

**An Analysis of Economic Development Programs and
Best Practices for Southern California**

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Abstract

Although admitted as a state relatively late in the history of America, California quickly became not only the most populous state, but the largest economy in the United States. Since being admitted as the 31st state in 1850, California has thrived due to its abundant natural resources, sprawling coastline, favorable weather and forward-thinking population. In particular, the greater Los Angeles area – the second largest metropolitan region in the U.S. with a population of nearly 13 million – has historically been one of the fastest-growing areas in the United States. The region benefits from an extensive transportation infrastructure, access to seaports and airports, and year-round pleasant weather. But in recent years, the Golden State, and Southern California in particular, has struggled to maintain economic growth as businesses have left the region for other states that offer a better business climate. This downturn in California's economic viability is evident in the recent financial struggles of cities like Los Angeles.

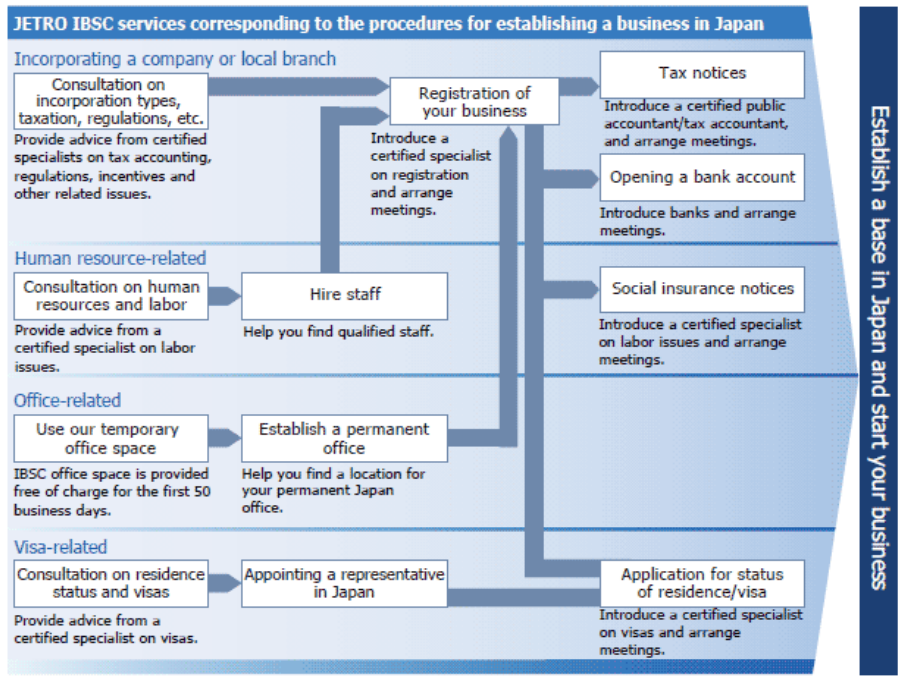
The aim of this paper is to survey various programs, policies and strategies that have helped different regions stimulate trade, create business-friendly climates and find a set of best practices, particularly in Southern California. The first section of the paper will discuss government-sponsored programs currently in place in Japan and Korea to illustrate innovative techniques that are being used abroad. The next section will highlight domestic programs at the state and federal level. Finally, the current state of California's trade policy will be discussed and a set of best practices will be outlined to apply to Los Angeles and Southern California as a whole.

International Programs

Japan External Trade Organization (JETRO)

JETRO is a government-funded trade organization that promotes mutual trade and investment between Japan and the global community. It was originally established in 1958 to promote Japanese exports abroad. In the wake of World War II, Japan was looking to rebuild its economy and reputation in the international community. Over time, JETRO has evolved to cover a wide range of trade policy activities. Today, JETRO not only promotes Japanese exports, but foreign direct investment (FDI) into Japan. Over the past 50 years, JETRO has played an integral role in fostering an economic relationship between the U.S. and Japan. The organization currently has six regional offices in the U.S. located in Los Angeles, Atlanta, Chicago, Houston, New York and San Francisco.

