



GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

STATE OF CALIFORNIA ♦ OFFICE OF GOVERNOR EDMUND G. BROWN JR.

California-China Office of Trade and Investment 2014 Annual Report

Pursuant to the California International Trade and Investment Act of 2006, as amended in 2012 (AB 2012), enacted as Government Code Title 2, Division 3, Part. 4.7, Chapter 2.5, Sections 13996.41-13996.75

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May 2014

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Publication Information

California Governor’s Office of Business and Economic Development. Submitted to the California Legislature pursuant to Assembly Bill 2012, Statutes of 2012 (Gov. Code Title 2, Div. 3, Part 4.7, Ch. 2.5, Sec 13996.41-13997.6).



California-China Office of Trade and Investment 2014 Annual Report

I. Introduction

In April 2013, Governor Brown officially opened the California-China Office of Trade and Investment (CCTO) in Shanghai, the State's first overseas trade office in a decade.

"The Pacific Rim has become the center of the world economy, presenting California with countless opportunities to grow alongside our neighbors across the ocean. The office will encourage direct investment and further strengthen the existing ties between the world's second- and ninth-largest economies." – Governor Brown

The CCTO serves California exporters seeking access to the Chinese market and receives Chinese investors looking for opportunities throughout California. With the ground work laid by the Governor Brown's visit and the support provided through working with the Governor's Office of Business and Economic Development (GO-Biz) and its non-profit partner the Bay Area Council, the CCTO is in a good position to build on those relationships with China in pursuit of our State's economic and international trade policy goals.

With the Executive Director officially coming on board on November 1, 2013, and dedicated staff now in place, the CCTO is poised for its first full year of operation. This Report provides the initial Work Plan, strategies and key performance indicators for the CCTO in 2014.

II. Relationship to California Trade and Investment Strategy

GO-Biz submitted the State's Trade and Investment Strategy to the Legislature in February, 2014. The overall strategy is to conduct proactive business development activities in select high-prospect markets to increase exports and attract more Foreign Direct Investment by utilizing financial and other support from federal, state, local, corporate and non-profit partners.

China is the first country in which GO-Biz will execute this strategy on a comprehensive basis, including the usage of a trade office. Indeed, given China's large and rapidly growing economic relationship with California (see Section III below), one of the key objectives of the State's new strategy is to maximize the CCTO resources and opportunities to expand the amount of exports to and investment from China.

In pursuing this strategy, GO-Biz intends to fully leverage its other units and programs. This includes finalizing investment deals through our California Business Investment Services (CalBIS) unit, driving technology innovation through the Innovation Hub (iHub) program, expanding small business participation through the Office of Small Business Advocate, and speeding project and customs approvals through our Permit Assistance unit. We will also work to support business opportunities through coordination and initiatives to be determined with Visit California, the California Film Commission, and the California Infrastructure and Economic Development Bank (I-Bank).

Overall Policy Priorities and Goals

The goals of GO-Biz international business and economic development activities are to drive increased employment, revenues at California enterprises, tax revenues, and international competitiveness in California through four channels:

- Expand exports and foreign sales for California manufacturers, businesses, agricultural enterprises, commodity producers and service providers
- Promote, attract and increase foreign investment into California
- Support continued growth of California's role as a gateway State for goods movement
- Work with federal and international agencies to expand global market access for California exports, and identify and address barriers to international growth by California entities

The CCTO Work Plan will address each of these channels.

CCTO 2014 WORK PLAN

As set forth below in the CCTO Work Plan for 2014, the principal strategies will be inbound and outbound business development missions, including trade missions, tradeshows, business development/investment attraction events, and focused outreach activities in particular sectors and/or with partner entities listed later in this Report. GO-Biz will regularly review the CCTO's performance in the context of this Work Plan.

CCTO Milestones

Operational Milestones and Strategies	Timing	Status as of April 24 2014
Formal office opening by Governor Brown	April 2013	Complete
Governor-led trade mission in China	April 2013	Complete
Business development mission in China	Oct. 2013	Complete
Participation in SelectUSA Investment Forum	Nov. 2013	Complete
Hiring of Executive Director	Nov. 2013	Complete
Hiring of dedicated staff	Jan. 2014	Complete
<i>Increase Inbound investment to California</i>		
a. Participate in and coordinate two investment attraction events in China	By end of 2014	Chats Hotel Investment – March 25th US Embassy Real Estate Forum - April 8 th Select USA Pearl River Delta- April 16 COIFAIR Investment Summit - April 22-23 Complete; now will focus on converting to investments and businesses in California
a. Introduce forty-eight Chinese companies to California investment opportunities		Four in process
b. Facilitate and support ten Chinese companies to successfully reach agreement on investment projects	By end of 2014	Currently four Chinese companies at initial stages of investment process
c. Five Chinese companies to establish a business presence in California	By end of 2014	Currently working with one company
d. Track investment value and job creation as reported by companies	Ongoing	Nothing to report yet

<i>Increase Outbound trade to China</i>		
a. Participate in and support at least two trade missions and or trade promotion events	By end of 2014	Kempinski Wine Fair Chengdu March 24-26 China Medical Devices April 17-19 China Roasted Seeds and Nuts April 17-18 While this is technically complete there are at least two more events - Biotech Trade Groups June 2014 - CRSN Study Group August 2014
b. Create and participate in four business development trips	By end of 2014	CalAsia Wine Company – Dec 2013 Sunworld Ag– April 14 City of Carson – April 22-23
c. Introduce and engage forty-eight California companies in market access advisory sessions for the China market	By end of 2014	Completed three programs as of April 2014
d. Track export value and job creation as reported by companies	Ongoing	Nothing to report yet

CCTO 2014 Work Plan: *Strategies and Measurable Outcomes*

Strategic Industries Influenced by Themes

China is a large country with many opportunities and California is a State with many areas of strength. The concept is to match what China needs with what California can offer. This strategic approach does not mean that the CCTO will ignore other opportunities that arise; rather the CCTO will focus its attention on key industries to develop faster.

