

MILKEN INSTITUTE

Rebuilding California's Trade Policy Infrastructure

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REBUILDING CALIFORNIA'S TRADE POLICY INFRASTRUCTURE

Michael Jarand and Kevin Klowden

California is home to one of the largest and most vibrant economies in the world, with a gross domestic product in excess of \$2.8 trillion, and is one of the top exporters in the United States. In 2018, the state exported \$178 billion worth of merchandise, was a major destination for foreign investment in the US, and was a leader in services trade in industries like software, entertainment, and education. California benefits from its ties to international trade in numerous ways. This trade and investment, the jobs they support, and the ways they improve California's competitiveness in the global economy are deeply important to California's economic well-being. However, over the past 15 years, California's state government has not shown a level of commitment to trade commensurate with its impact on the state economy. California can and should be doing more to defend its position as a top exporter.



Beyond the headline numbers, California lacks the trade policy infrastructure to lead on international trade and investment and is falling behind in some measures. Many, including the Milken Institute, have previously stressed the need for a more comprehensive approach to international trade and foreign direct investment. Since 2012, California has begun reestablishing its role in export promotion and foreign direct investment attraction, but these efforts are not resourced appropriately, not only for international engagement but also for the regions of the state that benefit from trade but cannot engage globally on their own. The current programs lack a statewide and global reach, and do not tie into the state's broader economic development platform.

The current national trade environment underscores the importance of trade for California's economy, and the timing is right to make progress. Governor Gavin Newsom's administration has an opportunity to modernize and lead in this area in a way not seen since 2004, when the California Technology, Trade, and Commerce Agency was eliminated. It has already taken steps to organize a new International Affairs and Trade Development Interagency Committee, but the success of the new effort will depend on the commitment from both the governor and the state legislature. The major failure of past iterations of these programs has been their transitory nature, falling into and out of political favor and facing budget cuts or outright elimination. Whereas other best-in-class states have professional bureaucracies built up to perform the expert work around trade and investment, California has been forced to reinvent these programs time and again.

There is no "one size fits all" trade and investment strategy California can utilize. California's strategy needs to reconcile the state's unique challenges and opportunities, and policymakers will need to make hard decisions about what they can and cannot accomplish. This report not only examines key challenges facing the state, but also utilizes past research, stakeholder engagement, and current best practices from other states to offer concrete recommendations that can be acted on immediately by the incoming administration. This is an evolving policy framework intended to keep California moving forward. Our recommendations are designed to make this possible, but dialogue is needed to determine concrete steps for implementation. Our recommendations, expanded upon in detail later, include:

1. Expand California's trade and investment footprint
2. Secure funding sources
3. Deliver services and measure outcomes
4. Coordinate private-sector and federal and local government partners
5. Improve California's trade and investment marketing and awareness



There needs to be a coalition of support among the governor, the state legislature, local government, and private stakeholders to build up a trade and investment platform that creates a return on investment for California taxpayers and has a dedicated funding source. By doing so, California will create a more effective and more permanent framework that does the most good for the California economy.



INTRODUCTION

California has a vibrant economy and is frequently lauded as the fifth largest economy in the world. The state's gross domestic product is greater than \$2.8 trillion. By virtue of its role as a gateway to the Pacific, California is one of the top exporters in the United States. In 2018, the state exported \$178 billion worth of merchandise, was a major destination for foreign investment in the US, and was a leader in services trade in industries like software, entertainment, and education. California benefits from these ties to international trade in numerous ways. This trade and investment, the jobs they support, and the ways they improve California's competitiveness in the global economy are deeply important to California's economic well-being and should not be taken for granted. However, California can and should be doing more to defend its position as a top exporter and leader in international trade and business.

California's history of state government support for international trade and investment is mixed. The state has been a leader in this area, but it has abdicated this role entirely at times. While discussed in greater detail below, this is mostly a byproduct of poor state planning elsewhere. California has endured major cuts to its trade and investment programs throughout the years due to



budget shortfalls and cost-cutting. The elimination of the Technology, Trade, and Commerce Agency (TTCA) in 2004 is the most recent example. The direct benefit of this work has also been called into question at times, prompted by poor management and a lack of accountability for results.

This is a discussion not only of necessary resources, but also of the political will, foresight, and management needed to modernize and overhaul the status quo and create a trade policy infrastructure that works better for California. These conversations existed even when California did have a Commerce Agency, which was a constant target for state auditor investigations.¹ Legislative reports,² academics, and nonprofits have also regularly weighed in on California's lack of trade and investment programs.

These reports and their suggestions, while well researched, have not been widely adopted. The state still lacks leadership, from both the governor and legislature, to overcome its challenges.

Pursuant to the California International Trade and Investment Act of 2006, the California Business, Transportation & Housing Agency released a report, "Toward a California Trade and Investment Strategy: Potential Roles for the State in Global Market Development," which comprehensively examined California's programs and identified numerous gaps in international trade and investment services the state could provide. It brought together many authors, government partners, and focus groups and serves as a useful list of potential state activities, though many of its recommendations were never implemented. The result was a significant void following the elimination of the Technology, Trade, and Commerce Agency in 2004.

- 1 The Trade and Commerce Agency and its successor, the Technology, Trade, and Commerce Agency, were the subject of California State Auditor reports in 1995 (Report 93109), 1996 (Report 95118), 1999 (Report 99025), and 2001 (Report 2001-115). These reports highlighted a failure to measure the return on the state's economic development programs (including trade promotion) and a lack of strategic planning and coordination with other entities.
- 2 The California Assembly Committee on Jobs, Economic Development, and the Economy has released periodic reports weighing in on the state strategy. California's Proposed International Trade and Investment Strategy: Legislative Review by the Assembly Policy and Fiscal Committees in 2008 and the 2016 Oversight Hearing on Programs of the Governor's Office of Business and Economic Development are two examples.

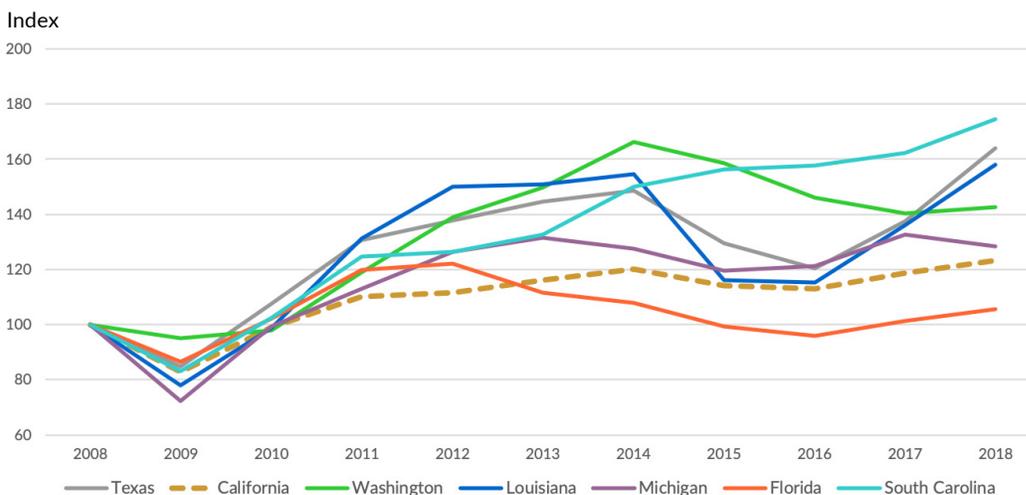


Since 2012, the state has been re-engaging in some areas of trade and investment promotion. There are many lessons to learn not only from the state's past attempts, but also from best practices elsewhere. This report examines California's trade policy history and the status of current efforts and identifies challenges and recommendations to consider as modernization efforts continue.

CONTEXT: MILKEN INSTITUTE 2012 REPORT, GO-BIZ, AND THE NEW GOVERNOR

In September 2012, the Milken Institute released a report titled "Strategies for Expanding California's Exports." The authors identified exports as a major area California needed to address to reinvigorate its economy and improve the competitiveness of state businesses. At the time, California's economy was in much worse shape than it is now, with high unemployment from the lingering effects of the global financial crisis. Many states were looking at exports as a potential solution to this problem—and strong export growth from 2009 to 2012 was a driver of job creation. However, California exports were lagging behind other states coming out of the recession (Figure 1). In line with these trends and following the recommendations of the Little Hoover Commission,³ Governor Jerry Brown adopted the Reorganization Plan of 2012.⁴ This consolidated California's economic development efforts, including trade promotion and investment attraction, in the Governor's Office for Business and Economic Development (GO-Biz).⁵

Figure 1: Selected States' Merchandise Export Growth, 2008-2018



Source: US Census Bureau and Milken Institute.

- 3 Little Hoover Commission, *Making up for Lost Ground: Creating a Governor's Office of Economic Development*, (2010), <https://lhc.ca.gov/report/making-lost-ground-creating-governors-office-economic-development>.
- 4 League of California Cities, "Governor Appoints New GO-Biz Team, Signs Legislation to Reopen International Trade," September 21, 2012, <https://www.cacities.org/Top/News/News-Articles/2012/September/Governor-Appoints-New-GO-Biz-Team,-Signs-Legislati>.
- 5 Little Hoover Commission, *A Review of Government Reorganization Plan No. 2*, (2012), <https://lhc.ca.gov/sites/lhc.ca.gov/files/Reports/211/Report211.pdf>.



Now, the situation is quite different. Rather than looking at exports as a driver of job growth, policymakers should be more concerned about keeping California competitive and maintaining its position. The unemployment rate is historically low, but tariffs and trade conflict threaten exports to many of California's top trading partners. These unexpected side effects have made it obvious that, in many ways, California is not in control of its destiny regarding trade and investment. The creation of GO-Biz in 2012 was a good step in addressing this problem, but California needs to continue investing in and building out these programs.

This uncertainty is an issue California's new governor, Gavin Newsom, will have to address. California's trade and investment efforts are led primarily by the governor's office, in collaboration with the California legislature. We believe GO-Biz's role should be to expand and build on the progress made since 2012. The research and recommendations contained in this report are designed to help continue that work. Already, Governor Newsom has taken promising steps with Executive Order N-08-19, his first trade-focused order as governor. The Executive Order appointed Lieutenant Governor Eleni Kounalakis as the top representative on International Affairs and Trade, created an International Affairs and Trade Development Interagency Committee, and laid the groundwork for a California Trade and Service Office Advisory Group. We will have to wait and see what other concrete policies are adopted, but this shows trade and investment are top of mind.

California has had positive but below-average performance compared to other states over the past 10 years when it comes to the increase in export growth, exports per capita, and export intensity of the economy. It is positioned between the other two largest states, Texas and New York. The highest performing states (shaded in green in the table below) are in the South, with strong performance in the Midwest, as well. On the West Coast, California lagged Washington and Oregon, although it is still a much larger state and grew more in nominal terms.



Table 1: Top 25 Exporting States, 2007-2017 Changes⁶

Rank by Export	State	Exports Change (%)	Exports/Capita Change (%)	Exports/GDP Change (+/- %)
	United States	34.7%	24.5%	0.0%
1	Texas	57.3%	32.4%	1.3%
2	California	28.1%	17.4%	-0.6%
3	New York	9.6%	5.6%	-1.3%
4	Washington	46.7%	28.0%	0.0%
5	Illinois	33.3%	32.2%	0.4%
6	Florida	22.4%	7.2%	-0.2%
7	Michigan	34.4%	34.9%	0.8%
8	Ohio	17.7%	16.1%	-0.9%
9	New Jersey	11.8%	7.8%	-0.6%
10	Louisiana	88.0%	75.6%	8.7%
11	Pennsylvania	32.6%	30.1%	-0.1%
12	Indiana	45.4%	39.1%	0.9%
13	Massachusetts	8.7%	1.9%	-1.5%
14	Georgia	59.3%	42.8%	1.1%
15	North Carolina	39.7%	24.0%	0.2%
16	Tennessee	52.1%	39.8%	0.6%
17	Kentucky	57.0%	50.1%	2.6%
18	Arizona	8.8%	-4.4%	-0.8%
19	Wisconsin	18.5%	14.7%	-0.8%
20	Minnesota	14.6%	7.0%	-1.1%
21	Virginia	-2.1%	-10.4%	-1.1%
22	South Carolina	94.3%	71.8%	4.3%
23	Oregon	32.5%	19.0%	-0.4%
24	Alabama	51.2%	45.0%	1.8%
25	Connecticut	7.1%	5.3%	-0.2%

Source: US Census, Bureau of Economic Analysis and Milken Institute.

