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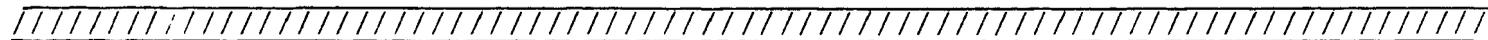
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A REVIEW OF THE ORGANIZATION
AND ADMINISTRATION OF CALIFORNIA'S OVERSEAS
TRADE AND INVESTMENT OFFICES



JULY 1987

A REVIEW OF THE ORGANIZATION AND ADMINISTRATION OF
CALIFORNIA'S OVERSEAS TRADE AND INVESTMENT OFFICES

A Report to the Governor and Legislature
Pursuant to Chapter 1387/Statutes of 1986 (AB 2685)

Prepared by

The Commission on California State Government
Organization and Economy

With the Assistance of
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This report was prepared pursuant to Contract No. GOE-6005
with Deanna J. Marquart.

A REVIEW OF THE ORGANIZATION AND ADMINISTRATION OF
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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

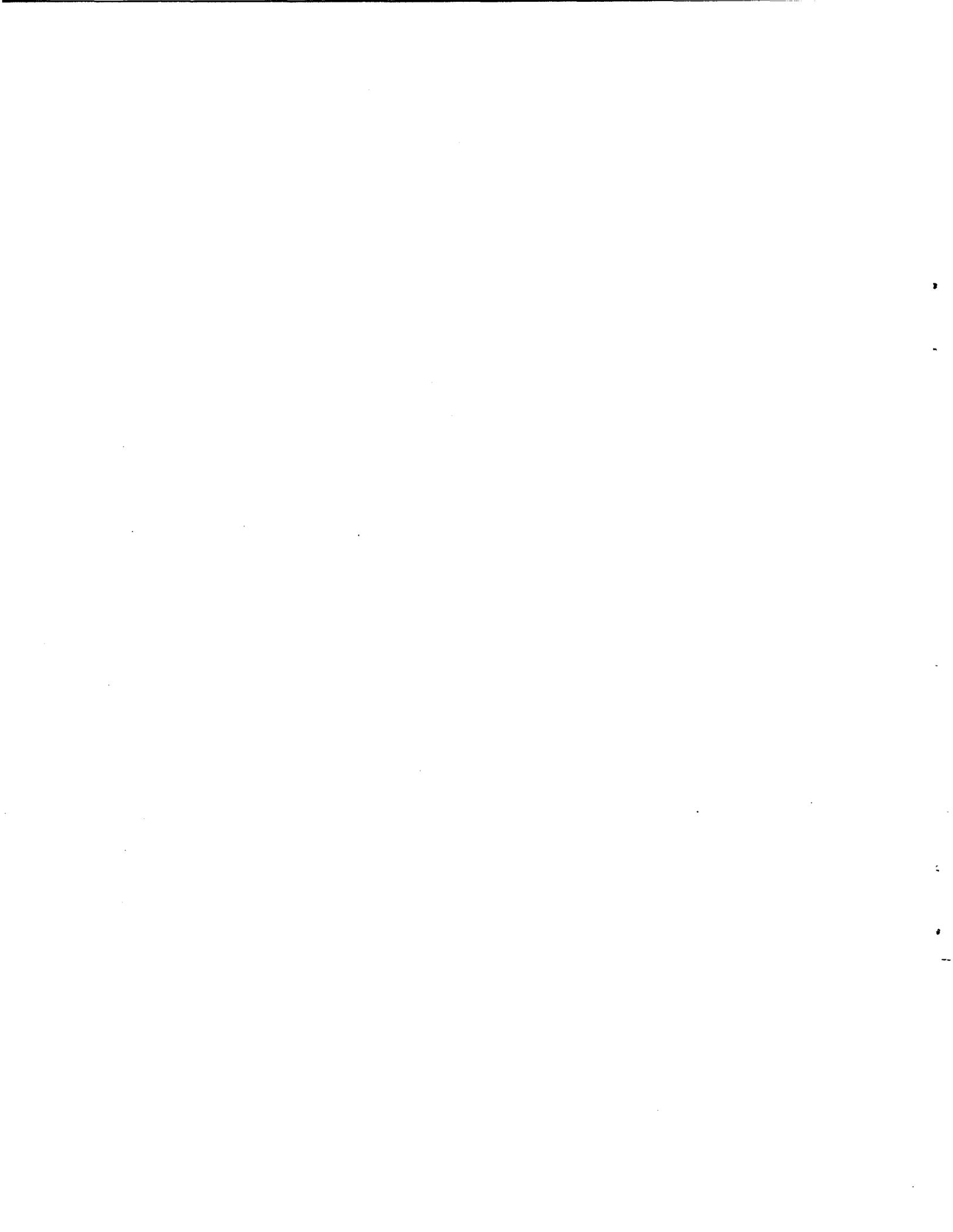
California's world trade program is evolving in unpredictable but often highly innovative and productive ways by responding to the needs and preferences of the State's industries. The current world trade staff have achieved a good measure of success in a rather short time in each of the four components 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.

* * * * *

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.



I. INTRODUCTION

PURPOSE OF THE STUDY

Chapter 1387/Statutes of 1986 (AB 2685) amended the Government Code to reorganize the California State World Trade Commission (CSWTC). Chapter 1387 provides that the CSWTC may:

"Establish one or more offices in California and foreign countries, if appropriate and economically feasible, and serve as a clearinghouse for inquiries from foreign businesses and governments and provide them with introductions to California businesses and agriculture" [Government Code Section 15364.6(i)].

While it gave the CSWTC permissive authority to establish overseas offices, Chapter 1387 also specified that "...the Governor shall designate an individual whose primary responsibilities shall be: (1) To oversee and coordinate the activities of all overseas offices...." (emphasis added) [Government Code Section 15364.74(a)(1)].

Because it was not possible at the time AB 2685 was passed to determine the most effective administrative structure for the overseas offices, in the same legislation the Legislature stated its intent that the Commission on California State Government Organization and Economy (the Little Hoover Commission) "shall conduct a review... regarding how best to provide State level administration and coordination of planned overseas offices" [Government Code Section 15364.73, reprinted in this report as Exhibit A]. The law specifies that the Commission shall make recommendations to the Governor and Legislature regarding:

- * The advisability of placing the administration of overseas offices within a specified State department or agency;
- * Creating a new office within the Governor's Office; or
- * Any other mechanism which would facilitate the operations and coordination of these offices at the State level.

BACKGROUND

Authority for the State of California to establish overseas trade and investment offices was created first in 1947. The World Trade Center Authorities Act declared it

was the general policy of the State of California to "foster and develop domestic and international trade in the natural, processed, and manufactured products of the State" [Chapter 1508/Statutes of 1947, SEC. 1.1] and provided for the establishment of two World Trade Centers -- one in San Francisco, the other in Los Angeles -- for the purpose of maximizing use of the San Francisco and Los Angeles harbors. This law acknowledged that countries in North and South America, Europe, Africa, and "nations across the Pacific... desire to do business with the United States...and they desire California products and California desires their products." The Legislature intended that the harbor facilities constructed under this act would enhance California's role in international trade.

In 1963, the Governor and Legislature, seeking to assure California's trade interests would be represented directly to foreign governments and corporations, established in Chapter 1770 the California World Trade Center Authority Coordinating Council. In January 1964, under auspices of the Council, California opened its first foreign trade office, in Mexico City, and in November 1965 opened a second, in Tokyo. Both offices emphasized export/import and tourism promotion. The Mexico City office was funded initially with \$27,000 from the San Francisco Port Authority Fund; \$50,000 was appropriated from the General Fund for the Tokyo office.

In 1967, the Council decided to close the Mexico City office, explaining that, although trade between Mexico and California had increased, the program had fulfilled its purpose. Later the same year, the Council used a \$50,000 allocation left over from 1966-67 to open a trade office in Frankfurt, West Germany.

By 1969, disenchantment with overseas offices had spread through many of California's trade organizations and the business community in general. Convinced there were no demonstrable benefits from these overseas operations, Governor Ronald Reagan deleted the \$105,000 needed for their support from the 1969-70 State budget.

Catching up in the 1980s

More than a decade passed before California policy makers in both the executive and legislative branches resurrected their interest in establishing overseas trade and investment offices. Meanwhile, many other states around the nation had maintained overseas offices and expanded their trade promotion programs. By the close of the 1970s in California, the business and government communities' awareness that we had entered an age of the "global economy" took on a sense of urgency.

California State World Trade Commission. Legislation

passed in 1982 (Chapter 1526/Statutes of 1982) removed the Office of International Trade from the Department of Economic and Business Development (now the Department of Commerce) and reconstituted it as the California State World Trade Commission (CSWTC). The Commission -- composed of 15 leading representatives of California government and private industry, including the Secretary of State as chair -- was mandated to institute research in international trade in preparation for developing and implementing effective and aggressive strategies for marketing California products and services. As noted earlier, one of the Commission's specific responsibilities was to "establish one or more offices in California and in foreign countries" for the purpose of promoting California exports and attracting foreign investment.

Overseas Office Feasibility Study. In 1985, a San Francisco consulting firm -- Mentor International -- completed an overseas office feasibility study (pursuant to Chapter 1569/Statutes of 1984). The Mentor International report recommended that California strengthen its in-state governmental "infrastructure" to support international trade and investment activities abroad and plan to open two overseas offices during the 1986-87 fiscal year: one in Tokyo, the other in London. The Administration has adhered to this suggested schedule. As a result, the general level of international trade-related activity in California State government has increased significantly since January 1, 1987. To illustrate, the Governor reported in a March 16, 1987 speech to the California State World Trade Commission that the following developments have occurred since the Tokyo office opened in January:

- * Kyocera executives have expressed their intent to pursue a major expansion of their production facilities in San Diego;
- * The Keidanren (Japan's leading business federation) announced its intent to send a major investment mission to California later this year to study potential expansion projects;
- * The Bank of Tokyo is planning to promote California products and tourist destinations in its major branch offices in Japan;
- * Japan's Ministry of International Trade and Industry, in cooperation with the CSWTC, will promote throughout Japan camping and hiking equipment produced in California;
- * Bechtel, a California-based engineering and consulting firm, in a rare gesture from the Japanese government, received a small contract to participate in the planning of the \$8 billion Kansai airport project;

- * Several Japanese firms have announced their agreement to join a California firm in building a \$200 million steel mill and waste-to-energy plant in Fresno County; and
- * California's overseas office director reports that virtually every major trading company, financial institution, trade association, and government agency in Tokyo has called the office to set up meetings. During the first few weeks of operation, the office has received an average of ten trade and investment inquiries per day.

SCOPE

The scope of this report includes a detailed description of the existing administrative structure for California's world trade program. The overseas offices do not stand alone; rather, together they represent a single component in the State's overall strategy for California businesses to expand their export opportunities in foreign markets and for State government to promote California as attractive to foreign investors.

Our report presents the governmental and commercial context in which overseas offices recently have come to be perceived by states all over the country as being essential to their future standing as world trading partners. In these contexts, we have identified three major areas of concern -- accountability, coordination, and legislative role -- and have presented our specific findings and recommendations to correlate to these concerns.

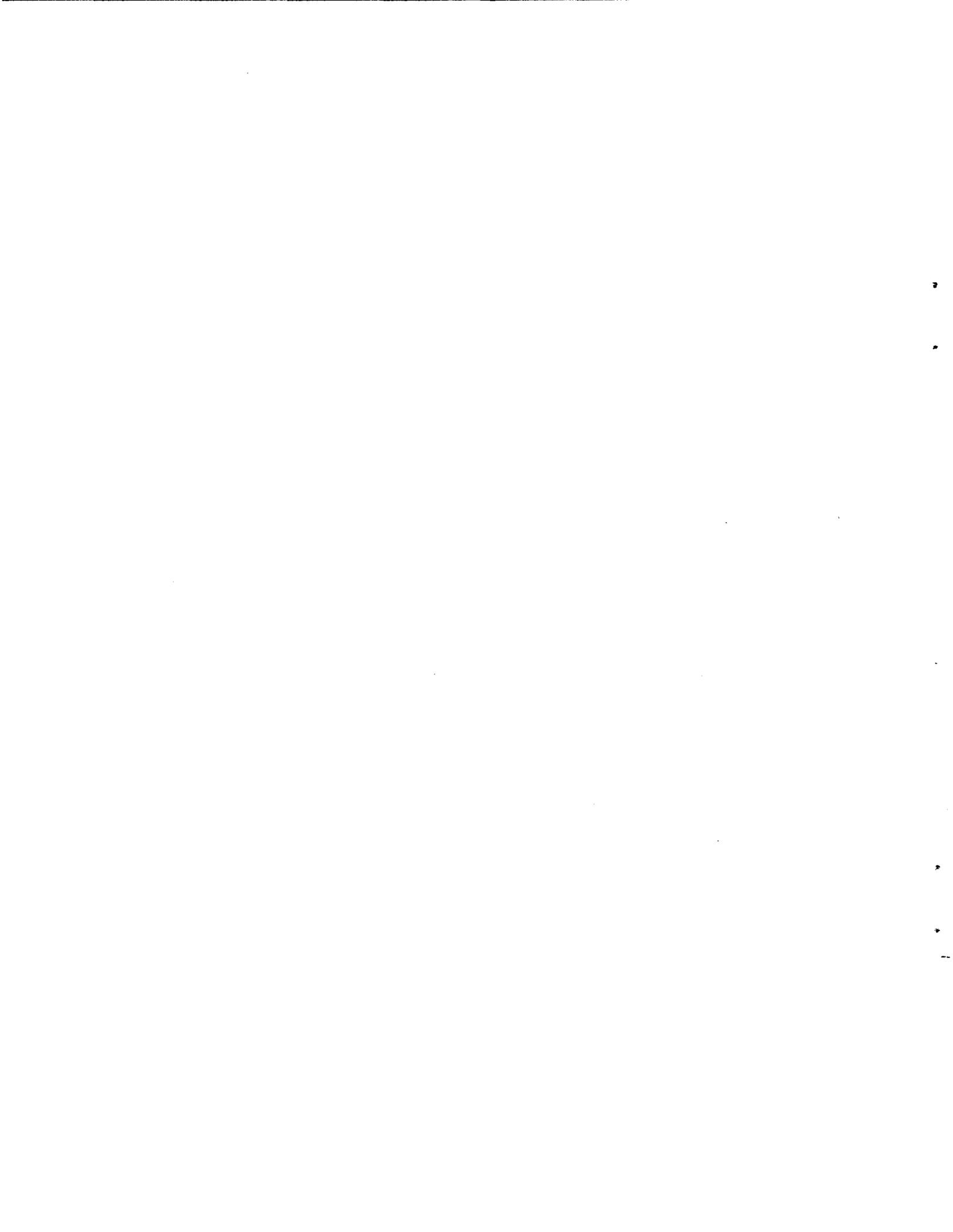
METHODOLOGY

Chapter 1387/Statutes of 1986 became effective January 1, 1987. That same month, the Little Hoover Commission contracted with Deanna J. Marquart, an independent policy analyst in Sacramento, to conduct the study mandated by the new law. The Chairman of the Commission appointed Commissioner Mary Ann Chalker to chair the subcommittee for the project. Commissioners Haig Mardikian and Abraham Spiegel served as subcommittee members, as did Commission Chairman Nathan Shapell.

Work on the project began in late January. The initial phase consisted of a literature search, review of existing documents and analyses, and an interviewing process to gather information on California's existing program of international trade, including administration of the new overseas offices in Tokyo and London. Based on an early draft report of findings, the subcommittee decided the issues and alternatives were of sufficient interest and im-

portance to warrant a public hearing. Thus in May 1987, the Little Hoover Commission -- in cooperation with the Assembly Committee on International Trade and Intergovernmental Relations -- held a hearing in San Francisco to determine strengths and weaknesses in the existing administrative structures for California's overseas trade and investment offices. The recommendations contained in this report reflect the concerns and suggestions presented by public officials and industry representatives at the May hearing.

A chronological summary of legislation and events in the establishment of California's overseas trade and investment offices is included in this report as Exhibit B. Those individuals who were interviewed over the course of the study are identified in Exhibit C. A list of the individuals who presented testimony at the Little Hoover Commission's public hearing in San Francisco is included in this report as Exhibit D.



II. THE EXISTING ADMINISTRATIVE STRUCTURE FOR CALIFORNIA'S OVERSEAS OFFICES

CALIFORNIA'S WORLD TRADE PROGRAM

California's world trade program has four major components, each encompassing a range of activities that are implemented by both overseas and in-state offices. These four functional components are export promotion, investment attraction, tourism promotion, and advocacy.

Export Promotion

The significance of exports within a particular economy is usually measured in terms of jobs created in the exporting country -- or, in this case, state:

Exports via California ports are some \$30 billion per year. Exports of California origin, not all via California ports, are not compiled directly by any source, and are conservatively estimated by Mentor International to exceed \$25 billion. This may well imply 500,000 direct and another 500,000 indirect jobs in the state, for a total of one million export-related jobs [Mentor International:1985].

California businesses with products, commodities, or services available for export are themselves primarily responsible for developing sales in foreign markets. However, federal and State government offices, trade associations, professional export/import companies, banks, shipping companies, and consultants provide promotional assistance. Export promotion activities consist typically, but not exclusively, of the following:

- * Sponsoring direct consumer marketing overseas of goods and services produced in California by conducting trade missions to other countries and participating in overseas trade shows;
- * Brokering trade leads;
- * Providing export financing services -- such as loan guarantees and assistance with loan requests -- and technical assistance -- such as producing market research information for California firms seeking to export their products or services; and
- * Cultivating government's relationships with domestic and international business groups, trading companies, individual firms, and parallel government agencies in

other countries in order to maximize the benefits of California's export promotion activities on behalf of California firms seeking export opportunities.

Investment Attraction

"Investment attraction" refers to efforts to encourage foreign investors to expand or relocate their existing operations or start new enterprises in California. "[T]he pursuit of inward investment involves selling the concept of the advantages of California. No other party will accept this responsibility! Not the Federal Government. Not banks, manufacturers, or other private corporations. Only the State of California can accept this challenge" [Mentor International:1985].

Benefits of successfully attracting foreign investments also are measured in terms of the new jobs generated:

Direct inward investment from foreign countries has created, as of 1981, 2.3 million jobs in the U.S. affiliates of overseas firms. Some 241,000 of those jobs were in California. Using accepted multiplier effects, some 1 million jobs in California are now probably attributable to direct foreign investment; that is over 8 percent of total employment in the state.

Evidence...indicates that California has not received a proportionate share of foreign direct investment in the United States. If promotional efforts could even bring California up to parity with the national average of 11 percent of total employment in U.S. affiliates, this would add some 2,000 jobs in California. Since an apparent 300,000 jobs per year are created in U.S. affiliates of foreign investors...a 1 percent increase in California's share could mean 3,000 direct, and up to 12,000 total new jobs per year [Mentor International: 1985].

Selected investment attraction activities include:

- * Brokering inward investment leads;
- * Providing staff support services to prospective investors for determining investors' precise information needs, gathering available information and meeting with investors to present such information, and arranging site tours in various locations around the state;
- * Maintaining periodically updated data bases (by sub-state jurisdiction) on such variables as utility rates/costs, availability of alternative energy sources, zoning restrictions, proximity of compatible industries, skills inventories of local labor, population trends,

unemployment rates, local infrastructure characteristics, and site availability; and

- * Publishing foreign language promotional material.

Tourism Promotion

In an April 1986 report, "International Travel to California: 1984," the California Office of Tourism stated that 4,216,800 foreign visitors toured California in 1984: 830,300 from Mexico, 662,800 from Canada, and 2,723,700 from overseas countries. They spent \$2.6 billion, in the process generating employment for more than 60,000 Californians. Based on a 1984 survey of air travelers conducted by the U.S. Travel and Tourism Administration, California's Office of Tourism estimates that more than one-third of the 4.2 million visitors to California came on business, making very explicit the connection between tourism and other efforts to promote California's international trade and investment opportunities.

Tourism promotion, like export promotion and investment attraction, consists of specialized activities -- for example:

- * Visiting travel agents in foreign capitols to provide information on travel opportunities in California;
- * Sponsoring travel-writer tours (inviting foreign travel writers to California for free tours of areas the State wants to promote);
- * Organizing coordinated, limited-time discount programs (hotels, restaurants, transportation) for visitors from specified nations; and
- * Collaborating with other states to promote tourism in the western U.S. in general.

Advocacy

The traditional exclusion of state governments from negotiation of America's trade treaties has produced a parochial attitude concerning states' advocacy on international trade matters. Because today's economy is a global economy, however, the commercial vitality of states and cities is increasingly seen as being directly affected by U.S. trade policies. Many federal government trade specialists believe states are constitutionally prohibited from being involved in any way with international trade, but a growing number of state and local government officials have taken the position that they can no longer afford to treat international trade and investment issues as being outside

their jurisdiction. California's Lieutenant Governor, for example, has stated his views as follows:

Fortunately, states have a remarkable degree of latitude, consistent with both the U.S. Constitution and international treaty obligations, in furthering their own economic interests in world trade. ...[T]here is nothing to prevent any state from seeking to influence federal policies. Given disturbing evidence that federal policy-makers are not adequately attuned to California's interest in world trade, this state's business and government leaders must assume a greater responsibility in aggressively promoting California's objectives in this crucial area of public policy [California Lieutenant Governor:1986].

