

U.S. Trade Tariffs on China: Effects on California's Economy

Wednesday, July 17, 2019



**Assembly Select Committee on Asia/California
Trade and Investment Promotion**

**Assembly Committee on Jobs, Economic
Development, and the Economy**

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U.S. Trade Tariffs on China: Effects on California's Economy

On Wednesday, July 17, 2019, the Assembly Select Committee on Asia/California Trade and Investment Promotion (ACTIP) and the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) are convening the second in a series of informational hearings examining the impact of the U.S. trade dispute with China on the California economy.

This report has been prepared to assist committee members in preparing for the hearing. In addition to providing an overview of the hearing and witness biographies, the memo includes information on California's trade-based economy, as well as information on some initial findings as to the impact of the trade dispute on the California economy.

Hearing Overview

In 2018, China was California's third largest trading partner, following Mexico and Canada. Investors from China are a leading source of Foreign Direct Investment (FDI) to California. China's increasing focus on addressing the causes of climate change through the development and deployment of new technologies and the implementation of policies to limit further impacts are leading to deeper environmental engagements and cooperation between China and California.

The U.S. and China have been entangled in a trade conflict that has resulted in elevated tariffs on hundreds of billions of dollars in goods that the two countries trade. The origins of the trade dispute go back decades, but intensified to such an extent in March of 2018 as to have had the potential to severely impact economic growth around the world. Given that the dispute involves the two largest economies in the world, fallout is likely to affect a range of industries, especially those businesses located in the most integrated national and subnational economies, including California.

During the hearing, members will have an opportunity to hear from ***Lieutenant Governor of California Eleni Kounalakis***, who serves as the Governor's chief advisor on foreign affairs and trade promotion, and ***Deputy Consul General Ren Faqiang*** from the San Francisco Consulate of the People's Republic of China. Formal hearing presentations will conclude with a panel of business development and trade promotion experts who will discuss how their organizations are assisting California communities and businesses to mitigate the impact of and remain competitive during this protracted trade dispute. Invited panelists include:

- ***Darlene Chiu Bryant***, Executive Director, GlobalSF
- ***Stephen Cheung***, President, World Trade Center Los Angeles
- ***James Green***, Senior Research Fellow, Georgetown University, and Senior Advisor, McLarty Associates
- ***John Grubb***, Chief Operating Officer, Bay Area Council

A public comment period is scheduled upon the conclusion of the formal presentations. A preliminary hearing agenda is included in ***Appendix A (page i)***, and biographies of speakers which were available at the time of publication are provided in ***Appendix E (page xi)***.

Framing the Issues

The origins and drivers of the current U.S. trade dispute with China are multifaceted. Some of the drivers relate to current policies and practices of China, such as supports for domestic companies and intellectual property rights, while others represent a more general growing unease among the Trump Administration with China's economic growth and increased standing within the global community.

The Tariff Hikes by the U.S. and China Began in January 2018

At the direction of President Donald Trump, the U.S. began announcing a series of tariffs, beginning with a 30% tariff on the importation of solar panels and washing machines in January 2018, followed by a 25% tariff on the importation of steel and a 10% tariff on aluminum in March 2018, and a 25% tariff on 818 Chinese products in April 2018. Since then, the list of products subject to tariffs has increased significantly, and the value of those products has grown to over \$200 billion.

China retaliated by imposing, as of mid-May 2019, \$110 billion in tariffs exclusively on U.S. products, with agricultural goods and a wide array of other commodities taking the biggest hits. Both countries have engaged in discussions to resolve trade disagreements, but the path to a resolution has been elusive.

After a seven week break in trade negotiations, the presidents of the U.S. and China met to discuss their countries' escalating trade differences during the June 2019 G-20 Summit in Osaka, Japan. While no specific deal terms or timelines for the negotiation of a deal were announced, the meeting resulted in the U.S. agreeing to hold off on its threat to place a 25% tariff on another \$300 billion in Chinese imports, as well as the lifting of restrictions on Huawei, a Chinese technology company.

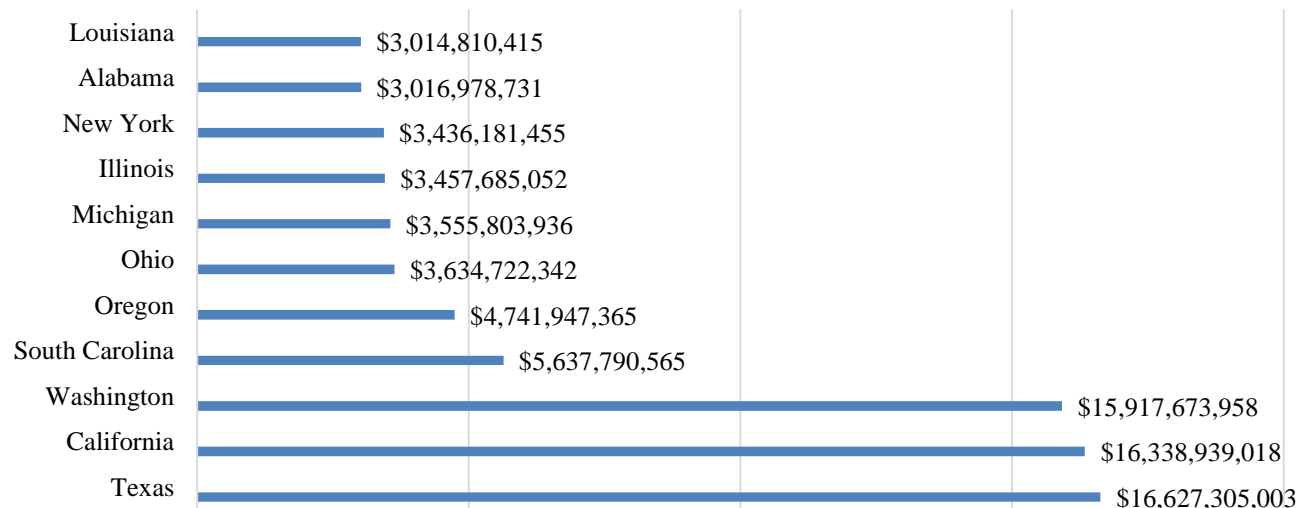
California has Significant Economic Ties with China

California's agricultural sector experienced the earliest impacts of the U.S.'s trade dispute with China. For other industry sectors, businesses were able to delay purchases, temporarily substitute products, or bring in "extra goods" prior to tariff effective dates. As California businesses enter the second half of 2019, the effects of the dispute are being more fully felt as they fulfill new orders, begin to order stock for the holidays, and assemble products.

In general, the response of the business community has been one of concern over the establishment of policies that serve as de facto barriers to market access. Groups such as the U.S. Chamber of Commerce and the Specialty Crop Trade Council acknowledge that some of China's trade policies and practices represent real threats to global business innovation and heighten risks to cybersecurity and technology licensing. In a March 2018 letter to President Trump, 45 business associations called for federal intervention to address China's discriminatory practices. The letter also stated, however, the business groups' aversion to the use of tariffs to address these issues because of their negative impact on the U.S. economy, including driving up the cost of materials and products to consumers and businesses and their potential for triggering retaliatory tariffs.

Chart 1, on the following page, shows the top U.S. states exporting to China in 2018, including Texas, California, and South Carolina. While the top three states may export over one-third of total exports to China by dollar value, the bottom six states reflected on the chart exported over \$3 billion each in products.

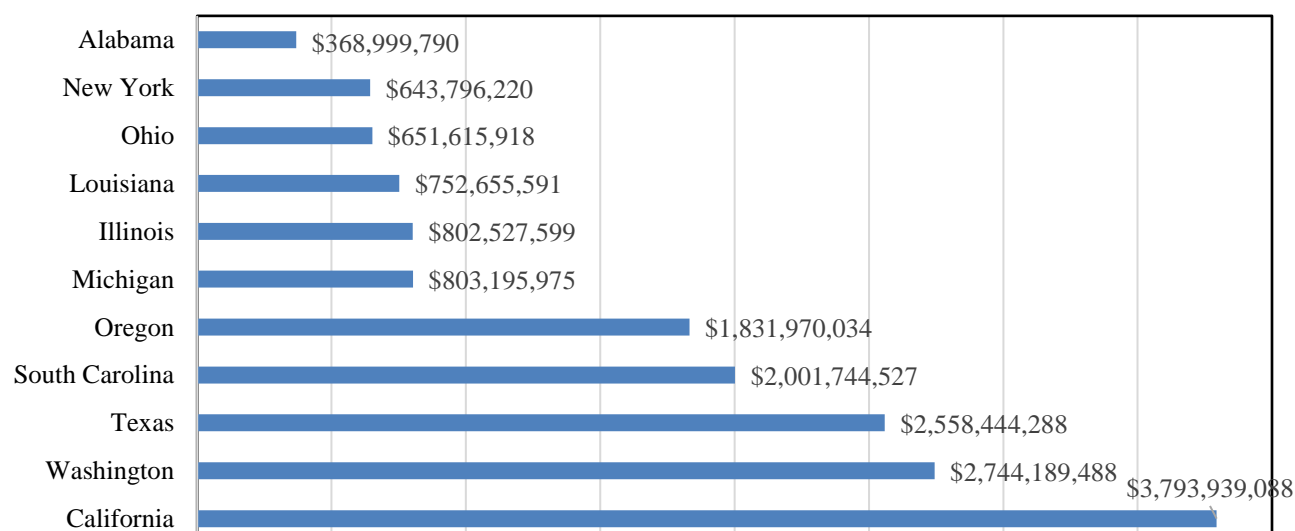
Chart 1 – 2018 Top State Exporters to China



The contiguous California ports of Los Angeles and Long Beach together comprise one of the largest port complexes in the world and the largest in the U.S. China represents about 60% of the trade volumes at the Port of Los Angeles. The port's executive director, Gene Seroka, recently told CNBC that exports to China last year declined by about 25%. He said cargo that goes through the port includes items not only produced in California but coming via rail from Midwestern states, including soybeans. Other sectors hit by the trade war on the export side, he further noted, are electronic products, household goods, and recyclables. Seroka said many exports were down double-digit percentage levels in 2018 from the prior year.ⁱ

Only the first three months of exports data is available and displayed in **Chart 2** below.