Strategic industries include:

- A. Environmental technologies
 - a. Green technology
 - b. Renewable energy

- B. Agricultural technologies
 - a. Field management technologies
 - b. Genetics
 - c. Cold Chain, traceability, packaging

- C. Banking and finance

- D. Life sciences
 - a. Biotechnology
 - b. Medical devices
 - c. Pharmaceuticals
- E. Lifestyle
 - a. Branded products – food, cosmetics, housewares
 - b. Wine
 - c. Fashion
 - d. Education
 - e. Tourism

The themes that will influence the CCTO's work throughout the year are:

- Raise awareness of California's investment opportunities, supportive business environment and lifestyle options to Chinese investor groups.
- Support collaborative efforts between GO-Biz, other California State Agencies, and Chinese government entities to combat climate change, reduce air pollution and expand clean energy technologies.
- Interconnect activities to include memorandum of understanding ("MOU") partners such as Jiangsu, Inner Mongolia, Shanghai, Shandong, Guangdong and Chongqing to achieve measurable goals.

Goal 1: Increase investment in California by assisting Chinese companies to expand or relocate to California.

Strategy: *Create a pipeline of high quality, privately-owned Chinese companies that have not yet set up operations in California.*

- Support, co-sponsor, or host investment attraction events to build the pipeline.
- Create lists of Chinese companies and systematically engage and educate decision makers at those companies about California.
- Work with GO-Biz to help potential investors identify the business advantages of considering California locations, from point of contact to deal closing.
- Build a network of organizations with contact to the executives of high value companies.
- Partner with well-known organizations leading Chinese businesses on California-bound trade missions.

Strategy: *Recruit and support commitments of new foreign investment into California from China with a focus on strategic industries.*

- Support, co-sponsor, or host investment attraction events/outreach initiatives in California, including official Chinese government and business delegation visits to California State agencies.
- Introduce Chinese investors to relevant members of the California-China Advisory Board, connect to US State and federal resources to create a support network for new entrants.

- Systematically engage with stakeholders in China to build awareness of the Trade Office's existence and services: attend trade-related events, host meetings for public and private stakeholders in the Shanghai office, and coordinate an online media strategy.
- Ensure CCTO staff is adequately prepared to conduct consultations.
- Build out www.cachinatrade.org and CCTO and GO-Biz materials to be bi-lingual and culturally appropriate.

Strategy: *Identify and address barriers Chinese investors face when considering California.*

- Use network of investors in China and Chinese entrepreneurs already in California to understand what obstacles might be hindering foreign direct investment.
- Address concerns raised in December 2013 Committee on Foreign Investment in the United States report on Chinese investment into the United States.
- Work with private and government programs in China and the United States to pair companies with resources to create support structure for success.
- Perform ongoing research to understand how Chinese investments are occurring in other States and countries.
- Ensure all materials are translated, adjusted to anticipate confusion and demonstrate cultural differences.
- Build infrastructure to offer business advisory services to Chinese businesses.

Goal 2: Assist Californian companies seeking to access the Chinese market.

Strategy: *Concentrate efforts to recruit companies in industries consistent with California's economic and policy-related goals, and help them to gain experience and the confidence to engage in China.*

- Build knowledge for serving the identified prioritized strategic industries.
- As appropriate, promote, organize and attend trade-related industry events.
- Partner with a variety of stakeholders in the State and in China to help California companies take advantage of opportunities on the ground in China.
- Provide ongoing strategic advice to industry stakeholders in response to the changing Chinese landscape.
- Support organizations leading California companies to China on trade missions.
- Encourage business partnerships with Chinese provinces with which the State of California has signed agreements.

Strategy: *Identify and address barriers to international expansion in China by California companies.*

- Employ the California-China Advisory Board to educate on potential issues.
- Conduct outreach to small- and medium-sized businesses around California through participation in events hosted by business associations, economic development corporations, local government offices, and CCTO itself.
- Use network of contacts in China to understand what political and economic obstacles might be inhibiting California expansion: business associations, government contacts, academic experts, etc.

- Explain the environment in which these obstacles arise to California clients so that they understand what is happening and what their options are for responding.
- Cultivate a network of stakeholders that can aide in addressing trade obstacles.
- Take on policy-related work on a case-by-case basis.

Strategy: *Build infrastructure to offer business advisory services to California businesses.*

- Train staff to receive inquiries and conduct consultations.
- Enlist the help of private, State and federal programs with resources already dedicated towards assisting small- and medium-sized exporters, including GO-Biz, American Chambers of Commerce, California business associations, regional Economic Development Corporations (EDC) and federal government programs as available.
- Build www.cachinatrade.org so that it serves as a source of information about upcoming trade events, resources, Chinese business culture and regulations, and other trade-related news.

Goal 3: Build awareness of the California Trade Office and “Brand California.”

Strategy: *Create tools that present “Brand California.”*

- Create opportunities that raise awareness of California, including speaking engagements, event endorsements and trade missions.
- Finalize www.cachinatrade.org and maintain updates that highlight the work of the CCTO.
- Create opportunities to have a news presence, including writing op-ed pieces.
- Launch effective communication tools which regularly updates the relevant stakeholders on the activities of the CCTO

Strategy: *Ensure “Brand California” is visible through ongoing participation in events.*

- Join organizations such as the Council of American States in China and the American Chambers of Commerce that provide public relations platforms for California.
- Create brand building opportunities that focus on California products, industries and brands
- Participate, endorse, and speak at events to gain exposure for CCTO.

Goal 4: Assist GO-Biz, as appropriate, in advancing business-related MOUs signed by the State of California and Chinese partners.