State-level advocacy functions include:

- * Conducting studies and issuing reports regarding trade policy, trade barriers, foreign markets, international trade promotion resources, and other subjects as warranted; and
- * Advising the Governor, Legislature, U.S. Government, and foreign governments regarding such issues as:
 - o Existing barriers to trade that impede California exports and/or inward investment;
 - o Projected impact on trade which would result from proposed changes in existing laws or treaties;
 - o Priorities in international trade activities which will best support California's overall economic development; and
 - o Impact of existing or proposed laws and/or procedures on California's competitiveness in the global economy.

Public-Private Partnership

This report necessarily focuses on governmental activities, but it is important to understand that both public and private sector organizations are actively engaged in all the activities listed above -- often in planned, cooperative efforts. Because California's world trade program already is characterized by partnerships with the private sector to accomplish specific goals and, thus, the activities of government employees are frequently integrated with the activities of businesspeople, State government's decision making apparatus for international trade, regardless of its design or organizational structure, will never achieve perfect control over governmental actions. We believe it is impor-

tant to bear in mind this characteristic of world trade in order to focus only on what can and should be changed and refined.

Figure II-1, on the following page, identifies the State governmental units involved in the four components of world trade and indicates, as well, some of the private sector organizations with which these governmental units most frequently interact. Figure II-1 does not reflect federal or academic involvement in the four functional areas.

Figure II-1

CALIFORNIA'S WORLD TRADE PROGRAM:
FUNCTIONS AND AGENTS (1)

	<u>Export Promotion</u>	<u>Investment Attraction</u>	<u>Tourism Promotion</u>	<u>Advocacy</u>
GOVERN- MENT	*Governor's Office	*Governor's Office	*Governor's Office	*Governor's Office
	*Overseas Offices	*Overseas Offices	*Overseas Offices	*Overseas Offices
	*CSWTC	*CSWTC (2)		*CSWTC
				*Lieutenant Governor
		*Office of Business Development, Department of Commerce	*Office of Tourism, Department of Commerce	
	*CDFA, CEC, <u>et.al.</u> (3)			*CDFA, CEC, <u>et.al.</u> (3)
	*Senate Office of Protocol & International Relations	*Senate Office of Protocol & International Relations		*Senate Office of Protocol & International Relations
	*Local Govern- ments	*Local Govern- ments		
PRIVATE SECTOR	*State/local economic development corporations	*State/local economic development corporations	*State/local economic development corporations	*State/local economic development corporations
	*State/local chambers of commerce & other business organizations			
	*Individual firms			*Individual firms

Notes to Figure II-1:

(1) Abbreviations represent the following:

CSWTC = California State World Trade Commission
CDFA = California Department of Food and Agriculture
CEC = California Energy Commission

(2) Legislation proposed during the current session (AB 12/
Killea) would create an Office of International Relations
and Services in the California State World Trade Commission.

(3) CDFA and CEC currently have active programs identified
as part of California's international trade effort.
Other state departments may have similar programs which
did not come to our attention over the course of the study.

DELEGATION OF RESPONSIBILITIES

This report is concerned primarily with the administrative structure, roles, and activities of the following units within the executive branch of State government:

- * Governor's Office;
- * Overseas Offices;
- * California State World Trade Commission;
- * California Department of Commerce, Offices of Business Development and Tourism;
- * California Department of Food and Agriculture, Agricultural Export Program; and
- * California Energy Commission, Energy Technology Export Program.

Governor's Office

Chapter 1387/Statutes of 1986 required the Governor to designate an individual in his office to coordinate the operations of the overseas offices. In February 1987, the Governor appointed his Special Assistant for Writing and Research to oversee and coordinate the operations of the overseas offices. In March, the Governor promoted the same individual to the position of Director of Public Affairs and Communications, a role he will fill simultaneously with his role as the Governor's World Trade Coordinator, in which he is statutorily responsible for:

- * Overseeing and coordinating the activities of all overseas offices and keeping the Governor informed of these activities;
- * Acting as liaison to all State departments, commissions, or agencies which have specified international trade, investment, or tourism functions that have impact on the activities of the overseas offices; and
- * Beginning November 1, 1987, and annually thereafter, reporting to the Legislature on the activities and expenditures of the overseas offices and making funding and other recommendations for present and future offices.

Overseas Offices

In January 1987, California opened an overseas trade and investment office in Tokyo, Japan. The official title

for the person leading the operation of that overseas office is "Director -- Asia." The person currently holding this position was formerly a Deputy Director of the California Department of Commerce and Director of that department's Office of Business Development. In April 1987, when California's London office opened, the Governor appointed a former Deputy Assistant Secretary of the U.S. Department of Commerce to become "Director -- Europe."

The staffing plan for each overseas office includes, in addition to the director, a deputy director, a staff assistant, and a secretary. The Administration's intention is that the overseas office staff will function equally as export promotion and investment attraction agents. Directors and deputy directors for each office have been and/or will be selected on the basis of their combined ability to implement this dual function. This approach attempts to avoid establishing either the director or deputy as a specialist exclusively in either investment or trade.

The overseas office staff are responsible for promoting trade and attracting investment, as follows:

TRADE PROMOTION	INVESTMENT ATTRACTION
* Arrange for California firms' participation in overseas trade shows	* Assist prospective investors by meeting their information needs
* Gather trade leads for relay to CSWTC or CDFA	* Gather investment leads for relay to Office of Business Development
* Establish liaison with host country government offices regarding trade opening measures	* Establish liaison with host country government offices, banks, and investment consultants
* Produce reports on host country market conditions and opportunities	* Represent at overseas trade shows the advantages of doing business in California
* Assist visiting California businesspersons	* Assist visiting California government officials

California State World Trade Commission

The California State World Trade Commission (CSWTC) has recently reorganized, pursuant to Chapter 1387/Statutes of 1986, and the Governor has appointed as Chair of the reconstituted CSWTC the President of the California Economic Development Corporation (CEDC), a private, nonprofit corporation, whose "overall purpose...is to assist the Governor in

his efforts to promote jobs in the State of California by retaining and expanding present industry and encouraging new industry to locate in the state" [CEDC:1985].

CSWTC's Executive Director is appointed by and serves at the pleasure of the Commissioners. Because the Commission is a Nonprofit Public Benefit Corporation, it is governed by its own bylaws, which must be consistent with its statutory mandates. The CSWTC is charged with serving as the "primary State agency responsible for coordination of activities to expand international trade for the State of California" [Chapter 1387/86].

The CSWTC organizes trade missions and shows, with the goals of (1) reducing participation costs for California companies, and (2) maximizing contacts with qualified buyers. Its seminars and conferences on "how to export" are well-attended, especially those focusing on agricultural trade.

The new automated trade leads system (ATLS) administered by the Commission has recently proceeded successfully beyond the initial operational troubleshooting stage. The ATLS has the capacity to store information on 10,000 California vendors. As of March 3, 1987, approximately 700 had been incorporated into the data base, with new companies being added daily. During the period January 1 through March 3, 1987, the CSWTC processed 14 trade leads, matching 92 California vendors with potential overseas buyers.

The CSWTC frequently is assigned responsibility for conducting special studies. The Commission contracted with a consultant to do the overseas offices feasibility study, for example, and also worked with consultants to produce a major policy study identifying trade barriers to California's agricultural products in the Pacific Rim. Three studies of comparable significance are currently underway.

In its coordination role, the CSWTC provides technical assistance on export development programs to other State agencies, such as those for agricultural products and alternative energy technologies. On an individual basis, Commission staff also counsel small and new-to-export companies on overseas marketing opportunities and provide assistance through CSWTC's export finance program with finding appropriate financing for new export transactions. The CSWTC hosts foreign government representatives and international trade delegations and produces promotional literature to acquaint foreign buyers with the quality and diversity of California products and services.

The CSWTC is statutorily authorized to perform the following functions:

- * Represent California's interests to foreign governments in the enforcement of U.S. and international trade laws and the interests of California-based companies in foreign market transactions by establishing one or more offices in California and in foreign countries;
- * Conduct public hearings on trade-related issues of importance to California business; and
- * Administer programs designed to increase the availability of funds used to finance the overseas sale of California products.

To meet its mandates, the CSWTC has developed a four-part strategy: (A) international marketing (organizing participation in overseas trade shows, collecting and distributing trade leads, hosting foreign buyers); (B) export financing (loan guarantees, loan information, loan request assistance); (C) information and assistance (speeches, seminars, publications); and (D) advocacy (presenting positions on trade issues to Congress, federal agencies, and foreign authorities). California is the first state to have dispatched a full-time trade representative to Washington, D.C. The first appointee to this position has been reassigned recently to be the Deputy Director of California's overseas office in London.

Office of Business Development, Department of Commerce

A Deputy Director of the Department of Commerce is the Director of the Department's Office of Business Development. As the State's site selection specialist and "welcoming committee," the Office of Business Development (OBD) plays a critical role in ensuring that businesses interested in either moving to California, or expanding here, are made fully aware of the competitive advantages of doing so and are escorted to a variety of industrial and commercial locations. OBD's field offices are located in San Jose and Los Angeles; these satellites to the Sacramento headquarters focus their efforts on working with in-state firms.

In the international arena, California has expanded its efforts to attract and retain American affiliates of overseas corporations. During 1984, California attracted \$3.8 billion in new foreign investment -- more than 17 percent of all foreign investment in the U.S. that year. By comparison, Texas attracted \$2.2 billion and New York attracted \$1.1 billion. In recognition of the potential for continued investment from Japan, OBD has arranged cooperative agreements with 15 Japanese banking institutions. These nonbinding accords have provided OBD an early alert system for promoting a California location in the early stages of a Japanese company's expansion planning. Examples of successful foreign investment attraction, as reported in a Depart-

ment of Commerce 1985 Report to the Legislature, include (see Appendix G for additional examples):

- * Nihon Radiator, a manufacturer of auto air conditioning units, located a 200,000 square foot plant in Orange County. The new plant represented a \$6.5 million investment and created 158 new jobs.
- * Mitsubishi Chemical built a 147,000 square foot plant in San Bernadino County. This expansion represented a \$14 million investment and created 250 new jobs.
- * Fujitsu Microelectronics built an \$18 million semiconductor facility in San Diego which will employ 300.

Statutory authority for the Office of Business Development appears in Section 15310 et.seq. of the Government Code and requires OBD to perform the following functions:

- * Serve as the primary State department responsible for promoting economic development in California by providing statistical, product, and investment information to foreign businesspersons active in international trade;
- * Advise the Governor, Legislature, and Secretary of the Business, Transportation, and Housing Agency regarding the problems, recommendations, and concerns of California's business community; and
- * Cooperate with public and private agencies engaged in promoting and encouraging the location and development of new businesses in the state.

Office of Tourism, Department of Commerce

An Assistant Director of the Department of Commerce is Director of the Department's Office of Tourism. This office has the only publicly available statewide data on the economic impact of travel in California; the data are widely used by chambers of commerce, visitors bureaus, planners, developers, and financial institutions.

Section 15334 et.seq. of the Government Code provides that the Office of Tourism shall:

- * Develop data on numbers of visitors, expenditures by visitors, points of origin and destination, and other relevant information on tourism and visitors;
- * Advise regional, county, and city tourism development organizations and similar private organizations in planning programs to attract visitors to this state; and

- * Prepare foreign language promotional material on California's tourist attractions.

The Office of Tourism's international tourism promotion program has included sponsorship of the California International Travel Fairs in Los Angeles in 1983 and in San Francisco in 1984. OT staff have represented California's tourism interests at the Travel Industry of America International POW-WOW in Florida in 1983, in Seattle in 1984, and in Los Angeles in 1985. The Office of Tourism has led State sponsored trade missions to Canada and, in an effort to attract more Canadian visitors, implemented the California Maple Leaf Month promotion. In the Maple Leaf program, more than 750 California businesses offered special discounts to Canadians traveling in the state.

Agricultural Export Program, Department of Food and Agriculture

The Foreign Market Development Export Incentive Program for California Agriculture Act [Chapter 1189/Statutes of 1985 (AB 1423)] authorized the California Department of Food and Agriculture (CDFA) to coordinate a program to encourage the export of California's agricultural products. This program has come to be referred to as the "Agricultural Export Program;" it is managed within CDFA by the program's Chief Executive Officer.

The Agricultural Export Program receives \$5 million annually from the General Fund to enter into matching fund agreements for the purpose of promoting California agricultural products in foreign markets (\$400,000 of each annual appropriation, or 8 percent, is available to CDFA for administration). California organizations representing growers, shippers, and/or manufacturers of agricultural commodities qualify for receiving matching grants by submitting their marketing plans to a review committee within CDFA. Statute empowers the Agricultural Export Program to enter into agreements with the selected organizations -- which are termed "cooperators" -- to promote either a single commodity or a group of related commodities. The agreements are aimed at increasing both consumer and commercial uses for agricultural products.

Cooperators are required to show how they will remove trade impediments and address technical problems related to the sale, movement, marketing, or utilization of agricultural commodities. Cooperators' proposed market development activities involve making contact with foreign importers, wholesalers, retailers, and government officials who import, market, and distribute agricultural commodities. Finally, cooperators attempt to influence foreign consumers by making them aware of the advantages of utilizing California agricultural products.

Energy Technology Export Program, California Energy Commission

SB 507 (Rosenthal) was introduced on February 23, 1987 to authorize the California Energy Commission, in cooperation with the CSWTC and the California Department of Commerce, to assist California alternative energy technology and energy conservation firms to export their technologies, products, and services to international markets. This legislation would establish in law a program which in fact has been administered by the Energy Commission for at least two years, having been initiated in response to shifting demand in the domestic and international energy markets.

California's expertise in alternative energy technologies -- such as solar thermal, solar photovoltaic, geothermal, wind, biomass, and cogeneration -- has been developed primarily by small- and medium-size firms which have found it difficult to compete against Japanese and European companies; overseas competitors often receive major support from their national governments, enhancing their opportunities to participate in energy projects being undertaken in developing nations. This summer, the Energy Commission has awarded a \$405,000, 18-month contract to create a program of technical assistance to help California-based energy companies export their technologies and services to international markets.

Highlights and achievements of the Energy Technology Export Program to date include the following:

- * International Round Table with participants from 22 nations to establish groundwork for future energy technology trade (May 1985)
- * Identified international market prospects for eight alternative energy technologies: solar photovoltaics, solar thermal, wind, geothermal, small hydroelectric, cogeneration, biomass, and conservation
- * Identified 400 California energy firms that want to export
- * Conducted joint exhibit with CSWTC at the Elenex Trade Show in Hong Kong (May 1986)
- * Organized technical exchange mission comprised of experts from Jordan's Energy Ministry and Royal Scientific Society to tour energy project sites in California and conduct business discussions with California energy companies (February 1987)
- * In planning stages for October 1987: trade mission of geothermal experts from at least 24 countries, in con-

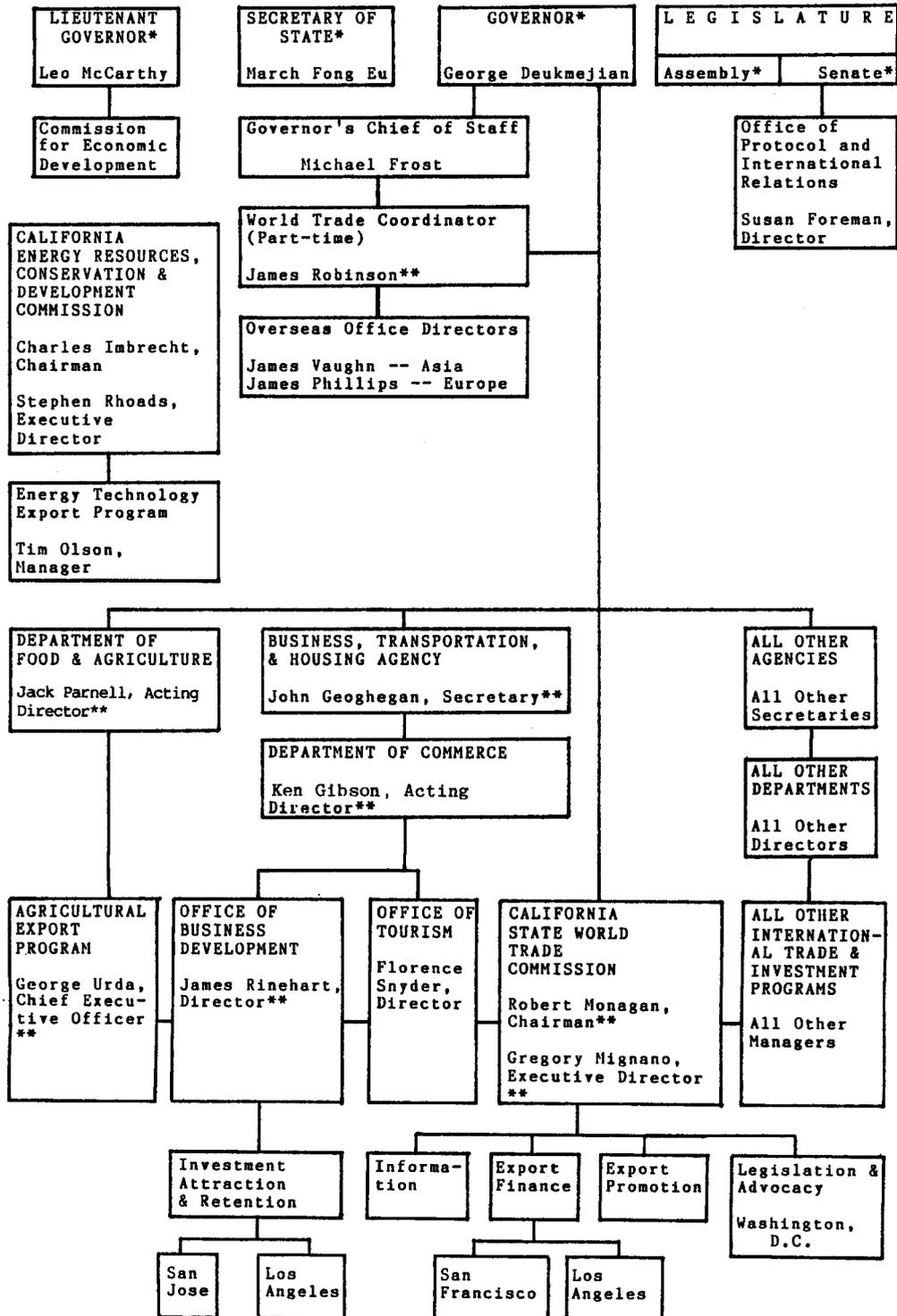
junction with the federal Department of Energy, Los Alamos Labs, and the Geothermal Resources Council

Organization Chart

The limitation of a traditional organization chart in representing the existing administrative structure for international trade in California is that it does not reflect fully the interactive and/or dual reporting relationships which characterize the current situation. Keeping this limitation in mind, we present Figure II-2 (on the following page) as an approximation of the existing administrative structure.

Figure II-2
 CALIFORNIA'S WORLD TRADE PROGRAM

Organization Chart



* Ex officio member of the California State World Trade Commission (one member each from the Assembly and Senate)

** Member of the Governor's Office world trade coordination working group

WORLD TRADE WORKING GROUP

Coordination of the activities of the governmental units involved in international trade, investment, and tourism promotion is managed informally by means of a working group that meets once a month over breakfast. The members of the working group are:

- * The Governor's World Trade Coordinator;
- * Chairman of the California State World Trade Commission (and President of the California Economic Development Corporation);
- * Executive Director of the California State World Trade Commission;
- * Secretary of the Business, Transportation, and Housing Agency;
- * Director of the California Department of Commerce;
- * Director of the Office of Business Development, California Department of Commerce;
- * Director of the California Department of Food and Agriculture; and
- * Chief Executive Officer of the Agricultural Export Program, California Department of Food and Agriculture.

