

Date of Hearing: April 23, 2019

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sabrina Cervantes, Chair

AB 1696 (Chau and Cervantes) – As Introduced February 22, 2019

SUBJECT: The California International Trade and Investment Office Act of 2019

POLICY FRAME: Trade and foreign investment play an important role within California's \$2.7 trillion economy. Since the elimination of the state's foreign trade offices in 2003, the public and Members of the Legislature have expressed interest in their re-establishment. Current law provides GO-Biz with the authority to establish foreign offices and specifies which actions GO-Biz is to take once a determination to move forward has been made. Existing law, however, is silent as to how outside economic development entities can recommend and propose the establishment of jointly administered foreign trade offices. While GO-Biz has testified that they are very flexible in how proposals can be brought forward, stakeholder groups testify that confusion remains and that more structure would be useful.

AB 1696 provides a framework for filing an initial letter of interest, discussing its applicability with GO-Biz, and then receiving a determination as to whether a full proposal should be developed and submitted. In doing so, the bill clarifies the funding commitments and levels of specificity that need to be in place in order to engage with GO-Biz. Nothing in the bill limits the authority of GO-Biz to select partners, locations, or open foreign trade and investment offices.

The policy committee analysis includes information on GO-Biz, the establishment and demise of California trade offices, and the importance of trade to the California economy.

SUMMARY: AB 1696 requires the Governor's Office of Business and Economic Development (GO-Biz) to develop and implement a process for engaging with public and private entities that are interested in partnering with the State of California in operating a trade and investment office in a foreign country. At a minimum, the process is required to include:

- 1) A list of information from GO-Biz that is to be included in the initial letter of interest.
- 2) A response from GO-Biz within 30 calendar days of submittal as to whether any information is missing from the letter of interest. Information is allowed to be added in order for GO-Biz to have a complete letter of interest for review.
- 3) A meeting with GO-Biz to discuss each fully compliant letter of interest.
- 4) A determination from GO-Biz within 90 calendar days of receiving a complete letter of interest as to whether to request a full proposal.
- 5) After receiving the full proposal, a determination from GO-Biz as to whether to move forward with the establishment of the trade and investment office, as specified.

The bill also authorizes GO-Biz to accept in-kind services from nonprofit entities for the purpose of supporting the operation of an international trade and investment office.

EXISTING LAW:

- 1) Establishes GO-Biz within the Governor's Office for the purpose of serving as the state's principal entity for issues relating to international trade and foreign investment, excluding agricultural issues. GO-Biz is led by a director, which is appointed by the Governor.
- 2) Authorizes the Director of GO-Biz to establish and terminate trade offices outside the U.S. as the Director determines appropriate, given specific requirements are met. These requirements include:
 - a) Making a determination that the country where an international trade and investment office would be located is among those with the greatest potential for direct foreign investment in California, export growth, or both.
 - b) Inclusion of the new international trade and investment office in GO-Biz's annual program budget, strategy, and business plan, as specified.
- 3) Authorizes trade offices to be funded in whole or in part by nonstate funds.
- 4) Authorizes GO-Biz to contract with a nonprofit entity to operate an international trade and investment office. The contract shall, among other provisions, require the nonprofit entity to provide GO-Biz with information sufficient to satisfy the donor reporting requirements, as specified. Appropriate reporting is required within 30 days of receipt by the nonprofit entity of each donation used to fund an international trade and investment office.
- 5) Requires that the International Trade and Investment Program's annual budget, strategy, business plan, and review of the prior year's activities be submitted to specified legislative offices in the Assembly and the Senate, including the Chief Clerk in each House, the Office of the Speaker and pro Tempore, and the standing committee in each House with international trade oversight responsibilities.

FISCAL EFFECT: Unknown

COMMENTS & CONTEXT:

- 1) **New Governor and New Trade Advisory Groups:** In February 2019, Governor Newsom issued an executive order designating Lieutenant Governor Eleni Kounalakis as the Governor's top representative for international affairs and trade development.

As part of those duties, Lieutenant Governor Kounalakis, who formerly served as the United States Ambassador to Hungary, will chair a newly established, cabinet-level International Affairs and Trade Development Interagency Committee (Interagency Committee). The Interagency Committee will be vice-chaired by the Governor's Chief Economic and Business Advisor Lenny Mendonca, who also serves as the Director of GO-Biz.

The Interagency Committee is charged with advising the Governor and supporting the coordination of state activities relating to the promotion and expansion of trade, investment, and international relations.

