

BRIEFING FOR MARCH 18, 2014 HEARING

DATE: March 18, 2014

TO: Interested Parties

FROM: The Assembly Committee on Jobs, Economic Development, and the Economy

RE: Joint Hearing to Review State International Trade Strategy and other Trade Related Activities

On Tuesday, March 18, 2014, a legislative oversight hearing is being held at the California State Capitol to review the state's recently released international trade strategy and be briefed by an official from the Export-Import Bank of the United States (Ex-Im Bank).

Convening the joint hearing are the policy and research committees with jurisdiction for issues relating to international trade, capital formation, infrastructure development and export and investment promotion: the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE), chaired by Assemblymember Jose Medina, and the Assembly Select Committee on Asia/California Trade and Investment Promotion (ACTIP), chaired by Assemblymember Philip Ting.

This hearing serves as a follow-up to ongoing policy initiatives of the committees on the impact of U.S. trade agreements on the California economy, infrastructure challenges to trade and global competitiveness, and commerce and tourism development within the Pacific Rim. Outcomes from these prior activities have included the introduction of legislation, as well as activities that deepen the Legislature's understanding of California's position within the global economy.

Hearing testimony will be presented through two agenda items, presented by the state and federal government officials responsible for program delivery.

- **California Trade Strategy:** Brian Peck, the Chief Deputy Director for Trade and Investment at the Governor's Office of Business and Economic Development (GO-Biz), will make the first presentation. Mr. Peck will present on the state's recently released state International Trade and Investment Strategy (ITI Strategy).
- **Export Financial Assistance:** Paul Duncan is with the Western Regional Office of the Ex-Im Bank. Mr. Duncan will outline the current Ex-Im Bank programs including how California businesses have benefited.

Following the adjournment of the joint hearing, JEDE Members will convene to hear AJR 37 (Muratsuchi), which relates to the reauthorization of the Ex-Im Bank.

Growing Importance of Trade

California's \$2 trillion economy naturally functions as an independent economic power within the global economy. In fact, compared to other nations, California has one of the 10 largest economies in the world, due to it being a top-tier

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trade partner, a best-in-class investment location, a high quality producer of goods and services, and the home and key access point for a massive consumer-base. In 2013, California exported \$168 billion in products to over 220 foreign countries. While California has been significantly impacted by the recession, exports continued to increase in almost every quarter from 2010 through 2013.

Recently, the value of trade-related industries, as a component of the broader economy, was the subject of a study by the Brookings Institute and JP Morgan Chase, *Export Nation 2013*. The report found that between 2003 to 2012 exports drove post-recession growth in the 100 largest metro areas including Los Angeles, San Diego, and the Inland Empire.

The study is unique in that it collected data by origin of production rather than origin of export movement, as is the case with the U.S. Department of Commerce export data. Using the *Export Nation* methodology, total California exports for goods and services in 2012 was \$252 billion, as compared to the U.S. Census Bureau's 2012 number of \$162 billion for goods only, as measured by origin of movement.

In 2012, exports represented 8.8% of California GDP, based on *Export Nation* data. The top five California metro areas with the highest concentration of export-related GDP in the report period include: (1) Los Angeles (37.1%); (2) San Francisco (15%); (3) San Jose (13.7%); (4) San Diego (11.5%), and (5) the Inland Empire (9.2%). **Chart 1** includes more specific data on selected California exports of goods and services, as expressed in 2012 dollars (adjusted for inflation) and based on the *Export Nation* methodology.

Chart 1 – Southern California Largest Metro Areas Exports (2007-2012)(in millions, adjusted for inflation)						
Metropolitan Statistical Area	2003 Exports (millions)	2012 Exports (millions)	Export Share of GDP	Export in Goods 2012	Export in Services 2012	Annualized 2009-2012 Growth in Manufacturing (Post-Recession)
El Centro, CA Metropolitan Statistical Area	432.7954	586.8708	9.3%	456.5946	130.2762	8.9%
Los Angeles-Long Beach-Santa Ana, CA Metropolitan Statistical Area	62850.51	93871.65	12.0%	56462.39	37409.26	4.0%
Oxnard-Thousand Oaks-Ventura, CA Metropolitan Statistical Area	3997.99	6462.674	15.2%	4822.016	1640.658	3.8%
Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area	7999.825	13128.07	9.2%	8407.373	4720.697	5.9%
San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area	11996.96	21613.47	11.5%	13702.52	7910.954	7.2%
San Francisco-Oakland-Fremont, CA Metropolitan Statistical Area	15417.44	38046.75	12.5%	23306.12	14740.64	-0.7%
San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area	21384.90	34641.22	23.8%	26418.39	8222.831	10.9%