The organizational structure of JETRO is unique in that it's modeled much like a service business rather than a government office. In Japan, JETRO has established six Japan Business Support Centers. These centers act as one-stop shops for foreigners who seek to set up a business in Japan. These centers offer physical locations where foreign business executives can go and meet face to face with experts in the Japanese market. In a day and age where service businesses rely heavily on automated phone systems and websites, JETRO offers a unique way to bring face-to-face interaction back to business. The below chart illustrates the extensive services that these centers provide.



Courtesy: JETRO.go.jp

For business executives in the early stages of researching the Japanese market, JETRO provides comprehensive consultation services that would otherwise require extensive and fragmented research. These services include information on financial incentives and regulations, estimated costs, employee procurement, business site selection, human resource assistance, and taxation and legal issues. Research and the initial groundwork of going global can be one of the most taxing and uncertain activities that a company undertakes. Consolidating much of this knowledge into one user-friendly location significantly lowers the entrance barriers for firms looking to invest in Japan.

In addition to the services offered at the support centers, each location includes facilities that firms may use for free or a nominal fee. JETRO provides conference rooms, business libraries and temporary office space to firms entering the Japanese market for the first time. Temporary office space is provided for up to 50 days free of charge and includes IT

infrastructure and office furniture. This alleviates the burden of having to halt business activities at home while setting up shop in a new location. Firms are able to set up a temporary office so business can go on as usual while they search for a more permanent location.

To further assist in promoting exports and FDI into Japan, JETRO has compiled an extensive business matching database that includes more than 30,000 business proposals (JETRO.com, 2011). This online database is accessible through the JETRO website and is free of charge for companies and individuals alike. This database has proven to be a great tool for foreign companies looking to find compatible business partners in Japan. Other data services that JETRO provides include market reports organized by industry, subject and trends, as well as trade and investment statistics for Japan.

Japan is widely known for its industry prowess in areas such as personal electronics, automobiles and robotics, but there are lesser known industries where Japanese firms are on the rise. The purpose of the Cool Japan program, an arm of JETRO, is to “bring you the hidden gems of Japan that are still yet to be discovered on this side of the Pacific” (JETRO.com, 2011). Cool Japan highlights the food, design, fashion and entertainment industries in Japan. This arm of JETRO hosts live events such as trade shows and exhibitions and also has a strong digital presence as it uses social media to promote these aspects of the Japanese economy.

With regard to Southern California, JETRO has established a strong presence in the area through its Los Angeles regional office. The LA office serves a wider region that includes all of Southern California, Southern Nevada, Colorado, Arizona, New Mexico and Hawaii (JETRO.com, 2011). The Los Angeles office has a more focused mission that represents the strengths of the region. California is often thought of as being at the cutting edge of

technological development. From Silicon Valley to special effects studios in Los Angeles, California has a robust history of innovation. Therefore, the JETRO Los Angeles office has invested heavily in its technology division. The objective is to bring Japan's most innovative technologies to the U.S. by connecting Japanese firms with potential U.S. business partners (JETRO.com, 2011). The JETRO Los Angeles office also concentrates its Japanese export promotion on the entertainment and food industries. Both industries, particularly entertainment, are well established in Southern California and thus provide many opportunities for Japanese expansion in the region.

In 2008, JETRO conducted a survey of Japanese companies in the U.S. and inquired about their current business conditions. At the time, Japanese firms were primarily concerned with the U.S. economic downturn as well as rising raw material and energy costs (2008 JETRO Survey, 2011). One of the issues leading to rising energy costs was the increasing interest in climate change and environmental issues. Many of the Japanese companies surveyed, however, saw this issue as a positive for them. A majority of companies specialized in environmentally-friendly technologies and were looking to enhance their environmental profile. In fact, 26.6% of Japanese companies in the U.S. and 33.2% in Canada stated that environmentally-friendly technologies were one of their strengths (2008 JETRO Survey, 2011). The importance of environmental technology to JETRO is evident from the Greening the City event jointly held by JETRO and the City of Los Angeles. The full title of the event was "Greening the City: Sharing Sustainable Urban Planning and Green Building of LA and Eco-Cities in Japan." The goal of the event was to share knowledge and experiences of environmental efforts by Los Angeles and Japanese cities in order to develop similar businesses and jobs in the region.

