



# Trade Makes California Strong

California gains from global trade. Export growth increases jobs by advancing California’s manufacturers, services providers and farmers. Imports keep costs low, helping California businesses compete and saving California families real dollars at the cash register. Foreign investment in California creates good jobs across a range of sectors.

## TRADE CREATES JOBS FOR CALIFORNIANS

Trade with the world – both exports and imports of goods and services – creates jobs in California.

- Today, **3.7 million jobs** in California are supported by trade.
- **Trade supports 18.7 percent of jobs** in California, up from 10.6 percent in 1992.

<i>California’s Three Most Export-Intensive Industries</i>	
<u>Industry</u>	<u>% Export-Related</u>
Computers & Electronics	39.0%
Machinery	35.8
Electrical Equipment	33.8

California’s position as a **global gateway**, particularly to Asia, supports one in seven California jobs for thousands who move, sort, repackage and transport goods coming through the ports.

- **California ports** handle 31 percent of the nation’s ocean trade (exports and imports), 22 percent of its trade through airports, and five percent of trade passing through land ports.

Trade particularly benefits employees at California’s small- and mid-size companies.

- In 2004, 55,863 exporters – **94.8 percent** – of California’s exporting companies were small- or mid-sized companies.
- **Jobs in exporting plants pay on average up to 18 percent more** than similar jobs in non-exporting plants.

### TEN WAYS TRADE MAKES CALIFORNIA STRONG

Trade supports nearly one in five California jobs.

California’s exports have increased twice as fast as its GDP.

Jobs at exporting plants pay 18% more than at non-exporting plants.

7% of California’s GDP was from exports in 2005.

Foreign-owned companies employ more than 500,000 workers in California.

Foreign-owned firms pay workers 32% more.

Half of imports are raw materials and other items needed for manufacturing.

Marketing imports demands services which account for 22% of California’s GDP.

Import prices grow much slower than overall consumer prices, saving money for California consumers.

NAFTA worked for California. Since 1994, exports to Canada and Mexico have increased by \$18 billion.

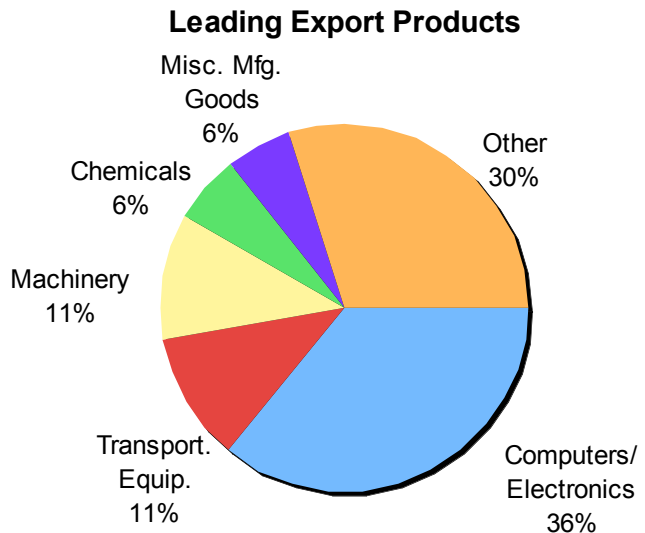
## CALIFORNIA'S FARMERS, INDUSTRIES & SMALL BUSINESSES GROW WITH EXPORTS

California is a **major exporter of agricultural products**, accounting for more than 16 percent of all U.S. agricultural exports in 2005. Leading markets are the European Union, Canada, Japan, Mexico and China.

- The state is a leading exporter of vegetables and preparations, fruits and preparations, tree nuts, dairy products, planting seeds and wine.

According to the U.S. Department of Commerce, California ranked second in the United States with **total exports** valued at **\$116.8 billion** in 2005.

