

Date of Hearing: June 10, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

SCR 103 (De León) – As Amended: March 27, 2014

SENATE VOTE: 33-0

SUBJECT: California and El Salvador: partnership

SUMMARY: Memorializes the Legislature's invitation to the government of El Salvador to partner with California to promote democratic institutions, the rule of law, and economic opportunity, and to foster international understanding through increased trade and investment. Specifically, this bill:

- 1) Makes declarations, which among other things, state:
 - a) The 12-year Salvadoran Civil War took the lives of over 75,000 Salvadorans and resulted in a massive influx of refugees to the U.S.;
 - b) Of the 1.6 million Salvadorans residing in the U.S., more than 500,000 live in California, making Salvadorans the second largest Latino population in the state;
 - c) March 24, 2014 is the 34th anniversary of the martyrdom of Monsignor Óscar Romero, who is a cultural icon to the people of El Salvador and whose life and teachings millions of people around the world pay tribute;
 - d) El Salvador held a presidential election on March 9, 2014, which was considered by expert observers to be administered under a free and democratic process and was praised for its transparency and professionalism;
 - e) California joins with the United Nations, the Organization of American States and many civil and religious groups in calling upon the two major parties to respect the will of the people and the final outcome announced by the Supreme Electoral Tribunal; and
 - f) California will work closely with the newly democratically elected government of El Salvador, and President-Elect Salvador Sánchez Cerén, to promote private investment in both El Salvador and California.
- 2) Resolves that the Legislature, on behalf of the people of California, hereby extends an invitation to the government of El Salvador to partner with California to promote democratic institutions, the rule of law, economic opportunity and growth, and to foster international understanding through increased trade and investment, as well as mutually beneficial educational, economic, and cultural exchanges between California and El Salvador's institutions.

EXISTING LAW establishes the Office of Business and Economic Development (GO-Biz) within the Governor's Office and designates it as the state's lead entity on international trade and foreign investment activities, excluding agricultural trade.

FISCAL EFFECT: None

COMMENTS:

- 1) Author's Purpose: According to the author, "El Salvador and California have a shared history grounded on common interests and goals. In the 1980's, El Salvador was embroiled in more than a decades long civil war that took the lives of over 75,000 Salvadorans and resulted in a massive influx of refugees to California.

Today, two million Salvadorans live in the United States, and more than 500,000 call California home. Los Angeles—a sister city to San Salvador, the capital of El Salvador—is home to the largest concentration of Salvadorans in the United States, living in the neighborhoods of Pico-Union and Westlake. Thus, our state is intimately linked to El Salvador.

The historic cultural relations between our people represent an important opportunity to promote economic, commercial, and cultural relations. For example, just last year the United States prospered from a \$692.6 million trade surplus with El Salvador. Each stand to benefit from increased trade, investment, tourism, cultural, and educational exchanges.

SCR 103 will encourage fellowship and collaboration for mutual prosperity. This resolution is a symbol of California's commitment to work closely with the newly elected government of El Salvador, and President-elect Salvador Sánchez Cerén, and promote democratic institutions, the rule of law and economic opportunity for both El Salvador and California."

- 2) Framing the Policy Issue: This resolution extends an invitation to the government of El Salvador to partner with California to promote democratic institutions, the rule of law, and economic opportunity, and to foster international understanding through increased trade and investment.

According to the Author's Office, the purpose of the resolution is to promote the peaceful transition of governments following the March 2014 election. The analysis includes background on U.S. trade agreements, the Country of El Salvador, and California's globally-linked economy. Amendments will be taken in committee to update SCR 103 to reflect the recent inauguration of the Salvadoran president.

- 3) U.S. Trade Agreements: Within a globally connected economy, trade agreements create the framework by which a significant number of businesses and workers must compete, collaborate, and create economic value. The U.S. is currently negotiating two major trade promotion agreements, the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership. In their current iterations, these trade agreements will cover 21% of the world's population, with the U.S. at the nexus. These agreements are especially important to local and regional governments which have been proactive in using trade promotion activities as a springboard for their own economic agenda.

The U.S. has trade agreements in force with 20 countries, including Australia, Bahrain, Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Korea, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, and Singapore.

El Salvador is covered under the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) which also includes Guatemala, Honduras, Nicaragua, the Dominican Republic, and Costa Rica. As a result of this agreement, 100% of U.S. exports of consumer and industrial goods to the CAFTA-DR countries will be tariff-free by 2015. Tariffs on nearly all U.S. agricultural products will be phased out by 2020. The CAFTA-DR region was the 14th largest U.S. export market in the world in 2013, and the third largest in Latin America behind Mexico and Brazil.