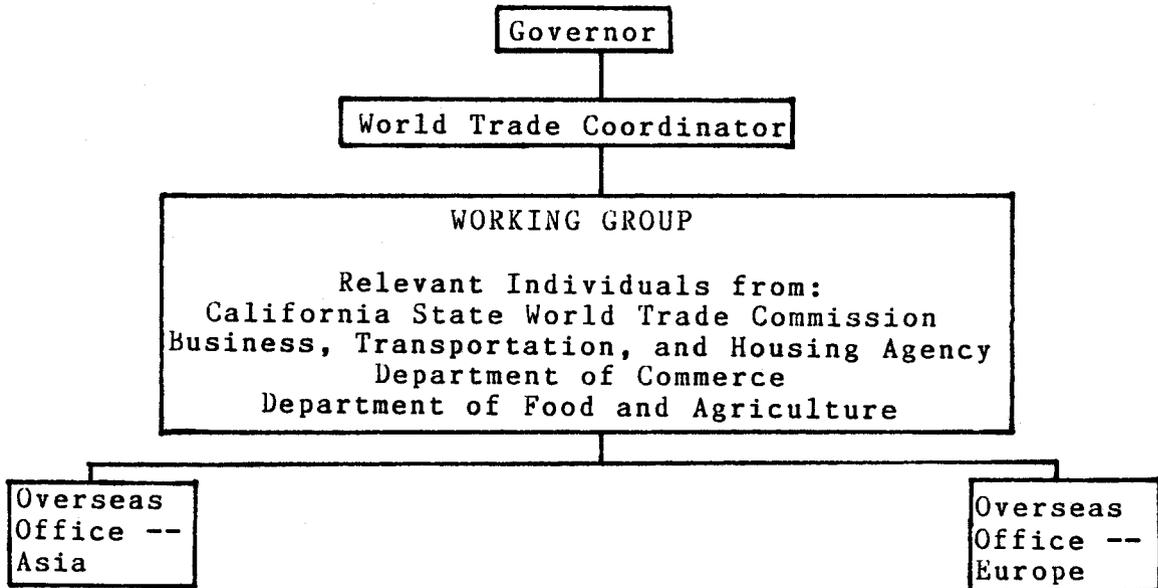
Neither the Director of the Office of Tourism nor the Energy Technology Export Program Manager is a member of the working group.

At this early point in the development and implementation of an aggressive trade and investment promotion program, the working group serves primarily as a clearinghouse for information, assignments, and follow-up for making sure assignments are completed. In the future, according to the Governor's World Trade Coordinator, the working group will become pro-active. He used the example of setting a goal of eliminating foreign import quotas on a specified agricultural commodity. In pursuit of such a goal, each member of the working group, in conjunction with the overseas office directors, will play a minor to major role -- the content, timing, and coordination of which will be managed through participation in the working group.

Figure II-3 (on the following page), depicts the relationship of the working group to the overseas offices.

Figure II-3

Working Group and Overseas Offices
Organization Chart



FUNDING FOR WORLD TRADE ACTIVITIES

In its first biennial report under new statutory authority, the California State World Trade Commission reported in January 1987 that "[f]our years ago, California was spending less than \$500,000 a year to promote trade. This year...the State will invest over \$9 million on a four-part strategy to increase exports" [CSWTC:1987].

Table II-1, on the following page, provides a summary of funding details for world trade activities in California over four fiscal years, including proposed funding for 1987-88. As indicated, the proposed funding level is nearly 10 times the actual expenditures reported for 1984-85. Table II-1 excludes legislative expenditures and, of course, private sector spending in support of California State government's world trade program.

CALIFORNIA'S WORLD TRADE PROGRAM
Funding Summary: 1984/5 -- 1987/8
(Dollars in Thousands)

	1984-5 ^a	1985-6 ^b	1986-7 ^b	1987-8 ^b	Change from 1986-7	
	Actual	Actual	Estimated	Proposed	Amount	Percent
GOVERNOR'S OFFICE						
Overseas Offices Coordinator	\$---	\$---	\$700 ^c 13 ^{c,d}	\$1,150 ^d 26 ^d	\$+450 +13	+64.3% +100.0
WORLD TRADE COMMISSION						
Administration	716	1,133	1,472	1,628	+156	+10.6
Export Finance (Loan Guarantee Fund)	(2,000) ^e	(2,000) ^e	(2,000) ^e	(3,000) ^e	(+1,000)	(+50.0)
COMMERCE						
Business Development	420 ^f	447 ^f	433 ^f	654 ^{f,g}	+221	+51.0
Tourism	---	335 ^h	784 ^h	1,568 ^h	+784	+100.0
FOOD & AGRICULTURE						
Ag Export Program	---	2,099 ^c	5,252	5,256	+4	+0.1
ENERGY COMMISSION						
Technology Export Program	---	258 ⁱ	541 ⁱ	422 ⁱ	-119	-22.0
TOTALS	\$1,136	\$4,272	\$9,195	\$10,704	\$+1,509	+16.4%
Change						
Amount	---	\$+3,136	\$+4,923	\$+1,509		
Percent	---	+276.1%	+115.2%	+16.4%		

Table II-1

-23-

^a Source: Governor's Budget, 1986-87. ^b Source: Governor's Budget, 1987-88. ^c Half-year funding.

^d Governor's World Trade Coordinator could not estimate percentage of his time devoted to coordination function, due to short period of experience on which to base such an estimate. For purposes of constructing this table, consultant has assumed the Coordinator spends 25 percent of his time on this function. The resulting cost estimates reflect salary and benefits only, excluding such costs as travel and secretarial assistance.

^e One-time General Fund appropriation of \$2 million has been available in a revolving fund for loan guarantees since 1985. For 1987-88, an additional one-time appropriation of \$1 million from the Special Account for Capital Outlay has been proposed, for a total funding level of \$3 million for export finance program loan guarantees.

^f The Director of the Office of Business Development estimates that 14 percent of OBD's total program during 1986-87 is devoted to attracting foreign investment. Consultant has assumed 14 percent for all other years as well, recognizing this estimate is undoubtedly high for prior years and low for 1987-88.

^g Includes \$200,000 requested by OBD for foreign advertising development in 1987-88.

^h The Deputy Director of the Office of Tourism estimates that, in 1985-86, OT devoted 5 percent of its total program resources to attracting foreign tourists to California and 10 percent during the current year (1986-87). She projected this proportion will increase to 20 percent in 1987-88.

ⁱ Source: California Energy Commission (costs estimated include staff, travel, printing, and contracts).

III. CONTEXT FOR CALIFORNIA'S OPERATION OF OVERSEAS TRADE AND INVESTMENT OFFICES

Although the overseas offices are the mandated focus of this study -- their administration and organizational placement within State government -- it is helpful to think of the overseas offices as only one tool, or one element, of California's international trade, investment, and tourism promotion program. This chapter describes the context for California's operation of overseas trade and investment offices, primarily in terms of America's trade position and of what other states are doing.

California, as noted in Chapter I, began ambitious trade promotion efforts immediately following the second world war, during the administration of Governor Earl Warren. Other states have been involved for varying periods and to varying degrees in promoting exports of their agricultural and manufacturing products.

PRESSURE FOR GOVERNMENT ACTION

Today's economic environment encourages states to develop their own trade and investment policies and programs, representing a departure from past practices of relying on the federal government to negotiate the nation's trade position. Indeed, the federal government is seeking direction in part from state leaders: in 1983-84, for example, state legislators served for the first time on the U.S. Trade Representative's Intergovernmental Policy Advisory Committee [NCSL:1985].

The following information from a 1985 report prepared by the National Conference of State Legislatures (NCSL) -- and other sources, as specified -- helps to explain the pressures on government at both state and federal levels to take aggressive action to enhance America's international trade and investment performance:

- * **Trade Imbalance:** In 1983, America's merchandise trade imbalance was \$61.1 billion. It was \$123 billion in 1984 and \$160 billion in 1985. Between 1970 and 1984, America's share of world trade fell from 15.4 to 12.6 percent.
- * **Drop in Agricultural Exports:** In the late 1970s, exports accounted for 40 percent of U.S. agricultural production. Between 1980 and 1984, shipments of major grains dropped more than 20 percent because of the rise in value of the dollar and the loss of markets to other

nations. In California alone, agricultural exports dropped by one-third from a high of \$4.2 billion in 1981 to \$2.9 billion in 1984 (or \$2.5 billion in constant 1981 dollars, representing a 40 percent decline) [California Lieutenant Governor:1986].

- * **Potential for More American Exporters:** Exports provide 40 percent of the income for the nation's largest 250 corporations. However, only 25,000 (or about 10 percent) of all small businesses export at all. The U.S. Department of Commerce believes an additional 20,000 small firms have the potential to sell goods and services abroad, but they lack timely access to information and export assistance that would enable them to enter overseas markets.
- * **New Exports Mean New Jobs:** Exports create jobs directly in industries which sell their goods and services overseas and indirectly in firms that provide materials or support services to exporting firms. Furthermore, wages earned by workers in these areas are expended on additional goods and services, generating more employment. According to the U.S. Department of Commerce, \$1 billion in exports creates 25,000 new jobs, mostly in small- and medium-sized firms. Or, alternatively, every \$40,000 in exports creates one new job in the United States. An estimated 80 percent of all new U.S. manufacturing jobs during 1977-80 were linked to exports.
- * **Significant Foreign Investment:** On the investment side, the U.S. attracted \$80 billion in foreign investments in 1984. Foreign direct investment in California alone amounted to \$27 billion in 1983 [California Lieutenant Governor:1986]. Most states have not competed actively for foreign investments. Indeed, some states have erected barriers to foreign investment. The unitary tax -- a state tax on the worldwide income of multinational corporations proportional to their property, sales, and payroll within the state -- is an example of barriers to foreign investment. California recently amended state law to give foreign investors the option of being taxed only on the California share of their U.S. operations.

STATE INNOVATIONS IN WORLD TRADE

The NCSL report identifies 1982 as the watershed year for the states to increase their efforts to promote exports by small- and medium-sized businesses. To do so, even those states which have long been active in traditional trade programs are retooling to meet the challenges specific to the 1980s and 1990s. Export finance programs, export trad-

ing companies, and investment attraction have become especially popular innovations.

Export Finance Programs

Export finance programs vary in their comprehensiveness. California's program, established in 1985 (Chapter 1569/Statutes of 1984 [SB 1196]), is administered by the California State World Trade Commission. Its two major functions are to (1) assist exporters with insurance, co-insurance, and loan guarantees up to 85 percent of the value of the export transaction; and (2) provide information and technical assistance in finding and obtaining export financing from private sources, the U.S. Small Business Administration, and the Ex-Im Bank. A total of \$2 million is available for loan guarantees, which is used to help exporters qualify for loans from banks (an additional \$1 million is proposed for loan guarantees in the Governor's Budget for 1987-88).

Export Trading Companies

The federal Export Trading Company Act of 1982 allowed small- and medium-sized businesses to join with banks and state or local public agencies to sell the businesses' goods and services abroad without risking anti-trust liability. California has not participated in this joint venture opportunity as yet.

Investment Attraction

Investment attraction is another relative newcomer to states' international commerce development. The view of the U.S. Trade Representative is that foreign investment will contribute in increasing shares to economic growth in the United States over the next decade [NCSL:1985]. As consensus on this point gathers and as elected officials' concerns about high unemployment and economic stagnation in the domestic economy increase, new state programs all over the country are looking for ways to make their states attractive to foreign investors.

New Administrative Structures

These developments have produced changes at the state level in commitments of new resources to trade and investment promotion. This realignment of priorities poses questions regarding how best to administer and coordinate trade and investment programs, including overseas offices:

[S]tates have taken significant steps to restructure both legislative and executive branch agencies to better handle trade issues and keep them separate from other economic development topics. These changes include creation of state trade offices and departments,

public-private advisory councils, world trade centers, and special legislative committees. In addition, some states have tapped the resources of colleges and universities to help the trade expansion effort [NCSL: 1985].

There is no recognized ideal for how to structure or conduct state-sponsored overseas operations, no conventional wisdom on the most efficient and effective in-state administrative structure. Later in this chapter, our report contains information on the configurations other states have used, but we also believe other models must be viewed with skepticism due to certain unique characteristics of California: the size of our economy, the strategic implications of our geographic location for future economic growth, and the existing organizational structure of state government here which must accommodate new and current efforts to promote trade and investment.

Figure III-1 (on the following page) is taken from NCSL's report and summarizes the foreign trade development programs currently being administered by all 50 states. Figure III-1 serves as an overview of the context in which California has set about to re-establish a state presence in overseas markets.

Figure III-1

State Foreign Trade
Development Programs

	Referrals to Local Export Services	Market Studies Prepared	One-on-One Counseling	Seminars/Conferences	Language Bank	Newsletters	How-to-Handbook	Trade Shows	Trade Missions	Foreign Office Representatives	Operational Financing Program
Alabama
Alaska
Arizona
Arkansas
California
Colorado
Connecticut
Delaware
Florida
Georgia
Hawaii
Idaho
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
Montana
Nebraska
Nevada
New Hampshire
New Jersey
New Mexico
New York
North Carolina
North Dakota
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Texas
Utah
Vermont
Virginia
Washington
West Virginia
Wisconsin
Wyoming

Source: National Association of State Development Agencies, cited in *Business America*, May 27, 1985 (updated by National Governors' Association Committee staff).

CALIFORNIA BUSINESS SUPPORTS OVERSEAS OFFICES

Although the general assumption on which international trade and investment programs are based is that small business has the most to gain from governmental involvement, Mentor International found in its survey of 200 California businesses that what small and large companies want is remarkably similar. Of eight alternative ways for the state to promote trade and investment, "Opening One or More Full Time Offices Overseas" was by far the most desired: 30 percent named it as their first choice; 40 percent included it in their first three choices. Respondents also favor having overseas offices promote both inward investment and export assistance; 48 percent favored this dual role. Forty-one percent favored export assistance as the major role, while 11 percent see investment attraction as the higher priority.

OVERSEAS OFFICES IN OTHER STATES' WORLD TRADE PROGRAMS

The National Association of State Development Agencies (NASDA) first produced a "State Export Program Database" in 1984 and has updated it twice. As of March 1986, NASDA's database shows that all 50 states have world trade programs, but only 31 states operate overseas offices. These 31 states had established (or were planning to open within the next year) a total of 69 offices in 14 foreign countries. Twenty-four states, or 77.4 percent of all states with overseas offices, maintain offices in Japan (23 in Tokyo, one in Osaka). Ten of the 31 states operate only one overseas office and 13 -- including California -- operate two. States with more than two overseas offices break out as follows:

<u>States</u>	<u>Number of Overseas Offices</u>
NY	6
AL, IL	5
GA, PA	4
FL, IN, OH	3

Table III-1 (on page 31) identifies the countries where American states currently maintain overseas offices. Although all 50 states have world trade programs, the structure of administrative responsibility for them varies from state to state:

- * 37 states' world trade programs are administered by a state department of commerce or economic development, or a division within such a department. This number includes California, where the investment attraction portion of the total program is administered by the State Department of Commerce. Twelve of these 37 states do not operate overseas offices.

- * 4 states -- including California -- operate world trade activities out of the offices of their governors: California, Minnesota, Montana, and West Virginia have this organizational feature in common (the latter two do not have overseas offices).
- * 4 states -- again, including California -- have assigned world trade functions to commissions: California, Iowa, and Texas operate overseas offices; North Dakota does not.
- * 3 states -- Kentucky, Louisiana, and Massachusetts -- have created cabinet-level positions for trade, or offices under the direct supervision of cabinet officers. Of this group, only Massachusetts does not operate overseas offices.
- * Arizona and South Dakota, neither of which maintains overseas offices, have unique structures for management of their world trade activities: Arizona has appointed a "Manager of Trade Promotion" and, in South Dakota, the Bureau of Industrial and Agricultural Development handles international trade matters.

Table III-1

**14 Countries in Which 31 States
Operate 69 Overseas Offices**

As of March 1986*

<u>Location of Overseas Offices</u>	<u>States Represented</u>	<u>Number of Overseas Offices</u>	<u>% of Total</u>
Japan	AL,AK,AR,CA,CT,FL, GA,IL,IN,KS,KY,LA, MD,MI,MO,NY,OH,OK OR,PA,SC,UT,VA,WA	24	34.8%
Belgium	AR,GA,IL,IN,MD,MI, OH,RI,SC,VA	10	14.5
Germany	AL,CT,FL,IA,MO,NY, NC,PA,WI	9	13.0
England	AL,CA,FL,IN,LA,NY, PA	7	10.1
Canada	GA,NY(2),VT	4	5.8
Hong Kong	AL,IL,IA,WI	4	5.8
Mexico	PA,TX	2	2.9
Korea	AK,GA	2	2.9
Africa	OH	1	1.5
Brazil	IL	1	1.5
China	IL	1	1.5
Italy	NY	1	1.5
Norway	MN	1	1.5
Sweden	MN	1	1.5
Switzerland	AL	<u>1</u>	<u>1.5</u>
TOTAL		69	100.3%

* Of the 69 offices, three were in planning stages only: California's in Tokyo and London and Ohio's in Africa.

SOURCE: National Association of State Development Agencies, "State Export Program Database," March 1986.

Table III-2, on the following page, summarizes information on those states with overseas offices for which the most comprehensive information was available from the NASDA database. The data were obtained by NASDA through survey questionnaires sent to each state's "international trade director." The identity of the responding unit provides limited insight into the administrative structure for world trade in each of the states listed.

In the narrative section accompanying the "State Export Program Database," NASDA cautioned:

It should be noted that the information refers only to each state's development agency and does not include other public or private groups within the states that may be involved in similar trade promotion activities (such as port authorities, state departments of agriculture, chambers of commerce, city officials, universities, and others). While every effort has been made to provide consistent information, the organization and activities of the states vary a great deal. Thus, the information may not be completely comparable.
[NASDA:1986]

Table III-2
COMPARISON OF WORLD TRADE PROGRAMS
IN SELECTED STATES WITH OVERSEAS OFFICES

1985-86

State	Responding Unit of State Government	Total Funding ^{a, b}	Percent Export Promotion	Percent Investment Attraction	No. of Overseas ^c Offices	Staff		Funding for Tourism Promotion ^{a, d}	
						State	Overseas Office(s)		Total
CA	State World Trade Commission	\$1,300	100%	--%	--	14	--	14	\$5,692
FL	Bureau of Interna- tional Trade & Commerce, Dep't. of Commerce	1,587	60	40	3	34	4	38	9,200
IL	International Busi- ness Division, Dep't. of Community Affairs	2,632	40	60	5	16	15	31	14,400
MI	Office of Interna- tional Development, Dep't. of Commerce	1,966	57	43	2	12	9	21	9,075
MN	Minnesota Trade Office	2,202	75	25	2	38	3	41	4,660
NY	International Division, Dep't. of Commerce	3,040	40	60	6	25	13	38	12,046
OH	International Trade Division, Dep't. of Development	2,500	70	30	3	30	9	39	5,521
PA	Bureau of Domestic & International Com- merce, Dep't. of Commerce	845	30	70	4	13	7	20	7,860
WA	International Trade & Investment Division, Dep't. of Commerce & Economic Develop.	1,940	N/A	N/A	1	6	4	10	2,300
WI	International Division, Dep't. of Development	725	40	60	2	5	5	10	2,017

Table III-2

^a Dollars in thousands.

^b For the responding units only. Total program funding for each state may be substantially higher, as is the case for California.

^c As of March 1986.

^d 1984-85 funding levels. An unknown percentage of these total budget figures for tourism is targeted in each state for promotion of international tourism. Source: California Department of Commerce, Office of Tourism, "California Tourism Marketing Plan, 1985-86."

SOURCE (except for tourism promotion): National Association of State Development Agencies, "State Export Program Database," March 1986.

As an example of how the data displayed in Table III-2 can be incomplete and thus misleading, we call attention to California's 100 percent emphasis on export promotion. It is true that the California State World Trade Commission is primarily responsible for export promotion in California and, as the "responding unit" to the NASDA survey, the dollars and percentages reported for CSWTC are accurate. But, as we have seen, California also commits resources to attracting foreign investment; due to the selection method for recipients of the NASDA survey, inward investment does not appear on Table III-2 as part of California's world trade program. If this anomaly appears in the representation of California's program, we assume comparable anomalies would also emerge from an in-depth review of world trade programs in other states.

At the risk of skewing comparability even further, we added to NASDA's data displayed in Table III-2 a column reporting total funding by state for tourism promotion. Each state's expenditure for international tourism promotion will represent an unknown portion of the total for each state. In California, for example, the Office of Tourism has estimated attracting international visitors will comprise approximately 20 percent of California's total tourism promotion in 1987-88. While having to rely on pure speculation makes literal comparison impossible, the orders of magnitude for tourism promotion overall do permit the discerning reader to imagine, for example, that Illinois and New York almost certainly spend more to attract foreign tourists than, say, Wisconsin, Minnesota, or even California.

SMALL- AND MEDIUM-SIZE FIRMS REQUIRE EXPORT ASSISTANCE

Both the Mentor International and NCSL reports cited resources at the disposal of state government which individual small- and medium-sized firms cannot command. Specifically, small businesses lack the experience and resources to research foreign markets and follow up trade leads. Whereas multinational corporations hire export management consultants to provide these services, the risk, expense, and lack of timely information about opportunities inhibit smaller firms from undertaking such efforts. State programs can be designed to meet potential exporters' needs for these services, thereby fostering an export mentality in the small business sector.

An example illustrates how helpful state government can be. The California State World Trade Commission encourages California firms to participate in overseas trade shows. First, the CSWTC alerts California businesses to opportunities to display their products overseas and, secondly, the Commission greatly reduces the cost of participation for individual companies.

The Commission uses its identity as an official representative of California state government to gain cost advantages for California business. The CSWTC reserves one or more booths at a trade show, for example -- paying the full fee of, say, \$10,000 per booth. At the Paris Air Show, for example, California paid for three booths (\$30,000), then made room for 10 companies to provide "mini-displays" and charged each company \$3,300. For a construction industry trade show in Moscow May 27 -- June 5, 1987, the Commission offered to California construction firms a 25 percent share of an 18 square meter booth, available in multiple shares (see Appendix E). The CSWTC then made arrangements for special travel discounts and consolidated freight shipments, further reducing the cost and complexity of participation.