Korea Trade-Investment Promotion Agency (KOTRA)

Following the 1948 division of Korea and the Korean War in the early 1950s, the Republic of Korea sought to become an economic power in the international community. KOTRA was founded in 1962 as the first trade promotion organization in the country. Since then, KOTRA has played a pivotal role in facilitating the rapid, export-led economic development of the country (KOTRA.or.kr, 2011). KOTRA has been very aggressive at expanding its international reach. So far, it has established 93 Korea Trade Centers in 68 countries across the globe (KOTRA.or.kr, 2011).

KOTRA's primary activities are to facilitate international trade with Korea and to promote foreign investment. KOTRA provides a business matchmaking service that not only helps Korean firms find buyers for their products, but assists buyers with smoother transactions. Buying from a foreign firm can often generate feelings of uncertainty and risk. KOTRA works to alleviate those feelings by assisting buyers in setting up meetings with Korean sellers and collecting and organizing product information. To further promote what Korean firms are selling, KOTRA hosts large-scale international exhibitions that promote Korean products in various industries. An example of such an exhibition is the Busan International Seafood & Fisheries Expo (exportal.or.kr, 2011). This event showcases everything related to seafood from Korea, including fishing products and technologies. This event, held in November 2010, had over 5,000 visitors from 26 foreign enterprises from 21 countries (exportal.or.kr, 2011). Korea has one of the most advanced information technology infrastructures in the world and KOTRA puts it to use to achieve its goals. For example, KOTRA has invested heavily in e-trade and established the Cyber Business Center in Seoul. In line with promoting international trade, Korean firms can use this center to hold virtual business meetings with foreign partners.

Invest Korea Agency is the arm of KOTRA that works solely to promote foreign investment. This agency is designed to be a one-stop destination for foreign investors, similar to the Japan Business Support Centers discussed earlier. The Invest Korea Agency provides services such as investment consultation, market research, administrative support, legal advice and follow-up services. Traveling to Korea to take advantage of these services can be a barrier for firms with limited budgets; therefore, KOTRA has made almost all of these services available online in some capacity. Product offers, company profiles and a database of current investment opportunities are all available from anywhere in the world through the KOTRA website.

One of the most unique and successful aspects of the KOTRA program has been the establishment of Free Economic Zones. Many countries have areas where economic restrictions are raised, but Korea has taken the idea to the next level. First, a location is given diverse economic incentives and infrastructure, specifically information technology, to attract global companies. Once a cluster of companies establishes themselves in an area, cities are developed around these economic hubs. Airports, harbors, offices, schools and hospitals are quickly developed as the corporate hub experiences a boom in population. So far, six zones have been designated for this unique development and the first three are scheduled to be completed by 2020 (KOTRA.or.kr, 2011). Aside from the Free Economic Zones, there are Special Economic Zones being developed within Seoul that focus on specific industries. Perhaps the most advanced of these zones is the Sangam Digital Media City. Sangam was developed to attract the most advanced information technology and media companies in the world. The region features the most high-tech broadband and communications infrastructure in the world. And there is more than technology used to attract companies and individuals. The Sangam region includes a World Cup soccer stadium, public parks, golf courses and a housing village for foreign workers.

Like the JETRO program, KOTRA also has an office in the Los Angeles area to promote trade within Southern California. This office is part of the worldwide network of KOTRA offices in more than 70 countries (kotrala.com, 2011). KOTRA has partnerships with the Los Angeles Chamber of Commerce and the Port of Los Angeles to aid in the facilitation of trade between Korea and the region. It focuses on industries that are prominent in Southern California such as aerospace, entertainment and media, green energy, textiles and medical devices (kotrala.com, 2011). Services offered in the Los Angeles office include business matchmaking, investment consulting, recruitment consulting and new business incubation (kotrala.com, 2011).

Domestic Programs

National Export Initiative

The imbalance of exports versus imports in the United States has been at the forefront of economic and political debates for many years now. Various organizations have been developed at the state level to address this, but the Obama administration recently developed the National Export Initiative (NEI) to tackle this issue at the national level. The goal of this initiative is to “improve conditions that directly affect the private sector’s ability to export” (export.gov/nei, 2011).