⁶ Authors' calculations. Exports data are available for 2018, but GDP by state is not yet available for 2018. Elsewhere in this report, 2018 data are used where available.



BACKGROUND

EXPORT PROMOTION, INVESTMENT ATTRACTION, AND ECONOMIC DEVELOPMENT

Marketing and selling a product abroad poses challenges that businesses do not face when operating domestically. Firms are often unfamiliar with or unable to overcome these challenges because of associated costs; overseas sales are especially difficult for small and medium-sized enterprises (SMEs). This is why governments often offer services to encourage and promote exports.

Nearly all countries and states undertake activities to expand their exports. The methods vary. Countries may negotiate preferential trade agreements to gain access and lower tariffs for their firms. They may invest in the nuts and bolts of trade infrastructure (for example, roads or ports) to make the mechanics of trade easier. Options available to states are also wide ranging. States may provide education and training about trade's benefits and technical how-to, or give direct assistance to companies by helping them find customers and bring their products to foreign markets.

States have been actively engaged in trade and investment for decades, going back mostly to the 1970s,⁷ although the depth of that engagement varies from state to state.

⁷ John R. McIntyre, "The Role of State Governments as International Economic Actors," *Southern Review of Public Administration* 6, no. 4 (1983): 465-88, <http://www.jstor.org/stable/40860156>.



For most states, these activities generally fall under the umbrella of “export promotion” services and can take many forms. According to a State International Development Organizations (SIDO) survey of 41 states, the most common services provided are trade missions, trade shows, client exporting counseling, export readiness training, and overseas offices or representatives.

Table 2: Services Offered by State International Development Organizations

Service	Count	Percent
Trade missions	36	88%
Trade shows	35	85%
Client export counseling	33	80%
Export readiness training	31	76%
Overseas offices or representatives	30	73%
Market research	28	68%
Market entry strategy development	26	63%
Training programs and seminars	24	59%
Agent distributor searches	23	56%
Inbound buying missions	19	46%
Foreign company background checks	19	46%
Marketing/promotional literature reviews	14	34%
Competitive analysis/pricing information	10	24%
Identifying suppliers abroad for companies in your state	10	24%
Foreign student recruitment to your local colleges or universities	8	20%
Licensee, joint venture, partnership contract review	6	15%
Import counseling	6	15%

Source: SIDO, *Defining Success: Meaningful Metrics to Evaluate U.S. State International-Trade Programs*, (2018), 10.



Trade programs usually go hand-in-hand with efforts to attract foreign direct investment (FDI), which recognizes that multinational corporations are a huge source of trade, investment, and jobs. State business attraction services have spilled over from a focus on domestic companies to foreign direct investment promotion. For example, state programs for investment attraction might include tax incentives and site-selection assistance. While there is debate about the effectiveness of incentives and other policies to induce investment, FDI's impact is self-evident. FDI directly supports over 7.1 million US jobs. Multinational companies and their affiliates accounted for one-tenth of global GDP, and intra-firm trade made up about one-third of global exports in 2015.⁸

According to SIDO, the state trade and investment programs usually fall under the state economic development agency. Some states have large programs that do both trade and investment; some may only do one of these. Other states do neither or outsource their trade programs to world trade centers and similar organizations.⁹

States also play a broader role in regional economic development and industry competitiveness, of which trade and investment are part. State workforce development programs (for example, through state and local universities) may align with competitive industries, which will naturally export in traded sectors. For example, Texas' role as a top producer and exporter of oil and petroleum products is reinforced by the fact that public Texas universities award more degrees in petroleum engineering than any other state.¹⁰ Meanwhile, California's focus on green technology and its strict emissions targets, combined with state incentives, have contributed to its leadership in solar power¹¹ and energy efficiency¹²—which may also lead to exports in the cleantech industry.

8 World Bank, "Arms-Length Trade: A Source of Post-Crisis Trade Weakness." Global Economic Prospects (2017).

9 SIDO, *Defining Success: Meaningful Metrics to Evaluate U.S. State International-Trade Programs*, (2018), 10.

10 According to Data USA, public Texas universities, including Texas A&M University, University of Texas, Texas Tech University, and University of Houston accounted for 30.8 percent of total petroleum engineering degrees awarded in 2016. <https://datausa.io/profile/cip/142501/>.

11 California ranks first in terms of installed solar power and projected growth. Solar Energy Industries Association, "California Solar," accessed January 15, 2019, <https://www.seia.org/state-solar-policy/california-solar>.

12 California is ranked second nationally for energy efficiency. American Council for an Energy-Efficient Economy, "The State Energy Efficiency Scorecard," accessed January 15, 2019, <https://aceee.org/state-policy/scorecard>.



THE RELEVANCE OF STATE POLICY AMIDST NATIONAL UPHEAVAL

2018 was a tumultuous year for international trade. The federal government drives trade policy at the national level, and the Trump administration has adopted numerous policies that have upset the trade and investment status quo. Tariffs on solar panels, washing machines, steel, aluminum, and many products from China, as well as potential automobile tariffs and resulting retaliatory tariffs, have thrust trade into the spotlight. These policies directly affect California consumers and producers of these products. According to the US Chamber of Commerce, \$15 billion worth of California exports are at risk.¹³ While these policies are not the focus of this report, they do bear mentioning to provide context about the relevance of state trade policy. The federal government has the lead when it comes to trade policy and working to promote exports. For example, the US Commercial Service (part of the International Trade Administration) provides export promotion services to US companies. However, the federal government's current desire to address the trade deficit has led it to focus on helping large exporting companies to the detriment of small and medium-sized enterprises that are new to exporting.

IMPORTANCE OF TRADE AND INVESTMENT FOR CALIFORNIA

California exported \$178 billion worth of goods in 2018, making it the second largest exporting state, though a distant second to Texas' \$315 billion. Texas surpassed California as the leading export state in 2001 and has only expanded the gap between the two since then. California also lagged behind the export growth of many top states; not only Texas but also Washington, Louisiana, Michigan, and Ohio have all grown their exports faster since 2008.

Table 3: Top 10 State Exporters by Goods Value, Billions USD

State	2008	2018	Change (%)
US Total	\$1,287.4	\$1,664.1	29.3%
Texas	\$192.2	\$315.4	64.1%
California	\$144.8	\$178.4	23.2%
New York	\$81.4	\$81.5	0.1%
Washington	\$54.5	\$77.7	42.6%
Louisiana	\$41.9	\$66.2	58.1%
Illinois	\$53.7	\$65.4	21.9%
Michigan	\$45.1	\$57.9	28.4%
Florida	\$54.2	\$57.2	5.5%
Ohio	\$42.6	\$54.3	27.6%
Pennsylvania	\$29.2	\$41.0	40.6%

Source: Foreign Trade Division, US Census Bureau.



According to the International Trade Administration, California's exports support 683,772 jobs,¹⁴ and these exporting companies on average pay better wages, grow faster than their peers, and are more likely to stay in business.¹⁵ According to the US Census Bureau, there are over 151,000 exporters in California.¹⁶ California is also the largest importer, with \$441 billion of goods imported in 2018, though many of these imports pass through California to other final destinations in the US.

Looking simply at this trade in goods, California is in the top 15 states for the impact of exports and imports on state GDP. It is ranked 13th in total trade (exports and imports) as a percentage of GDP, but only 27th when looking at exports as a percentage of GDP.¹⁷

California's Trade and Investment Landscape

2nd

In 2018, California was the 2nd largest merchandise exporter, making up 14 percent of the total in the US.

6.3%

Exports' share of the California economy is 6.3 percent, ranking 26th nationally.

151K

There are 151,000 exporting companies in California.

769K

California alone has 769,000 foreign direct investment jobs.

683K

In 2018, over 683,000 jobs were supported by exports.

13 US Chamber of Commerce, "Trade works for California," accessed January 15, 2019, https://www.uschamber.com/sites/default/files/tariff_data/one_pagers/ca.pdf.

14 International Trade Administration, "California Exports, Jobs, & Foreign Investment Factsheet," updated February 2018, <https://www.trade.gov/mas/ian/statereports/states/ca.pdf>.

15 International Trade Administration, "Exporting is Good for Your Bottom Line," accessed January 18, 2019, <https://www.trade.gov/cs/factsheet.asp>.

16 "Profile of US Importing and Exporting Companies," 2016 Exports by State of the Origin of Movement, Number of Exporting Companies, US Census Bureau, updated April 5, 2018, <https://www.census.gov/foreign-trade/Press-Release/edb/2016/tab6a.pdf>.

17 At time of publishing, 2018 annual state GDP data were not yet available. As a result, exports/GDP are calculated based on 2017 rather than 2018 figures.



Trade in goods only captures part of the impact of trade and investment. While manufactured goods are still an important part of US competitiveness and exports, services exports are increasingly important. Despite offshoring and outsourcing for the manufacturing of some physical products, significant design and engineering services are still based in California. These services and their added value are exported abroad in various fields (think Apple’s “Designed by Apple in California, Assembled in China”). Other important services for California include telecommunications and information services; commercial, professional, and technical services (engineering, architecture, consulting); financial services and insurance; and intellectual property (royalties for US films in foreign markets, merchandise licensing). California also has a substantial amount of travel and tourism exports and educational exports; tourists’ spending and international students’ tuition at California universities count as California exports.

Unfortunately, exports in services are hard to quantify at the state level as there are no official government data. In 2016, US service exports totaled \$752 billion. That number could be broken down to the various state contributors—in fact, the Coalition of Services Industries has attempted it, and they estimate that California service exports account for \$136 billion GDP and 830,000 jobs.¹⁸ If correct, this would mean California accounts for 18 percent of national services exports, as compared to 14 percent of national goods exports in 2016, showing how service-intensive California’s economy is. Service industries do not face the same physical barriers merchandise exporters do but can still benefit from export promotion.

Although frequently vilified in a government context, imports are also an important part of trade (most government programs only support exports and are agnostic if not hostile to imports). However, imports support US competitiveness by lowering prices in many industries and creating a variety of kindred jobs. For example, one of the top California industries supported by imports is warehousing and distribution associated with international trade—California’s many ports, roads, and rail connections, combined with air freight, support many jobs. There are over 160,000 international trade jobs in Los Angeles County alone, sustained by the movement of goods into and out of the Port of Los Angeles, Port of Long Beach, and Los Angeles International Airport.¹⁹ Since 2011, California has added about 100,000 jobs in the distribution and warehousing sectors, mostly as a result of e-commerce.²⁰

18 Coalition of Services Industries, “U.S. Services Exports: California,” accessed March 8, 2019, https://servicescoalition.org/images/Exports_project/State_exports/CSI_State_California.pdf.

19 “Trade and Logistics,” Los Angeles County Economic Development Corporation, accessed March 8, 2019, <https://laedc.org/industries/international-trade/>.

20 “Distribution and Electronic Commerce,” US Cluster Mapping Project, Harvard Business School and the US Department of Commerce, Economic Development Administration, accessed March 8, 2019, http://www.clustermapping.us/region-cluster/distribution_and_electronic_commerce/state/california.



An even broader interpretation of California's global ties, which should also go into formulating the strategy, would include jobs and competitiveness resulting from foreign direct investment in the state's economy. When foreign companies choose to do business in California, it means well-paying jobs for California citizens that otherwise may have gone elsewhere. There are more jobs supported by FDI in California than any other state—769,000 direct jobs²¹—and this investment has positive spillovers. Many of these foreign firms concentrate their R&D spending in California, which contributes to California's technological leadership.

The Contribution of Small and Medium-Sized Enterprises

One untapped resource California should examine is its large number of small and medium-sized enterprises (SMEs) and non-exporters. Many US export assistance organizations have focused on helping existing exporters to the general exclusion of new-to-export businesses (NTEs). Yet, existing exporters account for only 28 percent of all US manufacturers, and there are around 180,000 manufacturing companies in the US that have not yet tapped foreign markets.²² The US can achieve much greater export and job expansion by helping more NTEs reach the 95 percent of the world's potential consumers and 75 percent of global spending outside the US.²³

The National Export Initiative (NEI), a federal program that ran from 2010 to 2014, aimed to double US exports to spur job creation following the global financial crisis. The creation of the NEI recognized that US export growth has lagged and could be a tool for reinvigorating the economy if increased. However, the NEI did not meet its goal of doubling exports—during this period, exports increased by 34 percent.²⁴ Part of this failure was due to the continued dominance of exports by a small group of exporting firms.