Source: Export Nation 2013, Global Cities Initiative, a joint project of Brookings Institute and JP Morgan Chase

According to research by the California Employment Development Department, the state's future economic growth will be strongly correlated to the strength of its trade-related industry sectors including advanced manufacturing, information technology, and professional services. The high growth potential of these industry sectors is based on their links to external markets, as well as internal markets in the U.S. and California.

This potential for expanding foreign markets to drive domestic job creation and business development is one of the primary reasons why the state ITI Strategy is so important to state's overall economic success. "With over 95% of the world's population and 80% of the world's purchasing power outside the United States, the state needs to develop policy and strategy to expand international trade and investment that is appropriate for California's position as the world's 9th largest economy," excerpt from the ITI Strategy.

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 (I-Bank), 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 I-Bank 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.

Handouts at the March 18, 2014, hearing include a GO-Biz generated trade profile of California and the state ITI Strategy, as mandated by AB 2012.

Goals and Objectives of ITI Strategy

The primary goals of 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. 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. 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. Maximize China Trade Office resources and opportunities to expand exports and investment;
4. Develop an action plan to address key challenges facing our ports and related infrastructure to ensure their competitiveness;
5. 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. Develop and implement a more user-friendly, comprehensive, interactive and useful website to assist California companies wanting to export and to attract foreign investment.

The ITI Strategy calls for strengthening the state's relationships between key stakeholders in order to establish a cohesive network of programs, services, and advocates. The specific list of stakeholders identified in the ITI Strategy includes federal, state, public, and private partners including, but not limited to, the U.S. Trade Promotion Coordinating Council, the Ex-Im Bank, STEP, the University of California, California Community Colleges, and local and regional economic development organizations.

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.

ITI Strategy Discussion Points

Rapid globalization in the past several decades has permanently changed the economic development paradigm in California. Between 2003 and 2012, the contributions that exports made to the California economy increased from \$93.9 billion to \$161.9 billion. These changes provide both unique opportunities for accessing international capital and commerce, as well as challenges, such as financing infrastructure, providing a skilled workforce, and maintaining a goods movement network suitable to support substantial participation within the global economy.

Many of these key issues are addressed within the ITI Strategy. With such a high alignment of interests, the Members may want to discuss how the Legislature can support the further development and implementation of the recommendations of the ITI Strategy with Mr. Peck. More specifically:

- Will the Legislature be invited to participate on the public-private Trade and Investment Advisory Council? (Objective 1, Action 2)
- How can JEDE and ACTIP share their industry sector and export market expertise in support of GO-Biz' development of sector and regional market strategies? (Objective 1, Actions 3 and 4)
- Is there a legislative role for enhancing economic opportunities for trade-related industries which support local and regional efforts to support trade and foreign investment? (Objective 2, Actions 1 to 5)
- How can JEDE and ACTIP support the development of deeper partnerships with foreign consulate trade officials? (Objective 2, Action 6)
- How does GO-Biz plan to identify and consider other possible foreign trade office locations? (Objective 3, Action 1)

- How can JEDE and ACTIP support the development of the logistical network action plan that will be designed to effectively link California's land, sea, and air ports to the state's manufacturing, warehousing, and consumer base? (Objective 4, Action 1)
- What provisions are included in the ITI Strategy for supporting local and regional efforts to catalyze private foreign investments, especially in historically underserved and emerging areas?
- 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 and services?

U.S. Trade Agreements and the California Economy

Within a globally connected economy, trade agreements create the framework by which a significant number of businesses and workers must compete, collaborate, and create economic value. The U.S. is currently negotiating two major trade promotion agreements, the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership. In their current iterations, these trade agreements will cover 21% of the world's population, with the U.S. at the nexus. These agreements are especially important to local and regional governments which have been proactive in using trade promotion activities as a springboard for their own economic program.