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

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

President Sanchez Cerén, who took office on June 1, 2014, was a rural school teach and leader in the teacher's union in his youth, fought with the rebels during El Salvador's 12-year civil war (1980 to 1992) and served as a negotiator in the 1992 peace accords. Immediately prior to his election, he served as Vice President of El Salvador.

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

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

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

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

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



goods, capital goods, fuels, foodstuffs, petroleum, and electricity.

- 5) Civil War in El Salvador: Tensions in El Salvador among the indigenous, the poor, and the working class had been simmering for decades due to their poor economic and social circumstances, especially as compared to the growing prosperity of a select few. In the 1970s the struggles continued with escalating acts of violence between the military and the rebels often including civilian casualties. The public assassination of an out-spoken priest and human rights activist provided the final spark that led to a 12-year civil war which displaced half a million people and resulted in the death of 75,000, according to documentation from the United Nations.

On March 24, 1980, Archbishop Óscar A. Romero, a former Nobel Peace Prize nominee for his advocacy for the poor, was assassinated while serving mass. Only days after the murder, a peaceful rally in front of the National Cathedral commemorating the Monsignor's death was broken up by a bomb blast and bursts of gunfire leaving 27 to 40 dead and 200 wounded, according to the *Report of the U.N. Truth Commission*. Later that same year, four U.S. church women working with refugees in El Salvador were abducted, raped and murdered. While several investigations were initiated, none were effective in identifying who were responsible and several, according to reports by the U.S. *Public Broadcasting Service*, appear to have covered-up the fact that the order to kill the churchwomen came from higher levels in the Salvadoran military.

Throughout the duration of the civil war, news correspondents continued to report on the extreme conditions in El Salvador including the 1981 massacre at El Mozote, which left 1,000 civilians dead and the 1989 murder of six Jesuit priests, their housekeeper and her daughter, to name just a few. As the violence grew and the attacks on both sides escalated, refugees swarmed into U.S. and Canada, as well as neighboring countries including Mexico, Guatemala, Honduras, Nicaragua, and Costa Rica.

Further complicating the war was the involvement of foreign countries and the perceived regional significance of the civil war as a challenge to democracy in the Western hemisphere. U.S. involvement shifted between being concerned over violent acts and human right abuses of civilians to apprehension that the fall of El Salvador to leftists would have a domino effect on other areas of Central and South America. One BBC report described the U.S. involvement in El Salvador as being the largest counter-insurgency war against left-wing guerrillas since Vietnam. During the height of the civil war, some sources reported that U.S. aid averaged \$1.5 million dollars a day. U.S. support only ceased in 1990 after the United Nations became involved to help forge an armistice, and U.S. Congressman Joe Moakley published a Congressionally-mandated report that confirmed the prior reports of human rights violations in El Salvador.

The civil war officially ended in 1992 when the government and leftist rebels signed a treaty, the Chapultepec Peace Accords, which provided for military and political reforms. More specifically, a report by the U.S. Institute of Peace describes the Chapultepec Peace Accords as providing, in addition to a cease-fire; the demobilization of military and guerrilla forces; and the establishment of the rebel Farabundo Martí National Liberation Front (FMLN) as a political party and the reintegration of its combatants into society. Further, the Chapultepec Peace Accord committed the government to making changes in the nature, responsibilities, and size of the country's armed forces; creating a new national civilian police force and an intelligence service separate from the military; implementing human rights measures; adopting electoral and judicial reforms; and providing limited social and economic programs primarily benefiting members of the demobilized forces and war-ravaged communities.

SCR 103 commemorates the important role Archbishop Romero continues to play for the El Salvadoran people, as well as acknowledging the significance of the recent democratic election of President Sánchez Cerén, which is a symbol of the country's own transition from civil war to a modern democracy and economic partner.

- 6) California's Trade Economy: International trade and foreign investment serve as critical components of California's \$2.0 trillion economy. If California were a country, it would be the 17th largest exporter and the 14th largest importer in the world. Merchandise exports from California (\$168 billion) accounted for over 10.6% of total U.S. exports in goods, shipping to over 220 foreign destinations in 2013. California's land, sea, and air ports of entry served as key international commercial gateways for the \$538 billion in products entering and exiting the U.S. in 2012. Statewide, 4.4 million California jobs are dependent on foreign trade. Over 562,700 California workers benefit from jobs with foreign-owned firms, which accounts for 5.1% of all private sector jobs in the state.

California's significance in the global marketplace results from a variety of factors, including: its strategic southwest and coastal location offering direct access to growing foreign markets in Mexico, Latin America, and Asia; its nine diverse regional economies; its large, ethnically diverse population, representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and its culture of innovation and entrepreneurship, particularly in the area of high technology.

