

## EXECUTIVE SUMMARY

The Commission on California State Government Organization and Economy, also known as the Little Hoover Commission, conducted a study of the organization and administration of the State of California's overseas trade and investment offices in response to Assembly Bill 2685 (Killea), Chapter 1387, Statutes of 1986. The purpose of the study was to review the state level administration, coordination and operation of California's world trade, investment, and tourism promotion activities and make recommendations for improvements.

The State of California has dramatically stepped up its world trade and investment promotion activities in the last four years. During this period, the State has increased the funding for its world trade program from \$1.1 million in fiscal year 1984-85 to a proposed \$10.7 million in fiscal year 1987-88. In addition, the State has recently opened overseas trade and investment offices in Tokyo, Japan and London, England.

The State's recent efforts to embark upon a more aggressive program to develop world trade markets and promote foreign direct investment are an attempt to reverse California's lackluster trade record in this area over the past four decades. For example, the State previously opened a trade office in Mexico City, Mexico in 1964, an office in Tokyo, Japan in 1965, and an office in Frankfurt, Germany in 1967. However, due to disenchantment with their performance, the Mexico City office was closed in 1967 and the Tokyo and Frankfurt offices were closed in 1969.

While California's world trade promotion efforts have been relatively stagnant in the past four decades, other states have been actively involved in export and import promotion. For example, the National Association of State Development Agencies reported in March 1986 that 31 states had established or were planning to establish a total of 69 offices in 14 foreign countries to promote exports, investments and tourism.

California's stake in world trade is immense. According to the Executive Director of the California State World Trade Commission, the value of goods passing through the State's ports has more than quadrupled in the past two decades, soaring to more than \$100 billion in 1986. Moreover, by the year 2000, exports and imports together are expected to account for one-quarter of the State's total output. Due to the importance of world trade to California's economy, it is imperative that the State's current world trade program be developed in an organizationally sound manner and be administered effectively to achieve its goal of enhancing California's business ties in the global economy.

The Little Hoover Commission's report presents a total of 10 findings and makes 8 recommendations to improve the organization, administration, and operation of the State's world trade program.

Each of these findings and recommendations is briefly summarized below.

FINDING #1 - California's World Trade Program Lacks a Formal Structure for Accountability

The State of California's world trade program is organizationally dispersed among numerous state agencies, including the Governor's Office, the State World Trade Commission, the Department of Commerce, the Department of Food and Agriculture, and the California Energy Commission. Since no single agency has responsibility for overseeing and controlling the State's world trade program, it is difficult for the Governor and the Legislature to identify the purpose, source and amount of public funds being spent on world trade activities. Moreover, they are unable to quantify, or measure, the extent to which the world trade program is carrying out legislative intent and its established goals and objectives. Since the State now spends more than \$10 million annually on its world trade efforts, there is a real need to have greater accountability for the State's expenditures and improved data on program performance.

FINDING #2 - Coordination of California's World Trade Program Is a By-Product of Relationships Rather Than Administrative Structure

The current administrative structure within California's world trade program is heavily dependent upon the cooperative relationships that presently exist among world trade staff within various agencies. While the use of an informal structure to administer the State's world trade program has worked in the developmental stage of the State's present world trade program, there is a need to establish an enduring institutionalized mechanism for coordination. Due to the uncertain chain-of-command and the large number of autonomous, or semi-autonomous state agencies involved in world trade, the present informal system of coordination will become progressively unwieldy as the State's world trade program grows. Eventually, the administrative responsibilities and protocols among departments must be clarified if the State expects to be able to effectively accommodate the increasing complexity involved in coordinating the State's expanding and evolving world trade program.

FINDING #3 - The Legislature Needs to Assume a More Visible and Coordinated Role in World Trade Policy Development

The continued growth of California's world trade program will require state government to provide additional programs and services and will create additional demands on the Legislature to provide policy guidance and oversight. The Legislature's involvement currently includes the activities of the Senate Select Committees on the Pacific Rim and the Maritime Industry and the Assembly's Standing Committee on International Trade and Intergovernmental Relations. Furthermore, other legislative committees in both the Senate and the Assembly routinely hold hearings and review legislation that have an

impact on world trade. However, the Legislature currently does not have a committee responsible for overseeing the State's world trade program, coordinating trade policy development, or acting as a clearinghouse for trade-related legislation which is being introduced in legislative committees.

