 2008 and the current ITI Strategy was finalized in February 2014.

The overall policies governing the ITI Strategy are to create jobs, increase revenues for California enterprises, improve California's international competitiveness by expanding the export of California goods and services, and by increasing foreign direct investment into the state. Based on these guiding policy goals, the ITI Strategy sets forth a comprehensive set of recommendations around six strategic objectives:

1. **Comprehensive Framework:** Develop a comprehensive, coordinated and cohesive strategy framework with a clear vision to expand trade and investment, which includes other relevant state agencies, with input from private and public sector stakeholders;
2. **Marketing:** Implement more proactive outreach, awareness, education and engagement programs both within the state for California-based companies and through foreign partners and trade office(s);
3. **China Trade Office:** Maximize China Trade Office resources and opportunities to expand exports and investment;
4. **Infrastructure:** Develop an action plan to address key challenges facing our ports and related infrastructure to ensure their competitiveness;
5. **Federal-State Relationship:** Re-engage and strengthen working relationships with the Office of the U.S. Trade Representative and the state's Congressional delegation to advocate California interests related to international trade and investment; and
6. **Website:** Develop and implement a more user-friendly, comprehensive, interactive and useful website to assist California companies wanting to export and to attract foreign investment.

Under each of the program objectives, the ITI Strategy identifies a set of specific actions, including timelines, priority levels, and measurable outcomes. Among other actions under the Comprehensive Framework objective, the ITI Strategy calls for identification of foreign markets with the greatest potential for export expansion. Top trade partners identified include: Canada, Mexico, and China, and emerging markets such as Brazil and India. AB 923 would include an analysis of countries in Africa and the Caribbean, as potential emerging markets.

GO-Biz identifies two impediments to the implementation of the ITI Strategy including: (1) the challenge of raising sufficient funding through public and private partnerships to participate in investment events and trade missions on an equal footing with other states, and (2) the lack of regional representation for GO-Biz international staff.

- 2) **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' 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]

The 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 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. [AB 250 (Holden and V. Manuel Pérez), Chapter 530, Statutes of 2013, AB 1067 (Medina), Chapter 535, Statutes of 2013, and AB 1247 (Medina and Bocanegra), Chapter 537, Statutes of 2013]

In addition to developing the ITI Strategy, GO-Biz 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 is a three-year pilot trade and export 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 the first trade office opened under the AB 2012 program authority. The Trade Office 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 Californian companies increased access to Chinese business contacts, Chinese

investors with access to California projects, and spur new investment and trade growth between California and China. In order to expand the Offices' outreach, GO-Biz entered into a memorandum of understanding with additional California-China trade partners including the California Asian Pacific Chamber of Commerce; World Trade Center Los Angeles; and the City of Sacramento.

- 3) **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.

- 4) **California's Global Economy:** International trade and foreign investment are very important components of California's \$2.4 trillion economy supporting 4.4 million California jobs. The importance of trade to the California economy is increasing as a percentage of California jobs tied to trade more than doubled from 1992 to 2011, 10.6% vs. 22.0%.

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 increasing employment, boosting worker wages, increasing government revenues, bringing in new technology and skills, and generally strengthening the state's manufacturing base.

The top 5 regions with the highest foreign owned and affiliated businesses are: Gateway Cities (796 establishments), South Bay-LAX (741 establishments), San Fernando Valley (725 establishments), San Gabriel Valley (698 establishments), and West Side (415 establishments). The top 5 cities with the highest concentration of foreign owned and affiliated businesses are Los Angeles (1591 establishments), Torrance (310 establishments), Long Beach (212 establishments), Santa Monica (134 establishments), and Pasadena (127 establishments).

The federal International Trade Administration estimates that in 2012 over 602,800 California workers benefit from jobs with foreign-owned firms, which accounts for 4.8% of all private sector jobs in the state. California has had the highest level of employment in foreign-owned firms in the nation since at least 1997. Along with employment, foreign-owned firms own more property, plants, and equipment in California than in any other state.

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. 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. 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 for every one million dollars of increased trade activity, eleven new jobs are supported. Workers in trade-related jobs earn on average 13% to 28% higher wages than the national average.

