

# *Statement on State Foreign Offices*

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Thank you for inviting me. My remarks are based on research conducted at the Public Policy Institute of California, an independent, nonpartisan research institute.<sup>1</sup> PPIC does not take positions on legislation, but provides objective information for decisionmakers as they consider policy issues.

In the role of providing such policy support, I participated in a roundtable discussion of the California International Trade and Investment Act of 2002, proposed by Senator Polanco, in February 2002, and in a roundtable discussion on standards for evaluating the state foreign offices, in April 2002, organized by staff of this committee. I also co-authored a paper on California's global economic relations for the California World Trade Commission in fall 2002.<sup>2</sup> I have discussed trade issues informally with WTC members; Technology, Trade and Commerce Agency staff; and California Assembly and Senate staff.

My comments today focus on research findings regarding state offices and the issues involved with evaluating them. Five appendix tables provide data about state foreign offices based on a proprietary database developed by my colleagues and me.

## **Research Findings on State Offices, Exports, and Foreign Direct Investment<sup>3</sup>**

California state policy, like that of most states, focuses on increasing exports and on attracting foreign companies to set up operations in the state, also known as foreign direct investment (FDI). The state foreign offices are meant to help achieve these goals.

Academic research on state action and exports has focused mostly on overall state promotional efforts rather than just foreign offices. In general, this research has found few significant effects of state action on overall exports, and one recent paper found no relation between foreign offices and state exports. This likely is because most U.S. exports are sold by large companies, and most state programs focus on small and medium-sized enterprises (SMEs). Even if the

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<sup>2</sup> Haveman, Shatz, and Vilchis (2002).

<sup>3</sup> Papers from which the conclusions for exports are drawn include Bernard and Jensen (2001), Coughlin and Cartwright (1987), Simpson and Kujawa (1974), and Wilkinson and Brouthers (2000). Papers from which the conclusions for FDI are drawn include Bobonis and Shatz (2003), Coughlin, Terza, and Arromdee (1991), Coughlin and Segev (2000), Friedman, Gerlowski, and Silberman (1992), Friedman, Fung, Gerlowski, and Silberman (1996), Head, Ries, and Swenson (1999), Shaver (1998), and Woodward (1992). Full citations appear in the list of references. Other papers, not cited, mirror these conclusions.

offices were highly effective, it is doubtful that aggregate export numbers would show large increases.

The results are somewhat different for FDI. Papers throughout the 1990s have produced mixed results, with some finding that state promotional efforts, and foreign offices in at least one case, help attract FDI, and others finding no relation. Most recently, my own research found that the number of years a state had a foreign office in a country was positively related to the level of FDI attracted from that country.

## **Issues Involved in Evaluating State Offices<sup>4</sup>**

Evaluating state foreign offices presents a widespread and ongoing problem that is not unique to California. Referring to investment attraction activities, one study noted, "Who, in the end, should be credited with the new investment? The answer is unknowable, and this inability to separate the respective value of the team members can leave the office open to critics it cannot credibly answer."<sup>5</sup>

Part of the problem is a mismatch of goals and yardsticks. If the offices are tasked with helping SMEs, they probably will not meet a cost-benefit test in any single year. The export transactions are simply too small, although if a firm gains help in exporting one year it may become a successful exporter over the course of many years. If the offices are judged on the dollar value of transactions, they will have no incentive to help SMEs. Rather, they will help large exporters and investors, who could very well pay private consultants for help.

Despite these problems, there are a number of issues that research suggests are important to successful use of overseas offices in international business development programs.

*First*, goals must be clear and yardsticks must match goals. This is largely the task of the legislature.

*Second*, there must be a strong domestic staff to work with the foreign offices, exporters, and investors.

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<sup>4</sup> Conclusions for this section are drawn from Council of State Governments (2000), Kudrle and Kite (1989), McNiven and Cann (1993), Mittelstaedt, Harben, and Ward (2003), Nothdurft (1992), Simpson and Kujawa (1974), and interviews with a number of non-California state foreign trade officials. Other papers, not cited, mirror these conclusions.

<sup>5</sup> McNiven and Cann, p. 175.

*Third*, clients must be carefully chosen. Accepting all comers to the offices is not likely to be effective and could even create problems for a firm by causing it to use scarce resources if it is not export-capable. At least one state clears firms first at home and only then allows them to use state overseas offices.