Chart 2 – Top State Exporters to China (January-March 2019)



Agricultural products have been Particularly Hard Hit by Chinese Tariffs

The director of the University of California Davis' Agricultural Issues Center, Professor Daniel Sumner, has identified fruit and tree nut exports as particularly vulnerable to Chinese tariffs. Roughly two-thirds of fruits and nuts are produced in California. All told, Sumner estimated last year that U.S. fruit and nut companies could lose more than \$3 billion annually due to tariff increases.ⁱⁱ

U.S. wine exports to China have fallen almost in perfect correlation with Chinese tariffs. Two lots of tariffs in April and September 2018 added 25% to the duty on American wines entering the booming Chinese market. This led to a 25% slump in U.S. wine exports to China, 90% of which came from California.ⁱⁱⁱ

In August 2018, President Trump announced a \$12 billion aid package for U.S. farmers who have been hurt by the tariff dispute. As of May 2019, \$8.5 billion has been paid out. The aid, however, is targeted at Midwestern farmers who produce crops such as corn and soybeans, and not the California specialty crops that are critical to the state's agriculture revenues.

As California Congressional Representative Jim Costa said, "This rushed and poorly planned bailout raises the troubling possibility that some of the nation's most valuable agricultural products, like the fruit and vegetable crops produced in central California, will receive a different and possibly reduced level of aid."^{iv} According to the National Farm Bureau, 46% of all program dollars went to Illinois, Iowa, Minnesota, Nebraska, and Indiana. Dairy is the one exception, where California received the most funding.

The Cost of Imported Consumer Goods has Increased Due to U.S. Tariffs

U.S. tariffs on popular Chinese goods will impact consumers. In May 2019, the *Los Angeles Times* declared that "Major retailers are sounding the alarm: The U.S.-China trade battle could be coming to a mall near you in the form of higher prices in time for the back-to-school and holiday shopping seasons."^v

According to Kathryn Russ, an economics professor at the University of California, Davis specializing in international trade, at the outset of the trade war, only about one percent of goods on the Trump administration's initial tariff list of Chinese goods were final consumer products. But as the tariffs expanded, consumer items became more prevalent on the lists, including lamps, vinyl floor tile coverings, air conditioning units, televisions, cameras and mattresses, Russ noted. These are items which the U.S. imports in good part from China.^{vi}

The Poor and Working Class are Most Vulnerable to the Tariff War Impacts

As Russ told *Bloomberg Businessweek* last month, "lower-income consumers tend to spend a lot of their money on low-priced apparel and other items imported from China. On the other hand, higher-income people spend a lot on high-end consumer electronics that are also from China. The biggest reason tariffs pinch the poor the most is that the poor have less of a cushion: A higher share of their incomes goes for consumption of all kinds. The rich save a higher share of theirs."^{vii}

As for the negative impact of Chinese retaliatory tariffs on U.S. goods, Southern California economist John Husing said that "it's getting deep enough into the trade war that it's starting to get a little bit scary - it's starting to have a serious impact. That makes it more difficult to sell things to China, so it hurts our employee base here."^{viii}

Closer Look at Trade Deficits

The U.S. has run a goods trade deficit with China for decades. Similarly, the U.S. has run a surplus of export services. Many economists, in fact do not find trade deficits in and of themselves, a problem. **Chart 3** shows U.S. international trade activity since 1999, including information on the balance of goods, the balance of services, and the balance of goods and services.

Chart 3 – U.S. International Trade with China (millions of dollars)								
Period	Balance of Goods	Balance of Services	Balance of Goods and Services		Period	Balance of Goods	Balance of Services	Balance of Goods and Services
1999	-68,741	1,301	-67,440		2009	-227,236	7,500	-219,736
2000	-83,866	1,897	-81,969		2010	-273,067	11,891	-261,176
2001	-83,174	1,794	-81,380		2011	-295,187	16,654	-278,533
2002	-103,182	1,311	-101,870		2012	-314,937	19,999	-294,938
2003	-124,328	1,624	-122,705		2013	-318,764	23,615	-295,150
2004	-162,623	1,118	-161,505		2014	-344,932	30,263	-314,669
2005	-202,825	1,841	-200,984		2015	-367,567	34,033	-333,533
2006	-234,433	438	-233,995		2016	-347,098	38,230	-308,869
2007	-258,662	1,336	-257,326		2017	-375,758	38,554	-337,204
2008	-268,234	4,922	-263,313		2018	-419,603	38,799	-380,804
Source: U.S. Bureau of Economic Analysis								

Source: U.S. Bureau of Economic Analysis

Recent trade numbers show that despite the trade dispute and retaliatory tariffs, the U.S.-China trade deficit increased and was the largest overall trade deficit the U.S. had with a single country, recorded as \$30.1 billion. Overall, U.S. exports in May were \$210.6 billion, \$4.2 billion more than April exports and May imports were \$266.2 billion, \$8.5 billion more than April imports. The goods deficit increased \$4.4 billion in May 2019 to \$76.1 billion. The services surplus increased only slightly (\$0.1 billion) in May 2019 to \$20.6 billion. May 2019 year-to-date data shows the goods and services deficit increased \$15.7 billion, or 6.4%, from the same period in 2018.

Background on California's Trade-Dominated Economy

This section includes background on the state's trade-based economy, including information on major industry sectors, a discussion of how trade adds value to the state's economy, and a summary of trade and business-related agreements between California and the People's Republic of China.

California is home to nearly 40 million people, providing the state with one of the most diverse populations in the world, often comprising the single largest concentration of nationals outside their native country. In 2018, this diverse group of business owners and workers produced \$2.9 trillion in goods and services, with \$178.4 billion in products exported to over 225 countries around the world.

California's economy ranked fifth largest in the world in 2018 – only the national economies of the United States, China, Japan, and Germany being larger. Historically, a number of factors have contributed to California's significant position within the global marketplace, including its strategic west coast location, its economically diverse regional economies, its skilled workforce, and its culture of innovation and entrepreneurship, particularly in the area of technology. California has the largest workforce in the nation, comprised of 19.4 million people who are comparatively younger and more educated than the national

average. As an example, over 30% of the working age population in California holds at least a bachelor's degree.

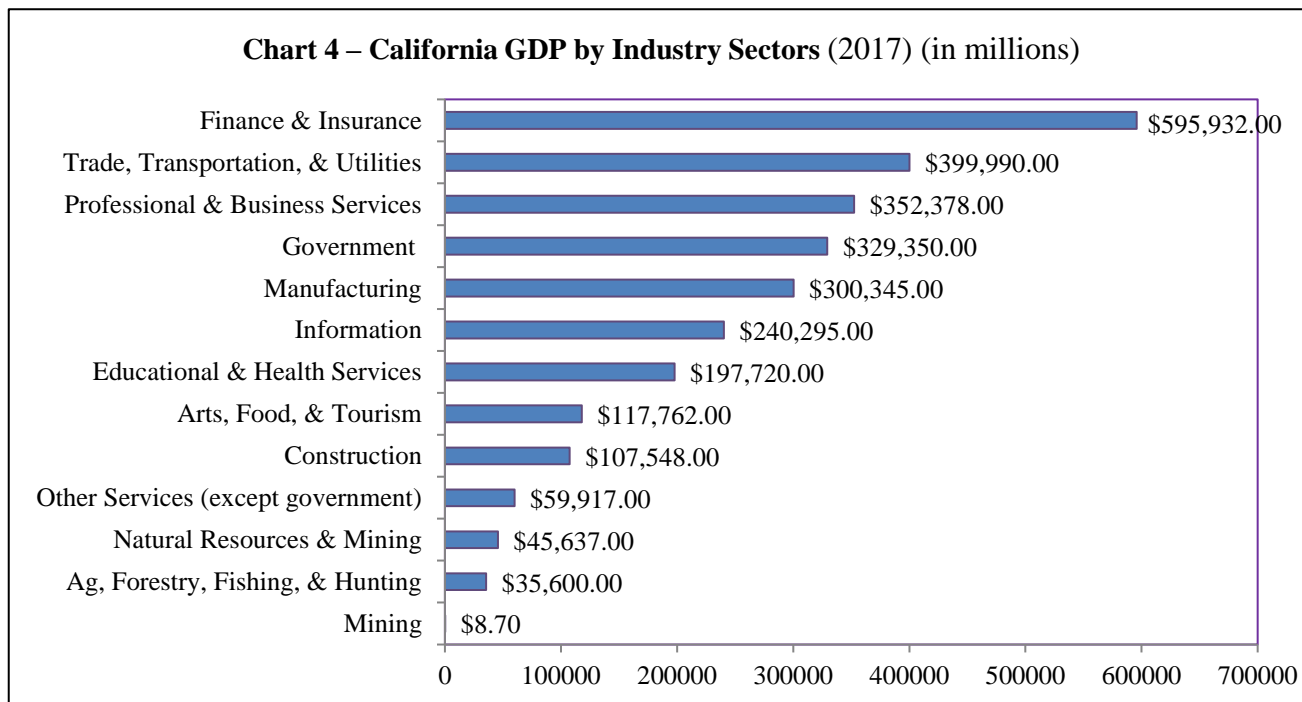
Many policy makers and economists describe California as having not a single economy, but having a highly integrated network of industry clusters that provide access points to other areas of the U.S. and across the world. While biotech has a comparative advantage in some regions, information technology drives growth in others. This economic diversity is one of the reasons California moved so aggressively out of the Great Recession (recession). In the recession, California experienced unemployment above 13%, and in some areas of the state, such as Imperial County, unemployment remained above 20% throughout the duration. Today, California has regained all 1.1 million jobs lost in the recession and has added, since February 2011, over three million jobs.

Supporting this economic vitality are global fortune 250 companies with California headquarters, as well as the state's robust small business sector, which employs half of all workers and is comprised of more than 98% of all businesses in the state. **Appendix B (page iii)** includes additional information on the California economy.