The benchmark used to measure this initiative is to double exports over the next five years. According to the NEI, this can be achieved by working to remove trade barriers abroad, helping small businesses overcome the hurdles of entering new export markets and assisting small businesses in export financing. As part of this initiative, an Export Council comprised of business and labor leaders has been assembled to advise and guide the government. The chairman of this council is James McNerney, Boeing’s president and CEO. The initiative also

encourages state leaders to develop their own local programs with similar goals, some of which will be discussed later.

Statistics show that 58% of exporters only work with one market (export.gov/nei, 2011). Therefore, the NEI strives not only to get new businesses into exporting, but to get current exporters to expand into other markets. A sub-section of the NEI is the New Market Export Initiative (NMEI). The NMEI gives new exporters a unique advantage in getting their products abroad because it has a partnership with UPS, FedEx and the United States Postal Service. Emerging markets that the NMEI focuses on include Brazil, India, China, South Africa and Vietnam.

While still in its infancy, the National Export Initiative has had several successes to date. Since its inception, there has been a stark increase in trade missions. There have been 26 trade missions with 160 companies to 24 countries (export.gov/nei, 2011). In response to this, the export-import bank has more than doubled loans to support American exporters. This illustrates how the financing aspect of the initiative is coming into play and making progress for American companies. Another interesting success of these trade missions is that China has opened trade for U.S. pork products for the first time (export.gov/nei, 2011).

One of the more high-profile trade missions occurred this past February. U.S. Commerce Secretary Gary Locke and representatives from 24 U.S. businesses traveled throughout India to promote technologies and services related to nuclear energy, aviation, communications and defense (Department of Commerce press release, 2011). The delegates met with both Indian public figures and private business leaders of companies that import U.S. products. This was an important step in the relationship between the two countries as their trade continues to grow.

Between 2002 and 2009, U.S. exports to India have grown from \$4.1 billion to \$16.4 billion (Department of Commerce press release, 2011).

Washington Export Initiative

In response to the national initiative, the state of Washington established its own program in June of 2010 (Governor Gregoire press release, 2010). The program is designed to complement the federal program by increasing Washington's exporting by 30% and generating \$600 million in new export sales (Governor Gregoire press release, 2010). To illustrate the strategy of this initiative, Washington's governor, Chris Gregoire, announced a 6-point plan to meet the initiatives goals.

Governor Gregoire's 6-Point Plan (export.gov/nei)

1. Partner with U.S. DOC, SBA and statewide networks of Small Business Development Centers to "field test" pilot programs
2. Provide \$3 million in state export assistance to promising first-time exporters
3. New Firm-to-Market Initiative rewards the best among 20 existing programs with development funds to enhance global competitiveness in agriculture
4. Attract foreign students and encourage Washington students to study abroad
5. Strengthen and expand key trading partnerships (i.e. September 2010: Governor's trade mission to China and Vietnam)
6. Ensure federal match funds for crucial state transportation investments enabling efficient movement of goods (i.e. Columbia River Crossing, North Spokane Corridor serving Canada-bound freight, and SR 519 serving the Port of Seattle)

With this framework in place, the state of Washington hopes to continue a trend of increasing export levels. Since 2005, the number of companies exporting in Washington increased from just over 7,000 to 8,000 (National Export Initiative Webinar Presentation, 2011).

Enterprise Florida

One of the oldest and most comprehensive trade stimulation organizations in the U.S. is Enterprise Florida (EFI). EFI is a public-private partnership that serves as the main organization for Florida's economic development. It focuses on economic development in industries that have a long-standing history in Florida as well as cutting-edge technological businesses. Some of the industries that EFI focuses on include clean energy, life sciences, information technology, aerospace, homeland security, finance and manufacturing. EFI's goal is to make Florida the leading state for technological and economic innovation by providing one of the most business-friendly climates in the country. In Florida, EFI has established seven field offices, separate from administrative offices, which specialize in international trade and business development (eFlorida.com, 2011). At these field offices, small businesses can receive export counseling and assistance on getting their products sold abroad for the first time. In fact, the reach of EFI is so extensive that it maintains 12 offices overseas to facilitate Floridian exports and foreign investment in the state. EFI has offices on nearly every continent including Europe, Africa, South America and Asia.