The top 1 percent of manufacturers—fewer than 3,000 firms—account for 80 percent of manufacturing exports.²⁵ Export initiatives need to look beyond these large and dominant firms to create a broader base of export success and get new firms exporting. Since the conclusion of the NEI, export growth has slowed even more, trailing GDP growth at an average of only 1.2 percent annually from 2014 to 2017.

21 SelectUSA, "Foreign Direct Investment (FDI): California," updated November 2018, <https://www.selectusa.gov/servlet/servlet.FileDownload?file=015t00000004pp4>.

22 In 2015, there were 251,774 manufacturing companies in the US ("2015 SUSB Annual Data Tables by Establishment Industry, U.S.," 6-digit NAICS). In 2016, there were 71,290 exporting manufacturing companies in the US ("A Profile of U.S. Importing and Exporting Companies, 2016" US Census Bureau, April 5, 2018).

23 Population: United Nations, Population Division, World Population Prospects 2017. Global GDP: World Bank national accounts data, 2017 GDP (current US\$).

24 Using 2009 (the recession's deepest point) to 2014, real (inflation adjusted) exports of goods and services. US Bureau of Economic Analysis, Real exports of goods and services [EXPGSCA], retrieved from FRED, Federal Reserve Bank of St. Louis.

25 "Profile of U.S. Importing and Exporting Companies," 2016 Exports by Company Type and Employment Size, US Census Bureau, updated April 5, 2018, <https://www.census.gov/foreign-trade/Press-Release/edb/2016/index.html#Tables>.



At the state level, California does provide some specific assistance to SMEs and NTEs, primarily through the State Trade Expansion Program (STEP). STEP is a federally funded program run by the Small Business Administration (SBA), which provides grant funding (matched by states) for export promotion activities. There is also technical assistance and workforce education available through the state's Small Business Development Centers and the California Community Colleges' Centers for International Trade Development.

Cities are also active in promoting new exporters. Brookings' Global Cities Initiative has done work in this space by looking at metropolitan export strategies. Los Angeles was chosen as a pilot Global City for the research program, creating a regional export plan in 2012²⁶ that led to the creation of the Los Angeles Regional Export Council (LAREx). Recently, the Milken Institute undertook a pilot program, "New-to-Export 101—Los Angeles," which brought together federal, state, and local export service providers and a cohort of new-to-export businesses to pilot a framework to help new exporters. The findings of this pilot project are published in "[New-to-Export 101: Strengthening the Capacity of US Regional Economies to Export Abroad](#)" by Carolyn Schulman and Michael Jarand.

26 Brookings Institution, Los Angeles Regional Export Plan, Metro Export Initiative, (2012), https://www.brookings.edu/wp-content/uploads/2016/07/export_initiative_los_angeles.pdf.

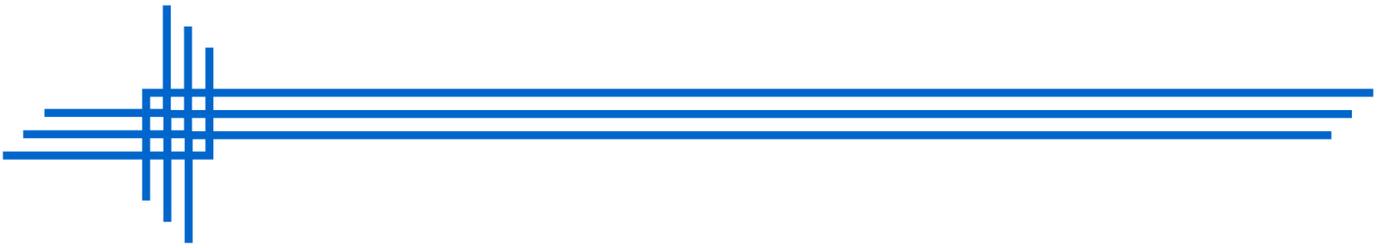


CALIFORNIA TRADE POLICY HISTORY AND CURRENT STATUS

It is important to understand that California’s trade policy apparatus has been through many iterations. This history matters and informs the currently fragmented status quo. The governor plays a large role in shaping the state’s philosophy toward economic development and trade, and California has seen contrasting approaches throughout its history. In this section of the report, we uncover the major challenges that have plagued California’s trade efforts in the past, which remain relevant when looking toward the future.

CALIFORNIA STATE GOVERNMENT TRADE AUTHORITY TIMELINE

Until the late 1980s, the state did not play a strong role in economic development or promoting international trade and investment, instead relying on California’s basic attractiveness to assure economic growth. This focus on business climate differed throughout administrations, but Pat Brown, Ronald Reagan, and Jerry Brown (during his first governorship) have been characterized as “Business



Climate” focused governors.²⁷ Though each had a different approach, they were concerned with internal factors relating to the state’s economic competitiveness, such as infrastructure, education, taxation, science, and technology. The business climate philosophy was that if the state created the necessary conditions for business to flourish, direct economic development would not be needed. Because of his interest in scaling down the size of government, Governor Jerry Brown abolished California’s Department of Commerce (then part of the Business and Transportation Agency) during his first term as governor in the 1970s.

Table 4: The Economic Focus of California Governors

Governor	Economic Focus
Edmund G. "Pat" Brown (1959-1967)	Business climate emphasis
Ronald Reagan (1967-1975)	
Edmund G. "Jerry" Brown (1975-1983)	
George Deukmejian (1983-1991)	Created trade programs
Pete Wilson (1991-1999)	Expanded and consolidated
Gray Davis (1999-2003)	Dotcom bubble, reduction/closure (January 1, 2004 elimination of TTD)
Arnold Schwarzenegger (2003-2011)	Reliant on private sector (2004-2010)
Edmund G. "Jerry" Brown (2011-2019)	Cautious rebuilding

Source: Milken Institute.

California’s engagement in international trade and investment began primarily under Governor George Deukmejian, whose approach focused more on factors that attracted outside business to the state. Increasing the state’s role in this area was a response to the onset of globalization and the growing role of trade and investment in the US economy. Governor Deukmejian reestablished the California Department of Commerce and opened the state’s first overseas trade offices. During Governor Deukmejian’s second term (1987-1991), he emphasized foreign trade development

²⁷ Douglas C. Henton and Stevan A. Waldhorn, “California,” in *The New Economic Role of American States: Strategies in a Competitive World Economy*, ed. R. Scott Fosler (Oxford University Press, Feb 28, 1991), 230-234.



and opened trade offices in Tokyo, Hong Kong, London, Frankfurt, and Mexico City.²⁸

Workforce training and technical assistance were also needed to help expand the state's international presence. In an example of the whole-of-government approach embraced at the time, the California Community Colleges Chancellor's Office established the California Centers for International Trade Development (CITD) in 1989 to promote the state's international trade and competitiveness, assist exporters and importers, and advance economic and job growth.²⁹

The state's trade offices, which were originally part of the governor's office, were later consolidated under the state bureaucracy by Governor Pete Wilson, who created the Trade and Commerce Agency, a cabinet-level position, in 1992. According to California State Auditor reports from the time, "the Trade and Commerce Agency was created to focus the state's efforts on economic development and job creation in an increasingly competitive business environment."³⁰

Trade and Commerce's mission was to:

- Ensure the state's efforts and expenditures in various trade, investment, and tourism activities are effective and efficient
- Foster the state's reputation as a source of high-quality, cost-effective goods and services, including tourism destinations

To accomplish its mission, the agency:

- Promotes business development, the growth of emerging industries, and job creation and retention
- Develops and oversees international trade policy and marketing through its foreign trade, export, and investment functions

28 "Deukmejian Joins Law Firm as Trade Specialist," *LA Times*, January 30, 1991, http://articles.latimes.com/1991-01-30/local/me-184_1_international-law-firm.

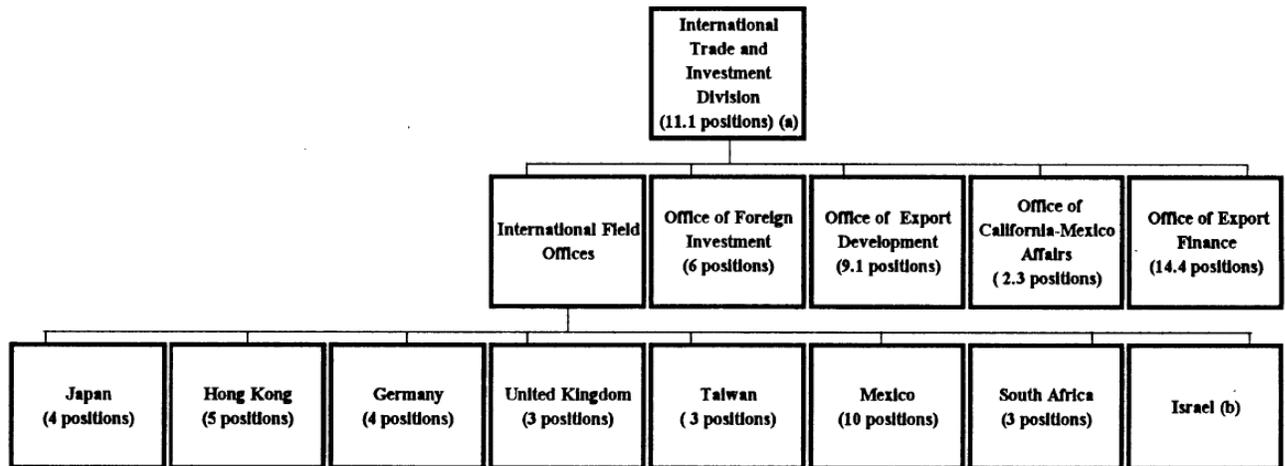
29 "About CITD," California Centers for International Trade Development, accessed February 8, 2019, <https://citd.org/contact/citd-network/about-citd>.

30 California State Auditor, *Trade and Commerce Agency: More Can Be Done To Measure the Return on the State's Investment and To Oversee Its Activities*, (Sacramento: April, 1996), 1, <https://www.bsa.ca.gov/pdfs/reports/95118.pdf>.



As of 1996, the agency housed both international trade and investment programs, as well as economic development and tourism divisions. The International Trade and Investment Division had 12 offices, including eight international field offices, and a budget of \$8 million (\$13.2 million in 2018 equivalent dollars) and a staff of 75. Under the budget that year, the International Trade and Investment Division had 86 authorized positions.³¹

Figure 2: California Trade and Commerce Agency, International Trade and Investment Division Org Chart and FTE Positions, 1997



Source: California State Auditor Report 95118, p. 69.

Under Governor Gray Davis in 2001, the Trade and Commerce Agency was changed to the Technology, Trade, and Commerce Agency (TTCA), reflecting the greater role of technology in California’s economy. Soon after, the dot-com bubble burst and left a \$20 billion hole in California’s 2002 budget.³² The government cut funding across many programs. The Foreign Trade Offices were specifically impacted, with their budget falling from \$5.6 million in the 2001-2002 budget to \$3.3 million in the 2003-2004 budget.³³ Altogether, these reductions marked a 41 percent decrease in budget for 2003-2004 when compared to 2001-2002 and resulted in the Legislative Analyst’s Office calling to reclassify the agency as a department. These cuts eliminated consulting and technology grants for small business, defense retention activities, marketing and communications, economic research, and state-funded tourism promotion.

³¹ Ibid, 70.

³² James Sterngold, “California Stunned to Find \$20 Billion Hole in Budget,” *New York Times*, May 12, 2002, <https://www.nytimes.com/2002/05/12/us/california-stunned-to-find-20-billion-hole-in-budget.html>.

³³ “Analysis of the 2003-2004 budget bill,” Figure 1: Technology, Trade, and Commerce Agency Expenditures. Legislative Analyst’s Office, accessed 2/12/2019, https://lao.ca.gov/analysis_2003/general_govt/gen_21_2920_anl03.htm.



