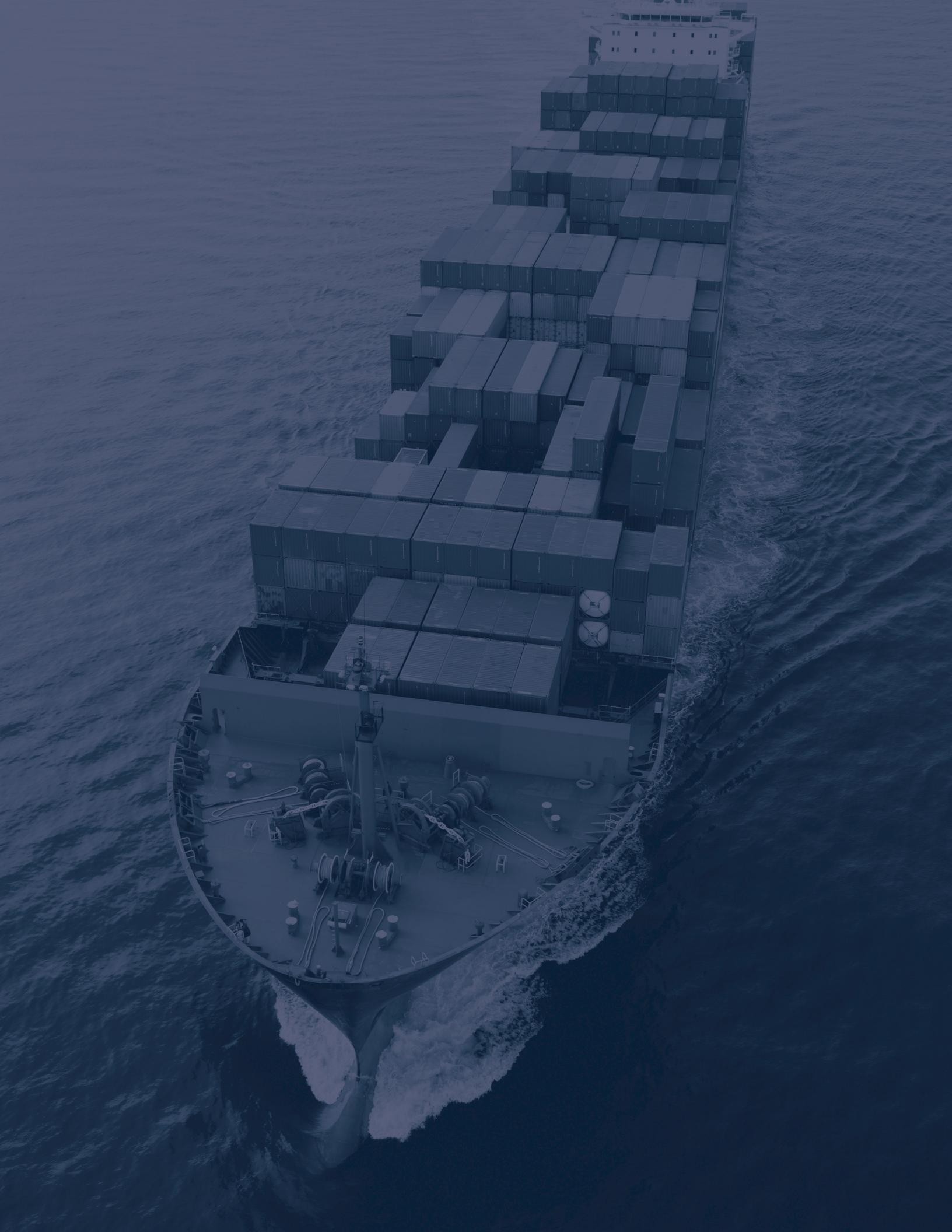




CALIFORNIA CAPITAL REGION EXPORT PLAN





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EL DORADO • PLACER • SACRAMENTO
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A part of The Global Cities Initiative,
a joint project of Brookings and JPMorgan Chase

CALIFORNIA
CAPITAL REGION
EXPORT PLAN

SECTION 1

How Economic Diversity Became Critical to the Capital Region

THE 2007–2009 U.S. RECESSION WAS DIFFICULT FOR

the whole nation, but it had a dramatically negative effect on the California Capital Region. Employment and employment growth sputtered, with nearly 140,000 jobs lost and unemployment pegged at more than 12%. This put a spotlight on the economic overdependence on two employment sectors: government and construction, which accounted for 1/3 of the total economy. It was time to look beyond the traditional go-to sectors that historically kept the Capital Region on track.