A trade development specialist from CSWTC is available to assist each firm with preparation of its display. The participating companies educate this specialist regarding their products and services. The trade development specialist then attends the trade show and is available to represent the displayed California products and services to foreign buyers, enabling each participating firm to send only one executive rather than multiple representatives, again reducing the cost to California business.

GOVERNMENT RESOURCES OF VALUE TO THE WORLD TRADE COMMUNITY

California state government has an impressive array of resources to bring to the international trade and investment promotion effort. Resources range from the quantifiable -- such as funding and staff for market research and technical assistance -- to the intangible but highly prized assets of visibility, legitimacy, access to government authorities, and public policy development.

Visibility: Due to California's high profile around the world, foreign buyers are automatically interested in visiting trade show displays sponsored by the State of California.

Legitimacy: California governmental involvement in trade and investment promotion lends an air of authority and credibility to negotiations between foreign buyers and the California businesses that are traveling with representatives of state government.

Access to Government Authorities: California businesspeople visiting other countries will be introduced by overseas office personnel to the appropriate officials who can accurately represent their governments' policies regarding trade with Americans.

Public Policy Development: State government contributes to the world trade effort ongoing policy development

and government programs designed to complement private endeavors. Recent innovations in the states -- such as export finance programs, public export trading companies, and active participation in international trade treaty negotiations -- exemplify the creativity inherent in the public policy process and demonstrate that process's capacity for responding to political and economic change. The public-private partnerships that have catalyzed recent state initiatives in international trade and investment represent one of California business's most promising resources for expanding California companies' trade opportunities overseas.



IV. STUDY FINDINGS

Administration of California's world trade program in its existing configuration is informal and lacks the institutionalized mechanisms of accountability and coordination that any new State program requires in order to grow in an orderly, cost-effective, and stable manner. General cooperativeness among the current trade staff and their enthusiasm for implementing a new sphere of State government activity with uncommon significance for California's economy currently obscure the importance of the weaknesses in the existing system, but cooperativeness and enthusiasm cannot take the place indefinitely of management systems that make for accountable operations and coordinated program development over the long term.

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

The State of California's present world trade program is dispersed among numerous State agencies and lacks an adequate level of accountability. Specifically, the State world trade program currently cannot identify the purpose, source, and amount of public funds being spent on world trade activities. Moreover, it is unable to quantify, or measure, the extent to which it has met legislative intent and the goals and objectives it has set for itself internally. Since no single entity in State government is responsible for consolidating expenditure and activity reports on the State's world trade activities, the Governor and Legislature do not have adequate information available to use as the basis for making decisions on future funding or policy and program development.

Increases in the State budget for world trade activities since 1983 (see Table II-1) have been dramatic and have occurred in multiple, decentralized units of State government. Such units are placed administratively under various cabinet level agencies and their budgets are reviewed by disparate subcommittees of the Legislature's fiscal and appropriations committees. Not having a single, centralized agency responsible for administering the world trade program as a whole makes it impossible for the Governor and Legislature to obtain timely and comprehensive spending and activity data without someone's having to make an exceptional effort to collect and analyze consolidated data on a case-by-case basis in response to special requests.

Furthermore, funding for world trade represents a special accountability problem, because public and private

funds are mingled in support of integrated public and private purposes. The Legislature is not systematically advised, for example, of the amounts of money made available to the Governor by such organizations as the California Economic Development Corporation and State Chamber of Commerce to support various functions and activities. Currently, for example, protocol operations such as the reception for Japanese government and business leaders at the opening of California's overseas office in Tokyo in January 1987 are supported almost exclusively with private funds. Lacking information on total expenditures from all sources, including private sources, the state world trade program's accountability is based on partial data.

Our finding that accountability in California's world trade program lacks a formal structure is not tantamount to finding negligence. In the rush to meet the challenges created by California's advance as a major trade contender in the global economy, the State world trade staff understandably have given their attention first to program implementation. If California's world trade program is to continue progressing, however, accountability must be institutionalized so that all units of state government involved in world trade can document their expenditures and accomplishments.

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

Coordination in California's existing world trade administrative structure is primarily a function of the cooperative relationships among the current world trade staff. The Governor has complied with the mandate to designate a World Trade Coordinator who, in turn, sponsors monthly breakfast meetings for a working group of selected members of the State world trade program's top managers. This approach to coordination may work in the short term, but it ignores the need to establish an enduring institutionalized mechanism of coordination. The uncertain chain-of-command and the large number of autonomous, or semi-autonomous, actors in the State world trade scenario are two additional factors exacerbating the difficulty and complexity of coordination. Eventually, as the State world trade program expands and becomes even more complex, the present informal system of coordination will become progressively unwieldy.

Uncertain Chain-of-Command. In the existing administrative structure, many individuals with high levels of responsibility for international trade and investment activities have multiple and frequently overlapping reporting relationships with other individuals, both within and outside their own agencies. Virtually all major international trade and investment managers in State government have at

least one layer of authority between themselves and the Governor's World Trade Coordinator (see the organization chart in Chapter II) -- and most have two. Of particular interest, the reporting relationships of the overseas office directors are unclear. Figure II-1 identified the Governor's World Trade Coordinator as the immediate supervisor of the overseas offices. In fact, however, current law assigns this supervisory responsibility to both the Governor's Office and the CSWTC.

The reporting relationships between the Governor's Office and the CSWTC are themselves ambiguous. The CSWTC is considered statutorily to be a unit of the Governor's Office. At the same time, the executive director is hired by and is accountable to the members of the CSWTC which, also by statute, is a nonprofit public benefit corporation, governed by its own corporate bylaws. Shared authority and responsibility for the overseas offices could create a situation in which an external factor silently confers greater authority on either the Governor's World Trade Coordinator or the CSWTC Executive Director, depending on timing and circumstance.

To elaborate, the Governor's current World Trade Coordinator is not a person specifically trained in international trade and investment. Nevertheless, it is conceivable that the "aura" of the Governor's Office would give added weight to the opinion of the Governor's World Trade Coordinator over that of more seasoned professionals at any point at which a decision must be made quickly to resolve a disagreement on policy. On the other hand, it is also conceivable that in settings normally dominated by the CSWTC Executive Director -- such as meetings with export managers or trade cooperatives -- the Executive Director's very familiarity among groups who could be affected differently by various options in state policy or program might give him an external source of authority that would invisibly affect the state decision making process on issues requiring expedient resolution.

At issue is the capacity of the existing administrative structure (1) to coordinate decision making in a timely and orderly way, and (2) to do so in a structure which takes advantage of staff expertise and is visible to and accessible by the Legislature and the public. The present group of managers running the State's world trade program appear to subscribe to a high degree of consensus. The absence of conflict has created a congenial climate in which coordination is a function of the cooperative relationships among these top managers. In addition, because the world trade program is relatively new, few if any mistakes have been made or have come to the attention of the press, so that congeniality is further enhanced by the relative absence of controversy. As the level of world trade activity increases -- generated by establishment of the overseas offices and

al product and, since 1960, have accounted for 86 percent of our job growth.... Unfortunately, however, we in fact know little about how to measure productivity in services, how to measure exports or imports of services, how to measure total output, [or] how to measure the degree of integration of California's service economy with the world economy. It is simply not possible for our policymakers, either in California or in Washington, D.C., to make "wise choices" in this situation.

[The] global economy [is] an economy dominated by services and by the daily effects of cross-border trade, financial and technology flows. It obviously serves us no good if our analytical methods and our data collection processes remain static and tend to portray the world as it existed 40 years ago: a world where agriculture and manufacturing predominated and where cross-border activities had a minimal impact on the economies of economically self-sufficient countries.

Various studies currently are being conducted, some of which are designed specifically to obtain better data on the impact on California of international trade and investment. These studies, however, and related efforts to improve analytical techniques and the projections which flow from them are dispersed throughout state government and frequently are carried out by consultants on contract. We agree with CCIT that the existing capacity of state government to produce timely and accurate economic data for use in developing trade policy constitutes a weakness in the existing state world trade program.

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 trading 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.

The Chairman of the California Council for International Trade's Legislative Committee testified at our May hearing that the placement of the overseas offices within the Governor's Office "carries with it the risk that the

program could be curtailed or eliminated whenever a new governor comes into office."

California's short history with overseas offices demonstrates that continued support is not inevitable. The decision in 1969 to de-fund California's overseas offices was based on then-Governor Reagan's perception that the benefits of maintaining such offices did not justify the annual expenditure of approximately \$100,000 from the General Fund.

Reorganization of California's world trade program in 1982 removed the Office of International Trade from what was then the California Department of Economic and Business Development (now the Department of Commerce) and converted that office into the California State World Trade Commission. The CSWTC itself also has been reorganized since then. These changes may be signs of the Governor's and Legislature's interest in world trade, but they do not constitute evidence that California's world trade program is currently stable or that it can be counted on to remain stable for the foreseeable future.

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

Placing responsibility for the overseas offices in the Governor's Office affords an unusual degree of legitimacy for the overseas offices. This feature of the existing administrative structure gives 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.

The most significant advantage of running the overseas offices out of the Governor's Office, according to written testimony submitted by the Governor's World Trade Coordinator, is that

[i]t clearly establishes the chief executive of the State as California's leading trade and investment policy maker. By allowing California to speak with one official voice on trade and investment issues, California wields considerable clout in the international arena.

The fact that the Governor was able to present the overseas personnel to leaders in Japan and Europe as his personal representatives gave them great credibility... During those trips, we were told again and again that our offices are made special and credible simply by the fact that they are part of the Chief Executive's office... We were informed that this would be a great advantage over those states whose offices are part of the Department of Commerce or other department or agency.

At our public hearing, the Lieutenant Governor and two members of the Legislature who were present agreed it is in California's best interests for the Governor to be perceived by representatives of foreign governments and businesses as directly involved in the State's world trade program. Because the overseas offices are the most visible extensions of State world trade activity, it follows that running the overseas offices out of the Governor's Office authenticates the perception that the Governor is personally involved. The Lieutenant Governor expressed concern, however, that by giving the Governor's Office administrative responsibility for the overseas offices, the Governor's role is, if anything, too limited. In his oral testimony, the Lieutenant Governor stated that "[t]he Governor must be seen as the single driving force of State world trade policy development... He should always be perceived as being in charge."

Opinions may vary regarding how this one specific aspect of our world trade program -- identifying California's overseas offices as "Governor's offices overseas" -- affects international perceptions of California's commitment to world trade. But the experience of officials visiting Tokyo and London suggests that having the State's highest elected official represent California on international trade and investment issues does lend a degree of legitimacy to the world trade program right away. Long-term legitimacy still will have to be won over several years through negotiating successful trade and investment transactions. But, for the present, the Governor's high profile in the overseas offices signals that California is ready to do business in the international economy. The legitimacy generated by the Governor's visibility encourages California businesses that might otherwise consider international trade too risky to try participation in the State program.

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.

The need for international awareness has grown as the share of the state's economy represented by world trade has increased. The Governor's Office and the California State World Trade Commission (CSWTC) believe that international awareness belongs on the agenda for virtually all units of State government. The curriculum in public schools, for example, needs to be revised to include a more comprehensive presentation of the cultural traditions, business customs, and languages in other countries to prepare young Californians not only to compete successfully in an increasingly international economy but also to understand the contribution world trade can make to the California economy.

This commitment to "internationalization" has contributed to making the existing administrative structure for the State world trade program highly decentralized. The Administration sees the Governor's Office as an umbrella agency for coordinating all of State government's international trade and investment programs -- including the

overseas offices -- despite having assigned only person part-time to fulfill this function. Furthermore, the Administration strongly prefers this option to consolidating trade and investment activities in a single line department.

The existing structure makes export promotion, for example, the prerogative of any State department with close enough ties to one or more particular industries to have opportunities to advance those industries' products or services in international markets. Under this plan, any State agency may request assistance from the Governor's World Trade Coordinator. On a case-by-case basis, the Coordinator will then arrange for the requesting agency to receive technical assistance from trade specialists already on staff in a State government entity having an existing world trade mandate and program. The California State World Trade Commission would be asked to provide technical assistance in export promotion and export finance. The State Department of Commerce would assist with investment attraction transactions, regardless of which department in State government had received the initial inquiry.

Whether a decentralized approach is superior or inferior to centralizing all trade and investment authority and responsibility in a single department or cabinet level agency is largely a matter of opinion divided along theoretical lines. Specifically, decentralization is thought to maximize activity and centralization to maximize accountability.

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

Through responding to the needs and preferences of the industries individual agencies are close to, California's world trade program is evolving in unpredictable but often highly innovative and productive ways. The current world trade staff have provided generous documentation of their success stories, which we have combined to form Exhibit G of this report. In all four components of California's world trade program -- export promotion, investment attraction, tourism promotion, and advocacy -- the existing structure has produced impressive results, as even a cursory review of Exhibit G will confirm.

Not all increases in exports or inward investment, of course, can be attributed to California's world trade program. Worldwide trends alone account for an unknown percentage of increased trade and investment activity in California; the aggressiveness, quality of product or service, and sophistication of California's private sector in responding to the shifts in demand which create opportunities

in international markets account for an additional unknown portion. To separate the effects of global economic trends from the impact of the State world trade program in producing increased international trade and investment activity in California over the past four years may be impossible, but it is reasonable to conclude at a minimum that the State world trade program has not inhibited export promotion or investment attraction.



V. CONCLUSIONS AND RECOMMENDATIONS

California has made major strides in stepping up its world trade program. There is still a need, however, to iron out some of the wrinkles in the State's organization and administration of its world trade activities. This chapter presents our conclusions regarding the strengths and weaknesses of the existing structure to meet the demands of the State's expanding world trade program. In addition, it presents the Little Hoover Commission's recommendations for improving California's world trade program by restructuring the organization and modifying how certain responsibilities are conducted.

CONCLUSIONS

California has increased its commitment to world trade promotion dramatically in the past four years. In 1983, for example, the State was spending less than \$500,000 a year to promote world trade. In 1987, the State will invest more than \$9 million in world trade activities. Partly as a result of this increased governmental emphasis on and support for world trade, California industry has made significant gains in overseas markets. The State's enhanced commitment has been evident in all four elements of the world trade program: export promotion, investment attraction, tourism promotion, and advocacy.

While the State has been successful in expanding its world trade program, it has given less attention to organizing and administratively structuring accountability in the State world trade program. For example, accountability has not been institutionalized through the mechanism of specified reporting requirements. The Governor's and Legislature's review of actual expenditures -- by department, purpose, and source -- and levels of world trade activity, by department, is impeded by the lack of timely, comprehensive data. Moreover, routinely reported data and information do not include adequate measures of progress toward goals and objectives which have been approved by the Governor and Legislature.

The current organization and operation of the State's world trade program also does not provide sufficient formal coordination among involved agencies and departments. Coordination has not been institutionalized through the establishment of high visibility offices which are responsible for developing protocols for participation in California's world trade program that are widely known, easy to understand, and standardized whenever appropriate. The lack

of formal means of coordination will become increasingly problematic as the State's world trade activities continue to expand and the volume and impact of those activities expand as well.

The complexity of world trade requires that all entities attempting to influence international trade and investment outcomes through allocation of public resources clearly understand their respective powers and limits. There is a particularly pressing need to clarify and enhance the role of the Legislature in the current State world trade program. Policies developed independently by a broad spectrum of legislative committees may conflict with each other in intent as well as impact on California's trade position, because the Legislature's current involvement in world trade does not include an internal mechanism for coordinating its development of world trade-related policy.

Both the Legislature and the Administration have initiated activities to respond to the State's need for a protocol function in support of its world trade efforts. Since these activities have been undertaken somewhat independently, however, the State's world trade protocol efforts have not been well-organized, well-coordinated, or appropriately funded.

Individual California firms stand to gain significantly from the establishment and stabilization of an effective State world trade program. The State's current world trade program, however, does not ensure that all businesses with the desire and capacity to export have access to the resources state government has committed to the export promotion program.

California's collection and dissemination of economic data are inadequate in three ways: (1) the data do not measure trade in services, which is the fastest-growing sector in the state economy; (2) no single agency or department has been identified as the source of world trade data available to the public; and (3) State government is not able to make accurate assessments or projections of the impact on California's economy of international trade and investment because the quality, availability, and timeliness of data do not permit it. If State government is to enhance California's competitiveness in the current world trade environment, one of the challenges it must meet is to improve its data collection, analysis, and dissemination efforts.

It can take years to develop the kind of rapport with business leaders and government officials in other countries that leads to mutually beneficial trade relationships and opportunities to negotiate agreements on an industry-by-industry basis. It is important, therefore, for California's world trade program to develop in such a way as to assure a long-term presence as a serious trading partner.

California's recent efforts to upgrade its world trade program have provided legitimacy and a high profile for the State's world trade activities. In addition, these efforts have included the process of "internationalizing" State government to ensure that individual departments are aware of the ramifications of their actions on California's competitiveness in the current world trade environment. Finally, in a relatively short time, the agencies involved in spearheading California's world trade program have demonstrated a capacity for innovation and a record of accomplishment.

RECOMMENDATIONS

The Little Hoover Commission recommends that the Governor and Legislature take action to address the problems in the State world trade program identified in this study. Specifically, the Commission recommends the following modifications in the existing structure:

1. Establish a "Governor's Office of World Trade"

The Governor's Office should retain administrative responsibility for the overseas offices but should do so under the auspices of a newly formed "Governor's Office of World Trade" (GOWT). Establishing a Governor's Office of World Trade would retain the strengths of the existing structure, including the legitimacy and visibility of the Governor's direct involvement in the State's world trade efforts, while also facilitating the development of formal mechanisms for accountability and coordination to enable the State to control future funding and trade policy development.

In administering the overseas offices and acting as the focal point for coordination of all world trade activity throughout State government, the GOWT should perform but not be limited to the following specific functions:

- a. Coordinate state-level policy development on world trade and new treaty negotiations.
- b. Coordinate and supervise the advocacy activities of California's trade representative in Washington, D.C.
- c. Oversee all State government studies related to world trade. The GOWT Director (or his or her designate) should serve on a review committee for any study conducted by any State department -- either by staff or consultants. The GOWT Director should be further responsible for making sure that such studies take advantage of all opportunities to improve the relevance and accuracy of the State's trade-related economic data and analytical techniques for making projections of the economic impact on California of

current and estimated levels of international trade and investment.

- d. Monitor cost-sharing formulas and mechanisms in all export promotion programs throughout State government and include information on these formulas and mechanisms in GOWT's annual report to the Legislature.
- e. Assist new export promotion programs to design appropriate cost-sharing formulas and mechanisms.
- f. Receive and mediate complaints and protests from individual California businesses or industries regarding cost-sharing or any other matter related to the administration of the State world trade program.

2. Appoint a Full-Time World Trade Coordinator to Be the Director of the Governor's Office of World Trade

The current provision for the Governor to "designate" a world trade coordinator is too informal and, in the current situation, has resulted in the designation of one individual to perform this function part-time. We recommend that the coordinator position required in current law be made a full-time position and that the coordinator be appointed the Director of the Governor's Office of World Trade.

3. Establish a Protocol Division within the Governor's Office of World Trade

A Protocol Division should be established within the Governor's Office of World Trade to advise State departments and agencies on matters of protocol related to world trade. The Protocol Division should administer a fund for this purpose to be supported by private contributions as well as legislative appropriations. Full disclosure of all receipts by source and expenditures by department and purpose should be included in the GOWT's annual report to the Legislature.

4. Establish a World Trade Information Clearinghouse within the Governor's Office of World Trade

Information to be collected and disseminated by a world trade clearinghouse should include but not be limited to:

- a. Compilation of state laws which apply to international trade and investment;
- b. Pending legislation related to world trade;

- c. Consolidated information on all of State government's world trade program expenditures and activities;
 - d. International market research and opportunity analysis, by industry (as prepared by affected State departments);
 - e. Economic data related to world trade, including but not limited to current and project levels of international trade and investment in California, by industry;
 - f. Information on upcoming trade shows in which the State will sponsor participation; and
 - g. World trade-related seminar dates and locations.
5. Specify the Information to Be Included in the Annual Report to the Legislature to Be Prepared by the Governor's Office of World Trade

The Governor's Office of World Trade should require all departments and agencies throughout State government to report annually their expenditures and activities related to world trade for inclusion in the GOWT's annual report to the Legislature. Information and data in the annual report should include but not be limited to:

- a. A consolidated budget display, including all actual and proposed expenditures related to international trade, investment, and tourism, by department or unit. This display should indicate expenditures by source of funds and broad categories of program activity and should identify personnel years by classification and unit. It should also include amount and purpose of expenditures for protocol, by department and funding source(s).
- b. List and description of program goals and objectives, and activities undertaken and planned to meet them.
- c. Measures of progress toward meeting goals and objectives, including but not limited to:
 - * Estimates (including assumptions) of the return on tax dollars invested in world trade activities;
 - * Number of California businesses entered into State data banks for purposes of facilitating trade leads;
 - * Number of trade leads and investment inquiries received and brokered, by department or unit;

- * Follow-up report on randomly selected sample of brokered trade leads, indicating outcomes (including the dollar value of new exports, by transaction and in the aggregate); and
 - * Cost-sharing provisions in existing programs established to assist California firms with export promotion.
- d. Discussion of the economic impact on California of existing and projected levels of international trade and investment.
 - e. Issues the State must address in order to improve its position in world trade or as an environment for attracting foreign investment.
 - f. Recommendations for funding and/or changes in design for any component of the State world trade program.

