

Date of Hearing: June 10, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

SCR 82 (Hueso) – As Amended: June 4, 2014

SENATE VOTE: 37-0

SUBJECT: Jalisco, Mexico: sister state relationship

SUMMARY: Memorializes the Legislature's desire to recommit to the formalizing of the a sister state relationship between California and the State of Jalisco, Mexico, for the purpose of promoting economic growth and well-being of small, medium, and large corporations and by increasing their potential trade and investment within the State of Jalisco. Specifically, this bill:

- 1) Makes declarations, which among other things, state:
  - a) California and Jalisco share a mutually beneficial economic relationship that includes trade, investment, and commerce in areas of high technology, manufacturing, agriculture and tourism, among other important industries;
  - b) Guadalajara is the largest technology center in Mexico and is increasingly recognized as an incubator for small-scale technology start-ups and a main producer of software, electronics, and digital products;
  - c) Generations of people from Jalisco reside in California and represent the most populous community from Mexico in California; and
  - d) Since the approval of ACR 183 (Firebaugh), Resolution Chapter 148, Statutes of 2000, which called for the establishment of a sister state relationship with the State of Jalisco, many delegates from the California Legislature have visited Jalisco, as well as hosted delegations from Jalisco in California in order to support the exchange of business and culture.
- 2) Resolves that the Legislature recommit to formalizing a sister state relationship between California and the State of Jalisco, Mexico, for the purpose of promoting economic growth and well-being of small, medium, and large corporations and by increasing their potential trade and investment within the State of Jalisco.

EXISTING LAW establishes the Office of Business and Economic Development (GO-Biz) within the Governor's Office and designates it as the state's lead entity on international trade and foreign investment activities, excluding agricultural trade.

FISCAL EFFECT: None

COMMENTS:

- 1) Author's Purpose: According to the author, "This bill was introduced to celebrate the sister state relationship between Jalisco, Mexico and California for its mutually beneficial economic relationship

in the areas of high technology manufacturing, education, agriculture, tourism, and other important industries.

In the year 2000, the California State Legislature extended an invitation to the people of the State of Jalisco, Mexico, to join with California in a sister state relationship. The sister state relationship would establish a formal declaration of friendship between the two states. Fourteen years have gone by since this declaration, yet the relationship was never formalized. As a result, it is fitting to recommit to the formalization of this relationship and the mutually beneficial outcomes of this declaration.

This resolution honors the sister state relationship by continuing to promote the economic growth and well-being of companies in California by increasing their potential for trade and investment with the State of Jalisco, to provide a forum for sustained goodwill and cooperation between elected leaders, and to promote bilateral ties."

- 2) Framing the Policy Issue: This resolution proposes the recommitment of the Legislature to establish a sister state relationship between California and the Mexican State of Jalisco. No relationship currently exists, although a proposal was put forth in 2000, but never finalized.

A sister state relationship is a formal declaration between two regions, states, or nations. Such an agreement is a symbol of mutual goodwill. Additionally, it is an effort to encourage and facilitate mutually beneficial social, economic, educational, and cultural exchanges. Both the Legislative and the Administrative branches of government have the authority to establish sister state relationships.

While the California Legislature has proposed 24 sister state relationships, it appears that few have actually been brought to fruition and, of those, there are no records of what actions have been taken or the tracking of results of those actions. Research shows that successful sister state programs appear to be those with sponsors who take responsibility for bringing the parties together and reporting results. As part of deliberating SCR 82, the Committee may also wish to adopt a policy for moving forward with sister state relationships, in general.

- 3) U.S. Trade Agreements: 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.

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.

- 4) Background on Jalisco: The state of Jalisco is located in the west central part of Mexico. Bordered by the Pacific Ocean in the west, the 31,210 square miles of Jalisco make up 4.1% of the total area of Mexico and touches seven other Mexican states. Jalisco is dominated by the southern end of the Sierra Madre Occidental and the western extremity of the chain of volcanic mountains extending across central Mexico including the active volcano, Volcán de Fuego. In the central part of Jalisco is Lake Chapala, Mexico's largest lake. Geographically it is the seventh largest of Mexico's thirty-one states and is home to the second largest urban population. The total population of Jalisco is estimated at 7.55 million people (2012).



Because of the variety of climate, landform, and elevation, nearly every kind of fruit and vegetable grows within one of the regions in Jalisco. Corn and wheat from the central plateau make it known as the “granary of Mexico;” rice and wheat are grown in the south; and the mountains yield timber and minerals (especially iron, silver, some gold, and precious stones). The raising of livestock and the production of food products and blue agave for tequila are also important, making it the country's number one producer for these products.

