

# **California and the World Economy: Exports, Foreign Direct Investment and U.S. Trade Policy**

## **Appendix: Country Reports**

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## Introduction

Sixteen countries account for just under 86 percent of total California exports. Each one of these countries differs greatly in terms of market size, growth rates, and per capita income. Understanding California's economic relationships with these countries can help policymakers identify future opportunities or potential sources of difficulty. This appendix presents profiles for each of California's top 16 exports markets, Switzerland, the countries of the Asia Pacific Economic Cooperation forum (APEC), and the European Union (EU).<sup>1</sup> These profiles provide an overview of the economic performance of each country or region as well as challenges it faces. They also contain a review of California trade and foreign direct investment patterns with each country or region, trade barriers, and membership in trade agreements. The descriptions of trade barriers are drawn largely from official U.S. documents and may not reflect the views of the particular country in question.

Country profiles are presented in order of export ranking according to the following table. Individual country profiles are then followed by profiles for APEC and the EU. A description of data sources appears at the end.

California's Top Export Destinations and Sources of FDI				
Country	Exports in 2001		FDI in 1999	
	Level (Billions)	Rank	Employment (Thousands)	Rank
Mexico	16.3	1	7.5	15
Japan	14.6	2	151.3	1
Canada	11.8	3	63.7	4
Taiwan	5.7	4	8.1	13
United Kingdom	5.6	5	93.0	2
Republic of Korea	5.0	6	7.7	14
China	4.7	7	0.6	28
Germany	4.7	8	67.1	3
Netherlands	4.3	9	36.4	7
Singapore	4.2	10	3.0	19
Hong Kong	3.9	11	5.4	17
Malaysia	2.6	12	0.5	29
France	2.2	13	47.0	6
Australia	2.1	14	12.8	9
Philippines	2.0	15	0.5	29
Thailand	1.8	16	--	--
Switzerland	0.8	21	53.8	5
<b>Total All Countries</b>	<b>106.8</b>		<b>638.8</b>	

Notes: FDI employment for Mexico is an estimate. The actual figure ranges between 5,000 and 9,999, and so Mexico's rank could range between 11 and 17. Employment in 1998 was 6,500. Malaysia and Philippines are tied at a rank of 29 with Netherlands Antilles and Indonesia.

<sup>1</sup> Although Switzerland does not figure among California's top 20 exports markets, it is a key source of foreign direct investment. Also, we include Thailand as a sixteenth export market because it has occupied the number 15 slot on many occasions.

## Mexico

Mexico: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	2001	August Year-to-Date 2001-2002	Employees* 1999
617.8	16.3	-3.3	7,500

\*Employment is estimated. Actual employment ranges between 5,000 and 9,999.

### Economic Performance

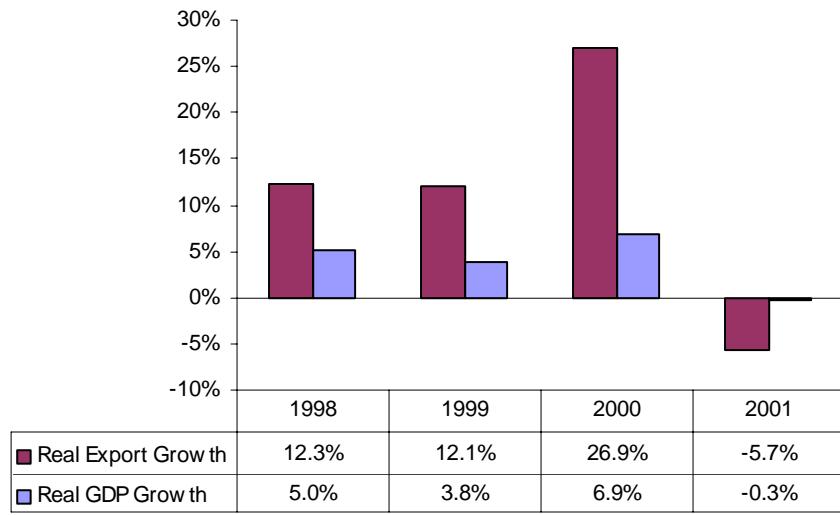
During the 1960s and 1970s, Mexico, like many other Latin American countries, enforced import substitution policies as part of its economic development plan. In the mid-1980s, Mexico started to shift away from import substitution and began an export-oriented economic liberalization program. Today, Mexico is one of the most avid supporters of free trade, with more than 90 percent of its trade covered under free trade agreements.

In 1995, after a period of dramatic economic growth, Mexico experienced its worst recession in over half a century, with real GDP declining nearly 6.2 percent. The 1995 crisis, stemming largely from exchange rate and balance-of-payments issues, was short-lived, and Mexico began a relatively quick and impressive recovery. From 1995 to 2000, real GDP has grown approximately 30 percent. Despite this significant increase in output, Mexico still faces a myriad of socio-economic concerns, including low real wages, underemployment for a large segment of the population, an inequitable distribution of income, and limited advancement opportunities for the mostly indigenous population in the impoverished southern states. Additionally, Mexico's dependence on maquiladoras – plants that assemble goods for export, mostly to the United States – could be detrimental to Mexico's short-term economic prospects, as it is expected that the U.S. economic downturn and the exit of manufacturing plants to lower-cost Asian locations will affect export performance.<sup>2</sup> This expectation has driven Mexico's efforts to increase trade with other regions.

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<sup>2</sup> In the northern state of Baja California Norte for example, a quarter of high-technology maquiladoras have shut down operations and one third of the remaining factories are running below their capacity. The result has been a loss of approximately 75,000 jobs in that state since 2000. More recent anecdotal evidence indicates that this trend may have halted or reversed.

## Real GDP and California Export Growth Rates

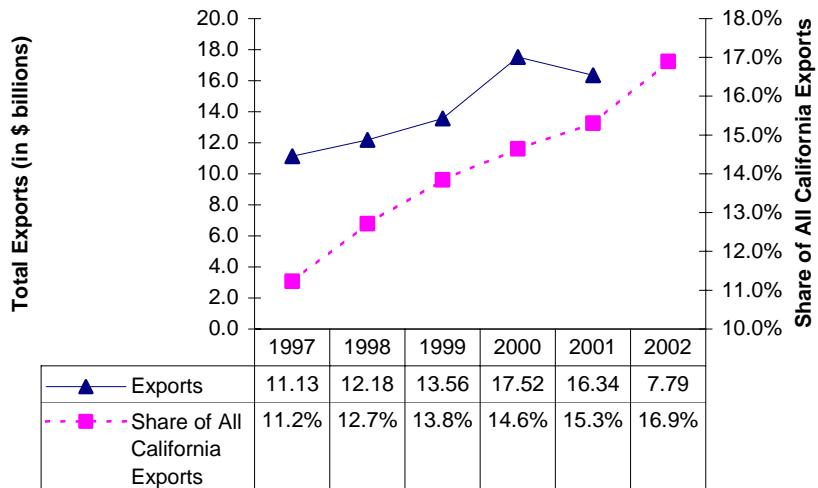


### California Exports to Mexico

California exports to Mexico have grown steadily since 1993. Only in 1995, as a result of the peso crisis, did exports to Mexico actually decline. However, following Mexico's economic recovery, California exports to Mexico grew an average of 10.1 percent per year from 1997-2001. That is the second-fastest growth rate for that period among California's top 15 export destinations. This high growth, which may stem in part from the signing of the North American Free Trade Agreement (NAFTA), has propelled Mexico ahead of Canada and Japan into the number one spot as a destination for California exports. Mexico's share of California exports has almost doubled from 8 percent in 1990 to 15 percent in 2001. In 2001, California's exports to Mexico amounted to nearly \$16.3 billion – a 6.7 percent decline in nominal terms from the year before. August 2002 figures show exports to be approximately \$10.7 billion – down almost 3.3 percent compared to August 2001 figures. Despite these declines, Mexico remains a promising market for California exports.

Industry	2001			Average Annual Growth Rate (%)		
	(Millions of Dollars)	Share (%)	Actual 1997-2001	Projected		
			2001-05	2005-10		
Total California Exports to Mexico	16,343	100.0	10.1	5.4	5.3	
Computer and Electronic Products	6,800	41.6	10.4	5.9	5.4	
Machinery, Except Electrical	1,352	8.3	14.3	6.1	5.6	
Food and Kindred Products	807	4.9	18.8	3.3	2.8	
Fabricated Metal Products	784	4.8	15.2	6.1	6.5	
Plastic and Rubber Products	762	4.7	9.1	5.5	6.1	
Top Five Products Aggregated	10,505	64.3	11.7	5.7	5.4	

### California Exports to Mexico: 1997- 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Mexican Direct Investment in California

Mexican-owned firms in California employed between 5,000 and 9,999 workers in 1999, between 0.8 percent and 1.6 percent of all workers in foreign firms. Because Mexican firms employed 6,500 in 1998 and since Mexican investment into the United States rose in 1999, the likely 1999 number is well above 6,500. Employment in Mexican-owned firms measured 3,700 in 1990, so it may well have doubled since then. Using a mid-point estimate of 7,500, Mexico is the fifteenth-largest direct investor in California businesses, down from tenth in 1996. Using the same estimate, about 22 percent of all workers in Mexican-owned firms in the United States work in California. This is about the same proportion as for Mexican-owned property, plant, and equipment (PPE).

Unfortunately, no industry breakdown of Mexican direct investment is available. However, in the United States as a whole, 68 percent of all employment in Mexican-owned firms is in manufacturing (compared to 44 percent for all investors) and about 60 percent of the manufacturing employment is in the food industry. This means that about 42 percent of all workers in Mexican-owned companies work in the food industry. Other large sectors are wholesale trade (19 percent of all employment) and primary and fabricated metals (18 percent of employment).

Given trends in Mexican investment in the United States, employment in Mexican-owned firms in California may well have risen to more than 25,000 in 2001. The direct investment position of Mexico in the United States jumped from \$2.0 billion in 1999 to \$7.8 billion in 2000 but fell slightly to \$7.4 billion in 2001.

### Barriers to U.S. Exports

There are very few formal barriers to U.S. exports in Mexico. The signing of the North American Free Trade Agreement immediately eliminated many tariffs, with others being phased out over periods of five to 15 years. NAFTA also imposed strict rules on non-tariff barriers and eliminated all non-tariff measures affecting agricultural trade. There are, however, some U.S. products (such as pork, beef, apples, gasoline additives, and unfinished steel tubes) for which access to the Mexican market is difficult

because of anti-dumping measures or countervailing duties. In addition, with the expected elimination of import tariffs and quotas on a number of agricultural products in 2003, there is some fear that Mexican producers will pressure the government to institute non-tariff barriers. Several restrictive laws have been proposed or passed by the Mexican congress.

Regarding other trade barriers, there are reports that Mexico's revised health law regulations effectively impede U.S. exports of certain medicines and pharmaceuticals. Additionally, U.S. exporters have complained that standards regarding product certification tend to be more strictly enforced for imports than for domestically produced products. Other non-tariff barriers have affected exporters of textile products by reducing the number of ports-of-entry through which some of their products can enter into Mexico. Also, there have been increased certification costs for many other products.<sup>3</sup>

### **Trade Agreements**

NAFTA is perceived to be the hallmark of Mexico's trade liberalization policies. However, in an attempt to diversify its markets and lessen its dependence on the U.S. market, Mexico has embarked on negotiations for multiple bilateral and multilateral trade agreements. Negotiations with the European Union concluded in 2000 with the signing of a free trade agreement similar to NAFTA in its coverage. Also, in an effort to further extend its access to European Markets, Mexico is negotiating a free trade agreement with the European Free Trade Association (Norway, Switzerland, Iceland, and Liechtenstein). Mexico also has trade agreements with Israel, the Central American "Northern Triangle" (Guatemala, El Salvador, and Honduras), Chile, Costa Rica, Bolivia, Colombia and Venezuela, and Nicaragua. In 1999, Mexico renewed a bilateral preference agreement with Uruguay and began the process for a similar agreement with Brazil. Mexico is currently participating in negotiations to create the Free Trade Area of the Americas and is pursuing further trade liberalization through its membership in APEC. In addition, Mexico continues to push Japan to begin negotiations on a trade agreement, and many of the agreements it has signed or is negotiating with South American countries are seen as a stepping stone to an eventual free trade agreement with Mercosur (Argentina, Brazil, Paraguay, and Uruguay).

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<sup>3</sup> Ironically, this increase in certification costs is the result of new procedures that were designed to reduce the cost of exports to Mexico by eliminating redundant testing and certification.

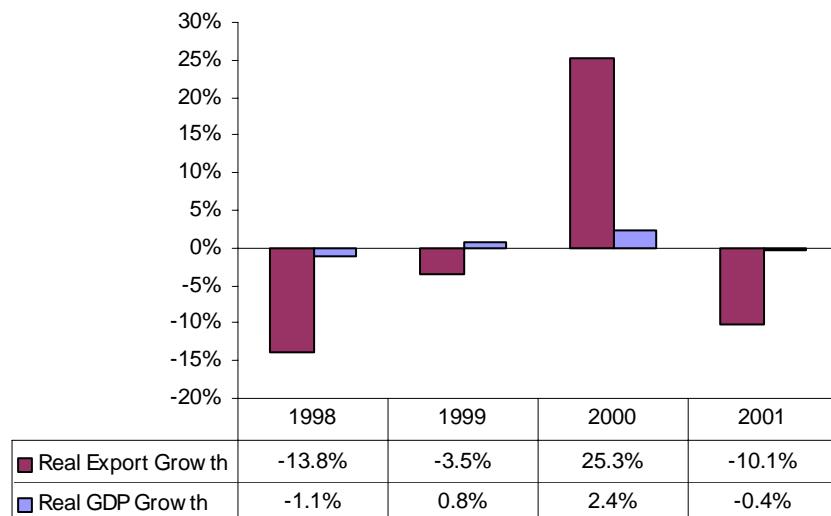
## Japan

Japan: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	August Year-to-Date 2001-2002	Employees 1999	
4,245.2	14.6	-27.3	151,300

### Economic Performance

Japan's gross domestic product of \$4.2 trillion dollars in 2001 is second only to that of the United States. In 1991, the high-flying Japanese economy of the 1980s came to a landing with the collapse of an asset-price bubble. The high growth experienced during the 1980s gave way to a "lost decade" of extremely low growth that culminated in a severe recession in 1997 - 1998.<sup>4</sup> In response to its economic woes, Japan implemented a zero interest rate policy and started a structural reform of its banking system, among other measures. The consequences of these policies will not be known for many years. In the meantime, signs of an economic recovery are beginning to appear. In 2000, GDP per capita climbed to \$38,162 following a steep decline from \$42,186 to \$31,173 between 1995 and 1998.

### Real GDP and California Export Growth Rates



### California Exports to Japan

Japan is California's second-largest export destination. In 2001, \$14.6 billion worth of California merchandise exports departed for Japanese ports. Despite this large figure, exports to Japan have been declining relative to exports to other countries. The -2.4 percent average annual growth rate of exports to Japan for the 1997-2001 period is the fourth lowest among California's top 15 export destinations.<sup>5</sup> As a

<sup>4</sup> Bank of Japan (2002).

<sup>5</sup> During the 1990-1996 period, California exports to Japan grew an average of 10.9 percent per year.

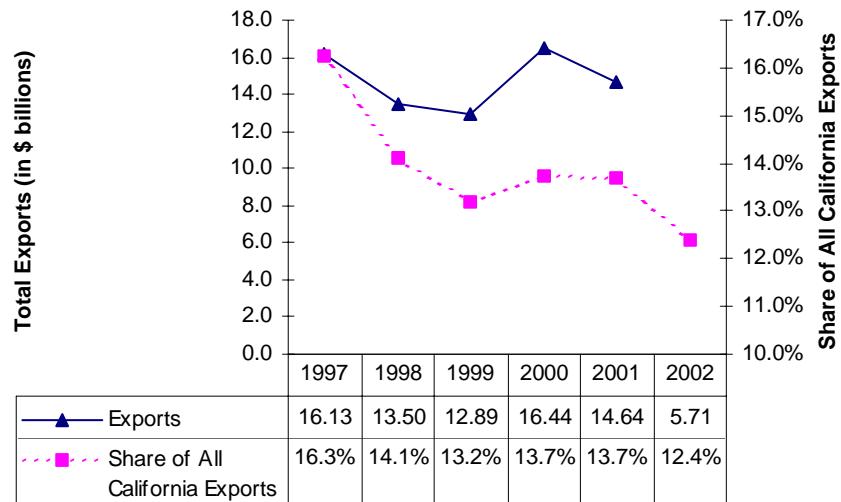
consequence, Japan's share of total California exports dropped from 17.6 percent in 1990 to 13.7 percent in 2001. In 1999, Japan relinquished its long-held spot as California's top export destination to Mexico. This relative drop can be explained partly by Japan's severe recession during 1997 and 1998. From 1997 through 1999, California exports to Japan declined more than 20 percent. And although exports to Japan experienced a dramatic 27.5 percent increase (in nominal terms) during 2000, they declined 11 percent in 2001 and a whopping 27.3 percent during the first eight months of 2002. Despite its relative decline in overall ranking, Japan continues to be the number one destination for several categories of California's exports, including chemicals, fish products, leather and allied products, and machinery.

The following table lists the top California exports to Japan by industry. Computer and electronic products and transportation equipment continue to dominate despite significant declines since 1997.

#### **Top California Exports to Japan**

Industry	2001 (Millions of Dollars)	Share %	Average Annual Growth Rate (%)		
			Actual 1997-2001	Projected 2001-05	Projected 2005-10
Total California Exports to Japan	14,635	100.0	-2.4	4.5	4.8
Computer and Electronic Products	5,327	36.4	-4.0	5.7	5.2
Transportation Equipment	1,874	12.8	-5.2	5.4	5.2
Machinery, Except Electrical	1,779	12.2	0.4	5.5	5.2
Food and Kindred Products	973	6.6	2.5	2.4	2.3
Chemicals	754	5.2	4.6	4.4	4.4
Top Five Industries Aggregated	10,707	73.2	-2.5	5.2	4.9

### California Exports to Japan: 1997- 2002 \*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Japanese Direct Investment in California

With few exceptions, Japanese-owned firms have been the top foreign employers in California at least since the late 1970s, and most recent data indicate that Japanese multinationals remain California's top investors. In 1999, they employed 151,300 workers, of which 61,500 were manufacturing workers. Nearly 23.7 percent of all California workers employed in foreign-owned companies were employed in Japanese-owned companies, and the share for manufacturing workers was 30.9 percent. Japanese affiliates appear to be more capital-intensive than other affiliates; the share of foreign-owned PPE in California that was owned by Japanese companies was 28.4 percent in 1999.

Since 1977, Japanese affiliates have been the top foreign employers in the state every year except six – 1979 through 1982, and 1988 and 1989. Since 1987, when data on commercial property ownership first started being recorded, Japanese affiliates have been the top foreign owners of commercial property in California. In fact, through the entire 1990s, Japanese firms had more employees and manufacturing employees and owned more PPE than investors from any other country.

Based on the value of PPE, Japanese companies are particularly strong in the computers and electronic products industry, transportation equipment, wholesale trade – especially of motor vehicles and parts – and real estate. In 1999, nearly two-thirds of all foreign-owned PPE in California in both computers and electronic products and wholesale trade was owned by Japanese-owned firms.

Given overall Japanese investment trends in the United States, we estimate only limited changes in Japanese investment in California, with 156,000 workers in Japanese-owned firms in 2001.

### Barriers to Trade

Despite its importance as a destination for California exports, Japan remains relatively closed to foreign trade. In 2001, foreign trade (i.e., merchandise exports plus imports) as a percentage of GDP was approximately 16 percent. This figure is low compared to Germany (57 percent) or even China (42.4 percent). The difference can be attributed to the existence of official and unofficial non-tariff barriers to

trade (NTBs). These NTBs range from outright bans on many agricultural products to slow and burdensome customs procedures. Discriminatory standards, and exclusionary business practices, such as not allowing U.S.-flag vessels to handle their own cargos, continue to restrict flows of goods from California to Japan. The recent reductions in formal tariff rates on most imports achieved by the Uruguay Round, coupled with reductions on other formal trade restrictions, have not ensured complete access to the Japanese market for U.S. exporters.<sup>6</sup> Although Japan is the second-largest export market for California's agricultural exports, agricultural tariffs on products such as beef, oranges, and processed foods range from 10 percent to 40 percent. Agricultural exports into Japan are further restricted by the presence of what some consider unnecessary and burdensome plant quarantine measures, fumigation requirements for pests already existent in Japan, and the failure to accept alternatives to methyl bromide fumigation for control of pests. There is also some concern that Japan's decision to enforce the labeling of 24 whole and semi-processed foods made from genetically modified corn and soybean may further restrict access to the Japanese market.

### **Trade Agreements**

Japan is currently working towards agreements aimed at significantly reducing trade barriers. It has recently entered into nearly three dozen sectoral trade agreements with the United States covering telecommunications, medical equipment, pharmaceuticals, and energy.<sup>7</sup> Also Japan's membership in APEC will help open the Japanese markets for California goods. If APEC's goals are achieved, Japan will enter free trade agreements with other developed APEC member countries by 2010 and with all APEC member countries by 2020.

In January 2002, Japan joined its first regional trade agreement with the signing of the Japan-Singapore Economic Partnership Agreement, due to enter into force during 2002. Japan is currently studying new regional trade agreements with Mexico, Korea, and several members of the Association of Southeast Asian Nations.

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<sup>6</sup> Japan and the U.S. have been working at reducing many of these non-tariff barriers to trade. Progress has been made in many fields. For example, in 1998, the U.S. and Japan entered into a new agreement to significantly liberalize the trans-Pacific civil aviation market. This agreement allowed carriers that had recently entered the U.S.-Japan market to more than double their access to Japan.

<sup>7</sup> Many of these agreements were facilitated by the U.S.-Japan Framework for a New Partnership signed in 1993.