The GOWT's first report should pertain to performance to date. All subsequent reports should repeat the first reporting period data, then show changes from the first reporting period as well as from the immediately preceding reporting period. The first report also should contain an analysis by the Department of Finance, identifying the number and cost of trade and international trade specialists currently employed by the State, by department or unit and funding source.

6. Relocate Export Promotion Activities and the Export Finance Program from the California State World Trade Commission to the California Department of Commerce

Ongoing administration of world trade programs should be carried out by an established line department of State government. We recommend that the State relocate export promotion activities and the export finance program currently administered by the California State World Trade Commission to the Office of Business Development in the California Department of Commerce.

7. Give the California State World Trade Commission Responsibility for Advising State Government on World Trade Policy and for Raising and Allocating Private Funds for California's World Trade Program

The California State World Trade Commission should continue in its present role of advisor to State government on world trade policy. We recommend that CSWTC formally structure this role by sponsoring a minimum of two public hearings per year for the purpose of gathering information on the concerns and recommendations of Cali-

fornia's international business community. The Commission should make transcripts of these hearings available to the Governor, Legislature, and general public.

The California State World Trade Commission should take advantage of its status as a nonprofit public benefit corporation to attract funds from a variety of sources to be used in supporting California's world trade program. We recommend that the Governor and Legislature consider authorizing the CSWTC to administer grants in a program including but not limited to the following elements:

- a. Only State government agencies would qualify to receive CSWTC grants.
- b. The grants would be used to expand existing world trade programs or to demonstrate the effectiveness and feasibility of new approaches to export promotion, investment attraction, and tourism promotion. This mechanism would create new opportunities for industry groups to work with existing State departments to apply for grants to meet those particular industries' needs.
- c. Grants could also be used to support studies of any aspect of California's trade position in the international economy.
- d. Every recipient department or agency would include the amount and purpose of grants received from the California State World Trade Commission in the annual Governor's Budget. This requirement would give the Governor and Legislature the opportunity to review expenditure of private funds contributed for public purposes.
- e. In order to function more or less as a foundation for the purpose of awarding grants, the California State World Trade Commission would need to be authorized to retain any money appropriated to it by the Legislature as well as any public or private grants, gifts, or funds received to support the purposes of the State world trade program. These monies would be deposited in a new "California World Trade Fund" to be established in the State Treasury and be continuously appropriated without regard to fiscal year. The CSWTC should be further entitled to retain interest and investment earnings on these deposits.
- f. The California State World Trade Commission should be required to develop an annually updated five-year business plan, including provisions for broadening the funding base for the State world trade program.

8. Establish a Joint Legislative Committee on World Trade

This recommendation is clearly independent of any executive branch restructuring and is aimed exclusively at improving coordination of policy development in the Legislature and assuring continuity in the State world trade program. This option envisions establishing a Joint Legislative Committee on World Trade that would assist and advise the Legislature in developing California's world trade program in a manner consistent with the role of states as provided for in the U.S. Constitution and compatible with California's unique economic and political climate.

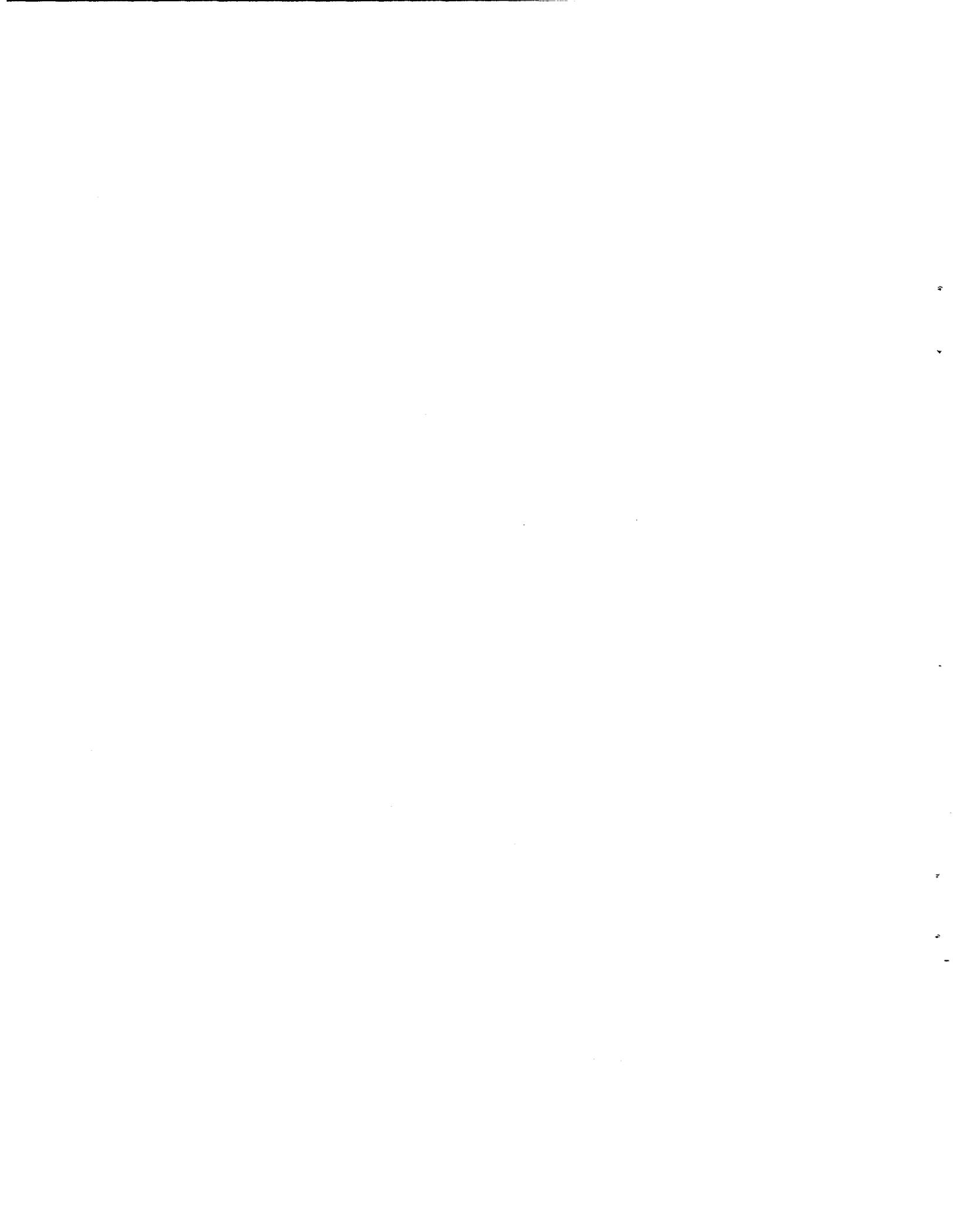
We recommend that the Joint Legislative Committee on World Trade hire a Principal Consultant who is qualified to advise the Legislature on all matters related to California's performance and position in the global economy as well as the appropriate and constitutionally legitimate role of State government in enhancing world trade in California.

The Principal Consultant to the Joint Legislative Committee on World Trade would supervise a professional staff having the following responsibilities:

- a. Assist the Legislature's standing and select committees with world trade policy development;
- b. Analyze proposed legislation for potential conflicts with existing U.S. trade treaties;
- c. Analyze proposed legislation for its potential impact on California's trade performance and position in international markets;
- d. Analyze proposed legislation for its impact on the State world trade program;
- e. Participate cooperatively with executive branch efforts to improve the accuracy, relevance, and timely availability and dissemination of economic data related to world trade;
- f. Collect and analyze for legislative use economic data related to world trade;
- g. Read and analyze studies completed by the State world trade program to determine their implications for adequacy of current law and/or their relevance to proposed legislation; and
- h. Conduct studies, as directed by the Legislature.

"Internationalization" of the executive branch forces the Legislature to develop its own internal capacity to stay abreast of matters affecting world trade as they emerge across the entire spectrum of State government. The Joint Committee on World Trade should direct committee staff to prepare an annual presentation to both houses of the Legislature regarding new developments in world trade throughout State government and pertinent indicators of California's trade and investment position in international markets. The staff would also take this opportunity to advise the Legislature of issues that need to be addressed and, possibly, alternative ways to approach current problems.

Because California conducts business in a global economy, we believe the Legislature should be organized to take advantage of the most highly trained and qualified professionals available to assist in the ongoing process of coordinating policy analysis and development in California's world trade program.



EXHIBITS

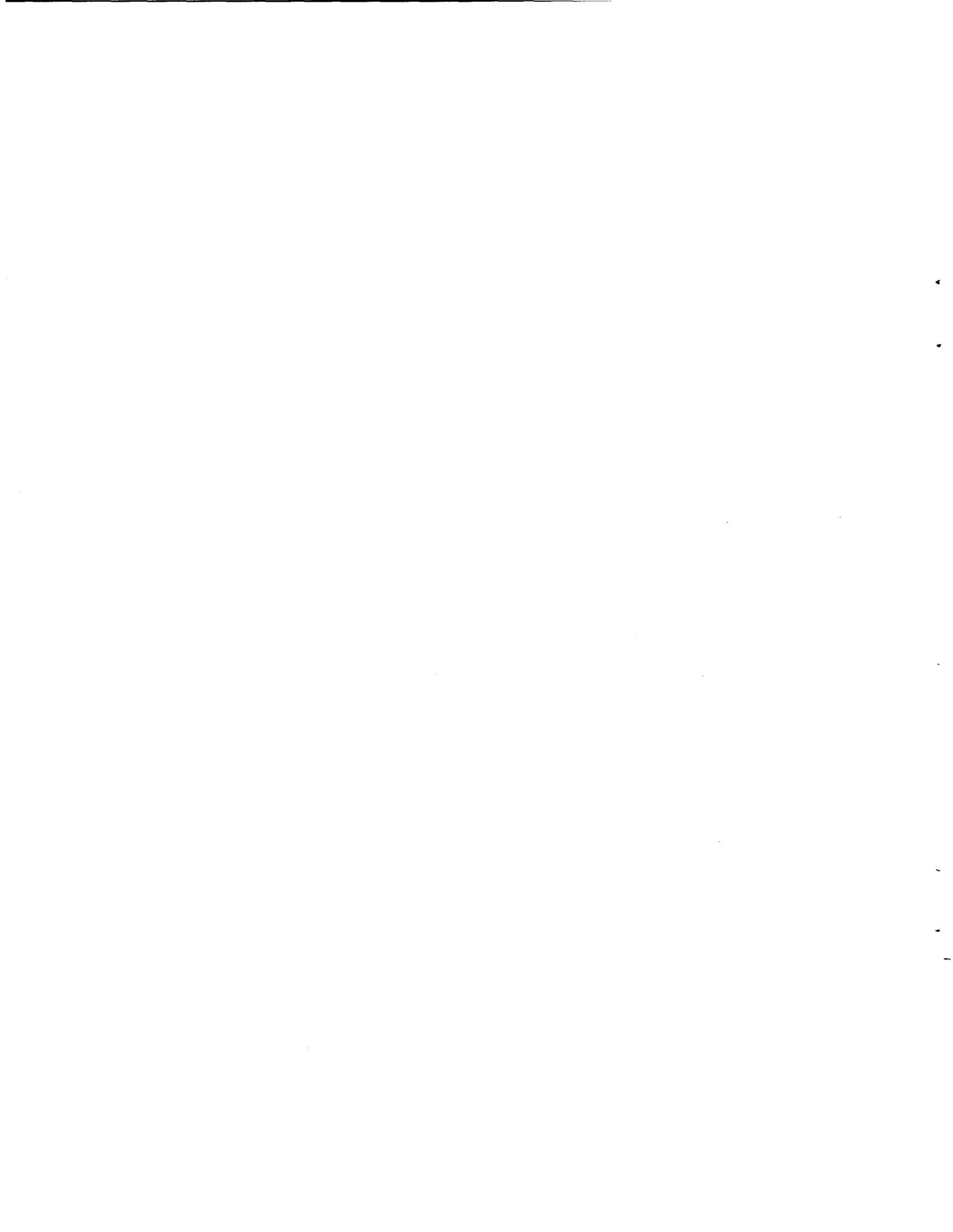


Exhibit A

Chapter 1387/Statutes of 1986 (AB 2685)

SEC. 3. Section 15364.73 is added to the Government Code, to read:

15364.73. Whereas the Commission on California State Government Organization and Economy was established in 1962 to review the management and operation of state funded activities and recommend ways to operate more efficiently and effectively, it is the intent of the Legislature that this commission shall conduct a review and make recommendations to the Governor and the Legislature by May 1, 1987, regarding how best to provide state level administration and coordination of planned overseas offices, including the advisability of placing the administration of overseas offices within a specified state department or agency, creating a new office within the Governor's office, or any other mechanism which would facilitate the operations and coordination of these offices at the state level. The commission as part of its study may review how other comparable states with overseas offices provide state level administration and coordination.



Exhibit B

CALIFORNIA'S OVERSEAS TRADE AND INVESTMENT OFFICES
Chronology

1947 Chapter 1508 -- WORLD TRADE CENTER AUTHORITIES ACT -- gave the World Trade Center Authorities power to establish domestic and international trade centers. Two independent Authorities were created as state agencies and public corporations: one in San Francisco, the other in Los Angeles. Each had 11 members, consisting of three specified local officials, plus eight members to be appointed by the Governor. Each Authority was empowered to issue and sell revenue bonds for the purpose of constructing international trade centers near their respective harbors and to retain revenue from all sources for the uses and purposes set forth in the law.

1963 Chapter 1770 amended the 1947 legislation to create the California World Trade Authorities Coordinating Council, consisting of three members of the San Francisco WTCA (appointed by the SFWTCA), three members of the Los Angeles WTCA (appointed by the LAWTCAs), and three members appointed by the Governor. The Council was charged with coordinating the WTCAs' activities with the objective of promoting the economic interests of California regarding "imports and exports relating to the European Common Market and any other area of the world." The legislation noted that "[s]uch a policy requires specific representation of California in the key areas of the world...."

January

1964 Overseas office opened in Mexico City (initial funding of \$27,000 from the San Francisco Port Authority Fund)

November

1965 Overseas office opened in Tokyo, Japan (initial funding of \$50,000 from the General Fund)

1967 Mexico City office closed

Overseas office opened in Frankfurt, West Germany (initial funding of \$50,000 from the General Fund)

1969 California's overseas offices in Tokyo and Frankfurt were closed, based on a perception that benefits did not justify costs (annual savings to the state of \$105,000).

Overseas Office Chronology...

1982 The Office of International Trade was removed from the Department of Economic and Business Development (now the Department of Commerce) and reconstituted as the California State World Trade Commission (CSWTC), a Nonprofit Public Benefit Corporation. The Commission had 15 members: the Governor, Lieutenant Governor, Secretary of State, three members appointed by the Governor, two members each appointed by the Speaker of the Assembly and Senate President pro Tempore, and five members selected by the CSWTC Advisory Council (CSWTC-appointed private industry leaders and specified government representatives). This Commission was to serve as California's official representative to foreign governments. Its functions included conducting research on foreign markets and establishing "one or more offices in California and in foreign countries...."

1984 Chapter 1569 required the California State World Trade Commission to conduct a study of the feasibility and desirability of establishing one or more overseas trade offices.

1985 The feasibility study required by Chapter 1569/84 recommended enhancing California's trade "infrastructure" and, during state fiscal year 1986-87, opening two overseas offices: one in Tokyo, the other in London.

1986 Chapter 1387 reorganized the California State World Trade Commission, reducing the number of members to 11 (with five ex officio members) and provided that the Commission shall serve as the primary state agency responsible for coordination of activities to expand international trade, including representing (or assisting in representing) the state in foreign countries. The law also required, however, that the Governor select a coordinator to oversee the activities of all overseas offices and required the Commission on California State Government Organization and Economy to make recommendations in 1987 regarding how best to provide state level administration and coordination of the overseas offices.

January

1987 Overseas office opened in Tokyo, Japan (initial partial year funding of \$471,300 from the General Fund)

April

1987 Overseas office opened in London, England (initial partial year funding of \$231,700 from the General Fund)

Exhibit C

INDIVIDUALS INTERVIEWED OVER THE COURSE OF THE STUDY
(In Alphabetical Order)

Name/Title	Representing
Linda Joy DeBoard, International Trade Specialist	California Energy Commission, Energy Technology Export Program
Susan C. Foreman, Principal Consultant	California Senate Office of Protocol and International Relations
John Griffing, Senior Consultant	California Senate Office of Research
James Y. Iso, Special Assistant to the Director on Foreign Trade	California Department of Food and Agriculture, Agricultural Export Program
Hon. Lucy Killea, Member Chairwoman	California State Assembly California Assembly Committee on International Trade, Investment, and Tourism
Kathleen Krause, Senior Consultant	California Assembly Committee on International Trade, Investment, and Tourism
Jerry Levine, President	Mentor International
Gregory Mignano, Executive Director	California State World Trade Commission
Robert T. Monagan, President	California Economic Development Corporation
David Nelson, Consultant	U.S. House of Representatives Committee on Energy and Commerce
Jock O'Connell, International Trade and Investment Advisor	Office of the Lieutenant Governor, Commission for Economic Development
Tim Olson, Program Manager	Energy Technology Export Program, California Energy Commission

Name/Title	Representing
Daniel E. Pilcher, Principal Staff Associate	National Conference of State Legislatures
Michael Reyna, Program Analyst	California Legislative Analyst's Office
James R. Rinehart, Deputy Director	California Department of Commerce, Office of Business Development
James W. Robinson, Governor's World Trade Coordinator	California Governor's Office
Karen Sonoda, Consultant	California Assembly Office of International Relations
George W. Urda, Chief Executive Officer	Agricultural Export Program, California Department of Food and Agriculture
James B. Vaughn, Director -- Asia	California Office of Trade and Investment, Tokyo
Kirk West, President	California Chamber of Commerce

Exhibit D

INDIVIDUALS WHO PRESENTED TESTIMONY AT THE
LITTLE HOOVER COMMISSION'S PUBLIC HEARING

San Francisco
May 29, 1987

Honorable Leo T. McCarthy	Lieutenant Governor, State of California
Gregory Mignano	Executive Director, California State World Trade Commission
Charles Imbrecht	Chairman, California Energy Commission
James Rinehart	Deputy Director, California Department of Commerce
George Urda	Chief Executive Officer, Agricultural Export Program, California Department of Food and Agriculture
Harry Endsley	International Business Attorney (private) Chairman, Legislative Committee, California Council on International Trade

