



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 2015 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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California-China Office of Trade and Investment 2015 Annual Report

I. Introduction and Executive Summary

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 Chinese investors looking for job-creating business opportunities throughout California. Based on the groundwork laid by Governor Brown's visit and the subsequent efforts and support provided through the public-private partnership between the Governor's Office of Business and Economic Development (GO-Biz) and its non-profit partner, the Bay Area Council (BAC), the State is now in a position to pursue its economic and international trade policy goals by expanding the CCTO public-private partnership. This expansion, which will be known as the GO-Biz California-China Trade Network, will consist of additional private, non-profit network partners, cities, counties, and municipalities in China and California.

Under this expanded model, the CCTO will be able to increase its presence in China to other cities and provide a broader representation of regions in California. In implementing this model during the first quarter of 2016, the CCTO is poised to fulfill its mission of facilitating trade and investment opportunities between California and China.

II. Relationship to California Trade and Investment Strategy

GO-Biz submitted the State's five-year Trade and Investment Strategy to the Legislature in February, 2014. The overall strategy focuses on conducting proactive business development activities in select high-prospect markets. Through implementing this strategy, GO-Biz seeks to increase exports and attract more foreign direct investment by utilizing financial and other support from federal, state, local, corporate and non-profit partners.

GO-Biz is executing this strategy in China on a comprehensive basis, including the usage of a trade office and starting in 2016, with the addition of other partners with a presence in China. Given China's large and rapidly growing economic relationship with California (see Section III, page 14), one of the key objectives of the State's 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 will 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 streamlining the permit and license process for projects through our Permit Assistance Unit. We will also work to support business opportunities through coordination of initiatives 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 and revenues at California enterprises, state tax revenues, and international competitiveness in California through four channels:

- Expand exports and foreign sales for California businesses, including manufacturers, 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 2016 CCTO Work Plan will address each of these channels with regard to China.

Summary of CCTO Engagements with Business Entities

The primary mission of the CCTO is to facilitate trade and investment opportunities between California and China. In fulfilling this mission the CCTO engages with California companies seeking to enter into or expand in the Chinese market as well as with Chinese entities looking to invest in California. The CCTO has had direct engagement with 69 entities between January 2014 and October 2015. A summary of these engagements by sector and the stage of engagement is provided below.

CCTO Entity Engagement Statistics: 2014-2015 (January 2014 – October 2015)

<i>Engagement with Companies/Businesses by Sector</i>	
Agriculture	9
Business Services – Consulting	3
Consumer Products/Manufacturing	5
Energy	9
Environmental Services	7
Food and Beverages	10
Leisure and Lifestyle	3
Real Estate	4
Retail	3
Other ¹	16
<i>Stage of Engagement</i>	
Engaged with Business/Organization	20
Proposal Submitted	6
Engagement Successfully Met Client's Interest	4
Engagement Closed with No Further Action	6
Opportunity Archived for Possible Future Re-engagement	33

¹ "Other" sectors include professional services such as architecture and engineering, automotive, construction, education, electronics, healthcare, transportation, mining, beverages, business services and computer hardware/software.

In addition, during 2015, the CCTO has:

- 1) Assisted and supported 10 visiting trade delegations from China including from Jiangsu, Heilongjiang, Shanghai, Shandong, and a delegation from our Trade and Investment Memorandum of Understanding (MOU) partner provinces² led by China's Ministry of Commerce (MOFCOM);
- 2) Participated in the US Department of Commerce's Select USA investment promotion roadshow in China which took place in Hong Kong, Shenzhen, Dongguan, Guangzhou, Shanghai, Shenyang, and Dalian; and
- 3) Participated in 9 trade promotion events in both China and California, including events in Shanghai, Orange County, San Francisco and Davis.

Establishment of the California-China Trade Network

California Government Code section 13996.1(f) authorizes GO-Biz to contract with a non-profit entity to operate an international trade and investment office. In 2013, GO-Biz partnered with the BAC, a non-profit entity, to open, operate and manage the California-China Trade Office in Shanghai. The Office has been effective in making inroads to attracting Chinese investment into California and promoting California businesses in major metropolitan areas of China such as Shanghai and Beijing.