Major Industry Sectors

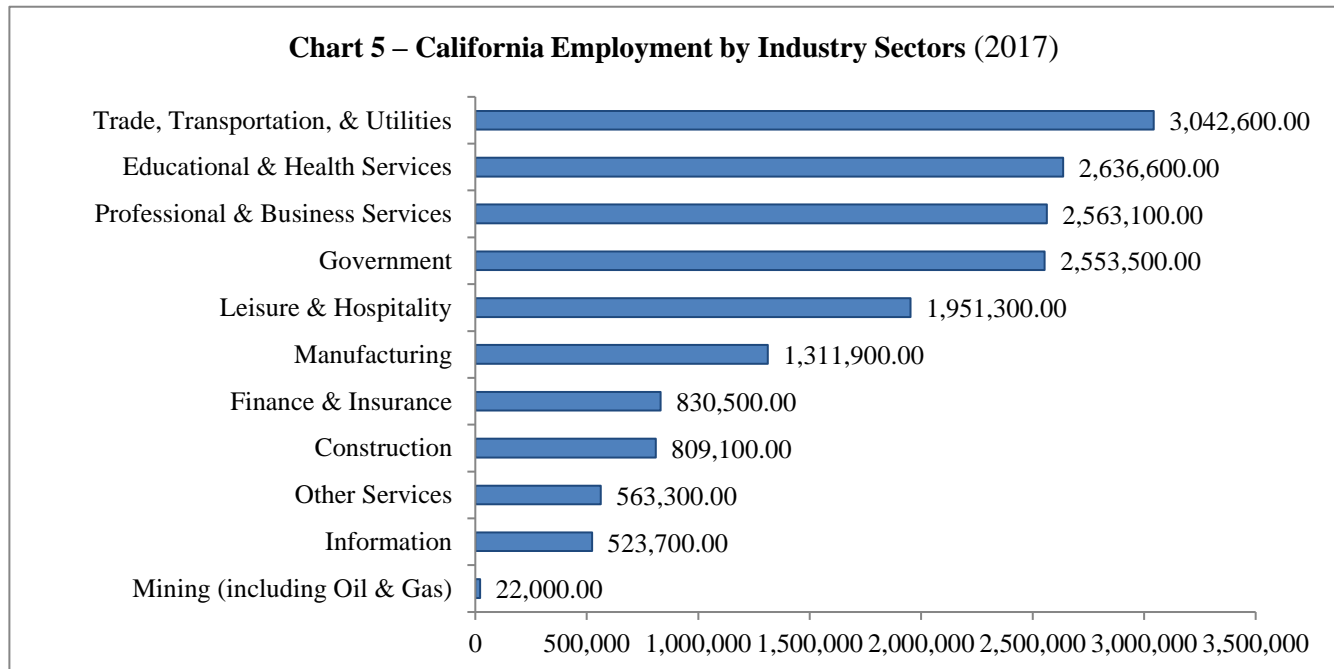
One of the unique qualities of California's economy is its multiple dominant industry sectors. **Chart 4** shows state GDP in dollars by industry sector.

The state's three largest industry sectors in terms of GDP – finance and insurance; trade, transportation, and utilities; and professional and business services – also provide a foundation to other industry sectors, including manufacturing and information. Each of these top performing industry sectors are also distinguished as being a tradable industry sector, meaning that it is a sector whose output in terms of goods and services is traded internationally, or could be traded internationally given a plausible variation in relative prices.



Due to its economic impact exceeding its proportional share of the U.S. population, California's economy has been described as "hitting above its weight." As an example, while California's population comprises 12% of the U.S. population, the state contributed 16% of total job growth between 2012 and 2017.

Chart 5 shows employment data within the same industry sectors as are measured in Chart 1. The employment numbers come from the California Employment Development Department.



California's largest industry sector, based on employment, is the trade, transportation, and utilities sector, employing 3.0 million people and representing 15.5% of all California jobs. Jobs in this sector also support employment in other industry sectors including manufacturing (8.1% of state employment in 2017), professional services (13.1%), and financial activities (4.1%).

Manufacturing is considered the "gold standard" for jobs because of the higher wages paid to workers, the inclusion of small businesses within its extended supply chains, and the high multiplier effect on their local communities and across the state. The Milken Institute estimates that for every job created in manufacturing, 2.5 jobs are created in other sectors. In some industry subsectors, such as electronic computer manufacturing, the multiplier effect is 16 to 1.

While California has the largest manufacturing sector in the nation, the state is often bypassed for new facilities and the expansion of existing facilities. According to the California Manufacturers and Technology Association, California falls into the lower quartile of states, based on its manufacturing job growth following the recession. In comparing new and expanding manufacturing activity (January 2010 to October 2016), California ranked 24 out of 32 major manufacturing states. California received only 2.57% of the job growth, as compared to Michigan (32.49%) that generated the most and New Jersey (-4.78%) that had a net loss of jobs over the 16-year period.

One challenge California faces in growing manufacturing jobs is the state's perceived lack of cost competitiveness and the regulated nature of its business environment. These perceptions impact not only decisions about expansions and relocation from other states, but also reshoring decisions. According to one study, California is receiving only about 1% of reshored manufacturing jobs. In recent years, the Legislature and Administration have adopted and funded new initiatives related to the initial cost of

development and expansions, and technical assistance to help businesses navigate the state regulatory and permitting environment.

The current trade dispute puts further stress on California's manufacturing sector because significant amounts of both raw resources, as well as parts and semi-assembled products make up a sizable component of the state's imports and exports.

Current Employment

In May 2019 (most recent data), California reported a seasonally adjusted unemployment rate of 4.2% as compared to the U.S. rate of 3.6%. From the employment side, this represents 18.6 million people, with over 80% being employed in full time work. Within nonfarm industries, seven sectors had month-over increases with the manufacturing, other services, and financial services sectors reporting losses. Jobs in the trade, transportation, and utilities sector reported a small gain of 800 jobs for May 2019.

According to EDD, California experienced an unusually large drop in civilian employment over the past two months, with a loss of 50,000 jobs in April and 40,000 in May 2019. California has experienced a loss in jobs only four times in last 102 months, but each of these losses has occurred within the last six months. Year-over, civilian employment was up less than 1% (0.7%) in May 2019.

In May, 12 out of California's 58 counties had unemployment below 3% with San Mateo reporting the lowest at 1.7% in May 2019. The highest unemployment was reported in Imperial (16.4%). Additional details on the California nonfarm economy can be found in *Appendix B – Fast Facts on the California Economy (page iii)*.

Job Growth 2016 - 2026

The Employment Development Department (EDD) has forecast that California will add over 2 million nongovernment jobs between 2016 and 2026. By 2026, it is estimated that total civilian employment (including self-employment, farm employment, and private household workers) will reach 19.7 million, an increase of 1.9 million jobs (10.7%) over the 10-year projected period of 2016-2026.

Chart 6 displays projected growth in civilian employment for 2016-2026, including new and replacement jobs.

Chart 6 – Projected Job Growth in Employment 2016-2026 (ranked by number of jobs)							
	Industry Sector	Percent Change	Increase in Jobs		Industry Sector	Percent Change	Increase in Jobs
1	Educational Services, Health Care, and Social Assistance	23.9%	607,400	7	Information	14.6%	76,600
2	Professional and Business Services	11.1%	280,200	8	Other Services (excludes private household services)	10.1%	55,900
3	Leisure and Hospitality	13.3%	252,300	9	Financial Activities	5.2%	42,600
4	Trade, Transportation, and Utilities	6.7%	200,000	10	Total Farm	3.5%	15,000
5	Construction	20.5%	158,600	11	Manufacturing	0.1%	1,300
6	Government	4.6%	116,100	12	Mining	-8.0%	-1,800

A significant portion of this projected growth, however, is dependent on the economic performance of industry sectors which are highly dependent on consumers and supply chains outside of the state. California was the 28th largest exporter in the world and the 13th largest importer in the world in 2018. With 95% of global purchasing power lying outside the U.S., having a globally integrated economy provides the California with a comparative advantage. Extended trade disputes, as well as the trade barriers which are the source of those disputes, create impediments to growth and uncertainty for businesses who may be considering expansion and significant new capital investments.

Additional information about the California economy can be found in *Appendix B - Fast Facts on the California Economy (page iii)* and *Appendix C - Fast Facts on the California Trade-Based Economy (page v)*.

How Trade Adds Value to an Economy

International trade and foreign investment are important components of California's \$2.9 trillion economy supporting over 4 million California jobs. The value of trade to the California economy is increasing, as reflected in the percentage of California jobs tied to trade having more than doubled from 1992 to 2011: 10.6% vs. 22.0%.

As noted above, businesses from a range of industry sectors support trade and foreign investment activities in California. Among other advantages, the workers in these businesses earn on average 13% to 28% higher wages than the national average. California leads the nation in the number of export-related jobs.

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

California's land, sea, and air ports of entry served as key international commercial gateways for the \$620 billion in products entering and exiting the U.S. in 2018. Goods exported from California were valued at \$178.4 billion and represented 10.7% of total U.S. exports in 2018. Goods imported into California were valued at \$441.1 billion and represented 17.3% of total U.S. imports in 2018.

Chart 7, on the following page, shows data of the export of goods to the state's top six trade partners, based on origin of movement. Please note that federal reporting separates data from China and Hong Kong. If combined, California's largest export market in 2018 was Mexico, who received over \$30.7 billion in California products. Top-ranking export destinations not shown on the chart include Germany, the Netherlands, and the United Kingdom.

Chart 7 – California Exports of Goods for 2011 to 2018 (billions of dollars)									
	Partner	2011	2012	2013	2014	2015	2016	2017	2018
	World	\$159.4	\$161.7	\$168.0	\$174.1	\$165.3	\$163.5	\$171.9	\$178.4
1	Mexico	\$25.8	\$26.3	\$23.9	\$25.4	\$26.7	\$25.2	\$26.7	\$30.7
2	Canada	\$17.2	\$17.4	\$18.8	\$18.2	\$17.2	\$16.1	\$16.7	\$17.7
3	China	\$14.2	\$13.9	\$16.2	\$16.0	\$14.3	\$14.3	\$16.4	\$16.3
4	Japan	\$13.1	\$13.0	\$12.7	\$12.2	\$11.7	\$11.7	\$12.8	\$13.0
5	Hong Kong	\$7.6	\$7.8	\$7.7	\$8.5	\$8.7	\$9.6	\$12.1	\$9.9
6	South Korea	\$8.4	\$8.2	\$8.3	\$8.6	\$8.6	\$8.2	\$9.6	\$9.9

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

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. According to the Organisation for Economic Co-operation and Development, in 2014, 15.1% of U.S. exports and 29.4% of exports from the People's Republic of China contained materials that originated from a foreign country, which demonstrates the importance of trade to not just California, but to the U.S. as a whole.

Chart 8 displays data on the top 6 products California exported to China in 2018, many of which include components and production resources.