*Fourth*, public-private partnerships appear most effective. Examples include export finance guarantees, subsidies or soft loans to hire an export consultant, and collaboration with private groups to identify “export-ready” firms and train “export-willing” firms.

*Fifth*, assistance should be carefully tailored to each firm, and sector-specific programs seem to work best.

*Sixth*, evaluation should be ongoing and consistent across all offices. This should involve follow-up with firms assisted and can include the creation of a tracking database. Such a database should include firm characteristics, type of contact, and results. This could be used in parallel with a case management method, in which each company becomes a separate case that is tracked in Sacramento.

*Seventh*, a market test might help, with fees charged for services. This would not only provide valuable evidence of how useful companies find the offices, but it might also make the offices and the agency more responsive to client needs.

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## **Appendix: Supplementary Tables**

These tables present a profile of state foreign offices. They include the following information:

Table 1. State Foreign Offices as of March 31, 2003

*Shows counts by country and state for all states.*

Table 2. Characteristics of State Foreign Offices

*Shows types of global business development that state offices handle and how they are staffed.*

Table 3. Counts of State Foreign Offices, by Year

*Shows evolution of state offices since 1980.*

Table 4. Number of Countries with State Foreign Offices, by Year

*Shows evolution of country coverage since 1980.*

Table 5. Large Markets and California Overseas Offices, 2002

*Shows distribution of California state offices compared to prominent export destinations and large markets.*



**Table 1.**  
**State Foreign Offices as of March 31, 2003**

By Country			By State		
	Number	Share (%)		Number	Share (%)
TOTAL	253	100.0	TOTAL	253	100.0
Mexico	33	13.0	Pennsylvania	20	7.9
Japan	29	11.5	Indiana	14	5.5
Germany	17	6.7	California	12	4.7
Israel	16	6.3	Florida	12	4.7
South Korea	16	6.3	Missouri	12	4.7
China	15	5.9	Georgia	10	4.0
Taiwan	15	5.9	Maryland	10	4.0
United Kingdom	15	5.9	New York	10	4.0
Brazil	14	5.5	Ohio	10	4.0
South Africa	12	4.7	Utah	10	4.0
Canada	11	4.3	Illinois	9	3.6
Chile	10	4.0	New Jersey	9	3.6
Belgium	9	3.6	Connecticut	8	3.2
Singapore	8	3.2	Wisconsin	8	3.2
Argentina	6	2.4	Kansas	7	2.8
Hong Kong	6	2.4	Oklahoma	7	2.8
Australia	2	0.8	North Carolina	6	2.4
India	2	0.8	Oregon	6	2.4
Netherlands	2	0.8	Virginia	6	2.4
Russia	2	0.8	Alaska	5	2.0
Czech Republic	1	0.4	Washington	5	2.0
Egypt	1	0.4	Arizona	4	1.6
France	1	0.4	Arkansas	4	1.6
Ghana	1	0.4	Idaho	4	1.6
Greece	1	0.4	Iowa	4	1.6
Malaysia	1	0.4	Kentucky	4	1.6
Nigeria	1	0.4	Mississippi	4	1.6
Poland	1	0.4	New Mexico	4	1.6
Spain	1	0.4	Tennessee	4	1.6
Sweden	1	0.4	Colorado	3	1.2
Turkey	1	0.4	West Virginia	3	1.2
Venezuela	1	0.4	Alabama	2	0.8
Vietnam	1	0.4	Delaware	2	0.8
			Hawaii	2	0.8
			Massachusetts	2	0.8
			Michigan	2	0.8
			Minnesota	2	0.8
			Montana	2	0.8
			South Carolina	2	0.8
			Louisiana	1	0.4
			South Dakota	1	0.4
			Texas	1	0.4

Note: There are 26 reported shared offices, so the number of unique offices is less than 253.

Source: Diep Le, Eli Miloslavsky, and Howard J. Shatz, "State Foreign Offices Database," developed at PPIC, San Francisco, California, 2003.

**Table 2.**  
**Characteristics of State Foreign Offices**

Function	Number
All FDI	4
Mostly FDI	6
Trade and FDI	129
Mostly Trade	19
All Trade	95
Employment	
State Employee	29
Contractor	224
Full Time	202
Part Time	51

Source: Diep Le, Eli Miloslavsky, and Howard J. Shatz, "State Foreign Offices Database," developed at PPIC, San Francisco, California, 2003.

