



Global Business

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KEY POINTS

- The Central Valley is a fast-growing region in California with potential for economic development through global investment and trade opportunities.¹
- Fresno has maintained its leading position with close to a 50 percent share of the regional exports. Agricultural business has been the single largest export industry in the Central Valley. The key export markets are the European Union, Canada, China/Hong Kong, Japan and Mexico.
- California imported \$410 billion in foreign products (19 percent of U.S. total in 2016), mainly from the Asian-Pacific region, led by China and the NAFTA partners.
- Foreign direct investment creates most jobs in this region through mergers & acquisitions in the manufacturing, agricultural manufacturing, and logistics and distribution cluster, with investments mainly from England, Japan, and the Netherlands.
- Local businesses are largely unaware of the economic potential of global business opportunities. Dealing with foreign regulations, cultures, and differences in marketing deters them from imitating or further developing their export activities. Export financing and other organizational assistance are largely unknown and underutilized.²
- The Asian-Pacific region, powered by growing middle class in China and India, is a key market for the region to develop its international trade in the future.

**CALIFORNIA
IMPORTED \$410
BILLION foreign
products in 2016.**



Exports

International trade plays an increasingly important role, representing 13 percent of all economic activity in the U.S. 95 percent of world consumers now live outside the U.S., where 81 percent of global economic growth is expected to occur in the five-year period from 2015 to 2020, which clearly indicates the trend of future development for U.S. and local businesses.³

Fresno has led in exports from Central California, with around a 50 percent share of the regional total exports (Figure 1).

Fresno County set its export record of more than \$3 billion in 2013. The Fresno County Agricultural Commissioner's Office estimated that almonds were the county's largest export crop, representing more than 27 percent of exported farm goods. Machinery manufacturing exports from Fresno were about \$112 million, computers and electronics exports were about \$86 million, followed by miscellaneous manufacturing exports of over \$81 million.

In 2013, more than \$1.9 billion in Fresno County exports went to destinations within the 21-member nations of Asia-Pacific Economic Cooperation (APEC) around the Pacific Rim and in Asia, while other Asian countries, including members of the Association of Southeast Asian Nations (ASEAN), imported \$435 million from Fresno County.

Mexico and Canada, two North American Free Trade Agreement (NAFTA) partners, together accounted for nearly \$680 million of Fresno's exports, followed by European Union nations with almost \$565 million. OPEC nations in the Middle East and Africa, as well as Ecuador and Venezuela, amounted to about \$230 million in exports from Fresno County.⁴

Agricultural business has been the single largest export industry in the Central Valley. In 2015, California's agricultural exports totaled \$20.69 billion, decreased by 4 percent compared to the previous year. In Fresno, the state's top valued agricultural export commodity continues to be almonds, with an export value of \$5.14 billion in 2015. California dairy products ranked second with export value of \$1.63 billion. The principal 57 export commodities accounted for \$17.98 billion or 87 percent of export value in 2015. California's share of total U.S. agricultural exports for 2015 was 15.6 percent – slightly higher than the 14.4 percent reported the prior year. California's top 10 export destinations are the European Union, Canada, China/Hong Kong, Japan, Mexico, Korea, India, United Arab Emirates, Turkey, and Vietnam – accounting for 70.3 percent of the 2015 export value. India showed the strongest growth in total export value at 32.2 percent compared to the previous year.⁶

Central California also exports frozen and canned foods. Ruiz Foods, a successful local family business established in 1964, not only sells its more than 200 authentic burrito,

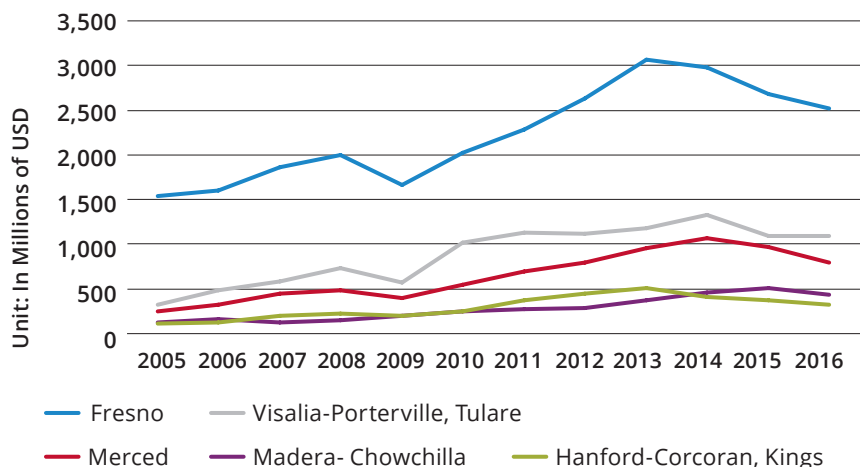
enchilada, and tamale products domestically, but also exports to over 20 countries and became the largest manufacturer of frozen Mexican food in the United States with the national recognition from the U.S. Small Business Administration.

