RESEARCH BRIEF

Public Policy Institute *of* California

MARCH 2001 ISSUE #45

California's Export Markets: Barriers and Opportunities

International trade is perhaps more important to California than to any other state in the nation. After growing at almost 10 percent per year since 1993, California exports in 1998 accounted for almost 16 percent of all goods exported by the United States. In that year, producers in the state shipped more than $105 billion worth of goods to foreign countries.

Given the significance of international trade to the California economy, it is clearly important for policymakers and producers to understand the tariff barriers the state faces in the international community and the effects of recent and current trade liberalization initiatives that seek to alleviate these barriers. In *California's Vested Interest in U.S. Trade Liberalization Initiatives*, Jon D. Haveman analyzes California's export markets, answering the following questions: To whom are goods shipped? What sorts of goods are exported? How significant are the barriers that California exports face in other countries?

In answering the last question, Haveman examines the effects of the large and comprehensive trade negotiations of the early to mid 1990s—the Uruguay Round, the North American Free Trade Agreement (NAFTA), and the Information Technology Agreement (ITA). He then looks at the current U.S. trade liberalization agenda. This includes negotiations with other countries in North and South America seeking to establish a Free Trade Area of the Americas (FTAA), as well as negotiations with countries bordering the Pacific Ocean and participating in the Asia-Pacific Economic Cooperation (APEC) Forum. The ultimate goal of the APEC Forum is to eliminate all tariffs among APEC-member countries.

These are some of the study's most significant findings:

- California producers have a greater propensity to export than do producers elsewhere in the United States.
- California exports are disproportionately clustered in the high-technology sectors.
- California exports are more likely than exports from the rest of the country to end up in Asia, especially Japan.
- The liberalization of foreign markets has provided a greater boost to California exports than to exports from most other states.
- The APEC Forum has the potential to provide significant benefits to California producers.
- Because California exports very little to South America, the FTAA provides little benefit to California producers.
- Because of the composition of California exports, some notable markets—in particular, Brazil, India, and China—are less open to California exports than to those from the rest of the country.
- The current liberalization agenda provides potential relief from 90 percent of the tariff barriers faced by California exports.

Trade Patterns: California and the Rest of the Nation

During the 1990s, economic relations between the United States and some of its major trading partners changed dramatically. The completion of the Uruguay Round, the institution of NAFTA, and progress in the APEC Forum have all contributed to significant reductions in barriers to U.S. exports. Between 1993 and 1998, the nominal value of U.S. exports grew at an average annual rate of 9.3 percent.

Because the commodity composition and geographic destination of individual states' exports vary considerably, the patterns of trade liberalization have benefited some states more than others. As it turns out, California exports commodities that have become an increasing share of world exports and ships them to countries that, until 1998, had been growing rapidly and that had also been reducing their barriers to trade. Between 1993 and 1998, the state's exports grew at an annual average rate of 9.9 percent.

As might be expected, California's location on the West Coast affects its trade flows, which differ significantly from those of the rest of the country. As shown in Table 1, the top three trading partners are the same for California and the rest of the nation. However, California's trade is more concentrated in Asian countries. Five of California's top 10 trading partners are in Asia: Japan, Taiwan, Singapore, South Korea, and Hong Kong. These countries receive almost one-third of California's exports.

Table 1
Top Export Destinations in 1998

	Export Share (%)		Rank	
	California	Rest of U.S.	California	Rest of U.S.
Japan	13.80	7.59	1	3
Mexico	12.85	11.48	2	2
Canada	12.11	24.53	3	1
Taiwan	5.66	2.14	4	10
U.K.	5.46	5.72	5	4
Singapore	4.57	1.92	6	–
Germany	4.54	3.78	7	5
South Korea	4.09	2.11	8	–
Netherlands	3.78	2.65	9	7
Hong Kong	3.40	1.62	10	–
France	2.36	2.66	–	6
Brazil	1.28	2.44	–	8
Belgium	1.26	2.21	–	9

The countries indicated in boldface in the table are APEC-member countries. The other APEC countries receiving more than 1 percent of California's exports (and California's percentage share of exports to these countries) are Australia (2.51), China (2.32), Malaysia (2.31), the Philippines (1.40), and Thailand (1.19). Altogether, trade with APEC countries accounts for nearly 70 percent of all California exports.

Table 2 compares the share of total goods exported by the 10 industry groups in California with the largest share of exports to the same industries in the rest of the country. Exports are concentrated in a smaller number of industry groups in California than elsewhere. The largest export industries in California—electronic equipment and industrial machinery—account for more than 54 percent of all exports. These same industries account for only 31 percent of exports from the rest of the nation.

Table 2
Top Export Industries in California and the Rest of the United States by Percentage Share of Total Exports, 1998

	California	Rest of U.S.
Electronic equipment excluding computers	28.54	14.10
Industrial machinery and computers	25.57	17.09
Transportation equipment	11.18	20.59
Instruments and related products	8.85	5.65
Food and kindred products	5.15	4.12
Chemicals and allied products	4.23	11.04
Agricultural production	3.05	3.87
Fabricated metal industries	2.35	3.26
Miscellaneous manufacturing	1.94	1.63
Primary metal industries	1.78	3.85
Total	92.64	85.20

California's Best Interests

Because California accounts for just under 16 percent of the total U.S export of goods, California has more at stake in the U.S. trade liberalization agenda than most, if not all, other states. Relative to exports from other states, California's are concentrated in Asia and in the industrial and electrical machinery industries. Thus, California's interests can best be served by initiatives that reduce barriers to trade in these countries and these industries. This is precisely what happened between 1993 and 1998, because the most aggressive liberalization in recent years has occurred primarily among APEC-member countries. For example, California's largest trading partners—Japan, Mexico, and Canada—in 1993 targeted California goods with tariffs of 5.47, 13.57, and 0.98 percent, respectively. By 1998, these tariffs had fallen to 2.48, 5.16, and 0.50. Similarly, in 1993, the tariff on California's electronic equipment and industrial machinery was 7.64 and 5.49. By 1998, these had fallen to 2.76 and 2.28. Now and in the future, the interests of California exporters and the California economy can best be served by emphasizing success in the APEC Forum.

This research brief summarizes a report by Jon D. Haveman, California's Vested Interest in U.S. Trade Liberalization Initiatives *(2001, 98 pp., $10.00, ISBN 1-58213-026-4). The report may be ordered by phone at (800) 232-5343 [U.S. mainland] or (415) 291-4400 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California. This project was supported by PPIC through an Extramural Research Program contract.*

PUBLIC POLICY INSTITUTE OF CALIFORNIA
500 Washington Street, Suite 800 • San Francisco, California 94111
Telephone: (415) 291-4400 • Fax: (415) 291-4401
info@ppic.org • www.ppic.org