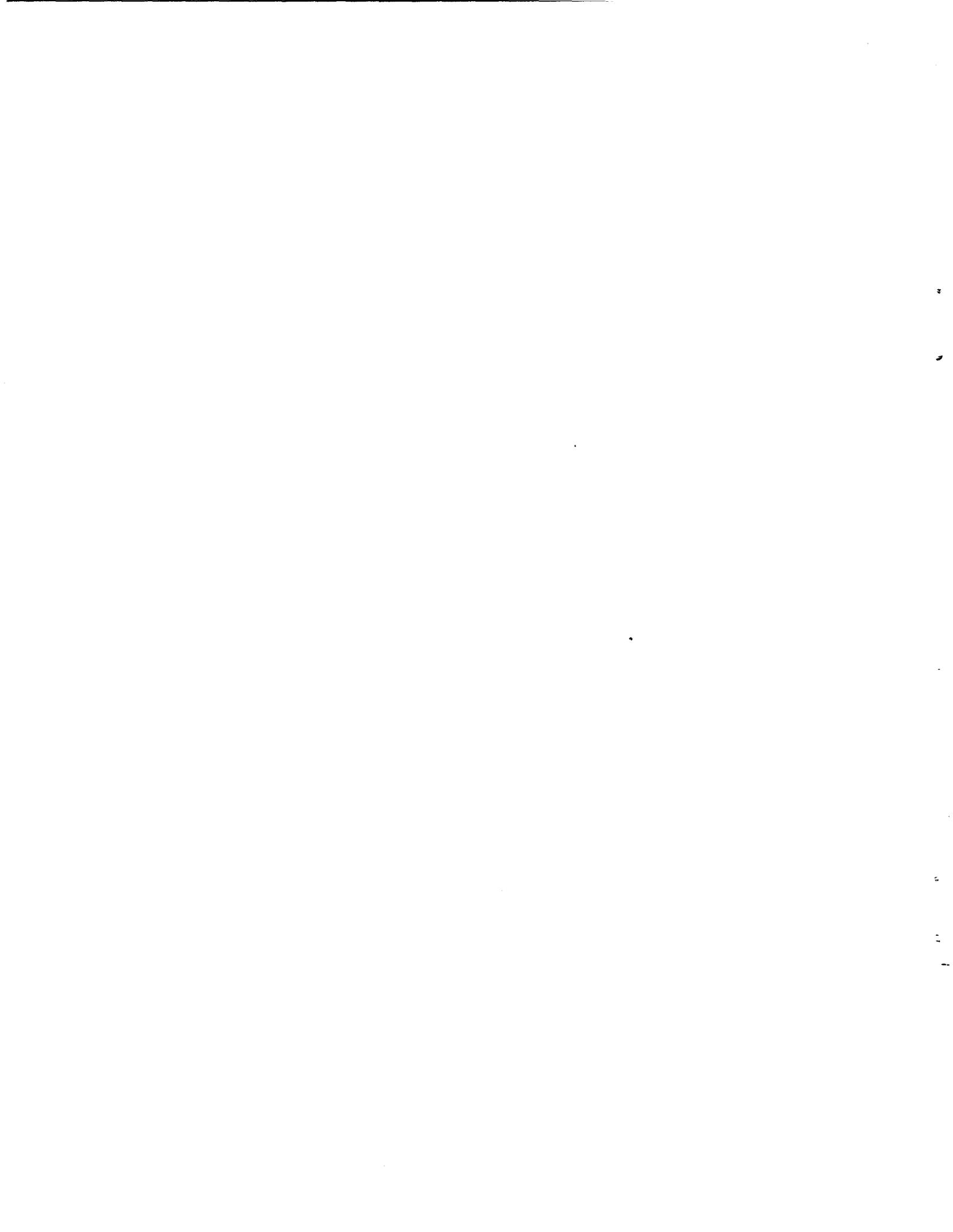
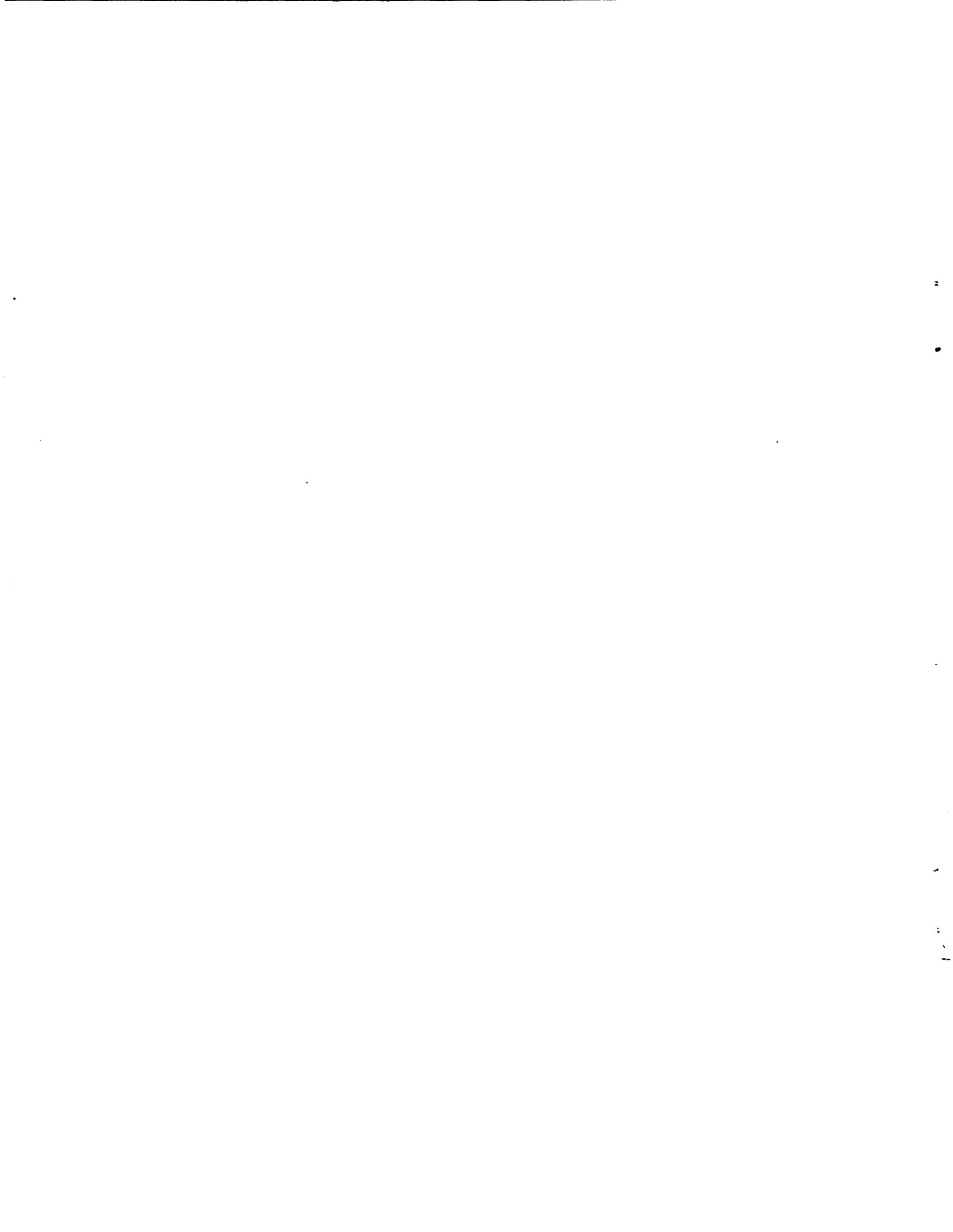


Exhibit E

CALIFORNIA STATE WORLD TRADE COMMISSION
Invitation to Participate in Overseas Trade Show



#6753

CALIFORNIA STATE
WORLD TRADE COMMISSION



MARCH FONG EU, Chair
Secretary of State

January 28, 1987

Dear : #6783

The California State World Trade Commission is organizing an official state booth within the U.S. Department of Housing and Urban Development (HUD) sponsored U.S. Pavilion at Stroy-industria '87 to be held in Moscow May 27 - June 5, 1987.

Each firm participating in the California booth will be able to exhibit and demonstrate their products at a significant cost savings over independent participation. All participants in the shared booth will have access to a business lounge area for private discussions and will receive support equal to that of an independent participant. In addition, a trade development specialist from our Commission will be available to assist each firm with preparation for the event and will be on site at the fair to help with set-up and staffing.

A special travel package will be available and a consolidated freight shipment will be arranged from California for display materials. The cost of a 25 percent share of a 18 square meter booth is \$1,850 and is available in multiple shares. Participants will receive pre-show publicity and business introductions from HUD.

Space in the California shared exhibit is limited and made available on a first-come, first-served basis. A check in the full amount, made payable to the "California State World Trade Commission", noted "Construction '87", will reserve your spot in the California booth.

Please review the enclosed Exhibit Fact Sheet which details California's participation in the event. I would be pleased to answer any questions you might have and I look forward to working with you on this program.

Sincerely,

Robert R. De Martini
Senior Trade Development
Specialist

E-2

GEORGE DEUKMEJIAN
Governor

LEO T. McCARTHY
Lt. Governor

FRED W. ANDREW
Apex Orchards, Inc.

THOMAS L. BERKLEY
Berkley, Rhodes & Schwartz

LILY CHEN
Monterey Park

EDWARD N. GLAD
Glad & Ferguson

C. ROBERT LANGSLET
C. Robert Langslet & Son, Inc.

JOHN R. LIEBMAN
Nossaman, Guthner,
Knox & Elliott

JAMES D. LUTTON
Solar Turbines, Inc.

E. A. MELENDEZ
Atlantic Richfield Co.

ROBERT T. MONAGAN
California Economic
Development Corporation

CHARLES H. NEVIL
The Meridian Group

WALTER F. PAYNE
California Almond
Growers Exchange

GREGORY MIGNANO
Executive Director

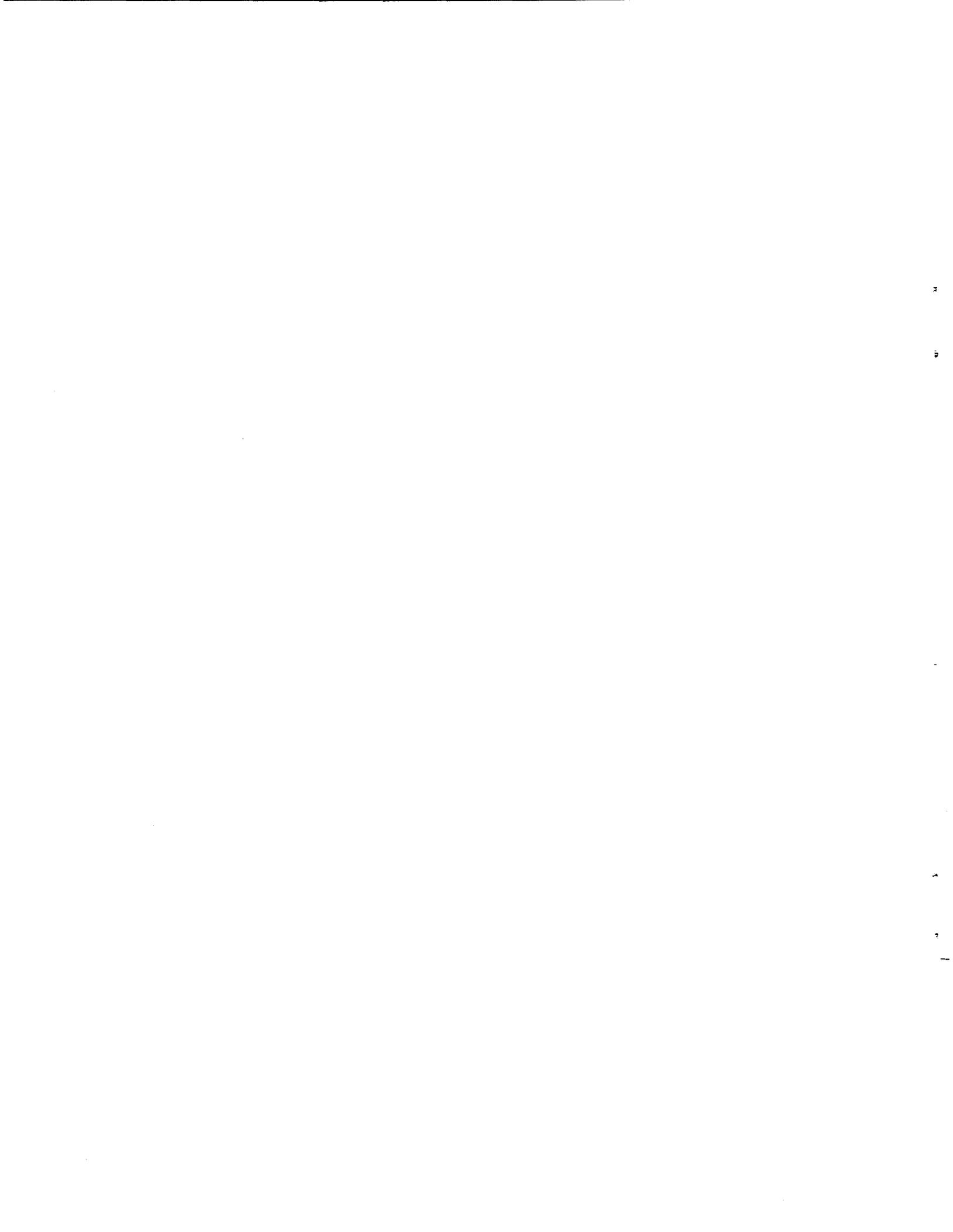


EXHIBIT FACT SHEET

California Shared Exhibit
Stroyindustriya '87
Moscow May 27 - June 5, 1987

"Construction Industry Technology of the United States"

LOCATION

The official California shared exhibit will be located in the United States National Pavilion organized by the Department of Housing and Urban Development (HUD). The exhibition will be held at the EXPOCENTER Complex which is comprised of 5 exhibition halls and open air display sites. EXPOCENTER is a modern exhibition facility with all support services on site including: World Trade Center, Conference Halls, Restaurants and a Hotel. The U.S. Pavilion will be one of several national pavilions and will house the displays of over 100 U.S. firms.

EXHIBIT

Each firm participating in the California shared booth will receive:

- o Turnkey "mini-display" as shown consisting of a display panel for the display of graphics and/or product. A display pedestal for the display of products, model or video presentation. Company name signs, spotlights, information desk and chair. A multi-lingual booth attendant will be available at the booth. (Individual electrical outlets, video equipment, graphics, signs, etc. not included).
- o Participants in the U.S. National Pavilion at Stroyindustriya receive pre-exhibit exposure through the US-USSR Trade and Economic Council, USSR State Construction Committee (GOSSTROY), and sub-ordinate ministries for all areas of civil construction in the Soviet Union.

FREIGHT/TRAVEL (not included)

Freight services will be consolidated to reduce the costs of documentation, customs clearance, airfreight etc...

Special travel arrangements are being secured for travel from the west coast to the exhibition.

COST

The cost of the mini-display is \$1,850 and includes all support services as outlined. Freight, travel and accommodations not included.

Submittal of a check in the amount of \$1,850 made payable to the California State World Trade Commission, noted Construction '87 will secure your share of the California exhibit. Participation is on a first-come, first-served basis.

FOR FURTHER INFORMATION

Contact Robert R. De Martini, Senior Trade Development Specialist at (916) 324-5511.

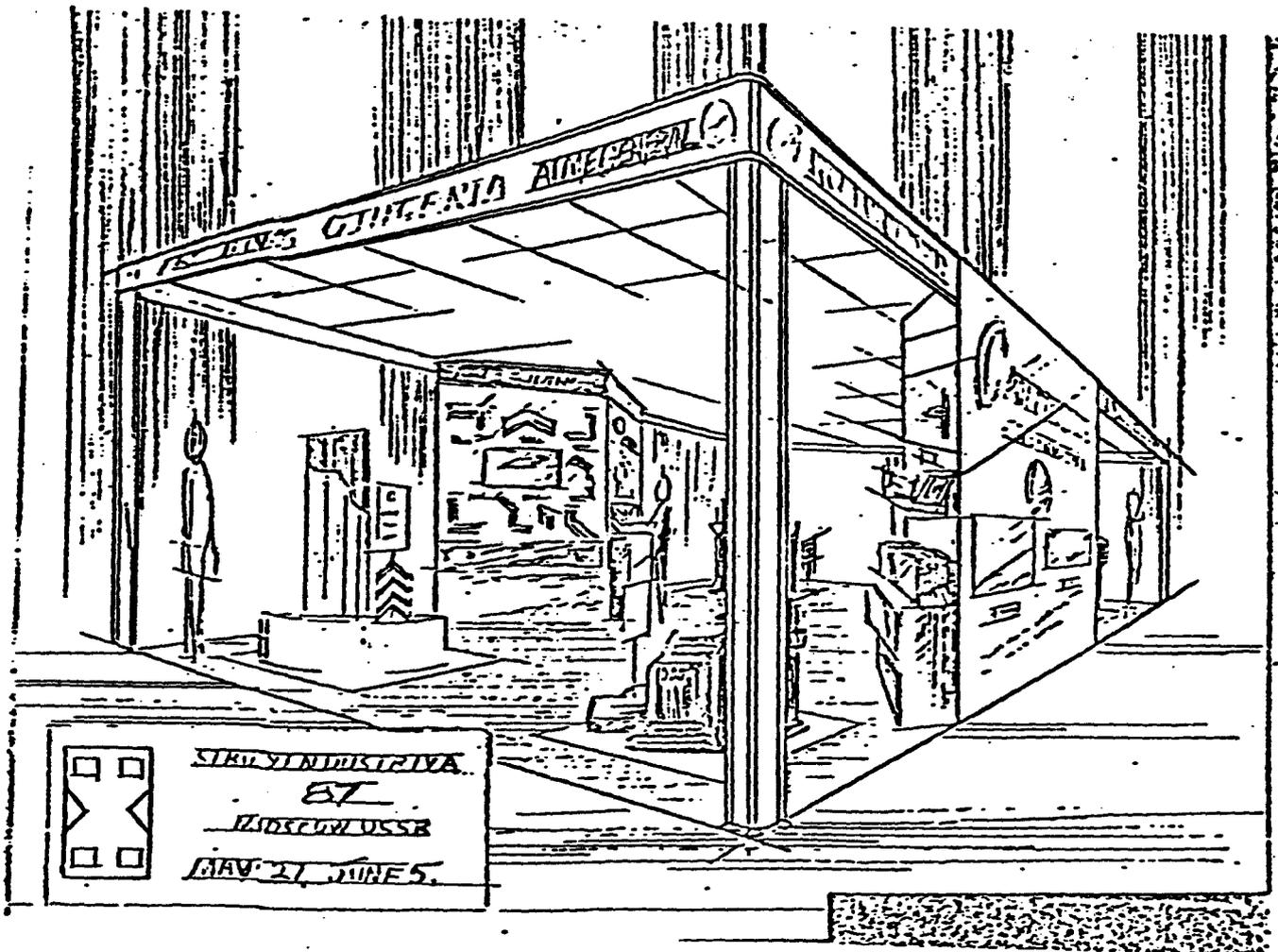


Exhibit F

CALIFORNIA STATE LEGISLATURE

Senate Office of Protocol and International Relations





California Legislature

Senate Rules Committee

MEMBERS
WILLIAM A. CRAVEN
VICE CHAIRMAN
JOHN T. DOOLITTLE
HENRY J. MELLO
NICHOLAS C. PETRIS

DAVID ROBERTI
Chairman

March 16, 1987

M E M O R A N D U M

TO: ALL SENATORS AND SENATE STAFF

FROM: SENATOR DAVID ROBERTI

RE: NEW SENATE RULES COMMITTEE OFFICE OF PROTOCOL AND INTERNATIONAL RELATIONS

As you are aware, in recent years there has been a sharp increase in bills, resolutions and other activities designed to strengthen California's trade, investment, educational and cultural ties with other nations. In addition, there has been a concomitant rise in the number of foreign dignitaries and delegations visiting the Capitol. As California becomes an ever more active participant in international affairs due to its size and diversity, major port facilities, strategic location, status as the leading export state in the nation, prominence as the seventh largest economic entity in the world, and international reputation as a center for advanced university studies and high technology, we can expect appropriate legislation and activities and official foreign visits to increase even more dramatically.

In order to provide the Senate with information and assistance conducive to the furthering of strong economic and cultural ties between California and other countries, and to ensure that we welcome foreign dignitaries in a manner befitting the California Senate and California as a whole, the Senate Rules Committee has established an Office of Protocol and International Relations. Please take a moment to read the attached description so that you will know how best to utilize the services of this new office.

March 16, 1987
Page 2

If you have any questions please contact the office at 323-9330. Their address is 1127 11th Street (11th and L Building) Suite 426, Sacramento, California 95814.

Ms. Susan Foreman will be the Director of the office. Working with her will be Dr. Kent Meyer and Mrs. Marilyn Chapman. In addition, under a joint cooperative agreement, the office will be assisted on an ad-hoc voluntary basis by professors in related fields of study and by the Center for California Studies at California State University, Sacramento. The office also will offer a fellowship position to students interested in international relations.

Attachments

**SENATE OFFICE OF PROTOCOL
AND INTERNATIONAL RELATIONS**

DUTIES:

1. Develop Senate projects that will further mutual cooperation and understanding, closer educational and cultural ties, and greater trade and investment opportunities between California and other nations. These projects shall include seminars, conferences, trade missions, and other visitor and information exchange programs.
2. Provide Senators, upon request, with timely briefing papers on specified countries, including general background information on the history, culture, government, and business and social customs of these countries as well as current information on more specific aspects, such as recent political or economic developments.
3. Assist representatives of foreign governments, businesses and academic institutions in their official visits to the Senate. This assistance shall include providing dignitaries with useful information about California and the Senate, and arranging appointments, meetings, receptions and other appropriate activities.
4. Act as the contact point and liaison between the Senate and other persons or groups directly involved with international trade and relations and with official visits to California by visiting dignitaries and delegations. These shall include the Governor's Office, the Assembly, the California Consular Corps, the U.S. State Department's International Visitors Program (People to People), the World Trade Commission, the State Chamber of Commerce, academic institutions, the community of Sacramento, and other appropriate government and private entities.
5. Assist Senators with protocol questions, including matters involving the provisions of the Vienna Convention and other international protocols applicable to the relations between countries and the treatment of representatives of foreign governments.