Chart 8 – California Trade with China 2018		
Product Type	Export Value (in millions of dollars)	Percent of Total Exports to China
Manufacturing, Part 3	\$10,693	65.4%
Manufacturing, Part 2	\$2,067	12.7%
Waste and Scrap	\$1,308	8.0%
Manufacturing, Part 1	\$880	5.4%
Agriculture and Livestock Products	\$764	4.6%
Used or Second-Hand Merchandise	\$512	3.1%
<i>Total Exports - All Products</i>	\$16,338	100%

Source: International Trade Administration, accessed 07/11/2019

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

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

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

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

California has had the highest level of employment in foreign-owned firms in the nation since at least 1997. In 2015, jobs in California foreign-owned firms represented 5.1% of all private sector jobs in the state, up from 4.1% in 2013. Along with employment, foreign-owned firms own more property, plants, and equipment in California than in any other state. *Appendix C (page v)* includes additional information on California's trade-based economy *Appendix D (page vii)* has information on the California-China trade relationship.

State Trade Promotion Activities with China

California has recognized the importance of China as a trade partner for decades. GO-Biz, who serves as the state's lead agency on trade and foreign investment, excluding agriculture-related products, annually engages in activities and hosts events to support this important relationship. As part of this commitment, GO-Biz also belongs to the China Interagency Committee which coordinates state activities related to China across a range of state agencies, including the Air Resources Board, the California Energy Commission, the California Department of Food and Agriculture, and Visit California, to name just a few. Activities organized through this interagency committee include:

- 2016 California-China Clean Energy Trade Mission
- 2016 California-China Business Summit at 2016 China Week
- 2017 California-China Business Summit at 2017 China Week
- 2017 Select California Investment Summit

GO-Biz also operates a number of key programs to facilitate business development, in general, and trade and foreign investment, specifically. These programs include the State Trade and Export Promotion (STEP) Program, EB-5 investment visa activities, export finance support through the Small Business Finance Center, data reports and tracking of foreign trade trends, and the California-China Office of Trade and Investment.

STEP has been provided through a trade and investment initiative authorized by the federal Small Business Jobs Act of 2010. The primary purpose of the program is to create jobs by increasing the number of, and the volume of, small businesses exporting. For 2016 through 2018, China was identified as a priority area, which resulted in assisting California entrepreneurs to attend the:

- 2017 China Medical Equipment Fair in Shanghai
- 2017 Yue Hwa Retail Promotion in Hong Kong
- 2017 Hong Kong Wine and Spirits Fair
- 2017 CosmoProf Asia in Hong Kong
- 2017 China Food and Agriculture Trade Mission

The California-China Office of Trade and Investment in Shanghai is self-funded through private contributions and operates under a cooperative agreement between GO-Biz and the Bay Area Council, a San Francisco-headquartered nonprofit business organization. Opened in October 2012, the purpose of the Trade Office is to provide California companies with increased access to Chinese business contacts, provide Chinese investors with access to California projects, and spur new investment and trade growth between California and China. In order to expand the Office's outreach, GO-Biz later entered into a

memorandum of understanding (MOU) with additional California-China trade partners, including the California Asian Pacific Chamber of Commerce, World Trade Center Los Angeles, and the City of Sacramento.

California's International Agreements with China

Existing law requires the state's International Trade and Investment Program to be focused on attracting employment producing direct foreign investment; supporting California businesses' access to foreign markets; and engaging in other trade and foreign investment activities assigned by the Governor.

Governor Brown placed a high priority on the development of diplomatic, environmental, and business exchanges between California and China. In addition to approving California's only foreign trade office to be opened in Shanghai, the Governor conducted a trade mission to China in 2013; entered into cooperation agreements with China on business and climate-related issues; held many bilateral and multilateral meetings with high ranking Chinese officials; and twice met with President Xi Jinping to discuss issues of mutual interest.

Governor Brown also attended the Clean Energy Ministerial in June 2018, an annual meeting of national energy ministers and other high-level delegates, and joined China's Ministry of Science and Technology to host the "Under2 Clean Energy Forum." **Chart 9** below summarizes several of these cooperation agreements and includes links for additional information.

Chart 9 – Selection of California and China Cooperation Agreements		
Date Signed	Title/Purpose	Link to Governor's Press Release
April 10, 2013	Memorandum of Understanding between <i>California and the National Ministry of Commerce and the relevant provinces of the People's Republic of China</i> on establishing "China Provinces and the U.S. California Joint Working Group on Trade and Investment Cooperation"	http://www.business.ca.gov/Portals/0/Files/MOU-Min_of_Commerce_China.pdf?ver=2016-10-03-143836-057
April 14, 2013	Memorandum of Understanding on friendly cooperation between <i>California and the Jiangsu Province of the People's Republic of China</i>	http://www.business.ca.gov/Portals/0/Files/MOU-Jiangsu_China.pdf?ver=2016-10-03-143835-260
April 14, 2013	Memorandum of Understanding on strategic cooperation between <i>GO-Biz and the Administration Committee of Shanghai Zhangjiang High-Tech Park</i>	http://www.business.ca.gov/Portals/0/Files/MOU-Shanghai_China.pdf?ver=2016-10-03-143835-913
April 15, 2013	Memorandum of Understanding on the friendly exchanges and cooperation between <i>California and Guangdong Province of the People's Republic of China</i>	http://www.business.ca.gov/Portals/0/Files/MOU-Guangdong_China_Gov_Brown.pdf?ver=2016-10-03-143834-663
April 16, 2013	Memorandum of Understanding to foster cooperation on trade and investment promotion between <i>GO-Biz and the Municipality of Chongqing Foreign Trade and Economic Relations Commission of the People's Republic of China</i>	http://www.business.ca.gov/Portals/0/Files/MOU-Chongqing_China.pdf?ver=2016-10-03-143835-320
October 14, 2013	Memorandum of Understanding for further promoting bilateral trade and investment between <i>California and the Inner Mongolia Autonomous Region of China</i>	http://www.business.ca.gov/Portals/0/Files/MOU-Inner_Mongolia.pdf?ver=2016-10-03-143835-087

September 21, 2014	Establishes a Sister State Relationship between <i>California and Guangdong Province of the People's Republic of China</i>	http://www.business.ca.gov/Portals/0/Files/MOU-Guangdong_Sister_State_China.pdf?ver=2016-10-03-143834-900
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Key elements of these agreements are the importance of promoting trade and investment missions, encouraging innovation, and strengthening the capacity of both parties to participate in business development activities that are mutually beneficial. Examples of priority initiatives covered within these agreements include, but are not limited to, the following industry and issues areas:

- Agriculture
- Biological Medicine
- Business Exhibitions
- Coordination of inbound trade missions
- Cultural Tourism
- Ecological Environmental Protection
- Energy Development
- Information Technologies
- Infrastructure and Modern Logistics
- Manufacturing
- Rare Earth, Coal, and Nonferrous Metals
- Strengthening cooperative relationships between cities and regions within the two countries
- Technology Development

Formal and informal bilateral working groups have been established to support the implementation of these cooperation agreements. Examples of projects that have resulted from these formal agreements, as well as activities that have organically developed through California and China's ongoing dialogue and engagement, include the following:

- **Cooperation Around Near- and Zero-emission Vehicles:** In June of 2017, Governor Brown, California Air Resources Board Chair Mary D. Nichols, and other state officials met in Beijing with China's leading automakers and battery manufacturers in an effort to expand cooperation and accelerate deployment of zero-emission cars, trucks, and buses. Also participating in the meeting was the Chief Sustainability Officer for the City of Los Angeles. "In order to achieve California's climate goals, we need more electric cars and more hydrogen fuel cell cars that are charged with renewable energy," said Governor Brown.

The market of zero-emission vehicles exceeded two million cars, trucks, and buses worldwide in 2017. China accounts for about 40% of the global market and California is responsible for more than 50% of sales in the U.S. As part of California's follow-up from the meeting, the Governor proposed to establish a new working group through the China-U.S. ZEV Policy Lab at UC Davis.

- **Clean Tech Working Group:** In October 2016, GO-Biz and the California Energy Commission convened the Joint Working Group in Beijing to discuss ways to strengthen economic opportunities for California clean tech companies and encourage Chinese foreign direct investment. Other members of California's delegation included the California Asian Pacific Chamber of Commerce, World Trade Center Los Angeles, the City of Sacramento, the Bay Area Council, and Los Angeles Regional Export Council, as well as a dozen clean energy executives and California business representatives.
- **Business Summits:** GO-Biz hosted two business summits to bring together investors and businesses in California and China. The first summit was held in Sacramento and focused on businesses engaged in

clean technology, water innovation, sustainable development, and zero-emission vehicles. The second summit, held in Los Angeles, focused on bioscience, advanced transportation, and aerospace. Investors and businesses from Japan, Korea, Singapore, and Malaysia also attended the Los Angeles event. According to the East-West Center, which has been following this process, between 2000 and the first quarter of 2017, California secured 441 incoming investment deals from China.

Framing the Lines of Inquiry

Rapid globalization in the past two decades has permanently changed the economic development paradigm for California communities. The state's unique location and demographics provide both opportunities for engaging in domestic and international commerce, as well as challenges, such as obtaining business capital, hiring an appropriately skilled workforce, and accessing quality infrastructure to support the exchange of products, services, and ideas. The federal administration's policies on international engagement, including international trade and the use of tariffs, are having far reaching impacts on local communities, businesses, and workers.

Beyond the economic impacts, the trade dispute runs the risk of damaging decades of relationship building between California and China. In addition to sharing information on direct and indirect impacts, witnesses can also make recommendations on how the state can support businesses and workers during this challenging time of evolving federal policy on international trade and foreign investment. Among other questions, the Members may want to consider the following:

1. How is the executive branch organizing itself to track and monitor the impact of the trade disputes with China? Which government office or individual is taking the lead and how are they engaging with the private sector?
2. How can the executive branch support the development of tier two foreign markets to offset the loss of exports and imports with China?
3. What services can the state provide to workers who experience work slow downs as a result of extended trade disputes?
4. What role can the Governor's State Point of Contact to the U.S. Trade Representative play in sending a unified message from the Administration and Legislature, as authorized in Government Code Section 99501?
5. How can the state engage with its U.S. Congressional delegation to advance strategic trade actions supporting California businesses?
6. How can the state engage with other major exports states, such as Texas, Florida, and New York, to advance strategic trade actions supporting California businesses?
7. How can e-commerce platforms, technical assistance, and modifications of regulatory requirements mitigate the impacts of the U.S. and China trade dispute?

