

Date of Hearing: May 3, 2011

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE  
ECONOMY

V. Manuel Pérez, Chair

AB 1137 (V. Manuel Perez) – As Amended: April 26, 2011

SUBJECT: International trade and foreign investment

SUMMARY: Makes a number of changes to programs designed to assist local communities and businesses, enhance the local business climate, and create jobs by increasing foreign trade and investment. Specifically, this bill:

- 1) Authorizes the establishment the California Export Promotion and Gap Financing Program (Export Assistance Program), within the Business, Transportation and Housing Agency (BTH), for the purpose of applying for, receiving and implementing a federally funded export assistance program. Among other requirements, the bill:
  - a) Limits implementation of the program until federal moneys are received;
  - b) Requires that the Export Assistance Program to be developed in consultation with local governments, economic development organizations, financial institutions, small business organizations, the federal Small Business Administration, the federal U.S. Department of Agriculture Rural Development, as well as financial and community intermediaries that engaged in, or could be engaged in, international trade and investment programs;
  - c) Requires that the program have clear objectives, measurements for success, reporting requirements, methods for ensuring program resources are available statewide, and be implemented in a collaborative fashion with other related business assistance programs;
  - d) Requires that program reporting be done annually on the BTH website and include, at a minimum, the number of businesses assisted, the size of businesses assisted by number of employees and gross revenues, the number of jobs created and retained, an estimate of the economic impact of the financial assistance and other key program achievements;
  - e) Provides that if any federal requirements prohibit any of the state statutory requirements of the Export Assistance Program, BTH is to notify the relevant policy and fiscal committees and is then authorized to waive the state rules to the extent necessary to fulfill the federal requirements; and
  - f) Authorizes BTH to adopt regulations to implement this measure.
- 2) Codifies the state's participation in the federal EB5 program by establishing the California Foreign Investment Program, which, among other things:
  - a) Requires BTH to serve as the lead state entity under specified provisions of the federal Immigration and Nationality Act; and
  - b) Requires BTH to set the terms and conditions for issuing a state designation letter within

the structure and scope of those provisions of federal law.

- 3) Requires BTH to consult with local and regional government entities and associations, particularly those entities and organizations that have foreign trade economic development offices. As part of the consultation process, BTH is authorized to establish a local government advisory board (uncompensated for participation).
- 4) Makes technical updates to the Foreign Free Trade Zone Act, including renaming it the California Foreign Free Trade Zone Act.

EXISTING LAW:

- 1) Authorizes BTH 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.
- 2) Authorizes a public or private corporation, as specified, to apply for and, if successful, establish, operate, and maintain a foreign-trade zone in accordance with certain provisions of federal law.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Purpose: According to the author, "increasing the number of business and workers engaged in development and movement of products and services for export can play an important role in the state's overall economic recovery strategy. Last October, as part of the federal Small Business Jobs Act, Congress passed and the President signed The State Trade and Export Promotion Grant Act (STEP) which authorized \$90 million in competitive grants to fund state trade promotion programs over the next three years.

California is currently in the process of applying for a share of the first \$30 million in STEP funds. It is important that California have a framework for implementing and overseeing these moneys. AB 1137 provides such a framework and helps California in applying for the next round of funding."

- 2) Doubling exports in five years: In January 2010, the President announced a national goal of doubling U.S. exports within five years, setting a 2015 target for U.S. exports of \$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 \$20 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.