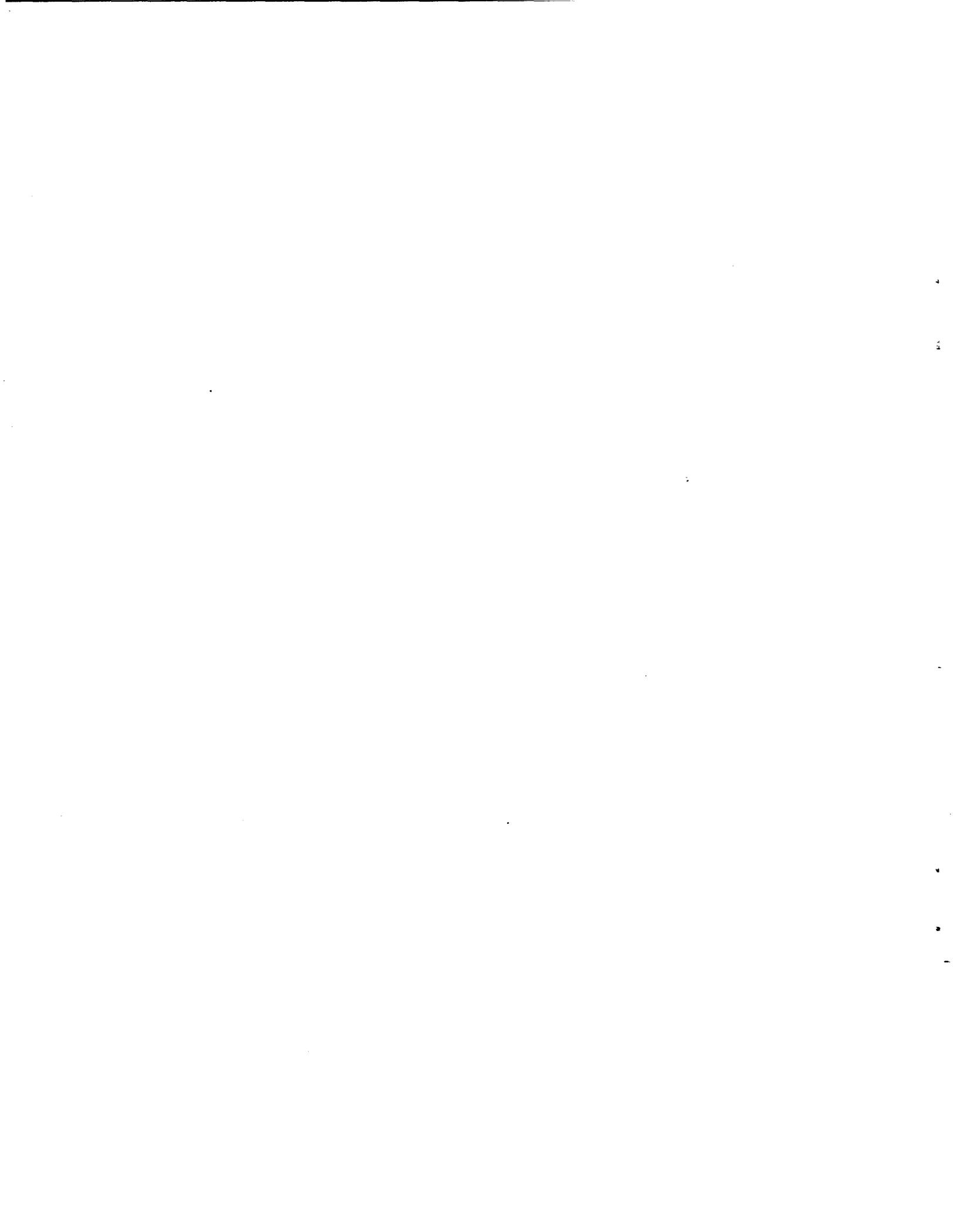
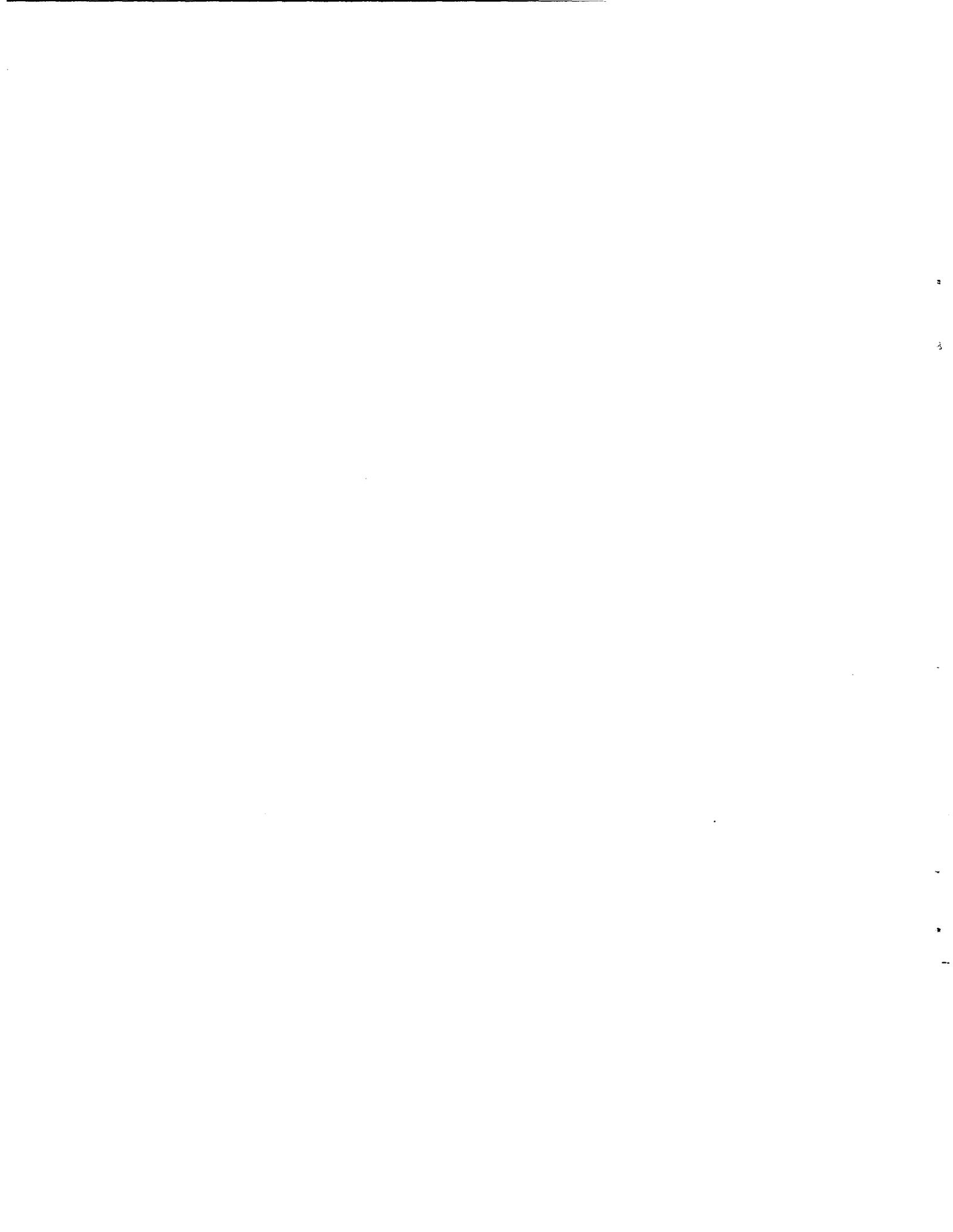


Exhibit G

CALIFORNIA'S WORLD TRADE PROGRAM

Accomplishments



-- JAMES W. ROBINSON --
Office of the Governor

**TESTIMONY TO THE COMMISSION ON
CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY
(Friday, May 29, 1987)**

Mr. Chairman and members of the commission, thank you for inviting me to testify before the Little Hoover Commission. While I am unable to attend your public hearing, I am happy to provide you with the following written testimony.

This testimony is directed toward the seven points that you asked me to cover in your letter to me dated, April 10. If you have any questions concerning the information I have provided you with, please do not hesitate to call me.

Before addressing those questions, I would like to emphasize some basic points:

One

Since 1983, California has traveled light years in terms of its visibility and activity on the international economic front. During that time, the budget commitment has expanded from less than \$500,000 to over \$9 million.

Two

Our state is both an innovator and a leader in efforts to promote exports and attract job-creating foreign investment. Initiatives ranging from an export finance program, to an agriculture promotion program, to a full-time trade representative in Washington are viewed as national models. These programs, combined with the Governor's personal diplomacy with leaders ranging from Prime Ministers Thatcher and Nakasone, to Cabinet officers Baldrige and Yeutter, have made California a major player in international trade issues.

Three

California's overseas offices in Tokyo and London are a timely, logical and necessary extension of the state's new aggressive marketing program. The offices, boosted by the Governor's overseas missions to mark their opening, have already been inundated with positive activity. California has burst on those important international economic communities in a very big way. In the short space of several months, they are already seen as "showcase" state offices.

Four

The decision to locate the overall responsibility for the offices in the Governor's office, which was endorsed by the World Trade Commission and the Legislature when it passed the 1986-87 budget, has emerged as the single most critical component of their early success.

The fact that the Governor was able to present the overseas personnel to leaders in Japan and Europe as his personal representatives gave them great credibility and notoriety. During those trips, we were told again and again that our offices are made special and credible simply by the fact that they are part of the Chief Executive's office, namely the Governor. We were informed that this would be a great advantage over those states whose offices are part of the Department of Commerce or other department or agency.

Five

The coordination and the cooperation of the various state entities responsible for California's international activities has, to date, been flawless. We believe that given the current level of our programs, we have found that right formula for managing and coordinating the state's diverse international programs. The umbrella of the Governor's office is key to ensuring that this teamwork continue.

Six

It is important to recognize that the overseas offices are still essentially a "start-up" project. It would be senseless to draw any sweeping conclusions at this point until we all have had a more long-term view of the results. We are fully satisfied with the operation of this program now, but we will continue to keep a sharp eye on the growth and progress of this important endeavor.

1. Examples of California's successes to-date in export promotion, investment attraction, tourism promotion, advocacy:

Export Promotion: California accounts for over 15 percent of total U.S. trade -- and that share is increasing. Trade also represents an integral part of the state's economy. In fact, the value of goods passing through our ports equals nearly 20 percent of the state's total output. It is estimated that more than 10 percent of all jobs in the state are attributable to the economic impact of foreign trade.

In the last two decades, trade passing through California ports more than quadrupled to over \$100 billion in 1986. Many of California's leading industries, including agriculture, aerospace, electronics and entertainment rely heavily on overseas markets for growth opportunities.

Before describing the successes that California has enjoyed with respect to export promotion, a little background on what the Deukmejian administration is currently doing in this regard, is appropriate. The following lists the state's export promotion activities for 1987.

- ° California, in the coming year, will invest more than \$9 million to overturn trade barriers and market California goods overseas.

- ° During 1987, California's international profile reached an all-time high with the operation of two new Trade and Investment Offices in London and Tokyo.

- ° We will be investing \$1.1 million in the coming year for full staffing and operation of California's Trade and Investment Offices. The offices will be responsible for the promotion of California exports, establishing new agricultural markets, and attracting greater foreign investment.

- ° Leading the effort to reduce barriers to trade and aggressively market our products abroad, is the California State World Trade Commission. The Governor has allocated \$2.6 million for the activities of the WTC.

- ° We have a full-time trade representative based in Washington, D.C. who is responsible for representing California's interests in federal trade legislation, and in international trade negotiations.

- ° We will also be participating in at least 12 premier international trade shows during the coming year.

- ° In addition, we have a \$5 million program specifically devoted to promoting agricultural exports. We have also initiated an export promotion program to assist small and medium-sized businesses with non-agricultural exports.

° The export finance program backed over \$20 million in overseas sales last year, and expects to support \$50 million in exports this year.

° California is also heavily investing in its future by allocating more than \$10 million for international education programs in the coming year.

° California will be spending \$250,000 in the coming year to carve out new overseas markets for alternative energy technology produced in California.

In addition to the activities that the Deukmejian administration is currently pursuing in the trade promotion area, there have also been a number of "success" stories to match this activity.

Among the successes already achieved:

° During the first months of operation for the Tokyo Trade and Investment Office, the office received a daily average of five trade inquiries. The vast majority of the inquiries originate from small and medium-sized Japanese importers.

Some examples of these inquiries present an idea of their diverse nature:

-- A request for freeze-dried food products used by NASA on shuttle missions. Through the Tokyo office, the World Trade Commission took this inquiry and found a Redding, California firm that produces much of what NASA uses.

-- Approximately ten separate inquiries from Japanese importers wishing to import California wine.

-- A Japanese food processing company contacted the office regarding their need for specialized walnut shelling equipment.

-- Another Japanese food processor contacted the office seeking California suppliers of milled flour.

Without the Tokyo office in operation, these and many other potential trade leads might have been lost to other exporting states and/or nations.

° The Japanese Minister of International Trade and Industry has announced that, with the help of the World Trade Commission, his ministry will promote California camping and hiking equipment in Japan this year.

The Japanese market for such equipment is estimated at about \$700 million each year.

° In less than two years, the California State World Trade Commission has led nearly 200 companies to some of the world's premier trade shows throughout Asia, Europe, and Latin America. The WTC has organized exclusive California exhibits and collected over 1,000 sales leads. Over half of the 200 companies are new-to-market or had never exported before.

One such "success story" is the case of Volumetrics, a California company founded in 1972 which designs, builds and installs measurement and control systems used in test laboratories and power generating stations.

At the urging of the World Trade Commission, the Paso Robles firm took the WTC up on the Commission's offer to have its company literature distributed among Korean importers at a U.S. government-sponsored catalog show. During the course of the show, Volumetrics received nearly \$100,000 in sales orders from Korea.

Currently, the company is bidding on contracts worth several million dollars, and has sold more than \$2 million worth of high-tech equipment to Korea.

Investment Attraction:

According to the state Department of Commerce, foreign direct investment in California totals more than \$31.3 billion, and employs over 280,000 people in the state. The average investment per foreign company is \$14 million, and the average number of employees is 150.

Governor Deukmejian has supported efforts to encourage greater foreign investment in California. Most recently, during his trips to Japan and Europe, he urged the leaders of business and industry that he met with, to consider California as a top location for investment.

The Governor pointed to California's strategic position on the Pacific Rim, favorable business climate, his strong commitment to not increasing taxes, and the recent modification of the unitary method of taxation, as major reasons for foreign companies to invest in California.

Following Governor Deukmejian's trip to Japan in January the following events occurred:

° Executives from the Japanese Kyocera Corporation informed the Governor's office of their intent to pursue a major expansion of their production facilities in the San Diego area.

° The Keidanren, Japan's leading business federation, intends to send a major investment mission to our state later this year to study potential projects.

° Several Japanese firms have announced their agreement to join a California firm in building a \$200 million steel mill and waste-to-energy plant in Fresno County.

Other examples of the administration's ability to attract direct foreign investment include:

° The recent cooperation agreement that the Governor signed with National Westminster Bank. National Westminster Bank is the largest bank in the United Kingdom, and one of the largest in the world. Banks of this type are important because they are instrumental in putting together the investment deals that create more jobs. In the case of National Westminster, the bank has offices in Los Angeles and San Francisco and currently extends about \$4 billion to California-based companies.

The cooperation agreement that the Governor signed signals a more formal commitment on the part of the bank and the state to work together to facilitate job creating projects in California. Similar to the agreement we have signed with Japanese banks such as the Industrial Bank of Japan, it will prompt regular meetings and information-sharing so that the bank can continually be in a position to recommend California's investment and market opportunities to its clients throughout Europe.

° Toshiba, a Japanese firm, was recently recruited to build a plant in Irvine. The company, with assistance from the Employment Training Panel and the Department of Commerce has located a 1,000,000-square-foot copy machine factory on 18-acres in Irvine Ranch.

The company was anxious to locate a factory on the West Coast, but chose California over other locations. The Department of Commerce helped Toshiba with site selection and location analysis. The Department also put the company in touch with the ETP for assistance with production training programs.

° Hinkle Research, a West German firm, was recently attracted to California to locate a bio-technology facility in the Santa Rosa area. The Department of Commerce was again helpful in attracting the firm which employs more than 100 people, most of whom are well-paid Ph.D.s and other professionals.

The Department of Commerce provided Hinkle Research with land, housing, site and location analyses for locations throughout Northern California.

Tourism Promotion:

° Following a meeting with the Governor during his trip to Japan in January, the Bank of Tokyo announced that it will display California products and promote the state's tourist attractions at branches throughout Japan.

The Bank of Japan is the largest retail banking operation in Japan. The impact of this promotion should be significant.

Advocacy:

° Japan recently agreed to remove a key trade barrier to California cherry exports. Japanese government officials have agreed to begin phasing out an entry-date restriction that effectively blocked California's access to the Japanese market.

By July 1992, all entry date restrictions will be eliminated for cherries. This concession by the Japanese could boost California exports by more than \$3 million annually. It came three years after the World Trade Commission brought together officials of the U.S. Department of Agriculture and the Japanese Ministry of Agriculture, Forestry and Fisheries to negotiate a change in the import restriction (a restriction intended to protect Japanese cherry producers.)

° Japan denies entry to a number of stone fruits, including California nectarines, arguing that they are susceptible to codling moth infestation. This phytosanitary restriction has effectively barred California nectarine growers from tapping a potentially large market in Japan.

The codling moth restriction is seen as an unfair trade practice in the form of an unreasonable "scientific and technical standard." According to expert U.S. agricultural scientists, the nectarine is not a preferred host for the codling moth.

In 1985, the World Trade Commission successfully persuaded federal officials to revive negotiations on this issue, and to aggressively pursue a coordinated approach to re-establish a protocol for shipping "clean fruit."

In September, 1986, Japanese scientists from the Ministry of Agriculture, Forestry and Fisheries, came to the U.S. on a technical exchange mission to meet with U.S. Department of Agriculture officials in Washington, and well as with fruit industry officials in California.

The talks were intended to inform the Japanese of U.S. agricultural research technology in an effort to get them to accept U.S. test results. Test shipments of nectarines should be allowed into Japan sometime this year.

° After the Governor's return from Japan, a California engineering firm, Bechtel, received a small but promising contract to participate in the planning of the \$8 billion Kansai airport project.

This project had previously been closed to U.S. bidding by the Japanese. However, during the Governor's meetings with high-level government and business official in Japan, he focused on the Kansai project as an example of restrictive trade practices by the Japanese.

The project still needs to be further opened to foreign construction bids.

° During the Governor's trip to Japan, he brought up Japan's ban on rice imports as an example of the kinds of restrictions that were harming U.S.-Japan trade relations. While he was criticized by some here in California for broaching the issue with the Japanese, the Governor's comments served as a catalyst for dissent on the rice issue in Japan.

Shortly after the governor raised concerns about Japan's ban on California rice imports, both the Keidanren and the respected Japan Economic Journal issued statements calling for significant changes in this policy. There is also some grumbling in the Liberal Democratic Party (Japan's leading political party) about the ban.

In addition, the Governor received very encouraging personal messages from Ambassador Mike Mansfield in Tokyo and U.S. Trade Ambassador Clayton Yeutter saying that his approach with the Japanese, in both tone and content, was right on the mark. And recently, while on a trip to Japan, U.S. Department of Agriculture Secretary Lyng, echoed the Governor's comments concerning the need to end the ban on rice imports.

2. Case histories of promotional activities in which California is engaged:

Export Promotion Transaction:

In 1985, Bill Lang, President of Interface Inc., an aerospace industry manufacturing company, had thought about, but never attempted to export his company's products. Today, as a direct result of involvement by the World Trade Commission, his custom control and display systems are now exported to West Germany, France, Italy, Spain, Israel, Norway and Sweden.

The World Trade Commission recruited Interface Inc. during 1985, to participate in the 1985 Paris Airshow. The WTC made it affordable and viable for the company to participate by renting out a large display section at the show for a discount, and subdividing it for California companies.

In other words, Interface was, for \$3,300 able to take advantage of a relatively large booth in a good location at the airshow. Without the WTC's help, the company would not have even taken part in the Airshow.

The standard cost for a booth if Interface had opted to participate on its own would have been \$10,000, or three times what the company actually paid. In addition to the lower cost, Interface enjoyed a larger facility than the standard booth -- commonly compared to the size of an elevator.

The direct result of Interface's participation in the Paris trade show is overseas sales this year which will top \$1 million. Overall sales have increased 60 percent since the company decided to export its goods, and the Southern California company is now planning to expand on its current operation.

Because of its overseas success, Interface plans to open a new research and development facility that will employ 125 California workers.

Investment Attraction: Contact by the California Department of Commerce with the Nippon Electric Company (NEC) has resulted in the first Japanese semi-conductor manufacturing facility in the U.S., to be located in Roseville, California.

During the Spring of 1983, NEC indicated to the Department of Commerce that it was considering locating a semi-conductor facility somewhere on the West Coast -- either Northern California, Washington or Oregon.

The Department of Commerce, in addition to providing site selection and location analyses also put the company in touch with the Employment Training Panel. NEC eventually signed a contract with the ETP to help train its workers, and the company announced in September, 1984, that it would be locating its facility in Roseville.

The original investment by NEC totaled \$350 million and was to employ 1,500 people. However, the Japanese electronics giant has since announced that it is expanding its investment over the next two-to-three years, and will employ up to 3,000 Californians. The total investment will reach \$700 million.

In making its investment decision, NEC noted lower land costs, access to the Silicon Valley and a favorable business climate as reasons for locating in Roseville.

Tourism Promotion: One of the major tourism promotion activities the state is currently undertaking, is a direct result of the Governor's meeting with officials of the Bank of Tokyo during his trip to Japan in January.