Other members of the Interagency Committee include representatives of the California Energy Commission, the California Department of Food and Agriculture, the Governor's Office of

Emergency Services, the California Environmental Protection Agency, California Natural Resources Agency, California Transportation Agency, Visit California, and GO-Biz.

The Interagency Committee is also charged with creating a California Trade and Service Office Advisory Group, consisting of private sector and nongovernmental leaders, who will explore and identify the use of nonstate funds to open and support offices promoting California trade and services globally.

- 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's business development assets are the Office of the Small Business Advocate, the Permit Assistance Unit, the Office of 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*].

A 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, the California Competes Tax Credit, 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. The Office of Permit Assistance was codified in 2016 [*AB 93 (Assembly Committee on Budget), Chapter 69, Statutes of 2013; AB 250 (Holden and V. Manuel Pérez), Chapter 530, Statutes of 2013; AB 1067 (Medina), Chapter 535, Statutes of 2013; AB 1247 (Medina and Bocanegra), Chapter 537, Statutes of 2013; and AB 2605 (Nazarian), Chapter 78, Statutes of 2016*].

As the state's lead agency on trade and foreign investment, GO-Biz is tasked with the development of a state International Trade and Investment Strategy, which sets policies and priorities for the state's activities. The next trade strategy is due in July 2019.

GO-Biz also 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 has been provided through a trade and investment initiative authorized by the federal Small Business Jobs Act of 2010. The program is administered through a partnership between GO-Biz and the California Community Colleges through a network of Centers for International Trade and Development (CITDs). The California Department of Food and Agriculture serves as the fiscal agent for the federal program. 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 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 California companies with increased access to Chinese business contacts,

provide Chinese investors with access to California projects, and spur new investment and trade growth between California and China. Under this structure, staffing is very limited. In the 2015 report (most recent), the Trade Office operated with only two staff – one in California and one in Shanghai.

In order to expand the Office's outreach, GO-Biz later entered into a memorandum of understanding (MOU) 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) **Establishment of Foreign Trade Offices:** Over the past several decades, the state has used a variety of methods for establishing trade offices. In 2003, when the Legislature and the Governor agreed to eliminate the Technology, Trade, and Commerce Agency (TTCA), the state directly operated or contracted for the operation of 12 trade offices, including offices in Shanghai, Mexico City, Buenos Aires, London, Frankfurt, Jerusalem, Johannesburg, Seoul, Tokyo, Hong Kong, Taipei, and Singapore. With the closure of TTCA, nearly all related programs were removed from statute, including the authority to engage in international trade activities and operate trade offices. One trade office remained, that being a "self-supporting" office in Armenia, which had been established through a separate statute, *SB 1657 (Scott), Chapter 863, Statutes of 2002*, and later extended through *SB 897 (Scott), Chapter 604, Statutes of 2005*.

It was not until 2006 that the Governor and Legislature were able to come to agreement about a new trade framework, which was included in *SB 1513 (Romero), Chapter 663, Statutes of 2006*. As a condition for re-granting the Governor's authority to open trade offices, the Legislature required the Governor to obtain its pre-approval in the form of a resolution or statute and that the five-year International Trade Investment Strategy be reviewed by the Legislature prior to its implementation. With the 2012 enactment of *AB 2012 (John A. Pérez), Chapter 294, Statutes of 2012*, however, the Legislature's pre-approval authority and mandatory strategy review were eliminated.

In April 2013, Governor Brown opened a trade office in Shanghai, China, which is the first trade office opened under the AB 2012 rules. The Shanghai trade office was established pursuant to a public-private partnership between the state and the Bay Area Council. The operation of the China Office is dependent on private donations and the collection of those donations is the responsibility of the Bay Area Council and other nonprofit partners that are parties of the MOU with GO-Biz.

- 4) **Path Forward for New Offices:** AB 2012 made significant changes to California statute from the perspective of what actions GO-Biz is to take once a decision is made to open a trade office. Statute is relatively silent, however, as to how an outside public or private organization would approach GO-Biz about establishing a new trade office.

While this lack of specificity was likely designed to encourage innovation and flexibility, the current statutory structure has not resulted in a vibrant public process nor new trade offices (*aside from the initial office for which AB 2012 had been crafted to authorize*). Every session, legislation is introduced to open one or more trade offices. Beyond legislation, various constituency groups approach Members of the Legislature to help present their case to GO-Biz about opening trade offices.