Given the sheer geographical size of China as well as the increasing number of cities and regions that have become business centers throughout the country, GO-Biz and the BAC recognize the need to expand the CCTO's footprint to reach more businesses in China and to help promote California businesses throughout China.

Many other cities, counties, municipalities and business groups throughout California have trade offices in China. Our intention is to better leverage those resources and unite the trade offices under a single State of California banner. In order to expand the reach of the state's trade and investment efforts in China as well as broaden the CCTO's representational base in California, GO-Biz intends to maximize the existing regional expertise, service and economic development relationships established by municipalities, counties, cities, and other non-profit entities around California.

In moving forward with the CCTO's operation for 2016, GO-Biz has established the GO-Biz California-China Trade Network (Trade Network), through which GO-Biz will enter into contracts with non-profit entities and/or local government as Network Partners. Network Partners could be comprised of California municipalities, counties, cities and other non-profit entities that have a direct and/or indirect presence in China that already promote California-China trade. Network Partners will help identify California businesses interested in expanding into Chinese markets, assist with relationship-building and connections, work directly with GO-Biz to refer businesses to GO-Biz for site selection services and/or state incentives, actively participate in trade delegations, arrange for relevant

² The State of California has a trade and investment MOU with MOFCOM that includes seven provinces: Guangdong, Shandong, Jiangsu, Chongqing, Shanghai, Hebei and Inner Mongolia.

California government officials to attend delegation events (trade shows) organized by a Network Partner, and arrange for relevant California government officials to participate in delegation trips to China led by a Network Partner.

Network Partners will be identified by using the CCTO Seal with the modification, “GO-Biz California-China Trade Network Partner,” to identify itself as a Network Partner in the area to assist with California focused trade and investment.

The existing California-China Trade Office operated by the BAC in Shanghai will serve as an anchor to all Network Partners. The CCTO will be managed by an office manager and he/she will coordinate business development efforts, delegations and other similar activities in China with the Network Partners in China.

As of December 2015, GO-Biz is negotiating with potential network partners and expects to have written agreements establishing specific Network Partners within the first quarter of 2016.

CCTO 2016 Work Plan

As set forth below in the CCTO Work Plan for 2016, the principal strategies will be inbound and outbound business development missions including trade missions, tradeshow, business development/investment attraction events, and focused outreach activities in particular sectors and/or with partner entities. GO-Biz will regularly review the CCTO’s performance in the context of this Work Plan.

Strategies and Goals

Strategic Industries Influenced by Themes

China is a large country with many opportunities and California is a state that leads in several sectors. The concept is to match high-demand market opportunities in China with what California businesses can offer. This strategic approach does not mean that the CCTO will ignore other sectors or opportunities that arise; rather, the CCTO will focus its attention on key industries that have the most optimal opportunities.

Strategic industries include:

- A. Clean Technology
 - a. Green Technology
 - b. Recycling
 - c. Renewable Energy
- B. Life Sciences
 - a. Biotechnology
 - b. Medical Devices
 - c. Pharmaceuticals
- C. Agricultural Technology

- a. Advanced Field Management
- b. Genetics
- c. Cold Chain, Traceability, Packaging
- D. Lifestyle
 - a. Branded Products – Food, Cosmetics, Housewares
 - b. Wine
 - c. Fashion
 - d. Tourism
- E. Education
 - a. University Partnerships/Exchange Programs
 - b. Educational Services

Goals

The CCTO's work with the Network Partners will be focused on achieving the following goals:

Goal 1: Increase investment in California by assisting Chinese companies to establish or expand their operation in California.

Strategy: *Create a pipeline of high quality 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 engage and raise awareness for 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 connections to the executives of high value companies.
- Partner with well-known organizations such as the U.S. Trade Development Agency who lead Chinese businesses on California-bound trade missions.
- Ensure CCTO staff is adequately prepared to conduct consultations.
- Build out the CCTO website as well as CCTO and GO-Biz materials to be bilingual and culturally appropriate.