- **Computers & electronic products** were California's leading export products in 2005 accounting for **36 percent** of total exports.
- One of the fastest growing exports for California is **transportation equipment**, up at an average annual rate of 14.4 percent since 2001.
- In 2005, California companies sold their products in **over 220 foreign markets**.
- The top export market is **Mexico** (\$17.7 billion). Other leading markets include **Japan** (\$13.5 billion) and **Canada** (\$13.2 billion).
- **China** is one of California's fastest growing trading partners. In 2005, California companies exported **\$7.9 billion** worth of goods to China, an increase of 121 percent since 2000.
- In 2005, exports represented approximately **7.2 percent of California's GDP**.
- Since 2002, exports have increased **two times faster** than state GDP.



**Services exports are also important** to California, including port services, education of foreign students at state colleges and universities, and spending by foreign visitors to California.

- For example, as a result of a 2005 trade mission to China led by Governor Schwarzenegger, Air China expanded its maintenance agreement with the maintenance division of United Airlines, creating new jobs overhauling Boeing 747 and 777 engines for Air China in San Francisco.

## CALIFORNIA WORKERS & BUSINESSES BENEFIT FROM FOREIGN INVESTMENT

Foreign-owned companies invest significant amounts of capital to open or expand facilities in California every year, infusing money into the local economy and keeping unemployment low.

- These companies employ **nearly 550,000 workers**, about four percent of all California employees.
- California **ranks 1<sup>st</sup>** in the nation in “insourced” workers.
- **Manufacturing** accounts for **126,100 insourced jobs**, representing eight percent of all manufacturing jobs in California.
- U.S. subsidiaries of **foreign companies pay** an average compensation of \$63,428 per year, **32 percent higher** than U.S. companies.

*After its CEO saw a billboard of the Governor with the tagline “Arnold Says: California Wants Your Business,” Famima, a chain of high-end convenience stores looking to expand in the U.S., decided to open its first outlet in Los Angeles. In a letter to the Jobs Commission, the president and CEO of Famima said:*

*“The long anticipated launch is attributed to the inspiration which we obtained from the Governor’s [2004] trip to Tokyo, promoting California as a business friendly state.”*

*Five more stores have opened since, and Famima plans to open 200 more in California in the next five years. Famima’s expansion into the state could create 4,000 jobs.*

### Selected Multinational Corporations with Operations in California

<u>Company</u>	<u>Industry</u>	<u>Country</u>
Alcatel	Communications	France
BAE Systems North America	Aerospace/Defense	United Kingdom
Barclays	Financial Services	United Kingdom
BASF	Chemicals	Germany
EADS North America	Aerospace	Netherlands
GlaxoSmithKline	Pharmaceuticals	United Kingdom
Nestle USA, Inc	Food Products	Switzerland
Panasonic	Electronics	Japan
Philips	Electronics	Netherlands
SAP	Software and Services	Germany
Sony Electronics	Electronics	Japan
Toyota Motor North America	Automobiles & Parts	Japan

## CALIFORNIA MANUFACTURERS NEED IMPORTS TO BE COMPETITIVE

Raw materials, capital goods and industrial products used to manufacture goods in the United States account for approximately half of total U.S. merchandise imports.

- Numerous California manufacturing sectors benefit from imports in some way.
- Local computer and electronics companies use imported parts and components to keep costs low.
- California steel manufacturers use imported slab to produce steel products for the domestic market.

### *Capital Goods Imports Benefiting California's Manufacturers*

<u>Product</u>	<u>Price Change, 1996-2005</u>
<b>All Capital Goods</b>	<b>-23.4%</b>
Electric Generators and Parts	-6.4%
Non-Electrical Machinery, (excl. Computers)	-9.4%
Business Machinery (excl. Computers)	-12.4%
Computers	-50.2%

## CALIFORNIA'S SERVICES INDUSTRIES BENEFIT FROM IMPORT-DRIVEN DEMAND

Numerous services industries benefit from business generated by imported goods.

- Professional services, including finance, insurance, marketing, and legal services, are needed to market imported products. These industries are vital to California's growth and account for **22.3 percent of state GDP**, more than two times more than manufacturing.
- Imports comprise a significant portion of California **transportation and product sales** (both wholesale and retail). These industries account for 15.0 percent of state GDP.

## CALIFORNIA FAMILIES ENJOY A HIGHER STANDARD OF LIVING BECAUSE OF IMPORTS

Imports help keep prices for California families down while increasing their choices for goods and services.

