

Global California: The Connection to Asia

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**Public
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David W. Lyon is founding President and Chief Executive Officer of PPIC. Raymond L. Watson is Chairman of the Board of Directors.

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Introduction

California has long had connections with the nations of Asia. Over the decades of the nineteenth and twentieth centuries, immigrants from China, Japan, and the Philippines helped build the economy and culture of California. California provided the great ports of entry and exit for the trade of goods all over America, and the richness of California's natural resources has long stood as a symbol of opportunity for peoples throughout the Pacific Rim.

In recent decades, the longstanding symbiotic relationship between California and the people and nations of Asia has reached new proportions. I would like to use my limited speaking time today to review some recent developments in demographic change, economic growth, and civic participation that highlight just how much the relationship between California and Asia has expanded.

The findings I present today on the relationship between Asia and California are drawn entirely from research carried out and published by the Public Policy Institute of California. I am indebted to AnnaLee Saxenian, Hans Johnson, Mark Baldassare, Zoltan Hajnal, Jon Haveman, Howard Shatz, and Jack Citrin, who have covered the topic of Asia and California under a variety of aspects ranging from immigrant entrepreneurs and export trade to foreign direct investment and political participation. I am grateful to the Honorable Wilma Chan and the California Assembly Select Committee on Asian Trade for the opportunity to speak here today and for the opportunity to summarize what we have learned from our research over the last eight years.

Population

First, let's take a look at the demography of California and the role that Asians – including Southeast Asians – play in the dramatic changes that are underway.

- Asians increased from 3 percent of the California population in 1970 to 11 percent in 2000. The U.S. Census Bureau estimates that Asians will make up 17 to 18 percent of the population of California by 2025.
- Of the state's 33.9 million people, 4.2 million said they were Asian or "Asian and some other race" in the 2000 census.
- Asians are the fastest growing ethnic group in California, with a population increase of over 500 percent between 1970 and 1998. However, Asians still represent a small proportion of most California counties.
- The Bay Area accounted for 1.3 million Asians, and the South Coast area was home to another 1.5 million.
- Among ethnic groups, Asians had the second-lowest poverty rates – 17 percent – in 1997 compared to 10 percent for whites.

- Although immigrants from Mexico still dominate flows into California, Asians account for one-third of the annual immigrant flow.
- Among the largest immigrant groups in California, Asian Indians have the highest level of educational attainment, with over half (57 percent) holding college degrees.

In sum, as the population of California increases now and into the foreseeable future, Asians will make up an increasing share of the total population. The largest concentrations of Asians are in the Bay Area and the South Coast. Most other parts of the state have relatively small proportions of families with Asian identity. In general, the Asian population of California is relatively well off as measured by poverty rates, although some groups, such as Southeast Asians, have poverty levels comparable to those of the poorest groups in California. In general, however, Asians are doing well in California and some are at, or moving toward, the highest levels of educational attainment.

Economy

The link between Asian nations and California is best exemplified by taking a close look at our economic activities.

Trade Relations

Nearly half of all goods that started their export journey from California in 2000 went to Asia (\$60 billion of \$129.7 billion). In the rest of the United States, in contrast, only a quarter went to Asia and another quarter exited to Canada. Asia's importance to California's exports is even more evident when one considers that eight of California's top 15 export destinations are in Asia. Taken together, these eight countries account for 40 percent of all California exports. In contrast, the same eight countries account for only 19.8 percent of exports from the rest of the United States. We should note, however, that NAFTA has had a significant effect on exports. In 1999, Mexico edged out Asia in 1999 as California's leading destination. For the first ten months of 2002, California exports to Mexico totaled \$13.6 billion, and exports to number-two destination Japan totaled \$9.3 billion.

Participating nations in the Asia Pacific Economic Cooperation Forum (APEC) represent many of the markets that are important to California's future growth. Reduction of tariffs in APEC would raise California's merchandise exports by about \$19 billion. Japan, Hong Kong, and Singapore are all top-ten locations for foreign affiliates of California firms. In contrast, Japan is the only Asian nation that ranks among the top ten for hosting affiliates of firms from the rest of the United States.