Local leadership from both the public and private sectors recognized that it had to take a proactive stance to pursue a competitive and strategic economic development agenda that would bring about resiliency, vitality and a wide range of new opportunities for job creation, innovation and increased investment. They also knew that achieving those goals would require a strategic, regional approach.

In 2011, more than 50 organizations throughout the Capital Region developed a strategic, integrated economic development strategy called Next Economy. It's a business-led, volunteer-driven regional effort that strives to move a \$97 billion annual economy that has suffered economic hardship and a lagging recovery into one that is diversified, robust and sustainable. It set the stage for all economic development activities in the Region for the next five years and beyond.

“...a business-led, volunteer-driven regional effort that strives to move a \$97 billion annual economy that has suffered economic hardship and a lagging recovery into one that is diversified, robust and sustainable.”

Importantly, Next Economy also demonstrates the Capital Region's need to take a deeper dive into Region-specific strategies related to export growth and foreign direct investment.

It became clear that one of the Capital Region's often-overlooked opportunities to help increase and sustain the overall economic health was exporting its goods and services in a more robust manner. In comparison to the 12 other regions which it regularly benchmarks itself against, in 2012 the Capital Region ranked last in export intensity, showing little growth over the last decade.

DEFINING EXPORTS

Exports are the sale of goods or services by U.S. resident firms to foreign entities (people or companies). Goods such as agricultural products, automobiles, and electronics most commonly come to mind as the country's most prominent exports. Service exports, which are a critical component of our export makeup, are not as obvious. Architecture, engineering, and business consulting services purchased by foreign entities are important service exports, as are the tuitions paid by foreign students and the hotel rooms and cab fares purchased by foreign tourists.

This lackluster position in exporting is likely due to the Region's predominately service-oriented economy. Eighty-five percent of the Capital Region's private sector real GDP originates in service-providing sectors, which have not traditionally been dominant in international trade. Another factor leading to the poor export showing is the State of California failing to prioritize international trade support over the last decade, as indicated by the closure of all 12 of California's international trade offices in 2004. These exporting facts and figures underscore the need to focus on this area of the Capital Region's economy and how, by doing so, it can reap exceptional benefits.

SECTION 2

Why Exporting Matters

Exports play a critical role in a strong economy. On the national stage, President Obama introduced the National Export Initiative and the National Export Initiative Next to eliminate trade barriers abroad, provide more accessible export assistance domestically and boost the nation's economy. The national facts below illustrate the value of exports to economic growth:

- 79% of global GDP growth is projected to occur outside the U.S. between 2013 and 2018.
- Compared to companies that do not export services, U.S. companies that do have 100% higher sales, 70% higher employment and offer 20% higher wages.
- Between 2009–13, exports accounted for 30% of GDP growth in the U.S. and 29% of GDP growth in the 100 largest metro areas over the same time period.
- \$1 billion in exports supports 5,590 jobs.

All graphs, data-sets and facts provided by the following:

Center for Strategic Economic Research, June 2014

Brookings Institution, 2013 Export Nation

The International Trade Administration

95% of all consumers live outside of the U.S.



Evidence suggests, as exports grow, more jobs are created, specifically higher-paying jobs. According to the U.S. Department of Commerce, workers in export-intensive industries earn an average of 18% more than their counterparts in other manufacturing industries. In the service sector, the difference is up to a 20% increase comparatively. Companies that export tend to invest more in innovation and have a highly skilled workforce thereby making them more productive than their domestically-oriented counterparts.



SECTION 3

Why the Capital Region? Why Now?

How does the Capital Region fit into a picture of global exporting? Why should the Region put a finer point on exporting now? Is exporting achievable in a meaningful way for a region so historically reliant on government and construction? Simply put, the opportunities to pick up the export ball and run have never been greater and the Capital Region has never been so poised to take advantage of them.