Strategy: *Support business-related MOUs between California and China: share information, prioritize geographic focus, and provide strategic advice, as requested.*

The MOUs Governor Brown signed are:

- With the China Ministry of Commerce to form the China Provinces and California Joint Working Group on Trade and Investment Cooperation to coordinate provincial and municipal-level trade and investment activities with Jiangsu, Shanghai, Inner Mongolia, Guangdong, and Chongqing.
- With Jiangsu Province to advance a sister-state relationship in the areas of trade, economic cooperation.

- With Guangdong Province to establish cooperation in the areas of bilateral trade and investment, science and technological innovation, environment, renewable energy, education and human resources, cultural exchange and tourism.

The MOU GO-Biz signed is:

- With Shanghai Zhang Jiang Hi-tech Demonstration Zone to promote the high-tech industries of California and China.

Goal 5: Build the support infrastructure to ensure the success of the CCTO.

Strategy: *Stabilize the financial viability of the office.*

- Fill the Advisory Council's twenty-five seats.
- Collect recurring dues.
- Identify corporate funding opportunities, including the November 2014 US-China Governors' Forum, seminars, and trade missions.
- Consider alternate models for revenue generation.

Strategy: *Create support structure to manage the CCTO.*

- Engage key stakeholders, including GO-Biz, the Governor's Office, and the Advisory Board.
- Provide regular performance updates to key stakeholders, including GO-Biz, the Governor's Office, and the Advisory Board.
- Continue weekly inter-agency calls with the Governor's Office.
- Continue bi-weekly calls with GO-Biz.
- Continue to build out mailing list for CCTO events.
- Finalize CCTO internal policies and procedures.
- Finalize annual operating plan and budget

Strategy: *Ensure the credibility of the CCTO.*

- Implement a Code of Ethics and Business Practices (Code), as formulated by GO-Biz counsel.
- Have every employee, contractor, and intern who has access to confidential CCTO information sign the Code.
- In coordination with GO-Biz, CCTO Executive Director and Bay Area Council Chief of Staff will implement an ongoing risk management process which emphasizes the importance of confidentiality, discretion, and cybersecurity.
- Continue staff training sessions on the Foreign Corrupt Practices Act.
- In consultation with GO-Biz, the CCTO Executive Director and Bay Area Council Chief of Staff will provide risk assessment reports on an ongoing basis as needed.

CCTO 2014 Work Plan: *Key Performance Indicators (KPI)*

Increase Inbound Investment into California

- Participate and coordinate in two investment attraction events in China
- Introduce forty-eight Chinese companies to California investment opportunities
- Identify and support ten Chinese companies in successfully reaching agreements on investment projects
- Identify and support five Chinese companies in establishing a business presence in California
- Track investment value and job creation as reported by companies

Increase Outbound Trade

- Participate in and support at least two trade missions between China and California
- Lead and participate in four business development programs
- Introduce and engage forty-eight California companies in market access advisory sessions regarding the China market
- Track export value and job creation as reported by companies

Brand and Name Building Efforts

- Create and update website
- Establish regular newsletter or weekly tools
- Track number of events, online and print sightings, and press releases
- Host Brand California events to be held in two locations in China
- Track number of relationships developed with Statewide organizations

Impediments

Among the considerations set forth by the relevant statute, GO-Biz is generally asked to identify impediments to the successful operation of California trade and investment offices.

Raising sufficient funds on an ongoing basis is the principal hurdle for maintaining the CCTO and for such activities as travel and promotional events within and between China and California. GO-Biz does not anticipate that this hurdle will prevent the ongoing operation of the office.

Partnerships

Partnerships are central to the organizational model of the CCTO, as well as to GO-Biz overall.

Pursuant to statute, any plans for future trade offices will be reported to the Legislature; and GO-Biz intends to identify a private, non-profit partner for each future California foreign trade and investment office.

As designated by GO-Biz, the Bay Area Council, headquartered in San Francisco, is the operating partner for the CCTO in Shanghai. All funds related to the office are managed by the 501(c)3 Bay Area Council Foundation under the operating agreement. The following partners are also key to the CCTO's success.

- **Federal government:**

GO-Biz's International staff coordinates with and draws upon the twenty-one agencies of the U.S. Trade Promotion Coordinating Council (TPCC). Of these entities, the most significant day-to-day partners are the U.S. Department of Commerce International Trade Administration (ITA), specifically through the ITA's US and Foreign Commercial Service and the SelectUSA program, the U.S. Department of State, the Export-Import Bank of the United States, the U.S. Bureau of Industry and Security, and the U.S. Small Business Administration (SBA). ITA is our lead federal government partner on the ground in foreign locales for supporting California business development activities. For international sales development activities, a formal partnership arrangement, grant funding, and common performance measurement exists at the State level under SBA's State Trade and Export Program (STEP). No specific partnership arrangement is in place for foreign investment attraction, though GO-Biz is in discussion with the SelectUSA program managers about a planned set of activities.

- **State government:**

Under the leadership of the Governor's Office, California State agencies with international expertise have formed a California-China Interagency Working Group to coordinate initiatives and ongoing resources. These agencies include GO-Biz, CA Department of Food and Agriculture, CA Environmental Protection Agency, CA Energy Commission, California State Transportation Agency, CA Governor's Office of Emergency Services, CA Health and Human Services Agency, CA Arts Council, CA Air Resources Board, Visit California, and the California Community Colleges.

- **California-based partners:**

In addition to the California STEP partnership managed by the California Community College Chancellor's Office, Centers for International Trade Development, funded by SBA, GO-Biz coordinates with a network of service provider partners to plan and organize international sales expansion efforts for California small businesses. The partners include the Centers for International Trade Development, Chambers of Commerce, World Trade Centers, Trade and Industry Associations, Regional District Export Councils, Local and Regional Economic Development Organizations, as well as, local city and county governments. A portion of STEP funding has been dedicated toward helping small and medium sized businesses to enter the Chinese Market.