State Consultation Process

U.S. trade policy, as provided for by the U.S. Constitution, advances two mechanisms for negotiating and approving treaties and trade promotional agreements. The first (Article II, Section 2, Clause 2, of the U.S. Constitution) empowers the President to chiefly negotiate treaties with the advice and consent of a supermajority of the U.S. Senate. The second method is structured as a congressional-executive agreement in which the U.S. Congress authorizes the President to negotiate trade promotion-related agreements, but ratification is achieved through the adoption of an agreement in the form of a bill by a majority vote of both Houses. This second method is more commonly called Fast Track or Presidential Trade Promotion Authority. When granting Fast Track authority, the U.S. Congress is prohibited from making substantive amendments to the enacting resolution and, instead, participates in an early consultation period with the Administration and then, upon the passage of the ratifying bill, has the option to send the President related legislation to mitigate the potentially negative impacts of the final trade promotion agreement on communities, workers, and businesses.

In recognition of this inability to substantively modify elements of already negotiated trade agreements and their far reaching impact on state and local economies, Congress has also directed the U.S. Trade Representative (USTR) to seek advice from states during the negotiation process through a Governor appointed State Point of Contract (SPOC). California's SPOC is Alexis Podesta, who also serves as the Governor's Director for External Affairs. Under California law, the SPOC is required to share with the Legislature information received from the USTR and then work with the Legislature to assess its impact on California.

In addition to the SPOC process, the USTR maintains nearly 30 trade-related advisory committees, including the Intergovernmental Policy Advisory Committee on Trade (IGPAC). The IGPAC is currently comprised of 24 state and local officials, including members of state legislatures, state trade directors, and related national associations. Former State Senator, and current Los Angeles City Councilmember Curren Price and Carlos J. Valderrama, who represents the Los Angeles Area Chamber of Commerce, are members of IGPAC.

The U.S. has trade agreements in force with 20 countries, including Australia, Bahrain, Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Korea, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, and Singapore. In addition to trade agreements, the U.S. maintains a number of trade preference programs that allow special access to U.S. markets for countries that are considered developing markets and/or where the U.S. wants to cultivate a stronger relationship. The Andean Trade Preference Act (ATPA)

and the Andean Trade Promotion and Drug Eradication Act (ATPDEA) are examples of two such trade programs which assist Bolivia, Colombia, Ecuador, and Peru in promoting "broad-based economic development, diversification of exports, consolidation of democracy, and to help defeat the scourge of drug trafficking by providing sustainable economic alternatives to drug-crop production in beneficiary countries."

Expanding Role for States

Recent developments have greatly expanded the interests of individual states in the negotiations of international trade agreements. While trade agreements previously concerned themselves with issues exclusively within federal jurisdiction, many trade agreements now include rules on issues that are within the traditional purview of state government. Trade agreements now effect such issues as public procurement, professional licensing, and investor rights, and foreign companies are increasingly using the terms of trade agreements to challenge state laws related to environmental standards, the hiring of local workers, and the purchase of local products.

Previously, the role of state legislatures in trade negotiations was ill-defined; however, the current U.S. trade model now features a clear path for increased state government engagement in the negotiation process through the establishment of the SPOC and IGPAAC consultation process as a means to directly engage the USTR.

In the last few years, California Legislative Members and stakeholder groups have emphasized the importance of California's engagement on trade agreements in order to ensure California communities are not at a disadvantage. For example, in 2011 the Legislature adopted AJR 15 (Alejo), which urged the U.S. government to consider the potential negative economic impact of the Colombian Free Trade Agreement on the California economy, especially as it related to the California floriculture industry. The issue was raised, not from a protectionist perspective, but based on the U.S.' significant involvement under the ATPA and the ATPDEA in the development of the Colombian cut flower industry. Today, the Colombian cut flower industry, with its U.S. subsidized infrastructure and \$333 (589,500 pesos) per month minimum wage, competes directly with California producers.