Capitalizing on the atmosphere of regional collaboration and partnerships created in the development of the Next Economy initiative – arguably, the likes of which the region has never before experienced—in 2013 the Northern California World Trade Center, California Asian Chamber of Commerce, Center for Strategic Economic Research, Sacramento Municipal Utility District, Sacramento Metropolitan Chamber of Commerce, and Sacramento County convened leaders from more than 30 regional jurisdictions and economic development organizations to develop a strategic export growth plan for the region called the California Capital Region Export Plan. To dovetail with the Next Economy architecture and activities, this new group also focused on economic clusters rather than individual industries; on a region rather than individual cities and counties to help reach their export plan goals.

The leaders of the export initiative subsequently applied and were accepted to the Global Cities Initiative, a joint project of Brookings and JPMorgan Chase, designed to assist U.S. metropolitan areas in reorienting their economies toward greater engagement in world markets. This Export Plan is a result of that collaborative effort and was developed through participation in the Global Cities Initiative.



Despite the Region's poor competitive performance in exports, there are significant bright spots that offer tremendous opportunities and drive post-recession growth towards a stronger global orientation for the Capital Region. In 2013 foreign trade offices were established by the state and by the City of Sacramento in China and efforts to open another trade office in Mexico are gaining support. The Capital Region is home to Blue Diamond Growers and hosts key facilities of several nationally recognized brands including, Hewlett-Packard, Intel, Siemens, and Kikkoman Foods, Inc. The Capital Region has a particularly rich agricultural history, with the six-county Region boasting approximately two million acres of farmland. Notably, it was recently named America's Farm-to-Fork Capital, bringing national attention to the Capital Region's agricultural bounty and all the business that goes along with it. High tech start-ups have helped bring new talent and venture capital to the Region and nationally ranked universities are working more strategically to recruit foreign students, helping create a more globally appealing regional identity.

World-class healthcare, education and research institutions, for instance, also present important opportunities for export growth. UC Davis' global reputation as a top-tier research institution—contributing to breakthroughs in food, health, life, and environmental sciences—together with the unique strengths held by the Capital Region's collective public and private higher education institutions, are all strong competitive advantages. Matched with leading healthcare, medical services, life and bio sciences, agriculture and clean tech industries, and a well-educated workforce that hails from countries and cultures across the globe, the Region is currently well-positioned to thrive in a global marketplace.

The six-county Capital Region's population and infrastructure is also perfectly primed to support a strong export economy. It covers 23 cities, spans 6,300 square miles and holds nearly 2.4 million residents. It's the 4th largest metropolitan area in California and 22nd largest in the country. The



Capital Region has a wide array of unique regional trade assets, including a deep water channel sea port in West Sacramento and proximity to other ports in Stockton and Oakland; the Sacramento International Airport; access to major markets through its interstate and highway network and rail systems; foreign trade zones; and is recognized as one of the nation's most culturally diverse regions.

This Export Plan is continuing the work of the existing Next Economy collaboration to help achieve regional prosperity through export growth. The key to that success is following a strategic plan that overcomes historical challenges in trade growth, focuses where the strongest opportunities exist, helps more companies enter the international trade pipeline and opens up new markets to existing exporting companies. It offers a framework to increase the Capital Region's export footprint and a roadmap to other economic development organizations for their efforts to boost exports. It sets the tone for greater global engagement and helps lift the Capital Region toward a more vibrant and sustainable economy.

SECTION 4

Market Assessment: Taking the Pulse of the Capital Region's Export Economy

An in-depth and thorough market assessment (comprised of a data-driven market scan and a series of 23 one-on-one interviews and 134 online surveys) was conducted by members of the Core Committee in spring 2014. The results not only uncovered strengths and weaknesses within the Capital Region's current export economy, but also yielded a series of key findings that helped guide the development of the Export Plan's strategies and tactics outlined later in this document. The findings below are in no particular order of importance; taken together, they represent the foundation of a pathway to export success. The complete market assessment report can be found at <http://norcalwtc.org/exportplan/>.