Materials in the Appendices

A fact-packed summary of the California economy and copies of other materials related to the presentations are provided in the appendices.

- Appendix A - *Agenda for the July 17, 2019 Hearing*

- Appendix B - *Fast Facts on the California Economy*
- Appendix C - *Fast Facts on the California Trade-Based Economy*
- Appendix D - *Fast Facts on the California and China Trade Relationship*
- Appendix E - *Selection of Related News Articles and Reports*
- Appendix F - *Biographies of Speakers*

To Provide Public Comments

A public comment period will follow the formal presentations. Individuals and representatives from organizations and businesses are encouraged to sign-up and add their voices to this important dialogue. Written comments may also be submitted to the ACTIP or JEDE Committee offices until September 13, 2019.

Committee Contact Information

The Assembly Select Committee on Asia/California Trade and Investment Promotion is a research committee of the California State Legislature which is tasked with identifying ways to encourage overseas companies to expand their next projects, investments, and enterprises in California so that the state's economy can benefit directly from those jobs and investments. The Committee is located in the State Capitol, Room 6026. The phone number for the Committee is 916.319.2019.

The Assembly Committee on Jobs, Economic Development, and the Economy is the standing committee of the California State Legislature responsible for overseeing issues related to business formation, foreign trade and investment, industrial innovation and research, and state and local economic development activities. The Committee Office is located in the Legislative Office Building at 1020 N Street, Room 359. The phone number for the Committee is 916.319.2090.

APPENDICES

Appendix A

U.S. Trade Tariffs on China: Effects on California's Economy

Hearing Agenda for July 17, 2019

The Assembly Select Committee on Asia/California Trade and Investment Promotion and the Assembly Committee on Jobs, Economic Development, and the Economy are convening an informational hearing on the effects of the United States' trade tariffs on China on the economies of California and United States. This is the second in a series of hearings the Assembly is holding to examine different aspects of this issue.

I. Welcome, Introductions, and Opening Statements

Chairs and members of the committees will provide opening remarks to set the structure and context for the hearing.

II. Remarks by Lieutenant Governor Eleni Kounalakis

Lt. Gov. Eleni Kounalakis, who also serves as the Governor's Representative for International Affairs and Trade Development, will share her insights and perspectives on the current trade situation between the U.S. and China.

III. Remarks from the Consulate General of the People's Republic of China

Ren Faqiang, Deputy Consul General of the People's Republic of China in San Francisco will provide remarks on the U.S. and China trade dispute and the future of California trade with China.

IV. Assessing the Business and Economic Implications of the Trade Dispute on California

- *Darlene Chiu, Executive Director of ChinaSF*
- *John Grubb, Chief Operating Officer of the Bay Area Council*
- *Stephen Cheung, President of the World Trade Center Los Angeles*
- *Erin Ennis, Senior Vice President of the U.S.-China Business Council (invited)*
- *James Green, Senior Advisor at McLarty Associates (invited)*

This panel of business and economic development leaders who specialize in international trade and foreign investment will discuss how the U.S. – China trade dispute is impacting their clients and share strategies businesses are utilizing to insulate their companies from extended delay in the two parties reaching a resolution.

V. Public Comment

Anyone interested in addressing the Committees may sign up to speak during the public comment period. A sign-up sheet is located at the back of the hearing room. Written comments may also be submitted to the ACTIP and JEDE committee offices.

VI. Closing Remarks

Assembly Members will make closing remarks.

Appendix B

Fast Facts on the California Economy

California Gross Domestic Product (GDP)

- California's \$2.9 trillion economy in 2018 ranks as the fifth largest in the world – larger than the UK, India, France, Brazil, Italy, Canada, Korea, and Russia.^x
- California's largest private industry sectors in 2017 were: finance, insurance, real estate, rental, and leasing (21.6% of state GDP); trade, transportation, and utilities (14.5%); professional and business services (12.8%); manufacturing (10.9%); information (8.7%); tourism and arts (4.2%); and construction (3.9%).^{xi}

Comparison of 2018 GDPs			
Country	GDP	Country	GDP
1 United States	\$20.4 trillion	9 Italy	\$2.0 trillion
2 China	\$13.4 trillion	10 Brazil	\$1.8 trillion
3 Japan	\$4.9 trillion	11 Canada	\$1.7 trillion
4 Germany	\$4.0 trillion	12 Russia	\$1.6 trillion
5 California*	\$2.9 trillion	13 Korea	\$1.6 trillion
6 United Kingdom	\$2.8 trillion	14 Spain	\$1.4 trillion
7 France	\$2.7 trillion	15 Australia	\$1.4 trillion
8 India	\$2.7 trillion		

Source: Department of Finance^{ix}

Firms, Employment, and Wages

- There were 3,206,958 firms in California that had no employees in 2015, representing 82% of all firms in California (3,906,497 in total). Of firms which have employees (699,539 in total), 49.9% had 1 to 4 employees, 78.0% had less than 20 employees, 87.0% had less than 100 employees, and 89.0% had less than 500 employees (federal small business definition). Approximately 6,115 firms in California had 500 employees or more.^{xii}
- There were 19.5 million workers in the California labor force in May 2019 with 18.6 million individuals employed, a month-over decrease of 40,000 jobs (-0.3%). This represents a 130,000 (0.7%) increase in employment over the prior 12-month period.^{xiii}
- Nonfarm employment rose in 10 sectors between May 2018 and May 2019, including: construction (3.8%); information (3.6%); education and health services (2.7%); leisure and hospitality (2.6%); professional and business services (2.3%); government (1.1%); mining and logging (0.9%); manufacturing (0.8%); other services sector (0.3%); and trade, transportation, and utilities (0.2%). The only sector that had less jobs in May 2019 as compared to May 2018 was business in the financial activities (-0.2%).^{xiv}
- California exported \$178.4 billion in goods in 2018 to over 225 foreign markets, representing 10.7% (\$1.6 trillion) of total U.S. exports and rendering the state the 28th largest exporter in the world.^{xv xvi xvii} California's largest export market in 2018 was Mexico (\$30.7 billion), followed by China and Hong Kong (\$26.2 billion), and Canada (\$17.7 billion).^{xviii} California imported \$441.0 billion in products from other countries, accounting for 17.3% of total U.S. imports in 2018. China (\$161.2 billion) and Mexico (\$44.0 billion) are the state's largest import markets.^{xix}
- California median household income was \$71,805 (\$60,336 for U.S.)^{xx} with 14.3% of individuals in the state (13.4% for U.S.) living on incomes at or below the federal poverty designation.^{xxi} Using the federal Supplemental Poverty Measure, which accounts for geographic differences, transfer payments, and out-of-pocket expenses, 19% of California residents live in poverty, as compared to 14.1% nationally using a three-year average of 2015 through 2017.^{xxii}

Future California Job Market

- The Employment Development Department is responsible for assessing future employment needs based on regional industry clusters. By 2026, it is estimated that total civilian employment (including self-employment, farm employment, and private household workers) will reach 19.7 million, an increase of 1.9 million jobs (10.7%) over the 10-year projected period of 2016-2026. The chart on the next page displays projected growth in civilian employment for 2016-2026, including new and replacement jobs.^{xxiii}

Projected Job Growth in Employment 2016-2026 (ranked by number of jobs)							
	Industry Sector	Percent Change	Increase in Jobs		Industry Sector	Percent Change	Increase in Jobs
12	Educational Services, Health Care, and Social Assistance	23.9%	607,400	7	Information	14.6%	76,600
2	Professional and Business Services	11.1%	280,200	8	Other Services (excludes private household services)	10.1%	55,900
3	Leisure and Hospitality	13.3%	252,300	9	Financial Activities	5.2%	42,600
4	Trade, Transportation, and Utilities	6.7%	200,000	10	Total Farm	3.5%	15,000
5	Construction	20.5%	158,600	11	Manufacturing	0.1%	1,300
6	Government	4.6%	116,100	12	Mining	-8.0%	-1,800

May 2019 Unemployment

- In May 2019, the California seasonally adjusted unemployment rate was 4.2%, which represents a - 0.1% decrease from the prior month. This unemployment rate represents approximately 826,000 unemployed workers reflecting a labor force participation rate of 62.4%.^{xxiv} Over the same period, the comparable national unemployment rate was 3.6%.^{xxv}
- For May 2019, the counties with the highest not seasonally adjusted unemployment were Imperial (16.4%), Colusa (10.4%), and Tulare (8.1%). Fourteen out of 58 counties in California had unemployment rates below 3%, including: San Mateo (1.7%), Marin (1.9%), San Francisco (1.9%), and Santa Clara (2.1%). The comparable non-seasonally adjusted state unemployment rate was 3.5%.^{xxvi}
- The highest not seasonally adjusted unemployment rates by race and ethnicity were among individuals identified as black (6.2%), Hispanic (5.1%), and white (4.1%) in May 2019. The comparable state non-seasonally adjusted 12-month moving average unemployment rate was 4.2%.^{xxvii}
- Most Californians, 82.2%, generally worked full time. There were 719,000 persons in California who worked part time involuntarily in May 2019, comprising 3.9% of all employed workers during the survey week.^{xxviii} California's labor participation rate was 62.4% in May 2019, meaning over 11.7 million people were not participating in the labor force.^{xxix}
- By age group, the highest unemployment group in May 2019 was among workers 16 to 19 years of age (15.3%).^{xxx} The largest group of unemployed persons, when sorted by duration, were individuals unemployed for less than five weeks, which represented 260,000 persons or 31.9% of those unemployed. These are not seasonally adjusted rates.^{xxxi}

Prepared by: Assembly Committee on Jobs, Economic Development, and the Economy
Assemblymember Sabrina Cervantes, Chair

Appendix C

Fast Facts on the California Trade-Based Economy

If California were a country, it would stand among the ten largest economies in the world, with a 2017 state GDP of \$2.9 trillion (5th largest in the world).^{xxxii} In 2018, California imports and exports totaled \$620 billion in products, representing over 15% of total U.S. imports and exports.^{xxxiii}