- **Other partners:**

GO-Biz will work, as appropriate, with specialized partners representing key industries, geographic areas, or collections of states. For instance, GO-Biz will explore the possibility of developing a network with the City of Sacramento's office in Chongqing and the ChinaSF office in Beijing. In addition, GO-Biz now participates in the nationwide State International Development Organization (SIDO), together with the California Community College Chancellor's Office.

- **China-based partners:**

Together with the Bay Area Council and other partners described above, the Governor's Office and GO-Biz are building a network of partners in China. To identify industry and programmatic areas for cooperation, the Governor's Office holds regular coordinating calls organized by China's Ministry of Commerce (MOFCOM) that include provincial officials and representatives of the China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCME). These calls are complemented by formal partnership agreements that have been signed with the provinces of Jiangsu, Inner Mongolia, and Guangdong. The Chinese People's Association for Friendship with Foreign Countries was the official host partner for Governor Brown's mission in April. We are also coordinating with the China Council for the Promotion of International Trade. As noted above, GO-Biz anticipates regular support and interaction with ITA offices in China, as well as the American Chamber of Commerce throughout China.

Funding Options

There are four principal funding options for the CCTO and any future foreign offices.

Public-private partnership: pooled contributions, grants, and user fees

Current law allows GO-Biz to receive monies into the Trade Promotion Account for operation of any international trade office and for specific events and promotions. Such monies can be sourced from private sector contributions and grants (*e.g.*, to participate in a trade mission or attend a SelectUSA Investment event).

The expenses for operating the California-China Trade office come from financial contributions into a 501(c) 3 non-profit, public benefit organizations, potentially augmented by grants and user fees. The expenses for opening and operating any other possible trade offices could also be funded in this manner.

Public-private partnership: industry assessment program

An industry-backed assessment program is how Visit California, California Energy Commission, California Department of Boating and Waterways, and other agencies generate an operating budget. A similar approach could be used for California's international business development programs in general, or for a foreign trade office program in particular.

Pro-bono or hosted representation

Some government or private sector entities in foreign countries may be willing to host a California representative office or may even be willing to assign staff to represent the State on a pro bono basis. For instance, a for-profit consulting / brokerage company offered to represent the State through its office in Shanghai, and a university offered to provide office space in Beijing. GO-Biz prefers the independence and clarity of a dedicated budget, staff, and oversight mechanism in our recommended approach rather than a pure pro-bono or hosted model.

General fund augmentation

GO-Biz has no plans to request additional budget resources from the General Fund for international trade and investment programs.

Organizational Structure and Location

The organizational structure and location have been consciously developed to balance operational considerations, protection of the public interest, and the business development focus of the office.

Organization**GO-Biz**

Under the overall direction and inter-agency coordination of the Governor's Office, GO-Biz will have day-to-day management oversight, programmatic, and performance monitoring responsibilities for the CCTO.

Bay Area Council Foundation

The Bay Area Council Foundation, under a contract with GO-Biz, will be responsible for fundraising, financial management, hiring, and all in-country registration, banking, personnel, and other regulatory compliance with Chinese and U.S. law.

Inter-Agency Working Group

To coordinate the input and activities of California State agencies and their industry-specific stakeholders and events, the Governor's Office regularly convenes an Inter-Agency Working Group.

California-China Office of Trade and Investment Advisory Board

The entities providing funding to the operation of the China office –represented by senior business leaders from California and China – will each be invited to have a representative on a

California-China advisory board. The Board's role is to provide strategic business advice and ensure that the overall objectives and performance of the office are commensurate with the private-sector funding for the office. The Brown Administration intends for the composition of the advisory group to reflect the diversity of California business stakeholders with interest in successful operation of the office.

Office staff

The office staff currently consists of an executive director and one staff member in Shanghai, as well as one California-based staff member in San Francisco. Pending sufficient fundraising, the office staff in 2014 may be increased by one more staff member. The current staff members are:

Diane Long, Executive Director

Tony Wang, Staff, Shanghai

Genevieve Herreria, Staff, San Francisco

Any additional staff will possess the following expertise:

- Administrative experience operating a representative business development office in China
- Experience identifying and qualifying business partners in China
- Track record of business development results
- Superior Mandarin and English language skills
- Knowledge of successful marketing strategies, communication channels, and trade shows in China
- Knowledge of best practices in international trade development and foreign investment attraction
- Contacts in key Chinese government and business organizations
- Extensive knowledge of California regions and businesses, along with functional knowledge of some or all of the following: alternative energy, sustainable development, tourism promotion, education promotion, entertainment industries, information and communication technologies, medical and biotechnologies, food and agricultural distribution, marine and air cargo logistics, web-based services, customs and visa regulations, and intellectual property rights

The CCTO has its own space, paid for by the office budget, and is co-located with the Bay Area Council's Shanghai office. The arrangement allows facilities management responsibilities to be borne by the Bay Area Council, reducing the need for clerical support.

The reporting relationship to GO-Biz, the CCTO Work Plan and performance measures, and oversight by the statewide groups, will ensure that the office staff will remain accountable.

Location

Shanghai is the largest city in the world and the recognized financial and business center of China.

Yangpu District

Yangpu is the largest of the downtown districts of Shanghai and is home to 1.3 million inhabitants. The district has the largest concentration of universities and research centers in China. Packed amongst the high rises of Yangpu are a teeming population of knowledge workers, scientists, engineers, bohemians, artists and intellectuals who are becoming China's ascendant economic force as the county shifts from a pure agricultural- and industry-based economy to a more complex economic system based on technology and value-added activities.

