

Date of Hearing: April 22, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 2713 (Quirk-Silva) – As Amended: April 10, 2014

SUBJECT: South Korea Trade Promotion

SUMMARY: Requires the Governor's Office of Business and Economic Development (GO-Biz) to establish a public-private partnership to help guide state activities related to the export of California products to South Korea and the attraction of employment-producing foreign investment by South Korean investors.

EXISTING LAW establishes 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: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "In recent years, the U.S.-South Korea alliance has expanded into a deep, comprehensive global partnership, and South Korea's role as a regional and global leader continues to grow. South Korea is the 12th largest economy in the world, 11th in purchasing power parity, and third largest economy in Asia (Behind China and Japan). Majority of South Korea's trade is with USA and with Pacific Rim State, California. In 2012 South Korea was in the five top trading partners of California.

Over the past several decades, South Korea has achieved a remarkably high level of economic growth and is now the United States' sixth-largest goods trading partner with a trillion-dollar economy. Major U.S. firms have long been leading investors in South Korea, while South Korea's top firms have made significant investments in the United States. There are large-scale flows of manufactured goods, agricultural products, services, and technology between the two countries. The landmark Korea-U.S. Free Trade Agreement (KORUS FTA) entered into force on March 15, 2012, underscoring the depth of bilateral trade ties. The agreement is expected to boost exports by billions of dollars annually for both sides and create new export-related jobs in both South Korea and the United States.

This bill would grant greater access for Korean and California companies to extend their services and products beyond their borders, and create an opportunity for economic development."

- 2) Framing the Policy Issue: This bill directs GO-Biz to establish a public-private partnership to guide the expansion of California trade and investment with the state's fifth largest trade partner, South Korea. If enacted, it would be the state's first partnership solely focused on one country. This bill is consistent with the state's International Trade and Investment Strategy including the goals and activities related to engagement with private and other public sector stakeholders, implementation of a more proactive outreach agenda, and development of an interactive website to assist California companies wanting to export and attract foreign investment.

In deliberating the merits of the measure, Members may wish to consider the importance of South Korea to the California economy and the potential opportunities of a focused trade work-group to leverage opportunities that may arise from the KORUS FTA and the Trans-Pacific Partnership. The analysis includes information on the California trade economy, the KORUS FTA, and related legislation. Comment 7 includes amendment recommendations.

- 3) **Trade Partner Background:** South Korea is located in Eastern Asia and occupies the southern half of the Korean Peninsula, bordering the Sea of Japan and the Yellow Sea. The country is comprised of mostly hills and mountains with wide coastal plains in the west and south. South Korea has a population of 49 million with 47% of the people between the ages of 25 to 54 years old. Over 83% of the population lives in urban areas, 15% of land is cultivated in annual crops, and 2% is planted in permanent crops. Given the small size of the country and limited agricultural capacity, imports of food and other resources for industrial production are particularly important to the overall economy and the quality of life of South Korea's residents.

Over the past four decades, South Korea has experienced significant growth and global integration to become a high-tech industrialized economy. The U.S. Central Intelligence Agency (CIA) reports, that in the 1960s, GDP per capita was comparable with levels in the poorer countries of Africa and Asia. In 2004, South Korea joined the trillion dollar club of world economies, and is currently the world's 12th largest economy.

GDP in 2013 was \$1.6 trillion making South Korea the 13th largest economy in the world. Approximately 58% of South Korea's GDP was attributable to services, 39% to industry, and 2% to agriculture. Key industrial production includes: electronics, telecommunications, automobile production, chemicals, shipbuilding, and steel.

South Korea exported \$557.3 billion in goods in 2013 including semiconductors, wireless telecommunications equipment, motor vehicles, computers, steel, ships, and petrochemicals. Top export markets in 2012 included China 24.5%, the U.S. 10.7%, Japan 7.1%, Hong Kong 6%, and Singapore 4.2%.

South Korea imported \$516.6 billion in goods making it the 8th largest importer in the world in 2013. Top imported commodities included machinery, electronics and electronic equipment, oil, steel, transport equipment, organic chemicals, and plastics. Largest import markets in 2012 included China 15.6%, Japan 12.4%, the U.S. 8.3%, Saudi Arabia 7.6%, Australia 5%, and Australia 4.4%.

In 2013, President Park Geun-hye took office and is South Korea's first female leader. South Korea holds a non-permanent seat (2013-14) on the UN Security Council and will host the 2018 Winter Olympic Games.

According to the CIA Fact Book, serious tensions with North Korea have punctuated inter-Korean relations in recent years, including the North's attacks on a South Korean ship and island in 2010, nuclear and missile tests in 2012 and 2013, and its temporary withdrawal of North Korean workers from the inter-Korean Kaesong Industrial



Complex in 2013. Key economic challenges for South Korea in 2014, according to the CIA, are balancing the country's heavy reliance on exports with developing domestic-oriented sectors, such as services.

- 4) 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 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."

The most recently approved U.S. trade agreement is the KORUS FTA, which was ratified by the U.S. and South Korea in 2011 and went into force in March 2012. On the effective date of the agreement, the USTR reports, 80% of U.S. industrial goods exported to Korea became duty-free including aerospace equipment, agricultural equipment, auto parts, building products, chemicals, consumer goods, electrical equipment, environmental goods, travel goods, paper products, scientific equipment, and shipping and transportation equipment.