Asian Pacific counties are second only to Europe in investment activity in California. In terms of plant, property, and equipment (PPE), Asian-owned firms are particularly strong in computers and electronic products, wholesale trade, and real estate. Asian firms own almost three-quarters of all foreign-owned PPE in California's computer and electronic product industry, and that share rises above 90 percent for the subgroup of computer and peripheral equipment.

Silicon Valley

Immigrant-run Silicon Valley companies collectively accounted for more than \$16.8 billion in sales and 58,282 jobs in 1998 – one quarter of Silicon Valley tech businesses. Out of 11,443 high-tech firms started during this period, Chinese ran 2,000 (17 percent) and Indians ran 774 (7 percent).

These immigrant entrepreneurs rely on a diverse range of informal social structures and institutions to support their entrepreneurial activities – for example, The Chinese Institute of Engineers and The Asian American Manufacturers Association. These ties have measurable economic benefits. For every 1 percent increase in the number of first-generation immigrants from a given country, exports from California go up nearly 0.5 percent.

In 1990, 32 percent of Indians and 23 percent of Chinese employed in Silicon Valley had advanced degrees, compared to only 11 percent for whites. In tech industries in the same year, 55 percent of Indian workers and 40 percent of Chinese workers held graduate degrees, compared to 18 percent of whites.

In sum, although California's business interests are global, the state is bound to Asia and therefore to Asia's economic health – California's ports ship disproportionately to Asia, its businesses export disproportionately to Asia, and its direct investors place more weight on Asia than do investors elsewhere in the United States. Moreover, Asian investors and immigrants have played a key role in the development of the Silicon Valley economy.

Public Opinion

What do Californians think about these growing links to Asia? Although PPIC has not conducted a comprehensive survey of public opinion on the Asian presence in California, we did conduct a special survey during the commemoration of the 50th Anniversary of the San Francisco Peace Treaty and found the following.

- Seventy-four percent of the 2000 Californians interviewed have a favorable opinion of Japan, with 65 percent saying that Japan has had a major influence on U.S. culture and technology.
- Ninety-two percent agree that the relationship between Japan and the United States is important, and almost 60 percent say that the current state of relations is either "good" or "excellent."
- Californians are slightly more likely to say that the U.S. relationship with China is more important than the U.S. relationship with Japan.

Civic Participation

Asians in California are frequently characterized as being uninvolved in the civic affairs of the state or their local governments. Although it is difficult to quantify such characterizations, PPIC has done some analysis of voting patterns throughout the state.

Just 4 percent of California voters are Asian, a figure that does not reflect the state's racial and ethnic diversity. In 1996, Asian and Hispanic adult population shares (12 and 25 percent, respectively) were severely underrepresented in the voting population, constituting only 6 and 12 percent of the California vote.

Even after controlling for voter eligibility, Asian and Hispanics register and participate at lower rates than African Americans and whites. Among Asians eligible to vote, 69 percent register and 57 percent actually cast a ballot. For Hispanics, the comparable figures are 68 percent and 54 percent. From 1990 to 2000, Asian voter participation rates were 15 to 20 percentage points lower than those for whites.

In spite of their low turnout at elections, Asians agreed with the majority of California voters more often than not on a wide range of issues. But there is a sense from PPIC research that the low political interest and participation mean that Asians will have a difficult time gaining influence in the politics of the state. If Asians – and Latinos for that matter – are to have their voices counted equally, they must become much more politically engaged.

Concluding Thoughts

Asia is playing an ever more important role in the economic health of California. The preponderance of California trade is with Asia. Asians invest actively in California – especially in Silicon Valley – and California has substantial outward foreign direct investment in Asia. As we have seen in Silicon Valley, Asians in California increasingly represent a connection to their home countries. The connections are people, goods, and ideas, and the benefits flow in both directions. As one PPIC researcher noted recently, a policy that focuses solely on export expansion is no longer appropriate. California also needs to find ways to plug the state's small and medium enterprises into global production networks. This will generate imports into the state as much as exports, outward investment as much as inward.

There is no better way to summarize the relationship with Asia in the future than to say that it will be a two-way street – the flow of money, people, products, and ideas into California will be matched by an equally important flow out. The research at PPIC has given us a clearer picture of the consequences of this two-way flow, and we welcome the Committee members and others to judge whether they like the picture they see. Again, I thank you for the opportunity to share these findings with you.

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