For California companies, Yangpu offers some sites ripe for redevelopment and new developments – both large and small – that create opportunities for contracting, design and construction, and business to business sales. The district has huge parks and nature preserves in the midst of the city (and unique to the district). There is a growing cluster of California companies in Yangpu. There is good access to domestic transport by air or water and access via car or subway to the rest of Shanghai. A California-friendly government – together with backing by the central government as an official innovation center of China – makes Yangpu a strong match.

It is also the current location of the Bay Area Council headquarters in China, offering efficiency in rent and reinforcement in staffing for the CCTO.

Office space

The specific space for the office, located in a high-rise business complex, is also well-adapted to CCTO's needs. The office is identified by name and the seal.

The office itself has a conference room for fifteen people to be shared with the Bay Area Council. The office has access to a large auditorium for formal presentations and conferences. A step away from the auditorium is a smaller VIP room able to seat forty people, appropriate for press conferences and smaller presentations. The CCTO has access to a restaurant with a large banquet space suitable for events of four hundred to five hundred attendees.

III. Economic Potential of the California-China Relationship

In a dramatic transformation of world economic power over the past decade, China has become the nation with the greatest potential for growth of cross-border trade and investment with California, along with strong potential for sharing policy and technology innovation on a wide range of issues from energy efficiency to food safety.

As detailed below, Greater China represents a business relationship driving \$156 billion in two-way merchandise sales, billions of dollars in services sales, tens of billions of dollars in prospective foreign investment, and nearly \$183 billion in two-way seaborne and airborne shipping.

General Economic Information¹

China holds enormous opportunities for U.S. and California businesses.

Greater China, consisting of mainland China, Hong Kong SAR and Macau SAR, has a population of 1.36 billion people. Key cities include Shanghai, Beijing, Chongqing, Shenzhen, and Guangzhou. There are twenty-three provinces and the two special administrative regions (SAR) noted above.

In 2012, Greater China had the third largest gross domestic product (GDP) in the world at \$8.67 trillion, which is slightly over four times California's 2012 Gross State Product (GSP) of \$2 trillion.

The Chinese Yuan is the base unit of modern Chinese currency, with Renminbi (RMB), or "people's currency" as the name for legal tender in the People's Republic (but not in Hong Kong or Macau). The exchange rate is managed by the Chinese government against a basket of currencies and including the dollar. China came under fire for keeping its currency relatively under-valued compared to the dollar, which made imports into China more expensive, Chinese exports less expensive, and under-stated the total value of the Chinese economy. The current exchange rate is approximately 6.20 RMB to US\$1, an increase in value of more than 20% over its 2007 value of 7.61 RMB to US dollar.

Merchandise Trade²

California is distinguished from most other states by being strong in international trade of both merchandise and services, along with serving as the principal U.S. gateway for waterborne shipping, air cargo, and passenger travel.

This section details California's merchandise trade with China. However, trade in services, shipping, and passenger travel must not be ignored by policymakers.

Thoughts of China evoke consumerism of various goods, including electronics, food, beverages, lumber, mining, and scrap commodities.

¹ World Trade Organization.

² U.S. Census Bureau: Foreign Trade Data, U.S. International Trade Administration. Import data represents goods specified as 'State of Final Destination – California' plus Foreign Trade Zones located in California. Export data represents goods specified as 'Origin of Movement – California.'

The volumes of the potential buyers in a country with over a billion residents are impressive enough. The growth is stunning.

Between 2000 and 2013, California exports to Greater China exploded from \$7.6 billion to \$24.3 billion, an average annual growth rate of 10.5% and a greater growth rate and total value than any other U.S. state.

In 2013, Greater China – including, Hong Kong and Macau – surpassed Mexico to become California’s largest market for merchandise sale, followed by Mexico and Canada, with \$24.25 billion in goods sold. Barring some unforeseen significant economic downturn, it is not difficult to predict that China will become California’s top export destination in this decade.³

CALIFORNIA MERCHANDISE TRADE WITH CHINA 2013 (US\$ billions)	EXPORTS State Origin of Movement ⁴	IMPORTS State of Final Destination	TOTAL Two-Way Trade
PR China	\$16.4	\$130.4	\$146.8
Hong Kong SAR	\$7.8	1.029	8.8
Macau SAR	\$0.052	0.014	0.066
Totals for Greater China	\$24.3	\$131.4	\$155.7

In 2013, California imported over \$130 billion in merchandise goods from Greater China, one third of the U.S. import total.

Services Trade

On top of the merchandise flows listed above, it is essential to consider trade in services.

An export transaction takes place any time a foreign individual or business purchases something from a California supplier. If that purchase is for entertainment, engineering plans, computer code, ideas, advice, experiences, or anything else that can’t be put into a box, it is a service export.

The types of services that can be sold internationally by California entities include educational services for foreign students and professionals, energy and environmental services, technical, engineering and scientific services, real estate services, architecture and design services, shipping and warehousing logistics, software and IT services, finance, banking and insurance, legal services, and travel and tourism (including both attracting foreign travel to California and consulting services related to travel facilities abroad).

³ It must be noted that the European Union, with merchandise purchases from California totaling over \$28 billion, is still California’s largest single market by virtue of the EU acting as a singular customs union, with a single set of customs, labeling requirements, and other standards.

⁴ Please see appendix for detailed data on California merchandise exports and imports to China. Note that the appendix does not include data on service exports.

Service industries represent 70% or more of the California economy.⁵ Based on inferential analysis by GO-Biz, California's total service exports likely represent more than \$90 billion, which would place total California-produced exports at more than \$258 billion.⁶

Industry indicators – such as the tourism and educational data listed below – suggest that China is a major and growing market for California services. However, GO-Biz does not currently have a methodology for measuring California sales of services to China.