KEY FINDING

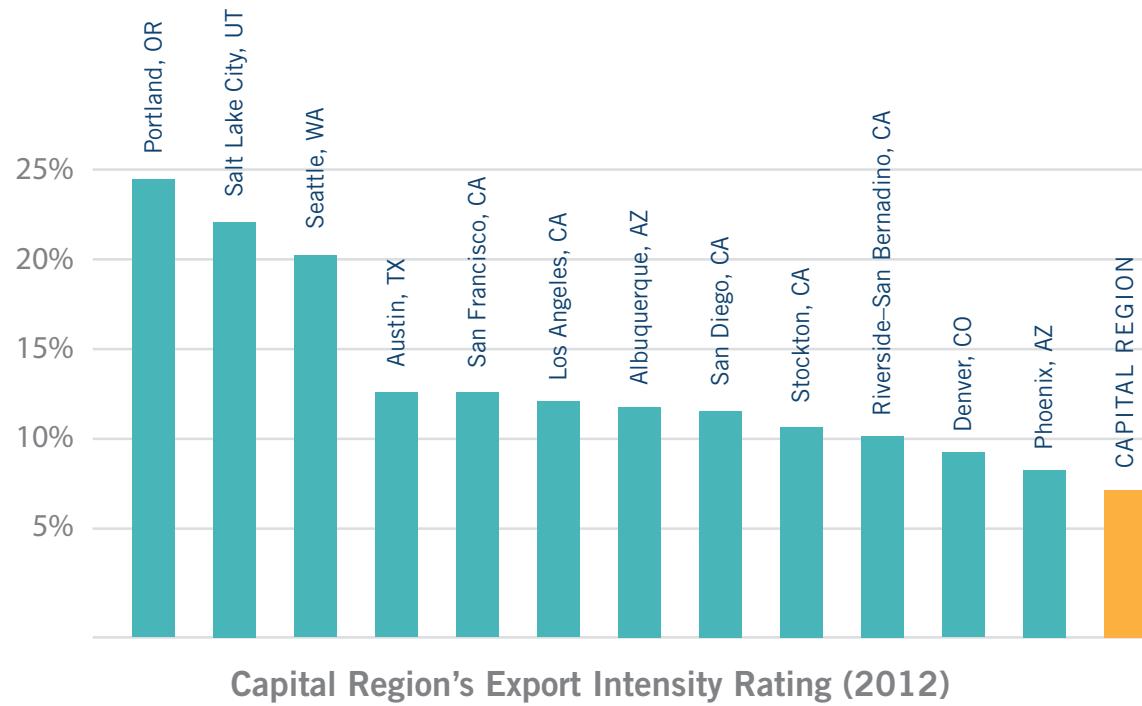
The Capital Region Alarmingly Under-Exports Compared to Other US Regions

The Capital Region is the nation's 22nd largest metro area yet lags in the bottom of the export activity list. In 2012, the total value of the Region's exports stood at \$7.42 billion or 7.0% of all output. This ranked the Region 48th of 100 metro areas on the total value of its exports and 95th on exports intensity. Simply put, relative to its size in terms of population and gross regional product, the Capital Region woefully underperforms in exports.

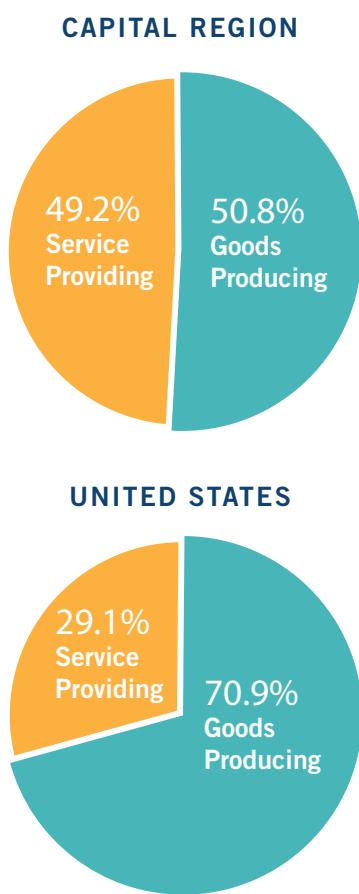
KEY FINDING

Businesses are Reluctant to Start Exporting, but Those That do Export Want to go Into New Markets

While non-exporters list many reasons for not pursuing international business, current exporters view expanding into new markets in the next two years as an important part of their business's growth strategy. They understand the value of exporting and are committed to growing that part of their business. A full 98% of current Capital Region exporters surveyed reported that they aim to enter a new foreign market in the next two years.