All of the services provided by EFI work toward three common goals: to establish Florida as an expansion or location site, to promote Florida as a base for international expansion and to facilitate Florida as a home for entrepreneurs. In order to establish Florida as an expansion/location site, EFI provides firms with extensive information and step-by-step assistance. Community profiles and demographics are provided for all regions of the state that

highlight industry clusters, transportation and infrastructure. By grouping firms by industry, Florida is an even more attractive location site because companies will be close to suppliers, competition, clients and know that the required infrastructure is already in place. Florida's extensive coastline and proximity to the Atlantic Ocean and Latin America make it an ideal location to expand internationally. EFI provides in-depth analysis of international trade trends and import/export reports to firms who seek to make Florida their international base. Similar to JETRO and KOTRA, EFI also maintains an extensive database of international trade leads to help facilitate new international business relationships.

Enterprise Florida has also developed Enterprise Zones, similar in nature to Korea's Free Economic Zones, which offer tax advantages and financial incentives for businesses to establish themselves there. The Enterprise Zones are typically located in geographic areas that are in need of economic revitalization. So far, 59 zones have been established by the Governor's Office of Tourism, Trade and Economic Development (eFlorida.com, 2011). EFI's role in the Enterprise Zones consists of marketing and proposing legislation to improve these zones.

As mentioned earlier, Enterprise Florida provides information on designated industry clusters to firms looking to establish themselves in the state. Industry clusters are broken down into subdivisions to provide the most accurate information on each type of company. For example, the life sciences industry is broken down into subdivisions that include biotechnology, medical device manufacturing, pharmaceuticals and health care services. Each subdivision has a corresponding micro-website that provides research data, demographic information, infrastructure data, and assists companies in finding economic development partners. Below is a map that highlights the locations of pharmaceutical firms in the subdivision of life sciences.



Courtesy: eFlorida.com

Enterprise Florida has been successful in establishing the state as an ideal location for firms doing business domestically and abroad. In 2009, Florida's total exports had a value of \$46,888,000,000 (GlobalEdge.msu.edu, 2011). The top five export countries for Florida, in order, were Brazil, Venezuela, Switzerland, Canada and Colombia (GlobalEdge.msu.edu, 2011). This list shows the reach that Florida has established as its top five exporting countries lay in three continents: North America, South America and Europe. Florida currently has 34,700 businesses that sell their products overseas and 93% of the exporting firms are small to medium-sized businesses (GlobalEdge.msu.edu, 2011).

California at Present

Despite its recent economic struggles, California remains the largest economy in the U.S. and its sheer size provides plenty of hope and opportunity for the future. In 2009, California's exports were valued at \$120,080,000,000 with the top five export countries being Mexico, Canada, Japan, China and South Korea (GlobalEdge.msu.edu). While California has strong exporting relationships with North America and Asia, the lack of exports to Europe and South American is surprising considering the diversity of industries in the state and its access to transportation infrastructure. In 2005, California had 59,000 companies exporting their products abroad (GlobalEdge.msu.edu). This number may seem impressive, but California's population is around 60 million. Compare that to Florida, with a population of 18.6 million, which has 34,700 companies exporting, and one can see how effective a comprehensive program like EFI can be. California's disparity in relative exporting levels can be attributed in part to a lack of comprehensive organizations like EFI, but also to an unfavorable tax climate for businesses. In fact, out of 50 states, California ranks 48th in business tax climate, 34th in corporate tax climate, 48th in individual income tax and 48th in sales tax (CNNMoney.com, 2011).

Currently, California has two organizations that provide similar services to those described in this paper, but neither is as extensive nor as successful. The California Trade Network, or CALTRADE, offers an online database where firms can search for business partners and opportunities by industry or country. While this service may hold some valuable information, the user interface and layout is so outdated that it is embarrassing for a state that prides itself on being a global leader in technology and innovation. The second organization that works toward economic development is the California Center for International Trade Development (CITD). The CITD includes a network of 14 offices located throughout California,

each of which is located on the campus of a community college (CITD.org, 2011). These offices offer free to low-cost services to assist small business in international expansion. The services offered are similar to those discussed earlier including technical assistance, market research, trade leads and international training.