Strategy: *Promote and facilitate new foreign investment into California from China with a focus on strategic industries.*

- Support, co-sponsor, or host official Chinese government and business delegation visits to California.
- Support California State agency officials on business trips to China, including the implementation and/or renewal of existing MOUs with business-development objectives.
- Support business development activities in key sectors.

- Systematically engage with stakeholders in China to build awareness of the CCTO's existence and services: attend trade-related events, host meetings for public and private stakeholders in the Shanghai and Network Partner offices, and coordinate an online media strategy.

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

Strategy: *Concentrate efforts on helping California companies identify opportunities and facilitate engagement in China.*

- Build knowledge for serving the identified key 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.

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

- 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 GO-Biz/CCTO itself.
- Use the CCTO network of contacts in China to understand what political and economic obstacles might be inhibiting California expansion such as business associations, government contacts and academic experts.
- 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 partners that can aide in addressing trade obstacles.

Strategy: *Build infrastructure to assist California businesses.*

- Provide ongoing training for CCTO staff to receive inquiries and conduct consultations.
- Enlist the help of private, non-profit, 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 and federal government programs as available.
- Build the CCTO website so that it serves as a source of information about doing business with China.

Goal 3: Build awareness of the CCTO and the brand of "California."

Strategy: *Create tools that present "California."*

- Create opportunities that raise awareness of California, including speaking engagements, event endorsements and trade missions.
- Launch effective communication tools which regularly update the relevant stakeholders on the CCTO's activities.

Strategy: *Support the CCTO's and its Network Partners' visibility 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 and its Network Partners.

Goal 4: Assist GO-Biz and other state agencies, as appropriate, in advancing the state's business-related MOUs.

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

- Work with California and Chinese private sector Secretariats in implementing the State's trade and investment-related MOUs.
- Encourage business partnerships with Chinese provinces with which the State of California has signed trade and investment MOUs, including the exchange of trade missions.

Goal 5: Strengthen the support infrastructure for the CCTO and Trade Network Partners.

Strategy: *Create a support structure for coordination between CCTO and Trade Network Partners.*

- Establish coordinator relationship between GO-Biz, the CCTO Office Manager in Shanghai and Trade Network Partner offices.
- Hold bi-weekly calls with GO-Biz and CCTO.
- Initiate monthly calls with GO-Biz, CCTO and Trade Network Partners.
- Continue monthly inter-agency calls with the Governor's Office.

Strategy: *Ensure the credibility of the CCTO.*

- Maintain 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.
- Continue staff training sessions on the Foreign Corrupt Practices Act.
- In consultation with GO-Biz, the Bay Area Council Chief of Staff will provide operational assessment reports on an ongoing basis.

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 has established the Trade Network in part, to address this ongoing challenge.

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 trade 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. In addition to the Network Partners under the Trade Network, 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 U.S. 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, CA 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 CA Community Colleges. Additionally, GO-Biz has worked with the Legislature to identify and assess opportunities to expand California exports and increase foreign domestic investment.

- **Other 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.

- **China-based partners:**

Together with the BAC 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 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 2013. 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 Model

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 CCTO office come from financial contributions into a 501(c)(3) non-profit, public benefit organization, 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.

Organizational Structure

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 CCTO's 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 BAC, under a contract with GO-Biz, is responsible for fundraising, financial management, hiring, and all in-country registration, banking, personnel, and other regulatory compliance with Chinese and U.S. law for the anchor office in Shanghai.

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.

CCTO staff

The CCTO staff currently consists of one staff member in Shanghai, as well as one California-based staff member in San Francisco. The current staff members are:

- Tony Wang, Office Manager, Shanghai
- Genevieve Herreria, California Manager, San Francisco

Any additional staff ideally 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 BAC, and is co-located with the BAC's Yangpu District, Shanghai office. The arrangement allows facilities management responsibilities to be borne by the BAC, 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 CCTO staff will remain accountable.