Share of 2012 Total Export Value



KEY FINDING

Companies are Unaware of Existing Export Assistance Network

Surveyed and interviewed companies overall said they were unaware of existing export resources, particularly in export finance. Export resources are, indeed, fragmented and difficult for businesses to identify. This leads to the logical conclusion of resources being underutilized. However, those that have connected with this network are satisfied with the assistance received.

One of the largest impediments for companies is navigating the fragmented trade support system in the Capital Region, particularly in the financial sector. Additionally, exporting companies expressed a desire for more government assistance, specifically workshops focusing on small to mid-sized businesses (SMEs) and new-to-export businesses.

Finally, respondents—whether exporting or not—stated a desire for establishing relationships with other Capital Region exporting businesses to learn best practices, share connections and provide mentorship.

KEY FINDING

The Capital Region Counts National Norm in What it Exports

Nationally, goods represent the lion's share of export activity, accounting for 70% of all exports. Interestingly, Capital Region exports are nearly equally split between goods (50.8%) and services (49.2%). This is likely due to the dominance of the service sector in the Capital Region with approximately 85% of the Region's private sector real GDP coming from the service-providing sectors while the remaining 15% is in the goods-producing sectors. While the Capital Region is more of a service-oriented economy, it should be noted that goods exports are highly valued, in that 15% of the Region's total GDP is driving nearly half of its exports.

KEY FINDING

International Connections and Cultural Differences are Among the Biggest Challenges for Firms Interested in Exporting

Among both companies that currently export and those that do not, the most significant obstacles and concerns included:

- Creating the optimal relationships to enter certain foreign markets
- Language and cultural differences
- Paperwork and regulation challenges
- Concerns about payment
- Insufficient basic international business acumen
- Inadequate capital to finance exporting

Top Performing Export Sectors (2012 Total Export Value)

GOODS		SERVICES	
Computer Equipment	11.2%	IT Royalties	4.8%
Agriculture	7.0%	Management & Consulting	4.7%
Precision Instruments	2.4%	Financial Services	4.4%
All Other Misc. Manufacturing	1.9%	R&D Services	3.5%
Ag, Const, & Mining Equipment	1.4%	Telecom Services	2.6%
Grain & Oilseed Products	1.2%	Accommodation Services	2.1%
Medical Equipment & Supplies	1.2%	Comp & Elec Equipment Royalties	1.8%
Beverage & Tobacco Products	0.8%	Insurance Services	1.6%
Cleaning Products	0.7%	Equipment Installation Services	1.4%
Audio & Video Equipment	0.5%	Architecture & Engineering Services	0.9%

KEY FINDING

The International Markets with the Strongest Export Potential are the NAFTA Partners and Asia-Pacific Markets

Geographic proximity plays a significant role in the Capital Region's export markets, as do strong trade relationships and existing trade agreements or Memorandums of Understanding (MOU). Because of its location relative to other countries, ports, airways and seaways, the Region is uniquely situated to capitalize on the demand for exports in Asia and continuing working with its allies in the North American Free Trade Agreement to bolster trade successes.

KEY FINDING

14 of the Region's Top Performing Export Sectors Align with Next Economy Core Business Clusters

Of the 20 top performing export sectors (10 in goods, 10 in services; see above) for the Capital Region, 14 are aligned with one of the core business clusters identified in Next Economy research. Those clusters include: Agriculture & Food Production, Advanced Manufacturing, Information & Communications Technology, Life Sciences & Health Services, Clean Energy Technology, and Education & Knowledge Creation. Next Economy highlights these clusters as the strongest areas for regional job growth potential. Knowledge-Intensive Business & Financial Services is an additional cross-cutting activity that will be kept in the discussion since the Capital Region has a notably high share of service-providing exports that fall in this category.