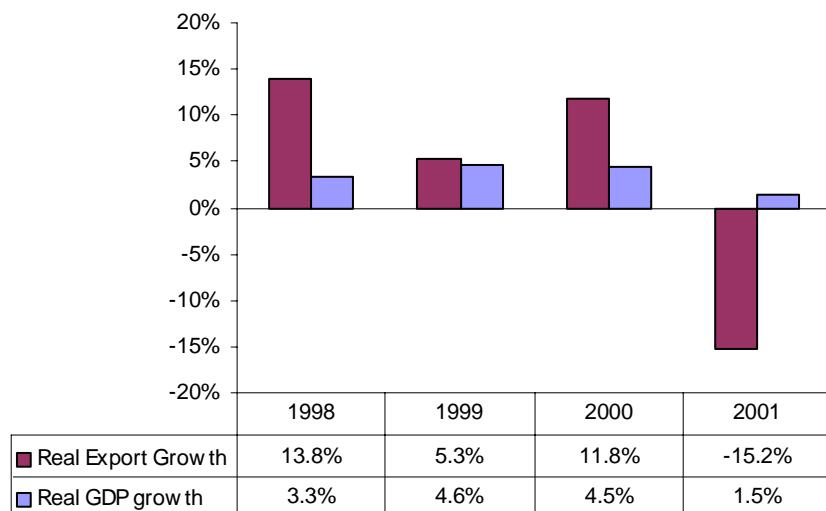
## Canada

Canada: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001		August Year-to-Date 2001-2002	Employees 1999
677.2	11.8	-21.4	63,700

### Economic Performance

Canada has experienced uninterrupted economic growth since a mild recession in 1991. With a GDP of \$677.2 billion in 2001, Canada's economy is the eighth largest in the world. Its economy is characterized by its increasing reliance in the service sector, which represent nearly two thirds of GDP and an even larger share of employment.<sup>8</sup> Another overriding characteristic of the Canadian economy is the high degree of integration with U.S. markets. Canadian exports to the United States account for 86 percent of total exports.

### Real GDP and California Export Growth Rates



### California Exports to Canada

The United States and Canada form the largest bilateral merchandise trade relationship in the world. With an annual figure of \$11.8 billion in 2001, California exports to Canada are without a doubt a factor in this relationship. This figure represents 11.1 percent of total California exports and 7.2 percent of total U.S. exports into Canada. California exports to Canada almost doubled from 1990-1997, growing at an average annual growth rate of 10.2 percent during that period. Growth has since slowed, averaging 2.4 percent per year from 1997 to 2001. This growth rate is relatively strong, considering that total

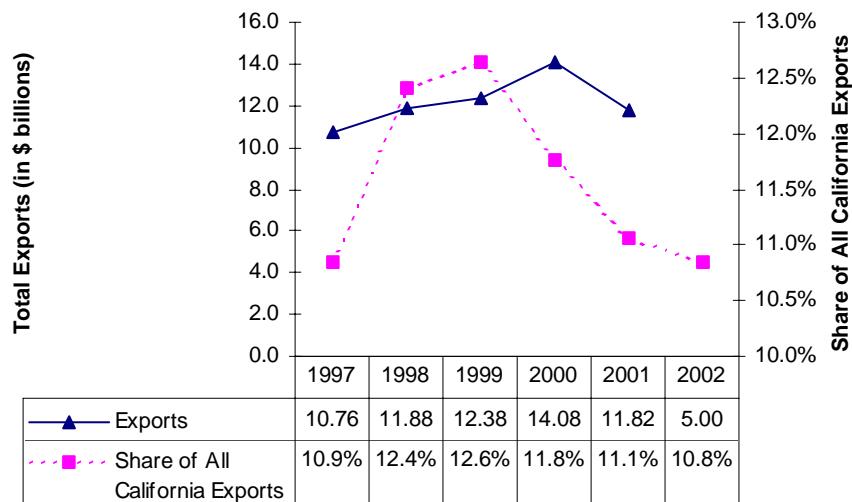
<sup>8</sup> Growth in the service sector has been driven by increases in the business services sector.

California exports have actually grown only 1.9 percent per year for the same period.<sup>9</sup> Exports to Canada declined 16.1 percent (in nominal terms) in 2001. This was the first decline in more than a decade. Figures for 2002 through August show an even more severe decline of 21.4 percent. The strongest declines in 2001 were in forestry products (-39.1%); electrical equipment, appliances, and components (-35.9%); and computer and electronic products (-30%).

Canada continues to be the number-one market for California's agricultural products and printing, publishing and similar products. Top exports to Canada by industry are shown below.

Industry	2001 (Millions of Dollars)		Average Annual Growth Rate (%)		
	Share %	Actual		Projected	
		1997-2001	2001-05	2005-10	
Total California Exports to Canada	11,816	100.0	2.4	2.9	3.1
Computer and Electronic Products	5,361	45.4	0.9	3.8	3.4
Transportation Equipment	1,002	8.5	9.5	3.2	2.9
Agricultural Products	856	7.2	2.0	1.7	1.5
Machinery, Except Electrical	681	5.8	4.3	3.4	3.2
Food and Kindred Products	540	4.6	2.6	2.1	1.9
Top Five Industries Aggregated	8,441	71.4	2.3	3.4	3.1

### California Exports to Canada: 1997- 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Canadian Direct Investment in California

As of 1999, Canadian-owned firms were the fourth-largest foreign employers in California, behind those owned by investors from Japan, Germany, and the United Kingdom. Canadian firms

<sup>9</sup> Including 2001 into the calculation greatly reduces growth figures. California exports actually grew 6.5 percent per year, and exports to Canada grew 9.37 percent.

employed 63,700 workers, or about 10 percent of all California workers in foreign-owned companies. Of these, 12,700 were manufacturing workers, or 19.9 percent, putting Canada fifth in this category.

Since the late 1970s, Canada has been the third- or fourth-ranked foreign investor in California and was third as late as 1998. Canadian investment ranks much higher in terms of commercial property. In 1999, it ranked second, with investors owning a total of \$4.3 billion worth of commercial property. In terms of PPE, 29 percent of all Canadian investment in 1999 was in information industries, and another 27 percent was in real estate industries. It is likely that many Canadian investments are large and made by just a few firms – the U.S. statistical authorities suppress data that could reveal the investor, and much data on Canadian investment is suppressed.

Given the most recent trends of Canadian investment in the United States, Canada may well have slipped farther in the relative rankings as of 2001. Our estimates indicate total employment of 76,400, putting Canada in sixth place, slightly behind the estimate for France.

### **Barriers to U.S. Exports**

According to the World Trade Organization (2002), “Canada's trade and investment regime is amongst the world's most transparent and liberal.” One of the most dramatic developments in Canada's trade liberalization came in 1989 with the start of the Canada-U.S. Free Trade Agreement (CUSFTA). This agreement established a schedule for the elimination of all tariffs on trade between Canada and the United States by January 1, 1998. Five years later, in 1994, this agreement expanded to include Mexico in what came to be known as NAFTA. Despite the success of NAFTA in eliminating most tariff and many non-tariff trade barriers between the United States and Canada, non-tariff barriers continue to hamper U.S. access to some Canadian markets. In particular, U.S. exporters of agricultural products and products from the “cultural industries” are the most affected by existent non-tariff barriers.

One recurrent issue between the United States and Canada is each country's import policies on agricultural goods. Canada's tariff-rate quotas on “supply managed” products (such as dairy products, eggs, and poultry) continue to stifle U.S. exports into Canada.<sup>10</sup> Canada also applies various restrictions to imports of fresh fruit and vegetables and processed horticultural products. There is also fear that prepared food products will be reclassified under the supply-managed category, thus limiting access for U.S. exporters. Of particular concern for California's grape growers and wine producers is the existence of minimum import price requirements at the provincial level. Other market access barriers include cost-of-service markups, listings, reference prices, and distribution and warehousing policies.

Canada's interest in protecting and promoting its cultural identity has led to the exclusion of “cultural industries” from bilateral and multilateral trade agreements. Cultural industries include those involved in the publication, distribution, or sale of books, magazines, periodicals and newspapers as well as film, video, and audio recordings.<sup>11</sup> Examples of policies that restrict U.S. exports in this sector include limiting the share of total advertising aimed at the Canadian market that a foreign periodical may contain, requiring that film dubbing in French be done in Quebec, and requiring that all video products sold in Quebec bear a government issued classification sticker.<sup>12</sup> In response to objections by the United States, Canada passed the 1999 Foreign Publishers Act, which is meant to improve access to this market.<sup>13</sup>

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<sup>10</sup> Supply-managed agricultural products are those whose domestic production is limited by quotas.

<sup>11</sup> Department of Canadian Heritage web site. <http://www.pch.gc.ca/pc-ch/>.

<sup>12</sup> The Quebec Cinema Act encourages French language dubbing to be done in Quebec and places distribution restrictions on English language versions of films that have been dubbed into French somewhere else.

<sup>13</sup> This act increased from 12 percent to 18 percent the total advertising space per issue that a foreign periodical may sell to Canadian advertisers (Department of Canadian Heritage, 2000).

The service sector has also been affected by non-tariff barriers. For example, Canadian customs regulations limit the temporary entry of specialized equipment needed to perform short-term service contracts. Television and radio broadcasters are affected by Canadian regulations that require a certain percentage of programming to qualify as “Canadian,” and Canada’s limits on share of foreign ownership continue to affect U.S. providers of basic telecommunications services.

### **Trade Agreements**

Despite the barriers to trade discussed in the previous section, Canada’s many regional and bilateral trade agreements highlight its interest in trade and investment liberalization. Canada is a founding member of WTO and APEC.<sup>14</sup> Additionally, Canada has played an important role in the negotiation process of the Free Trade Agreement of the Americas (FTAA). On November 21, 2001, Canada reaffirmed its commitment to FTAA by announcing negotiations toward a free trade agreement with four Central American nations.<sup>15</sup> A few days later, Canadian Minister for International Trade Pierre Pettigrew announced the beginning of public consultations to gauge Canadians’ views on a proposed free trade agreement with the Caribbean Community and Common Market (CARICOM).<sup>16</sup>

Canada’s impetus for free trade has not been limited to the Americas. In 1997, Canada began negotiations with the European Free Trade Association (Iceland, Norway, Switzerland, and Liechtenstein). The Canada-EFTA agreement, which is currently under negotiation, addresses tariff elimination and trade facilitation but does not deal with issues such as services, investment, and intellectual property.<sup>17</sup>

In addition to these regional trade agreements, Canada has also entered into several bilateral agreements. Following the signing of NAFTA, Canada began negotiations and completed a similar agreement with Chile aimed at facilitating the eventual accession of Chile into NAFTA. Canada has also signed free trade agreements with Costa Rica and Israel.<sup>18</sup> In June 2000, officials from Canada and Singapore began exploring the possibility of negotiating a bilateral free trade agreement.<sup>19</sup>

Canada has also entered into trade and investment cooperation arrangements with Mercosur, South Africa, and the Andean Community (Bolivia, Ecuador, Colombia, Peru, and Venezuela) as well as trade and economic cooperation arrangements with Norway, Australia, Switzerland, and Iceland.<sup>20</sup>

In an effort to promote foreign investment, Canada has negotiated “Foreign Investment Protection and Promotion Agreements” (FIPAs) with several countries, including Poland, Argentina, the Czech and Slovak Federal Republics, Ukraine, Philippines, Barbados, Venezuela, Egypt, Armenia, Lebanon, and Croatia.<sup>21</sup>

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<sup>14</sup> Canada was also founding participant in the GATT (the predecessor to WTO).

<sup>15</sup> The free trade agreement negotiations with El Salvador, Guatemala, Honduras and Nicaragua are accompanied by environmental and labor agreements. Canadian Department of Foreign Affairs and International Trade (November 2001).

<sup>16</sup> Canadian Department of Foreign Affairs and International Trade (December 2001).

<sup>17</sup> Canadian Department of Foreign Affairs and International Trade (November 2001).

<sup>18</sup> Prime Minister of Canada (2001).

<sup>19</sup> Canadian Department of Foreign Affairs and International Trade. (June 2000).

<sup>20</sup> Canadian Department of Foreign Affairs and International Trade (November 2001), <http://www.dfaidmae.gc.ca/tna-nac/tieca-e.asp>

<sup>21</sup> Canadian Department of Foreign Affairs and International Trade (July 2002), [http://www.dfaidmae.gc.ca/tna-nac/fipa\\_list-e.asp](http://www.dfaidmae.gc.ca/tna-nac/fipa_list-e.asp)

## Taiwan

Taiwan: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
	Billions of dollars 2001	August Year-to-Date 2001-2002	Employees 1999
281.2	5.7	-4.1	8,100

### Economic Performance

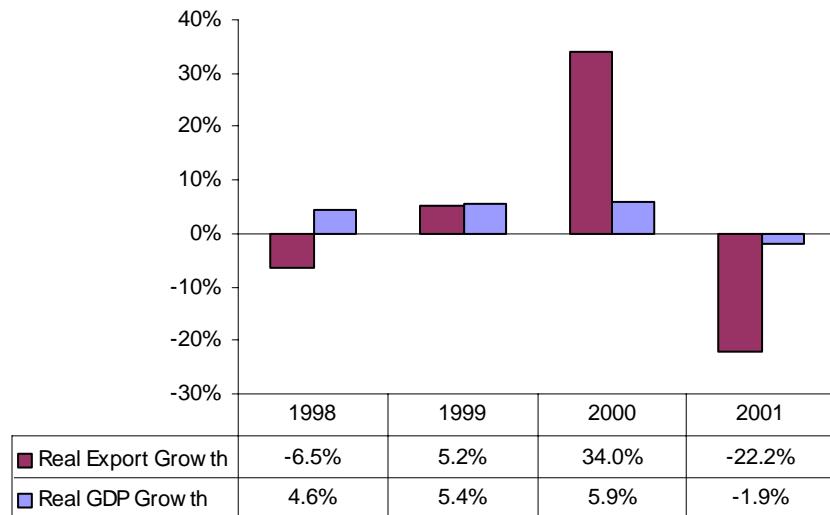
Taiwan's dramatic metamorphosis from an agrarian to a manufacturing economy during the last 50 years culminated with its transformation into a key world manufacturer of semiconductors and other technology products. In recent years, faced with rising labor costs and a strong currency, Taiwan has once again begun a transformation of its economic structure. This time the shift is away from manufacturing toward a service economy.<sup>22</sup> The service sector has grown an average of 6 percent per year since 1995 compared with 3 percent growth in manufacturing and -0.3 percent in agriculture. Although growth in the service sector in the early to mid-1990s was fueled by growth in finance, insurance, and real estate services, in recent years services in transport, storage, and communications have led the way. Vigorous growth in the service sector and steady growth in manufacturing allowed Taiwan to post impressive growth figures through most of the 1990s (even when many of its neighbors were facing severe downturns caused by the Asian financial crisis). In 2001, Taiwan's real GDP declined 1.9 percent, but projections for 2002 and 2003 are optimistic, showing 3 and 4 percent real growth, respectively.<sup>23</sup>

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<sup>22</sup> The relative decline in importance of industry has been accentuated by the exodus to China of labor-intensive industries. The government's decision to loosen restrictions on Taiwan's investment in China is likely to accelerate this exodus (*The Economist* in cooperation with the Economist Intelligence Unit, 2002).

<sup>23</sup> International Monetary Fund (2002).

## Real GDP and California Export Growth Rates



### California Exports to Taiwan

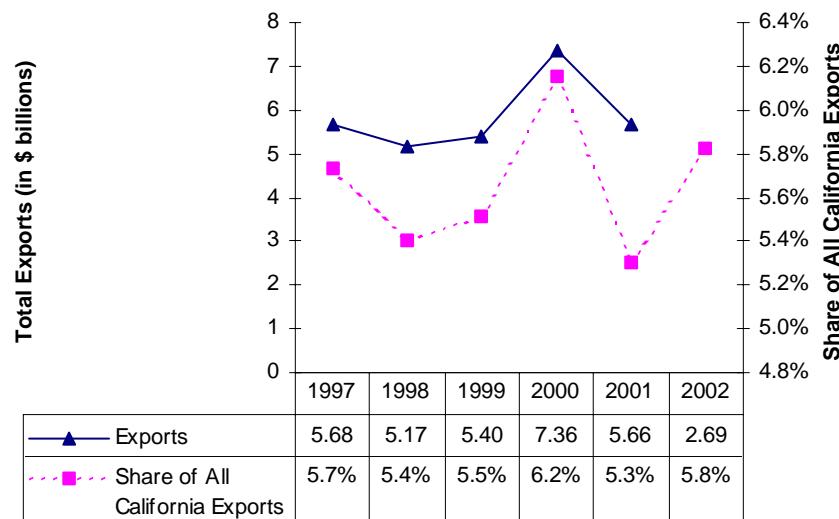
California exports to Taiwan have grown dramatically in the last decade. Fueled by growth in electronic and electric equipment as well as industrial machinery and computer equipment, exports to Taiwan more than doubled during the 1990-1997 period. This tremendous growth propelled Taiwan from seventh to fourth as a destination for exports, surpassing the United Kingdom, Korea, and Germany. In recent years, growth in exports destined for Taiwan has declined. Despite increasing 36.4 percent in 2000, exports to Taiwan have actually declined an average of 0.09 percent per year since 1997. In 2001 alone, they declined 23.1 percent (in nominal terms) amounting to \$5,664 million, or 5.3 percent of total California exports. August 2002 numbers show another decline, although not as severe, of 4.1 percent (in nominal terms).

Two industries -- computer and electronic products, and machinery -- account for more than two thirds of total exports. The recent market access agreement between Taiwan and the United States (see the section on trade agreements below) is expected to fuel growth in these and other sectors. The U.S. Commercial Service has identified electrical components, laboratory scientific instruments, telecommunications equipment, computer software, plastic materials and resins, and travel tourism services as the leading sectors for U.S. export growth to Taiwan.

### Top California Exports to Taiwan

Industry	2001 (Millions of Dollars)	Share %	Average Annual Growth Rate (%)		
			Actual 1997-2001	Projected 2001-05	Projected 2005-10
Total California Exports to Taiwan	5,664	100.0	-0.1	8.9	6.7
Computer and Electronic Products	2,474	43.7	0.6	8.4	6.0
Machinery, Except Electrical	1,397	24.7	1.9	10.8	7.8
Transportation Equipment	346	6.1	-18.2	11.5	8.1
Fabricated Metal Products	262	4.6	51.9	11.0	8.2
Chemicals	245	4.3	3.3	7.8	6.1
Top Five Industries Aggregated	4,723	83.4	-0.1	9.4	6.9

### California Exports to Taiwan: 1997- 2002\*



\* Share for 2002 is based on figures through the 2nd quarter.

### Taiwanese Direct Investment in California

Employment in Taiwanese-owned firms in California rose from 3,900 in 1990 to 8,100 in 1999, about 1.3 percent of all employment in foreign-owned firms in California. The total growth was similar to that of firms owned by investors from Mexico and Korea. Much of the growth in employment in Taiwanese firms took place in the second half of the decade; employment in 1995 was similar to that of 1990. In 1999, investors from Taiwan were the thirteenth-largest foreign employers in California.

Industrial breakdowns of investment from Taiwan are unavailable. However, in the United States as a whole, about 56 percent of employment in Taiwanese firms is in manufacturing (compared to 44 percent for all investors), with 30 percent in chemicals manufacturing, 16 percent in wholesale trade, and 12 percent in computers and electronic products manufacturing.

The direct investment position of Taiwan in the United States has fallen, from \$3.0 billion in 1999 to \$2.6 billion in 2001. Given this drop, we estimate employment in Taiwanese firms in California to be 6,800 in 2001.

## **Barriers to U.S. Exports**

In 1998, “the United States and Taiwan concluded a comprehensive market access agreement...that will provide substantially increased access for U.S. goods, services and agriculture exports to Taiwan.”<sup>24</sup> This agreement was signed as part of the process of Taiwan’s accession into the World Trade Organization. The U.S.-Taiwan agreement calls for the elimination of tariffs on medical equipment, furniture, toys, steel, paper, construction equipment, agricultural equipment, civil aircraft, and distilled spirits. This agreement also reduces tariffs for industrial products, and establishes the removal of barriers in the service sector.<sup>25</sup> The U.S. agricultural sector has also benefited from this agreement as many previously banned products (such as pork, chicken, and beef products) have been granted special access.

For all the progress made, there is room for improvement. Many U.S. exporters, particularly exporters of agricultural products, are concerned that many of these tariff reductions are not deep enough. They also complain that Taiwanese customs authorities have reclassified many items in higher tariff segments to ban or limit their import. Bans on imports of rice, peanuts, adzuki beans, sugar, and other agricultural products as well as restrictive standards and testing requirements continue to be a source of concern for U.S. exporters of agricultural products. Exports of U.S. wood products continue to be affected by current building codes, which favor non-wood construction, and high tariffs on certain forest and paper products.

Pharmaceutical exports also face barriers. Taiwan’s complex and time-consuming registration and approval procedures hurt imports of pharmaceuticals, medical devices, and cosmetics. In addition, Taiwan’s clinical trial requirements, for drugs that have been approved in other major markets, add significantly to delays in the approval process. Pharmaceutical companies have also complained that Taiwan’s inadequate staffing in government registration testing facilities significantly contributes to U.S. firms’ inability to enter the Taiwanese market.

Additionally, non-tariff barriers continue to hamper the imports of products such as recreational fishing vessels and motorcycles.<sup>26</sup> Testing requirements delay the entry of air conditioning and refrigeration equipment.

## **Trade Agreements**

Taiwan is one of the few countries among the 30 largest economies that have not signed any free trade agreements. This is likely to change as Taiwan’s membership in the WTO – effective January 1, 2002 – has opened the door for Taiwan to pursue free trade agreements. Its current president has already expressed interest in pursuing a bilateral free trade agreement with Japan.<sup>27</sup> As already mentioned, the United States and Taiwan entered into a market access agreement in 1998, and today both countries are exploring the possibility of a free trade agreement.<sup>28</sup> Other candidates for free trade agreements include New Zealand, Singapore, and even mainland China.<sup>29</sup> In addition to bilateral free trade agreements,

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<sup>24</sup> U.S Department of State (1998).

<sup>25</sup> This agreement includes immediate market access, as well as phased in commitments.

<sup>26</sup> Because of Taiwan’s ban on all direct contact with mainland China, private fishing vessels are banned on the grounds that they represent a treat to national security.

<sup>27</sup> Yueh-wen (2002a).

<sup>28</sup> Yueh-wen (2002b). See also Trade Policy Monitor (2002).

<sup>29</sup> Yueh-wen (2001). Taiwanese President Chen Shui-bian has declared his interest in developing a common market area between Taiwan and mainland China. As part of his plan, he has proposed to 1) normalize relations with mainland China, 2) accomplish the “setting up a cross-strait free trade zone and promoting orderly economic interaction through systematization and standardization,” and 3) “promote overall economic integration and to

Taiwan is exploring the possibility of joining regional free trade agreements. Taiwan's membership in APEC is likely to play a role in this push for regional agreements.