California's land, sea, and air ports of entry served as key international commercial gateways for the \$573 billion in products entering and exiting the U.S. in 2015. If California were a country, it would be the 28st largest exporter and the 12th largest importer in the world, based on 2015 trade numbers. California's two-way trade represented 15.3% of total U.S. imports and exports. In 2015, exports out of California were valued at \$165.3 billion and represented 11% of total U.S. exports. Imports into California were valued at \$408.1 billion and represented 18.2% of total U.S. imports in 2015.

In 2016, California exported \$163.6 billion in goods. The *Chart* below shows export data on the state's top five trade partners, based on origin of movement. 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	163.6
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

The International Trade Administration estimates that in 2015, approximately 11.5 million U.S. jobs were related to the export of goods and services. Statewide, 707,000 California jobs are dependent on exports, 11% of all U.S. export related jobs. Texas is reported to have the largest number of jobs related to exports (1 million). Manufacturing is responsible for the largest number of trade-related California jobs (469,000).

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. imports often include components or have benefited from services provided by U.S. firms, including many California companies. The Wilson Center estimates that Mexican imports and Canadian imports contain 40% and 20% U.S. components, respectively.

The federal International Trade Administration estimates that in 2013 over 631,500 California workers benefit from jobs with foreign-owned enterprises (FOE) firms, which accounts for 10.3% of all FOE jobs 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, California FOE-related jobs represented 4.1% of all private sector jobs in the state. According to the Business Roundtable, there are:

- 110,000 companies in California that are headquartered in Japan;
- 78,500 companies in California that are headquartered in the United Kingdom;
- 59,200 companies in California that are headquartered in France; and

- 58,900 companies in California that are headquartered in Switzerland.

Along with employment, foreign-owned firms own more property, plants, and equipment in California than in any other state.

- 5) **Emerging Markets:** As the chart on the previous page shows, California has a number of large trade partners. Mexico, as an example, has been the state's number one trade partner since the late 1990s.

Selected Exports to Caribbean Nations			
State	2014	2015	2016
UNITED STATES	24,903,396,132	21,755,976,426	21,577,306,934
Florida	6,070,149,733	6,216,893,549	5,862,057,436
Texas	4,430,840,226	3,538,528,766	3,321,533,300
Louisiana	2,846,081,559	2,099,959,947	2,019,892,471
Puerto Rico	1,281,231,864	907,497,916	1,008,279,011
New York	895,350,275	965,571,372	923,943,596
Georgia	894,800,598	873,802,029	914,934,627
California	593,349,457	674,181,225	666,646,514
New Jersey	597,024,079	481,010,935	552,798,487
Pennsylvania	459,226,999	449,457,488	491,510,958
Massachusetts	163,241,070	147,719,710	161,271,955
Washington	61,295,657	75,443,867	74,896,017

AB 923 proposes that the state look more closely at emerging markets and specifies two regions in particular: Africa and the Caribbean.

The charts to the right show exports to these regions over last three years.

Selected Exports to African Nations			
State	2014	2015	2016
UNITED STATES	38,087,340,264	27,135,101,765	22,388,221,660
Texas	9,702,759,197	7,053,850,559	4,810,295,619
Washington	2,654,128,389	2,426,248,633	2,313,495,321
Louisiana	4,550,184,165	2,042,543,318	1,847,290,401
California	1,416,229,106	1,175,176,310	1,254,399,616
Georgia	1,270,525,162	1,115,837,773	1,076,830,277
Illinois	1,801,875,544	1,277,462,169	874,742,539
Virginia	640,815,532	467,082,078	769,039,501
New York	1,264,809,750	992,743,703	762,327,242
Maryland	1,245,429,596	939,457,607	746,875,357
Pennsylvania	1,057,383,502	781,010,508	682,305,027
New Jersey	1,036,932,773	737,081,553	656,835,709
Florida	1,216,600,756	1,015,283,348	535,699,381
Massachusetts	262,423,998	224,987,866	191,073,325

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

The two largest exports from California to Caribbean countries were computers and other electronic products (37.4%) and miscellaneous manufactured commodities (13.7%) in 2016.

The two largest exports from California to Africa in 2016 were computers and other electronic products and agricultural

equipment, 22.3% and 19.1% respectively.

- 6) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- 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 moves the Office of the Small Business Advocate to the Office of Economic Development. Status: Signed by the Governor, Chapter 475, Statutes of 2011.
 - 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 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.
- f) ***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.

REGISTERED SUPPORT / OPPOSITION:

Support

None on File

Opposition

None on File

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