These budget cuts were then compounded by negative press reports that publicized a lack of accountability and performance reporting from the agency's overseas offices. The Orange County Register published a special investigation in May 2003 that found the overseas trade offices had exaggerated their "export successes." Many companies stated on the record that the help they received from TTCA was minimal or did not contribute to the reported \$44.2 million in exports the agency had allegedly assisted.³⁴ The article led to a public relations crisis, and lawmakers immediately called for reform of the trade offices. The budget crisis and negative public attention led to the governor and legislature agreeing in August 2003 to eliminate the TTCA, effective January 1, 2004.³⁵

Eliminating the TTCA dissolved the state's overarching statutory framework for international trade and foreign investment, including authority for trade promotion offices in other countries. It also resulted in the termination of TTCA's remaining trade and investment programs, including the closure of California's 12 foreign trade and investment offices.³⁶

Following the closure, legislators interested in trade submitted bills with potential solutions to continue this important function. They ranged from giving authority back to the Business, Transportation, and Housing Agency, allowing unlimited private donations to promote international trade, or moving this responsibility to the governor's office.

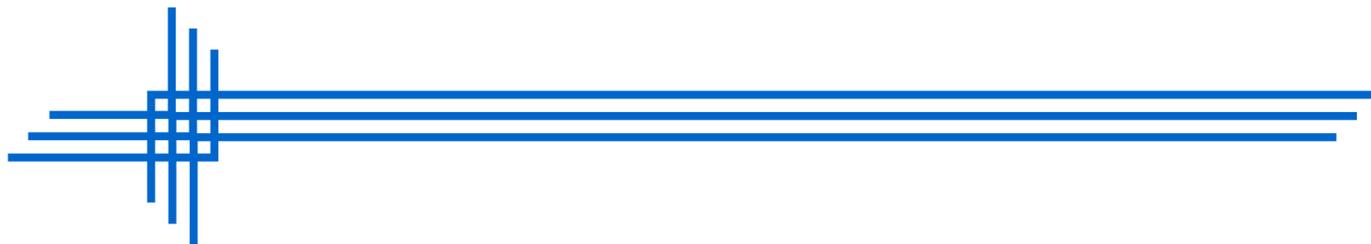
However, the highly public closure had a long-lasting impact on California. According to Douglas Smurr, "The implosion of the TTCA left two strong impressions in its wake: first, the belief that public funds should not be expended to support trade and investment promotion efforts, and second, the idea that California does not need an international presence."³⁷ This impeded future attempts to undertake trade and investment activities.

34 Kimberly Kindy, "Special Investigation: Trade Secrets," *The Orange County Register*, May 25, 2003.

35 Chapter 229, Statutes of 2003 (AB 1757) eliminated the Technology, Trade, and Commerce Agency effective January 1, 2004.

36 California State Assembly, Committee on Jobs, Economic Development, and the Economy, "Oversight Hearing on Programs of the Governor's Office of Business and Economic Development, Workbook 6 – International Trade and Investment," 2016, <https://ajed.assembly.ca.gov/sites/ajed.assembly.ca.gov/files/FINAL%20-%206%20Workbook%20on%20International%20Trade.pdf>.

37 Douglas Smurr, "California Adrift Internationally: Resetting Course for the 21st Century," *Journal of International Business and Cultural Studies*, 2.



It was not until 2010 that these activities were re-constituted, in a very limited fashion, in the Governor's Office of Economic Development (GoED) under Governor Arnold Schwarzenegger. The idea of creating a one-stop shop to cater to the needs of California businesses was originally suggested as a part of the Governor's 2004 California Performance Review and again in a February 2010 Little Hoover Commission report. The office had three defined functions: to promote California as a place to do business; to support businesses interested in starting, growing, financing, expanding, or relocating in California; and to help those businesses facing challenges of operating in California.³⁸

The 2008-2012 California budget crisis immediately put a damper on further expansion of this and other state programs. Following Jerry Brown's election and his focus on reducing the budget deficit, many feared GoED would be on the chopping block. Groups like BizFed sent letters to Governor Brown urging him to keep and expand the Governor's Office of Economic Development.³⁹ Following Governor Brown's reorganization plan of 2012, it was rebranded as the Governor's Office for Business and Economic Development (GO-Biz) and brought together other economic development programs and high-priority functions, like the state's green initiatives.

Though this history is presented mostly from the perspective of the executive branch and the governor's agenda, we note that at times the legislature and governor have not seen eye to eye on trade. Since 2004, there have been legislative efforts to reopen California's trade offices. Most recently, bills were passed to establish a California Trade office in Mexico in 2014 and 2017. However, Governor Brown vetoed both.⁴⁰ The governor's role and final veto power make it clear that, even though trade occasionally arises as a topic in the legislature, the buy-in of the governor is required to make progress.

In his veto message, Governor Brown rightly noted that "California and Mexico have a proven partnership of trade, commerce, and the exchange of culture that runs long and deep." However, the existence of a strong partnership is not a reason to stop investing in the relationship. California's exports to Mexico have only increased by about \$10 billion since 2004, while Texas has increased its exports by \$52 billion. California's share of US exports to Mexico has declined since 2004 (Figure 3). While a Mexico trade office may not have prevented this, it shows California should not take its trade relationships for granted.

38 Aaron McLearn, "Governor Schwarzenegger Establishes Office of Economic Development," April 8, 2010, <https://lhc.ca.gov/sites/lhc.ca.gov/files/Reports/200/GAAS-215-10GoED.pdf>.

39 "SUPPORT: Governor's Office of Economic Development," Los Angeles County Business Federation, January 31, 2011, <http://bizfed.org/blog/alerts/support-governors-office-of-economic-development/>.

40 "SB-357 International trade and investment office: Mexico," California Legislative Information, accessed March 12, 2019, https://leginfo.ca.gov/faces/billStatusClient.xhtml?bill_id=201720180SB357.



Figure 3: Governor's Veto Message, October 15, 2017

To the Members of the California State Senate:

I am returning Senate Bill 357 without my signature.

This bill directs the Governor's Office of Business and Economic Development to establish and operate a trade and investment office in Mexico City.

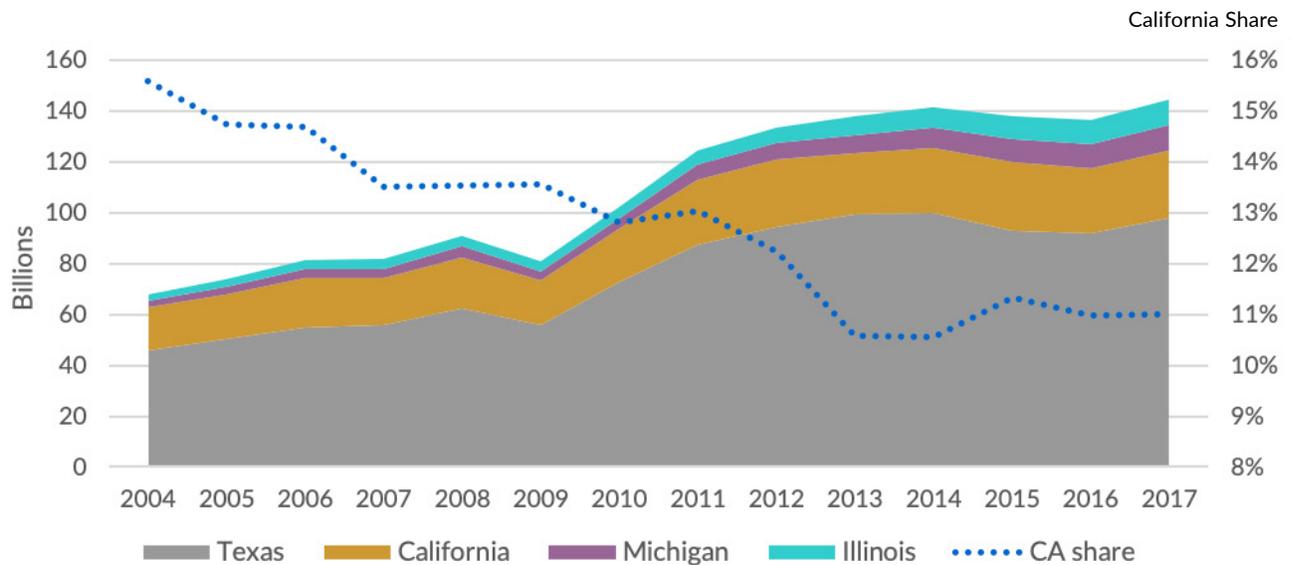
California and Mexico have a proven partnership of trade, commerce, and the exchange of culture that runs long and deep. Our relationship with Mexico is fundamental to our mutual prosperity. Through memorandums of understanding, we are directly working with the Mexican government and business community on climate change, trade, transportation, tourism, and education.

As I stated in 2014 when I vetoed a nearly identical bill, I remain unconvinced that California needs a legislatively-mandated trade office to continue our ongoing and enduring partnership with Mexico.

Sincerely,
Edmund G. Brown Jr.



Figure 4: Top 5 States Exporting to Mexico, 2004-2017



Source: Foreign Trade Division, US Census Bureau. NAICS Total All Merchandise Exports to Mexico.

CURRENT LANDSCAPE

California's current trade and investment programs are a mix of legacy programs from old trade infrastructure, the new but limited GO-Biz programs, and a variety of complementary programs run by federal and local agencies and private and non-governmental organizations. Both the governor and the legislature establish the overall state approach. With so many actors involved in this space, there are significant coordination challenges.

Governor's Office for Business and Economic Development

California's strategy since 2012 has been led by GO-Biz's International Affairs & Business Development Unit, which published its International Trade and Investment Strategy in 2014.⁴¹ The strategy outlined four policy goals:

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

⁴¹ Governor's Office of Business and Economic Development, *State of California International Trade and Investment Strategy*, (February 2014), http://www.business.ca.gov/Portals/0/Files/February%202014_GOBiz%20CA%20Intl%20Trade%20Strategy.FINAL.pdf?ver=2016-10-12-193419-240.



To achieve these goals, GO-Biz launched a strategy of re-engagement on trade and investment-related initiatives and proposed new strategic objectives. They included creating an intra-agency trade and investment coordinating committee; establishing a public-private sector Trade and Investment Advisory Council; identifying high-priority export sectors and foreign markets; and signing trade and investment memoranda of understanding with China, Mexico, Israel, and Japan. The strategy also called for increased participation in federal trade and investment programs and the consideration of additional trade offices. These trade and investment strategies are legislatively mandated every five years, with the next due in 2019.

GO-Biz's overall budget has been growing in recent years as its broader economic development role has expanded, but the International Affairs & Business Development Unit remains small, with three full-time staff. The state's current trade and investment goals are similar to those set during the Trade and Commerce Agency days but with fewer staff members and less funding to accomplish them. GO-Biz has had to find creative solutions, such as partnering with the Bay Area Council in 2012 to establish the California-China Office of Trade and Investment in Shanghai.⁴² Stakeholders are positive about GO-Biz's performance and progress in international trade and investment but note its limited reach and small footprint—the initial goals and strategy were the right ones, but they have not received sufficient resources.

Governor Newsom's Executive Order: The State of California Representative for International Affairs and Trade Development

One of Governor Newsom's first acts on trade and investment was Executive Order N-08-19. It designated Lieutenant Governor Eleni Kounalakis as the Governor's Representative for International Affairs and Trade Development, tasked with advising and representing the governor in matters relating to trade, investment, and international relations.⁴³ The lieutenant governor has already begun outreach in this role, representing the state in high-level bilateral meetings and working with partners to explore trade missions and the possibility of opening trade offices in Mexico and India.

The executive order also established an interagency committee and private-sector advisory group. The interagency committee has a broad mandate, but the advisory group is narrowly focused.

42 "California-China Office of Trade and Investment," Background, California Governor's Office of Business and Economic Development, accessed March 12, 2019, <http://www.business.ca.gov/Programs/International-Affairs-and-Business-Development/International-Trade-Promotion/Trade-Missions/China-Trade-Network>.

43 Katy Grimes, "Gov. Newsom Names Lt. Governor Kounalakis as Representative on International Affairs and Trade," *California Globe*, March 1, 2019, <https://californiaglobe.com/governor/gov-newsom-names-lt-governor-kounalakis-as-representative-on-international-affairs-and-trade/>.



As specified in the executive order:

- “An International Affairs and Trade Development Interagency Committee to advise the Governor and to support the coordination of state activities relating to the promotion and expansion of trade, investment, and international relations.”
- “A California Trade and Service Office Advisory Group, consisting of private sector and nongovernmental leaders, for the purpose of exploring and identifying the use of non-state funds to open and support offices promoting California trade and services globally.”⁴⁴

It is heartening to see that Governor Newsom is thinking about trade early on in his term and is elevating the role of the lieutenant governor in this space. So far, however, these committees and advisory groups do not seem like a change from the status quo. GO-Biz was the director of a similar interagency committee during the Brown Administration, and the old trade and investment strategy also included a California Advisory Council for International Trade and Investment. However, these groups seem to have met infrequently and had little say in changing California’s trade policy without Governor Brown’s buy-in. Governor Newsom will need to empower them if they are to produce results.