Despite the lack of free trade agreements, Taiwan has signed 30 market-liberalization agreements with WTO members as part of the negotiation process for membership in the WTO. Additionally, Taiwan has entered into bilateral investment agreements with Argentina, Belize, Burkina Faso, Costa Rica, Dominica, El Salvador, Guatemala, Honduras, Indonesia, Latvia, Liberia, Malaysia, Malawi, Macedonia, the Marshall Islands, Nicaragua, Nigeria, Panama, Paraguay, the Philippines, Saudi Arabia, Senegal, Singapore, Swaziland, Thailand, and Vietnam. These agreements should help set the groundwork for future free trade and investment agreements.

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establish a common market through coordination and cooperation in the areas of monetary policy, taxation, currency exchange rates and remittances” Courtenay (2001).

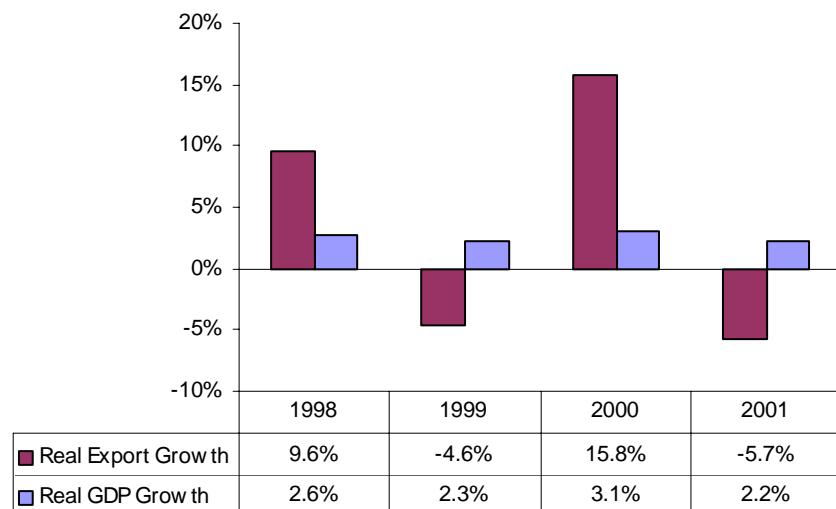
## United Kingdom

United Kingdom: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	5.6	August Year-to-Date 2001-2002	Employees 1999
1,406.3		-25.2	93,000

### Economic Performance

With a GDP of \$1.4 trillion in 2001, the United Kingdom (UK) is the fourth-largest economy in the world. The UK has experienced uninterrupted economic growth since a 1991-1992 recession. A big concern for policymakers is a recent slowdown in GDP growth. The decline can be attributed mostly to a decrease in export and investment demand.<sup>30</sup> Growth, however, is expected to return to “a solid pace, boosted by the turnaround in international trade and supported by rapidly expanding public expenditure.”<sup>31</sup> A few issues remain, however, that could disrupt that recovery. For example, over-investment in telecommunications infrastructure by domestic firms could prove damaging to the overall economy.

### Real GDP and California Export Growth Rates



### California Exports to the United Kingdom

The UK is the fifth most popular destination for California exports, purchasing \$5.6 billion worth in 2001. This figure represents 5.2 percent of California’s total exports. Although exports to the UK have grown sluggishly since 1990, their share of total California exports has remained largely the same

<sup>30</sup> The recent slowdown has been cushioned by continued growth in the service sector, which accounts for nearly 75 percent of GDP. Although growth in services is expected to slow, this sector is expected to be the main engine of growth as agriculture and manufacturing continue to decline in importance.

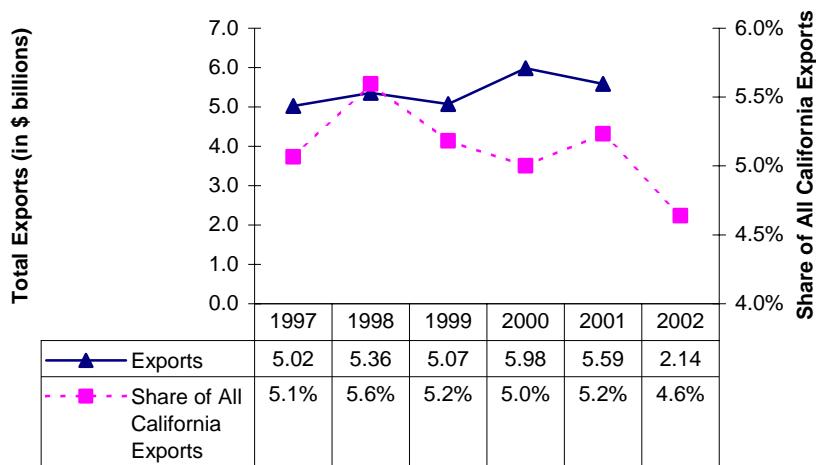
<sup>31</sup> Organization for Economic Co-operation and Development, <http://www.oecd.org/pdf/M00028000/M00028712.pdf>.

(they were a bit more than 5.7 percent in 1990).<sup>32</sup> Partial figures for 2002 (through August) report California exports to the UK of \$3.0 billion – down 25.2 percent from \$4.0 for the same period during the previous year.

Computer and electronic products are the primary export industry, accounting for more than half of the total. The fastest growing export sectors are petroleum and coal products, paper, furniture and fixtures, and beverage and tobacco products. All of these have more than doubled since 1997. The following table lists the top export industries.

<b>Top California Exports to the United Kingdom</b>					
<b>Industry</b>	<b>2001 (Millions of Dollars)</b>	<b>Share %</b>	<b>Average Annual Growth Rate (%)</b>		
			<b>Actual 1997-2001</b>	<b>Projected 2001-05</b>	<b>Projected 2005-10</b>
Total Exports to the U.K.	5,589	100.0	2.7	5.5	5.4
Computer and Electronic Products	2,958	52.9	1.3	6.1	5.7
Transportation Equipment	464	8.3	5.9	5.9	5.7
Machinery, Except Electrical	447	8.0	-1.0	6.0	5.8
Chemicals	242	4.3	9.4	4.2	3.4
Electrical Equipment, Appliances, and Components	212	3.8	-3.8	6.0	5.8
Top Five Industries Aggregated	4,324	77.4	1.6	5.9	5.6

### **California Exports to the United Kingdom: 1997 - 2002\***



\* Figures for 2002 reflect exports through the 2nd quarter.

### **British Direct Investment in California**

In 1999, California firms owned by investors from the United Kingdom were the second-largest foreign employers in California, with 93,000 workers, or 14.6 percent of all California workers in foreign firms. Of these, 39,200 were manufacturing workers, or 42 percent, a higher proportion than that of any

<sup>32</sup> During the 1990-1997 period California exports to the UK grew 7.1 percent per year. This was the third lowest growth rate among the top 15 export destinations.

other investing country. United Kingdom affiliates have been the number two employer and the number two manufacturing employer in California since 1990. Three times during the 1980s they held the number one spot.

Based on the value of PPE, UK firms are most active in manufacturing and in the information industries, each of which is responsible for more than one-quarter of all UK investment. Within manufacturing, about one-third of all foreign PPE in machinery manufacturing is held by UK firms. Within the information industries, UK firms own nearly 57 percent of all PPE in information services and data processing and 48 percent in publishing.

The United Kingdom's direct investment position in the United States grew a great deal between 1999 and 2001, from \$154 billion to almost \$218 billion. If these trends held for California, employment in UK affiliates might have topped 130,000 workers in 2001. If so, UK-owned California businesses would remain the second-largest foreign employers, behind only Japanese-owned firms.

### **Barriers to U.S. Exports**

Except for a few barriers, it is "relatively easy for U.S. firms to enter UK markets."<sup>33</sup> As a member of the European Union (EU), the UK's external trade policies are developed and implemented by the European Commission. Most existent trade barriers for U.S. goods are therefore the result of EU policies. For a review of EU barriers faced by U.S. exports, see the EU's profile.

### **Trade Agreements**

The UK is a member of the European Union and participates in the EU's free trade arrangements. See the EU's profile for a review of current EU trade agreements. It is not, however, a member of the Euro zone, the common currency zone that includes 12 of the EU's 15 members.

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<sup>33</sup> Bureau of Economic and Business Affairs (2001).

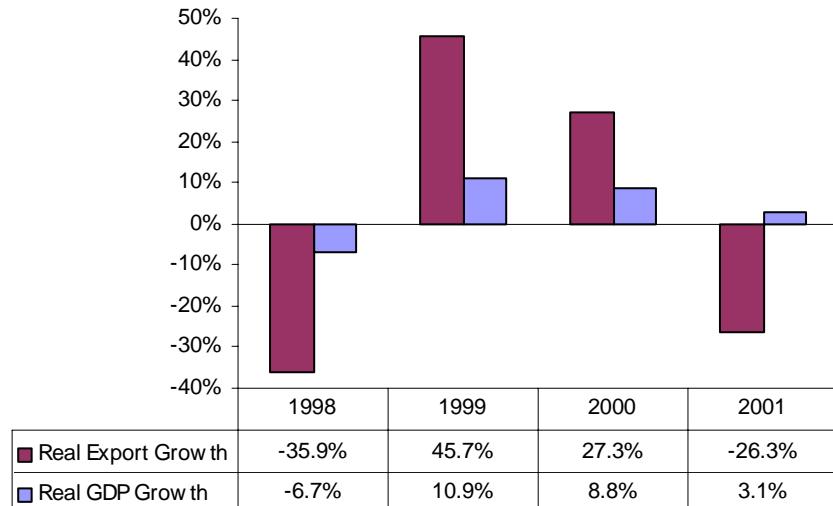
## The Republic of Korea

Korea: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	August Year-to-Date 2001-2002	Employees 1999	
422.2	5.0	-10.6	7,700

### Economic Performance

In a relatively short period of time, the Republic of Korea has transformed itself from a less developed country with a traditional economy and per capita income comparable to some of the poorest countries in Africa into a modern industrial society. The severe Asian financial crisis of 1997-1998 threatened to maim the economic growth that Korea had experienced for many years, but Korea managed a robust recovery and is now poised for a sustained revival.<sup>34</sup> Korea's GDP of \$422.2 billion in 2001 makes it the largest of the four tiger economies of East Asia. (Hong Kong, Singapore, and Taiwan are the other three.) Its economy has been characterized by close interaction between government and business, high levels of investment, strong dependence on trade (which represented 72.8 percent of GDP in 2001), and the dominance of large conglomerates or *choebol*. Both the government-business interaction and the dominance of the *choebol* may be loosening.

### Real GDP and California Export Growth Rates



### California Exports to Korea

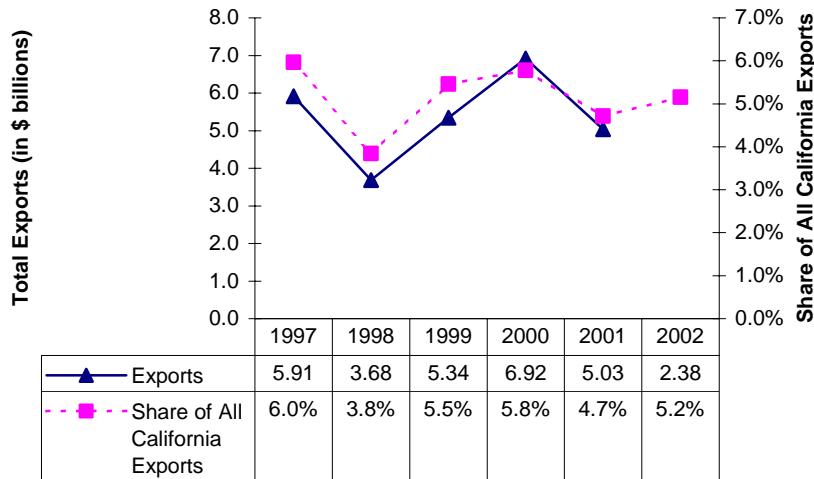
Exports to Korea have fluctuated dramatically since the onset of the Asian financial crisis in 1997. That year, exports to Korea declined 17.9 percent; in 1998, they fell 37.7 percent (in nominal

<sup>34</sup> There are concerns that Korea's recovery may not be complete or that it may be undermined by weaknesses in its economic policies or by the current global economic slowdown. See for example Montagnon (1999).

terms). Fueled by an outstanding economic recovery, these declines were followed by significant increases of 45.1 percent and 29.5 percent in 1999 and 2000 respectively. In 2001, California exported \$5 billion worth of merchandise, down 27.2 percent from \$6.9 billion the year before. This decline was the steepest among the top 15 destinations of California exports. Even so, Korea still ranks sixth among the top destinations for California exports, absorbing approximately 4.7 percent of all California exports. Figures for 2002 through August report exports to Korea in the amount of \$3.2 billion – down 10.6 percent from the same period a year earlier.

<b>Top California Exports to Korea</b>						
Industry	2001 (Millions of Dollars)	Share %	Average Annual Growth Rate (%)			
			Actual 1997-2001	Projected 2001-05	Projected 2005-10	
Total California Exports to Korea	5,035	100.0	-3.9	7.0	6.9	
Computer and Electronic Products	2,246	44.6	-7.0	7.7	6.9	
Machinery, Except Electrical	571	11.4	-10.0	8.4	7.3	
Transportation Equipment	559	11.1	10.6	8.2	7.2	
Food and Kindred Products	293	5.8	8.0	3.7	3.2	
Agricultural Products	221	4.4	10.6	0.3	2.6	
Top Five Industries Aggregated	3,891	77.3	-4.1	7.2	6.6	

### California Exports to the Korea: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Korean Direct Investment in California

Employment in Korean-owned affiliates in California hit 7,700 in 1999 – 1.2 percent of all workers in foreign-owned firms – putting Korea fourteenth among California investors. The path of Korean investment throughout the 1990s has been one of steady growth, though with a dip in 1997 at the start of the Asian financial crisis. The trend roughly matches that of Mexico, with Korean firms employing 3,300 workers in 1990.

No industry breakdown is available for Korean investment in the state. However, in the United States as a whole, 47 percent of all workers in Korean-owned firms are in wholesale trade, while 33 percent are in the manufacturing sectors. The largest manufacturing sectors are primary and fabricated metals (15 percent of all workers) and computers and electronic products (11 percent of all workers).

Korean investment in the United States has continued to rise; the country's direct investment position was \$2.7 billion in 1999 and \$3.1 billion in 2001. Given this increase, we estimate employment in Korean-owned firms in California to be about 8,900 in 2001.

### **Barriers to U.S. Exports**

As part of its Uruguay Round commitments, Korea has made significant progress in reducing tariffs on imports. By 2001, the average tariff on imports was 8.9 percent, and 91.7 percent of tariffs were bound at specific levels, meaning the government could not arbitrarily raise them above those levels in the future. Korea has also committed to eliminating tariffs on many imports, including semiconductors and some chemical products. All tariffs on agricultural products are now bound, and tariff reductions on more than 30 agricultural products are expected to be completed by 2004. However, U.S. exporters of agricultural goods continue to experience restrictions in the form of high tariffs for some products, quotas, tariff-rate quotas, quarantine restrictions, slow import clearance procedures, misclassifications of goods (into categories with higher tariffs), vague or unnecessary labeling requirements, opaque certification procedures, packaging standards, and Korea's government support of domestic agricultural products. Among the products affected by these barriers are walnuts, table grapes, apples, distilled spirits, beef, tobacco, oranges, fish, and genetically modified products.

Other sectors are also affected by non-tariff barriers. For example, there are concerns that the Korean government is subsidizing the semiconductor industry through a government sponsored corporate refinancing program. Weak intellectual property rights and the lack of adequate enforcement hamper software, pharmaceutical, and publishing companies.<sup>35</sup> Also, the lack of transparency in the regulatory system and a general anti-import bias limit the ability of U.S. firms to penetrate Korean markets. The U.S. government has identified anticompetitive practices that affect trade in motor vehicles, motorcycles, pharmaceuticals, medical devices, cosmetics and cosmeceuticals, steel, and telecommunications.

The service sector also faces significant non-tariff barriers that restrict access to the Korean market. Screen quotas requiring domestic films to be shown a minimum number of days per year discourage foreign-made motion pictures. Limits on the share of foreign programming for TV broadcasting (cable and non-cable) and restrictions in foreign ownership of cable television affect the entertainment industry. Other service sector industries affected by investment restrictions, discriminatory regulations, and burdensome or costly procedural requirements include advertising, accounting, engineering, banking, and legal and financial services.

### **Trade Agreements**

On May 23, 2001, Senator Max Baucus introduced a bill in the U.S. Senate "to authorize the negotiation of a Free Trade Agreement with the Republic of Korea, and to provide for expedited

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<sup>35</sup> Current patent, trademark and copyright, and trade secret protection laws contain loopholes that limit their effectiveness. For example, copyrighted works and pharmaceutical patents are protected under current laws, but these laws lack full retroactive protection for pre-existing copyrighted works and patents. In 2002, the U.S. Trade Representative listed Korea as a "priority watch country" because of its unsatisfactory intellectual property rights protection. The United States is currently urging Korea to clarify or amend its laws on intellectual property rights (Niksch, 2002).

congressional consideration of such an agreement.”<sup>36</sup> Such an agreement is not now being negotiated, but should it be made part of the U.S. trade liberalization program, it likely would have a positive effect on California exports. Korea is currently pursuing free trade agreements with Chile and Japan.<sup>37</sup> Multilaterally, Korea is pursuing regional free trade through its membership in APEC. It is also a member of the WTO.

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<sup>36</sup> Washington File (2001).

<sup>37</sup> According to Korean government officials the Japan-Korea Free Trade agreement is also “likely to involve China, which is likely to become one of the largest trading countries in the world within a short span of time” (Joon-hun, 2002).

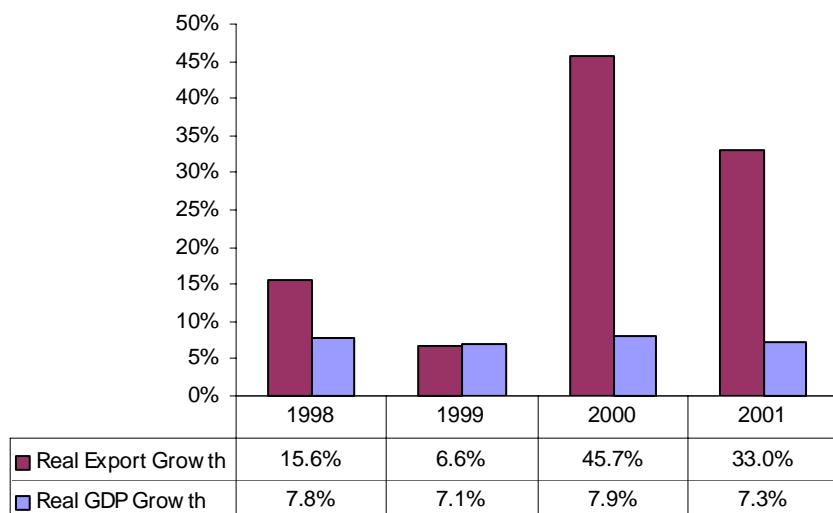
## China

China: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	2001	August Year-to-Date 2001-2002	Employees 1999
1,159.0	4.7	-4.7	600

### Economic Performance

For more than two decades, China has been undergoing a dramatic economic transformation revolving around graduated openness to foreign trade and investment. China's accession into the WTO at the end of 2001 highlights this transformation. The shift into a market-oriented economy has contributed to the fast growth that China has experienced; it grew an average of almost 9.7 percent per year – in real terms – from 1980 to 2000. In 2001, GDP was \$1.2 trillion, making China the sixth-largest economy in the world.

### Real GDP and California Export Growth Rates



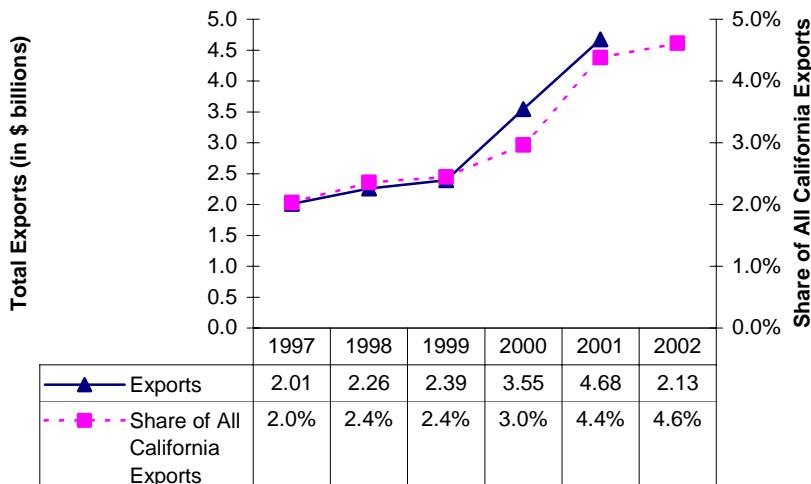
### California Exports to China

With one-fifth of the world's population and a growing middle class, China represents an enormous pool of potential consumers for California exports. Due to California's geographic location and its relations with other Asian countries, California exporters are well positioned to exploit the existing opportunities in China. In 2001, exports to China amounted to \$4.7 billion or 4.4 percent of total California exports. This figure may not seem impressive, but it reflects tremendous growth during the 1990s. In 1988, China was the twentieth-largest market for California exports. By 2001, China had climbed to seventh place, growing an average 19.6 percent per year from 1990 to 1997. This growth continued during the 1997-2001 period, when exports to China grew faster than exports to any other destination. In 2001 alone, exports to China grew 31.9 percent, while exports to every other top 10 destination declined. This growth has been fueled by the computer and electronic sector, which more

than tripled since 1997 and currently accounts for 54.8 percent of exports to China. 2002 may be the first time in five years that exports to China show a decline. By August 2002, exports to China amounted to \$3.0 billion compared to \$3.1 billion for the same period the year before.