AB 1696 is consistent with the process used to establish the China Office and advances policy objectives discussed at several committee hearings about the need to make the application process better understood by stakeholders. Nothing in the bill limits GO-Biz's existing authority to make a determination as to whether the opening of the office is of benefit to California.

- 5) **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 making 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.

- 6) **California's Global Economy:** International trade and foreign investment are important components of California's \$2.7 trillion economy supporting over 4 million California jobs. The importance of trade to the California economy is increasing, as reflected in the percentage of California jobs tied to trade having more than doubled from 1992 to 2011: 10.6% vs. 22.0%. Nationally, jobs supported by U.S. exports totaled 10.7 million, with nearly 684,000 of those jobs being in California.

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. Workers in trade-related jobs earn on average 10% to 28% higher wages than the national average. California leads the nation in export-related jobs. The U.S. Department of Commerce estimates that 683,772 jobs were directly supported by the export of products in 2016, with nearly 630,000 (92%) in the manufacturing sector.

Advances in transportation and communication technologies are encouraging the development of previously undeveloped markets and expanding multinational business opportunities for California firms. With more than 95% of consumers located **outside** the U.S. and emerging economies experiencing a growing middle class, accessing these global markets is key to California's continued economic growth. Today, four of California's top five exports include component parts, which leave the state to be combined and assembled into final products in foreign countries.

California's land, sea, and air ports-of-entry serve as key international commercial gateways. In 2018, \$619.5 billion in products entered and exited the U.S. through these ports. If California were a country, it would be the 28th largest exporter and the 13th largest importer of goods in the world, based on 2018 trade numbers. Exports out of California were valued at \$178.4 billion and represented 10.7% (\$1.6 trillion) of total U.S. exports in 2018. Imports of goods into California were valued at \$441.1 billion and represented 17.3% of total U.S. imports in 2018.

Chart 1 – California Exports of Goods for 2011 to 2017 (billions of dollars)									
	Partner	2011	2012	2013	2014	2015	2016	2017	2018
	World	\$159.4	\$161.7	\$168.0	\$174.1	\$165.3	\$163.5	\$171.9	\$178.4
1	Mexico	\$25.8	\$26.3	\$23.9	\$25.4	\$26.7	\$25.2	\$26.7	\$30.7
2	Canada	\$17.2	\$17.4	\$18.8	\$18.2	\$17.2	\$16.1	\$16.7	\$17.7
3	China	\$14.2	\$13.9	\$16.2	\$16.0	\$14.3	\$14.3	\$16.4	\$16.3
4	Japan	\$13.1	\$13.0	\$12.7	\$12.2	\$11.7	\$11.7	\$12.8	\$13.0
5	Hong Kong	\$7.6	\$7.8	\$7.7	\$8.5	\$8.7	\$9.6	\$12.1	\$9.9
6	South Korea	\$8.4	\$8.2	\$8.3	\$8.6	\$8.6	\$8.2	\$9.6	\$9.9

Source: International Trade Administration, accessed 4/8/19

Chart 1 shows data of the export of goods to the state’s top six trade partners, based on origin of movement. Please note that federal reporting separates data from China and Hong Kong. If combined, California’s largest export market in 2018 was Mexico, who received over \$30.7 billion in California products. Top-ranking export destinations not shown on the chart include Germany, the Netherlands, and the United Kingdom.

California also exports services to businesses, consumers, other organizations, and governments around the world. Between 2006 and 2016, the export of California services has increased 87%, increasing from \$73 billion to \$136 billion in services. California’s largest export service sectors in 2016 included:

- Royalties and License Fees at \$37.5 billion
- Travel Services at \$32.9 billion
- Business, Professional, and Technical Services at \$28.4 billion
- Transportation Services at \$12.2 billion
- Financial Services at \$11.2 billion
- Telecommunications, Computer, and Information Services at \$10.4 billion

Canada was California’s largest service export market receiving \$9.4 billion in services in 2016, which supported an estimated 61,315 jobs. California’s second largest service export market was China with \$9.1 billion in services in 2016 and support for 61,349 jobs.

In addition to exporting goods and services, the California economy benefits from foreign-owned firms. The federal International Trade Administration estimates that in 2015 (most recent data) over 710,000 California workers have benefited from jobs with foreign-owned firms.

California has had the highest level of employment in foreign-owned firms in the nation since at least 1997. In 2015, jobs in California foreign-owned firms represented 5.1% of all private sector jobs in the state, up from 4.1% in 2013. Along with employment, foreign-owned firms own more property, plants, and equipment in California than in any other state.