California Legislature

The California State Legislature is regularly involved in trade and economic development hearings. The California State Assembly Committee on Jobs, Economic Development, and the Economy, which has a broad mandate over economic development policy, originates most legislative action related to trade. Another committee with a specific interest in trade is the Select Committee on Asia/California Trade and Investment Promotion. Otherwise, trade is an on- and off-again topic for the legislature. One of the reasons is that few legislators are fully aware of the impact of trade on their constituencies. Awareness has increased in the past couple of years as a result of tariffs and other issues that can directly affect constituents, but there is still a lack of capacity and attention on trade. If trade and investment are going to be a priority of the governor’s administration, progress will require greater legislative support.

Other Programs

Other state government programs, like the Community Colleges’ Centers for International Trade Development and the Department of Food and Agriculture, also house trade programs that fall within their mandates. The private sector, nonprofits, and local and regional economic development organizations also play a large role in

⁴⁴ Full text of the executive order can be found online here: <https://www.gov.ca.gov/wp-content/uploads/2019/02/2.28.19-Executive-Order-1.pdf>.



the state trade and investment space. These organizations stepped up following the dissolution of the Trade and Commerce Agency but also created a fragmented approach with little collaboration.

There are dozens of these organizations, including the Bay Area Council, Los Angeles Regional Export Council, GlobalSF, mayors' offices and county governments, economic development corporations, universities, statewide trade associations, and business associations like local Chambers of Commerce and World Trade Centers. While they can be effective within their narrow mandates, they are spread thin and cannot serve or represent California as a whole.

Lastly, federal programs that support trade and investment are active in California. The International Trade Administration's Commercial Service has Export Assistance Centers throughout the state. The Small Business Administration and EXIM Bank also have local representatives that can help California exporters with their specific services. Other programs serve California from their headquarters in DC, such as SelectUSA, the federal foreign direct investment promotion program. Together, these and all the other programs above represent the majority of California's current trade policy landscape.



IDENTIFYING CALIFORNIA'S CHALLENGES

In August 2018, the Milken Institute held its first ever California Policy Summit in Sacramento to bring together state policymakers, academics, and stakeholders to discuss California's most pressing issues. One of these sessions, "The Next Governor's Trade Agenda," resulted in a fruitful discussion about the present challenges facing the state. That discussion and a dozen stakeholder interviews, in addition to the research and background covered above, inform this summary of California's major trade and investment challenges. These are the big picture issues any new trade and investment platform will have to address, as they have been major stumbling blocks for the state's past efforts.

We group these challenges along three themes: internal challenges relating to California itself, its historical challenges relating to the closure of the Trade, Technology, and Commerce Agency, and challenges relating to the external competitive environment.



CALIFORNIA'S INTERNAL CHALLENGES

California Is a Large and Diverse State

California's size and diversity, in geographic and economic terms, is both a challenge and an opportunity. While this means California has a great number of resources and many world-class companies and regions to promote, it also makes crafting a comprehensive strategy extremely difficult. The economic interests, strategic sectors, and level of international engagement of Los Angeles County are very different from those of Placer County. California is home to many global companies, but also has over 70,000 small and medium company exporters. Defining a strategy that serves California widely is a challenge.

Coordination Among State, Local, and Federal Partners

Related to California's size, developing a state strategy that integrates the many local, regional, state, and federal programs active in the state is a challenge. Many state and local governments have stepped up to fill the void left by the closure of the Technology, Trade, and Commerce Agency, but activity is uneven among cities and regions. Assisting partners that require help while learning from those that are leaders is necessary, and the state does not benefit if it duplicates local or federal efforts.

Historical Problems with Budget Crises

Economic development and international trade promotion are not the highest priority of state governments. When unexpected budget shortfalls occur, these efforts are more likely to be cut than other high-priority programs, such as education and health care. As a matter of good governance, California should not grow its state programs too quickly, lest this happens again—each time it does, lasting damage is wrought.

CHALLENGES RELATED TO THE CLOSURE OF THE TTCA

Lack of Institutional Knowledge

Closing the Technology, Trade, and Commerce Agency did more than eliminate California's trade and investment programs—it also set the state back by many years in terms of institutional knowledge of trade and investment. While California still has many experts in this subject, they have moved into the private sector, academia, and nonprofits rather than working for the state. Reinventing government programs from the bottom up is more difficult than constant iteration. Many other state governments have been in the trade and investment space continuously for decades and, as a result, have institutional knowledge, established networks of partners, credibility, and brand recognition.

Perception of Trade and Trade Missions as a Boondoggle

The closure of the Technology, Trade, and Commerce Agency and its failure to account properly for its trade promotion efforts, particularly its overseas offices, created a lasting impression that California should not spend its money on export



promotion. Ever since, privately funded governor trade missions have been the norm,⁴⁵ and even California's lone international trade office in China is donor-supported. The state needs to show the importance of trade programs to change this view; if trade and investment are a valuable economic objective of the state, it should be willing to pay for them.

Awareness of Trade's Importance Is Lacking

The lack of awareness by the public, state officials, and the legislature about the importance of and the state's role in trade and investment means California is not able to capitalize on its global brand. Instead, the state's reputation is taken for granted. California has effective programs, such as STEP and the CITDs but does not effectively highlight and market them.

California Legislative Involvement Is Needed

The legislature needs to get more involved in helping to create a state trade and investment strategy. The challenge of being governor-led is that the state changes course radically every few years. Contributing to the lack of continuity and institutional knowledge is the legislature's limited involvement in international trade and the infrequent use of its oversight function.

EXTERNAL CHALLENGES: NATIONAL UNCERTAINTY AND COMPETITION

National Policies Are Disrupting Activities with Key Trading Partners

Ongoing trade conflicts are creating supply chain and price uncertainty for California exporters. Additionally, export promotion programs by the International Trade Administration, Small Business Administration, and EXIM Bank are unpopular with the current administration and are under threat. As the national situation worsens, California may have to step up and provide leadership as it has in other areas.

Competition from Other States and Nations

GO-Biz is doing its best to fill a very large footprint. Internal stakeholders generally provide positive feedback and are pleased with the progress made since 2012. However, compared to other states, California still has much catching up to do. A 2017 survey of location advisors classified best-in-class regional and state economic development organizations. California was not present on either list and is generally considered to have the least favorable business climate in the US.⁴⁶ In another benchmark survey, conducted for JobsOhio, California ranked last in client satisfaction.⁴⁷

45 "Arnold Schwarzenegger sells California to East Asia," *BBC News*, September 14, 2010, <https://www.bbc.com/news/business-11296399>.

46 Development Counsellors International, *A View From Corporate America: Winning Strategies in Economic Development Marketing*, 29, <https://aboutdci.com/wp-content/uploads/2017/09/Winning-Strategies-in-Economic-Development-Marketing-2017.pdf>.

47 McKinsey&Company, "Independent Performance Assessment of JobsOhio," June 2018, Exhibit 27, https://www.jobsohio.com/assets/files/independent_performance_assessment_of_jobsohio_june_2018.pdf.



OBJECTIVES AND BEST PRACTICES

1. EXPAND TRADE AND INVESTMENT FOOTPRINT

Based on our stakeholder interviews, analysis of other states, and historical comparisons, we believe California would benefit from expanding its trade and investment footprint. There is a widely held belief that the current GO-Biz trade and investment operation is constrained by its small size—especially relative to California’s stature as a global leader. This is true in terms of staffing, geographic reach within the state, and lack of overseas presence. Even without drastically transforming California’s approach to trade and investment, allocation of additional staff and increasing the reach of GO-Biz’s programs would increase the number of businesses served and create more capacity to achieve the state’s international trade and investment strategy.

Increase Staffing

GO-Biz currently has three full-time staff covering trade and investment, down from the peak in the late 1990s of 86 authorized positions in the International Trade and Investment Division of the Trade and Commerce Agency.⁴⁸

⁴⁸ California State Auditor, *Trade and Commerce Agency: More Can Be Done To Measure the Return on the State’s Investment and To Oversee Its Activities*, 86.



While we do not call for a return to such numbers, California should continue realigning its staffing to be competitive with other states. According to a SIDO survey, the average number of employees working on trade and investment in 2018 was 6.5 per state.⁴⁹ Some states have more than that—the headcount of Illinois’ International Trade program is 19.⁵⁰ California’s size and the importance of trade and investment to the state’s economy mean it would be reasonable to have an above average number of staff working on trade and investment. California’s broader economic development organization (beyond the international division) is also undersized; according to an assessment of 17 states, California had the fewest staff positions, with 36 compared to an average of 143.⁵¹ The small number of positions reflects the state’s decision to leave many economic development functions to city and county governments.

Serve California's Diverse Regions

California’s size and its economic and geographic diversity are some of its primary challenges. It is important to lift up and promote the best-performing cities and regions while also providing export and investment services to those regions that have been historically underserved. Having a footprint outside Sacramento would help the state divide this work into manageable districts and provide a local point of contact for businesses. Previous trade and commerce strategies took this regional approach, and many other states follow this model.

Having a regional network is important, even if satellite offices are not the ones involved with trade and investment. For example, the Maryland Department of Commerce has a dozen regional specialists placed throughout the state.⁵² Enterprise Florida has six.⁵³ They can be useful for referrals to the Division of International Investment and Trade, and they increase the reach and awareness of these programs outside the capital.

GO-Biz can be a clearinghouse for expertise and possible funding for local economic developers, even if it does not expand its geographic footprint. This technical assistance can get more local community economic developers thinking about trade and investment and produce best practices for other communities to follow.

49 State International Development Organizations, *Defining Success: Meaningful Metrics to Evaluate U.S. State International-Trade Programs*, (July 2018), 10.

50 “Illinois State Budget Fiscal Year 2020,” Department of Commerce and Economic Opportunity, International Trade, p. 249. <https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2020-Budget-Book/Fiscal-Year-2020-Operating-Budget-Book.pdf>.

51 McKinsey&Co, “Independent Performance Assessment of JobsOhio,” A12.

52 “About Commerce,” Maryland Department of Commerce, accessed January 5, 2019, <http://commerce.maryland.gov/commerce>.

53 “Florida Trade Offices,” Enterprise Florida, accessed January 5, 2019, <https://www.enterpriseflorida.com/contact/florida-trade-offices/>.



Reopen Foreign Trade Offices

When California closed its foreign trade offices, its international reach and capacity to connect California businesses to overseas opportunities diminished. California should establish new trade offices in high-priority markets, with clear goals and metrics for success. These metrics would help avoid the accountability issues that plagued California's old foreign trade offices.

California does have the California-China Office of Trade and Investment in Shanghai, opened in 2013 in cooperation with the Bay Area Council. This partnership is generally well regarded by stakeholders, and China is an important market to California. According to its 2015 annual report, its annual cost was \$592,744. This figure included two staff, one in California and one in Shanghai, as well as all other expenses, such as travel and rent. However, no state funds are used to cover the expenses of the office—donations support it through the Bay Area Council. Raising the necessary level of donations to start the office was possible, but keeping donors engaged is a challenge.

As a result of this limited outreach, California lags other states in its international presence. For example, Maryland has 17 offices around the globe,⁵⁴ Florida has 14,⁵⁵ and New York has 6.⁵⁶ Rather than opening state trade offices, others (such as Pennsylvania) manage a global network through hiring agents to represent the state.

California should start small, potentially with the state's most dynamic top trade partners, and open new offices based on the success of established models. Countries should be chosen based on the impact the state's presence will have and their growth potential for trade and investment. For example, though Canada is a top trade partner, the similarities of our markets, deep economic integration through the North American Free Trade Agreement/United States-Mexico-Canada Agreement, and shared language mean it may not be necessary to open a trade office there immediately.

California law (AB 2012, Perez) permits GO-Biz to open trade offices using state funds or donations.⁵⁷ However, Governor Brown vetoed recent bills to reopen a trade office in Mexico City. The governor's office and the legislature should work together to determine two or three pilot countries and provide appropriate funding to expand on the work of the California trade office in Shanghai.

54 "International Factsheet," Maryland Department of Commerce, accessed January 5, 2019, <http://commerce.maryland.gov/Documents/ResearchDocument/maryland-international-fact-sheet.pdf>.