The economy of the state accounted for 6.24% of Mexico's GDP in 2012. The main sectors of the economy are trade at 21.3%; manufacturing at 18.8%; financial services and real estate at 13.9% and construction at 9.1%. Together they account for 63.1% of the state GDP. Jalisco earns just under six percent of Mexico foreign earnings from tourism and employment from the various multinational corporations located in the state exporting more than \$5 billion annually to 81 countries. It ranks first among the states in agricultural products, electronics, telecommunications, and the manufacturing of jewelry and is the second largest producer of furniture, beef, sugar cane, and honey. Jalisco received \$772 million in foreign direct investment (FDI) in 2012, representing 6.5% of Mexico's total FDI; the majority which was directed toward the manufacturing industry.

More people in California have roots in Jalisco than any other state in Mexico. In fact, many of the things that Californians consider typically Mexican, such as mariachi music, charreadas (rodeos), the Mexican Hat Dance, tequila, and the broad-rimmed sombrero hat, are all derived from Jalisco's cultural heritage and are not necessarily typical of the culture of other Mexican states.

The state of Jalisco is currently a sister state with Washington state and Alberta, Canada.

- 5) Origins of Sister Programs: U.S. sister affiliations began shortly after WWII and developed into a national initiative when President Dwight D. Eisenhower proposed the people-to-people program at a White House Conference in 1956. According to research on Maryland's Sister State webpage, President Eisenhower's intention was to involve people and organized groups at all levels of society in personal, citizen diplomacy with the hope that people-to-people relationships, fostered through sister city affiliations, would lessen the chance of future world conflicts. Many sister-city relationships are coordinated through the nonprofit network, Sister Cities International.
- 6) Sister State Programs: States differ in their approach to selecting and implementing sister state relationships. Some states, such as Hawaii, require a detailed application from the foreign state wishing to enter into partnership. The application form includes information on prospective partner's economic structure, cultural resources, primary industries and foreign trade and investment.

Applications are reviewed by the Hawaiian Governor, who refers applications he or she is supportive of to Legislature for their review. The Legislature expresses their approval through the adoption of a concurrent resolution authorizing the Governor to proceed in negotiating a sister state agreement with the applicant state.

One recurrent model for managing the sister state relationship is the establishment or designation of a sister organization. Iowa, for an example, has Iowa Sister State, a non-profit, volunteer organization whose mission is to "develop and implement international programs that promote the interests of the State of Iowa and its citizens." Activities for each of Iowa's nine sister state relationships is coordinated through a special committee, which organizes events and coordinates with people in the sister state.

Several states have information on their webpages regarding longstanding sister state relationships. Michigan, as an example, has had a sister state relationship with Shiga Prefecture, Japan, since 1968, and stills hosts several exchanges per year. For the 40<sup>th</sup> Anniversary of the sister state relationship between Hyōgo Prefecture, Japan, and Washington state, the two governor's attended several special events including "Kobe Day" at a Seattle Mariner's Game, with 260 delegates from Hyōgo and Governor Toshizo Ido throwing the first pitch.

Education is often a core component of the sister state relationship. As an example, Michigan and other states often emphasize educational exchanges, as well as cultural exchanges. South Carolina even offers fee waivers to foreign students from their sister state who wish to attend public universities.

Many sister state relationships include economic and business development priorities, as well as cultural and educational exchanges. The Alberta, Canada, and Jalisco, Mexico, established in 1999, has a focus on economic cooperation with 13 supplemental agreements entered into that further the technology focused exchange including: support for joint research funding on micro and nanotechnology, e-health, radio-frequency identification and multimedia; and value added food processing.

California has no formal structure for establishing, negotiating, or maintaining sister state relationships. The Committee may wish to consider adopting overall policies and procedures to ensure California creates and maintains vibrant sister state relationships. This would be an appropriate project for the fall legislative calendar.

- 7) California's Trade Economy: 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.

California's significance in the global marketplace results from a variety of factors, including: its strategic southwest and coastal location offering direct access to growing foreign markets in Mexico, Latin America, and Asia; its nine diverse regional economies; its large, ethnically diverse population,

representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and its culture of innovation and entrepreneurship, particularly in the area of high technology.

Mexico is California's top trading partner, receiving \$23.9 billion (14%) in goods in 2013. The chart below shows export data on the state's top five trade partners. Other top-ranking export destinations not shown on the chart include Hong Kong, Taiwan, Germany, the Netherlands, and the United Kingdom.