The National Export Initiative (NEI), the mechanism by which the federal Administration is managing activities and funds related to increasing U.S. exports, has identified eight priority areas, as follows:

1. Increasing exports among small- and medium-sized enterprises including support for trade promotion and export financing;
2. Creating more opportunities for U.S. sellers to meet with foreign buyers, especially in the area of green technologies;
3. Increasing the number of U.S. trade missions abroad and those coming to the U.S., as well as improving coordination with state government trade offices and national trade associations;
4. Leveraging multiple federal agencies in the foreign trade advocacy and extending outreach efforts to more U.S. companies;
5. Making more credit available through existing credit programs, development of new financial products, and streamlining of applications and processes;
6. Working to sustain a global economic recovery to support expanding markets for U.S. products;
7. Removal of trade barriers through the successful conclusion of World Trade Organization (WTO) Doha Rounds, the Trans-Pacific Partnership Agreement, resolving the remaining issues related to the U.S.-Korea Free trade Agreement, and robust monitoring and enforcement of WTO trade rules; and
8. Enhanced advocacy and trade promotion services including providing better economic data for decision making and increasing coordination among existing export promotion efforts.

The first \$30 million round of NEI funding for states is available under the Small Business Administration administered STEP. BTH has chosen not to apply for the funding and, instead, the Community College System is applying under the auspices of the Centers for International Trade Development (CITD). It is anticipated that a successful California application would result in \$3 million for local and state collaborative trade promotion efforts.

- 3) 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.

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 current International Trade and Investment (ITI) Strategy was finalized in August 2008 and the next strategy is due in August 2013.

The ITI Strategy takes an industry sector approach based on the state's core and emerging industries. By emphasizing the development of deeper relationships within core and emerging industry sectors and their trade associations, the strategy more closely aligns with other economic development activities at the local level and increases the impact of the state activities and investments. Below is the list of dominant and emerging industries from the 2008 ITI Strategy research.

Dominant industry clusters include:

- a) Professional business and information services
- b) Diversified manufacturing
- c) Wholesale trade and transportation
- d) High-tech manufacturing

Emerging industry clusters include:

- a) Life science and services
- b) Value-added supply chain manufacturing and logistics
- c) Cleantech and renewable energy
- d) Nanotechnology

Based on the 2008 industry clusters, the ITI Strategy identifies the following program objectives:

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

Under each of the program objectives, the ITI Strategy includes a set of specific actions, including timelines, priority levels, and measurable outcomes. Examples of ITI recommended actions include: (1) building a web-based directory of international, federal, state and local resources to assist small and medium size businesses in their import and export activities; and (2) facilitating export trade promotion through participation in key industry trade shows and business match-making activities during trade delegations visits. The ITI Strategy also strongly relies on coordinated efforts with existing federal and local public and private stakeholders. AB 1137 would statutorily enhance those provisions by requiring consultation with government entities and organizations, particularly those with foreign trade economic development activities. Existing law only requires consultation with business leaders. Both are important stakeholder groups.

- 4) California's trade economy: International trade is a very important component of California's \$1.9 trillion economy. If California were a country, it would be the 11th largest exporter in

the world. Exports from California accounted for over 11% of total U.S. exports in goods, shipping to over 226 foreign destinations in 2010.

California's land, sea, and air ports of entry serve as key international commercial gateways for products entering the country. California exported \$143 billion in goods in 2010 (up from \$120 billion in 2009), ranking only second to Texas with \$163 billion in export goods. Computers and electronic products were California's top exports in 2010, accounting for 30.1% of all state exports, or \$43 billion.

<b>2010 Exports From California to the World</b>		
<b>Product</b>	<b>Value (\$)</b>	<b>Percent</b>
334 Computers & Electronic Prod.	43,075,351,414	30.1 %
333 Machinery (except electrical)	14,486,638,626	10.1 %
336 Transportation Equipment	12,957,683,521	9 %
325 Chemical Manufactures	11,590,683,001	8.1 %
339 Misc. Manufactures	11,502,854,621	8 %
111 Agricultural Products	9,353,709,931	6.5 %
All Others	40,301,943,159	28.1 %
Total	143,268,864,273	100 %

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 \$21 billion (15%) in goods in 2010. The state's second and third largest trading partners are Canada and China with \$16.1 billion (11%) and \$12.4 billion (8.6%), respectively. Other top-ranking export destinations include Japan, South Korea, Taiwan, the United Kingdom, Hong Kong, Germany, and Singapore.

