

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

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1. Introduction

- a. Thank you for the opportunity to appear before you today to discuss the important role trade and investment play in the California economy and the chance to address the impacts to California from rapidly changing policies surrounding tariffs.
- b. I would like to start by describing the magnitude of California's role in international trade and investment. I will follow by describing the importance of our trade infrastructure, our diverse workforce, and our leadership in environmental sustainability. I will close by addressing the issue of tariffs and identifying areas that require our attention to ensure California maintains its global position in trade and investment.

2. Trade and Investment

- a. I don't have to tell you that the California economy is on a hot-streak, and has been for the better part of two decades. Since 2005, we've grown from the world's 8th largest economy to the world's 5th largest, and have averaged over 4% annual growth.¹
- b. California leads the nation in international trade. We are the number one state in the U.S. with regard to two-way trade, including in many specific export categories.² We

¹U.S. Bureau of Economic Analysis, retrieved from FRED, Federal Reserve Bank of St. Louis

²U.S. Census Bureau (<https://www.census.gov/foreign-trade/index.html>)

are first in the country in agriculture, electronics, and machinery exports.³ The state ranked second in the U.S. in overall merchandise exports in 2018, with an estimated value of \$178 billion.⁴

- c. California also ranked first in services exports in 2017, with an estimated value of \$145 billion.⁵ A service export takes place any time a foreign individual or business purchases a service from a California company. The types of services sold by California entities include educational services for foreign students and professionals; technical, engineering, and scientific services; shipping and warehousing logistics; software and IT services; licensing and patents, media, film and entertainment, and travel and tourism.
- d. Nearly 70,000 of 4 million small businesses in California, the lifeblood of our economy, are engaged in exports.⁶ Small businesses are responsible for 43% of the goods exported from California.⁷
- e. Foreign direct investment is also very important for our state and matters to every Californian. California is one of the largest recipient of foreign direct investment of any state in the U.S., attracting \$27 billion in 2018,⁸ accounting for over eight hundred thousand jobs.⁹ Whether greenfield investment, putting more capital into an existing business, or buying a California company, that

³U.S. Census Bureau (<https://www.census.gov/foreign-trade/index.html>)

⁴U.S. Census Bureau (<https://www.census.gov/foreign-trade/index.html>)

⁵Coalition of Service Industries; U.S. Exports: California
(https://servicescoalition.org/images/Exports_project/2019_State_Exports/CSI_State_Report_CA.pdf)

⁶U.S. Small Business Administration Office of Advocacy: 2019 Small Business Profile for California

⁷U.S. Small Business Administration Office of Advocacy: 2019 Small Business Profile for California

⁸Bureau of Economy Analysis (<https://www.bea.gov/news/2019/new-foreign-direct-investment-united-states-2018>)

⁹SelectUSA (<https://www.selectusa.gov/servlet/servlet.FileDownload?file=015t00000004pp4>)

investment has been shown to increase exports as well as the number of good paying jobs in California. As the most international state, we love the new skills, technology, research, and perspective that foreign investors bring to California.

- f. International companies invest in California because it's the perfect place to establish a toehold in the United States' consumer market. It is the "Gateway to the West" with its geographic location and robust infrastructure. And it provides foreign companies with access to California's talented labor force and innovation mentality. If your product or service can make it in California and attract the state's 40 million consumers, you can make it in the rest of the United States.

3. Trade Infrastructure and Jobs

- a. A large part of what makes California so competitive with regard to international trade and investment is California's extensive trade infrastructure. The Golden State has 11 ports and 12 international airports (13 if we count Tijuana which is connected to San Diego via CBX.)
- b. The Los Angeles and Long Beach port complex is the nation's largest container port, and every day nearly \$1 billion worth of goods pass through its docks.¹⁰
- c. Logistics, freight, warehousing and eCommerce industries have developed around California's international trade, with a scale that is unmatched anywhere else in the country. Trade supports entire supply chains and higher wages for workers throughout those supply chains.