California and World Markets

- In 2018, California GDP grew from \$2.7 trillion to **\$2.9 trillion**, ranking the state's economy as the **5th largest in the world**, as compared to national economies. Only the economies of the U.S., China, Japan, and Germany are larger.^{xxxiv}
- **Exports** out of California were valued at **\$178.4 billion** in 2018, representing 10.7% (\$1.6 trillion) of total U.S. exports and rendering the state the 28th largest exporter in the world.^{xxxv xxxvi xxxvii} For comparison of growth over time, California exported \$168 billion in 2013.^{xxxviii}
- California's **largest export market** is **Mexico**, where the value of exports totaled \$30.7 billion in 2018. After Mexico, California's top export markets in 2018 were: China and Hong Kong (\$26.2 billion), Canada (\$17.7 billion), Japan (\$13.0 billion), South Korea (\$9.9 billion); Taiwan (\$6.8 billion), Germany (\$6.5 billion), the Netherlands (\$6.4 billion), India (\$6.1 billion), and the United Kingdom (\$5.2 billion).^{xxxix}
- California's **top seven exports** in 2018 were: computer and electronic products (\$45.1 billion); transportation equipment (\$19.1 billion); machinery, except electrical (\$17.7 billion); miscellaneous manufactured commodities (\$15.7 billion); chemicals (\$13.7 billion), agricultural products (\$13.5 billion); and food manufactures (\$9.1 billion).^{xl}
- California exported **\$30.7 billion in products to Mexico** in 2018. The top five exports to Mexico were: computer and electronic products (\$7.9 billion); transportation equipment (\$3.7 billion); machinery, except electrical (\$2.2 billion); electrical equipment, appliances, and components (\$2.2 billion); and chemicals (\$1.9 billion).^{xli}
- California exported **\$26.2 billion in products to China** (\$16.3 billion), including Hong Kong (\$9.9 billion). The top five exports to China (only) were: computer and electronic products (\$4.1 billion); machinery, except electrical (\$2.5 billion); transportation equipment (\$2.0 billion); chemicals (\$1.4 billion); and waste and scrap (\$1.3 billion).^{xlii}
- California's **third largest export market is Canada**, with exports totaling \$17.7 billion in 2018. The top four exports to Canada were: computer and electronic products (\$5.7 billion); agricultural products (\$2.4 billion); transportation equipment (\$1.5 billion); and food manufactures (\$1.3 billion).^{xliii}
- **Imports into California** were valued at \$441.1 billion in 2018, representing 17.3% of total U.S. imports and ranking the state the 13th largest importer in the world.^{xliv}
- China is the **largest source of imports to California**, valued at \$441.1 billion in 2018. Chinese imports totaled \$161.1 billion, followed by Mexico (\$44.0 billion), Japan (\$33.6 billion), and Canada (\$27.0 billion).^{xlvi}
- The **largest amount of products imported** in 2018 by dollar: computer and electronic products (\$1.2 billion); transportation equipment (\$69.4 billion); electrical equipment, appliances, and components

(\$24.8 billion); oil and gas (\$24.4 billion); miscellaneous manufactured commodities (\$22.1 billion); apparel manufacturing products (\$22.0 billion); and machinery, except electrical (\$21.2 billion).^{xlvi}

Trade and Jobs

- In 2016, California's **751,982 businesses** (firms) employed 14.6 million employees and had payrolls totaling \$886 billion (largest payroll in the nation).^{xlvi} Of those companies, 72,665 exported products from California in 2016 (latest year available) and 69,387 (96%) were small and medium size enterprises with fewer than 500 employees.^{xlvi}
- **California goods exports** in 2016 (most recent) **supported an estimated 684,000 jobs**.^{xlvi} In 2016, **92%** of California export-related jobs were in **manufacturing**.¹
- **Goods exports from Texas, California, and Washington** supported the most jobs in the nation in 2016 (910,000; 684,000; and 333,000 jobs respectively). Total exports from Texas and California combined accounted for nearly 30% of U.S. jobs supported.^{li}

California and Foreign Direct Investment

- **Foreign Direct Investment (FDI)** contributes significantly to the U.S. economy, including **higher employment, higher wages** than national standards, **higher competitiveness among firms and boost exports**, a stronger **manufacturing base**, greater **research and development**, and higher **overall productivity** for the economy.^{lii}
- In 2017, **global foreign direct investment (FDI)** reached \$1.4 trillion, with the U.S. receiving the second largest amount of FDI in the world, totaling \$259.6 billion (18.4% of global FDI).^{liii}
- The **largest investing country** was Canada, with expenditures of \$66.2 billion, followed by the United Kingdom (\$40.9 billion), Japan (\$34.0 billion), and France (\$23.1 billion). By region, Europe contributed 40 percent of the new investment in 2017.^{liv}
- By industry, expenditures in **manufacturing** were the largest sector at **\$103.7 billion**, accounting for **40%** of total expenditures in the U.S.^{lv}
- **By state**, the largest FDI expenditures were in **California** (\$41.6 billion), **Texas** (\$39.7 billion), and **Illinois** (\$26 billion).^{lvi}
- In 2017, **employment at newly acquired, established, or expanded foreign-owned businesses** in the U.S. was 554,300 employees. Current employment of acquired enterprises was 549,700.^{lvii}
- **California has the 2nd highest number** of employees of foreign affiliates at **55,700**, comprising over 10% of total U.S. employment by foreign-owned firms. The state with the **largest employment** by foreign-owned firms is **Missouri** with 63,000 employees.^{lviii}
- Foreign-owned enterprises that support the **largest number of workers** in California include: Japan (19.3%), the U.K. (14.5%), Switzerland (10.5%), France (10.4%), Germany (10.2%), Canada (6.25%), and the Netherlands (4.0%).^{lix}
- The **top five cities** with the **highest concentrations of foreign-owned and -affiliated businesses** are Los Angeles (1591 establishments), Torrance (310), Long Beach (212), Santa Monica (134), and Pasadena (127).^{lx}

Prepared by: Assembly Committee on Jobs, Economic Development, and the Economy
Assemblymember Sabrina Cervantes, Chair

Appendix D

Fast Facts on the California and China Trade Relationship

China is the largest economy in the world with a 2017 GDP of \$23.2 trillion, based on purchasing power parity.^{lxi} China is consistently among California's top export and import partners, with \$14.3 billion worth of goods exported and \$441.1 billion worth of goods imported in 2018.^{lxii}

Profile of China

- China is the world's fourth largest country with a land mass less than only Russia, Canada, and the U.S. The land area of China is 9.6 million square km,^{lxiii} which makes it slightly smaller than that of the U.S. (9.8 million square km).^{lxiv}
- China is the world's most populous country with an estimated population of 1.38 billion in 2018,^{lxv} which is more than four times the population of the U.S. (329.2 million).^{lxvi lxvii}
- The literacy rate (age 15 and over that can read and write) in China was 96.4%.^{lxviii}
- There were 2,560 higher education institutions in China reported in 2016, 793 of which provided postgraduate programs. In addition, China had 11,202 secondary vocational education schools recorded for the same period.^{lxix}
- In 2016, 94.5% of high school graduates in China enrolled in higher education programs.^{lxx} There were 1.9 million post-graduate students in China with 1.1 million in science, engineering, and medicine fields. This represents 57% of all graduate students.^{lxxi}

Overview of China's Economy

- China possessed a 2017 GDP measured on purchasing power parity of \$21.2 trillion. For comparison the U.S. GDP measured on purchasing power parity was \$19.4 trillion in 2017. Purchasing power parity is considered by many researchers as a better measure for output across differing countries.^{lxxii}
- China's GDP per capita of \$16,700 ranked 105th in the world in 2017.^{lxxiii}
- The inflow of foreign direct investment (FDI) has played a significant role in China's high GDP growth rate of 6.9% in 2017. China was ranked 1st as a top priority host for FDI for the 2014-2016 period by transnational corporations.^{lxxiv} As of 2018, China received \$142 billion of FDI, only behind the top ranking U.S. who received \$226 billion of FDI.^{lxxv}
- Beginning in the late 1970s, China gradually implemented several key economic and fiscal reforms which liberalized trade, modernized the banking system, promoted growth of the private sector, and allowed the currency to rise in value. Changes in these policies played a significant role in making China the world's largest exporter in 2010. In 2017, it remained the world's largest exporter, exporting \$2.2 trillion in goods.^{lxxvi}
- In 2017, the agriculture, industry, and services sectors accounted for 7.9%, 40.5%, and 51.6% of its GDP, respectively.^{lxxvii}
- China had 806.7 million people in its labor force in 2017. While its 2017 labor force ranks China as having the largest workforce in the world, its estimated workforce is down from 1.004 billion estimated in 2012.^{lxxviii}
- China's 2017 labor force by sector had the greatest proportion in industrial (28.8%), while agriculture

and services sectors comprised 27.7% and 43.5%, respectively, in 2017.^{lxxix}

- China's support for state-owned enterprises in sectors considered important to “economic security” has increased in recent years, including in such sectors as energy generation/distribution, oils, petrochemical, natural gas, telecom, armaments, coal, and shipping.^{lxxx}
- The growth of China’s GDP relies heavily on foreign exports. In 2017, the value of China’s exports to the world was \$2.2 trillion, ranking 1st in the world, and its imports were worth \$1.7 trillion, ranking 2nd.^{lxxxi} China’s current account balance decreased from \$304.2 billion in 2015 to \$164.9 billion in 2017, ranking China 3rd in world, with Germany and Japan in the top positions. The U.S. has the lowest account balance (-\$449.1 billion).^{lxxxii}
- China’s major export commodities in 2017 were electrical and other machinery, including computers and telecommunications equipment, apparel, furniture, and textiles.^{lxxxiii} Its major import commodities were electrical and other machinery, including integrated circuits and other computer components; oil and mineral fuels; optical and medical equipment; metal ores; motor vehicles; and soybeans.^{lxxxiv}
- Economic development has been more rapid in urban centers and coastal provinces than in rural areas. According to the Gini Index, which measures income inequality (where 0 is perfect equality and 100 is perfect inequality), in 2016, China scored 46.5 out of 100, which is 30th in the world. For comparison, the US is ranked as 39th, based on 2007 data (most recent data included on the list)^{lxxxv}
lxxxvi