At the meeting with bank officials, the idea of setting up a promotional campaign using the Bank of Tokyo was discussed. Initial discussions on the subject revolved around the promotion of Japanese investment in California. However, it was believed that a tourism promotion would be more effective.

The Governor and the Bank of Tokyo's Senior Vice President agreed that the bank's vast network branch would be an ideal showcase for the promotion of California tourism. The promotion will inform potential Japanese tourists of the many tourist spots available in California.

Jim Vaughn, the director of the Asian Trade and Investment Office is handling the follow up on this project. He is coordinating the details of the promotion with the Bank of Tokyo and the displays should be in the banks retail centers this summer.

It is not known what the impact of this promotional project will be. However, the number of Bank of Tokyo customers that will be exposed to the display will be significant. Currently, more than 500,000 Japanese tourists visit California each year.

3. Examples of "advocacy" activities and accomplishments since 1984:

The Governor will continue to advocate free, but fair trade in the international marketplace. The Governor has sought the same access to foreign markets for California products, as our foreign competitors enjoy in our markets.

Among some of the initiatives that he has undertaken to achieve this result:

° The Governor, in the fall of 1986 sent a report by the World Trade Commission on trade barriers to the trade ministers of 12 nations on the Pacific Rim. The report outlined each country's trade barriers affecting California exports.

The report on trade barriers had an unsettling effect in the trade ministries of many nations. And, in some cases the trade restrictions imposed by foreign nations are already being modified.

° In January, 1987, the Governor wrote to President Reagan concerning the excessive application of U.S. export controls. The U.S. government has for a number of years, restricted the export of high tech products to foreign nations. Many of these restrictions are outdated and affect items that have little impact on national security. California, being a leader in the manufacture and export of high tech goods, has in many cases, been adversely affected by these export controls.

The letter in part, indicated that, "California companies, world leaders in technology and innovation, have lost countless overseas sales due to the vagaries of the export licensing process. Regulations are difficult to understand, documentation requirements burdensome, and bureaucratic delays are excessive. Many firms do not know when -- or even if -- the export license necessary to make a shipment will be granted. Marketing plans become impossible to develop. Their customers, questioning their reliability, have turned to foreign suppliers who can usually provide comparable products without similar restraints."

The letter was accompanied by an issue paper by the World Trade Commission on the subject of export controls. Shortly after the letter was sent, the United States Trade Representative, Clayton Yuetter, wrote the Governor to inform him that changes in the export control program were being included in the administrations "competitiveness agenda."

° In April, 1987, the Governor wrote the Speaker of the House of Representatives, James Wright, to indicate his opposition to the so-called "Gephardt Amendment" contained in the omnibus trade legislation being considered by Congress. The Governor wrote that the Gephardt Amendment "would impair the President's

ability to resolve trade disputes with our allies through good faith negotiations and could have the effect of closing markets and inviting retaliation."

° In May, 1984, the Governor participated in a Washington meeting of the President's Worldwide Unitary Taxation Working Group, and called for a modification in California's application of the unitary method to stimulate job creation and investment. The Legislature passed, and the Governor signed, legislation to that effect in September, 1986.

° Among the groups and individuals that the Governor has met with to discuss trade and investment opportunities for California since 1984:

- Chinese Premier, Zhao Ziyang
- French President, Francois Mitterand
- Japanese Prime Minister, Yasuhiro Nakasone
- British Prime Minister, Margaret Thatcher
- The Governor of British Columbia
- The so-called "Quadralateral" meeting of top trade ministers from Japan, Canada, the United States and the European Community
- Leading Canadian business leaders meeting in Vancouver, B.C.
- Roger Smith, Chairman of General Motors
- Akio Morita, Chairman of Sony Corporation
- The Governor of Antwerp, Belgium
- U.S. Commerce Secretary Malcolm Baldrige
- U.S. Trade Representative Clayton Yeutter

° During the Governor's trip to Japan in January, he met with the following individuals to solicit their support for increased trade and investment opportunities in California and to reduce Japanese roadblocks to California exports:

- U.S. Ambassador Mike Mansfield
- Japanese Minister of Finance, Kiichi Miyazawa
- Japanese Deputy Vice Minister of Foreign Affairs, Kitamura
- Japanese Foreign Minister, Tadashi Kuranari
- Japanese Minister of Agriculture, Mutsuki Kato
- Japanese Minister of International Trade and Industry, Hajime Tamura
- Members of the Japanese External Trade Organization (JETRO)
- Japanese Prime Minister Yasuhiro Nakasone
- Members of the Keidanren
- Members of the Osaka Business Community
- Governor of Osaka Province, Sakae Kishi

° During the Governor's trip to Europe in April, he met with the following individuals to solicit their support for increased trade and investment opportunities in California and to reduce roadblocks to California exports:

- British Prime Minister, Margaret Thatcher
- The Lord Mayor of London, Sir David Roe-Ham
- British Minister of State, Baroness Janet Young
- British Foreign Secretary, Sir Geoffrey Howe
- British Minister of Trade, Paul Channon
- U.S. Ambassador to Britain, Charles Price
- The Confederation of British Industries
- The London Chamber of Commerce
- U.S. Ambassador to the European Community, Al Kingon
- European Director General of Agriculture, Guy Legras
- Chief of Staff to the Vice President of the Commission of the European Communities, Carlo Trojan
- European Community Minister of External Affairs, Willie de Clerc
- U.S. Ambassador to Belgium, Geoffrey Swaebe
- U.S. Ambassador to France, Joe Rogers
- French Deputy Minister of Trade, Francois David
- French Budget Minister Alain Juppe

AGRICULTURAL EXPORT INCENTIVE PROGRAM
TESTIMONY BY
GEORGE W. URDA, CHIEF EXECUTIVE OFFICER
FOR THE
COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION
AND ECONOMY

PROGRESS TO DATE:

The response from industry has been overwhelming. For fiscal year 1985/86 and 1986/87, there were 160 applications for

approximately \$15 million. We have funded export promotional projects totalling over \$14 million, of which the State contribution has been \$6.5 million.

Applications for fiscal year 1987/88 have exceeded 130 and total in excess of \$13 million. These will, therefore, have to be trimmed and a number of applications will need to be denied.

SUCCESS STORIES:

The number of applicants is in itself an indication that one of the prime objectives of the program is being achieved: "To expand the number and scope of California organizations and individuals actively selling and promoting agriculture exports through the matching funds program."

One of the key tools in judging the value of the program is the semi annual and annual progress reports required from each participant. Although the first promotion activities under the program went into effect less than nine months ago, there is clear evidence of solid progress through a number of success stories. I will give only a few examples:

1. Medium size processor of nuts and dried fruit - "Our \$4.4 million export sales increase is a direct result of our participation in the Export Incentive Program"

2. Small, new nut coop: In exporting for the first time -"Generated exports of over \$5 million due to selling and promoting through the Export Program."

3. Canned fruit exporter - "Sales 42% over last year; generated sales of \$2.3 million on \$50,000 State funds and \$152,000 company funds."

4. Small kiwi processor - "We've been overwhelmed by the interest in our product and the crowds of Japanese buyers."

5. Fresh produce coop - "Spent \$26,000 of State funds, total of \$52,000; gross volume to Europe increased from \$1.5 to \$2.2 million dollars.

6. Small wine exporter to Europe - Generated \$367,000 in new business on \$14,000 matching funds in four California labels. A tremendous success has been in store demonstrations and tastings and have conducted 100 such demonstrations. One supermarket chain sold 60,000 bottles of Zinfandel during a two month drive."

7. Fruit coop - "Sales increased from \$1.9 million in 85/86 to \$3 million in 86/87."

8. Major wine company - "Export shipments have increased by 58% or almost \$2 million dollars. Matching funds are spent only on direct promotional activities, we absorb all travel, manpower, consumer price incentives, and administrative costs... have increased distribution, sold new accounts.... For every dollar of California matching funds spent, \$4 of industry money was spent."

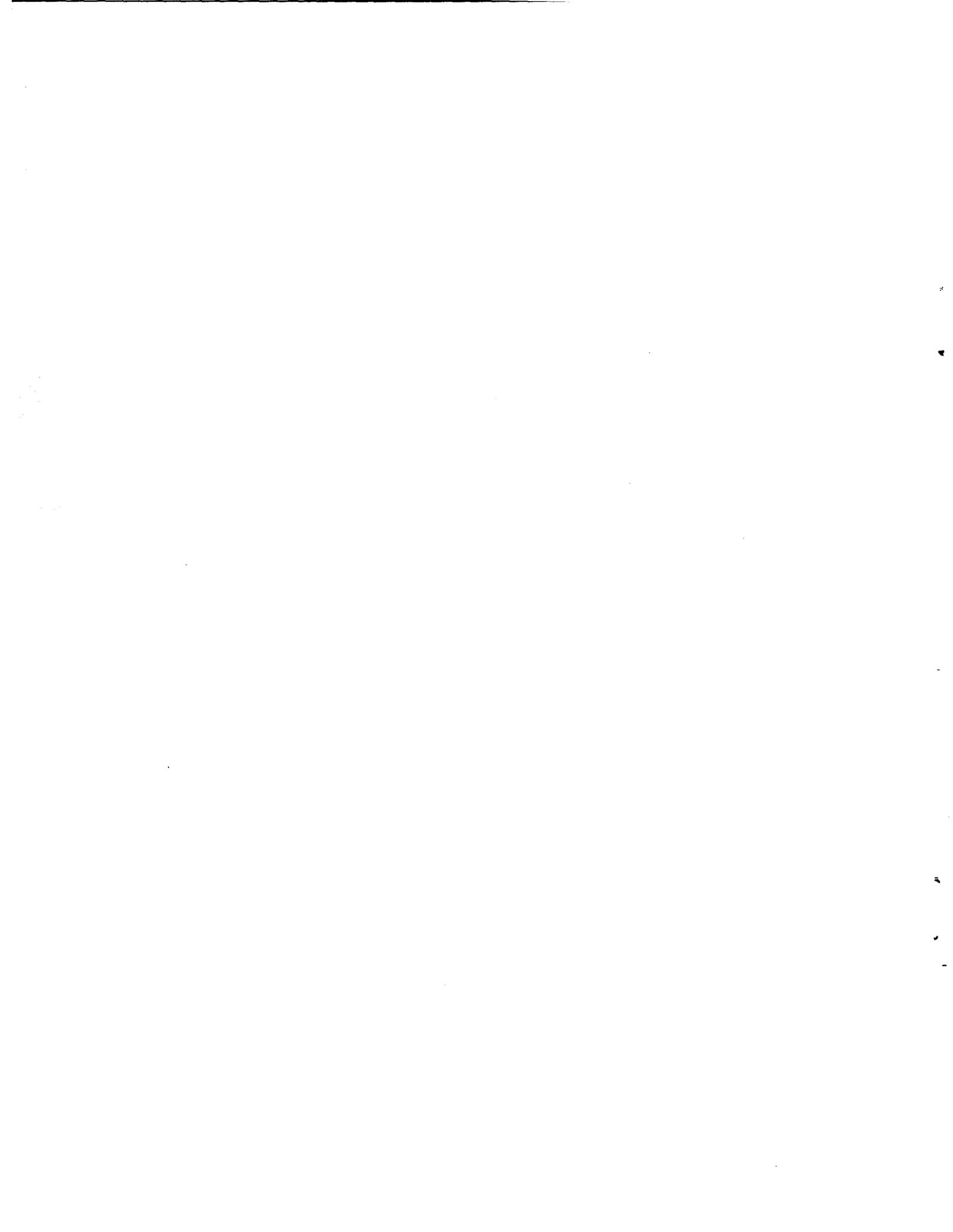
9. Fresh fruit exporter - "Shipments to Japan of California grapes, avocados, melons, pomegranates, kiwi,

cherries, and asparagus increased by 207% or from 116,000 to 356,000 cartons. The State program enabled promotion activities to reach beyond supermarkets into the vast "green grocer" produce markets. The ready acceptance of mass displays was made possible only because of support material made possible by the program."

10. Small winery - "Our sales during the current year have increased very dramatically from very small volume to \$565,000. While we have invested considerably more monies in export programs not covered by cooperator funds, we attribute a major part of our increase to the monies under the California Export Program."

The above represent only a few examples and in fact do not include the tremendous favorable responses from participants in the Golden Bear Pacific Rim mission to the Philippines, Singapore, Hong Kong, Kobe and Tokyo. Typical of comments from the Golden Bear mission are: "We will do double the business in Singapore next year than we do in Japan"; "We've been trying to see the buyer of Hong Kong's leading hotel for two years without success. We not only got to meet him on the Golden Bear, he placed his first order for California wine"; "We made many new distributor contacts on the Golden Bear in Japan, and went out to visit them and placed their first orders".

Many other success stories like the above are on file and are now being compiled into a composite report on the progress of the program.



ANNUAL REPORT TO THE LEGISLATURE

DEPARTMENT OF COMMERCE California Economic Development Program

Office of Business Development (OBD)

As the state's site selection specialists, the Office of Business Development plays a critical role in ensuring that businesses interested in either moving to, or expanding in, California are fully aware of the competitive advantages and that they are exposed to a variety of industrial and commercial locations.

OBD's aggressive outreach program has been accompanied by an impressive increase in new facilities.

From January 1983 through December 1985, nearly 1,300 companies selected California sites for location or expansion -- more than any other state in the nation.

These new facilities represent a private sector investment of approximately \$8.5 billion and will generate more than 100,000 new direct jobs. The new business growth covers virtually every industrial sector, from food processing to aerospace.

A few examples of companies that OBD successfully attracted or retained in California include:

- o ALZA Corporation, a pharmaceutical company headquartered in Santa Clara County. An expansion to Vacaville will employ an estimated 200 in a 117,000 sq. ft. manufacturing facility.
- o United Technology, Chemical Services Division. The company is planning to construct a solid rocket fuel and rocket motor plant on 13,000 acres in Merced. Initial employment would be 600, increasing to 2,000 in a few years.
- o Chico-San, the rice-cake subsidiary of H.J. Heinz. The company expanded in Butte County with a new 56,000 sq. ft. facility creating 80 job.
- o Imperial Cup, a manufacturer of paper containers. The firm located a facility in Tulare County. The plant will employ 250 people.
- o Toshiba America, a telecommunication equipment manufacturer. The company will employ an estimated 1,000 people at a new 500,000 sq. ft. facility in Orange County.

- o Western Diversified located a 50,000 sq. ft. plant in Sacramento. The Minnesota-based plastic extrusion firm will employ 50 people initially.
- o Anheuser Busch/Eagle Snack Division located a 306,000 sq. ft. manufacturing plant in Tulare. The company expects to create 400 new jobs.

(For a complete list of industrial expansions and locations since 1983, see Exhibit A).

The Department recognizes its role in assuring that California's basic industries continue to feel welcome.

California is the birthplace of the electronics industry, the information revolution, the entertainment industry and the aerospace industry. We also nurture technologies of the future such as biotechnology and robotics.

However, this impressive track record alone is not enough to repel the onslaught of industrially hungry raiding parties from other states -- particularly those from the fast-growing sunbelt. The effort to keep California's basic industries within its borders and to promote further investment in the state is a daily challenge.

OBD has implemented a program aimed at sharpening our competitive skills. New field offices have been opened in the major markets of San Jose and Los Angeles. These satellite branches of OBD focus their efforts on working with in-state firms.

Field office specialists regularly visit area employers to introduce companies to Department of Commerce services and to determine whether any expansion plans are contemplated.

The staff works closely with interested firms to provide assistance in site location, financing, the permit process, and labor training to increase the likelihood that the plant expansion will be in California.

OBD assisted in the development of the advertising and public relations plan to promote new business investment (see Marketing Campaign - Business). And, one of office's top priorities in its business relations program is attendance at selected industry trade shows which provide exposure to key executives who may be planning new facilities.

OBD staffers have attended industry events relating to renewable energy technology, biotechnology research and development facilities, and food processing. And, the office is actively involved with the Industrial Development Research Council (IDRC). OBD played a major role in IDRC's World Congress in San Diego -- a conference attended by many of the nation's leading site selection executives.

In the international arena, California has expanded its efforts with impressive results. During 1984, California attracted more than 17 percent (\$3.8 billion) of new foreign investment flowing into the United States. That compares with \$1.1 billion for New York and \$2.2 billion for Texas. Foreign investment holdings in California -- amounting to \$25 billion in 1982 -- have increased at the rate of \$5 billion annually in recent years.

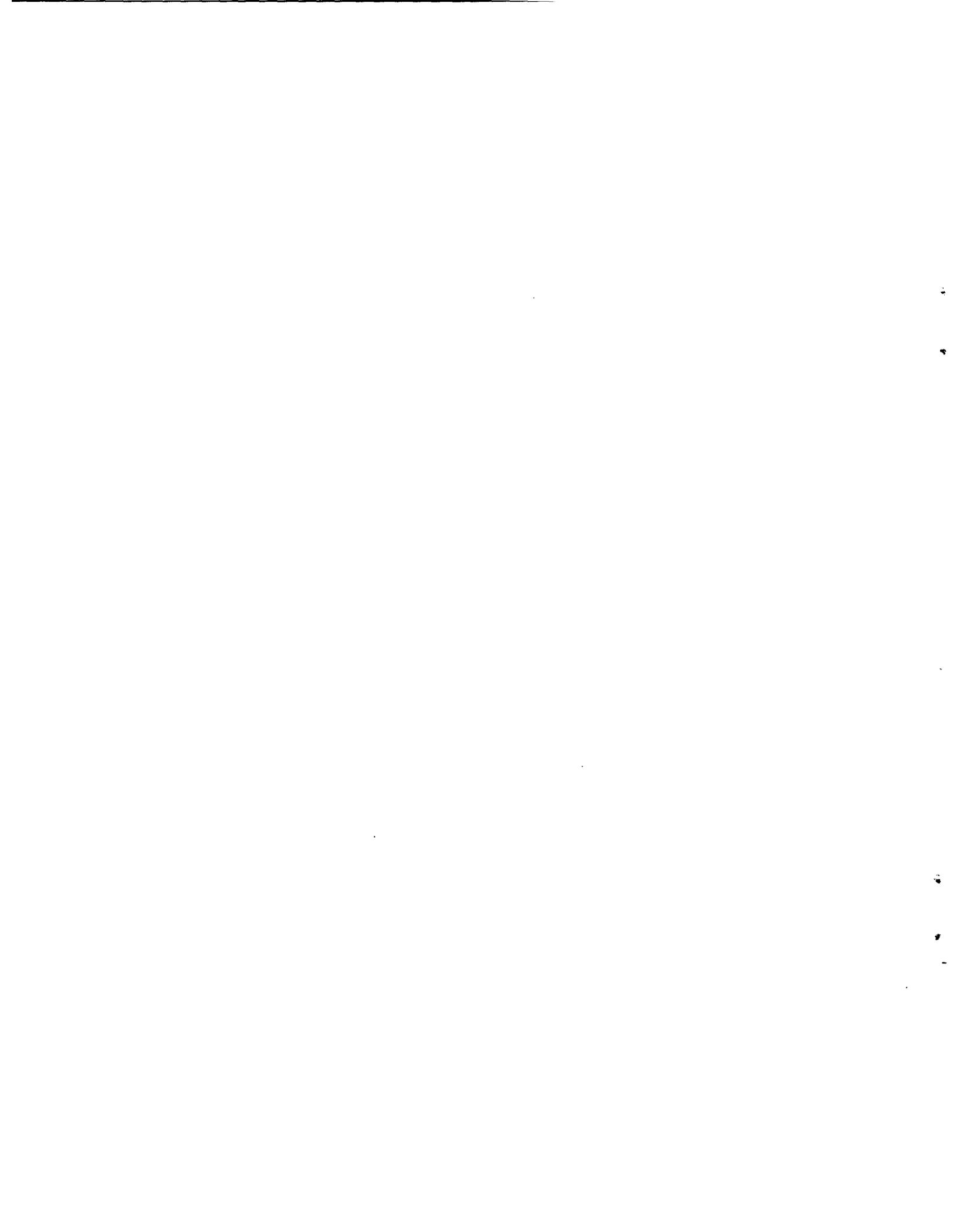
A few examples of our successful foreign investment attraction efforts include:

- o Nihon Radiator, a manufacturer of auto air conditioning units, which located a 200,000 sq. ft. plant in Orange County creating 158 new jobs. It was a \$6.5 million investment.
- o Mitsubishi Chemical, a \$14 million investment in San Bernardino County that will generate 250 new jobs. It is a 147,000 sq. ft. facility.
- o Hysol-Grafil which selected Sacramento for an \$8 million investment generating approximately 60 new jobs.
- o Fujitsu Microelectronics which invested \$18 million in a semiconductor facility in San Diego with employment estimated at 300.

Recognizing the continued potential for investment from Japan, OBD arranged cooperative agreements with 15 Japanese banking institutions. These nonbinding accords have provided California with an excellent source of information on Japanese firms planning to invest in this country.

This type of early alert system allows our staff to begin promoting a California location at an early stage of company planning. It increases the probability that California will be viewed as an attractive and cost-competitive location for the facility.

The cooperative agreements are an important element in Office of Business Development efforts to heighten awareness of California's role in the Pacific Basin trade region.



Appendix H

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