Best Practices for the Southern California Region

While California as a whole has some established organizations to aid in economic development, there are several practices that can be applied specifically to Southern California to improve the region's exporting and foreign direct investment. All of the organizations discussed had some form of support center or office. The JETRO offices, however, stand out as the most innovative and best suited to incubate new business growth. The Los Angeles metropolitan area is not only diverse in its geographic area, but in its industries and demographics. The region would benefit from offices established in the different economic hubs that would be modeled after those of JETRO. The JETRO offices act as an incubator for new business by providing not only a wealth of information and support, but a physical location for businesses to grow by providing temporary office space, business libraries and high-tech communication centers. These support offices would be most successful by placing them in the different sub-regions of Southern California including downtown Los Angeles, Long Beach (with its connection to Long Beach and San Pedro Harbors), Orange County and the Inland Empire. Establishing offices in each region would play a vital role in offering unique industry clusters, resources and infrastructure for new businesses.

Another aspect of the JETRO program that would crossover well in Los Angeles is the Cool Japan program. As stated earlier, this organization promotes industries in Japan that are not

as well known to the rest of the world such as entertainment and fashion. Southern California is known for those industries, but less so for manufacturing, agriculture and life sciences. While these industries may not be as popular in the media, they play an integral role in the local economy and thus should be promoted so that firms that fall into these industries will move to the region and spur innovation.

The designated economic zones that exist in both Korea and Florida can also be implemented in Los Angeles and provide attractive incentives for companies to make the region their home. Los Angeles is known as the world capital for motion picture production. It is one of the core industries of the region and provides thousands of jobs to Southern California residents. But in recent years, states such as Louisiana and Michigan have promoted extremely desirable incentives for studios to move production out of Southern California. In one of the most ironic recent developments, the action film *Battle: Los Angeles*, which tells the tale of an alien invasion in Southern California, was filmed almost entirely in Shreveport, Louisiana. Entire sets were built in Shreveport to mimic the look of Los Angeles. While it is understandable that filming within the heart of the country's second largest city can be cost prohibitive, there are plenty of less developed areas in the region that would be perfect for filming. Therefore, certain areas on the outlying parts of Los Angeles County should be given unique economic conditions to bring motion picture filming back to the region. All of the major studios are still headquartered in the Los Angeles area, and thus it would make more sense if the set locations were just a few miles outside the city rather than across the country. Areas such as the Inland Empire, San Fernando Valley and inland Orange County all have sparsely populated areas that are ripe for economic revitalization.

The Los Angeles region could also benefit from its own local export council, much like the one established for the National Export Initiative. The council would consist of business leaders from the region who would advise local and regional governments and give them a unique private-sector perspective. A key to this success would be utilizing local and small business leaders rather than corporate executives with impressive titles. Local and small business leaders would be more in touch with the issues facing the region and better able to measure the day-to-day impact of established policies.

Finally, a resource that would greatly assist firms considering a move to or an expansion to the Los Angeles area would be data on industry clusters and subdivisions modeled after those provided by Enterprise Florida. The Los Angeles metropolitan area is vast and sprawling and can be intimidating to an organization or individual who is not familiar with the region. While economic opportunity exists throughout the region, it would be helpful to break down industry clusters and divisions so that similar resources, infrastructure and customers can be more efficiently utilized. There would be no official mandate that firms of a particular industry would be required to locate to a particular area, but showing the benefits of and encouraging industry clusters would be beneficial to the firms and economy as a whole.

Conclusion

California's recent economic struggles are evidence of the nationwide economic downturn, but also from a decline in economic stimulation programs and the development of an unfavorable business climate from years of poor legislation. Some of these issues can be changed by citizens in the voting booth, but until that slow change comes, programs need to be established to help spur economic development in the region. Based on the evidence presented

in the paper, one can see that there are already very successful programs in place at the international, national and state level. The successes of these organizations and programs should give hope to California and Los Angeles that smart policies and incentives can revitalize any economy. Despite its troubles, Southern California is still rich in resources, infrastructure and a variety of vibrant industries, so increased economic development should prove very feasible with the right policies in place.

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