Role of the SPOC (Gov §99501)

(b) The state point of contact shall, in addition to any other duties assigned by the Governor, do all of the following:

- (1) Promptly disseminate correspondence or information from the United States Trade Representative to the appropriate state agencies and departments and legislative committees.
- (2) Work with the appropriate state agencies and departments, and the Legislature, to review the effects on the California environment, and California businesses, workers, and general lawmaking authority, of any proposed or enacted trade agreement provisions, and communicate those findings to the United States Trade Representative.
- (3) Serve as liaison to the Legislature on matters of trade policy oversight.

(Added by Stats. 2006, Ch. 663, Sec. 3. Effective January 1, 2007)

As illustrated in the Colombian example, the U.S. and California economy is increasingly entwined with business and consumer markets in other counties. These trade agreements and other trade policies can have direct economic impacts on domestic workers and businesses. State consultation and resolutions such as AJR 15 express the state's priorities on the negotiation framework and ratification of U.S. treaties and trade promotion agreements. The policy parameters serve as the economic foundation for the development of new business opportunities and the development of new consumers for California and U.S. products and services.

Trade Agreement Discussion Points

State consultation is an important component to a modern trade agreement development process. In 2006, California formally recognized the SPOC and established the position as a liaison between the USTR and the Legislature. As noted earlier, the ITI Strategy proposes that the state re-engage and strengthen its relationship with the USTR, other federal agencies, and the California Congressional delegation.

Members may want to discuss how the Legislature can support the further development and implementation of the trade agreement recommendations of the ITI Strategy with Mr. Peck. More specifically:

- How often and in what manner is the SPOC contacted by the USTR on the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership?
- How can the state best engage with the Administration on issues related to trade agreements and the impact agreements may have on the state?
- Are there opportunities for the Legislature to support the state's advocacy with the USTR, as well as on the Border Governor's Conference?
- How can JEDE and ACTIP share their industry sector and export market expertise in support of trade agreement-related responsibilities?

The Export-Import Bank of the United States

The Ex-Im Bank is an independent federal agency that provides a variety of financial and insurance products that are designed to fill gaps in private export financing. Last authorized in 2012, the Ex-Im Bank needs to be reauthorized by September 30, 2014. The Ex-Im Bank operates at no cost to American taxpayers and, in 2013, the Ex-Im Bank generated more than \$1 billion in revenues above the actual amount necessary to operate its programs and maintain prudent loss reserves.

In the federal fiscal year (FFY) 2013, the Ex-Im Bank approved more than \$27 billion in financial authorizations, which supported an estimated \$37.4 billion in export sales and approximately 205,000 U.S. jobs. Since 2009, the Ex-Im Bank has supported nearly 2.1 million private sector jobs.

Of the total transactions in 2013, approximately 89% (3,413) of the financial transactions were with small businesses for a total of \$6 billion. Of that \$6 billion in small business transactions, \$5.2 billion were for direct support of small businesses and \$800 million was attributed to small business inputs within the supply chain of larger U.S. exporting companies. FFY 2013 was also a historically high year for women and minority-owned firms, with the Ex-Im Bank completing 761 transactions for a total of \$815.5 million. This represents one in five businesses assisted in FFY 2013 were a woman- or minority-owned business.

Between 2012 and 2014, \$91 billion in financial authorizations went to 530 California exporters, which supported \$10 billion in sales. Of those exporters, 412 were small businesses, 67 were minority-owned businesses, and 41 were women-owned businesses. The three top export destinations for California products were Mexico, Singapore, and Germany. More businesses in California use the Ex-Im Bank than from any other state except Texas, 530 vs. 661. However, of those businesses, California has a significantly higher number of small businesses, 412 vs. 366.

Ex-Im Bank Discussion Points

The Ex-Im Bank is an important financial partner for California businesses accessing foreign markets. Members may wish to discuss with Mr. Duncan how the Ex-Im Bank programs have benefited the state. More specifically:

- How do California businesses learn about the Ex-Im Bank and its programs?
- Are there ways that the Legislature or individual Members can assist the Ex-Im Bank in connecting with businesses, especially small businesses and those located in historically underserved areas?

