

# Strong Trade Opportunities Essential for State International Competitiveness

California is one of the 10 largest economies in the world, with a gross state product of more than \$1.8 trillion. International-related commerce accounts for approximately one-quarter of the state's economy. Although trade is a nationally determined policy issue, its impact on California is immense. California exports to more than 225 foreign markets.

Trade offers the opportunity to expand the role of California's exports. In its broadest terms, trade can literally feed the world and raise the living standards of those around us.

## Global Trade Facts

According to the October 2009 World Trade Organization's *Annual Compilation of International Trade Statistics*, world gross domestic product (GDP) and world merchandise exports not only move in tandem, but export growth exceeds GDP growth.

International merchandise trade continued to increase rapidly during the first half of 2008. It was not until September 2008 that the impact of the financial crisis became evident. As a result, the 2008 figure for total merchandise still shows a positive annual rate of growth of 15 percent, only slightly lower than the 16 percent in 2007, but still above the average of 12 percent observed since 2000.

The full impact of the crisis was felt fully across all regions only in the fourth quarter of 2008. Trade levels deteriorated most in Europe, falling by nearly 16 percent. Asia's exports declined by 5 percent and North America's by 7 percent. The most recent monthly data available for world merchandise trade indicate an end to the declining trend—world merchandise trade increased by 8 percent between the first and second quarters of 2009.

## U.S. Trade and Investment Facts

According to the U.S. Department of Commerce, the United States is the world's largest economy with a GDP of \$14.4 trillion. In 2008, U.S. exports of goods and services grew by 12.5 percent, from \$1.6 trillion to \$1.8 trillion, while

U.S. imports increased 8.6 percent to \$2.5 trillion.

The largest export markets for U.S. goods in 2008 were Canada (\$261.4 billion, up 5 percent), Mexico (\$151.5 billion, up 11 percent), China (\$71.5 billion, up 10 percent) and Japan (\$66.6 billion, up 6 percent).

### Goods and Services

For goods, exports were \$1.29 trillion and imports were \$2.1 trillion, resulting in a goods deficit of \$821.2 billion. For services, exports were \$551.6 billion and imports were \$407.6 billion.

### Goods

Increases occurred in industrial supplies and materials (\$70.9 billion); foods, feeds and beverages (\$24.2 billion); capital goods (\$22 billion); consumer goods (\$15.1 billion); and other goods (\$5.9 billion). A decrease

## Leading California Export Markets (In \$ U.S. Billions)

Partner	2005	2006	2007	2008
World Total	116.711	127.770	134.318	144.813
Mexico	17.711	19.627	18.346	20.504
Canada	13.261	14.247	16.273	17.732
Japan	13.485	13.984	13.457	13.068
China	7.821	9.97	10.566	11.025
South Korea	6.312	7.045	7.408	7.746
Germany	4.266	4.54	5.559	5.759
Hong Kong	4.912	4.822	4.918	5.688
United Kingdom	4.979	5.063	5.216	5.538
Taiwan	5.379	5.637	5.785	5.148
Netherlands	3.6	4.041	4.076	4.348
Singapore	3.787	4.605	4.283	4.085
Australia	2.473	2.809	2.821	3.175

Source: U.S. Department of Commerce

occurred in automotive vehicles, parts and engines (\$100 million).

Increases occurred in industrial supplies and materials (\$140.8 billion); capital goods (\$9.3 billion); consumer goods (\$7.6 billion); foods, feeds and beverages (\$7.3 billion); and other goods (\$3.8 billion). A decrease occurred in automotive vehicles, parts and engines (\$25.3 billion).

#### Services

For 2008, exports of services were \$551.6 billion, up \$54.4 billion from 2007. Increases occurred in other private services (\$17.6 billion), which includes items such as business, professional and technical services, insurance services, and financial services; travel (\$14.7 billion); other transportation (\$8.7 billion), which includes freight and port services; royalties and license fees (\$8.5 billion); and passenger fares (\$5.8 billion). A decrease occurred in transfers under U.S. military sales contracts (\$900 million). U.S. government miscellaneous services were virtually unchanged.

For 2008, imports of services were \$407.6 billion, up \$29.5 billion from 2007. Increases occurred in other private services (\$9.8 billion); other transportation (\$5.8 billion); travel (\$4.2 billion); passenger fares (\$3.8 billion); direct defense expenditures (\$3 billion); royalties and license fees (\$2.8 billion); and U.S. government miscellaneous services (\$200 million).