¹⁰U.S. Census Bureau (<https://www.census.gov/foreign-trade/index.html>)

- d. Many Californians' livelihoods are tied to the goods movement industry and, more broadly, an estimated 29 percent of all the jobs in our state are dependent on international trade and investment.¹¹
- e. That's 5.5 million California jobs.¹² And these are good, middle class jobs--dock, warehouse and rail workers, truck drivers, trade specialists, farmers, manufacturers, bankers, insurers, pilots and aircraft maintenance workers--are all part of the international goods movement workforce. These are all examples of trade supporting middle-class California jobs.

4. Diversity in the Workforce

- a. After all, in California we're proud of our diversity – 27 percent of our population is foreign born, and one in every two Californians has a foreign-born parent.¹³ Our cultural connections enable our state to benefit from a workforce that is uniquely tuned into the global economy.
- b. The 11 million immigrants that call California home make us strong, innovative, resilient, and unified.¹⁴

¹¹Bureau of Labor Statistics (<https://www.bls.gov/regions/west/california.htm>), Trade Partnership Worldwide; "Trade and American Jobs: The Impact of Trade on U.S. and State-Level Employment (2019 Update (<https://tradepartnership.com/wp-content/uploads/2019/03/Trade-and-American-2019-FINAL.pdf>), and SelectUSA

(<https://www.selectusa.gov/servlet/servlet.FileDownload?file=015t00000004pp4>)

¹²Trade Partnership Worldwide; "Trade and American Jobs: The Impact of Trade on U.S. and State-Level Employment (2019 Update (<https://tradepartnership.com/wp-content/uploads/2019/03/Trade-and-American-2019-FINAL.pdf>) and SelectUSA

(<https://www.selectusa.gov/servlet/servlet.FileDownload?file=015t00000004pp4>)

¹³Public Policy Institute of California (<https://www.ppic.org/publication/immigrants-in-california/>)

¹⁴Public Policy Institute of California (<https://www.ppic.org/publication/immigrants-in-california/>)

5. Climate and Trade

- a. That resiliency, that innovation, is critical to addressing our most pressing challenges. And perhaps no challenge is as great a threat to our economy and our society than climate change.
- b. It's critical that California's trade and investment strategy leverages California's leadership in technology, energy, and sustainability.
- c. California leads the nation in combatting climate change and attracting and promoting companies that are focused on improving climate outcomes through innovative products. Major battery makers, electric car manufacturers and renewable energy companies want to be here to take advantage the the products and services which will define the next generation.
- d. In the first 9 months of 2019, we've seen a 75% increase of zero emission vehicle exports over all of 2018.¹⁵ Zero emission vehicles were the state's 8th largest export in 2018 but so far are our second largest in 2019.¹⁶
- e. California's ports have played an important role in sustainability and are now the greenest in the world, having achieved remarkable air quality improvements over the last decade, with emissions reductions of 87% in particulate matter, 97% in sulfur dioxide and 56% in nitrogen dioxide.¹⁷

¹⁵U.S. Census Bureau (<https://www.census.gov/foreign-trade/index.html>)

¹⁶U.S. Census Bureau (<https://www.census.gov/foreign-trade/index.html>)

¹⁷San Pedro Bay Ports Clean Air Action Plan 2017; Port of Los Angeles. November 2017.

- f. We know it's possible to transition away from carbon-emitting energy and fuels, and still be able to grow our economy and engage in trade and commerce. Since 2000, when California started aggressively reducing carbon emissions, our economy has grown by 46%, our population has grown by 16%, ***while greenhouse gas emissions have gone down by 10%.***¹⁸
- g. If we don't consider climate change in our trade and investment policies, the consequences will affect us all in very substantial ways that will be far more costly and expensive to our society than doing nothing at all.

Tariffs

- h. Given California's outsized role in global trade and investment, it's no question that erratic and protectionist trade policies threaten jobs.
- i. It's important to note that the federal government of the United States and the U.S. Congress have the exclusive jurisdiction to set trade policy for the nation under Article One of the U.S. Constitution.
- j. However, because of the size of the California economy, and our leading role in foreign trade, federal trade policy impacts California disproportionately to other states.
- k. As you are already aware, the tariff dispute with China, has been deeply disruptive to stakeholders across the country.