Relative to last year, the value of California products exported to other counties was significantly up (\$143 billion v. \$120 billion). In California's highest export category, computer and electronic products, exports in 2010 were almost at their 2006 high (\$43 billion v. \$44.3 billion).

- 5) State's diverse population as a trade advantage: California's diverse population provides the state with a key trade and investment advantage over other states and nations. Due to strong past in-migration 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. Net foreign in-migration currently totals approximately 200,000 persons annually. This represents nearly 40% of California's annual population growth. For many immigrant groups, California represents the single largest gathering of their brethren outside their native lands.

The first ITI Study found that California's economic and social diversity uniquely positioned the state as a preferred partner for certain regions around the world. 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. New globally-based models for innovation and technology have brought great changes in how world economies work, and California's dominance as a center of innovation is being challenged. The newly 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 to become leaders in innovation and not merely "copycat" economies.

While these dynamics pose challenges to current leading technology centers, they also offer California new opportunities for collaboration and cooperation. The state's diversity could be a crucial component to successful global collaboration. The state is already engaged in academic and research partnerships with China, Canada, and Iceland on renewable energy and other technologies. The University of California at San Diego has a multi-year manufacturing initiative with Mexico supporting economic growth on both sides of the border. These types of partnership efforts, however, have not yet been brought forward into a broader economic development framework and are too often treated as one-off initiatives. Enormous potential exists in research, development, and product manufacturing by capitalizing on cross border initiatives if California can successfully transition to the new and more highly connected economic world of the 21<sup>st</sup> Century.

- 6) State Trade and Foreign Investment Infrastructure: In support of local and private sector trade and investment activities, the state has several ongoing programs, including the Foreign Trade Zones (FTZ), the EB5 Program and the Centers for International Trade Development. AB 1137 updates two of these programs to help prepare the state to be more competitive in accessing federal dollars and supporting local economic development efforts.

FTZs are areas within the state where goods may be imported without adhering to all U.S. Customs rules or tariffs. The program is designed to promote foreign trade and global supply chains while retaining domestic employment that might otherwise go to foreign countries. Merchandise admitted into a zone may, among other things, be stored, exhibited, repacked, assembled, graded, cleaned, processed, tested, labeled, and mixed with foreign merchandise. There are two types of FTZs – General Purpose and Subzone Purpose Zones. Subzones, sponsored by a General Purpose Zone, are generally located within an industrial park or port complex whose facilities are also used by the general public. These zones are established by the federal government with companion state statute authorization. California has 17 general purpose FTZs out of 234 zones in the U.S. including zones located in Eureka, Imperial, Long Beach, Los Angeles, March JPA, Merced, Oakland, Palmdale, Palm Springs, Sacramento, San Diego, San Francisco, Port Hueneme, San Jose, Santa Maria, Southern California Logistics Airport, and Stockton.

Another key geographically targeted program is the EB5 investment visa program administered under the federal Immigration Act of 1990, which authorizes the issuance of 10,000 new green cards a year based on a foreign investment in the U.S. Persons applying to this program must demonstrate that they have invested a minimum of \$1 million with the likely result of creating at least 10 direct jobs, or investing \$500,000 in certain targeted high unemployment areas and creating 10 direct or indirect jobs.

Based on 2010 state figures and a high unemployment rate defined as 14.4% or greater, 56 cities, 13 counties, 21 rural areas, and 11 metropolitan statistical areas in California have

been identified as eligible target areas. Some states, such as South Dakota, have specific programs that target foreign investment by people who want to apply for visas under the investment provisions. AB 1137 takes the first step in more effectively leveraging this federal program by placing in statute the process by which regional marketing centers can be approved and identification of target areas.

The California Community College System administers the state's Centers for International Trade Development. These 8 Centers for International Trade Development, located in a majority of the urban areas of the state, offer technical assistance and consultation to firms doing business, or trying to do business, globally. The northern most areas of the state are serviced through offices in Community Colleges located in Sacramento and San Bruno, and the most southern center is located in Chula Vista.