GO-Biz estimates that sales of services to individuals and businesses from Greater China are in the range of \$4 billion to \$9 billion. An estimate of California purchases of services from China is not available.

Investment⁷

The term “investment” encompasses stocks and bonds, the direct purchase of real estate or construction of a facility (also known as foreign direct investment), or through other kinds of investment activity such as equity compensation as consideration for services or other value provided.

When looking at trade and investment activity, it is important to recognize two different types of measurement. Flow measurements quantify something over time. A stock measure tallies the quantity of something at a particular point in time. Stock and flow measures can be easily confused in investment data, where the typical data point is a stock measure "the value of plant, property and equipment was \$1 billion at the end of last year" but activity can also be expressed as a flow, as in "the value of new investments last year (flow during the year) reached \$100 million."

According to a 2011 study prepared by the Asia Society with the Rhodium Group, California attracted 156 investment deals from 2000 to 2011 from mainland China investors. These deals were valued at over \$1.3 billion, and accounted for approximately 29% of all mainland Chinese Foreign Direct Investment (FDI) into the United States.

China's Ministry of Commerce expects that China will become a net exporter of FDI by around 2015. According to the Asia Society study, if the traditional relationship between GDP growth and FDI flow holds, over the next decade China could easily yield between \$170 billion and \$340 billion in new FDI into the United States. By creating and promoting an attractive business environment, California has the opportunity to procure approximately \$10 billion to \$60 billion in new Chinese investment by 2020.

⁵ U.S. Bureau of Economic Analysis, interactive tables on Gross State Product by State, 2011.

⁶ California 2013 merchandise exports totaled \$168.1 billion according to Trade Stats Express, U.S. International Trade Administration.

⁷ Asia Society. Chinese Direct Investment In California. By Daniel H. Rosen and Thilo Hanemann, Rhodium Group. October 2012.

Shipping⁸

California – and our ports and airports – are strategically important as a shipping gateway for the entire United States. Shipping, trucking, warehousing, and related logistics jobs represent generally well paid careers, including for workers possessing a high school diploma or only one or two years of postsecondary study.

China is a large and growing part of the future of these jobs.

Seaborne and Air Cargo with China 2012 <i>Principal California Customs Districts</i> (values in US\$ billions)	EXPORTS to China	IMPORTS from China	TOTAL Two-Way Trade
Los Angeles	\$27.1	\$132.2	\$159.3
San Francisco	6.4	17.2	23.6
Totals	\$33.5	\$149.4	\$182.9

People

California is uniquely positioned among the U.S. to grow its business relationships with China because of the people-to-people connections established through our residents and the number of Chinese choosing California for education and tourism.

Residents⁹

In 2010, there were 1.25 million residents with Chinese ancestry living in California. Approximately 761,000 of these residents were born in China.

Although San Francisco has the oldest and longest continuous running Chinatown in the western hemisphere,¹⁰ there are several other major Chinatowns in California, such as Oakland, Los Angeles, San Jose and San Diego.

Education¹¹

According to the Institute for International Education, in 2012 there were 111,379 foreign students in California who spent \$3.6 billion. This puts California as the top State with the most foreign students in the United States. A total of 32,000 (28.7%) of these students are from mainland China and they spend approximately \$1 billion annually.

⁸ WorldCity. "2013 Los Angeles Trade Numbers." 2013

⁹ U.S. Census Bureau

¹⁰ Richards, Rand. *Historic San Francisco*, 2nd Ed., page 198. Heritage House Publishers. 2007.

¹¹ "Open Doors – California Report", International Institute of International Education, 2013

*Tourism*¹²

California's largest overseas market for inbound tourism in 2012 was Greater China. Chinese nationals accounted for:

- 734,000 visitors
- 26% increase over 2011
- \$1.8 billion in spending
- 45.5% share of all Chinese visitors to the U.S.
- 47.3% share of all Hong Kong visitors to the U.S.

IV. Budget and Funding

Below is the estimated CCTO budget for 2014.

Estimated Income

\$1,000,000

Estimated Expense

Salaries & Benefits (current & planned)	\$695,000
Legal and accounting	\$45,000
Travel	\$65,000
Office and IT expenses	\$55,000
Meetings (trade & investment promotion events / meetings)	\$45,000
Rent, utilities, insurance	\$95,000

The estimated budget income will be raised through contributions of \$40,000 per year by 25 entities, including philanthropic sources and major corporate employers, identified for their business leadership and interests in California-China economic growth.

In addition, GO-Biz is dedicating three personnel year positions for international affairs and business development, consisting of a deputy director and two international business specialists, for a total of roughly \$331,000 in staff and support expenditures covered under the GO-Biz budget. An appropriate amount of their time will be dedicated to China-related initiatives.

These numbers do not include staff and support expenditures by other partner agencies.