SECTION 5

Taking the Capital Region to the Next Level

GOAL

Accelerate job creation in the Capital Region by growing international trade and export activity, in alignment with the Next Economy Prosperity Plan

OBJECTIVES

- Ensure that half the identified companies exporting are utilizing export assistance services in the next five years
- Build the global fluency of the Region
- Increase export intensity by 20% in the next five years



SECTION 6

Leveraging the Capital Region's Export Opportunities: Five Strategies for Export Success

This California Capital Region Export Plan outlines five key strategies and provides a series of supporting tactics designed to reach the stated goal and objectives. Each individual strategy directly correlates to one or more of the key findings, information culled from the Next Economy plan or other resources. The strategies and tactics below are high-impact components of the Export Plan that address the Capital Region's strengths, remedy its weaknesses and lay the foundation for the multi-year plan implementation.

1

Streamline and Enhance the International Trade Support Ecosystem

Not every resource to help businesses begin or expand their export efforts exists in the Capital Region, but there is an existing “trade ecosystem.” Unfortunately according to businesses, it is fragmented and ill-defined and many businesses are simply unaware that the resources exist. A framework that identifies and streamlines these resources would ease the entrance into international commerce for non-exporting companies as well as facilitate export growth for existing exporters. Three components are critical to the success of this strategy: needed resources must be available; they must be accessible; and the various Capital Region economic development organizations must assist in this effort by connecting businesses with these resources and making exporting an element of their overall strategies to improve the Region’s economy.

Tactics:

- Catalogue and build a comprehensive database of service providers within the existing trade ecosystem
- Identify and address existing gaps in regional export services
- In partnership with the Capital Region Small Business Development Center, host educational workshops that raise awareness among SMEs and financial institutions regarding the various instruments and sources of export financing that are currently available
- Build an online interactive web-based platform that would act as an “export roadmap” by illustrating the critical elements needed to build a successful export business
- Integrate regional economic development practitioners into the support ecosystem by conducting outreach activities and training opportunities
- Create an export growth strategy template that all 29 regional jurisdictions in the Capital Region can incorporate into their economic development plans

2

Strengthen Relationships with Key Foreign Markets

Considerable challenges exist to getting businesses to export because they're unaware which foreign markets are a good match for their products. Once businesses are aware of markets, they are further stymied because they don't have the network to establish the strong relationships that are critical to exporting success. Finally, after the business makes a connection to a market, they're often unaware of, or don't understand cultural differences. The Region should leverage the geographic proximity and longstanding trade relationships with Canada, Mexico, China, Japan and Hong Kong aligned with its top performing industries to facilitate easier trade connections for businesses.

Tactics:

- Establish a Capital Region Global Engagement Program focused on key foreign markets, capitalizing on the presence of ethnic chambers, consulates, foreign population groups, universities and other trade networks
- Launch new trade missions and promote existing ones—that link the connections and expertise of these groups directly to regional businesses interested in expanding overseas sales
- Establish country-specific trade working groups that meet for knowledge sharing, networking and strategic planning

3

Enhance Exporting Capacity of Mid-Sized Goods Producers

The goods-producing sector comprises just 15% of the Capital Region's GDP, but accounts for over 50% of the Region's exports. The industries represented are varied but high-value so the activities designed to assist them will have a broader focus.

Tactics:

- Align the top-performing industries with global markets and issues to identify where the Region has a competitive advantage or core competency
- Establish a system to identify and outreach to specific businesses using business databases, direct interaction such as the Sacramento Metro Chamber's Business Bridge program, and information from other regional organizations
- Build a mentoring program to connect experienced exporters with new-to-export companies
- Expand the Exporter Roundtable Series (a Northern California World Trade Center exclusive peer-to-peer cohort for exporters)
- Collaborate with business associations to expand outreach and education on the value of exporting

4

Introduce More Service Providers into the Export Pipeline

During the first few years, the plan will focus on education and healthcare/life sciences, two leading regional service industries poised to expand internationally.