III. The California-China Trade and Investment Relationship

California Exports To China

- California is one of America's top state exporters to China.
- In 2014:
 - California exported \$16 billion in merchandise goods to China. This is 9 percent of *all* merchandise goods exported from the State.
 - The United States exported \$124 billion in merchandise goods to China. Thirteen percent of this total – approximately \$16 billion – came from California.
 - California's top exports to China were: 1) Computers and Electronics - \$4.5 billion; 2) Machinery (non-electrical) - \$1.9 billion; 3) Waste and Scrap - \$1.86 billion; 4) Transportation Equipment - \$1.6 billion; and 5) Chemicals - \$1.2 billion.

Source: [U.S. International Trade Administration](#)

California Imports From China

- California is America's number one state importer from China.
- In 2014:
 - California imported \$137.7 billion in merchandise goods from China. This is 30 percent of all US imports from China.
 - The United States imported \$466.7 billion in merchandise goods from China.
 - California's top imports from China included: 1) Computers and Electronics - \$62.6 billion; 2) Electrical Equipment - \$10.5 billion; 3) Apparel - \$9.9 billion; and 4) Misc. Manufactured Commodities - \$9.8 billion.

Source: [U.S. International Trade Administration](#)

Foreign Direct Investment

- California garnered 340 investment deals between 2000 and the third quarter of 2015 from mainland China investors valued at over \$7.7 billion.

- Out of all 50 states, California has the highest total employment generated by employers with foreign affiliates: with approximately 602,800 employees, or 10.7 percent, of the U.S. total.
- By 2020, California has the potential to attract between \$10 billion and \$60 billion of Chinese direct investment.

Sources: Rhodium Group, [Asia Society](#)

Travel and Tourism

In 2014, China remained California's top overseas market for tourism with approximately 1,022,000 visitors. In 1988, the volume of Chinese visitors to the U.S. and California was less than 25,000.

- Visitors from China:
 - Spent about \$2.583 billion in California in 2014.
 - In 2014, visitors from China spent, on average, \$165/day over a 9.5 night average stay—or approximately \$1,568 per visitor/visit.

Source: [California Travel and Tourism Commission Visit California](#)

Agricultural Trade

- China is California's third largest export market for Agriculture products. In 2013, the state exported \$2.6 billion to China. Top products include Almonds, Pistachios, Walnuts, Cotton, and Wine.
- China represents approximately 12 percent of California's total agricultural exports.

Source: [California Department of Food and Agriculture](#)

Education

- According to the Institute for International Education 2015 Report, there are 135,130 foreign students in California expending \$4.6 billion in the state. This puts California as the top State with the most foreign students in the United States. A total of 32,000 (33.6%) of these students are from mainland China.

Source: ["Open Doors – California Report", International Institute of International Education, 2013](#)

IV. CCTO Estimated Expenses for 2015

Estimated Expense	
Salaries & Benefits	\$437,843
Legal and Accounting	\$ 1,920
Travel	\$ 40,714
Office and IT Expenses	\$ 26,183
Meetings (trade & investment promotion events / meetings)	\$ 13,155
Rent, Utilities, Insurance	\$ 72,929

Note: No state funds are used to operate or cover the expenses of the CCTO. All funds are privately raised and maintained by the BAC, and all expenses are paid by the BAC.

Revenues were raised through contributions at two levels, \$40,000 and \$10,000 per year by entities including philanthropic sources and major corporate employers, identified for their business leadership and interests in California-China economic growth.

In conjunction with GO-Biz's establishment of the Trade Network, BAC, in consultation with GO-Biz, streamlined staff in the CCTO. With the streamlining in place, GO-Biz and the BAC will bolster the CCTO's presence in China through the Trade Network and engage other non-profit entities as Network Partners in other regions of China.

In addition, GO-Biz dedicates three personnel positions for international affairs and business development, consisting of a deputy director and two international business specialists. Twenty-five percent of their time is dedicated to China-related initiatives.

V. Conflict-of-Interest and Gift Policy

As required by Government Code section 13996.41 (d), any and all 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.