55 "International Offices," Enterprise Florida, accessed January 5, 2019, <https://www.enterpriseflorida.com/international/international-offices/>.

56 "Meet Global NY's Foreign Office Directors," Empire State Development, New York State, accessed January 5, 2019, <https://esd.ny.gov/global-ny-foreign-office-directors>.

57 League of California Cities, "Governor Appoints New GO-Biz Team, Signs Legislation to Reopen International Trade Offices," September 21, 2012, <https://www.cacities.org/Top/News/News-Articles/2012/September/Governor-Appoints-New-GO-Biz-Team,-Signs-Legislati>.



2. SECURE FUNDING SOURCES

Expanding California's trade and investment footprint requires funding. Paying for additional employees, trade offices inside and outside the state, and more services to California businesses takes money. If possible, the state should create a dedicated funding source for trade and investment activity and ensure the money spent provides a good return on investment. The state must avoid repeating the mistakes of past administrations, particularly setting up programs and expanding too quickly, only to have them come to an end when budgets tighten. There are three principal options for funding the state's trade and investment functions, though many states utilize a mix of these.

As a frame of reference for program costs, the 2000-2001 budget of the International Trade and Investment Division of the Trade and Commerce Agency was \$11.1 million⁵⁸—now equivalent to \$15.8 million. About half of that amount supported the state's 12 foreign offices. Other states' budgets range widely but are commonly around \$10 million for a basic trade and investment program. These are usually within larger business attraction or commerce-type agencies with a scope beyond just trade and investment. For example, JobsOhio spent over \$118 million, and the Maryland Department of Commerce had a budget of \$153 million in 2018.

Potential Funding Sources

General Funds

General funds, as requested in the governor's budget and approved by the legislature, are a clear option for funding trade and investment programs. However, in its last five-year strategic plan, GO-Biz stated it "has no plans to request additional budget resources from the General Fund for international trade and investment programs."⁵⁹ This statement reflects an unwillingness by the governor's office as well as the legislature to allocate additional budget for international efforts and is in contrast to other areas of GO-Biz's budget, which have been growing.

For example, in 2018, the governor's budget requested \$20 million in general funds for each of the next five years to establish the Small Business Technical Assistance Expansion Program. While it does appear the state can allocate general funds for economic development programs, the challenges outlined above and negative history of the Trade and Commerce Agency's closure make it politically difficult to use these funds for trade and investment. It should be possible to increase support for general fund augmentation if the program return on investment is well documented and awareness of the importance of trade increases.

58 California State Auditor, *Technology, Trade and Commerce Agency: Its Strategic Planning is Fragmented and Incomplete, and Its International Division Needs to Better Coordinate With Other Entities, but Its Economic Development Division Customers Generally Are Satisfied*, (Sacramento: December, 2001), 6. <https://www.bsa.ca.gov/pdfs/reports/2001-115.pdf>.

59 Governor's Office of Business and Economic Development, *California International Trade and Investment Strategy*, 11.



Beyond California, other states are more comfortable using general funds. Virginia's 2016-2018 budget allocated \$1.4 million to open trade and investment offices in South Korea and Canada and expand its offices in China and Europe, \$1 million for governor-led trade missions, and \$3.7 million for international trade and export programs⁶⁰—about \$6 million annually. Illinois has appropriated \$9 million for international trade.⁶¹

Fee-for-Service

It is possible to design and implement trade and investment services that operate based on user fees or cost-recovery principles. Organizing a trade mission or a delegation to a trade show in which the companies pay a fee for the associated services provided by the trade office (for example, matchmaking assistance) is one example. Cost recovery is the model used by the US Commercial Service for many of its services. This model has the benefit of allowing services to scale and can help ensure only serious clients take advantage of these services. However, it can discourage the use of these programs if prices are too high. Higher fees should be reserved for larger, more serious undertakings (for example, attending international trade missions and trade shows) while the initial consulting service is free. As a funding source, fee-for-service is generally a model that can be sustainable only after a larger scale is reached and may not be appropriate for California until these services are proven.

Public-Private Partnerships and Donations

Public-private partnerships can add flexibility to trade and investment programs but require supplemental state funding to be effective. Some states establish nonprofit corporations to undertake economic development objectives. There are tradeoffs in this approach; they may not have the same pull of the governor's brand but tend to be more flexible. Ohio used this model to create JobsOhio in 2011 to allow the new corporation to “move at the speed of business” and free it from many of the transparency and ethics regulations of its predecessor, the Department of Development, including open meetings, procurement, and collective bargaining.⁶² In this case, Ohio funds JobsOhio with revenue from its state control of spirits. While that is not a practical model in California, it demonstrates how states can find unique funding sources, such as special revenue sources or use taxes. Enterprise Florida, another public-private partnership, receives about a quarter of its funding from private sources.

60 Virginia 2016-2018 Budget, Trade programs listed on pages B-75 and B-86. <http://dpb.virginia.gov/budget/buddoc16/pdf/partb/Office%20of%20Commerce%20and%20Trade.pdf>.

61 Illinois Budget, Department of Commerce and Economic Opportunity, International Trade, p. 249. <https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY2020-Budget-Book/Fiscal-Year-2020-Operating-Budget-Book.pdf>.

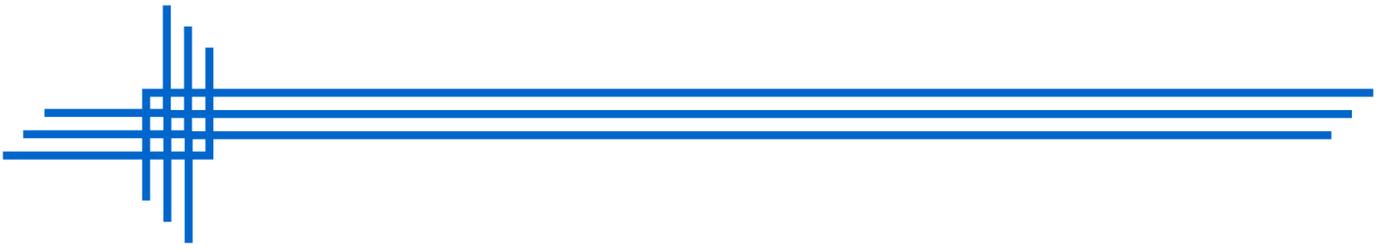
62 Norton Francis, “What Do State Economic Development Agencies Do?,” The Urban Institute, (July 27, 2016). <https://www.urban.org/research/publication/what-do-state-economic-agencies-do>.



Enterprise Florida is another well-regarded public-private partnership. It receives financial support from the state of Florida, and a variety of businesses contributes directly to the mission and program fees. However, private contributions and funding generated by Enterprise Florida itself (fees, events, investments, etc.) account for about one-quarter of its budget. While this is obviously a benefit to Florida taxpayers, even the most successful public-private partnerships require public support. Public-private partnerships are part of the funding solution but cannot be relied on to carry all the funding needs required for successful program unless a specific revenue source is identified.

Enterprise Florida Inc. Total Revenues (Year Ended June 2018)	
Public Funds	
State Operating Assistance	\$ 24,217,812
Private Funds	
Private Investment Contributions	\$ 1,269,000
Event Revenue, Administration Fees	\$ 1,397,965
In-Kind Contributions	\$ 229,622
Appreciation in Fair Value of Investments	\$ 4,410,990
Other Income	\$ 1,509,204
Private Sum	\$8,816,781
Enterprise Florida Total Revenue	\$ 33,034,593
Percent Private Funds	26.7%

Source: Enterprise Florida Audited Financial Statements, 2018. Consolidated statement of activities.



While this model may not be appropriate for the state's whole trade and investment platform, California does use public-private partnerships for specific programs. Industry-specific taxes like the Industry Assessment Program are how the California Travel and Tourism Commission, California Energy Commission, and California Department of Boating and Waterways generate operating revenue for programs and provide specific benefit to each industry. While it could be possible to design such a program to support California trade and investment, the benefits from trade are widely distributed, and any additional taxes or fees may hurt California's competitiveness for these activities.

Public-private partnerships for international trade have been most successful at the regional or local level in California. World Trade Centers are an example of this and are usually associated with the local economic development agency, for example the World Trade Center Los Angeles and Los Angeles Economic Development Corporation, or World Trade Center San Diego and San Diego Regional Economic Development Corporation. The Bay Area Council is a leading organization with many corporate supporters in the Bay Area and funds California's Shanghai trade office. At the city level, GlobalSF works in partnership with the San Francisco Mayor's Office.

The proliferation of this type of program is beneficial to the California trade environment but also shows that creating such a framework at the state level may be counterproductive. It will further stretch private support and corporate donors, who may be stretched too thin.

Expanding State or Private-Sector Involvement?

Best practices show the private sector should be a partner, but the state should not lean on it too heavily, especially in the building stages of a trade and investment program. These partnerships are difficult to sell before their benefits can be shown to possible collaborators.

California should also be careful about the appearance of private-sector donations. The private sector attendees have historically paid for governor trade missions. While this is beneficial to the taxpayer, it raises an uncomfortable question: Why should state programs be funded by corporate donations rather than tax revenue? Additionally, if trade and investment benefit the state and these programs advance the mission of the governor and receive legislative and private-sector support, a coalition to fund these programs should be possible. Other states we have looked at dedicate appropriate funding to this work, and some supplement that funding with private funds. Public-private partnerships, though effective at the local level or for specific events, cannot wholly sustain these trade and investment programs if they expand as we recommend.



3. DEFINE SERVICE DELIVERY AND METRICS

The purpose of state trade and investment programs is to provide valuable services to businesses, helping them expand their exports or operations in the state, which in turn creates jobs, increases regional economic competitiveness, and expands the tax base. When done correctly, this is a win-win for California businesses and taxpayers. However, the state's previous foreign trade office's failure to account properly for the results of its services did long-lasting reputational damage to the state's export services.

There are three main questions to answer before developing a state export services platform: Who are the clients, what specific services will the state offer, and how will performance and success be measured?

Define the Client Base

At the state level, export and investment promotion programs serve both businesses (by providing export assistance, serving as an ombudsman, providing site selection services, etc.) and municipal and county governments (by helping them include trade and investment in their economic development plans, providing technical assistance, recruiting them to attend events like Select California, etc.). In both of these areas, the state should strive continually to improve service delivery and client satisfaction. California is a large state, with many businesses and local governments that would further benefit from trade and investment. We believe California is already serving both the business and local government communities; its main limitation in terms of reach is the small footprint of offered services.

Prioritize Strategic Sectors

Given the constraints mentioned above, California's government programs cannot provide every imaginable service to everyone. As a result, California's export and investment plan should be strategic in prioritizing the highest impact sectors and activities. Many states do this and aggressively feature these sectors in their branding and marketing. These sectors should be determined based on their importance to the state's economy and propensity to create good jobs, their global competitiveness, and whether they are receptive to increased state involvement.

California should pay attention to new and upcoming sectors and areas where the state has a limited presence. Services exports, though an important sector and major export of California's knowledge-intensive economy, are poorly tracked by official statistics and may not be well served by traditional export assistance services. It would be worth assessing varied ways to integrate services trade into the state trade agenda.



Michigan's PlantM is a strategic sector initiative undertaken by the Michigan Economic Development Corporation. It is a partnership of mobility organizations, communities, educational institutions, research and development, and government agencies working together to develop and deploy future mobility technologies, such as self-driving cars. It represents a pivot from Michigan's automotive leadership in the past to future mobility technologies. It has a strategic focus, features a partnership of the public and private sector, delivers valuable services to mobility-focused companies and investors, fulfills economic development objectives, and has a strong marketing campaign and brand. This model represents a whole-of-government approach and brings together many of the best practices mentioned in this report. Foreign investment is part of that approach and, as technologies mature, they will surely be exported.

These strategic sector and job creation incentive programs are combined with workforce development:

- It created the nonprofit Michigan Mobility Institute to train professionals and tradespeople in artificial intelligence, robotics, cybersecurity, and other fields.
- It aims to offer the first "Master of Mobility" degree starting in 2021.



Offer High-Quality Services

State export promotion and investment attraction services should match the needs of the client base and fill gaps where other entities (such as the federal government) are not active, therefore avoiding duplication. The California Business and Transportation Agency undertook this type of assessment in 2007 and produced a gap analysis. It should be conducted again and periodically updated and reassessed to determine what can best benefit California businesses.