- 7) **Mexico Trade Office:** 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.

exports often include components. The Wilson Center estimates that Mexican imports contain 40% U.S. components, respectively. **Chart 2** below shows the top 16 California exports from California to Mexico in 2018, many of which include components and partially assembled items.

Chart 2 – California Trade with Mexico 2018 (Top 16 Products)			
<i>NAICS Code – Product Type</i>	<i>Export Value in Dollars (\$)</i>	<i>NAICS Code – Product Type</i>	<i>Export Value in Dollars (\$)</i>
334-Computer And Electronic Products	\$7,932,954,271	331-Primary Metal Mfg	\$1,307,491,769
336-Transportation Equipment	\$3,717,858,096	324-Petroleum & Coal Products	\$1,230,718,881
333-Machinery, Except Electrical	\$2,276,876,419	339-Miscellaneous Manufactured Commodities	\$1,213,076,073
335-Electrical Equipment, Appliances & Components	\$2,216,617,583	322-Paper	\$807,702,244
325-Chemicals	\$1,932,894,764	111-Agricultural Products	\$694,144,894
326-Plastics & Rubber Products	\$1,624,439,303	315-Apparel Manufacturing Products	\$557,537,731
332-Fabricated Metal Products, Nesoi	\$1,494,822,773	313-Textiles & Fabrics	\$476,322,496
311-Food Manufactures	\$1,468,551,350	321-Wood Products	\$353,354,007
		<i>Total Exports - All Products</i>	\$30,738,728,011
Source: International Trade Administration http://tse.export.gov/TSE/ChartDisplay.aspx			

8) **Related Legislation:** Below is a list of bills from the current and prior sessions.

- a) **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 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.
- b) **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 the 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 the next update by the 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 to relate to other subject matter. Status: Held in the Senate Committee on Rules, 2012.

- e) **AB 1715 (Quirk-Silva, Berman, Cervantes, and Rodriguez) Foreign Trade Office:** This bill establishes a process and timeline for submitting proposals to the Governor's Office of Business and Economic Development (GO-Biz) on the establishment of a partnership agreement to operate an international trade and foreign investment office. Status: Vetoed by the Governor, 2018. The veto message stated: *"This bill establishes a process for the Governor's Office of Business and Economic Development to accept proposals from public and private entities that are interested in collaborating with the state to operate an international trade and investment office in a foreign country. Nothing prohibits any public or private entity from submitting a letter of interest for establishing an international trade and investment office in a foreign nation. I am not convinced the legislatively mandated process sought by this bill to establish trade offices will improve the state's ability to pursue successful partnerships with other countries."*
- f) **AB 1727 (JEDE) Trade Omnibus Bill:** This bill makes technical changes to update the content and the statutory placement of the codes relating to Foreign Trade Zones and the California Foreign Investment Program. Status: Signed by the Governor, Chapter 13, Statutes of 2017.
- g) **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.
- h) **SB 357 (Hueso and De León) Mexico Trade Office:** This bill would have required the establishment of a California foreign trade and investment office in Mexico City, Mexico. Status: Vetoed by the Governor, 2017. The veto message stated: *"This bill directs the Governor's Office of Business and Economic Development to establish and operate a trade and investment office in Mexico City. California and Mexico have a proven partnership of trade, commerce, and the exchange of culture that runs long and deep. Our relationship with Mexico is fundamental to our mutual prosperity. Through memorandums of understanding, we are directly working with the Mexican government and business community on climate change, trade, transportation, tourism, and education. As I stated in 2014 when I vetoed a nearly identical bill, I remain unconvinced that California needs a legislatively-mandated trade office to continue our ongoing and enduring partnership with Mexico."*
- i) **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.
- j) **SB 928 (Correa and Huff) Mexico Trade Office:** This bill would have required the establishment of a trade and investment office in Mexico City by January 1, 2016. Status: Vetoed by the Governor, 2017. The veto message stated: *"This bill requires the Governor's Office of Business and Economic Development to open a trade and investment office in Mexico City. I agree that trade with Mexico is of significant economic importance which is why I led a trade mission to Mexico City in August and hosted the President of Mexico in Sacramento shortly afterwards. We are working directly with the Mexican government and the business community on increasing*

bilateral trade and other initiatives. I am not convinced we need a legislatively-mandated trade office to continue our growing partnership with Mexico.”

REGISTERED SUPPORT / OPPOSITION:

Support

None on File

Opposition

None on File

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