**Table 3.**  
**Counts of State Foreign Offices, by Year**

1980	28
1981	32
1982	34
1983	45
1984	45
1985	60
1986	68
1987	84
1988	99
1989	108
1990	127
1991	139
1992	139
1993	144
1994	159
1995	166
1996	170
1997	193
1998	221
1999	261
2000	275
2001	279
2002	274
2003	253

Notes: Some of these offices are shared, so the count of unique state offices will be lower. The count for 2003 includes offices open as of the end of the first quarter.

Source: Diep Le, Eli Miloslavsky, and Howard J. Shatz, "State Foreign Offices Database," developed at PPIC, San Francisco, California, 2003.

**Table 4.**  
**Number of Countries with State Foreign Offices, by Year**

1980	9
1981	9
1982	9
1983	10
1984	10
1985	13
1986	12
1987	16
1988	18
1989	18
1990	21
1991	20
1992	20
1993	19
1994	25
1995	25
1996	26
1997	28
1998	31
1999	35
2000	37
2001	36
2002	35
2003	33

Source: Diep Le, Eli Miloslavsky, and Howard J. Shatz, "State Foreign Offices Database," developed at PPIC, San Francisco, California, 2003.

**Table 5.**  
**Large Markets and California Overseas Offices, 2002**  
(countries with a California overseas office are in bold)

Rank	<u>U.S. Exports</u> Country and Value (\$B)		<u>California Exports</u> Country and Value (\$B)		<u>GDP (2001)</u> Country and Value (\$B)	
	All countries	693	All countries	92	All countries	31,121
1	Canada	161	<b>Mexico</b>	<b>16</b>	<b>Japan</b>	<b>4,141</b>
2	<b>Mexico</b>	<b>98</b>	<b>Japan</b>	<b>11</b>	<b>United Kingdom</b>	<b>1,424</b>
3	<b>Japan</b>	<b>51</b>	Canada	10	France	1,310
4	<b>United Kingdom</b>	<b>33</b>	<b>Korea</b>	<b>5</b>	<b>China</b>	<b>1,159</b>
5	<b>Germany</b>	<b>27</b>	<b>China</b>	<b>4</b>	Italy	1,089
6	<b>China</b>	<b>22</b>	<b>United Kingdom</b>	<b>4</b>	Canada	694
7	<b>Korea</b>	<b>23</b>	<b>Taiwan</b>	<b>5</b>	<b>Mexico</b>	<b>618</b>
8	Netherlands	18	<b>Hong Kong</b>	<b>4</b>	Spain	582
9	France	19	<b>Germany</b>	<b>3</b>	Brazil	503
10	<b>Singapore</b>	<b>16</b>	Netherlands	4	India	477
11	<b>Taiwan</b>	<b>18</b>	<b>Singapore</b>	<b>3</b>	Korea	422
12	Belgium	13	France	2	Netherlands	380
13	Hong Kong	13	Australia	2	Australia	369
14	Australia	13	Malaysia	2	Russia	310
15	Brazil	12	Belgium	1	<b>Taiwan</b>	<b>288</b>
16	Italy	10	Italy	1	<b>Argentina</b>	<b>269</b>
17	Malaysia	10	Thailand	1	Switzerland	247
18	Philippines	7	Ireland	1	Belgium	230
19	Switzerland	8	Philippines	1	Sweden	210
20	<b>Israel</b>	<b>7</b>	India	1	Austria	189

Notes: GDP stands for Gross Domestic Product, a measure of all goods and services produced. GDP figure for Taiwan is Gross National Product (GNP), a slightly different measure. Some California offices are meant to cover more territory than only the country in which they are located. California also has an office in South Africa (the largest market in Africa in terms of U.S. exports, California exports, and GDP) and an approved although not-yet-opened office in Armenia.

Sources: For export figures, Massachusetts Institute for Social and Economic Research; for GDP figures, World Bank; for Taiwan GNP figure, Economic Development, Taiwan, Republic of China, 2002, Council for Economic Planning and Development, Taipei; and for California State Office locations, California Technology, Trade and Commerce Agency.



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