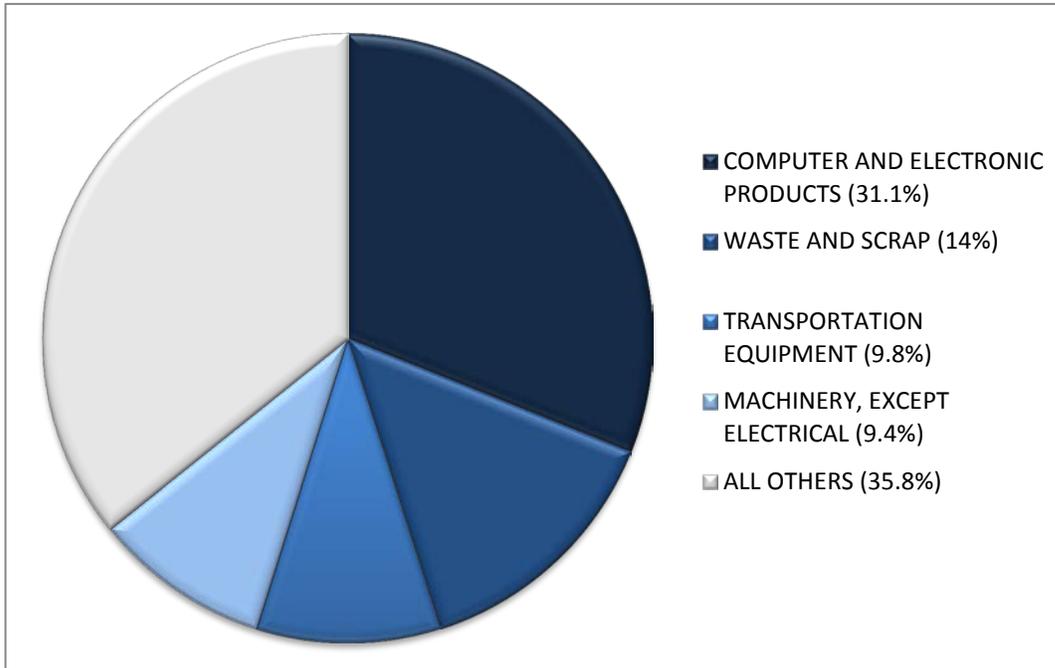
V. Conflict-of-Interest and Gift Policy

As required by Government Code section 13996.41, subdivision (d), any and ally International Trade and Investment Offices must have a conflict of interest and gift policy. GO-Biz has included the CCTO into its conflict of interest and gift policy. A copy of the policy is available from GO-Biz and the policy will be provided to all employees, including privately-funded employees, of the CCTO

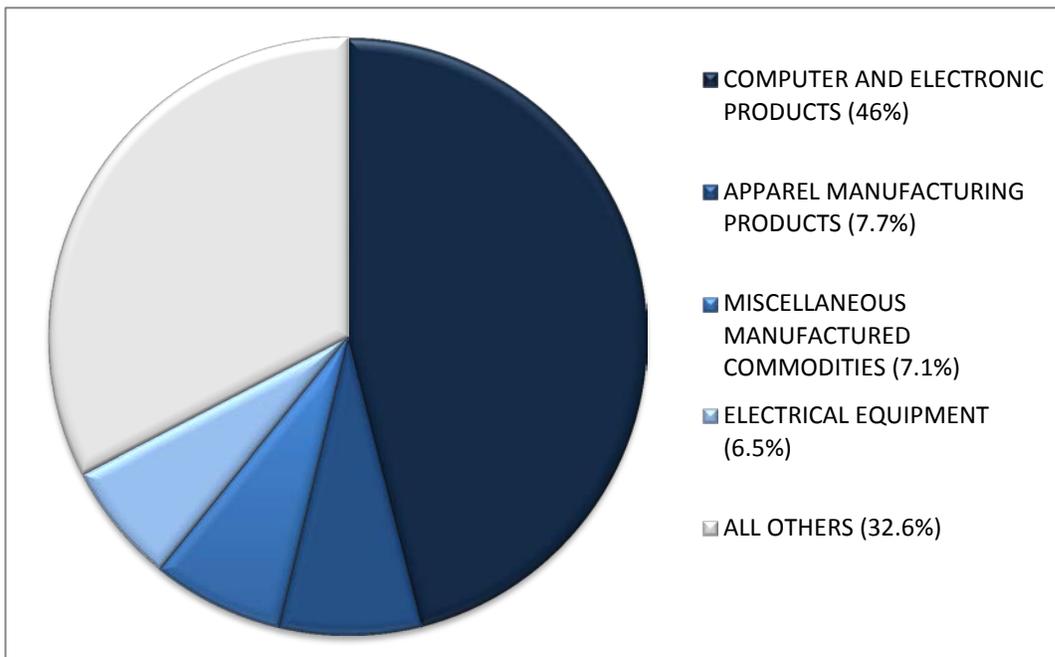
¹² "International Visitor Profiles" Visit California Industry Website, 2014

APPENDIX: California Merchandise Trade with Greater China¹⁷

2013 CALIFORNIA MERCHANDISE EXPORTS TO MAINLAND CHINA



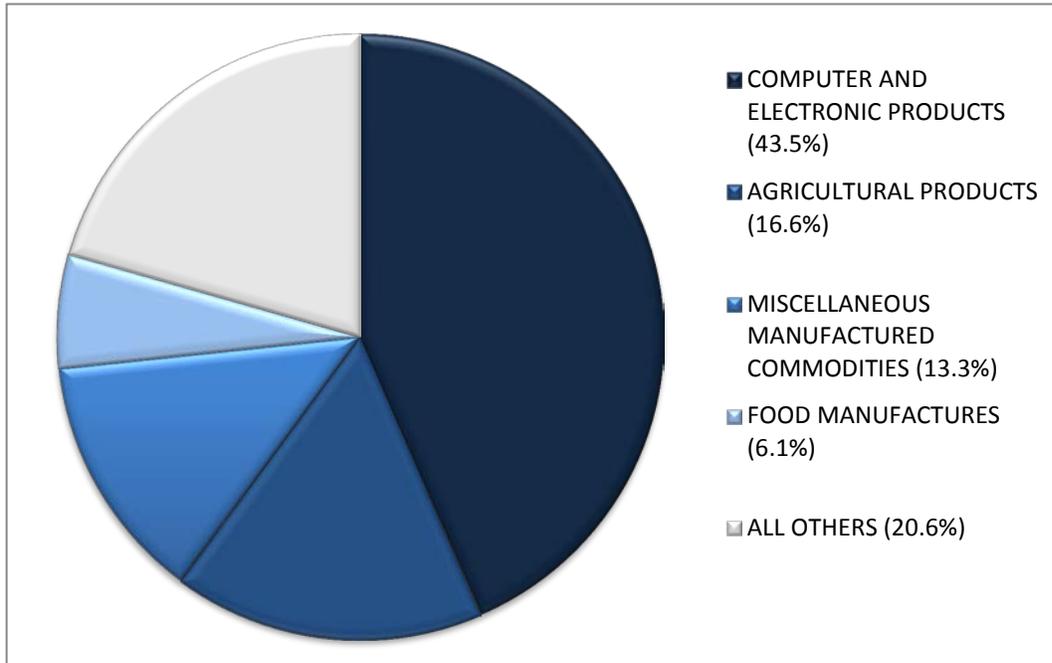
2013 CALIFORNIA MERCHANDISE IMPORTS FROM MAINLAND CHINA