Top California Exports to China			Average Annual Growth Rate (%)		
Industry	2001 (Millions of Dollars)	Share %	Actual	Projected	
			1997-2001	2001-05	2005-10
Total Exports to China	4,676	100.0	23.5	13.6	10.9
Computer and Electronic Products	2,562	54.8	37.4	15.5	11.2
Machinery, Except Electrical	514	11.0	21.6	11.6	9.9
Waste and Scrap	417	8.9	72.2	11.3	12.3
Chemicals	185	3.9	29.6	9.9	9.8
Transportation Equipment	134	2.9	-25.4	11.1	9.5
Top Five Industries Aggregated	3,811	81.5	26.3	14.1	11.1

### California Exports to China: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Chinese Direct Investment in California

Chinese direct investment in California is quite low, with only about 600 California workers employed in Chinese-owned firms in 1999. Employment measured 400 in 1992 and peaked at 700 in 1998. If one thinks of greater China, however – China, Hong Kong, and Taiwan – the number is much larger. Employment in firms owned by investors from these three countries combined totaled 14,100 in 1999, slightly below the 1992 level of 14,500.

No data are available on the industrial distribution of investment by Chinese firms in California. However, in the United States, 42 percent of all employees in Chinese-owned firms were in manufacturing and 20 percent were in wholesale trade. The two largest manufacturing sectors were primary and fabricated metals, which had 29 percent of all workers, and computers, which had 8 percent.

Chinese investment in the United States has risen a great deal since 1999. The direct investment position in 2001 was \$419 million, compared to \$295 million two years earlier. We estimate 2001 employment in Chinese-owned firms in California to be about 850.

## Barriers to U.S. Goods

China acceded to the WTO as of December 11, 2001. Under the terms of its accession, it reduced overall average tariffs from more than 15 percent to 12 percent and tariffs on industrial goods to 11.6 percent. China also reduced the number of goods subject to quotas and has promised to phase out quotas on many others.<sup>38</sup> It is also expected to reduce tariffs on agricultural products and on high-technology products, such as semiconductors, computers, and computer parts.<sup>39</sup> Although China has come a long way in opening its markets to foreign competition, there exist significant barriers to trade that restrict the free flow of goods and investment. Reductions in tariffs and quotas alone are not sufficient to ensure increased access for U.S. products, as the Chinese central government continues to promote import substitution policies in some cases.<sup>40</sup>

Barriers to trade include:

- Inconsistencies in tariff classification, which make it difficult to predict duties for U.S. exporters.
- Problems with fair valuations of imports.
- Discriminatory application of the value added tax (domestic competitors sometimes fail to pay the VAT, or sometimes importers are charged the VAT twice).
- Quarantine and testing standards that delay the entry of some imports.
- De facto quotas by monopoly importers.
- Regulations regarding tariff-rate quotas.
- Compulsory import licenses for products already subject to quotas or tariff-rate quotas, such as vegetable oil, cotton, livestock products, commercial aircraft, and hauling trucks.
- Antidumping or countervailing measures by state-owned enterprises that face increased competition from imports. Antidumping or countervailing duty regulations are often vague, and antidumping investigations often lack transparency.<sup>41</sup>
- Lack of transparency and information on trade measures.
- Restrictions on trading rights that contribute to smuggling and corruption. Importing and exporting goods into and out of China is allowed only for firms with trading rights, and firms without a presence in China must use a local agent with such license; moreover, certain goods must be imported through state trading enterprises.
- Import substitution policies, which have been identified by the U.S. government in at least three industries: fertilizers, telecommunications equipment, and power generation equipment.
- Time-consuming testing, labeling, and certification procedures.
- Safety inspections on goods such as processed food and electronic products.
- Phytosanitary and veterinary import standards based on dubious scientific principles affecting U.S. softwood lumber, potatoes, avocados, peaches, pears, and certain kinds of apples.<sup>42</sup>
- Lack of or weak enforcement of intellectual property rights.<sup>43</sup>

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<sup>38</sup> These tariff and quota reductions are part of China's commitments under the terms of its WTO accession.

<sup>39</sup> Commitments in these sectors are particularly important for California. China has agreed to reduce tariffs to 10 percent on some of California's key agricultural products, such as apples, pears, almonds, and pistachios.

<sup>40</sup> China's accession into the WTO is expected to have a significant positive effect on the liberalization of China's markets, but it will take many years for the full implementation of the WTO agreements.

<sup>41</sup> Some would say this about U.S. anti-dumping and countervailing duty cases as well.

<sup>42</sup> Exports of California grapes are also affected by medfly trapping requirements.

- Excessive government regulation and technical problems – such as slow internet connections and lack of secure payment systems – that stifle electronic commerce.
- Lack of nationwide distribution networks and restrictions on foreign firms’ ability to market, transport, service, or support their products.

China has also historically maintained significant barriers in the service sector. Financial services and telecommunications face a myriad of restrictions and a murky regulatory system. Also, the central government’s concerns about politically sensitive materials have resulted in significant barriers in advertising, voice, video, and data services. Other service sectors affected by trade barriers include insurance, transportation and logistics, accounting and management consultancy, tourism and travel, and legal services.

### **Trade Agreements**

The U.S.-China bilateral WTO agreement, signed on November 15, 1999, and the granting of “Permanent Normal Trade Relations” status with the United States on October 10, 2000, were only the beginning of a process that promises to open markets for U.S. exports and to strengthen U.S.-China relations. Under the U.S.-China bilateral WTO agreement, China has committed to the elimination of many of the aforementioned barriers.<sup>44</sup> With its WTO membership, China’s liberalization should continue. This membership also means that China will now be able to enforce its own trading rights against foreign barriers, including those of the United States, through the dispute settlement procedures of the WTO.

As part of its bid to join the WTO, in addition to the agreement with the United States, China completed bilateral WTO agreements with all concerned WTO members. China is a participant in the APEC trade negotiations and is working with Southeast Asian nations to develop a China-ASEAN free trade agreement. China is also seeking to accelerate its liberalization process through bilateral free trade agreements. For example, China’s central government has expressed interest in the development of a Hong Kong-Macau-China free trade agreement.<sup>45</sup> South Africa is another candidate for a bilateral free trade agreement, and there have been comments by Korean officials on the possibility of including China in the Japan-Korea free trade agreement negotiations.<sup>46</sup>

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<sup>43</sup> China recently adopted patent, trademark, and copyright laws, but violations are prevalent due to poor enforcement and lax punishment. For example it is estimated that 94 percent of software used in China at the end of 2000 was pirated.

<sup>44</sup> For a more detailed summary of this agreement, please see the White House’s “Summary of U.S.-China Bilateral WTO Agreement,” published by the China Trade Relations Working Group.

<sup>45</sup> Hong Kong General Chamber of Commerce (2002).

<sup>46</sup> Joon-hun (2002).

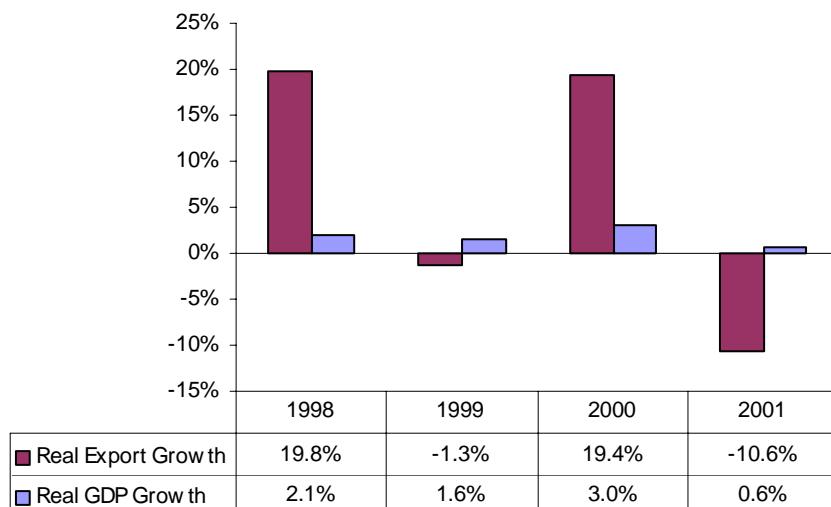
## Germany

Germany: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	4.7	August Year-to-Date 2001-2002	Employees 1999
1,873.9		-31.8	67,100

### Economic Performance

Germany's "social-market" economic approach, though now under challenge and undergoing reforms, has helped turn Germany into the third-largest economy in the world. With a GDP of \$1.9 trillion in 2001, Germany is also the largest economy in Western Europe. In recent years, Germany has experienced slow growth and relatively high unemployment. This has led to the questioning of its economic model. Faced with increasing international competition and a shift away from traditional manufacturing, Germany is under intense pressure to deregulate its labor markets. Another factor affecting the long-term prospects of the German economy is the modernization and integration of the East German economy, which continues to require enormous transfers of wealth.

### Real GDP and California Export Growth Rates



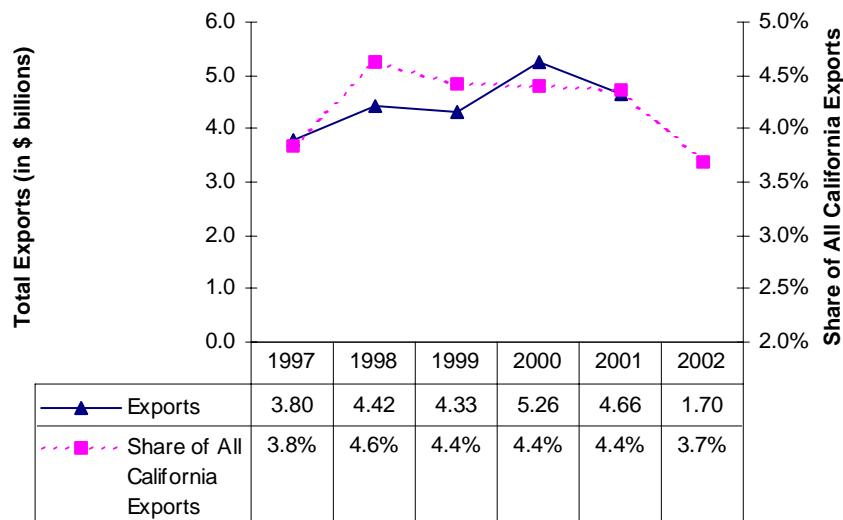
### California Exports to Germany

In 2001, California exported \$4.7 billion in merchandise to Germany, an 11.5 percent drop from the previous year. This decline moved Germany into the eighth spot as a destination for California exports, down from seventh. Germany's relative importance has been declining through most of the 1990s. In 1990, Germany was the fifth-largest destination for California exports, accounting for 6.2 percent of total exports. In 2001, exports to Germany accounted for 4.4 percent of all California exports. During the 1990-1997 period, exports to Germany experienced the lowest average annual growth rate among the top 15 export destinations. However, exports to Germany have grown an average of 5.2 percent per year since 1997. This was the fourth-fastest growth rate for the 1997-2001 period.

In 2002, exports to Germany will probably not recover from the 11.5 percent decline in 2001. Export figures through August 2002 show a decline of 31.8 percent from the same period in 2001 – \$2.3 billion compared to \$3.3 billion.

Top California Exports to Germany		2001 (Millions of Dollars)	Share %	Average Annual Growth Rate (%) Actual 1997-2001	Projected 2001-05*	Projected 2005-10*
<b>Industry</b>						
Total Exports to Germany		4,657	100.0	5.2	5.5	5.4
Computer and Electronic Products		1,953	41.9	-0.9	6.1	5.7
Machinery, Except Electrical		826	17.7	20.7	6.0	5.8
Transportation Equipment		787	16.9	36.7	5.9	5.7
Chemicals		179	3.8	-10.1	4.2	3.4
Electrical Equipment, Appliances, and Components		148	3.2	4.9	6.0	5.8
Top Five Industries Aggregated		3,893	83.6	6.4	5.9	5.6

### California Exports to Germany: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### German Direct Investment in California

German-owned companies were the third-ranked investors in California in terms of both total and manufacturing employment in 1999. These firms employed 67,100 workers, or 10.5 percent of the total. Of these, 18,000, or 26.8 percent, were manufacturing workers. Germany ranked a bit higher in the late 1970s and early 1980s but has hovered between fifth and third place since 1986.

German-owned manufacturing in California appears to be very capital intensive. About 27 percent of all workers are manufacturing workers, but slightly more than 50 percent of all PPE is in manufacturing. Sub-sectors within manufacturing that have large amounts of investment include

chemicals and electrical equipment. Among non-manufacturing industries, German investment in wholesale trade is strong.

The direct investment position of Germany in the United States rose from \$112 billion in 1999 to almost \$153 billion in 2001. Given this growth, we estimate employment in German-owned firms in California to be a bit more than 90,000 in 2001, or about 10 percent of the estimated total. This estimate places Germany fourth in terms of direct investment.

### **Barriers to U.S. Exports**

U.S. goods face relatively few barriers in Germany, and those that exist are the result of EU-wide restrictions. (For a review of significant barriers see the “Barriers to U.S. Exports” section in the EU region profile.) Two causes of concern are ingrained consumer behavior in Germany and the presence of strong domestic players, both of which make it difficult for U.S. products to succeed in the German market.

### **Trade Agreements**

Germany is a member of the European Union and participates in the EU’s free trade arrangements. See the EU’s profile for a review of current EU trade agreements. It is also a member of the Euro zone, the common currency zone that includes 12 of the EU’s 15 members.

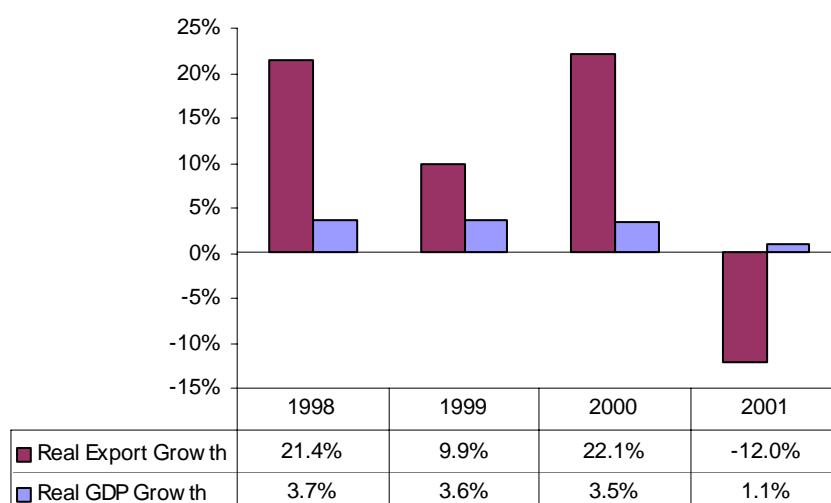
## Netherlands

Netherlands: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	4.3	August Year-to-Date 2001-2002	Employees 1999
375.0		-17.9	36,400

### Economic Performance

Covering an area similar in size to that of the State of Maryland, the Netherlands has the fourteenth-largest economy in the world, with a GDP of \$375 billion in 2001. The Dutch have adopted one of the most liberal approaches to trade in the world, aided in part by their key geographical location and state-of-the-art trade infrastructure. Today, Dutch ports are among the busiest in Europe, and foreign trade (exports and imports) amounts to more than 100 percent of GDP.

### Real GDP and California Export Growth Rates



### California Exports to Netherlands

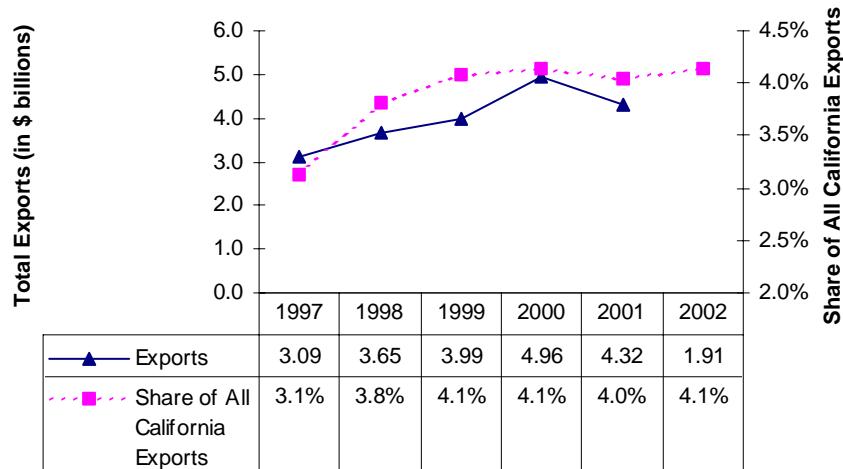
California exports to the Netherlands have grown an average of 8.7 percent per year since 1997, leading to exports of \$4.3 billion in 2001. This was the third-fastest growth rate during this period among the top 15 markets for California exports. Exports to the Netherlands represent 4 percent of total California exports, making the Netherlands the ninth-largest destination. Figures through August 2002 report exports to the Netherlands at more than \$2.4 billion, showing that the Netherlands' share of total California exports has remained the same through the first eight months of the year.

In 2001, computer and electronic products accounted for almost 70 percent of total exports to the Netherlands. Despite this industry's dominance, there is room for other industries to increase their foothold in the Dutch markets. Leading sectors identified by the U.S. Commercial Service include

computer software, defense equipment, electromedical equipment, laboratory equipment, wind and solar energy equipment, wine, and forest products.

Top California Exports to Netherlands			Average Annual Growth Rate (%)		
Industry	2001 (Millions of Dollars)	Share %	Actual 1997-2001	Projected 2001-05	Projected 2005-10
Total Exports to Netherlands	4,318	100.0	8.7	5.5	5.4
Computer and Electronic Products	2,992	69.3	11.9	6.1	5.7
Machinery, Except Electrical	315	7.3	19.4	6.0	5.8
Chemicals	197	4.6	-0.5	4.2	3.4
Transportation Equipment	131	3.0	-18.6	5.9	5.7
Electrical Equipment, Appliances, and Components	103	2.4	11.9	6.0	5.8
Top Five Industries Aggregated	3,738	86.6	9.2	5.9	5.6

### California Exports to the Netherlands: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Dutch Direct Investment in California

Dutch-owned firms were the seventh-ranked investors in California in 1999 in terms of employment and manufacturing employment. However, these firms rank much higher in terms of PPE and commercial property, a component of PPE. They employed 36,400 workers, or 5.7 percent of all workers in foreign affiliates. Of these, 8,900, or 24.5 percent, were manufacturing workers. In contrast, Dutch ownership of \$18.5 billion worth of PPE placed the Netherlands number two behind only Japan. In terms of employment, Dutch-owned firms ranked slightly higher in the late 1970s and early 1980s but have held the number-seven spot since 1991.

In terms of PPE, Dutch investment is high in manufacturing and quite low in wholesale and retail trade, information industries, and professional, scientific and technical services. Data on the value of PPE in finance and real estate is suppressed for confidentiality reasons.

Dutch investors boosted their direct investment position in the United States from \$125 billion to \$158 billion between 1999 and 2001. Given this increase, we estimate about 46,000 workers in Dutch affiliates in California in 2001, leaving the Netherlands in seventh place.

### **Barriers to U.S. Exports**

Other than those resulting from EU Policies, there are very few barriers for U.S. exports entering the Netherlands. The Dutch economy is very dependent on international trade, and as a consequence the Netherlands has been keen on pursuing free trade policies. However, there are a few areas of bilateral concern for U.S. exporters. One is the way the Dutch Health Insurance Board classifies new-to-market products, at times resulting in lower profits for U.S. pharmaceutical companies.<sup>47</sup> Also, Dutch rules require foreign contractors to provide at least 100 percent offset or compensation for defense procurement over a certain amount. This means contractors must either purchase Dutch goods or allow Dutch subcontractors to produce components for them. A third source of concern for U.S. exporters is the Netherlands' export subsidies policies. The government currently provides subsidies to domestic exporters competing with government-subsidized exports in third countries.

### **Trade Agreements**

The Netherlands is a member of the European Union and participates in the EU's free trade arrangements. See the EU's profile for a review of current EU trade agreements. It is also a member of the Euro zone, the common currency zone that includes 12 of the EU's 15 members.

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<sup>47</sup> There are instances when the DHI Board classifies new drugs as "therapeutically equivalent," which are reimbursed at a lower rate, rather than "unique, innovative compounds," which are reimbursed at a higher rate.

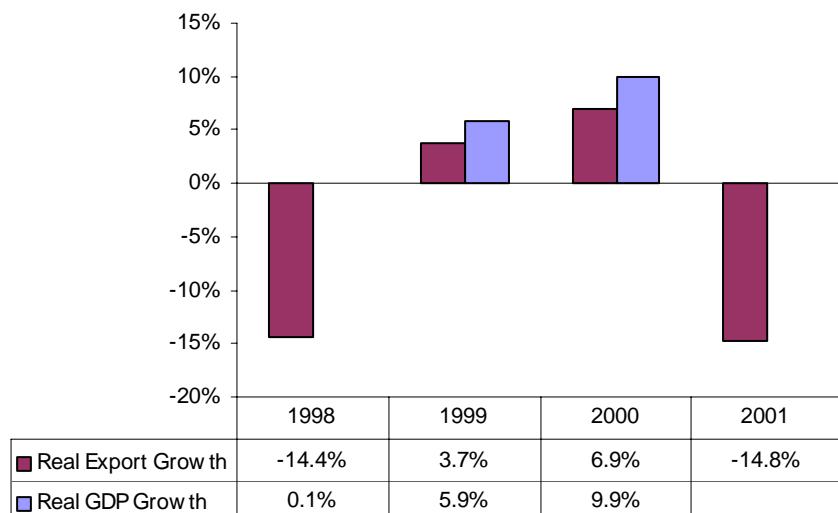
## Singapore

Singapore: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	4.2	August Year-to-Date 2001-2002	Employees 1999
85.6		-24.5	3,000

### Economic Performance

Singapore's economic achievements are truly remarkable. In a relatively short time, and despite land, labor, and resource constraints, Singapore has transformed itself from a traditional economy into one of the most sophisticated industrial, commercial, and financial economies in the world. In 2000, Singapore's \$22,959 per capita GDP surpassed even Germany's and France's. Singapore's achievements have come in large part by transforming itself into a free-market-oriented, trade-intensive economy. The total value of trade in 2000 was approximately three times total GDP. Exports in electronics and chemicals as well as services are the main drivers of the economy. However, this makes the island-state particularly vulnerable to a global slowdown in the high-technology sector; in fact, Singapore's nominal GDP fell from \$92.7 billion in 2000 to about \$85.6 billion in 2001.