Imports

Unlike for exports, it is difficult to find county-level data for imports, but state data is available. California imported \$410 billion in products and accounted for 18.2 percent of total national imports in 2016, in which passenger cars (both medium and large) were \$59 billion, or 14.3 percent of the state total imports. Other consumer electronic products – including laptop computers, cellular phones, and flat-panel televisions, were worth \$38 billion, or 9.3 percent of state total. Imports of medium-size passenger cars, cellular phones, processors & controllers, and photosensitive devices (mainly solar panels) grew significantly from 2013 to 2016. Other import goods, especially crude oil and flat-panel televisions, decreased in both value and percentage share.

Geographically, aside from Mexico, Canada and Germany, all other countries on the top 10 import list

Figure 1
Exports by MSA⁵ from 2005 to 2016



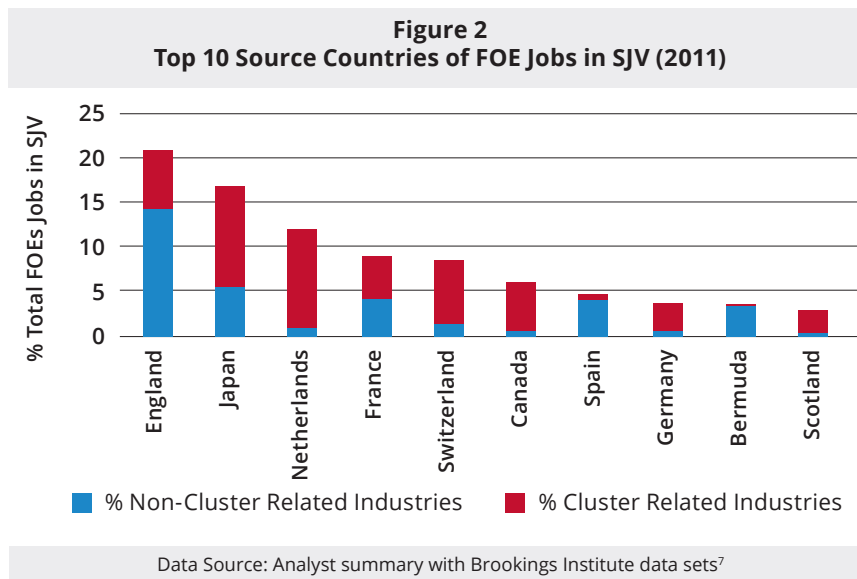
Data Source: U.S. Census

to California were in the Asian-Pacific area, led by China, which accounted for \$144 billion or 35.1 percent of the state total imports in 2016. Imports from Mexico and Canada, two NAFTA partners, were \$74 billion, or 18.1 percent of the state imports. While all trade partners managed to export more to California, the fastest gains from 2013 to 2016 were in imports from Vietnam (62.8%), Malaysia (45.1%), and Mexico (27.8%).

Foreign Direct Investment

Foreign direct investment (FDI) contributes to the creation of foreign-owned enterprises (FOEs) in the U.S. From 2009 to 2014, Brookings Institution's research shows that FDI generated 5 percent of U.S. jobs and provided funds for 19 percent of the research and development expenses. FDI also provides access to the global network, helping local FOEs reach into diverse markets not only to generate more revenue, but also to spread the risk during economic downturns. On average, firms that export pay 20 percent higher wages, and FOEs pay 30 percent higher wages, while providing local operations with more expansion resources. This is particularly important to Central California, which is experiencing a growing labor force, relatively high unemployment, and lower than state and national average per capita income.

In the Central Valley, over 20,000 jobs have been created by FOEs since 2005. Both mergers & acquisitions (M&A) investment and Greenfield investment (Greenfield investment refers to a company that builds its entire foreign operations starting from scratch), grew significantly since the early 1990s. Although M&A may deliver more timely results and more synergy, they bring more challenges for the local workforce to deal with the differences in management style and corporate culture during the transition period.



The top FDI source countries were England, Japan, and the Netherlands. Foreign investments have focused on the cluster-related industries that align initiatives and resources to capture value chain opportunities (Figure 2). The San Joaquin Valley Regional Industry Clusters Initiative, directed by the Office of Community and Economic Development and its partners, identifies industries that are strategic focal points for economic development that can further attract productive FDI. The key FDI industry clusters are agriculture represented by Olam in Fresno, a Singaporean public firm, and manufacturing, represented by Pelco in Clovis (acquired by Schneider Electric from France.)

Outlook

Based on the Brookings Institution's forecast, middle-class consumption in the emerging markets, particularly China and India, will grow rapidly in the near future. China will become the largest middle-class consumer market, at \$6.8 trillion, or a 16 percent global share, by 2020 and will grow further to \$14.3 trillion, or 22 percent of the global total, by 2030. Other Asian-Pacific countries such as Japan and

Indonesia, will also be among the top middle-class consuming nations along with the U.S. (Table 1). For businesses in Central California, being more active in these international markets is a key to the future success.