¹⁸California Air Resources Board (<https://ww2.arb.ca.gov/ghg-inventory-data>)

- l. The uncertainty of the process alone has created potentially irreversible changes in supply chains. It is important to note that once global supply chains are disrupted, it is very hard to get them back. For example, last year California wine exports to China fell nearly 25% after taxes and tariffs on US wine entering China reached nearly 80%.¹⁹ Demand has quickly been absorbed by increased exports from Chile and Australia that have seen their wine exports to China surge.²⁰
- m. The effect of the tariff dispute with China is also disproportionately felt by California's small and medium sized businesses. Despite the outsized role they play in the state's international trade, they do not have the same resources as large companies to shift their supply chain or find new international customers to make up for lost business.
- n. Jobs connected to international trade aren't just along the coast, but in inland areas of California as well. Rural areas of the state are affected disproportionately as industries like agriculture and logistics have significant exposure to changes in the trade regime. California has over 400,000 agricultural jobs, 70% of which are in rural areas.²¹ The Inland Empire now hosts a major logistics and distribution cluster. Driving along I5, you'll see dozens of large distribution centers, nearly all of which have trade-supported jobs.

¹⁹California Wine Institute (<https://www.wineinstitute.org/resources/pressroom/04082019>)

²⁰Wine Intelligence: China Landscapes 2018 (<https://www.wineintelligence.com/downloads/china-landscapes-2018/>)

²¹State of California Employment Development Department (<https://www.labormarketinfo.edd.ca.gov/data/ca-agriculture.html>)

6. Conclusion

- a. In the current political climate, nations around the world are looking for direction, partnership and leadership. They are also looking for stability, security, and rational approaches to chronic challenges and rising opportunities.
- b. And although the power to regulate trade rests with the federal government, California can develop relationships and programs to promote trade and investment with our partners worldwide.
- c. We need to continue to assert ourselves in the global conversation over trade, which is essential to the livelihood of millions of Californians.
- d. And although California leads the way, we cannot afford to underinvest in trade and investment at the state. Since the California Trade and Commerce Agency closed in 2004, the state has lost export marketshare, declining from 13.5% to 10.7% of all U.S. exports.²² States like Michigan, New York, and Illinois have grown their exports in dollar value faster than California.²³
- e. What's more, although California is still the leader in FDI and FDI jobs, when looking at the last five years of dollar volume FDI in aggregate, 2017 and 2018 have seen steep declines in California's average share vs the 2014 – 2016 period.²⁴ Other states are putting more resources into attracting foreign investment as part of their core

²²U.S. Census Bureau (<https://www.census.gov/foreign-trade/index.html>)

²³U.S. Census Bureau (<https://www.census.gov/foreign-trade/index.html>)

²⁴Bureau of Economic Analysis. Calculation: California total FDI per year / total US FDI per year.

economic development strategies. South Carolina, Tennessee, Massachusetts, Michigan and Ohio have seen significant increases.²⁵

- f. And while California has the largest port complex in the country, and processes 37% of U.S. container volume, other states are becoming significantly more competitive.²⁶ States like Texas, Louisiana, South Carolina, Georgia, and the Canadian province of British Columbia have taken trade volume from California ports with increased investments in infrastructure and a lower overall cost of processing.
- g. In order to push back against these and other trends, Governor Newsom has increased state resources available to exporters via GO-Biz, as well as focused on the implementation of the approved Sustainable Freight Action Plan. We need to prioritize infrastructure investments to make sure our ports, airports, railways, roads, and transport systems remain globally competitive. Simply put, California’s position in trade and foreign investment isn’t a “given,” and state policy needs to support its long-term competitiveness.
- h. By taking a balanced and constructive approach, we will create and maintain an upward economy that works for every Californian—one that is measured by growth AND inclusion. One that is responsible for 29% of the jobs in the state.

7. I’m happy to take any questions you might have.

²⁵Bureau of Economic Analysis

²⁶*North America Container Traffic in TEUs*. American Association of Port Authorities.