### Real GDP and California Export Growth Rates



### California Exports to Singapore

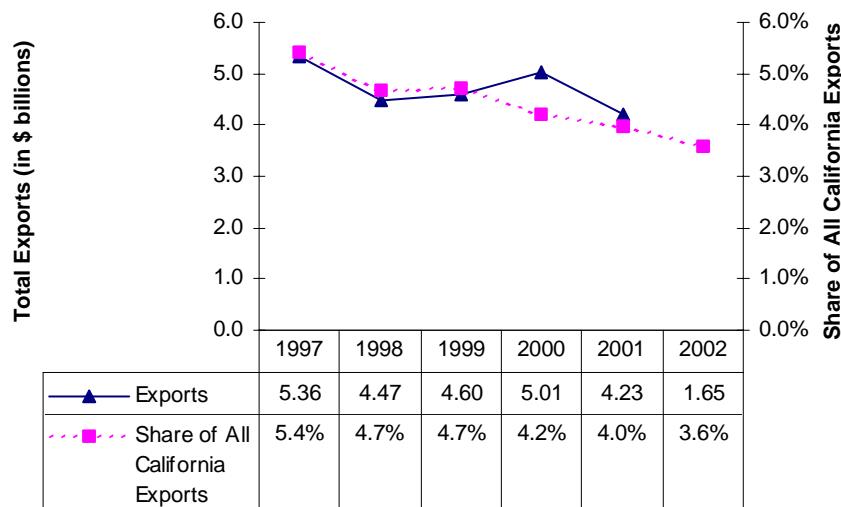
After posting impressive 14.4 percent average annual growth rates during the 1990-1996 period, Singapore became the fifth-largest export market for California's products in 1996. However, following the dramatic events of the Asian financial crisis in 1997, the share of California exports heading for ports in Singapore has been continually decreasing.<sup>48</sup> In 2001, California exports to Singapore amounted to \$4.3 billion or about 4 percent of total exports, making Singapore the tenth-largest recipient of California

<sup>48</sup> There was a small increase in 1999, but for the most part the share has declined.

exports. Data for the first eight months of 2002 show exports to Singapore of \$2.2 billion – a decline of 24.5 percent (in nominal terms) from the same period the year before.

<b>Top California Exports to Singapore</b>						
<b>Industry</b>	<b>2001 (Millions of Dollars)</b>	<b>Share %</b>	<b>Average Annual Growth Rate (%)</b>			<b>Actual 1997-2001</b>
			<b>2001-05</b>	<b>2005-10</b>		
Total California Exports to Singapore	4,227	100.0	-5.7	5.8	6.6	
Computer and Electronic Products	2,541	60.1	-8.1	6.2	6.5	
Machinery, Except Electrical	485	11.5	-2.6	6.3	6.6	
Transportation Equipment	354	8.4	-0.4	6.3	6.6	
Petroleum and Coal Products	228	5.4	14.0	6.9	7.9	
Chemicals	104	2.5	3.0	6.6	7.9	
Top Five Industries Aggregated	3,711	87.8	-5.7	6.3	6.6	

### California Exports to the Singapore: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Singaporean Direct Investment in California

Employment in Singapore-investment firms in California almost tripled through the 1990s, from 1,100 in 1990 to 3,000 in 1999. In 1995, Singapore broke into the top 20 and is now number 19 (of those countries with data). Although no industrial distribution for California is available, about one-third of all workers in Singapore-invested firms in the United States worked in manufacturing. An additional 17 percent worked in wholesale trade. The two largest manufacturing sectors were food and computers and electronic products.

Singapore's direct investment position in the United States leapt to \$6.5 billion in 2001, well above its trough of \$1.4 billion in 1999, the lowest amount between 1997 and 2001. Given this increase, employment in Singapore-invested firms in California in 2001 is estimated to be slightly more than 14,000.

## **Barriers to U.S. Exports**

Singapore's economic agenda is characterized by free markets and open competition. In 2002, Singapore's economy was ranked the fourth most competitive in the world by the World Economic Forum, and it was just ranked as the second most economically free nation in the Heritage Foundation-Wall Street Journal's 2003 Index of Economic Freedom. It is also ranked the third 'most globalized country' by *Foreign Policy Magazine*.<sup>49</sup> Singapore's trade policies make it relatively easy for U.S. goods and services to enter that market. Ninety-nine percent of imports are duty free, and tariffs are imposed only on certain "vice" goods, such as alcohol and tobacco, to restrict their consumption.<sup>50</sup>

Most existing non-tariff barriers are in the service sector, in particular banking, telecommunication, and law. Although the government has removed most restrictions in the financial services sector, banks in Singapore continue to suffer due to restrictions on the number of locations they are allowed to open. This limits the ability of foreign banks to compete with domestic retail banks. The telecommunications sector also faces barriers in the Singapore market, as imports of satellite receivers are restricted and the cable industry is controlled by a state monopoly. Law firms are also affected by regulatory constraints. For example, foreign law firms are allowed to set up offices in Singapore to advise multinational clients on domestic or international law, but they are not allowed to practice local law.

## **Trade Agreements**

Despite the fact that U.S. products already enjoy relatively easy access to Singaporean markets and vice-versa, the U.S. and Singapore launched negotiations on a free trade agreement in 2001. This agreement is expected to eliminate any remaining duties and commercial barriers to bilateral trade; it also is expected to include provisions on trade in services, trade related aspects of intellectual property, procurement, e-commerce, and investment.<sup>51</sup>

Singapore is one of the original signatories of the Common Effective Preferential Tariff (CEPT) scheme of the ASEAN Free Trade Area (AFTA), first agreed to in 1992. Other original signatories included Brunei Darussalam, Indonesia, Malaysia, Philippines, and Thailand. Under the CEPT, as of January 1, 2002, tariffs for goods from other ASEAN members are under 5 percent on a so-called Inclusion List, and many are tariff-free. The Inclusion List includes more than 98 percent of all tariff lines among the six countries.<sup>52</sup> Newer ASEAN members (Burma, Cambodia, Laos, and Vietnam) have more time to meet this goal. The AFTA also eliminates quantitative restrictions and other non-tariff barriers among members. The ultimate goal is for the number of goods on the Inclusion List to expand, for the six original signatories to levy no import duties by 2010, and for the four newer member countries to meet the zero tariff mark by 2015.

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<sup>49</sup> *Foreign Policy Magazine* (2002).

<sup>50</sup> To restrict the use of motor vehicles, the Singaporean government also levies excise taxes on petroleum products and motor vehicles.

<sup>51</sup> For a review of the U.S.-Singapore free trade agreement and the proposed APEC FTA, see "California and the World Economy: Exports, Foreign Direct Investment, and U.S. Trade Policy."

<sup>52</sup> E-mail communication from ASEAN Secretariat, November 13, 2002.

## Hong Kong

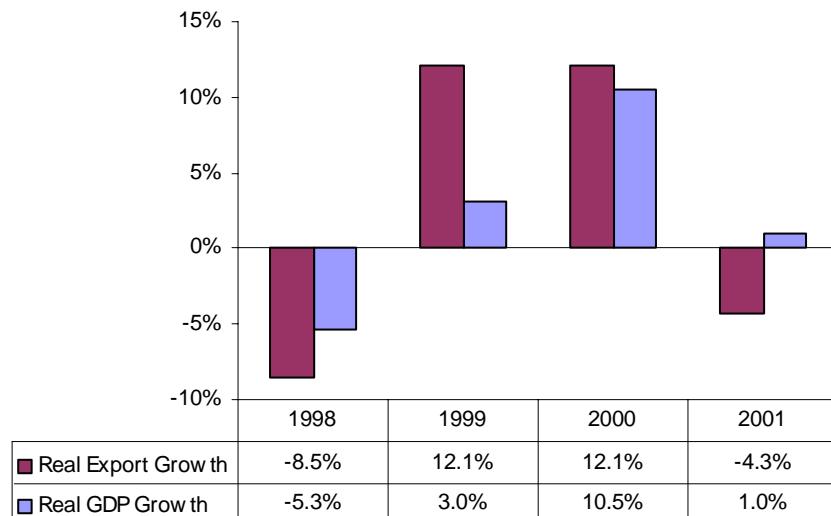
Hong Kong: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001		August Year-to-Date 2001-2002	Employees 1999
164.0	3.9	-11.4	5,400

### Economic Performance

After more than 150 years of British rule, Hong Kong became a Special Administrative Region (SAR) of the People's Republic of China (China) in July 1, 1997. As a SAR, Hong Kong enjoys a high degree of autonomy with the ability to set its own trade, financial, social, and legal policies and rules. The ability to set its own trade policy is particularly important to Hong Kong, as limited natural resources and a small domestic market have forced Hong Kong to be highly dependent on foreign trade. Both, exports and imports exceed GDP, which was \$164 billion in 2001.

Hong Kong's booming economy of the 1980s and early 1990s suffered a severe blow during the Asian financial crisis of 1997, but the city-state's sound economic fundamentals allowed for a quick recovery. In 1999 and 2000, Hong Kong posted real growth of 5.9 percent and 9.9 percent, respectively. Growth slowed to 1 percent during 2001.

### Real GDP and California Export Growth Rates



### California Exports to Hong Kong

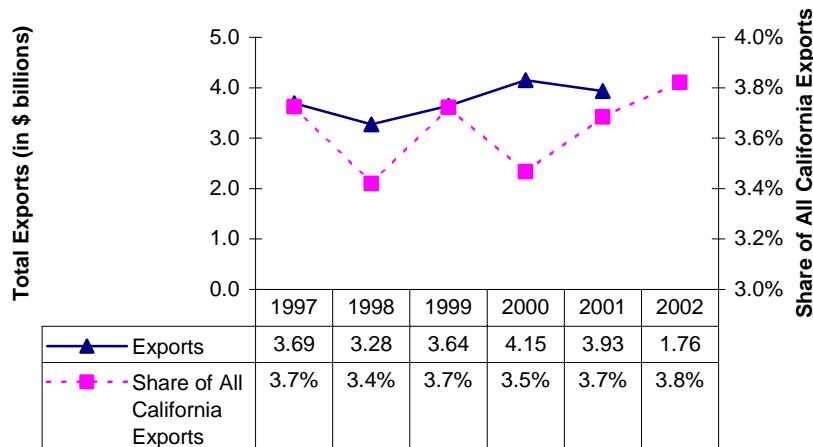
Hong Kong is the eleventh-largest export market for California goods after dropping two spots following the onset of the Asian Financial Crisis.<sup>53</sup> In 2001 exports to Hong Kong declined 5.2 percent to \$3.9 billion. Although this figure represents only 3.7 percent of total California exports, it represents

<sup>53</sup> Exports to Hong Kong decreased by more than 11 percent in 1998.

almost 30 percent of total U.S. exports to Hong Kong. In the first eight months of 2002, exports to Hong Kong have continued to decline, falling from \$2.7 billion for the first eight months of 2001 to \$2.4 million in 2002. Despite these declines, the outlook for exports to Hong Kong looks promising. Its excellent trade infrastructure and its close ties with China are likely to be a key asset for future export growth.

<b>Top California Exports to Hong Kong</b>					
Industry	2001 (Millions of Dollars)	Share %	Average Annual Growth Rate (%)		
			Actual 1997-2001	Projected 2001-05	Projected 2005-10
Total Exports to Hong Kong	3,934	100.0	1.6	6.7	6.7
Computer and Electronic Products	2,551	64.9	7.3	7.4	6.8
Machinery, Except Electrical	210	5.3	2.1	8.1	7.5
Agricultural Products	202	5.1	-4.4	2.5	2.2
Chemicals	143	3.6	2.7	8.8	8.7
Food and Kindred Products	141	3.6	-11.0	2.6	2.2
Top Five Industries Aggregated	3,246	82.5	4.6	7.0	6.6

### California Exports to Hong Kong: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Hong Kong Direct Investment in California

Firms owned by Hong Kong investors employed 5,400 workers in California in 1999. Investment by Hong Kong multinationals into California appears to have been severely affected by the Asia financial crisis. Employment was 9,900 in 1996 but fell to 6,400 in 1997 and does not appear to have recovered. However, a separate explanation may be that Hong Kong firms redirected their investments into southern China with the reunification of Hong Kong into China as a special administrative region in 1997.

Data on the industrial distribution of Hong Kong direct investment in California are not available. However, in the United States as a whole, between 20 percent and 40 percent of all workers were in retail,

between 10 percent and 20 percent were in the information industries, and 10 percent or less were in manufacturing.

Hong Kong's direct investment position in the United States was almost \$1.6 billion in 2001, slightly ahead of the level of 2000 and well ahead of \$885 million from 1999. Given this increase, employment in Hong Kong firms in California is estimated to be about 9,500 in 2001.

### **Barriers to U.S. exports**

There are few formal barriers to U.S. trade and investment in Hong Kong. No tariffs, quotas, or dumping laws are imposed on imports, and most non-tariff barriers are currently being addressed by the Hong Kong government. The area of most concern for U.S. exporters is the protection of intellectual property rights. Despite efforts by the Hong Kong government to address the problem of piracy, there are large numbers of pirated CDs and DVDs, and use of CD-burners (often used to produce pirated CDs and DVDs) has been on the rise.<sup>54</sup> There is also concern that Hong Kong-based web sites are selling and transmitting pirate software and music. The widespread presence of counterfeit handbags and apparel in the Hong Kong market also represent a problem for U.S. exporters whose trademarks are being used without compensation. There is also concern that pirated pharmaceuticals are entering Hong Kong and being repackaged and sold as original. Additionally, the pharmaceutical industry has suffered because of the approval of generic versions of drugs that infringe on existing patents. Moreover, there are complaints about the cumbersome and non-transparent approval processes for new drugs, as these tend to shorten the patent life of new products and reduce the patent holder's ability to market its products. The service sector has also been affected by non-tariff barriers, but the Hong Kong government is currently working towards their elimination.<sup>55</sup> Civil aviation remains a sector that is subject to restrictive policies that limit cargo and passenger carrier services. Despite the Hong Kong government's efforts to liberalize the telecommunications market, there are limits on foreign ownership of free-to-air television broadcasting stations.

### **Trade Agreements**

Hong Kong is a member of the WTO and APEC. However, because of the open nature of its foreign trade and investment policy, Hong Kong has difficulties attracting potential partners to the bargaining table for regional or bilateral trade agreements. As a result of this, Hong Kong is not a member of any free trade area arrangements.<sup>56</sup> However, Hong Kong is exploring the possibilities of free trade and investment agreements with New Zealand and mainland China.<sup>57</sup> If successful, these agreements could enhance the momentum towards an Asia-Pacific free trade area.

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<sup>54</sup> According to Hong Kong officials, the government has recently tightened enforcement of intellectual property rights leading to large numbers of arrests and the elimination of the underground network of factories that contributed to Hong Kong's piracy problem.

<sup>55</sup> For example, the government recently removed restrictions in the number of branches that foreign banks can maintain and is currently exploring the possibility of applying the same asset and deposit requirements to foreign banks as those that apply to domestic banks.

<sup>56</sup> Hong Kong's Commerce Secretary, Chau Tak Hay, has actually criticized regional free trade agreements, claiming that they "undermine the efficiency of the WTO" (McMillan, 2001).

<sup>57</sup> The negotiations on the New Zealand–Hong Kong Free Trade Agreement have recently stalled because of New Zealand's fears that the agreement could potentially allow goods made in China to be imported into New Zealand via Hong Kong, thus threatening jobs and sales by local manufacturers (Morrison, 2002).

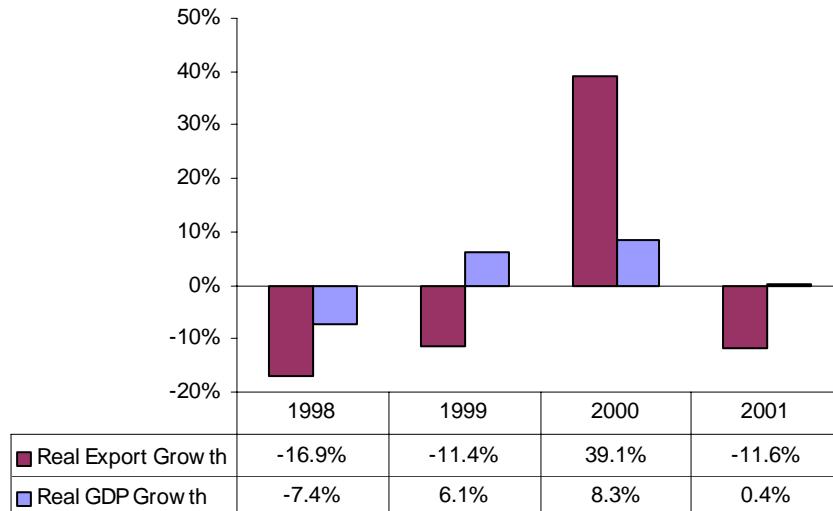
## Malaysia

Malaysia: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	2.6	August Year-to-Date 2001-2002	Employees 1999
87.5		-20.4	500

### Economic Performance

For many years, Malaysia relied primarily on the extraction and processing of natural resources. Today rubber and oil palm processing and manufacturing, logging and processing of timber, petroleum production and refining, and agriculture processing continue to be important. However, the production and export of electronic products has become an integral part of Malaysia's ambitious development plan.<sup>58</sup> In fact, exports of electronic products have been the main driver of growth in exports for the past two decades. While serving as the centerpiece of a nearly unparalleled growth- and poverty-alleviation track record, Malaysia's strong dependence on exports of electronic goods has made it particularly vulnerable to the current global slump in the high-technology sector. Real GDP growth figures for 2001 reflect this effect. After growing well above 5 percent per year since the Asian financial crisis, real GDP grew by less than 1 percent in 2001. GDP in 2001 was \$87.5 billion, a significant increase from \$44 billion just ten years earlier.

### Real GDP and California Export Growth Rates



### California Exports to Malaysia

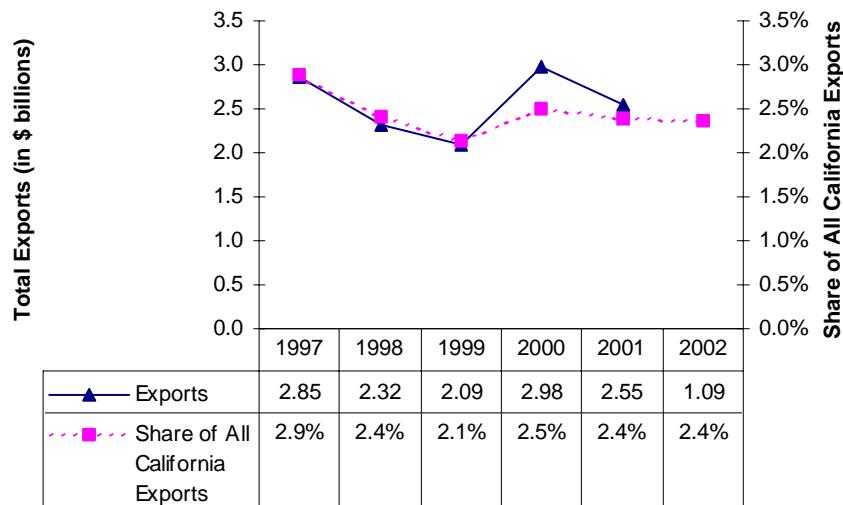
In 2001, \$2.6 billion or 2.4 percent of all California exports headed for Malaysia. After experiencing tremendous growth during the early 1990s (Malaysia was the second-fastest growing among the top 15 export destinations during the 1990-1995 period), California exports to Malaysia suffered

<sup>58</sup> Malaysia has set the ambitious goal of becoming a fully developed country by 2020.

significant declines during the second half of the 1990s. Except for a brief spurt during 2000, exports to Malaysia have continuously declined since 1996. (Those exports have declined an average of 2.7 percent per year since 1997.) This downward trend is likely to continue into 2002, as August 2002 figures show a 20.4 percent decline from the same period for the year before. Exports to Malaysia during the first eight months of 2002 amounted to \$2.4 billion or 2.3 percent of total California Exports. In 1995, Malaysia was the ninth-largest market for California exports, after climbing five spots since 1990. However, the Asian financial crisis and the recent global slowdown in the high-technology sector have combined to push Malaysia to the number 12 spot.

<b>Top California Exports to Malaysia</b>					
Industry	2001 (Millions of Dollars)	Share %	Average Annual Growth Rate (%)		
			Actual 1997-2001	Projected 2001-05	Projected 2005-10
Total Exports to Malaysia	2,554	100.0	-2.7	8.0	7.3
Computer and Electronic Products	1,883	73.7	-3.5	8.5	7.2
Machinery, Except Electrical	249	9.7	2.6	8.3	7.4
Agricultural Products	71	2.8	25.0	4.3	2.9
Electrical Equipment, Appliances, and Components	58	2.3	5.9	8.3	7.4
Chemicals	57	2.2	-16.2	9.5	9.8
Top Five Industries Aggregated	2,318	90.8	-2.7	8.3	7.2

### California Exports to the Malaysia: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Malaysian Direct Investment in California

Multinationals in Malaysia invest very little in California or the United States as a whole. Employment in Malaysian-invested firms in California peaked at 1,000 in 1996, the year before the Asian financial crisis, and hit 500 in 1999. However, it was only 100 in 1990.

No information on the industrial distribution of this employment is available. However, in the United States as a whole, almost 75 percent of all workers in Malaysian-owned companies are in manufacturing, a far higher proportion than the 44 percent that holds for investors from all countries. The largest single sector for Malaysian-owned firms within manufacturing is machinery

The Malaysian direct investment position in the United States has fallen significantly since 1999, from \$71 million to \$21 million in 2001. Like other Asian nations, it appears that Malaysia remains somewhat affected by the Asian financial crisis and by the continuing global technology slowdown. The country's direct investment position in the United States in 1997, the first year of the crisis, was \$342 million. Based on this, employment in Malaysian-owned firms in California is estimated to be only about 150.

### **Barriers to U.S. Exports**

The most significant barriers to trade preventing full access to Malaysian markets are in the form of tariffs and a 10 percent sales tax imposed on most imported goods. The average applied MFN tariff rate is approximately 9.2 percent but tends to be significantly higher (sometimes higher than 100 percent) in sectors where there is significant local production.<sup>59</sup> Additionally, some products in import-sensitive or strategic industries are subject to licensing requirements. Recently, import duties were reduced on some products, but there is a concern by U.S. exporters that tariffs remain high in some important sectors such as high-value agricultural products and construction equipment. The meat and poultry industry are also affected by confusing and cumbersome certification procedures, and licensing and sanitary controls, which in the case of the poultry industry have contributed to maintain import levels below the minimum access commitments established by the WTO agreements.<sup>60</sup>

In 2001, Malaysia was placed on a "Priority Watch List" by the United States Trade Representative for failing to substantially reduce production and exports of pirated optical discs. Efforts by the Malaysians to enforce intellectual property rights led to the removal of Malaysia from the "Priority Watch List". However, optical disk piracy is reported to be a continuing problem.

