

# Creating Competitive Advantages within the Southern California Logistical Network

## Executive Summary

International trade and foreign investment serve as critical components of California's \$2.0 trillion economy. If California were a country, it would be the 17th largest exporter and the 14th largest importer in the world. Merchandise exports from California (\$168 billion) accounted for over 10.6% of total U.S. exports in goods, shipping to over 220 foreign destinations in 2013. California's land, sea, and air ports of entry served as key international commercial gateways for the \$538 billion in products entering and exiting the U.S. in 2012. Statewide, 4.4 million California jobs are dependent on foreign trade. 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.

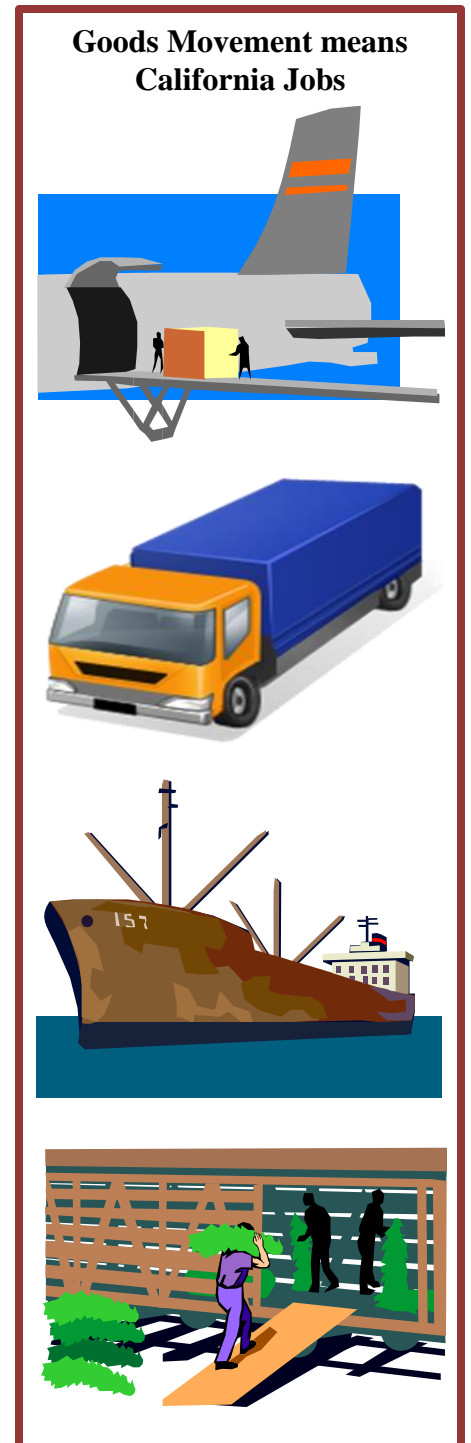
Trade and foreign investment support new job creation, bring new technologies and skills to California workers, generate local and state revenues, and generally strengthen the state's economic base. In the future, California's economy will become increasingly reliant on accessing foreign markets where a majority of global economic growth is expected to occur.

On Friday, February 28, 2014, the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE Committee) is holding an oversight hearing on how the **Southern California goods movement network impacts the state's global competitiveness and ability to support high wage jobs**. This hearing is a follow-up to a November 2013 JEDE Committee hearing that examined the role of international trade and foreign investment on the regional economy of the Inland Empire.

During the course of the hearing, testimony will be provided by economic development experts, business leaders, and other important Southern California stakeholders. The purpose of this report is to provide a context for these presentations and offer possible recommendations for further actions.

### Issues for Consideration

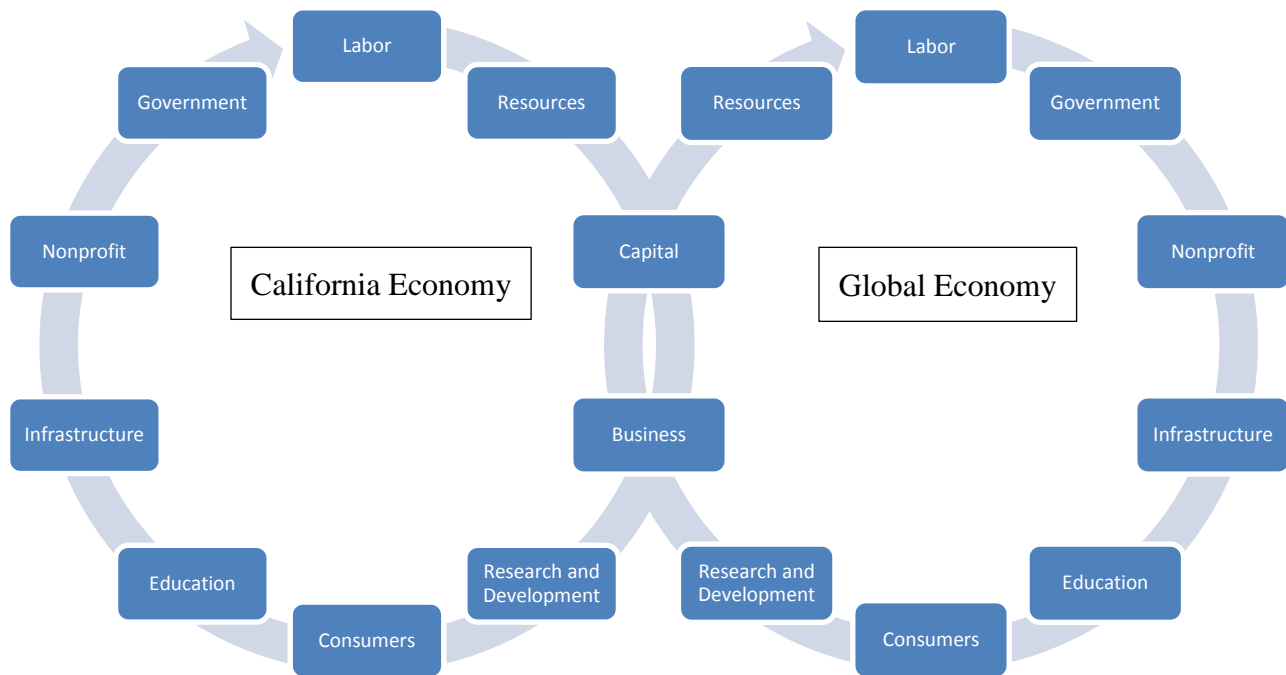
Whether it's a cell phone that is produced using minerals from Africa, batteries manufactured with rare earth mined in China, or a morning ritual of strong black coffee from South America, a majority