- 5) U.S. Trade Promotion Agreement with South Korea: The U.S. International Trade Commission estimated that the reduction of South Korean tariffs and tariff-rate quotas on goods would add \$10 billion to \$12 billion to annual U.S. GDP and up to \$11 billion in annual merchandise exports to South Korea. The agreement was also expected to support tens of thousands of American jobs.

Under the KORUS FTA, over 95% of bilateral trade in consumer and industrial products will become duty free over a five year period following the date the agreement enters into force, and most remaining tariffs are scheduled to be eliminated within 10 years. For agricultural products, the KORUS FTA eliminates or phases out tariffs and quotas on a broad range of products, with almost two-thirds (by value) of South Korea's agriculture imports from the United States becoming duty free upon entry into force. The KORUS FTA would also open South Korea's \$560 billion services market to American companies, which could result in jobs for U.S. workers in sectors ranging from delivery and telecommunications services to education and health care services.

Many areas of the KORUS FTA are relevant to the California economy. The chart below are highlights from the USTR website on the *anticipated benefits* from the KORUS FTA to California.

- *Computers and Electronics Products* – California businesses exported on average \$1.8 billion per year in computers and electronics products to South Korea between 2008 and 2010. Top U.S. exports in this sector included digital integrated circuitry, semiconductors, semiconductor manufacturing equipment, telecommunications equipment, radio and television parts, static converters, and magnetic tape.
- *Machinery Manufactures* – Machinery manufactures exports from California to South Korea averaged \$1.4 billion per year between 2008 and 2010. Many machinery manufactures received duty-free treatment immediately upon entry into force of the agreement, including products such as refrigeration compressors, valves, renewable energy equipment, air pollution control equipment (pumps), water filtering and purifying equipment, and piston engines and engine parts.
- *Transportation Equipment* – In 2008-2010, California exported \$581 million in transportation equipment to Korea on average. U.S. exports include transportation equipment, including autos, auto parts, aircraft, fishing vessels, locomotives, and other transportation manufactures.

With the KORUS FTA only in effect since March 2012, it is difficult to specifically assess its impact on the California economy. The chart below does show total exports to South Korea and the comparative percentage of South Korean exports as compared to total California exports for 2010 through 2013.

California Exports to South Korea 2010 to 2013 (based on movement of goods)									
Country	2010 Value	2011 Value	2012 Value	2013 Value	2010 % Share of Exports	2011 % Share of Exports	2012 % Share of Exports	2013 % Share of Exports	% Change, 2012 - 2013
South Korea	8,028	8,425	8,246	8,394	5.6	5.3	5.1	5.0	1.8

Source: tradeport.org

- 6) 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 on the next page 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.

California Export based on Movement of Goods 2012 and 2013						
Rank	Country	2012 Value	2013 Value	2012 % Share	2013 % Share	% Change, 2012 - 2013
---	Total CALIFORNIA Exports and % Share of U.S. Total	161,880	168,128	10.5	10.6	3.9
---	Total, Top 25 Countries and % Share of State Total	143,671	149,020	88.8	88.6	3.7
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 benefited from 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.

- 7) Implementing Amendments: Committee staff has been working with the author's office on amendments to more specifically operationalize the objectives of the bill. Below is a list of amendments that staff understand will be offered in Committee:
 - a) Expand the scope of the bill by authorizing GO-Biz to establish one or more trade related public private partnerships to help guide state activities. Partnership may be based on geography or industry sector.
 - b) Direct GO-Biz when establishing a trade-related public private partnership to also create a subaccount within the Economic Development and Trade Promotion Account for donations of private funds that are earmarked for the specific trade partner or industry sector.
 - c) Name the public private partnership which will focus on trade with South Korea the "South Korean Trade Promotion Advisory Committee."

- d) Specify that among the issues that the public private partnerships may consider are the implementation of the state International Trade and Investment Strategy including funding of these activities which may include attracting private donation and the establishment of a market order.
- e) Require public private partnerships to meet at least three times in the calendar year. Meeting may be by phone, over the internet, or in person, at the discretion of GO-Biz.

8) Related Legislation: Legislation related to this measure includes the following:

- a) *AB 1032 (Blumenfeld) International relations: Israel Memorandum of Understanding*: This bill would have required the Governor to establish a memorandum of understanding to formalize a relationship between California and the State of Israel for the purpose of fostering technology and business development and educational opportunities in the area of clean technologies including, but not limited to, solar energy. Status: Held under submission in the Assembly Committee on Appropriations, May 2009.
- b) *AB 1088 (Muratsuchi) GO-Biz Trade Office in Japan*: This bill would have directed GO-Biz to establish a trade office in Tokyo, Japan by 2016. Status: Held under submission in the Assembly Committee on Jobs, Economic Development, and the Economy, 2014.
- c) *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.
- d) *SB 1525 (Murray) Trade Office in South Africa*: This bill would have required the Governor to instruct the Secretary of the Building Transportation and Housing Agency to establish, on a contractual basis, an international trade and investment office in Johannesburg, Republic of South Africa. Status: Held in the Assembly Committee on Jobs, Economic Development, and the Economy, 2006.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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