China and U.S. Trade and Investment Relations

- In 2018, the U.S. was China’s largest export partner, representing 19.2% of all of China’s exports. The total value of products China exported to the U.S. totaled \$539.5 billion,^{lxxxvii} which increased from \$483.2 billion in 2015.^{lxxxviii}
 1. Computer and electronic products: \$186.4 billion
 2. Electrical equipment, appliances and components: \$49.9 billion
 3. Furniture, lighting, signs: \$33.4 billion
 4. Miscellaneous manufactured commodities: \$43.9 billion
 5. Machinery, except electrical: \$38.7 billion
 6. Apparel manufacturing products: \$29.8 billion
 7. Furniture and fixtures: \$25.7 billion
 8. Transportation equipment: \$21.6 billion
 9. Chemicals: \$21.3 billion
 10. Plastics and rubber products: \$20.2 billion
- China is the third largest export market for the U.S., after Mexico and Canada. The U.S. exported \$120.3 billion in products to China in 2018, down \$9.5 billion from 2017.^{lxxxix}
- The U.S. goods trade deficit with China was \$419 billion in 2018, up from \$347 billion in 2016. The trade deficit with China accounted for 47% of the overall U.S. trade deficit in 2018, up from 20.5% of total deficit in 2016.^{xc}
- The top U.S. exports to China in 2018 were transportation equipment (23.1%); computer and electronic products (14.9%); chemicals (13.5%); and machinery, except electrical (9.2%).^{xci}
- China’s inward FDI from the U.S. totaled \$74.6 billion, and China’s outward FDI to the U.S. was \$14.8 billion in 2015 (latest data available).^{xcii}

China and California Relations

- There were **1,496,496 Chinese Americans** living in California as of 2015 according to the American Community Survey,^{xciii} which was 3.8% of the state's 2015 population of 39 million.^{xciv}
- **Exports** out of California were valued at **\$178.4 billion** in 2018. China, including Hong Kong, is California's second largest export market, after Mexico. California's export value to China totaled \$26.2 billion in 2018.^{xcv}
- California exported **\$26.2 billion in products to China** (\$16.3 billion), including Hong Kong (\$9.9 billion). The top five exports to China (only) were: computer and electronic products (\$4.1 billion); machinery, except electrical (\$2.5 billion); transportation equipment (\$2.0 billion); chemicals (\$1.4 billion); and waste and scrap (\$1.3 billion).^{xcvi}
- **Imports into California** were valued at \$441.1 billion in 2018, with California importing \$161.1 billion in products from China.^{xcvii}

Prepared by: Assembly Committee on Jobs, Economic Development, and the Economy
Assemblymember Sabrina Cervantes, Chair

Appendix E

Selection of Related News Articles and Reports

This appendix includes summaries of news articles and key reports related to the joint informational hearing on effect of the U.S. Trade dispute with China on the California economy.

News Articles

1. **Indian Journal of Asian Affairs: *The US–China Trade War: A Political and Economic Analysis*** (2018): This analysis finds that the trade war between the U.S. and China cannot achieve the outcomes that President Trump wants because it cannot significantly reduce the current deficit and that it is impossible to block China's technological advancements and that this effect would actually be detrimental towards trade balancing. The article finds that in order to resolve trade imbalances through strategic communication. www.jstor.org/stable/26608823
2. **Bloomberg: *US-China trade talks to resume by phone in coming week, Donald Trump's chief economic adviser Larry Kudlow says*** (July 3, 2019): At the G20 Summit in Japan in June, President Trump's chief economic adviser announced that Trump and President Xi Jinping would restart trade talks, signaling a truce. Trump agreed to hold off on imposing an additional \$300 billion in tariffs that he announced in May. <https://www.bloomberg.com/news/articles/2019-07-03/u-s-china-trade-talks-resume-with-phone-calls-kudlow-says>
3. **BBC News: *A quick guide to the US-China trade war*** (June 29, 2019): In 2018, the United States (U.S.) imposed three rounds of tariffs on more than \$250 billion worth of goods from China, with products ranging from luxury goods to railway equipment. In response, China imposed tariffs ranging from five to 25 percent on \$110 billion worth of U.S. goods. In December of 2018, an agreement collapsed and in May of this year the U.S. raised tariffs from ten percent to 25 percent on \$200 billion Chinese goods. China retaliated with a tariff on \$60 billion U.S. products. In June, the U.S. held off on an additional \$300 billion in tariffs so that President Trump could continue to negotiate with China. Both countries have been harmed in this trade war and the International Monetary Fund has warned that a full trade war would weaken the global economy. www.bbc.com/news/business-45899310
4. **Thompson Reuters: *Timeline: Key Dates in the U.S.-China Trade War*** (May 9, 2019): This article lists the key timeline dates of the U.S.-China trade war:
 - July 2017: Trump and Xi Jinping meet (first positive move) but fail to agree on a plan to reduce the U.S. deficit with China
 - April 2018 - Onward: U.S. Government announced a tariff list and the Chinese responded with a retaliatory tariff list (a tipping point for a possible trade war was initiated)
 - December 2018: U.S. - China agree to 90 day halt
 - May 2019: U.S. Administration gives notice of intent to raise tariffs on Chinese imports<https://www.reuters.com/article/us-usa-trade-china-timeline/timeline-key-dates-in-the-us-china-trade-war-idUSKCN1SE2OZ>

Research and Reports

1. **California-China Office of Trade and Investment 2014 Annual Report (May 2014)**: This mandated annual report was prepared by GO-Biz and is a condition of maintaining a foreign trade office. In April

2013, California opened its first international trade office since 2003. The California-China Office of Trade and Investment (CCTO) opened in April 2013 to serve the needs of California businesses exporting into China and Chinese investors looking to invest in California. Actions of the CCTO are set forth in a work plan. Among other accomplishments, the trade office met all its administrative milestones including the hiring of staff, officially opening the office, and leading a high-level trade mission to China. Relative to its inbound investment goals, the CCTO participated in double the number of investment targeted attraction events and is working on converting these activities into new investments and businesses opening facilities in California. Relative to increasing outbound trade to China, the CCTO exceeded by 50% the number of outreach events by participating in three during the report year and has sponsored three out of the targeted four business development trips.
<http://www.business.ca.gov/International.aspx>

2. ***California-China Office of Trade and Investment 2015 Annual Report (December 2015)***: This mandated annual report was prepared by the Governor's Office of Business and Economic Development. The California-China Office of Trade and Investment (CCTO) is located in Shanghai and is operated under a public-private partnership between GO-Biz and the Bay Area Council. As initially designed, the CCTO serves California exporters and Chinese investors. In 2016, the CCTO partnership will be expanded to include additional private, nonprofit network partners, and local governments in California and China. Activities in 2016 will primarily focus on inbound and outbound business development missions, including trade shows, trade missions, business investment/development events, and focused outreach in particular industry sectors. Strategic industries include: clean technology; life sciences; lifestyle (wine, fashion, tourism); education (services and exchanges); and agricultural technology. 2016 goals include:
 - Increase investment in California by assisting Chinese companies to establish or expand their operations in the state, including the creation of a pipeline of high quality Chinese companies, promoting investment, especially from target industries, and engaging with stakeholders.
 - Assist California companies seeking access to Chinese markets, including concentrating efforts on building the knowledge base to be able to provide strategic advice.
 - Build awareness of the CCTO and the brand "California," including creating opportunities for speaking engagements, event endorsements, development of communication tools that regularly update relevant stakeholders, and support CCTO partners.
 - Assist GO-Biz and other state agencies in advancing the state's business-related MOUs.

The only impediment to implementing the strategy is the difficulty in raising funds. One purpose of the expanded trade network is to address this challenge.

The total estimated expenses for the CCTO in 2015 were \$592,744, which included salaries and benefits for two staff people of \$437,843. No state money is used to support the CCTO. GO-Biz does have three dedicated positions, of which 25% of their time is dedicated to China-related initiatives, including overseeing and engaging with the CCTO. <http://www.business.ca.gov/International.aspx>

3. ***California's Future*** (2019): This report by the California Public Policy Institute reviews a range of issues impacting California, including climate change, prisons and the incarcerated population, health care, higher education, housing, K-12 education, political landscape, impact of demographic trends, and the economy. Among the key findings related to the economy, the report stated that the economy was strong, but that persistent disparities could affect the state's long-term growth. While unemployment is at historic lows, labor force participation also remains historically low. Growing economic differences among the regions and the quality of jobs are driving income inequality. While jobs in construction and

service industries are expected to continue increasing, higher paying manufacturing jobs will remain stagnant. Looking forward, the report recommends pursuing policies to build a skilled workforce and spur economic growth; addressing barriers to work; and recognizing that broad labor market indicators often mask challenges. <https://www.ppic.org/publication/californias-future/>

4. ***California International Trade and Investment Strategy (February 2014)***: The International Trade and Investment Strategy is prepared by GO-Biz every five years for the purpose of guiding the implementation of a comprehensive international trade and investment program for the state. The 2014 governing policy framework is that by increasing trade, the state will create jobs, increase revenues, and improve the state's competitiveness – while still being able to serve as a leader in sustainable development. The Strategy has four goals: (1) Support the expansion of California exports; (2) Increase foreign investment; (3) Support California as a gateway for goods and services into the U.S. and out to foreign markets; and (4) Work with federal and international entities to expand global market access. Among other key actions, the 2014 Strategy calls for the establishment of a Trade Advisory Council, reporting on the outcomes of the China Trade Office, and establishing a process to allow California to be more proactive on advocating before the U.S. Congress and the U.S. Trade Representative. <http://www.business.ca.gov/International.aspx>
5. ***Export Nation 2013, U.S. Growth Post Recession, Global Cities Initiative (2013)***. This report, prepared under a joint project of the Brookings Institute and JP Morgan Chase, analyzes key export trends between 2003 and 2012 for the 100 largest metro areas in the U.S. Key findings from the report include:
 - Exports drove post-recession growth in the 100 largest metro areas.
 - Few metro areas are on track to achieve the NEI goal of doubling exports in five years.
 - The 10 largest metro areas, by export volume, produced 28 percent of U.S. exports in 2012.
 - Two-thirds of the largest metro areas underperformed in the United States as a whole on export intensity.
 - The most export-intensive metro areas are highly specialized in certain industries.
 - Metro areas whose export intensity grew fastest experienced higher economic growth.
 - Metro area manufacturing exports grew to record levels in 2012.
 - Services accounted for more than half of post-recession export growth in 11 metros, including San Francisco, Washington DC, and New York.
 - Certain industries, especially in the services sector, produced almost all of their exports in the top 100 metro areas.
 - Both highly specialized and highly diversified metros performed well from 2003 to 2012.
6. ***The Global Competitiveness Report (2018)***: This report, prepared for the World Economic Forum, provides a comprehensive assessment of 140 world economies through the use of 98 indicators spread out among 12 pillars representing key drivers of competitiveness, including institutions, infrastructure, ICT adoption, macroeconomic stability, health, skills, product market, labor market, financial system, market size, business dynamism, and innovation capability. The 2018 report launches a new Global Competitiveness Index 4.0, the foundation of which is the Fourth Industrial Revolution. In this inaugural release, the global average score was 60, which the report stated as suggesting that many economies have yet to implement the measures that would enhance their long term growth and resilience. Under the new rating and ranking system, the U.S. ranks highest with a competitiveness score of 85.6, followed by Singapore (83.5), Germany (82.8), Switzerland (82.6), Japan (82.5), Netherlands (82.4), Hong Kong SAR (82.3), the United Kingdom (82.0), Sweden (81.7) and Denmark (80.6). Among other findings, the report notes that weak institutions continue to hamper

competitiveness, business development, and well-being in many countries. In this instance, institutions are defined as including security, property rights, social capital, checks and balances, transparency and ethics, public-sector performance, and corporate governance. <https://www.weforum.org/reports/the-global-competitiveness-report-2018>