Despite positive improvements, the service sector still faces significant non-tariff barriers, especially ownership limits and other regulatory restrictions. Additionally, the telecommunications and banking sectors face barriers that prevent full access to Malaysian markets.

### **Trade Agreements**

Malaysia and the United States do not currently have any trade agreements other than commitments by both countries under the Uruguay Round. Malaysia is a member of the WTO and APEC, and is one of the original signatories of the Common Effective Preferential Tariff (CEPT) scheme of the ASEAN Free Trade Area (AFTA), first agreed to in 1992. Other original signatories included Brunei Darussalam, Indonesia, Philippines, Singapore, and Thailand. Under the CEPT, as of January 1, 2002, tariffs for goods from other ASEAN members are under 5 percent on a so-called Inclusion List, and many are tariff free. The Inclusion List includes more than 98 percent of all tariff lines among the six countries.<sup>61</sup> Newer ASEAN members (Burma, Cambodia, Laos, and Vietnam) have more time to meet this goal. The AFTA also eliminates quantitative restrictions and other non-tariff barriers among members. The ultimate goal is for the number of goods on the Inclusion List to expand, for the six

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<sup>59</sup>In an effort to protect the local automobile industry, for example, the Malaysian government imposes high tariffs, quotas, and local content requirements on imports of passenger and commercial vehicles.

<sup>60</sup> Malaysian regulations require all meat and processed, poultry, eggs, and egg products to be produced in accordance with Islamic practices.

<sup>61</sup> E-mail communication from ASEAN Secretariat, November 13, 2002.

original member countries to levy no import duties by 2010, and for the four new member countries to meet the zero tariff mark by 2015.

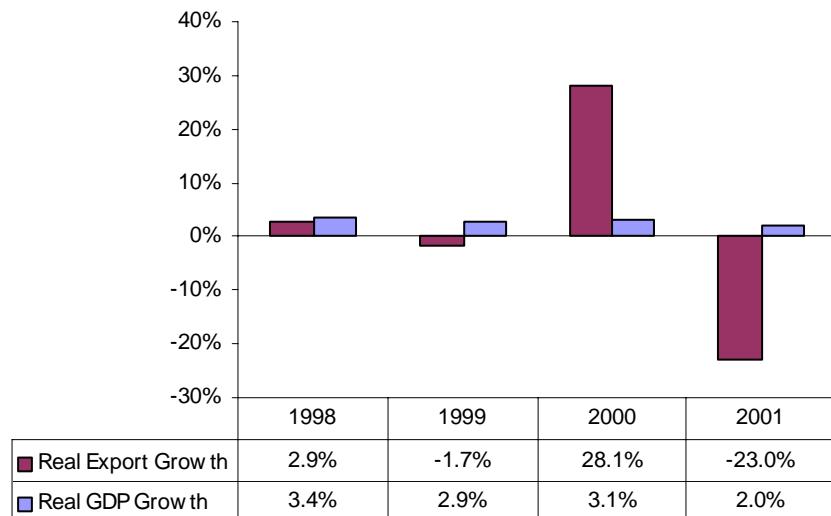
## France

France: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	August Year-to-Date 2001-2002	Employees 1999	
1,302.8	2.2	-18.7	47,000

### Economic Performance

France's economy, which has historically relied on state ownership and intervention, is currently in the midst of a privatization and deregulation process. This process is expected to ease the competitive pressures created by rigidities in the labor market and restrictive bureaucracy. However, the state still retains large stakes in several leading firms and plays a key role in the provision of services. France's economy is characterized by its dependence on the service sector (72 percent of GDP, a high figure even by Western European standards) and a stronger dependence than most Western European countries on agriculture and the agro-food business (6 percent of GDP). France's main industries include machinery, chemicals, automobiles, metallurgy, and aircraft. France's GDP in 2001 was \$1.3 trillion, making it the fifth-largest economy in the world. After growing an annual average of 3 percent from 1998 to 2000, France experienced 2 percent real growth in 2001.

### Real GDP and California Export Growth Rates



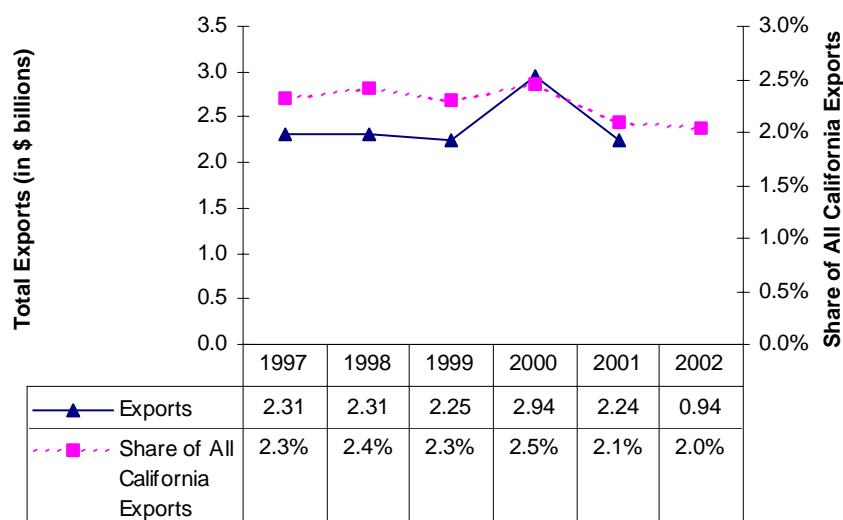
### California Exports to France

In 2001, France was the seventh-largest market for U.S. exports, but only the thirteenth largest for California exports. In 1990, France was the ninth most popular destination for California exports, accounting for 3.7 percent of all exports. However, a sluggish growth rate of 2.0 percent per year in exports heading for French ports during the 1990-1997 period, combined with fast growth in exports heading for Asia and NAFTA partners, have contributed to the relative decline in importance of France as

an export destination.<sup>62</sup> This trend has continued in recent years. From 1997 to 2001, California exports to France have declined, on average, 0.7 percent, per year. 2002 does not look any more promising, as exports to France have declined 18.7 percent in the first eight months of the year compared to the same period a year earlier. In 2001, \$2.2 billion worth of California exports (2.1 percent of total exports) headed for France.

<b>Top California Exports to France</b>					
<b>Industry</b>	<b>2001 (Millions of Dollars)</b>	<b>Share %</b>	<b>Average Annual Growth Rate (%)</b>		
	<b>Actual 1997-2001</b>	<b>Projected 2001-05</b>	<b>Projected 2005-10</b>		
Total Exports to France	2,242	100.0	-0.7	5.5	5.4
Computer and Electronic Products	917	40.9	-3.2	6.1	5.7
Transportation Equipment	274	12.2	5.9	5.9	5.7
Machinery, Except Electrical	258	11.5	-6.2	6.0	5.8
Chemicals	172	7.7	2.8	4.2	3.4
Electrical Equipment, Appliances, and Components	121	5.4	4.3	6.0	5.8
Top Five Industries Aggregated	1,743	77.7	-1.5	5.9	5.6

### California Exports to France: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter..

### French Direct Investment in California

French-owned companies in California in 1999 employed 47,000 workers, of which 13,300, or 28 percent, were manufacturing workers. Based on available data, investors from France were the sixth-leading foreign employer in California, and ranked fourth in terms of manufacturing employment. France has traditionally ranged between the sixth- and seventh-largest foreign employer, though it was ranked fifth in the early 1990s.

<sup>62</sup> Exports to France experienced the second worst growth rate during the 1990-1997 period among the current top 15 export destinations.

Due to data suppressions, it is difficult to tell which industries France is strong in. However, national data indicate that outside of manufacturing, French investors employ a large share of workers in the information industries. This is likely the case in California.

The French direct investment position in the United States rose sharply between 1999 and 2001, from \$90 billion to \$147 billion. Given this recent increase, estimated employment in French affiliates in California is more than 75,000 workers, which would put France in fifth place among investing countries.

### **Barriers to U.S. Exports**

As a member of the EU, France's trade policies are determined by the European Commission. A review of EU barriers to trade is presented in the EU region profile. In addition to barriers discussed in that section, France has adopted some unilateral restrictions that affect U.S. exports, particularly in the agricultural sectors. France bans the import of products that use feed compounds made with enriched flour, exotic meats, and live crawfish. Poultry, meat, and egg products are some of the products affected by this restriction. French regulations also restrict imports of goods made with transgenic materials or processes. Additionally, efforts by the French government to balance the national social security and health care budget have resulted in increased barriers for pharmaceutical and health equipment firms.<sup>63</sup>

### **Trade Agreements**

France is a member of the European Union and participates in the EU's free trade arrangements. (See the EU profile for a review of current EU trade agreements.) It is also a member of the Euro zone, the common currency zone that includes 12 of the 15 EU members.

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<sup>63</sup> These barriers are in the form of reduced reimbursement rates, increased taxes, and slow approval processes.

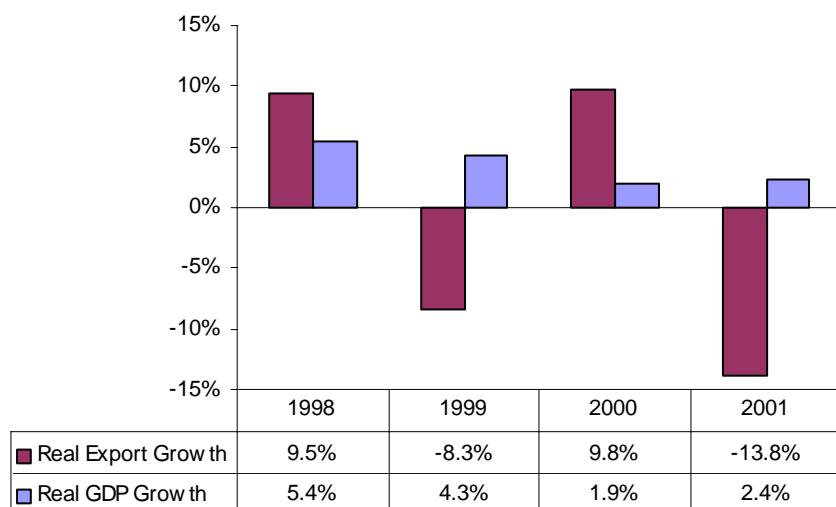
## Australia

Australia: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	2.1	August Year-to-Date 2001-2002	Employees 1999
368.6		-7.6	12,800

### Economic Performance

During the 1990s, Australia enjoyed the second-fastest growth rate in the developed world. Australia's ability to weather the financial crisis that affected many of its Asian neighbors in 1997 and the recent global slowdown highlight the resilience of its economy. In 2001, GDP amounted to \$368.6 billion, a figure comparable to some Western European nations. Real growth was 2.4 percent in 2001, up from 1.9 percent the year before. While these figures are lower than those of the 1990s, the upward trend is expected to continue in 2002.<sup>64</sup> From a broader perspective, the Australian economy is believed to be "in its best shape in thirty years, enjoying a sustained convergence of steady growth, low inflation, low interest rates, and a falling external deficit."<sup>65</sup>

### Real GDP and California Export Growth Rates



### California Exports to Australia

Australia is the fourteenth-largest destination for California exports. In 2001, Californians exported \$2.1 billion worth of merchandise to Australia. Although this figure represents less than 2 percent of total California exports, Australia may represent an opportunity for California exporters, particularly in the high-technology sector. Australian industry has been remarkably successful in adopting new technology. This opens the door for California exporters, as the Australian high-technology

<sup>64</sup> Growth for 2002 is expected at 3 percent or better.

<sup>65</sup> U.S. Commercial Service (2001).

sector is rather small, and Australian firms tend to look “first to the U.S. for purchases of new technologies.”<sup>66</sup> As the following table illustrates, the computer and electronic products industry has already made significant progress in penetrating Australian markets, accounting for more than a third of all California exports to that country. Other sectors with promising prospects for California exporters include information technology services and e-commerce, medical equipment, and telecommunications parts and equipment.

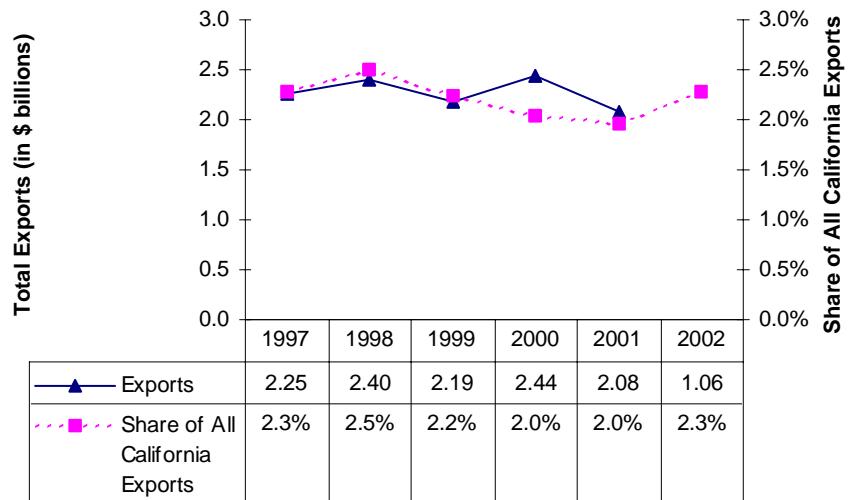
For the near term, however, the 14.6 percent decline in exports to Australia between 2000 and 2001 is likely to continue in 2002. Figures through August 2002 report exports to Australia of \$1.3 billion, a 7.6 percent decline compared to the same period in 2001.

Industry	2001		Average Annual Growth Rate		
	(Millions of Dollars)	Share %	Actual	Projected	
			1997-2001	2001-05	2005-10
Total Exports to Australia	2,085	100.0	2.0	4.4	6.1
Computer and Electronic Products	757	36.3	-0.4	6.2	5.8
Transportation Equipment	367	17.6	2.2	6.6	6.7
Chemicals	159	7.6	9.3	5.4	6.3
Machinery, Except Electrical	129	6.2	-15.8	6.6	6.7
Printing, Publishing and Similar Products	76	3.7	-0.5	5.3	5.4
Top Five Industries Aggregated	1,489	71.4	-1.0	6.2	6.2

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<sup>66</sup> Ibid.

### California Exports to Australia: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Australian Direct Investment in California

In 1999, 12,800 California workers were employed in Australian-owned firms, or 2 percent of all California workers employed by foreign-owned firms. Of the workers in Australian firms, 37.5 percent were manufacturing workers. Australia ranked ninth among foreign direct investors in California, behind those from number-eight Bermuda. Australia's share has slipped somewhat in the 1990s. In the late 1980s, investors from Australia employed between 3.5 percent and 4 percent of all California workers in foreign-owned affiliates.

Because of extensive data suppressions, it is difficult to tell which sectors Australians focus on in California. Nationwide, they are prominent in manufacturing (even more so than they are in California) and in the information industries.

Australia's level of investment in California has probably not changed significantly since 1999. The direct investment position of Australia in the United States was \$159 billion in 2001, not much different than the 1999 level of \$154 billion. As a result, estimated employment in Australian-owned affiliates in California in 2001 was about 19,000 workers, or about 2.2 percent of all workers in foreign-owned firms in California.

### Barriers to U.S. Exports

Once a follower of import-substitution policies, Australia has transformed itself into a competitive, export-oriented economy. As part of this transformation, Australia -- both unilaterally and as part of the Uruguay Round Agreements -- has reduced tariffs significantly. Today, most of its tariffs range between zero and five percent.<sup>67</sup> Australia has also made remarkable progress in removing non-tariff barriers to imports, but a few areas still cause concern for U.S. exporters. Some agricultural exports,

<sup>67</sup> Textiles, clothing, and footwear (25 percent), and passenger motor vehicles and components (15 percent) are the exception.

for example, face quarantine and health restrictions that hamper access to Australian markets. Commodities affected by these restrictions include stone fruit, chicken (fresh, cooked, and frozen), pork, apples, pears, and corn. Another cause of concern for exporters of agricultural goods is the recently imposed labeling requirements for genetically modified products. Other industries are also affected by non-tariff barriers. For example, trade in the entertainment industry (e.g. films and television programs) is affected by piracy and broadcast quotas. There are also complaints about anti-competitive practices by Telestra Telecom, a government-owned company, which limit U.S. companies' access to the Australian telecom market.

### **Trade Agreements**

Australia's free trade agreement with New Zealand, which is hailed as one of the most comprehensive in the world, eliminates all tariffs and non-tariff barriers to trade between these countries. Australia does not currently have free trade agreements with any of the major world economies, but is currently negotiating agreements with Singapore and Thailand, and exploring another with the United States. Though this is not yet part of the Bush administration's stated trade agenda, Sen. Max Baucus (D-Montana) introduced a U.S. Senate bill on May 23, 2001, authorizing such negotiations.<sup>68</sup>

Additionally, Australia is exploring ways to strengthen its relationship with Korea and Japan. These include a trade and investment facilitation agreement with Japan and a "Strengthened Economic Partnership" with Korea.<sup>69</sup> Australia is also pursuing regional trade liberalization through its membership in the Asia Pacific Economic Cooperation (APEC) forum. This venue is particularly important to Australia as APEC countries account for approximately seventy percent of Australia's exports.

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<sup>68</sup> During this Senate session, similar bills were introduced to authorize negotiations on separate free trade agreements with Korea and New Zealand. Washington File (2001).

<sup>69</sup> Australian Embassy in Ponhpei.

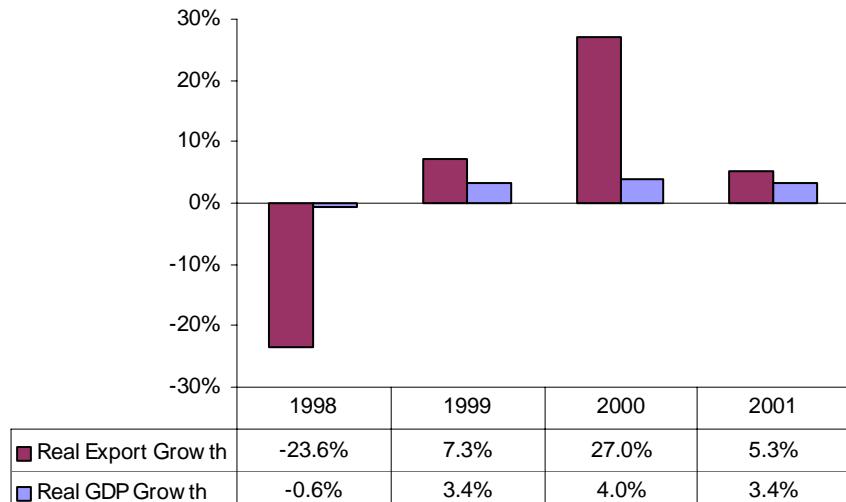
## Philippines

Philippines: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	2.0	August Year-to-Date 2001-2002	Employees 1999
71.4		-46.3	500

### Economic Performance

In the last two decades, there has been a marked divergence in economic development between the Philippines and some of its immediate neighbors, such as Malaysia, Taiwan, Hong Kong, and Singapore. Although well diversified, the Philippine economy is “marked by great disparities: in ownership of assets, in income, in levels of technology in production and in the geographical concentration of activity.”<sup>70</sup> These factors have combined to create civil and political strife, which in turn contributes to stagnation in the pace of development. In addition, the Asian financial crisis and the recent world economic slowdown have affected the Philippine economy. Despite these factors, the Philippine economy has made progress toward sustained economic development.<sup>71</sup> In 2001, real output grew by 3.4 percent, and nominal GDP for 2001 was estimated at \$71.4 billion.

### Real GDP and California Export Growth Rates



### California Exports to the Philippines

In 2001, the Philippines was one of two countries among California's top 15 export markets to which California exports expanded; California exports to the Philippines grew 4.2 percent (in nominal terms) in that year. This increase moved the Philippines ahead of Thailand to become the fifteenth-largest

<sup>70</sup> *The Economist* in cooperation with the Economist Intelligence Unit (2002).

<sup>71</sup> The Philippines, for example, has been successful at 1) attracting foreign investment, 2) increasing its stock of skilled workers, and 3) maintaining a healthy banking system.

export market for California's products. However, the Philippines' ranking among California's export destinations is likely to fall in extend into 2002 unless exports pick up dramatically in the last four months of the year. August 2002 figures report California exports to the Philippines in the amount of \$744 million – 46.3 percent below August 2001 numbers – placing the Philippines at number 17, behind Belgium.

Although exports to the Philippines accounted for only 1.9 percent of all California exports in 2001, there is a promising horizon for California producers to expand their presence in Philippine markets. Sectors with great potential include information technology (hardware, software, and consulting services), telecommunications equipment, electrical power systems, construction equipment, and food processing and packaging equipment.<sup>72</sup>

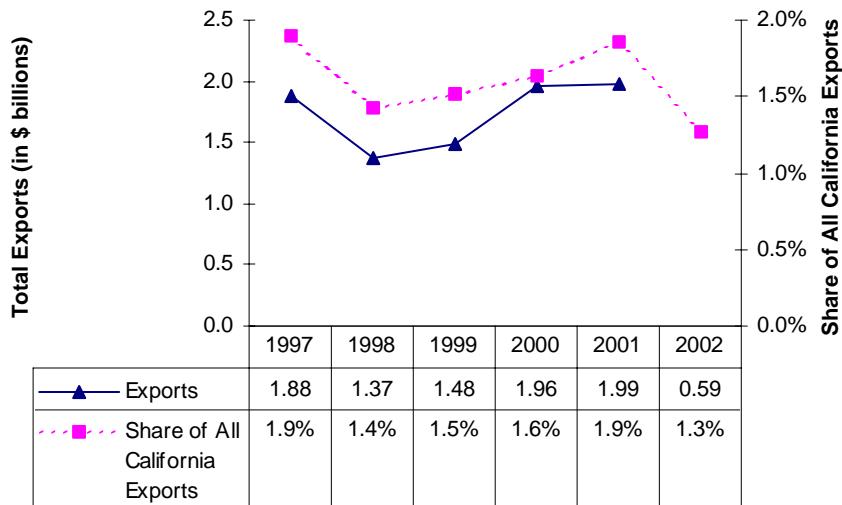
#### **Top California Exports to the Philippines**

Industry	2001		Average Annual Growth Rate		
	(Millions of Dollars)	Share %	Actual 1997-2001	Projected 2001-05	Projected 2005-10
Total California Exports to the Philippines	2,011	100.0	1.6	6.5	5.3
Computer and Electronic Products	1,511	75.1	4.3	7.3	5.3
Food and Kindred Products	80	4.0	0.1	2.0	1.2
Machinery, Except Electrical	71	3.5	-17.5	7.6	5.9
Fabricated Metal Products	56	2.8	16.1	7.8	7.6
Electrical Equipment, Appliances, and Components	49	2.5	-1.8	7.7	5.9
Top Five Industries Aggregated	1,767	87.8	2.6	7.1	5.3

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<sup>72</sup> Other leading sectors include building materials, water resource equipment and services, pharmaceuticals, pollution control equipment and services, sporting goods, medical equipment.