- Trade helps keep **inflation in check**. Prices for widely traded consumer goods tend to rise less than prices for non-traded goods.
- Trade and investment liberalization policies are worth **over \$10,000 per year** to an average California family of four.
- Between 1990 and 2004, U.S. import prices grew at about a quarter of the rate of growth of overall consumer prices (0.6 percent per year, vs. 2.2 percent per year).

### **Trade and Low Inflation: Price Changes (1997-2004)**

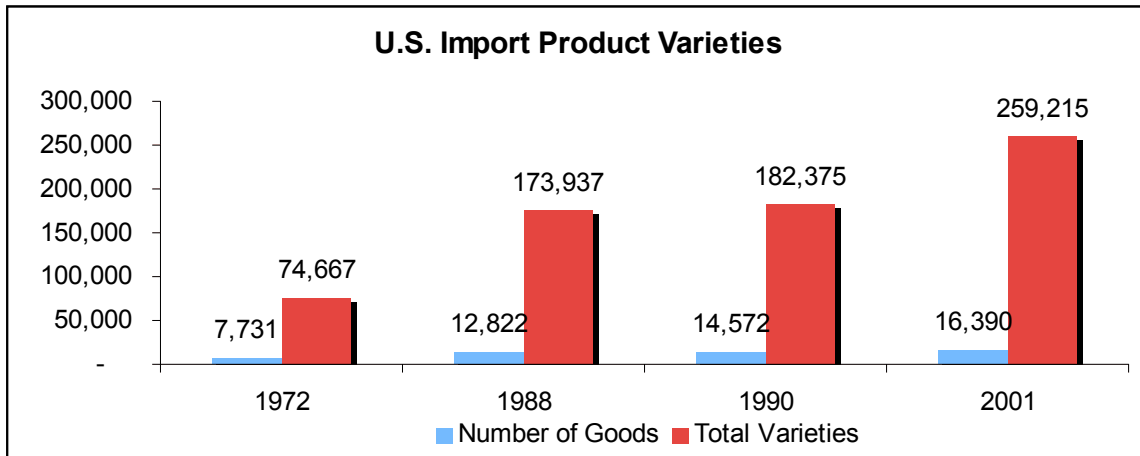
<u>Traded Goods</u>	<u>Price Change</u>
Toys	-36%
Household Appliances	-15%
Clothing	-11%
Footwear	-6%
<b><u>Non-Traded Goods</u></b>	
Milk	24%
Margarine	22%
Ice Cream	17%
Sugar	9%

The lower costs resulting from trade mean **more purchasing power** for California consumers, which is particularly important for lower income families.

- In 2005, 937,000 families in California were at or below the national poverty level (about \$20,000 per year for a family of four).
- Lower income families spend nearly three times as much on footwear and 50 percent more on apparel than upper-income families spend, both goods that are largely traded.

**Consumer choice** increases with trade.

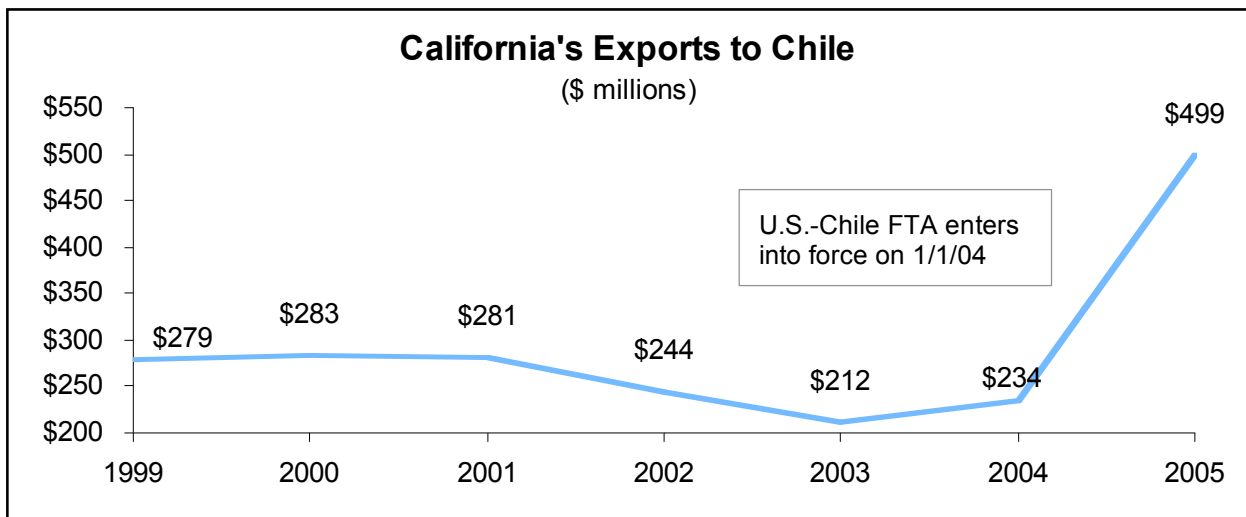
- Trade allows consumers to enjoy products with limited U.S. production (e.g., coffee and silk apparel).
- The number of product varieties imported by the United States increased fourfold over the last three decades.