In order to increase participation in the international market and sell more products overseas, there are barriers local businesses have to overcome. According to the California Central Valley Export Plan, jointly developed by the Brookings Institution and JPMorgan Chase, the top challenges facing exporters in the region – aside from transportation costs, export financing and working capital financing – are related to information on domestic & international regulation and knowledge of international market (Figure 3).

The plan suggests using the following strategies to help the businesses of the Central Valley to be more proactive and engaged in international trade:

1. Make Central Valley export education more targeted, hands-on, and comprehensive to overcome the complacency, confusion, and misconceptions of threshold exporters.

2. Engage Central Valley Economic Development Organizations to integrate export education and referral generation into their standard attraction, expansion and retention programs.
3. Partner with local media to provide and highlight export success stories with the aim of changing the passive export culture of the Central Valley.
4. Take a more proactive, hands-on approach to business matchmaking to address inexperience, “business as usual” complacency, and lack of foreign cultural knowledge among threshold exporters. Utilize international enterprise networks to facilitate targeted foreign outreach and leverage foreign nation funding available for the purpose of encouraging international partnerships.
5. Incorporate export financing education and referrals into the economic development process.

It is important to coordinate and increase the awareness of available resources and support provided by different organizations, such as:

- California Central Valley Economic Development Corporation
- California Centers for International Trade Development
- County and city chambers of commerce
- Western United States Agricultural Trade Association (WUSATA), and
- U.S. Commercial Service, especially the information available through export.gov (a collaboration of the U.S. Department of Commerce’s International Trade Administration and 19 U.S. government agencies).

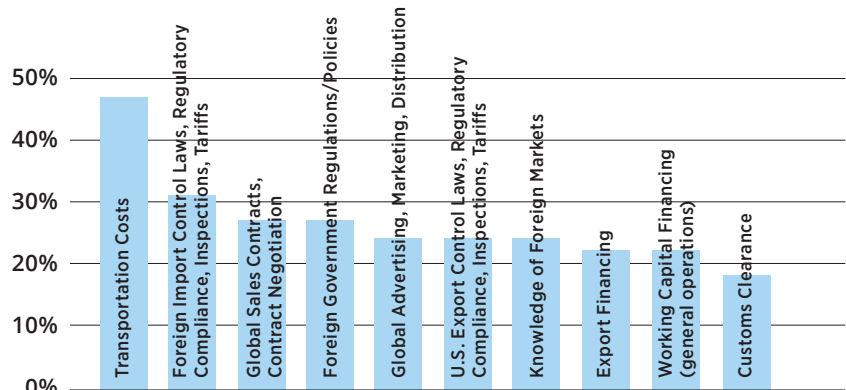
Central California businesses should capitalize on local/regional trade shows, including the World Ag Expo (the world’s largest annual agricultural exposition), the Fresno Food Expo, and CITD & USCS events, to better introduce local products and companies to the growing international markets.

Table 1
Middle-Class Consumption – Top 10 Nations, 2015-2030
(PPP, constant 2011 trillion \$ and global share)

Country	2015	Share (%)	Country	2020	Share (%)	Country	2030	Share (%)
U.S.	4.7	13	China	6.8	16	China	14.3	22
China	4.2	12	U.S.	4.7	11	India	10.7	17
Japan	2.1	6	India	3.7	9	U.S.	4.7	7
India	1.9	5	Japan	2.1	5	Indonesia	2.4	4
Russia	1.5	4	Russia	1.6	4	Japan	2.1	3
Germany	1.5	4	Germany	1.5	4	Russia	1.6	3
Brazil	1.2	3	Indonesia	1.3	3	Germany	1.5	2
U.K.	1.1	3	Brazil	1.2	3	Mexico	1.3	2
France	1.1	3	U.K.	1.2	3	Brazil	1.3	2
Italy	0.9	3	France	1.1	3	U.K.	1.2	2

Data Source: Global Economy and Development at Brookings Institution⁸

Figure 3
Five Most Significant Challenges Reported by
Current Central Valley Exporters (respondents chose up to five)



Data Source: California Central Valley Export Plan⁹

Endnotes

- 1 The California Central Valley Global Trade and Investment Plan
- 2 The California Central Valley Global Trade and Investment Plan
- 3 2017 California Central Valley Global Trade & Investment Plan, a joint project of Brookings and JPMorgan Chase.
- 4 www.fresnobee.com/news/business/agriculture/article19524096.html
- 5 Metropolitan Statistical Area (MSA) is a geographical region with a relatively high population density at its core and close economic ties throughout the area. It is used by Federal statistical agencies in collecting, tabulating, and publishing Federal statistics.
- 6 California Agricultural Exports 2015-2016. www.cdfa.ca.gov/statistics/pdfs/AgExports2015-2016.pdf
- 7 The California Central Valley Global Trade and Investment Plan, page 12
- 8 Homi Kharas, The Unprecedented Expansion of the Global Middle Class: An Update, page 16. www.brookings.edu/wp-content/uploads/2017/02/global_20170228_global-middle-class.pdf
- 9 California Central Valley Export Plan -page 9. www.fresnoedc.com/Export%20Plan/CentralValleyExportPlan_sm.pdf