#### Investment

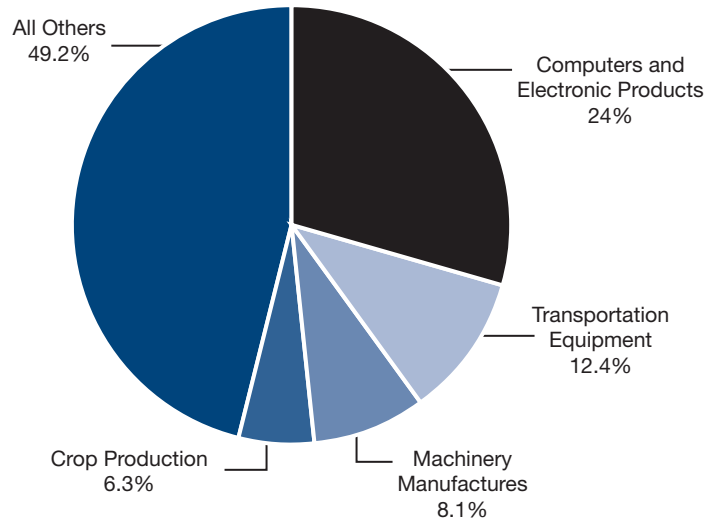
The United States is the world's largest recipient of foreign direct investment, according to Invest in America from the U.S. Department of Commerce. Foreign direct investment has many positive impacts on the U.S. economy. For example, U.S. affiliates of foreign companies tend to pay higher wages than other U.S. companies. On average, U.S. subsidiaries of foreign firms pay 25 percent higher wages and salaries than that of all U.S. establishments.

#### California Trade and Investment Statistics

In 2008, California exports amounted to more than \$144 billion, according to the U.S. Department of Commerce. This is an increase from the 2007 total of nearly \$134 billion. California maintained its perennial

### Exports from California to North American Free Trade Agreement (NAFTA)

Grand Total  
\$38.32 billion



Source: U.S. Department of Commerce (2008)

position as a top exporting state.

Exports from California accounted for 12 percent of total U.S. exports in 2008. California's top trading partners are Mexico, Canada, Japan, China and South Korea. California trade and exports translate into high-paying jobs for more than 1 million Californians.

The state leads the nation in export-related jobs. About one in seven jobs in California is related to trade, with every million-dollar increase in trade equaling 11 new jobs, according to the California Business, Transportation and Housing Agency. Foreign-controlled companies employed more California workers, the most of any state. Major sources of foreign investment in California were the United Kingdom, Japan, Switzerland, Germany and France. One-quarter of those workers are in the manufacturing sector.

#### Top Export Sectors

California is the number one exporter in the nation of computers, electronic products, and sales of food and kindred products. Computers and electronic products are California's top export, accounting for 42 percent of all the state's exports. California exports of transportation equipment, machinery

manufactures and chemicals also grew in 2008.

- **Mexico** continues to be California's number one export market. California exports to Mexico totaled \$20.5 billion in 2008. Mexico purchases 14 percent of all California exports.

California's exports to Mexico are driven by computers and electronic products, which account for 24 percent of all California exports to Mexico. Key exports to Mexico showing growth in 2008 include transportation equipment and fabricated metal products.

- **Canada** moved up to become California's second largest export market, purchasing 12 percent of all California exports.

Computers and electronic products remained California's largest exports, accounting for 29 percent of all California exports to Canada. Exports of machinery and chemicals from California to Canada grew in 2008 to total more than \$1.8 billion, with petroleum and coal products doubling to \$1.1 billion.

- **Asia-Pacific.** California is the largest exporting state to Asia. In 2008, California exported almost \$57 billion in goods to the region, 40 percent of

all California exports and nearly 20 percent of all U.S. exports to Asia.

- **Japan.** California exports to Japan, the world's third largest economy, totaled \$13 billion in 2008. Computers and electronic products accounted for 28 percent of total exports.

- **Greater China.** California exports to Mainland China totaled \$11 billion in 2008, an increase from the previous year. Exports to Hong Kong also grew in 2008. Growth in exports of transportation equipment and metal manufacturing goods contributed to the increase in total California exports.

- **European Union.** California exports to the European Union increased in 2008 to total \$28.3 billion. California is the top exporting state to Europe. Computers, electronic products and transportation equipment are California's leading export sectors to the region. European Union countries purchase nearly 20 percent of all California exports.

### NAFTA and the Americas

The California Chamber of Commerce actively supported the creation of the North America Free Trade Agreement (NAFTA) among the United States, Canada and Mexico, comprising more than 445 million people.