## MORE OF A GOOD THING FOR CALIFORNIA – LEVELING THE TRADE PLAYING FIELD

The United States has some of the lowest trade barriers in the world. **Free trade agreements level the playing field** by lowering other nations' trade barriers and opening up foreign markets to U.S. exports.

- Since the **North American Free Trade Agreement** went into effect in 1994, California's exports to Canada have increased \$6.2 billion (89 percent), while exports to Mexico have increased \$11.8 billion (198 percent).
- In 2001, a recession year, California's total trade with **Canada** generated \$21.8 billion for California's economy and supported over 626,000 jobs.
- Similarly, the **U.S.-Chile Free Trade Agreement**, which went into effect in 2004, has had a significant effect on export growth from California to Chile.



## SOURCES

### JOBS

Laura Baughman and Joseph Francois (<http://www.businessroundtable.org>)  
U.S. Department of Labor (<http://www.bls.gov/lau/home.htm>)  
U.S. Department of Commerce (<http://ita.doc.gov/td/industry/otea/jobs/index.html>),  
(<http://ita.doc.gov/td/industry/otea/edb/index.html>)

### EXPORTS

U.S. Department of Agriculture  
([www.ers.usda.gov/publications/fau/june06/fau11401/fau11401.pdf](http://www.ers.usda.gov/publications/fau/june06/fau11401/fau11401.pdf))  
U.S. Department of Commerce (<http://tse.export.gov>),  
(<http://ita.doc.gov/td/industry/otea/edb/index.html>), (<http://www.bea.gov/beat/regional/gsp/>)

### FOREIGN INVESTMENT

Organization for International Investment (<http://www.ofii.org>)  
U.S. Department of Commerce  
([http://www.bea.gov/beat/ARTICLES/2006/08August/0806\\_US\\_Affiliates\\_WEB.pdf](http://www.bea.gov/beat/ARTICLES/2006/08August/0806_US_Affiliates_WEB.pdf))

### IMPORTS

U.S. Department of Labor (<http://www.bls.gov/mxp/home.htm>)  
U.S. Department of Commerce (<http://www.bea.gov/beat/regional/gsp/>)

### STANDARD OF LIVING

Council of Economic Advisers (<http://www.gpoaccess.gov/eop/index.html>)  
U.S. Department of Labor (<http://www.bls.gov/cpi/home.htm>),  
(<http://www.bls.gov/cex/home.htm>)  
U.S. Department of Commerce (<http://www.bea.gov/>)  
U.S. Census Bureau (<http://www.census.gov/hhes/www/poverty/poverty.html>)  
Christian Broda and David Weinstein ([http://www.ny.frb.org/research/staff\\_reports/sr180.html](http://www.ny.frb.org/research/staff_reports/sr180.html))

### TRADE LIBERALIZATION

U.S. Department of Commerce (<http://tse.export.gov>)  
Joseph Francois and Laura Baughman  
([http://tradepartnership.com/pdf\\_files/2004\\_Canada\\_Jobs.pdf](http://tradepartnership.com/pdf_files/2004_Canada_Jobs.pdf))

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