of Californians participate in the global marketplace every day. Some products are produced out-of-the country, others use raw, processed, or manufactured components from a variety of geographic locations, and still others are from companies that are owned by or have major shareholders that are from a foreign country. As participants in one of the 10 largest economies in the world, a majority of California communities are already highly integrated within global markets.

Globalization, as this increasing level of economic integration is often referred to, has brought U.S. products to foreign markets and foreign products at lower costs to U.S. markets. In the past two decades, globalization has also resulted in fundamental shifts in how products are designed, manufactured, assembled, distributed, and sold. Vertically integrated production models are giving way to production networks that rely on global supply chains comprised of foreign and domestic producers that are linked through advanced information technology and multimodal transportation options.

Being successful in this globally connected economy requires state and local governments, as well as businesses, to be innovative, reduce barriers to cross border trade, and consider long-term as well as more immediate impacts on society. The *diagram below illustrates* California's multiple internal and external economic drivers, including: capital, for-profit and nonprofit sectors, the public and private education system, available labor, research and development capacity, physical infrastructure, resource limitations, the consumer base, and government



actions.

As the diagram shows, conditions and issues within the broader global economy also impact the state. While the state or region may have significant influence over some of the drivers, such as K-12 education, on other drivers government is simply one of several participants, as with business development or capital formation. Over the long term, the economic health of a

community, region, and the state is dependent on the quality of all 10 internal and external drivers. This is why globalization has so permanently changed California's economic development paradigm. Where once business and industry primarily served domestic markets, today both large and small businesses are accessing foreign markets to source materials and services related to production and tap into larger consumer bases. As an example, between 2003 and 2012, the contributions that exports made to the California economy increased from \$93.9 billion to \$161.9 billion. This shift provides both new opportunities for accessing international capital and commerce, as well as government challenges, such as financing infrastructure, providing a competitively skilled workforce, and maintaining a goods movement logistical network suitable to an active and top tier participant within the global economy.

In this hearing, the issue of economic competitiveness and job creation will be examined looking at how the movement of goods to domestic and foreign markets impacts California's economy. Among other issues, the speakers have been asked to address the following:

- What economic opportunities do trade-related industries represent and how can the state support local and regional efforts to capitalize on those advantages?
- How can the state support local and regional efforts to catalyze private investments, especially in historically underserved and emerging areas?
- What opportunities are available to enhance Southern California's global competitiveness and economic integration through smarter use of the trade corridors that link businesses to Southern California air, land, and sea ports?
- What actions can the state take to facilitate cross-border commerce and reduce de facto barriers to foreign investment and the international movement of goods?

Information and research from this hearing will be used by the Members of JEDE in their deliberations on legislation affecting infrastructure development, business attraction and expansion, and the increasingly expanded role international trade and foreign investment play within the state's economic future. *Descriptions of pending measures before the Legislature are included in Appendix B and a list of preliminary recommendations is provided in Section V of the report.*

## **Organization of the Report**

The report is organized into five sections. The first section provides general background on the California economy, highlighting key employment and economic trends. In Section II the report describes in greater detail how trade and foreign investment have been increasing important to the state's overall economy. Section III includes information on California's role in the development and implementation of trade agreements, which set the rules for participating within the global economy. The material in Section IV focuses on the state logistical network that supports the movement of goods into and through California. The fifth section includes a list of possible recommendations to help drive the hearing discussions toward tangible and concrete next steps. Some of the recommendations have been developed by committee staff

based on independent research and previous legislative hearings, while others have been suggested by hearing presenters.

In addition to these sections, the report includes a number of appendices that are designed to be useful references including:

- Appendix A includes a fact sheet on the California economy;
- Appendix B provides a list of trade and infrastructure-related legislation;
- Appendix C has a copy of new SoCal Link iHub brochure that highlights the Los Angeles and Inland California trade corridor connection;
- Appendix D includes a summary of key reports related to the hearing;
- Appendix E has a copy of the California law relating to trade agreement reviews;
- Appendix F provides a fact sheet on SB 397 (Hueso) relating to an enhanced driver's license;
- Appendix G has a fact sheet on AB 1081 (Medina) relating to goods movement infrastructure financing;
- Appendix H includes a list of trade corridor projects funded with Proposition 1B (2006) moneys;
- Appendix J provides additional background; and
- Glossary of terms used in the report.

### **Closing Thought**

The California Employment Development Department (EDD) assessed the state economy in 2012 and divided the state's 11 core industry sectors into those that have internal population-driven markets and those that have large external markets that are accessed through some form of trade in goods or services.

From this work, EDD projected that the state's ability to attract and retain businesses within the eight trade-related industries would largely determine how fast the state's economy would grow in the future.

*Source: The 2012 California Labor Market and Economic Analysis*

NOTE: This is an excerpt from a pre-hearing report prepared by the Assembly Committee on Jobs, Economic Development and the Economy.