### California Exports to the Phillipines: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Filipino Direct Investment in California

Multinationals in the Philippines invest very little in California or in the United States as a whole. Employment in Filipino-invested firms in California peaked at 2,500 in 1993 and has since fallen to 500 in 1999. This is about three-quarters of all employment in all Filipino-invested firms in the United States.

No information on the industrial distribution of this employment is available. However, in the United States as a whole, almost 86 percent of all workers in Filipino-owned companies are in manufacturing, a far higher proportion than the 44 percent that holds for investors from all countries.

The Filipino direct investment position in the United States fell dramatically between 1999 and 2001, from \$101 million to only \$2 million. This decline suggests that employment in Filipino-owned firms in California has also fallen since 1999.

### Barriers to U.S. Exports

The Filipino government imposes high tariffs on imports that may threaten emerging domestic sectors. Affected products include automobiles, grains, livestock and meat products, sugar, potatoes, onions, and coffee. The Philippines, however, has committed to the reduction of tariffs on all goods except for sensitive agricultural products. Originally, tariffs on raw materials and finished products were supposed to be lowered to 3 and 10 percent, respectively, by January 2003, and tariffs on all remaining products were to be set at 5 percent by 2004. However, recent executive orders established more gradual tariff reductions and even increased rates on some products, such as garments, rubber, steel, textiles, certain petrochemicals, and forest product industries. Even if all tariffs were reduced, U.S. exports to the Philippines will still face significant barriers. Agricultural products, for example, face minimum access volume restrictions, tariff-rate quotas, required veterinary quarantine certificates for some products, and import inspections. Products affected by these barriers include corn, poultry meat, and pork. Other restrictions include quotas on rice, and higher excise taxes on imported distilled spirits and automobiles. Moreover, alleged abuses of the customs regime, corruption, and a weak legal system contribute to

increase costs of doing business in the Philippines. The U.S. Trade Representative is also concerned about deficiencies in the protection of intellectual property rights, and has placed the Philippines in a “Priority Watch List”. Optical disk piracy is a particular area of concern.

### **Trade Agreements**

The United States and the Philippines have agreements for the protection and enforcement of intellectual property rights, agreements regarding pork and poultry meat, and bilateral quota arrangements under the provisions of the WTO’s Agreement on Textiles and Clothing. Also, the United States and the Philippines continue to work together under the framework of the Uruguay Round and as members of APEC.<sup>73</sup>

The Philippines is also a member of the Association of Southeast Asian Nations (ASEAN) and is one of the original signatories of the Common Effective Preferential Tariff (CEPT) scheme of the ASEAN Free Trade Area (AFTA), first agreed to in 1992. Other original signatories included Brunei Darussalam, Indonesia, Malaysia, Singapore, and Thailand. Under the CEPT, as of January 1, 2002, tariffs for goods from other ASEAN members are under 5 percent on a so-called Inclusion List, and many are duty free. The Inclusion List includes more than 98 percent of all tariff lines among the six countries.<sup>74</sup> Newer ASEAN members (Burma, Cambodia, Laos, and Vietnam) have more time to meet this goal. The AFTA also eliminates quantitative restrictions and other non-tariff barriers among members. The ultimate goal is for the number of goods on the Inclusion List to expand, for the six original signatory countries to levy no import duties by 2010, and for the four newer member countries to meet the zero tariff mark by 2015.

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<sup>73</sup> As part of its membership in APEC the Philippines has committed to promote the establishment of free trade in the Asia-Pacific region. However, as a developing nation, the Philippines has until 2020 to fulfill its commitment to eliminate trade barriers.

<sup>74</sup> E-mail communication from ASEAN Secretariat, November 13, 2002.

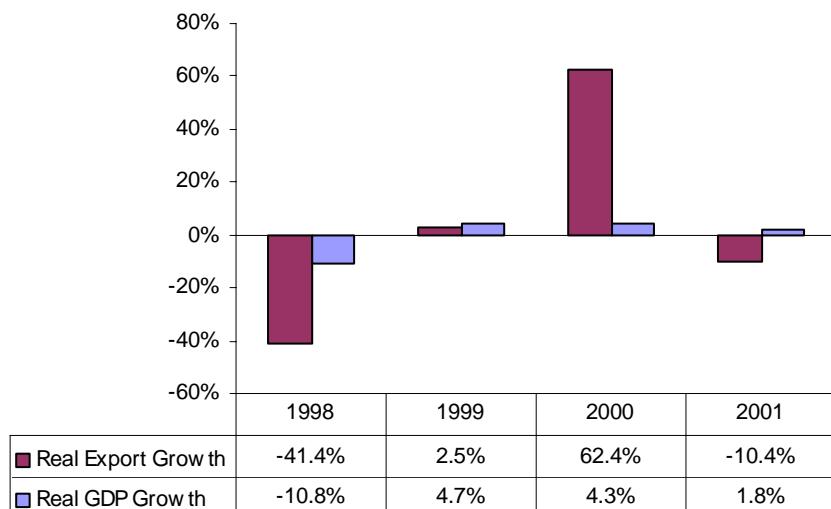
## Thailand

Thailand: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	August Year-to-Date 2001-2002	Employees 1999	
114.8	1.8	-36.8	--

### Economic Performance

Thailand enjoyed the world's highest growth rate from 1985 to 1995, but the 1997 Asian financial crisis revealed severe weaknesses and led to a dramatic 10.8 percent decline in real output in 1998.<sup>75</sup> Led by export demand, Thailand initiated a recovery and posted positive growth for 1999 and 2000. However, unhappy with what they perceived to be a slow recovery, compared with other countries affected by the crisis, voters elected a new prime minister in late 2000. The new government faces a daunting task as export demand has significantly declined and domestic demand remains weak. GDP in 2001 was \$114.8 billion and real output grew 2.1 percent, well below the growth it experienced from 1985 to 1995.

### Real GDP and California Export Growth Rates



### California Exports to Thailand

The booming Thai economy of the early 1990s and Thailand's growing role in the global production chains of the technology industry helped to fuel an explosive growth in California exports to that country. Between 1990 and 1996, California exports to Thailand grew faster than to any other country among the top 15 destinations for California exports, increasing at approximately 24.6 percent

<sup>75</sup> The Asian financial crisis in fact was started when a speculative attack led to the devaluation of the baht, Thailand's currency, in July 1997.

per year.<sup>76</sup> This tremendous growth suffered a reversal following the financial crisis of 1997 and 1998. California exports to Thailand have declined an average of 4 percent per year since 1997, with exports in 2001 more than 15 percent below exports in 1997. However, this downward trend has not been steady. California's exports leaped 65 percent to more than \$2 billion in 2000, driven largely by the computer and electronic products industry, the exports of which rose from \$904 million in 1999 to \$1.4 billion in 2000. Other industries experiencing large increases that year included transportation equipment, machinery, and agricultural products and food. The global technology slump put exports to Thailand back on a downward trend in 2001. This decline has continued in 2002 as exports for the first eight months of the year in the amount of \$813 million are 36.8 percent below year-to-date August 2001 figures. In all of 2001, California exported \$1.8 billion worth of merchandise goods to Thailand, 1.7 percent of all California exports.

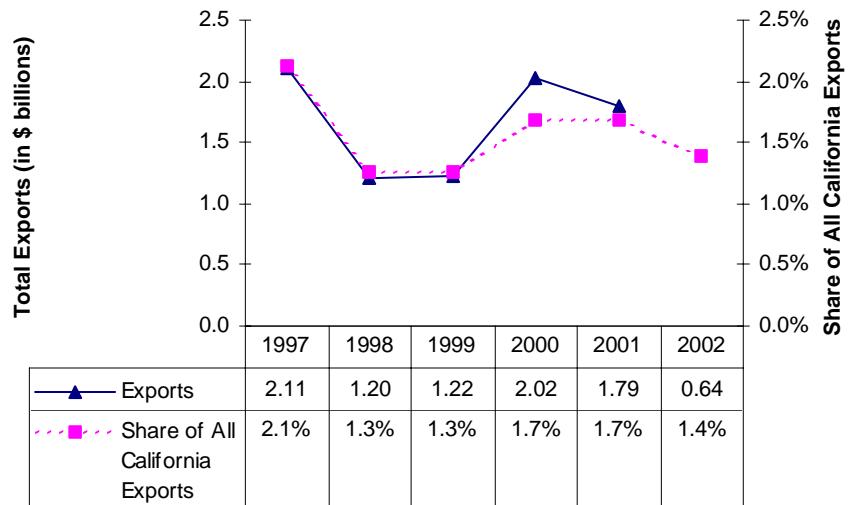
#### **Top California Exports to Thailand**

Industry	2001 (Millions of Dollars)	Share %	Average Annual Growth Rate (%)		
			Actual		Projected
			1997-2001	2001-05	2005-10
Total Exports to Thailand	1,790	100.0	-4.0	6.6	8.1
Computer and Electronic Products	1,131	63.2	-5.7	6.9	8.1
Transportation Equipment	144	8.1	-7.1	9.9	9.9
Nonmetallic Mineral Products	127	7.1	114.3	8.1	7.4
Machinery, Except Electrical	70	3.9	-12.3	9.7	9.8
Agricultural Products	63	3.5	19.7	0.4	0.8
Top Five Industries Aggregated	1,535	85.8	-3.6	7.2	8.1

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<sup>76</sup> Exports to China, the destination with second-fastest growth, grew at 20 percent per year over the same period.

### California Exports to Thailand: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Thai Direct Investment in California

No data are available on direct investment into California by Thai investors, but it likely is not large. In the entire United States, Thai investors in 1999 owned \$181 million worth of PPE, or only 0.02 percent of all PPE owned by foreign investors. Total employment in Thai-invested enterprises was 1,100, also 0.02 percent of the total. Thailand's direct investment position has fallen from \$241 million in 1999 to only \$150 million in 2001. Therefore, employment in Thai-invested enterprises has probably fallen below the 1,000 mark.

### Barriers to U.S. Exports

In accordance with its WTO commitments, Thailand has made some progress in reducing and eliminating tariffs. For example, tariffs on 153 information technology-related products have been eliminated, and tariffs on more than 600 items have been reduced. Nevertheless, high tariffs and a complicated tariff schedule continue to hamper access to Thai markets for U.S. producers.<sup>77</sup> With an average tariff rate of 29.3 percent and import duties as high as 55 percent, agricultural exports have been particularly hurt. Affected products include dry peas, lentils, chickpeas, apples, pears, and cherries, and frozen French fries and other processed foods. The agricultural sector is also affected by non-transparent phytosanitary standards, procedures for customs valuation of products, and costly labeling and certification procedures.

Other sectors affected by high tariffs are textiles, electrical appliances, alcoholic beverages, and the automotive sector.<sup>78</sup> In addition to high tariffs, many U.S. products face quantitative restrictions, import licensing requirements, and arbitrary and irregular customs procedures. Additionally, some government-owned firms are exempt from requirements faced by firms in the private sector, resulting in a more difficult competitive environment for U.S. firms. Despite efforts by the Thai government, piracy

<sup>77</sup> The average applied tariff rate is approximately 17 percent, and the tariff regime currently has 46 rates.

<sup>78</sup> Total import taxes on wine, for example, are estimated at 380 percent.

remains at high levels. This is partly the result of a backlog in applications for patents, lengthy examination processes for new patents, loopholes in enforcement of copyrights, and lax penalties for trademark violations. Corruption and irregularities in law enforcement also help to explain the high piracy rates.

The service sector faces significant barriers, most notably in the form of foreign-ownership limits and laws prohibiting the licensing of foreign professionals. Industries affected by these regulations include accounting and legal services as well as architecture, construction, and engineering. The Thai government has made significant progress in increasing access in the telecommunication and financial services sector, but the liberalization process has been slow. Foreign banks, for example, are restricted in the number of branches they are allowed to operate in Thailand.<sup>79</sup>

### Trade Agreements

The U.S. and Thailand do not currently have any bilateral trade agreements, although they have commitments to each other through their membership in the WTO.<sup>80</sup> Thailand, in fact, has not signed any bilateral trade agreements, but has, in recent years reached out to countries such as Japan and the United States to establish bilateral trade agreements.<sup>81</sup> In 2002, Thailand announced the beginning of negotiations with Australia towards a closer economic relations (free trade) agreement.<sup>82</sup> Other possible candidates for bilateral trade agreements include South Korea, Croatia, and the Czech Republic.

Thailand is also active in the multilateral front and is a member of the WTO and APEC. Thailand is one of the original signatories of the Common Effective Preferential Tariff (CEPT) scheme of the ASEAN Free Trade Area (AFTA), first agreed to in 1992. Other original signatories included Brunei Darussalam, Indonesia, Malaysia, Philippines, and Singapore. Under the CEPT, as of January 1, 2002, tariffs for goods from other ASEAN members are under 5 percent on a so-called Inclusion List, and many are tariff free. The Inclusion List includes more than 98 percent of all tariff lines among the six countries.<sup>83</sup> Newer ASEAN members (Burma, Cambodia, Laos, and Vietnam) have more time to meet this goal. The AFTA also eliminates quantitative restrictions and other non-tariff barriers among members. The ultimate goal is for the number of goods on the Inclusion List to expand, for the six original signatories to levy no import duties by 2010, and for the four new member countries to meet the zero tariff mark by 2015. Thailand is also a member of the Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation forum.

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<sup>79</sup> Foreign banks are allowed to operate a maximum of three branches, two of which must be located outside of Bangkok.

<sup>80</sup> Agreements between Thailad and the U.S. include an agreement on cigarette imports (November 23, 1990), an agreement on intellectual property protection and enforcement (December 19, 1991), and an agreement on trade in textiles and textile products (*2002 Trade Policy Agenda and 2001 Annual Report of the President of the United States on the Trade Agreements Program*, The Office of the United States Trade Representative, March 2000).

<sup>81</sup> “Thailand and Australia begin Bilateral Talks”. BizAsia.com. May 30, 2002.

<sup>82</sup> Transcript of the Prime Minister The Honorable John Howard MP Joint Press Conference with his excellency Dr. Thasking Shinawatra – Prime Minister of Thailand, Parliament House, Canberra. May 30, 2002. Available at the Prime Minister of Australia’s website [www.pm.gov.au](http://www.pm.gov.au)

<sup>83</sup> E-mail communication from ASEAN Secretariat, November 13, 2002.

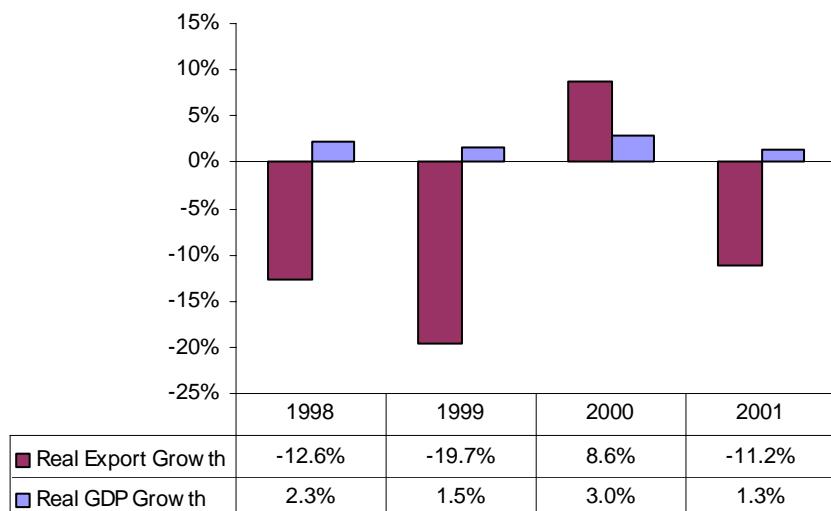
## Switzerland

Switzerland: Key Statistics			
GDP	California Exports	Export Growth (%)	FDI in California
Billions of dollars 2001	0.8	August Year-to-Date 2001-2002	Employees 1999
247.4		-19.7	53,800

### Economic Performance

A country with no significant natural resources, Switzerland has managed to achieve remarkable prosperity thanks to its plentiful supply of skilled labor and technological expertise in manufacturing. Switzerland's GDP per capita is the highest in Europe, and its unemployment rate is among the lowest. However, the country's ability to continue on the path of prosperity depends on its ability to turn around its dismal economic performance of the past decade. Between 1990 to 1996, GDP failed to increase. This was the worst performance by any Western European nation. The Swiss economy, however, is showing signs of a recovery. A 1.72 percent growth rate in 1997 was followed by positive growth figures in 1998, 1999, and 2000. In 2001, nominal GDP was \$247.4 billion.

### Real GDP and California Export Growth Rates



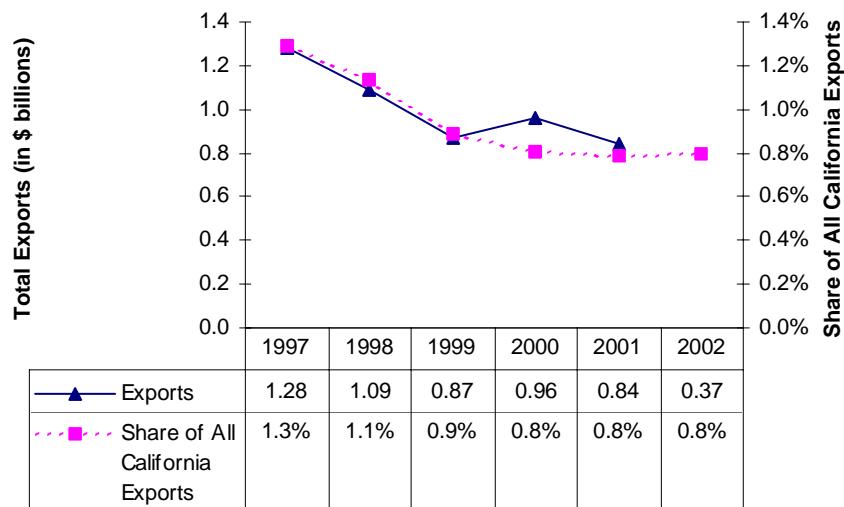
### California Exports to Switzerland

Switzerland does not represent a significant market for California exports. In 2001, California exported \$845 million worth of merchandise to Switzerland. This figure represents less than 0.8 percent of total California exports making Switzerland the twenty-second-largest market for California exports. Exports to Switzerland have suffered severe declines since 1997, with an average annual growth rate for 1997 through 2001 of -9.9 percent. Moreover, export figures through August 2002 show this downward trend continuing with a drop of 19.7 percent compared to year-to-date August 2001 figures. Despite all this, Switzerland may remain a promising market for some California exporters. As one of the most computerized countries in the world, Switzerland may prove an export destination for the software and

computers and peripherals industries. Also, the expected expansion of Swiss' airlines is expected to increase demand in the aircraft and aircraft parts market. Other industries with prospects for their products include telecommunications equipment, sporting goods, medical equipment, renewable energy equipment, and wines.

<b>Top California Exports to Switzerland</b>					
<b>Industry</b>	<b>2001 (Millions of Dollars)</b>	<b>Share %</b>	<b>Average Annual Growth Rate (%)</b>		
			<b>Actual 1997-2001</b>	<b>Projected 2001-05</b>	<b>2005-10</b>
Total Exports to Switzerland	845	100.0	-9.9	5.5	5.4
Computer and Electronic Products	307	36.3	-6.2	6.1	5.7
Chemicals	117	13.9	25.3	4.2	3.4
Machinery, Except Electrical	107	12.7	-5.4	6.0	5.8
Transportation Equipment	57	6.7	-41.9	5.9	5.7
Primary Metal Manufacturing	24	2.9	48.3	5.9	6.6
Top Five Industries Aggregated	612	72.5	-13.3	5.9	5.6

**California Exports to the Switzerland: 1997 - 2002\***



\* Figures for 2002 reflect exports through the 2nd quarter.

### Swiss Direct Investment in California

Switzerland has become a more important investor in California in recent years, moving up the employment rankings from seventh in 1990 to fifth by 1996. In 1999, Swiss-owned firms in California employed 53,800 workers, of whom 23.2 percent, or 12,500, were manufacturing workers. Switzerland became a more important investor in California through the 1990s. From 1990 to 1994, it alternated between seventh and sixth, but moved into fifth place in 1995, where it has stayed.

Based on the value of PPE, Swiss investment in California is very strong in chemical manufacturing, which includes pharmaceuticals. In fact, 50 percent of all Swiss-owned PPE in the state is

in chemicals, and almost 35 percent of all foreign-owned PPE in the chemical industry in California is owned by Swiss investors.

Swiss investment in California may well have risen substantially since 1999, as it did so in the United States as a whole. In 1999, the direct investment position of Swiss investors totaled almost \$53 billion; by 2001, it had more than doubled, hitting \$125.5 billion. U.S. statistical authorities report an inflow of \$52 billion of new capital in 2001. Of this, about \$15 billion represented businesses newly established or acquired, so the remainder must have come from increases in the ownership level of existing businesses, or expansion of existing businesses. Given this increase, it is possible that employment in Swiss-invested firms in California had risen to more than 125,000, or about 14 percent of the estimated total. Such an increase would boost Switzerland's rank to third. However, this estimate may overstate actual employment because ownership changes likely will not lead to large employment increases.

### **Barriers for U.S. Exports**

Switzerland has a relatively liberal trade policy. Except for significant barriers in the agricultural sector, U.S. goods and services enjoy fairly easy access to the Swiss market. Protection of the agricultural sector is provided in the form of high tariffs, tariff-rate quotas, and subsidies. For example, the average simple tariff on agricultural products is 34.3 percent, whereas the average for manufactured goods is only 2.3 percent. Tariff-rate quotas on agricultural products affect U.S. producers, as quotas tend to be allocated to importers that have purchased domestic products. Moreover, domestic and export subsidies significantly reduce competition in the Swiss markets.<sup>84</sup> Additionally, preferential treatment for other countries (such as members of the EU), labeling requirements for genetically modified foods, and bans on the use of hormones, antibiotics, and other anti-microbial substances in the raising of beef and pork continue to hamper access to Swiss markets for U.S. agricultural products.