Services provided through the Centers for International Trade Development include, but are not limited to: free or low cost import and export education programs; one-on-one counseling; access to international trade shows; opportunities to join trade missions; a "Help Desk" for advising on international business transaction challenges; and access to a trade information database ([www.citd.org/trade\\_info/index.cfm](http://www.citd.org/trade_info/index.cfm)) on their Web site. The Centers for International Trade Development serve over 2,500 businesses and entrepreneurs in California each year.

- 7) Current session related legislation:: Below is a list of related legislation from the current session:
- a) AB 1409 (JEDE) – Goods Movement Update to the State Economic Strategy: Requires that the next update of the international trade and investment strategy include policy goals, objectives and recommendations from the state Goods Movement Plan (GMAP), as well as related measurable outcomes and timelines. Status: Pending in Assembly Appropriations.
  - b) AB 1410 (JEDE Committee) – Trade Omnibus Bill: Makes technical, non-substantive amendments to the codes relating to international trade and foreign investment. Specifically, this bill reorganizes the statutory placement of the Office of California-Mexico Affairs and the California-Mexico Border Relations Council from a general title within state government to a more specific title on foreign relations within the Government Code. Status: Pending on the Assembly Floor.
  - c) SB 460 (Price) – Trade Marketing and Promotion: The bill requires the Secretary of BTH to convene a business partnership on trade promotion. Status: Pending in Senate Appropriations.
- 8) Related legislation from prior sessions: Below is a list of related legislation, some of which are discussed earlier in the analysis.
- a) AB 3021 (Nuñez) - California-Mexico Border Relations Council: This bill established the six-member California-Mexico Border Relations Council (Border Council) comprised of all Agency Secretaries and the Director of the Office of Emergency Services for the purpose of coordinating activities of state agencies. The Border Council is required to

report to the Legislature on its activities annually. Status: Signed by the Governor - Chapter 621, Statutes of 2006.

- b) AJR 14 (Jeffries) – Customs Duties: This resolution memorialized the President of the U.S. and Congress to enact legislation to ensure that a substantial increment of new revenues derived from customs duties and importation fees be dedicated to mitigating the economic, mobility, security, and environmental impacts of trade in California and other trade-affected states across the U.S. Status: Approved by both Houses, Resolution Chapter 73, Statutes of 2007.
- c) AJR 27 (Torricono) – Support U.S.-Colombia Trade Promotion Agreement: This resolution memorialized Congress that the California Legislature opposes the United States-Colombia Trade Promotion Agreement. Status: Approved by both Houses, Resolution Chapter 145, Statutes of 2010.
- d) AJR 55 (Villines) – Support U.S.-Colombia Trade Promotion Agreement: This resolution would have memorialized Congress that the California Legislature supports the United States-Colombia Trade Promotion Agreement. Status: Refused adoption in the Assembly Committee on Jobs, Economic Development, and the Economy in 2008.
- e) SB 1513 (Romero) – New International Trade Program: Final Compromise - California International Trade and Investment Act. This bill provided new authority for the BTH to undertake international trade and investment activities, and as a condition of that new authority, directs the development of a comprehensive international trade and investment policy for California. This bill reflects extended bi-partisan discussions between the Senate and the Assembly. Status: Signed by the Governor - Chapter 663, Statutes of 2006.

REGISTERED SUPPORT / OPPOSITION:

Support

Office of Foreign Trade, Economic Development Agency, County of Riverside (Joint – Sponsor)  
Assembly Committee on Jobs, Economic Development and the Economy (Joint -Sponsor)  
California Association Microenterprise Opportunity  
California Small Business Development Centers  
California Small Business Development Centers, U.C. Merced Regional Network  
CDC Small Business Finance  
Inland Empire Economic Partnership  
Yuba Sutter Economic Development Corporation

Opposition

None received

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