#### NAFTA Benefits

CalChamber support for NAFTA is based upon an assessment that it serves the employment, trading and environmental interests of California and the United States, as well as Canada and Mexico, and is beneficial to the business community and society as a whole.

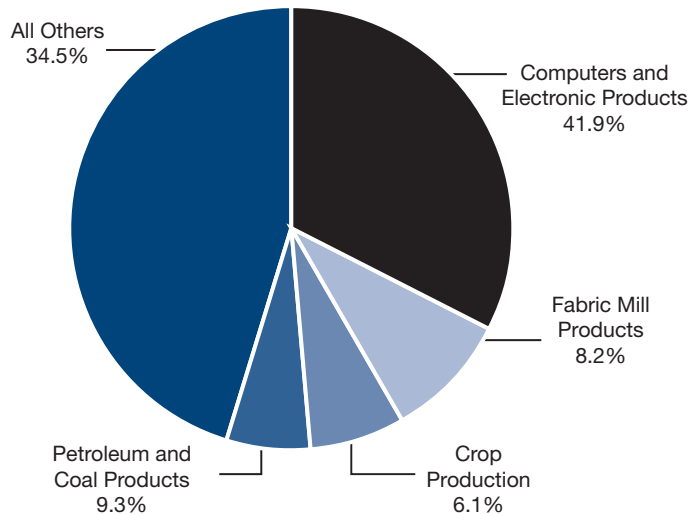
The objectives of NAFTA are to eliminate barriers to trade, promote conditions of fair competition, increase investment opportunities, provide adequate protection of intellectual property rights, establish effective procedures for implementing and applying the agreements and resolving disputes, and to further trilateral, regional and multilateral cooperation.

#### Hemisphere-Wide Agreement

On December 11, 1994, at the Summit of the Americas held in Miami, leaders of the 34 Western Hemisphere nations (excluding Cuba) agreed to establish the world's

## Exports from California to Dominican Republic/ Central America Free Trade Agreement (DR-CAFTA)

Grand Total  
\$1.33 billion



Source: U.S. Department of Commerce (2008)

largest free trade bloc. A Free Trade Area of the Americas (FTAA) would unite the economies of the Americas into a single free trade area and progressively eliminate barriers to trade and investment. Following the fourth Summit of the Americas in November 2005, talks were put on hold.

The FTAA would be a nearly \$15 trillion economic area with more than 800 million consumers.

More recently, in April 2009, President Barack Obama met with 33 other democratically elected heads of state in Trinidad and Tobago at the Summit of the Americas. The President was there to discuss challenges facing the people of the Americas, including the economic crisis, energy and climate futures, and public safety.

#### U.S.-Dominican Republic/Central America Free Trade Agreement

President George W. Bush signed the U.S.-Dominican Republic/Central America Free Trade Agreement (DR-CAFTA) on August 2, 2005, giving final U.S. approval of the agreement.

The governments of El Salvador, Nicaragua, Honduras, Guatemala, Costa Rica and the Dominican Republic have now all passed the

agreement. The agreement is expected to result in gains for U.S. exports, economic welfare and market access.

The DR-CAFTA is expected to increase U.S. exports worldwide by \$1.9 billion, more than any other recent free trade agreement, including Australia. Without a DR-CAFTA in place, U.S. products faced a competitive disadvantage in the region because Central American countries have been very active in negotiating free trade agreements that do not include the United States. More than 20 trade agreements grant preferences in Central America to products from Mexico, Canada, Chile and several South American nations.

Under the agreement, more than 80 percent of U.S. exports are able to enter DR-CAFTA countries duty-free immediately, with all products having duty-free access in 10 years.

Leading U.S. exports to Central America include textiles, machinery, electrical machinery and equipment, and plastics. Leading U.S. imports from Central America include apparel products and edible fruits. The United States is the main supplier of goods and services to Central American

economies. Forty percent of total goods imported by Central America come from the United States.

The DR-CAFTA is expected to contribute to stronger economies, the rule of law, sustainable development and more accountable institutions of governance, complementing ongoing domestic, bilateral and multilateral efforts in the region.

#### **U.S.-Chile Free Trade Agreement**

The U.S.-Chile Free Trade Agreement (FTA) was implemented on January 1, 2004. Under the agreement, 85 percent of industrial products will be traded without duties. In 2008, 75 percent of farm production became freely traded. After just 10 years of the agreement, all trade in non-agricultural goods will take place without tariffs or quotas; for agriculture, the phase-out will take 12 years.

Two-way trade in goods between the United States and Chile has risen dramatically since implementation of the agreement. Petroleum, machinery and fertilizer from the United States experienced a marked improvement.