7. ***The Global Risks Report*** (2019): This report prepared for the World Economic Forum presents the survey results of the Global Risks Perception Survey, in which nearly 1,000 decision-makers from the public sector, private sector, academia, and civil society assess the risks facing the world. Among other findings, the survey found that nine out of 10 respondents expect worsening economic and political confrontations between major powers this year. Inequality was also seen as an important driver of the global risks landscape with “rising income and wealth disparity” ranking fourth in respondents’ list of key underlying trends. Further, over the next decade, extreme weather and climate-change policy failures are seen as the gravest threats. The report also includes survey results on “what-if” scenarios that examine quantum computing, weather manipulation, monetary populism, emotionally responsive artificial intelligence, and other potential risks. <https://www.weforum.org/reports/the-global-risks-report-2019>

Appendix F

Biographies of Speakers

Agenda Item II. Remarks from Lieutenant Governor Eleni Kounalakis

The Honorable Eleni Kounalakis *Lieutenant Governor of California*

Ambassador Eleni Kounalakis was sworn in as the 50th Lieutenant Governor of California by Governor Gavin Newsom on January 7th, 2019. She is the first woman elected Lt. Governor of California. A native Californian, she visited each of the state's 58 counties during her historic campaign.

From 2010 to 2013, Kounalakis served as President Barack Obama's Ambassador to the Republic of Hungary. Kounalakis was the first Greek-American woman – and at age 43 one of America's youngest – to serve as U.S. Ambassador. Her highly acclaimed memoir, "Madam Ambassador, Three Years of Diplomacy, Dinner Parties and Democracy in Budapest" (The New Press, 2015), chronicles the onset of Hungary's democratic backsliding.

Governor Jerry Brown appointed Kounalakis to chair the California Advisory Council for International Trade and Investment in 2014. Kounalakis was a Virtual Fellow at the U.S. Department of State, Bureau of Intelligence and Research (INR) between 2014 and 2017, specializing in international trade and immigration. She is currently a director of the Association of American Ambassadors and a National Democratic Institute (NDI) "Ambassadors Circle" advisor.



Prior to her public service, Kounalakis was president of one of California's most respected housing development firms, AKT Development, where she worked for 18 years. She built master-planned communities and delivered quality housing to the Sacramento region's working families – recognizing her as one of the capital region's most prominent businesswomen. Passionate about early childhood development, Kounalakis served as a member of California's First 5 Commission and the California Blue Ribbon Commission on Autism.

Eleni Kounalakis graduated from Dartmouth College in 1989 and earned her Masters in Business Administration (MBA) from U.C. Berkeley's Haas School of Business in 1992. She holds an Honorary Doctorate of Laws from the American College of Greece. She is married to Dr. Markos Kounalakis and the couple has two teenage sons, Neo and Eon.

Agenda Item III. Deputy Consul General Ren Faqiang, Chinese Consulate in San Francisco

The Honorable Ren Faqiang

Deputy Consul at the People Republic of China's Consulate in San Francisco

Born in 1971, Shandong province

1996-1999 Department of North American and Oceanian Affairs of Ministry of Foreign Affairs of China, US Affairs desk officer

1999-2003 Chinese Consulate General in Chicago, vice consul

2003-2011 Department of North American and Oceanian Affairs of Ministry of Foreign Affairs of China, Deputy Director, Director

2011-2015 Chinese Embassy in Sri Lanka, Deputy Chief of the Mission, Political Counselor

August, 2015 up to now Chinese Consulate General in San Francisco, Deputy Consul General

Married with a daughter

Graduated from Shandong Teachers' University and Foreign Affairs College in Beijing



Agenda Item IV - Assessing the Business and Economic Implications of the Trade Dispute on California

Darlene Chiu Bryant

Executive Director, GlobalSF - San Francisco Headquarters

Darlene Chiu Bryant is Executive Director of GlobalSF, a non-profit organization established to support San Francisco's economic development efforts with global partners. Appointed by the late San Francisco Mayor Edwin M. Lee to head up ChinaSF, a public private partnership of the City of San Francisco, she oversaw efforts that brought in more than \$5.1 billion in Foreign Direct Investment, created more than 788 jobs and recruited more than 98 companies to San Francisco Bay Area.

Darlene has had a diverse career in both the public and private sectors, in international trade overseas working for German, Japanese and Chinese multinational firms and in her native San Francisco to work in communications and public affairs for Mayor Gavin Newsom, East West Bank, United Commercial Bank and Pacific Gas & Electric Company.

Bryant is a current boardmember of Angel Island Immigration Station Foundation, founding boardmember of Asian Pacific American Leadership Foundation and CALNET, boardmember of the Edwin M. Lee Democratic Club, and advisory boardmember of the University of San Francisco Chinese Business Studies Initiative.



Stephen Cheung

*Executive Vice President, Los Angeles County Economic Development Corporation
President, World Trade Center Los Angeles*

Cheung leads investment attraction to the LA County region on behalf of both LAEDC and WTCLA, and facilitates successful location of new businesses, projects, and deals from both international and U.S. investors into the region. He also supports international trade and international connections for organizations based in LA County.

Prior to his current role, Stephen Cheung was the Secretary General of International Trade and Foreign Affairs for Los Angeles Mayor Eric Garcetti, and was responsible for managing policies and programs related to the Port of Los Angeles, Los Angeles World Airports, International Affairs and Global Trade. In this role, he was the lead organizer for Mayor Garcetti's previous international trade missions to Mexico, China, Korea and Japan. Furthermore, Cheung implemented the city's strategic plan to make Los Angeles a global capital of clean technology by building the infrastructure to support research, development and manufacturing with key partners.



Concurrently, Cheung was the Director of International Trade for the Port of Los Angeles – the busiest container port in North America, and was responsible for developing programs to increase trade through the Port of Los Angeles, and facilitate goods movement through the Southern California region.

Cheung currently sits on the Board of Advisors of UCLA’s Luskin School of Public Affairs and Sister Cities of Los Angeles, while also serving on LA Metro’s Sustainability Council and Biz-Fed’s International Trade Committee. He has previously served on the Board of Directors of the Los Angeles Regional Export Council and the Los Angeles Business Council.

Stephen was born in Hong Kong and grew up in Los Angeles where he received both his Bachelor of Arts in Psychobiology and Master of Arts in Social Welfare from UCLA. He is fluent in both Mandarin and Cantonese.

James Green

Senior Research Fellow, Georgetown University

Senior Advisor, McLarty Associates

James Green has worked for over two decades on U.S.-Asia relations for the U.S. Government and in the private sector. Currently, Mr. Green is the creator/host of Georgetown University's U.S.-China Dialogue Podcast and a senior advisor at the global consulting firm McLarty Associates. From 2013-2018, Mr. Green was the Minister Counselor for Trade Affairs at the U.S. Embassy in Beijing.

In prior government service, Mr. Green worked on the Secretary of State’s Policy Planning Staff responsible for East Asia, drafting policy proposals and public speeches for the senior leadership the U.S. Government on major issues from handling the rise of China to U.S. participation in the shifting regional architecture in the Asia-Pacific.

In the corporate sector, Mr. Green was a Senior Vice President at a leading a global strategy firm where he advised a range of Fortune 500 companies and industry associations on market-access opportunities and challenges in China. In the mid-2000s, Mr. Green established and headed the government relations department at the American Chamber of Commerce in Shanghai – Asia’s largest AmCham.

Mr. Green attended Brown University, where he earned his B.A. with honors in political science. He is a graduate of the Johns Hopkins University School of Advanced International Studies (SAIS) in Washington, DC where his M.A. degree work concentrated on China studies and international economics. Mr. Green speaks proficient Mandarin and conversational Italian. He lives in the San Francisco Bay Area.

John Grubb

Chief Operating Officer, Bay Area Council

John is responsible for the organization’s government relations, public policy, advocacy and China operations. The Bay Area Council is the voice of the San Francisco-Silicon Valley Bay Area’s largest companies. Each year, Mr. Grubb is tasked with implementing the annual vision of improvements for the Bay Area developed by the CEOs of these companies.



He works with a staff of professionals in five offices in California and China to formulate and execute many of the Council's successful advocacy campaigns that have improved the lives of millions of Bay Area residents. John's previous positions with the Council include Senior Vice President of External Affairs and Vice President of Communications.

Before joining the Bay Area Council, John worked at Hill and Knowlton and Porter Novelli, two of the world's largest public relations agencies. Prior to his communications work, he founded, owned and managed a bar and restaurant in Manual Antonio, Costa Rica.

John volunteers his time as Chair of the Sleepy Hollow Charitable Foundation. He is a former Chair of the SF Public Relations Round Table (the oldest PR organization in America), and has served on the Executive Committee or as Campaign Director on numerous ballot measure campaigns. A Vanderbilt University graduate, he and his wife, Koren, live in Sleepy Hollow in Marin County with their daughter, Natasha, and son, Jack.

End Notes

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