Export Services

States may offer a variety of export services, as previously shown in Table 2: Services Offered by State International Development Organizations. GO-Biz hosts trade events and missions and provides information about export assistance resources but is limited by its small staff and lack of resources. It is also the state point of contact for administering California's STEP grants for small business exporters in partnership with the SBA.

The state has other international trade programs outside of GO-Biz. For example, the California Centers for International Trade Development provide workforce training and export assistance but are part of the California Community Colleges System. Agricultural trade is under the umbrella of the California Department of Food and Agriculture.

The US Commercial Service can effectively deliver other export services, such as business matchmaking. Some states subsidize or provide incentives to those who utilize these export services. STEP reimburses some of these services, and states such as South Carolina and Colorado go beyond that with higher reimbursement caps. For example, California STEP Individual Company Export Promotion will reimburse up to \$3,000 in export promotion expenses,⁶³ while Colorado's Export Accelerator Program will reimburse up to \$15,000.⁶⁴ However, many of these incentives are reserved for small businesses. Enterprise Florida offers an exceptional number of services including:

Export Counseling: Six Enterprise Florida Trade Offices, located throughout the state, provide export counseling and advice to Florida manufacturers, export intermediaries, and services companies.

International Trade Events Newsletter: A bi-weekly International Trade Events Newsletter provides information about international trade events that are happening around the state and overseas.

63 "California STEP Individual Company Export Promotion (ICEP) Program," California STEP California Small Business Export Program, accessed April 16 2019, <https://californiaexport.org/icep/>.

64 "Export Accelerator Program," Choose Colorado, accessed April 16, 2019, <https://choosecolorado.com/doing-business/incentives-financing/export-accelerator-program/>.



Overseas Trade Missions and Exhibitions: Enterprise Florida maintains an extensive schedule of overseas trade missions and exhibitions worldwide.

- Export Sales Missions are professionally planned and feature one-on-one appointments with potential business partners overseas.
- Trade shows allow companies to showcase their products at leading global exhibitions that focus on high-tech industries such as aviation/aerospace, information and communications technology, and life sciences.
- Team Florida Missions are high-level, high-visibility trade and investment development initiatives led by the governor and are a part of an aggressive global recruitment and trade development strategy.
- Lower-cost catalog shows are also offered, particularly in selected Asian markets. These programs are a venue for gaining market exposure in potentially lucrative markets with little expense.

Trade Grants: Enterprise Florida offers a number of trade grants to help Florida companies grow their export sales through international activities including trade shows, trade missions, Gold Key/Matchmaker programs, Export Marketing Plans, and website localization.

Certificates of Free Sale: Enterprise Florida can prepare Certificates of Free Sale to firms involved in the export of products manufactured in, or distributed from, the state of Florida. These documents verify that the products being exported are freely marketed without restriction and approved for sale in the United States and Florida.

Export Finance: Enterprise Florida offices can guide qualified Florida exporters to local, state, and federal sources that can help finance export transactions. The Florida Export Finance Corporation provides financing for small- and medium-sized Florida companies that have difficulty obtaining financial assistance from conventional lending institutions.

International Business Opportunities with the World Bank: Enterprise Florida Inc. is one of only seven US organizations selected by the World Bank to serve as a Private Sector Liaison Officer (PSLO). With the knowledge of World Bank funding and procurement opportunities, Florida's PSLO helps Florida businesses gain access to the billions of dollars in annual World Bank contracts.⁶⁵

⁶⁵ "Services," Export from Florida, Enterprise Florida, accessed March 8, 2019, <https://www.enterpriseflorida.com/services/export-from-florida/>.



Trade Finance

The Milken Institute and others, such as the Brookings Institution,⁶⁶ US International Trade Commission,⁶⁷ and Trade Finance Advisory Council, have found a major barrier to exporting, particularly for small and medium-sized enterprises, is the availability of trade finance products or export working capital loans that work for them. This is both a state and federal issue. California previously had a state finance program under the Trade and Commerce Agency, the Office of Export Finance, but it was eliminated. It provided loan guarantees for California companies seeking capital to complete export sales. SBA and EXIM Bank programs are available, but EXIM's lack of quorum has put the US at a competitive disadvantage in export financing since 2014. Based on client feedback, many small exporters find SBA's rigorous qualifications and requirements burdensome. States and the private sector need to provide alternative solutions. Enterprise Florida is a model for state collaboration with private-sector export finance providers. The Florida Export Finance Corporation (FEFC) provides Florida businesses with information, technical, and consulting assistance, and financing for their export transactions. FEFC can guarantee a lender's revolving line of credit up to \$500,000 and arrange much larger short- and medium-term loans through the federal government.⁶⁸ In 2017, FEFC assisted \$2.85 billion worth of Florida exports and conducted 521 seminars. This shows the demand for these export finance services is real, and states can make a difference in this space.⁶⁹

Investment Services

Since 2012, foreign direct investment has been a larger national priority for the federal government and most states. The creation of SelectUSA at the federal level and increased competition among states means California should double down on foreign direct investment attraction—particularly new manufacturing operations and services sectors that align with its strategic sectors and other government priorities, such as green tech.

66 Kati Suominen and Jessica A. Lee, *Bridging Trade Finance Gaps: State-Led Innovations to Bolster Exporting by Small and Medium-Sized Firms*, Brookings-Rockefeller Project on State and Metropolitan Innovation, (2015).

67 US International Trade Commission, *Small and Medium Sized Enterprises: Characteristics and Performance*, Investigation No. 332-510, Publication 4189 (2012).

68 "Florida Finance Network," Florida Export Finance Corporation, accessed March 4, 2019, <https://floridafinance.org/>.

69 "Year 2017 Fact Sheet," Florida Export Finance Corporation, accessed March 4, 2019, <http://fefc.dos.myflorida.com/history2017.htm>.



GO-Biz does play a role in foreign direct investment and has a good relationship with local economic developers and SelectUSA. However, its site selection and other business-facing services (such as incentive information, workforce information, market research, etc.) could be improved. Many other states offer self-service web portals with relevant economic data and directories of available properties and incentives. For example, SelectNH provides a variety of different site selection tools on its website including real estate search, demographic and industry data, business reports, geographic information system mapping, and community comparison tools. The state could also play a larger role recruiting local economic developers to attend import investment attraction events, like SelectUSA, and organizing a California-branded exhibition space at subsidized rates as many other states do for their attendees.

Performance Management and Metrics

Set Goals and Practice Strategic Planning

One of the breakdowns of the old Technology, Trade and Commerce Agency listed by state auditors was its failure to practice strategic planning, set clear goals, and assess progress. California would benefit from more frequent strategic planning and annual reports on trade and investment, especially if it plans to expand its work in this space. Currently, the California legislature mandates strategies and follow-up reports every five years. While this is useful as a framework to plan activities, it is not a frequent enough strategic planning cycle to adjust and track performance against goals. The next statutorily mandated State Trade and Investment Strategic Plan is due in 2019. The new plan represents an opportunity for the Newsom administration to develop its trade and investment policy, goals, and implementation objectives. However, waiting four to five years to follow up on this is too long.

One- or two-year planning cycles may allow more flexibility and more opportunities to present and share client successes. Annual or biennial reports can also help sell the impact of these programs to stakeholders. Other states and agencies might set long-term strategic planning goals but then follow up more regularly with interim progress.

Collect Performance and Client Successes

A major failure of the old Trade and Investment infrastructure was poor recordkeeping and an inability to prove the benefit of its programs outweighed their cost. Since 2004, there has been significant progress in this area. The data revolution is slowly spreading through government functions, such as trade promotion, and allowing staff to count, track, and analyze the impact of these programs better than

70 "New Hampshire: Your next move," New Hampshire Economic Development, accessed March 4, 2019, <http://www.selectnh.com/>.



ever before. Technology solutions, known as customer relationship management (CRM) software, are commonly used by businesses to track client interactions and outcomes. The US Commercial Service uses this type of software to conduct automated client surveys and aggregate data for clients assisted, tracked against goals set in the strategic plan. The Commerce Department is then able to report concrete metrics in real time as well as track improvement over time.

Since this is a common challenge many state economic developers face, the State International Development Organizations produced an extensive discussion of best practices in its 2018 report, “Defining Success: Meaningful Metrics to Evaluate U.S. State International Trade Programs.” California should adopt these best practices and invest in technology solutions that would help track clients and services provided.

4. COORDINATE PRIVATE-SECTOR AND FEDERAL AND LOCAL PARTNERS

State trade programs live and die by their partnerships and relationships with both the private sector and local and federal governments. California’s history makes this clear. According to Daniel Hancock, chairman of the Little Hoover Commission,

Dismantling the Technology, Trade and Commerce Agency created an opportunity for local economic development organizations to develop a new role and to set bottom-up priorities for economic growth. This gave rise to promising public-private models that could adapt to market changes with greater speed and flexibility without a large agency staff and budget. The dismantling also left a void. With the programs now spread out among other agencies, no one person was in charge and no one could set or communicate a unified vision for the state’s role in economic development. This diminished the state’s ability to coordinate activity and shepherd resources, and to evaluate the overall effectiveness of the state’s economic development efforts. The Commission recommended that the state create a Governor’s Office of Economic Development... The Commission’s recommendation was not to re-create an umbrella organization similar to the disbanded Technology, Trade and Commerce Agency, but rather to create a lean, high-profile office to serve as a coordinating entity with a well-publicized Web site and phone number. The Commission recommended the office be a credible networking operation, staffed with experienced and capable professionals.⁷¹

⁷¹ “Year 2017 Fact Sheet,” Florida Export Finance Corporation, accessed March 4, 2019, <http://fefc.dos.myflorida.com/history2017.htm>.



GO-Biz has begun to do this, but there is still a lack of coordination. The challenge is a major one, and GO-Biz's small staff, though certainly credible and capable, have not been empowered to play this role fully. There may be an element of being too lean; when we look at other states that effectively play this coordination role, the staffs assigned to do so are all larger than California's.

Work with Local Community Economic Developers Include Trade and Investment in State General Guidelines and Provide Technical Assistance

California law requires each city to adopt a comprehensive, long-term General Plan to guide the physical development of the incorporated area and land outside municipal boundaries that bears a relationship to its planning activities.⁷² However, the Economic Development Element of these General Plans is optional. Based on feedback from economic developers, it is important from a resourcing perspective that economic development, which can include elements of international trade and investment, be incorporated into city General Plans. Otherwise, local governments are unlikely to prioritize economic development over other statutorily mandated elements.

Providing technical assistance and revising State General Plan Guidelines to include more emphasis on economic development could help promote trade and investment at the city and county level. To lift up and promote the best-performing cities and regions, GO-Biz could also create competitive grant funding for trade and investment activities, similar to how the Economic Development Administration provides grant-based opportunities to the states. This would get more local community economic developers thinking about trade and investment and produce best practices for other communities to follow.

Leverage Federal Programs

Federal programs for trade promotion—such as Commercial Service export services, EXIM Bank trade finance products, and Small Business Administration export loans and working capital guarantees—are sufficient to meet the needs of many exporters. However, according to the Government Accountability Office, they do not collaborate sufficiently with state and local partners.⁷³

California does utilize SBA funding for its STEP Grants and should continue providing matching funds to promote these programs, which directly benefit California small businesses that generate hundreds of millions of exports.⁷⁴

72 "General Plan," Plan Elements, Rancho Santa Margarita California, accessed February 27, 2019, <https://www.cityofrsm.org/288/General-Plan>.

73 US Government Accountability Office, Export Promotion: Trade Agencies Should Enhance Collaboration with State and Local Partners, (May 2014), <https://www.gao.gov/assets/670/663362.pdf>.

74 "California STEP," California STEP California Small Business Export Program, accessed February 11, 2019, <https://californiaexport.org/about/>.



Advocate for Good Federal Trade Policy

California is deeply affected by federal decisions on trade policy. For example, California is the largest importer of Chinese goods, so California businesses are feeling the squeeze of the Trump administration's tariffs on China and other countries. According to the US Chamber of Commerce, approximately \$15 billion worth of California exports are threatened by the trade conflict.⁷⁵

Beyond tariffs, federal trade policy affects California businesses in numerous ways. Restrictions on immigrant work visas make it harder for foreign businesses to invest and operate. The lack of quorum at the EXIM Bank means California companies are at a competitive disadvantage to other countries with government-backed funding. Moreover, cuts to Commerce Department programs, such as the Small Business Administration and International Trade Administration, mean California cannot fully lean on these programs.