<b>California Export based on Movement of Goods 2012 and 2013</b>						
<b>Rank</b>	<b>Country</b>	<b>2012 Value</b>	<b>2013 Value</b>	<b>2012 % Share</b>	<b>2013 % Share</b>	<b>% Change, 2012 - 2013</b>
---	<b>Total California Exports and % Share of U.S. Total</b>	<b>161,880</b>	<b>168,128</b>	<b>10.5</b>	<b>10.6</b>	<b>3.9</b>
---	<b>Total, Top 25 Countries and % Share of State Total</b>	<b>143,671</b>	<b>149,020</b>	<b>88.8</b>	<b>88.6</b>	<b>3.7</b>
1	Mexico	26,370	23,933	16.3	14.2	-9.2
2	Canada	17,424	18,819	10.8	11.2	8.0
3	China	13,970	16,359	8.6	9.7	17.1
4	Japan	13,033	12,711	8.1	7.6	-2.5
5	South Korea	8,246	8,394	5.1	5.0	1.8

Source: tradeport.org

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 for every one million dollars of increased trade activity, 11 new jobs are supported. Workers in trade-related jobs earn on average 13% to 28% higher wages than the national average.

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 utilize 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.

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.

- 8) **Offices of International Relations:** Both the Assembly and the Senate maintain offices that serve as each Houses key point of contact for foreign relations and protocol. The California Senate Office of International Relations (SOIR) was established in 1987 and the Assembly Office of Foreign Relations (AOIR) was established in 2000. Through these offices Legislators find assistance in furthering strong economic and diplomatic ties between California and the rest of the world. Both SOIR and AOIR host international delegations at the State Capitol, as well as facilitate and occasionally host Member-delegations to foreign countries. Over the years, SOIR has also established special and

longer term relationships between California and foreign countries including the California Brazil Partnership and the California and Japan Scholars Program.

SOIR additionally maintains a website, which is the only known source for identifying California's existing Sister State Relationships. According to the website, the Legislature has approved 24 Sister State Relationships including State of Baja California Sur, Mexico; Archipelago of the Azores, Portugal; and Catalonia, Spain. Neither SOIR or AOIR have any specific duties in regards to sister state relationships.

- 9) Related Legislation: Below is a list of legislation from the current and prior legislative sessions.
- a) *AB 690 (Campos) California-Mexico Border Relations Council*: This bill repeals and recasts statutory provisions within the Government Code relating to California and Mexico relations by adding the Director of the Governor's Office of Business and Economic Development to the membership of the California-Mexico Border Relations Council and designating him or her as Chair. Status: Pending in the Senate Committee on Business, Professions, and Economic Development.
  - b) *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 Governor's Office of Business and Economic Development. In addition, the bill transferred 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.
  - c) *AB 2443 (V. Manuel Pérez) International Trade Program and Sister State Relationships*: This bill would have required the State Point of Contact to provide the Legislature with copies of any official position taken or comments to the U.S. Trade Representative relating to a pending trade agreement and would have authorized the establishment of Sister State relationships for the purpose of promoting economic growth and trade and investment opportunities. Status: Vetoes by the Governor, September 2010.
  - d) *AB 2713 (Quick-Silva) Public Private Partnerships to Promote Trade*: This bill authorizes the Governor's Office of Business and Economic Development to establish public-private partnerships to help guide state activities related to the export of California products and the attraction of employment-producing foreign investment. The bill requires the establishment of a subaccount to hold private donation for county and industry-specific marketing activities. The bill also requires the establishment of a partnership to support California trade and investment within South Korea. Status: Pending in the Senate.
  - e) *ACR 100 (Alejo) El Salvador and California Partnership*: This resolution memorializes the Legislature's recognition of the special relationship between California and the county of El Salvador. In furthering this special relationship, the Legislature, extends an invitation to the people of El Salvador to partner with California to commit to the development of programs to foster social, economic, educational, scientific, and cultural programs in order to strengthen the democratization process and economic development of El Salvador and to promote economic ties and improve international understanding and goodwill. Status: Scheduled to be heard in JEDE on June 10, 2014.

- f) *ACR 183 (Firebaugh) Recommitment to Jalisco Sister State*: This resolution extends an invitation to the people of the State of Jalisco, Mexico, to join with California in a sister state relationship/relacion de hermanidad con el Estado de Jalisco, Mexico. Status: Approved, Resolution Chapter 148, Statutes of 2000.
- g) *SCR 103 (De León) El Salvador and California Partnership*: This resolution memorializes the Legislature's recognition of the special relationship between California and the country of El Salvador. In furthering this special relationship, the Legislature, on behalf of the people of the State of California, extends an invitation to the government of El Salvador to partner with California to promote democratic institutions, the rule of law, and economic opportunity and growth, and to foster international understanding through increased trade and investment and mutually beneficial educational, economic, and cultural exchanges between California's and El Salvador's institutions. Status: Scheduled to be heard in JEDE on June 10, 2014.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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