FINDING #4 - California's World Trade Protocol Efforts Are Not Well-Organized

The Legislature and the Administration have been hesitant to formally institute a protocol function in support of the State's world trade program. Specifically, they have not made a determination whether public funds should appropriately be committed to diplomatic ceremony and etiquette. If, in order to protect its trade position, the State of California is going to develop and maintain governmental relations with other countries, the Commission believes that the State cannot indefinitely ignore the need for a coordinated and funded protocol operation because social functions where business is conducted create access to international trade opportunities for California firms.

FINDING #5 - California's Current Program of Promoting World Trade Does Not Provide Equal Access to State Resources

The State's world trade program has evolved in such a manner that larger industries with export histories have dominated the use of California's resources for export promotion. For example, approximately \$5 million of the more than \$10 million that California spends annually on world trade promotion goes toward sharing the costs of marketing California's agricultural products in world markets. Presently, the State's world trade program lacks a mechanism to ensure that other less-established exporting industries have equal access to California's resources for export promotion.

FINDING #6 - Economic Data Currently Available to and from the State Government Are Inadequate to Support International Trade and Investment Activities

Timely and accurate economic data are of tremendous significance in trying to promote international trade and investment in California. The State of California currently collects and disseminates a wide variety of economic data to promote its world trade activities. However, the State's data is frequently dispersed throughout state government and is not readily available when needed. To ensure that it can be responsive to the need for economic data and other information, the State needs to develop an improved informational network to support its international trade and investment activities.

FINDING #7 - The Existing Administrative Structure Does Not Ensure California's Long-Term Commitment to Its World Trade Program

The State of California first established an agency to promote international trade in 1947. Since that time, California has shown

an on-again, off-again commitment to encouraging world trade. This was demonstrated most pointedly by the State's having opened and then closed overseas trade and investment offices in Mexico City, Tokyo, and Frankfurt during the 1960s. To reassure potential trade partners and investors that California's world trade activities will continue and indeed expand, the State needs to make its intent to commit resources to world trade over the long term unmistakable.

FINDING #8 - The Role Played by the Governor's Office Gives California's World Trade Program Legitimacy and a High Profile

The State of California has placed the responsibility for the overseas offices in the Governor's Office. This high-level placement within state government provides California's world trade program in general and the overseas offices in particular a higher profile than world trade programs and offices administered by other states. As a result, the involvement of the Governor's Office provides California with an advantage over other states in promoting world trade.

FINDING #9 - California has Demonstrated a Capacity to "Internationalize" State Government for Purposes of Promoting World Trade

The existing world trade program has concentrated on making all units of state government potential agents of international trade and investment. The Administration refers to this process as "internationalization." As a program, "internationalization" refers to efforts to increase state government's awareness that economic self-sufficiency as a single state is a parochial perspective which must gradually be replaced with an international one. The State's current world trade program, although not in place for long, has demonstrated a commitment to internationalize the activities of state government.

FINDING #10 - California's World Trade Program Exhibits a Capacity for Innovation and a Record of Accomplishment

California's world trade program is evolving in unpredictable but often highly innovative and productive ways by responding to the needs and preferences of the State's industries. The current world trade staff have achieved a good measure of success in a rather short time in each of the four components of California's world trade programs: export promotion, investment attraction, tourism promotion, and advocacy. This innovation and record of accomplishment should be applauded and sustained.

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The Commission recommends that eight specific actions be taken to improve the organization, administration, and operation of the State's world trade program. These include:

1. Establish a Governor's Office of World Trade to oversee and facilitate the development of formal mechanisms for accountability and coordination of world trade activities in state government.
2. Appoint a full-time world trade coordinator to be the Director of the Governor's Office of World Trade.
3. Establish a Protocol Division within the Governor's Office of World Trade.
4. Establish a world trade information clearinghouse within the Governor's Office of World Trade.
5. Require the Governor's Office of World Trade to prepare an annual report to the Legislature on state government's effort to promote world trade activities.
6. Relocate export promotion activities and the Export Finance Program from the California State World Trade Commission to the California Department of Commerce.
7. Give the California State World Trade Commission the responsibility for raising and allocating private funds for California's world trade program.
8. Establish a Joint Legislative Committee on World Trade.

The Commission believes that the implementation of these recommendations will have a positive impact on California's ability to carry out its world trade and investment promotion activities.