

Date of Hearing: June 10, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

ACR 100 (Alejo) – As Amended: June 4, 2014

SUBJECT: Relations with El Salvador

SUMMARY: Memorializes the Legislature's commitment to work cooperatively with the Governor's Office of Business and Economic Development (GO-Biz) on trade promotion and foreign investment activities that enhance the state's economic relations with El Salvador, as specified. Specifically, this resolution:

- 1) Makes statements regarding California and El Salvador's cultural and economic ties. Among other things:
 - a) Salvadoran-Americans represent the second largest Latino community in California, numbering over 1 million people;
 - b) The U.S. enjoyed a trade surplus with El Salvador of \$692.6 million in 2013;
 - c) President Barack Obama initiated a policy directive on global development in 2010, which identified El Salvador as one of four select countries chosen for increased foreign investment based on their track record for partnering with the U.S., past policy performance, and the potential for continued economic growth; and
 - d) The California Legislature recognizes the potential for mutually beneficial economic gains resulting from increased trade and foreign investment with Salvadoran businesses and encourages trade-related exchanges, including, but not limited to:
 - i) Supporting economic development activities of the Salvadoran foreign consulate in California to establish new business and investment partnerships;
 - ii) The value of developing a series of export-related seminars/webinars on best exporting practices and utilizing GO-Biz to undertake and facilitate these activities;
 - iii) Hosting incoming Salvadoran delegations in order to promote California products and services;
 - iv) Facilitating trade missions to El Salvador to promote California products and services within prioritized industries.
- 2) Resolves that the Legislature of the State of California, in coordination with GO-Biz, shall work to develop and implement trade promotion and foreign investment activities that enhance trade relations with the Country of El Salvador. These trade and investment promotion activities shall be undertaken in partnership with the government of El Salvador and the Salvadoran business community.

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: None

COMMENTS:

- 1) Author's Purpose: According to the author, "There are over one million Salvadoran-Americans living in California, making them the second largest Latino community in the state. The labor they provide generates millions of dollars for our economy and their presence provides a unique opportunity to help facilitate a positive trade relationship with El Salvador.

El Salvador has been identified as having strong global economic potential. Together, the United States and World Bank have invested over half a billion dollars in El Salvador to increase competitiveness and productivity in international markets. ACR 100 is a step to develop and implement comprehensive trade promotion and foreign investment activities that will encourage stronger economic ties with El Salvador. "

- 2) Framing the Policy Issue: This resolution highlights the economic opportunities of a stronger trade relationship between California and El Salvador. The resolution further expresses the Legislature's interest in supporting Administration lead activities, as well as taking its own actions to increase trade and foreign investment between the state and El Salvador. The resolution is consistent with the 2014 California Trade and Foreign Investment Strategy released by GO-Biz in February 2014.

The analysis includes information on U.S. trade agreements, the Country of El Salvador, and California's trade economy.

- 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 El Salvador: El Salvador is the smallest and most densely populated country in Central America. It is located on the Pacific Ocean side of Central America, between Guatemala and Honduras, this 21,000 square km country is slightly smaller than the State of Massachusetts. El Salvador is also known as the Land of Volcanoes, due to frequent and sometimes destructive earthquakes and volcanic activity.

The population of El Salvador is 6.4 million with nearly half (48.9%) of the population under the age of 24. The Country is led by President Salvador Sanchez Cerén and a Council of Ministers selected by the president. They have a unicameral 84-seat Legislative Assembly, which is elected to serve three-year terms.

In 2013, El Salvador's GDP was \$47.4 billion, making it the 99th largest economy in the world. Since the economic contraction due to the global recession, growth has been averaging less than 2% from 2010 to 2013. Remittances accounted for 16% of GDP in 2013 and were received by about a third of all households.

In 2006, El Salvador was the first country to ratify the Dominican Republic-Central American Free Trade Agreement with the U.S., which increased the export of processed foods, sugar, and ethanol, and supported investment in the apparel sector. El Salvador's external debt has been growing over the last several years, amounting to some 57% of GDP in 2013. In September 2013, El Salvador was awarded a \$277 million grant by the U.S to improve El Salvador's competitiveness and productivity in international markets.



Key natural resources include hydropower, geothermal power, petroleum, and arable land. There are 2.7 million people in the workforce with 21% working in agriculture, 20% in industry, and 58% in services. Top performing industries include: food processing, beverages, petroleum, chemicals, fertilizer, textiles, furniture, and light metals. The U.S. dollar is used as a medium of exchange, which encourages U.S. import and export of goods and services.

Businesses in El Salvador exported \$5.6 billion in products in 2013, making it the 115th largest exporter in the world with 47.3% of products going to the U.S., 13.8% to Guatemala, 9.6% to Honduras, and 5.4% to Nicaragua in 2012. Top export commodities include offshore assembly exports, coffee, sugar, textiles and apparel, gold, ethanol, chemicals, electricity, iron and steel manufactures. El Salvador was the 64th largest supplier of goods to the U.S. in 2013.

Over \$10 billion in products were imported to El Salvador in 2012 from the U.S. (35.4%), Guatemala (12.7%), Mexico (7%), China (5.6%), and Germany (4.2%). Top imported products included raw materials, consumer goods, capital goods, fuels, foodstuffs, petroleum, and electricity.

- 5) **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 illustrates 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 benefits 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.

6) **Related Legislation:** Below is a list of legislation from the current and prior legislative sessions.

a) *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 (GO-Biz). 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.

- b) *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.
- c) *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.
- d) *SCR 82 (Hueso) Sister State with Jalisco:* This resolution memorializes the Legislature's establishment of 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. Status: Scheduled to be heard in JEDE on June 10, 2014.
- e) *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

Government of El Salvador

Opposition

None received

Analysis Prepared by: Toni Symonds / J., E.D. & E. / (916) 319-2090