Top exports from Chile to the United States include copper cathodes, fresh grapes and salmon. Top exports from the United States to Chile include transmission receptors, computers and diesel trucks.

Chile is California's 22nd largest export partner. In 2008, California exported more than \$1.7 billion to Chile, more than doubling the amount from 2007.

Chile is roughly equal in size to California and home to 16 million people and renowned copper mines. Chile has the most stable and fastest-growing economy in the region, which puts it in the best position to promote democracy and political freedom.

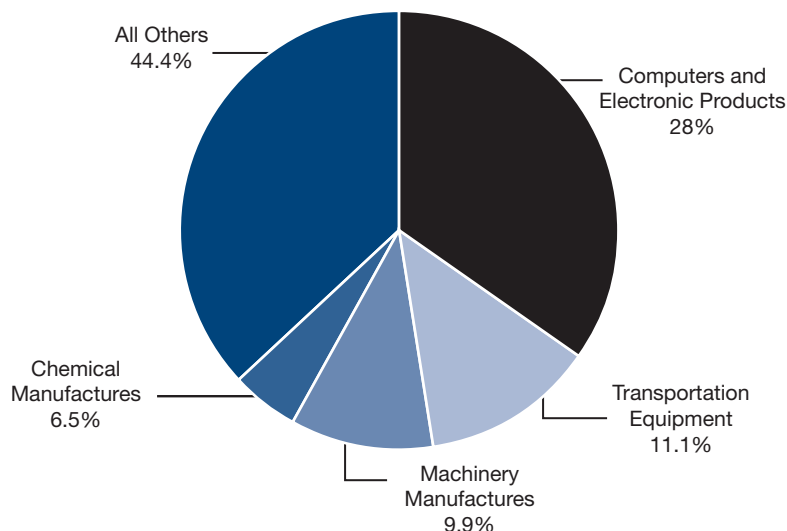
In September 2009, the CalChamber participated in the California Trade Mission to Chile and the Americas Competitiveness Forum. The CalChamber signed a Memorandum of Understanding with the American Chamber of Commerce in Chile and worked with the Chilean government regarding its Strategic Association and Chile-California Plan.

#### **U.S.-Peru Free Trade Agreement**

In June 2006 the Peruvian Congress overwhelmingly approved the U.S.-Peru FTA by a vote of 79-14 with six

## **Exports from California to Asia-Pacific Economic Cooperation (APEC)**

**Grand Total**  
**\$98.78 billion**



Source: U.S. Department of Commerce (2008)

abstentions. The FTA was approved by the U.S. Congress on November 8, 2007 by a vote of 285-132, and by the U.S. Senate on December 4, 2007 by a vote of 77-18. Both the U.S. and Peruvian presidents have signed the agreement.

Total trade in 2008 between Peru and the United States was more than \$12 billion. The United States exported \$6.2 billion worth of goods to Peru.

According to the U.S. Department of Commerce, in 2008, California exported \$240 million to Peru, making it the state's 46th largest trading partner.

Peru is the third largest country in South America and is approximately three times the size of California. It is the fifth most populous country in Latin America (after Brazil, Mexico, Colombia and Argentina), and has an annual GDP of more than \$181 billion.

Peru is a source of both natural gas and petroleum. It also is the world's second largest producer of silver, sixth largest producer of gold and copper, and a significant source of the world's zinc and lead. Mineral exports make up around half of Peru's total export revenue.

About 200,000 U.S. citizens visit Peru annually for business, tourism and study. Nearly 16,000 Americans reside in Peru, and more than 400 companies are represented in the country.

#### **U.S.-Colombia Free Trade Agreement**

See individual issue report.

#### **U.S.-Panama Free Trade Agreement**

See individual issue report.

### **Asia-Pacific**

The Asia-Pacific region is a key driver of global economic growth, representing nearly 60 percent of global GDP and roughly 50 percent of international trade. Since 1990, Asia-Pacific goods trade has increased by 300 percent, while global investment in the region has increased by more than 400 percent. U.S. trade with Asian countries totals nearly \$1 trillion annually.

#### **Association of Southeast Asian Nations (ASEAN)**

On October 7, 2003, 10 Southeast Asian nations signed an agreement to become an economic union by 2020. The agreement sets deadlines for lowering travel restrictions and tariffs in the region of 500 million people. Jointly, their \$1 trillion economy is

slightly larger than India's. ASEAN includes Thailand, the Philippines, Indonesia, Cambodia, Malaysia, Singapore, Laos, Vietnam, Brunei and Myanmar.