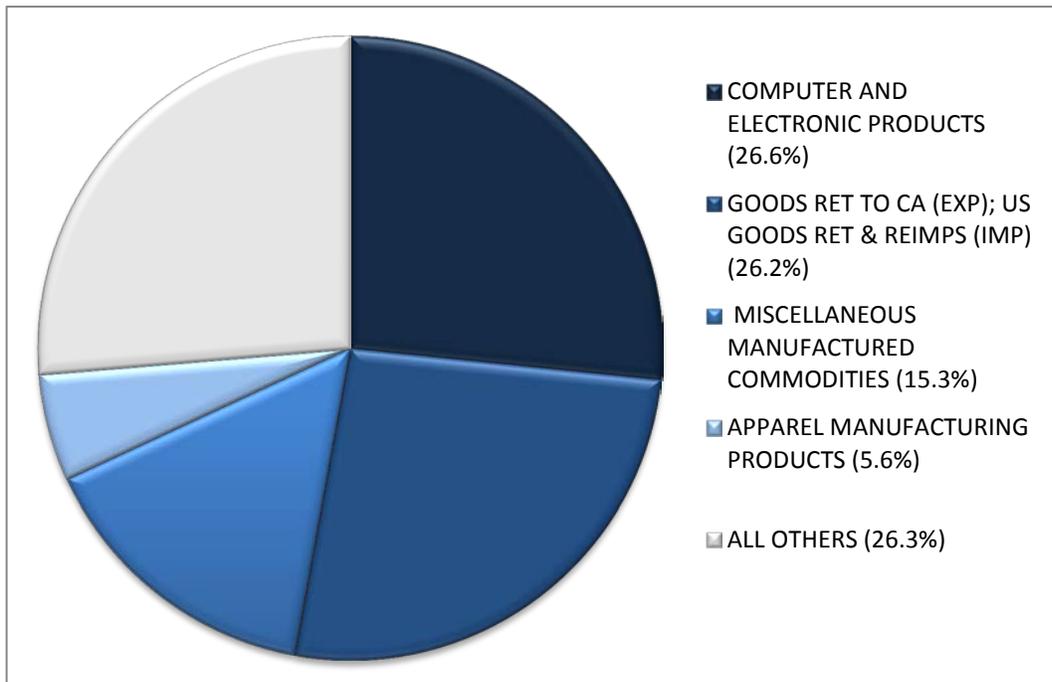
¹⁷ U.S. International Trade Administration

As of April 15, 2014

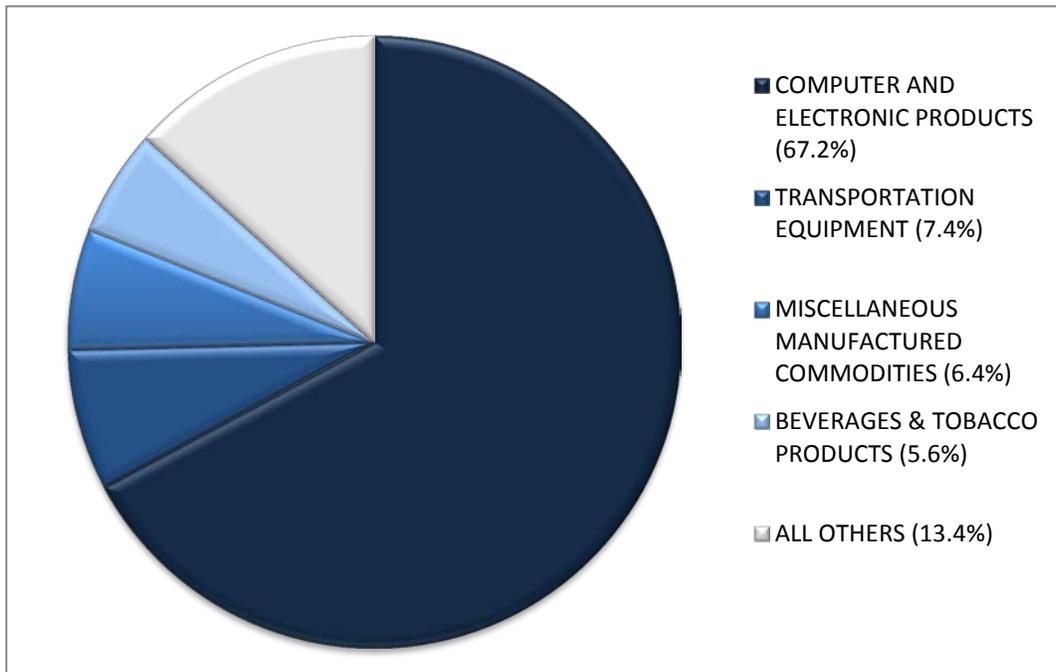
2013 CALIFORNIA MERCHANDISE EXPORTS FROM HONG KONG SAR



2013 CALIFORNIA MERCHANDISE IMPORTS FROM HONG KONG SAR



2013 CALIFORNIA MERCHANDISE EXPORTS FROM MACAU SAR



2013 CALIFORNIA MERCHANDISE IMPORTS FROM MACAU SAR