Mexico is California's top trading partner, receiving \$23.9 billion (14%) in goods in 2013. The chart below shows export data on the state's top five trade partners. Other top-ranking export destinations not shown on the chart include Hong Kong, Taiwan, Germany, the Netherlands, and the United Kingdom.

California Export based on Movement of Goods 2012 and 2013						
Rank	Country	2012 Value	2013 Value	2012 % Share	2013 % Share	% Change, 2012 - 2013
---	Total CALIFORNIA Exports and % Share of U.S. Total	161,880	168,128	10.5	10.6	3.9
---	Total, Top 25 Countries and % Share of State Total	143,671	149,020	88.8	88.6	3.7
1	Mexico	26,370	23,933	16.3	14.2	-9.2
2	Canada	17,424	18,819	10.8	11.2	8.0
3	China	13,970	16,359	8.6	9.7	17.1
4	Japan	13,033	12,711	8.1	7.6	-2.5
5	South Korea	8,246	8,394	5.1	5.0	1.8

Source: tradeport.org

California's largest industry sector by employment is Trade, Transportation, and Utilities, which encompasses everything from major retail outlets, to import-export businesses, to transportation and warehousing. California leads the nation in export-related jobs. The U.S. Department of Commerce estimates that for every one million dollars of increased trade activity, 11 new jobs are supported. Workers in trade-related jobs earn on average 13% to 28% higher wages than the national average.

In today's globally linked economy, manufacturing utilizes products from across the U.S., as well as from other nations. In 2012, 61% (\$1.3 trillion) of the products imported into the U.S. were inputs

and components intended for use by American producers. In addition, U.S. imports often include components or benefits from services provided by U.S. firms, including many California companies. The Wilson Center estimates that Mexican imports and Canadian imports contain 40% and 20% U.S. components, respectively.

Trade and foreign investment support new job creation, bring new technologies and skills to California workers, generate local and state revenues, and generally strengthen the state's economic base. In the future, California's economy will become increasingly reliant on accessing foreign markets where a majority of global economic growth is expected to occur.

- 7) Related Legislation: Below is a list of legislation from the current and prior legislative sessions.
- a) *AB 2012 (John A. Pérez) Economic Development Reorganization*: This bill transfers the authority for undertaking international trade and foreign investment activities from the Business, Transportation and Housing Agency to the Governor's Office of Business and Economic Development. In addition, the bill transfers the responsibility for establishing an Internet-based permit assistance center from the Secretary of the California Environmental Protection Agency to Governor's Office of Business and Economic Development. Status: Signed by the Governor, Chapter 294, Statutes of 2012.
 - b) *AB 2443 (V. Manuel Pérez) International Trade Program and Sister State Relationships*: This bill would have required the State Point of Contact to provide the Legislature with copies of any official position taken or comments to the U.S. Trade Representative relating to a pending trade agreement and would have authorized the establishment of sister state relationships for the purpose of promoting economic growth and trade and investment opportunities. Status: Vetoes by the Governor, September 2010.
 - c) *AB 2713 (Quick-Silva) Public Private Partnerships to Promote Trade*: This bill authorizes the Governor's Office of Business and Economic Development to establish public-private partnerships to help guide state activities related to the export of California products and the attraction of employment-producing foreign investment. The bill requires the establishment of a subaccount to hold private donation for county and industry-specific marketing activities. The bill also requires the establishment of a partnership to support California trade and investment within South Korea. Status: Pending in the Senate.
 - d) *ACR 100 (Alejo) El Salvador and California Partnership*: This resolution memorializes the Legislature's recognition of the special relationship between California and the country of El Salvador. In furthering this special relationship, the Legislature, extends an invitation to the people of El Salvador to partner with California to commit to the development of programs to foster social, economic, educational, scientific, and cultural programs in order to strengthen the democratization process and economic development of El Salvador and to promote economic ties and improve international understanding and goodwill. Status: Scheduled to be heard in JEDE on June 10, 2014.
 - e) *SCR 82 (Hueso) Sister State with Jalisco*: This bill establishes a sister state relationship between California and the State of Jalisco, Mexico, for the purpose of promoting economic growth and well-being of small, medium, and large corporations and by increasing their potential trade and investment within the State of Jalisco. Status: Scheduled to be heard in JEDE on June 10, 2014.

REGISTERED SUPPORT / OPPOSITION:

Support

The Central American Resource Center
Clinica Monsenor Oscar A. Romero
El Rescate
The National Network of Salvadorans Living Abroad-Los Angeles
The Salvadoran-American Leadership and Education Fund
The Salvadoran American National Association
The SHARE El Salvador Foundation
United Salvadoran Communities-USA

Opposition

None received

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