California's representatives in Congress and the governor should use their positions to advocate for good federal trade policy. California has not been afraid to lead the charge on environmental and immigration issues. It could also advocate more for trade policy—for example, through the National Governors Association.

Integrate Trade and Investment into Other State Programs

Trade and investment are not standalone objectives but tie into many of the state's other priorities, such as workforce development, business climate, and transportation infrastructure. Where relevant, trade and investment should be integrated into or acknowledged in other state programs. One positive example from California's infrastructure maintenance bill SB 1 is that it highlighted the intersection of trade and transportation priorities with the Trade Corridor Enhancement Program. This prioritized \$300 million in funding for trade corridor improvements, which will directly benefit California's trade infrastructure through additional port connections, border crossings, and freight capacity.⁷⁶

Other states are experimenting with similar integrations in their workforce development programs, creating a workforce and investment chain through the collaboration of community colleges with foreign companies interested in adopting apprenticeship programs. Colorado is a prominent example, where companies like Mikron and Governor John Hickenlooper worked together to create a statewide apprenticeship program called CareerWise.⁷⁷

75 US Chamber of Commerce, "Trade works for California," accessed January 15, 2019, https://www.uschamber.com/sites/default/files/tariff_data/one_pagers/ca.pdf.

76 "Trade Corridor Improvements," Trade Corridor Enhancement Program, California SB 1, accessed January 28, 2019, <http://rebuildingca.ca.gov/trade-corridor.html>.

77 Dwyer Gunn, "The Swiss Secret to Jump-Starting Your Career," *The Atlantic*, September 7, 2018, <https://www.theatlantic.com/business/archive/2018/09/apprenticeships-america/567640/>.



While European companies are most accustomed to apprenticeships and are a useful starting point, the plan expands beyond them to US companies, with the goal of having over 20,000 student apprentices by 2027.⁷⁸

5. IMPROVE MARKETING, BRANDING, AND AWARENESS

State trade and investment programs also have a role in using marketing and branding to create demand for the state's export products or increase awareness of the state as a destination for investment. These programs are how states, often via their governor, present a unified brand to the global business community. State delegations frequently attend trade missions, trade shows, or summits like the SelectUSA Summit. Alternatively, industry-focused marketing can play a role in creating a brand and demand for a specific product—think California wine, Florida oranges, or Detroit automobiles. Additionally, there is a role to play in informing the public about the important role of trade to the economy, providing information about the benefits of exporting to local businesses and marketing the services the state provides, since lack of awareness of public programs limits their use.

Use the Office of the Governor to Champion Trade and Investment

California is globally known, and its major cities, such as Los Angeles and San Francisco, are already world famous. From a marketing perspective, this is both a benefit and a drawback—the state does not feel like it needs to do much marketing since many are already aware of it on a superficial level. On the other hand, other states and their governors are more active in courting new investors, such as South Carolina under Governor Nikki Haley. Marketing is only useful if it creates results and should be complementary to the core trade and investment mission rather than a standalone objective. For example, South Carolina's focus on automobile manufacturing and an attractive business climate, combined with the governor's role in marketing the state and making deals, led to the state securing a \$1.1 billion investment by Volvo, its first production facility in the US.⁷⁹

Messaging from the governor's office is an inexpensive way to raise the profile of trade and investment within the state and signal to both California residents and global partners that trade is a priority of the administration and the state is open for business. The governor can do this by attending events like the SelectUSA Summit and World Trade Week or hosting foreign delegations. While many states have investment attraction incentive programs (such as California Competes), sometimes it takes a high-level political touch to champion these projects.

78 "Colorado's Swiss Apprenticeship Model," A Letter from Governor Hickenlooper, accessed January 28, 2019, https://www.colorado.gov/pacific/sites/default/files/CO_Swiss_Apprenticeship_Model.pdf.

79 Jonathan Ramsey, "Volvo opens doors to its first U.S. factory near Charleston, South Carolina," Autoblog, June 20, 2018, <https://www.autoblog.com/2018/06/20/volvo-first-us-factory-south-carolina/>.



Market California Strategically

California has not been meaningfully marketing itself since the closure of the Trade and Commerce Agency. TeamCalifornia, a private, nonprofit membership-based corporation, has a memorandum of understanding to act as the state's lead marketing organization for economic development.⁸⁰ Its membership is made up of economic developers throughout the state and has some private sponsors. While it represents a large swathe of California's economic development community and serves to highlight successes internally, it does not have the same visibility outside California that other state marketing arms have. This is not TeamCalifornia's fault but reflects the challenge California has as a diverse economy with many relevant industries, regions, and government partners. Marketing the whole state in a meaningful way is a difficult challenge. We suggest that, in line with the governor's priorities and the strategic sectors identified through the recommended strategic planning exercises, marketing be more region- and industry-specific so it aligns with the state's export and investment objectives. Utilizing public-private partnerships like TeamCalifornia can work, but it should be properly resourced and have better coordination with California's overall government strategy. GO-Biz's California Office of Tourism's partnership with the California Travel and Tourism Commission is an example of how this can successfully work in tourism promotion.

Improve Awareness of State Services and Impact

We do not recommend the state spend significant time or resources on hiring marketers to build a brand or launch an ad campaign; providing direct support to exporters, investors, and economic developers is a higher priority. However, awareness is a challenge. Both California businesses and potential investors need to be more aware of available services, and policymakers need to be aware of the beneficial impact these services have on their constituents.

Business-Facing Service Awareness

Since California does not have regional offices, its primary method for marketing its services is through its website. GO-Biz's business-facing website, business.ca.gov, is an improvement from its predecessor but can still provide more information and better usability. For example, its export and import page provides a list of links but could do better guiding clients to information relevant to them.

California's STEP page, californiaexport.org, is useful but very program-specific. TeamCalifornia has the most modern website but lacks content compared to competitors, such as JobsOhio and Enterprise Florida.

80 Mary Ingersoll, "Little Hoover Commission Submission – Team California," October 22, 2009, <https://lhc.ca.gov/sites/lhc.ca.gov/files/Reports/200/WrittenTestimony/IngersollOct2009.pdf>.



For foreign investors, Ohio's, Florida's, and New Hampshire's sites directly route to site selection tools in a click or two. Doing the same on California's site requires using a dropdown menu, clicking through, using another dropdown menu, clicking through three more times, then being brought to a generic contact GO-Biz page. GO-Biz should bring the website in line with peer states' ease of use and emphasize self-service resources.

Highlight Impact for Policymakers

The important impact of trade and investment on California's economy should be highlighted, particularly at the local and regional level. Numbers on jobs supported by trade and investment at the state level exist, but at other levels, this impact should be collected and highlighted by the California Assembly district. Few legislators are fully aware of the impact of trade and investment on their constituents. Many are beginning to take notice due to tariffs and disruption to national trade policy. By tracking services delivered, as suggested above, and then highlighting outcomes at the local level, the state can better show the importance of these initiatives and increase buy-in from stakeholders.



RECOMMENDATIONS

The primary theme in this report is that California is underinvesting in its trade and foreign direct investment programs and needs renewed leadership in this area. This leadership will require significant attention from both the governor's office and the state legislature to determine new approaches, particularly around funding. Our recommendations aim to scope this project appropriately and provide a path forward to continue building on the progress made since 2012.

1. EXPAND TRADE AND INVESTMENT FOOTPRINT

Increase GO-Biz Staff: California's statewide economic development organization is small relative to other states. Although local governments and economic development groups have stepped in following state cuts, particularly in the coastal metros, they have had a difficult time matching both the resources and coordination of a state agency. Other parts of the state feel this absence even more strongly. Trade and investment functions are best performed at the state level, and California has a below average number of these positions (three). Hiring additional staff to perform this work is essential.



Maintain a Regional Network: California is a large and diverse state, and it is necessary to serve businesses and economic developers throughout the state. Other states maintain regional offices; California should examine this option or deliver additional services through others that do have a regional presence, such as the Centers for International Trade Development.

Reopen Select Foreign Trade Offices: California's international reach has been limited since it closed its overseas trade offices. California should identify a handful of high-priority markets in which to reopen these offices and use them to promote California exports and investment.

2. SECURE FUNDING SOURCES

Establish Stable Annual Funding: These programs require funding, and the state has been reluctant to allocate general funds to them, instead relying on donor support to conduct trade missions or operate the Shanghai trade office. However, this is not sustainable if the program is to scale. Even the most successful public-private partnerships, like Enterprise Florida, still receive the majority of their funding from the state. A set commitment from the state legislature for recurring annual funds will show an ongoing state commitment to trade and enable the state to solicit greater funds from the private sector.

Identify Alternative Funds to Supplement General Funds: Donor funds, fee-for-service, dedicated funding sources, and public-private partnerships are all models to supplement general funds. If the state can show it is serious about this program with its initial funding, these can and should be used to offset the cost—but state funding should come first.

3. DELIVER SERVICES AND MEASURE OUTCOMES

Define Clients and Services: Deciding what services the state will deliver and to whom is essential. We believe California should continue working with economic developers but also support more direct-to-business services, such as site selection, export grants, and trade mission and trade show recruitment. California should conduct a new gap assessment to determine what services its economic developer and business stakeholders need most.

Prioritize Strategic Sectors: California should identify strategic sectors to emphasize in its export and investment services. These sectors should be determined based on their importance to the state's economy and propensity to create good jobs, their global competitiveness, and the amount they would benefit from state services. They should reflect the economic interests of the different regions of the state.



Pay Attention to Services Exports: In line with the above recommendation to prioritize strategic sectors, California should pay special attention to services exports. While we recognize services are the bulk of the US economy, their role in exports and particularly export promotion at the state level are not well understood.

Publish Biennial Goals and Reports: Strategic planning is a tool that can both help plan upcoming activities and communicate and market successes. A two-year plan would help set actionable goals within a flexible timeline. California's diverse activities should be unified and published publicly to highlight the impact of these programs.

Collect Client Successes: Metrics and measuring client satisfaction are increasingly important for trade and investment programs and were a major failure of California's prior Trade and Commerce Agency. California can move beyond the stigma created by that agency's shortcomings by adopting best practices like measuring clients assisted and their outcomes with CRM tools.

Investigate Trade Financing Solutions: The Milken Institute and others have found a major barrier to new exporters is the availability of trade finance products or export working capital loans that work for them. This is both a state and federal issue. California previously had a state finance program. SBA and EXIM Bank fill some of this role, but EXIM's lack of quorum has put the US at a competitive disadvantage in export financing since 2014.

4. COORDINATE PRIVATE-SECTOR AND FEDERAL AND LOCAL GOVERNMENT PARTNERS

Work with Local Community Economic Developers: A large part of the state's role is getting local communities to care about trade and investment, for example through technical assistance. California's general plan framework has an optional economic development component. The state should encourage this work by providing competitive grant funding to communities.

Continue Support for Federal Programs: California STEP (State Trade Expansion Program) is a valuable program for small businesses. California should continue providing matching funds as well as determining if increased levels of matching funds would lead to a stronger funding level from the US Small Business Administration. Other federal programs, such as the Commercial Service, SelectUSA, and EXIM Bank, also provide valuable services for California exporters, and California should advocate for them at the national level.

Integrate Trade and Investment into Other State Programs: Trade is not a singular industry but touches many businesses and other programs, such as tourism, education, workforce development, and the environment. Where possible, integrate



trade into these programs, such as transportation infrastructure and the trade corridor enhancement program, or job training in export-intensive manufacturing industries through apprenticeships or trade schools.

5. IMPROVE CALIFORNIA'S TRADE AND INVESTMENT MARKETING AND AWARENESS

Use the Office of the Governor to Champion Trade and Investment: The governor and lieutenant governor have an important role to play in visibly positioning the state as open to business and caring about trade and investment. High-level deals and events often require the governors' involvement, and other states are more active in this area.

Provide a Unified Presence at Trade Events: Trade shows and investment summits are an opportunity for various regional stakeholders to come together and market the state as a whole. California lags states like Indiana, Kentucky, and New York in terms of presenting itself as a unified entity at these and other events.

Market California Strategically: California's marketing presence is limited, so special care should be taken to highlight more region- and industry-specific messages that align the state's strategic sectors and objectives.

Increase Awareness of Business Services: Awareness of trade services for California businesses is limited, and information for foreign investors is sparse. Other states have clearer information available on their websites, and it is easier to find assistance or use self-service tools.

Highlight Trade and Investment Impact for Policymakers: At the local level especially, few are aware of the importance of trade and investment to the economy. Providing this information, especially for California assembly members, is critical.

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