Tactics:

- Target educational providers to assist in country-specific campaigns to generate interest from foreign students
- Connect foreign students already in colleges and universities with employers through internship and mentoring programs
- Develop an industry-specific growth strategy that links strong healthcare and life sciences assets in the Region with international market needs
- Collaborate with business associations to expand outreach and education on the value of exporting

5

Grow the Global Fluency of the Capital Region

The Brookings Institution defines global fluency as the level of competence, practice and reach a metro area exhibits in an increasingly interconnected world economy. The Capital Region already has substantial international assets, including an agriculture industry that feeds the world, a large foreign-born population, world-class education and medical institutions, international students and visitors, and many multicultural organizations and events. The key to becoming globally fluent is intentionally highlighting, celebrating, and developing programs around these existing assets.

Tactics:

- Develop a Global Assets map to visually highlight the Capital Region's diverse international assets including import/export businesses, international programs, multicultural organizations, Sister City relationships, etc.
- Highlight and celebrate the Region's international assets through a "Global Sacramento" identity; establish a Global Sacramento coordinating committee
- Integrate "international" into a broad range of existing projects and events including the Farm to Fork movement, regional branding, and arts and cultural events. Advocate for the expansion of internationally-focused programs such as—UC Davis' proposal to further align its programming to global health, CSUS's International Center and additional language and cultural programs in primary and secondary education
- Explore developing a web-based tool to connect businesses looking to grow internationally to local foreign-born residents with ties to international markets
- Advocate for the establishment of a multicultural food and shopping district in the City of Sacramento



SECTION 7

Where Do We Go From Here: Export Policy Recommendations

California's economy is the eighth largest economy in the world. With progressive forward-thinking policy it is often said 'as California goes, so goes the nation,' and, in some cases, so goes the federal government. Export-related policy has played a less-than-dominant role over the last decade in California, but since the launch of the President's National Export Initiative, more attention is being given to both federal and state policy on a spectrum of international trade issues. The policy recommendations below are derived from the market assessment and the leadership of the Export Plan. The advancement of these policies will support exporters through trade barrier elimination, open market opportunities and incentive programs that ease the cost of doing business.

Recommendations:

- Local, state and federal incentives that reduce exporting costs or that offer tax exemptions for manufacturing and R&D equipment to business in California
- The development of an Export Finance Center within the California Infrastructure and Economic Development Bank (I-Bank)
- Federal investment in infrastructure assets vital to efficient trade and transportation systems in the Region and state
- The reauthorization of the Trade Promotion Authority which will help expedite trade agreement passage in Congress
- The passage of the Trans-Pacific Partnership (TPP)
- The passage of the Transatlantic Trade and Investment Partnership (TTIP).
- The reauthorization of the Export-Import Bank



CALIFORNIA
CAPITAL REGION
EXPORT PLAN

SECTION 8

Implementation

The Northern California World Trade Center will continue to be the champion organization for the Capital Region Export Plan's implementation and will act in concert with the Core Committee partners. Implementation will take place over five years. The Core Committee will meet with the Steering Committee twice a year to formally report progress on activities and track successes.

Champion Organization

Northern California World Trade Center

Core Committee

California Asian Chamber of Commerce
Center for Strategic Economic Research
Sacramento County
Sacramento Metropolitan Chamber of Commerce
Sacramento Municipal Utility District

Steering Committee

Bank of America Merrill Lynch
Blue Diamond Growers
California Center
California Chamber of Commerce
California State University, Sacramento
Capital Region SBDC
Center for International Trade Development
Chase Bank
City of Sacramento
City of West Sacramento
Consulate General of Mexico in Sacramento
Davis Chamber of Commerce
Devine Intermodal
Downey Brand LLP
Drexel University

El Dorado County

Governor's Office of Business & Economic Development
Harris & Bruno International
Hispanic Chamber of Commerce
Los Rios Community College District
Office of Assemblyman Ken Cooley
Office of Congressman Ami Bera
Office of Congresswoman Doris Matsui
Office of Senator Darrel Steinberg—
President Pro Tempore

Office of Senator Ted Gains
Placer County
Sacramento Area Commerce and Trade Organization
Sacramento Area Council of Governments
Sacramento Area Regional Technology Alliance
Sacramento Asian Chamber of Commerce
Sutter County
Sutter Health Sacramento Sierra Region
U.S. Small Business Administration—
Office of International Trade
U.S. Export Assistance Center, Sacramento
University of California, Davis
USDA California Rural Development
Williams + Paddon Architects
Yolo County
Yuba County

For more information please contact:

Northern California World Trade Center

Phone: 1-855-667-2259

Website: <http://www.norcalwtc.org/exportplan/>

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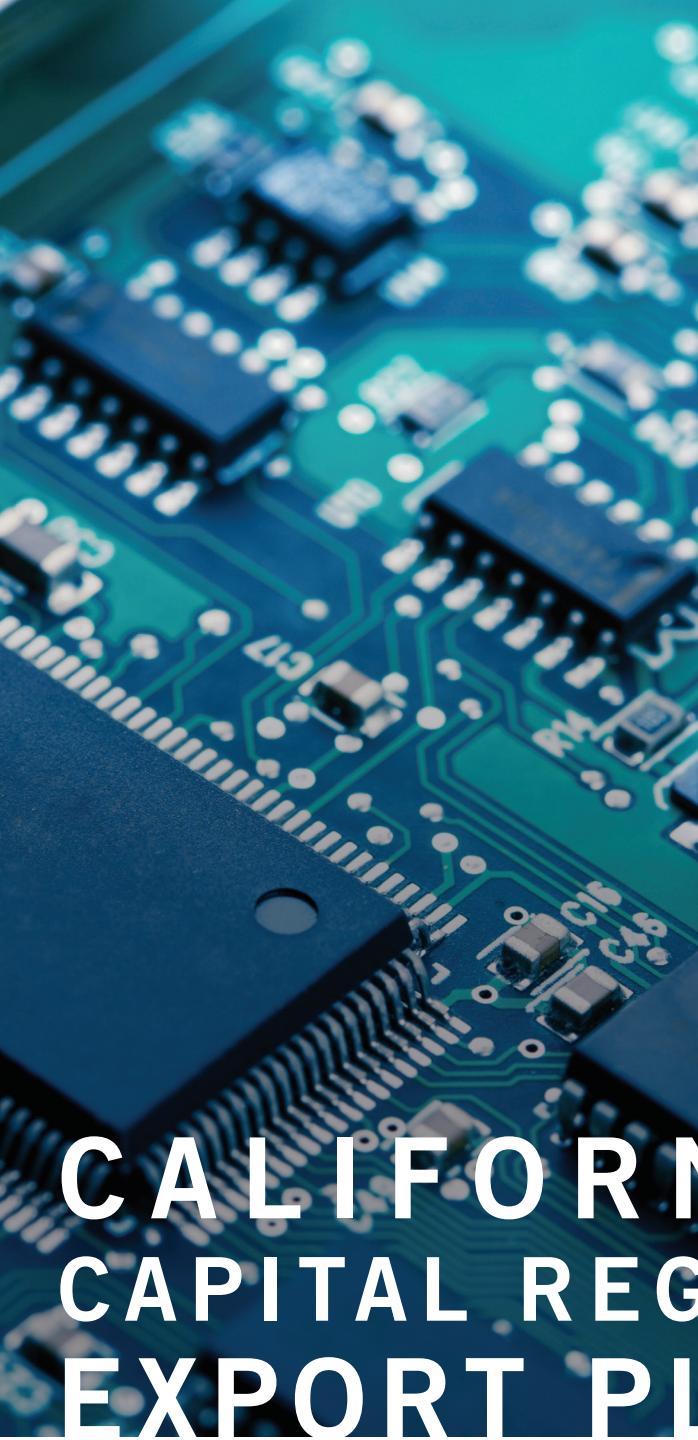


About The Global Cities Initiative

A Joint Project of Brookings and JPMorgan Chase

The Global Cities Initiative is a joint project of the Brookings Institution and JPMorgan Chase to help metropolitan private and public sector leaders grow their regional economies by strengthening international connections and competitiveness through exports, foreign investment, and other strategies. GCI activities include producing research and data for better decision-making, fostering policy and practice innovations, and promoting collaboration and replication through a peer learning network. For more information, see <http://www.brookings.edu/projects/global-cities.aspx> or www.jpmorganchase.com/globalcities.

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WORLD TRADE CENTER®
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Northern California World Trade Center

Phone: 1-855-667-2259

Website: <http://www.norcalwtc.org/exportplan/>

One Capitol Mall, Suite 300, Sacramento, CA 95814


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