- To what extent does the Ex-Im Bank participate in events and other outreach activities with state partners, such as the small business financial development corporations, the California Capital Access Program, and the Recycled Manufacturing Zone programs?

Related Policy Work by the Legislature

The JEDE Committee has been assigned the responsibility to serve as the lead policy committee for issues relating to international trade and foreign investments. Assisting JEDE in this responsibility are select committees, also called research committees, including the ACTIP. During this legislative session, JEDE has held three oversight hearings on the issue of foreign trade and investment including the growing importance of foreign markets to the state's long term economic growth.

The February 2013 JEDE hearing examined major economic trends affecting the California economy including the opportunities and challenges that the increasingly integrated global economy represents. Remaining competitive, presenters affirmed, will require both the public and private sectors to adopt new and more agile thinking about natural resources and the deployment of human, physical, and financial capital. **Chart 2** describes eight key trends that were discussed at the hearing as redefining the U.S. economy in the post-recession era.

Chart 2 – Key Economic Trends Affecting the California Economy
1 - Cities and regions will become more dominant economic players.
2 - Global networks will be supported through more advanced information and transportation technologies.
3 - Barriers to trade will continue to decline among both developed and emerging economies.
4 - The world's largest companies will increasingly be headquartered in emerging foreign markets.
5 - Global and more diversified markets will provide new opportunities for entrepreneurs and smaller size businesses.
6 - Scarcity and rising prices will increase pressure on the development and deployment of cleaner technologies.
7 - The retirement of Boomers will place an even greater need for middle- and high-skilled workers.
8 - The available workforce will be smaller, more ethnically diversified, and have educational backgrounds that are lower than other developed economies.

Several of these same themes are addressed in the ITI Strategy including the importance of emerging markets and the need for "strong, forward-leaning state-level leadership to develop a holistic approach to expand international trade and investment which is vital to securing California's economic future."

At JEDE's November 2013 oversight hearing, the Committee examined more closely how these trends affect regions, specifically the Inland Empire. Situated at the crossroads of two major trade corridors, the Inland Empire serves as an important link between foreign and domestic production supply chains and consumer markets. Among the key findings from the hearing was the poor condition of Southern California infrastructure, which hasn't kept pace with the region's significant growth and is insufficient to meet the structural needs of a modern goods movement network. There were a series of recommendations that called for better advocacy for the economic development needs of regions, addressing gaps in core business development requirements including access to capital, and improving the linkages within the logistical network.

Building on these findings and recommendations, JEDE held its third hearing in February 2014 to focus on the role goods movement plays within the regional economies of Southern California communities. The hearing included testimony on both the increasing role that trade-related industries play within regional economies and the challenges of planning for and funding a logistical network that supports California businesses within the increasingly competitive global economy.

The March 18, 2014 hearing begins to implement three of the recommendations from these prior hearings including the importance of a state trade strategy that sets high-level policies that can effectively guide state activities, the enhancement of exporting firms access to capital, and the need to develop a working relationship with the Administration to support trade agreement equity for California businesses and workers.

The Committee's review of the ITI Strategy will also serve as a first step in moving forward on broader recommendations from the prior hearings including:

1. Advocating for the inclusion of goods movement related infrastructure within the states Five-Year Infrastructure Plan.
2. Encouraging California and its economic regions to join with other states, nations, and border regions in collaborating on border security issues, marketing, and enhancements of goods movement including organizations such as Pacific Northwest Economic Development Council CaliBaja Bi-national Mega-region.
3. Establishing a pilot project, perhaps administered through the Permit Assistance Office at GO-Biz, to streamline state permitting and early CEQA consultation by state agencies for port facility enhancements along the Mexico border and California land and sea ports.
4. Establishing inland pre-clearance security inspection sites to expedite the transport of goods.
5. Encouraging regional and large metro areas to develop comprehensive strategies to attract, grow, and retain trade-based industries that utilize global supply and distribution networks.

Additional Resources

Additional resources, including copies of fact sheets on the California economy and hearing reports may be obtained by calling the JEDE Office at 916.319.2090 or downloading them from the JEDE Committee website at:

<http://ajed.assembly.ca.gov/policyissues>