The Swiss economy is also characterized by a high degree of cartelization. This poses a challenge for U.S. firms seeking to compete in Swiss markets, as these cartels tend to be domestically-oriented firms (as opposed to internationally active multinationals). Although the Swiss government recently introduced new anti-trust laws to strengthen competition, these remain weak by American or EU standards.

### **Trade Agreements**

In 1960, Switzerland joined Iceland, Lichtenstein, Norway and other European nations to form the European Free Trade Area.<sup>85</sup> As its name implies, the main goal of the EFTA was to liberalize trade among its members by eliminating barriers to trade. In 1990, the European Economic Area (EEA) was created to foster the economic integration between the European Union and the EFTA. In 1992, however, Switzerland opted out of this agreement.<sup>86</sup> In 1998, recognizing their country's interrelationship with the

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<sup>84</sup> Although agriculture represents only 2 percent of Swiss' GDP, nearly 8 percent of the government budget is allocated to support this sector.

<sup>85</sup> The founding members of the EFTA included Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. These were subsequently joined by Iceland, Finland and Liechtenstein. Denmark, United Kingdom, Portugal, Austria, Finland and Sweden have withdrawn at different stages from the EFTA and have since joined the European Union.

<sup>86</sup> The other members of the EFTA entered into an agreement to join the European Economic Area. As a result of this, the convention that establishes the EFTA was updated to reflect the new relationship between Switzerland, other EFTA members, and their relationship with the European Economic Area. For a detailed description, see "Update of the EFTA Convention – Detailed Overview," available on the Secretariat of the EFTA's website at <http://secretariat.efta.int/Web/EFTAConvention/DetailedOverviewEFTAConvention/view>

rest of Europe, voters and the parliament approved a referendum for a series of seven bilateral agreements with the EU.<sup>87</sup>

In addition to these agreements, Switzerland (through the EFTA) has free trade agreements with Romania, Poland, Czech Republic, Slovakia, Hungary, Bulgaria, Estonia, Lithuania, Israel, the Palestinian Authority, Turkey, and Mexico. These free trade agreements cover mostly industrial goods but also include some agricultural products. A similar agreement is currently under negotiations with Canada and more are foreseen for Slovenia, Albania, Macedonia, Egypt, Malta, Morocco, Tunisia, Cyprus, Jordan, Lebanon, and Singapore.

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<sup>87</sup> Ironically, these agreements with the EU “constitute a framework for economic relations which goes considerably further than the [original] EFTA Convention” (Secretariat of the European Free Trade Area).

## The Asia Pacific Economic Cooperation Forum

### Economic Performance

Established in 1989, the Asia Pacific Economic Cooperation forum (APEC) was developed with the ultimate goal of eliminating tariffs in APEC member countries on terms generally referred to as “open regionalism.”<sup>88</sup> There is no clear consensus on the meaning of the term, but the most optimistic interpretation is that barriers will be eliminated on imports from all countries of the world, not only imports from APEC members. There has been movement in that direction, but much remains to be done. APEC now has 21 members, including California’s three largest export partners (Canada, Japan, and Mexico).

### California Exports to APEC countries

APEC countries account for nearly half of the world population, and the combined size of APEC’s member economies topped \$17 trillion in 2000. In that same year, APEC members accounted for nearly half of world trade.<sup>89</sup> Additionally, APEC is home to California’s largest export markets as well as to those in which California producers face significant trade barriers. Because of this, any achievement in trade barrier reductions can have a tremendous effect on California exports.

In 2001, nearly 72 percent of all California exports headed for APEC countries. This share is up from 64 percent in 1990.<sup>90</sup> The relative increase in importance by APEC countries can be explained by the tremendous growth experienced in some East Asian countries coupled with trade liberalization measures, such as NAFTA. Since 1997, exports to APEC have grown an average of 1.54 percent per year. However, growth has not been uniform across all APEC countries. For example, exports to Mexico and Canada have grown an average of 6.5 percent per year, whereas exports to other APEC countries have actually declined 0.9 percent per year on average.

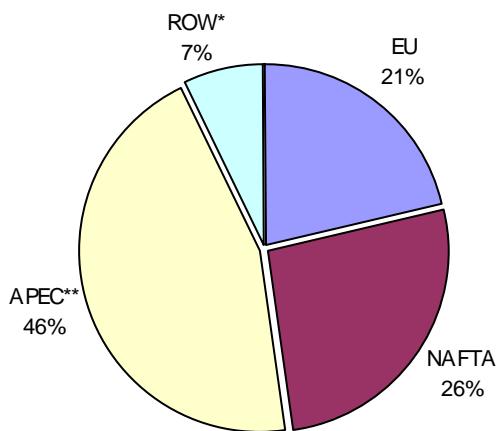
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<sup>88</sup> Bergsten (1997).

<sup>89</sup> APEC official website, <http://www.apecsec.org.sg>.

<sup>90</sup> In 1996, the year before the Asian financial crisis, the share of exports heading to APEC countries was as high as 74 percent.

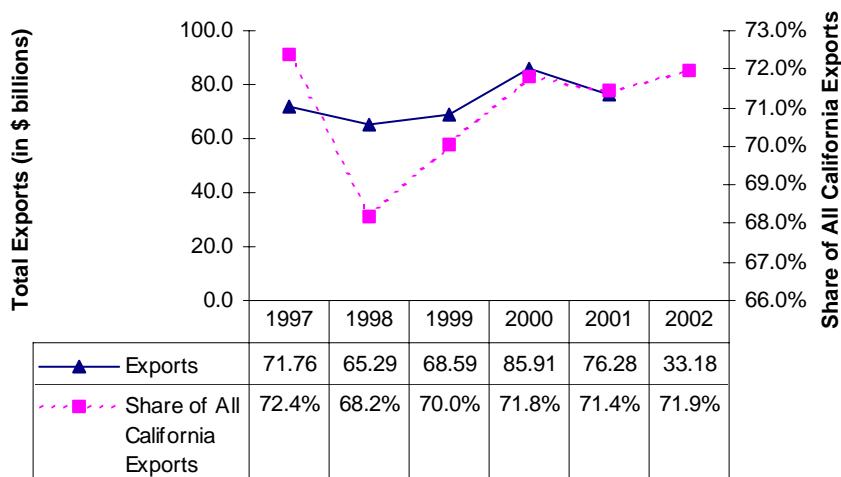
## California Exports by Trading Regions in 2001



\* Rest of the world.

\*\*Figure for APEC excludes Canada and Mexico, which are accounted for under NAFTA

## California Exports to APEC Countries: 1997 - 2002\*



\* Figures for 2002 reflect exports through the 2nd quarter.

### Direct Investment from APEC in California

The 21 APEC members include California's leading investor, Japan (its fourth-leading investor), Canada (its ninth-leading investor), Australia, as well as smaller investing nations, such as Korea, Mexico, and Singapore. In 1999, investors from the APEC countries employed at least 261,600 workers,

slightly down from the 1998 figure of 272,100, but above 1990's figure of about 240,000.<sup>91</sup> This is slightly lower growth than that experienced by employment overall in foreign affiliates in California.

As previously noted, the largest APEC investors include Japan, Canada, and Australia. Japan and Canada alone account for about 82 percent of all APEC employment in California, whereas the top five – Japan, Canada, Australia, Taiwan, and Korea – account for about 93 percent of all APEC employment in California. For the distribution of APEC investment by industry, refer to the country sections for those five countries.

Near-term patterns will be determined by investment by the five largest members. However, economic growth is one of the determinants of foreign direct investment. As the smaller members – such as Malaysia, Philippines, Chile, Thailand, Vietnam, and Russia – grow, the flow of foreign direct investment into California from these countries should rise. As of 1999, about 15,000 fewer workers were employed in APEC firms than in EU firms. Whether APEC passes the EU will depend on growth patterns of the smaller APEC members, the economic health of Japan, and the economic health of the major EU investors, UK, Germany, and France.

### **Barriers to U.S. Exports in the APEC region**

Although APEC is still relatively young, the commitment of its member countries to broad liberalization is clearly stated, if not clearly delivered in all cases. Between 1988 and 1996, the average tariff level declined from 15.4 percent to 9.1 percent, a 40 percent reduction.<sup>92</sup> Furthermore, the incidence of non-tariff measures declined from 10 percent of import coverage to 5 percent by 1993.<sup>93</sup> These tariff reductions however have not been uniform, and some APEC members still impose high tariffs on some U.S. products.

One aspect in which APEC can contribute significantly to the improvement of trade flows is the elimination or reduction of non-tariff barriers. Non-tariff barriers vary widely across members and range from burdensome customs procedures to outright bans on products. The “Barriers to U.S. Exports”<sup>94</sup> sections in the profiles for any of APEC’s members illustrates many of these non-tariff barriers.

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<sup>91</sup> The country mix varies slightly across years. The employment totals for 1998 and 1999 exclude Brunei, Chile, New Zealand, Papua New Guinea, Peru, Russia, Thailand, and Vietnam (group one), while the 1990 figure also excludes China, Indonesia, Mexico, and the Philippines (group two). Excluding groups one and two, the total for 1999 was 252,500. Group one does account for much employment nationally. The total employment for APEC-invested firms in the United States in 1999 was 1,716,000; excluding group one it was 1,710,900, a difference of less than 1 percent.

<sup>92</sup> Council of Economic Adviser (1998), p. 232.

<sup>93</sup> Bergsten (1997). Note that these measures of protection are simple rather than trade-weighted averages.

<sup>94</sup> Trade barriers in the following APEC members are presented in this paper: Mexico, Canada, Japan, Taiwan, China, Korea, Singapore, Hong Kong, Malaysia, Australia, and the Philippines.

## **European Union**

### **Economic Performance**

Envisioned as a vehicle to establish harmony between European nations, the European Union has emerged as a key player in world economics and politics.<sup>95</sup> The original list of six members has grown to 15, with 13 new candidates for membership.<sup>96</sup> One of the most notable achievements of the European Union is the creation of the Economic and Monetary Union and the launch of a single currency, the euro.

It is difficult to make generalizations about the EU economy because of the heterogeneity of its member states' economies. However, a few observations can be made. In recent years the EU has experienced slower growth and higher unemployment than the United States. In 2001, real GDP grew 1.6 percent and the unemployment rate dropped from 8.8 percent to 8.3 percent.<sup>97</sup> The aggregate GDP of the EU economies amounted to \$7.9 trillion in 2001, making the EU the second-largest economy in the world.

### **California Exports to the EU**

In 1990, 28 percent of all California exports headed for the EU. By 2001, this share declined to 21 percent. Despite this relative decline, the EU remains an important market for California exports. During the 1997-2001 period, exports to the EU grew an average of 4 percent per year. Although this growth rate was below the growth exhibited by exports to NAFTA countries (6.5 percent), it was much higher than the negative growth in exports to APEC countries (not including Mexico and Canada).

The vision of the EU as a single market, and its planned eastward expansion, represent an opportunity for California exporters. Sectors with the greatest potential include aerospace and defense, automotive, energy, environmental, information and communications technologies, medical and pharmaceutical, and travel and tourism.<sup>98</sup> In 2001, California exported \$22.8 billion in merchandise to the EU, an 11.4 percent decline from the previous year.

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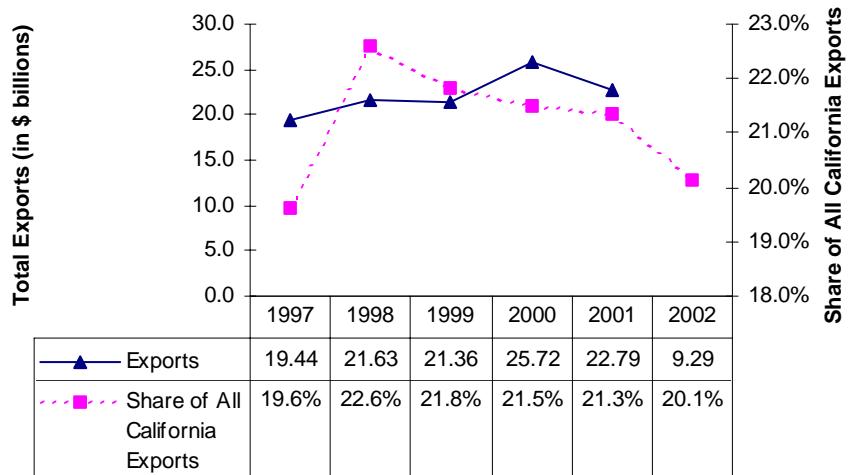
<sup>95</sup> The stated goals of the European Union are: 1) to establish European citizenship, 2) ensure freedom, security and justice, 3) promote economic and social progress, and 4) assert Europe's role in the world. "The European Union at a Glance," European Union website, <http://europa.eu.int/abc-en.htm>

<sup>96</sup> Members include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom. Candidate members include Bulgaria, Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Romania, Slovenia, Slovakia, and Turkey, though negotiations are not proceeding with Turkey and those with Bulgaria and Romania are on a slower track than those with the others.

<sup>97</sup> The growth rate of the EU economy is expected to decline during 2002, but is projected to increase to 2.9 percent in 2003. The unemployment rate is expected to remain high (European Commission, 2002).

<sup>98</sup> U.S. Commercial Service (2001).

## California Exports to the European Union : 1997 - 2002\*



Sources : MISER data by NAICS and origin of Movement. Share for 2002 is based on figures through the 2nd quarter.

### Direct Investment from the European Union in California

The 15 members of the European Union include some of California's largest investors, such as the United Kingdom, Germany, France, and the Netherlands. As a group, investors from the 15 EU countries employed 277,900 workers in California in 1999, well above the trough of 224,300 in 1994.<sup>99</sup> This increase is also slightly above the proportional increase of employment in all foreign-invested firms in California. Within the group of EU investors, the top three – the United Kingdom, Germany, and France – account for about 75 percent of total employment in EU-invested firms. In addition, employment in EU-invested firms accounted for almost 83 percent of all employment in firms with investment from all of Europe.

The industrial distribution of EU investment is not available. However, because EU investment accounts for the vast majority of European investment, its industrial distribution is probably similar to that of Europe's as a whole, described in the paper that this appendix accompanies.

Between 1999 and 2001, EU direct investment in the United States grew from a \$582 billion to \$808 billion. Some of this growth came from investments in technology industries, and some may have been helped by lower financing costs brought about by the introduction of the euro, the EU's common currency. Given this growth, employment in EU-invested companies in California is estimated to have risen to more than 350,000 in 2001.

### Barriers to U.S. Exports

Not surprisingly, many of the disagreements between the EU and the United States involve agriculture; both economies are major agricultural producers and have complex agricultural support programs and trade policies. Following negotiations to establish ceilings on grain duties, the EU

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<sup>99</sup> These totals exclude investors from Greece and Portugal, for whom no data are available. However, investments from these two countries are probably small.

established a reference price system that affects U.S. exporters of high-value grains, such as barley and packaged rice. The reference price system works against U.S. exporters by depriving them of the benefits they expected to receive from the ceilings on duties. Exports of U.S. agricultural products have been further affected by the breakdown in the EU's approval process for new varieties of genetically modified commodities. Corn exporters have been hit particularly hard by the EU's biotechnology policy, which effectively ban corn exports.

Although U.S. wines are currently allowed into the EU by a series of annual extensions and temporary exemptions, there is concern by U.S. producers about EU's import requirements and regulations and current EU subsidies to grape growers and wine producers.<sup>100</sup>

The cattle and poultry industry have also been affected by EU regulations. Beef from cattle treated with hormonal growth promoters has been banned for more than 10 years in the EU.<sup>101</sup> U.S. exports of poultry have also been banned because of the prohibition on the use of antimicrobial treatments in poultry production.

One of the more unusual – and long-running – trade disputes involved bananas, which neither the EU nor the United States actually grow. The EU's preferential treatment of bananas produced by former colonies of EU members resulted in several dispute actions by the United States before being settled in 2001 through personal diplomacy between U.S. Trade Representative Robert Zoellick and EU Trade Commissioner Pascal Lamy. This agreement increased the quotas faced by U.S. exporters – who ship bananas from Latin America – and provided for the eventual move to a tariff-only system by 2006. This agreement also lifted the WTO authorization for the United States to place sanctions on EU products.

Despite efforts to create a uniform foreign trade policy in the EU, differences in standards and in testing and certification procedures across countries continue to affect some U.S. exports. The EU has committed to the harmonization of standards and testing and certification procedures, but the U.S. remains concerned about the lack of transparency in the standardization process. The pharmaceutical industry has been particularly affected by differing approval processes and strict price, volume, and access controls placed by national governments. Austria, Belgium, France, Italy, and the Netherlands are a few of the countries identified by the U.S. government in which significant barriers exist in this sector.

There are proposals that could potentially affect exports of electric and electronic products. For example, the European Commission (EC), the key governing institution of the EU, is currently considering a proposal to restrict the use of hazardous substances in electrical and electronic equipment. The list of substances considered includes lead, mercury, cadmium, and certain flame retardants. There is concern that such ban would affect products where substitutes may not exist.<sup>102</sup> The EC is also considering regulating product design of electrical and electronic equipment. This regulation is aimed at harmonizing European standards, but there is concern that it may negatively affect exports in that sector by diminishing design flexibility and increasing administrative burdens. Moreover, the EU approved new

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<sup>100</sup> EU regulations require imported wines to comply with EU-authorized wine making practices. The United States and the EU are currently working on a bilateral agreement that will give U.S. producers equitable access to the EU market.

<sup>101</sup> The WTO through its dispute settlement procedure has found against Europe in this matter and set a value of \$116.8 million per year for U.S. retaliation.

<sup>102</sup> The EC is also considering two waste management programs that could affect trade of electric and electronic products. The first deals with the recycling and discarding of such products by forcing producers to pay for reuse or recycling of their products at the end of the product's life. The second deals with the ban of nickel-cadmium batteries and products powered by them.

limits in 2001 on low frequency emissions from electrical and electronic equipment.<sup>103</sup> The new limits translate into billions of dollars in redesign costs for U.S. products.

Other barriers affecting U.S. exports include restrictions in government procurement (particularly in the utilities sector), EU subsidies to domestic aircraft manufacturers and suppliers, and shipbuilding industry support (including direct and indirect subsidies and home credit schemes).

## **Trade Agreements**

Despite disagreements on a few trade issues, the United States and the EU remain committed in their efforts to reduce or eliminate barriers to trade and investment. The Transatlantic Economic Partnership, signed in 1998, seeks to eliminate technical barriers to trade in goods and services. This agreement also covers government procurement and intellectual property. The current Doha Round negotiations regarding WTO agreements will put this relationship to the test, especially regarding agricultural subsidies and protection.

The EU has bilateral free-trade agreements with Bulgaria, Czech Republic, Denmark, Estonia, Hungary, Iceland, Israel, Jordan, Latvia, Mexico, Morocco, Norway, the Palestine Liberation Organization, Poland, Romania, Slovak Republic, Slovenia, Switzerland, South Africa, and Tunisia, among others. It is also negotiating FTAs with Chile and MERCOSUR (Argentina, Brazil, Paraguay, Uruguay). Other trade and cooperation agreements include those with Algeria, Cyprus, Egypt, Malta, Turkey, and Syria.<sup>104</sup>

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<sup>103</sup> U.S. authorities believe this new requirement is not scientifically justified.

<sup>104</sup> "EC Regional Trade Agreements." Di Trade, 9/2/02 <http://europa.eu.int/comm/trade/pdf/ecrtagr.pdf>

## Data for Country Profiles

Information for these country profiles was compiled from a large array of sources. The primary sources for the “Economic Performance” section of each country and region profile are country reports from *The Economist* in cooperation with the Economist Intelligence Unit and from the 2002 *World Factbook* of the U.S. Central Intelligence Agency.

Data for the each country’s “Key Statistics” table was obtained from a variety of sources. Except for Taiwan, GDP figures are from the World Development Indicators put together by the World Bank.<sup>105</sup> Export levels and growth rates are from the export database of the Massachusetts Institute for Social and Economic Research (MISER), and FDI figures are from the Bureau of Economic Analysis both directly and through California’s Technology, Trade and Commerce Agency. Export growth figures for 2002 are based on California exports through August 2002. FDI figures represent the numbers of employees by each particular country’s affiliates in California.

Real GDP growth figures used in the charts entitled “Real GDP and California Exports Growth Rates” were also obtained from the World Bank’s World Development Indicators.<sup>106</sup> Real export growth rates were calculated using export data from MISER and export price indexes from the Bureau of Labor Statistics.

The review of California exports in each country profile is based on data from MISER. Industry sectors with the best prospects for California exports were obtained from the U.S. Foreign and Commercial Service’s Country Commercial Guides for fiscal year 2002.<sup>107</sup> The review of California exports in individual country sections also includes growth estimates for the top five export industries and for aggregate exports. These estimates were calculated by the authors using MISER state-level export data and national export growth estimates from the Center for Global Trade Analysis at Purdue University’s Department of Agricultural Economics. These national export growth estimates were adjusted to account for differences in the industry distribution of exports between the U.S. and California. These growth estimates are for exports in terms of 1997 dollars.

The review of trade barriers in each country profile is based on:

- 2001 Country Reports on Economic Policy and Trade Practices, released by the Bureau of Economic and Business Affairs at the U.S. Department of State,
- the 2002 National Trade Estimate Report on Foreign Trade Barriers, published by the United States Trade Representative, and
- Country Commercial Guides for fiscal year 2002 published by the U.S. and Foreign Commercial Service and the U.S. Department of State.

The Country Commercial Guides for fiscal year 2002 were also the primary source on information on trade agreements signed by each country. Additional sources of information for each country profile have come from ASEAN or APEC secretariat web sites, individual country statistical agency web sites, or have been footnoted in the text.

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<sup>105</sup> Nominal GDP figures for Taiwan were obtained from Taiwan’s “Statistical Abstract of National Income,” available at <http://www.stat.gov.tw>.

<sup>106</sup> Real GDP growth figures for Taiwan were obtained from Taiwan Statistical Databook 2002.

<sup>107</sup> The list of industries with good growth prospects cited in this section is not meant to be comprehensive.

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