In November 2004, ASEAN and China signed an agreement to eliminate tariffs on all merchandise trade. The 2004 deal is part of a five-year process to create a free trade area between China and the 10 ASEAN nations. They are finalizing two major agreements leading to the creation of a free trade area. The agreement will cut tariffs for nearly 7,000 products.

Once fully implemented, the agreement will create a free trade area of nearly 2 billion people and a combined GDP of \$2 trillion. It would be one of the largest trading markets, eliminating nearly all tariffs on goods, moving to liberalizing trade in services and opening cross-border investment.

#### **Greater China**

Trade between the United States and China has risen rapidly over the last several decades. U.S. exports to China are on a steady increase from previous years.

Hong Kong GDP per capita is comparable to other developed countries. The United States has substantial economic ties with Hong Kong. A report by the U.S. State Department indicates that there are some 1,100 U.S. firms and about 54,000 U.S. residents in Hong Kong.

California exports to Mainland China were up to \$11 billion in 2008, making it the state's fourth largest trading partner. California exports to Hong Kong increased slightly in 2008, to total \$5.7 billion, while exports to Taiwan decreased slightly to \$5.1 billion.

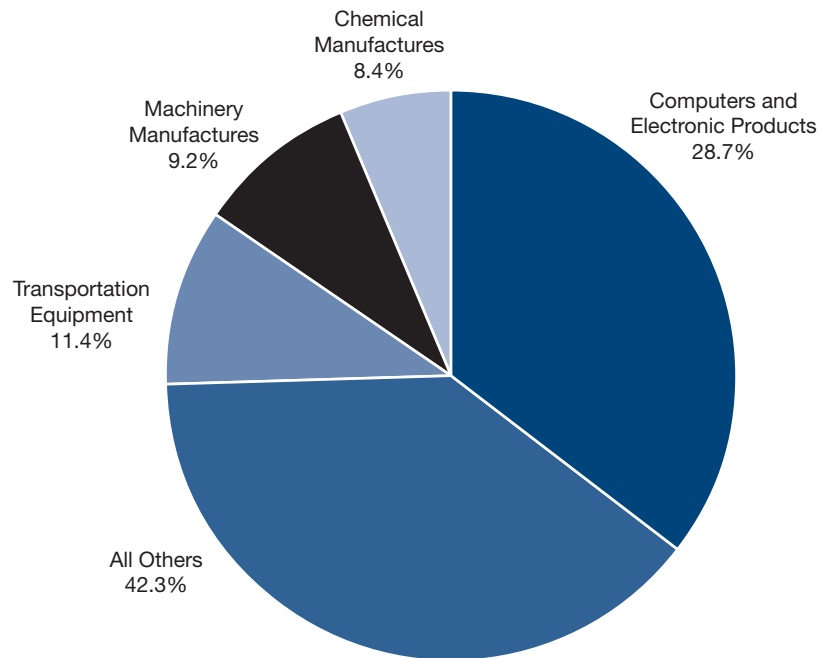
Hong Kong and China implemented the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA) on January 1, 2004. The CEPA strengthens and enhances trade and investment cooperation between Hong Kong and China in 18 service and professional industries and 273 product categories.

#### **Japan**

The United States is a large supplier of chemicals, pharmaceuticals, films, music and commercial aircrafts to Japan. Japan also is the largest U.S. foreign market for agricultural

## Exports from California to World

**Grand Total**  
**\$144.8 billion**



Source: U.S. Department of Commerce (2008)

products. Tourism from Japan to the United States is a major industry as well.

#### **U.S.-Korea Free Trade Agreement**

See individual issue report.

#### **Asia-Pacific Economic Cooperation**

The Asia-Pacific Economic Cooperation (APEC) forum was formed in 1989. It serves as a multilateral forum in which Asian and Pacific economies can solve economic problems and cooperate in developing key economic sectors.

Collectively, the 21 economies of APEC represent a large consumer market—nearly half the world's population, nearly half of all world trade and more than \$19 trillion in economic output.

The APEC economies are: Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Republic of the Philippines, Russia, Singapore, Chinese Taipei, Thailand, United States and Vietnam.

APEC ministers have met each year since November 1994, when they issued the Bogor Declaration, which calls for industrialized members of APEC to remove trade barriers.

The 2009 ministerial meeting was held in Singapore. Future ministerial meetings are planned for Japan in 2010, and the United States in 2011. Although Honolulu has been chosen to host the November 2011 Leaders Week meeting, it is expected that California will host several ministerial-level events during the course of the year leading up to the final week.

#### **Trans-Pacific Partnership**

See individual issue report.

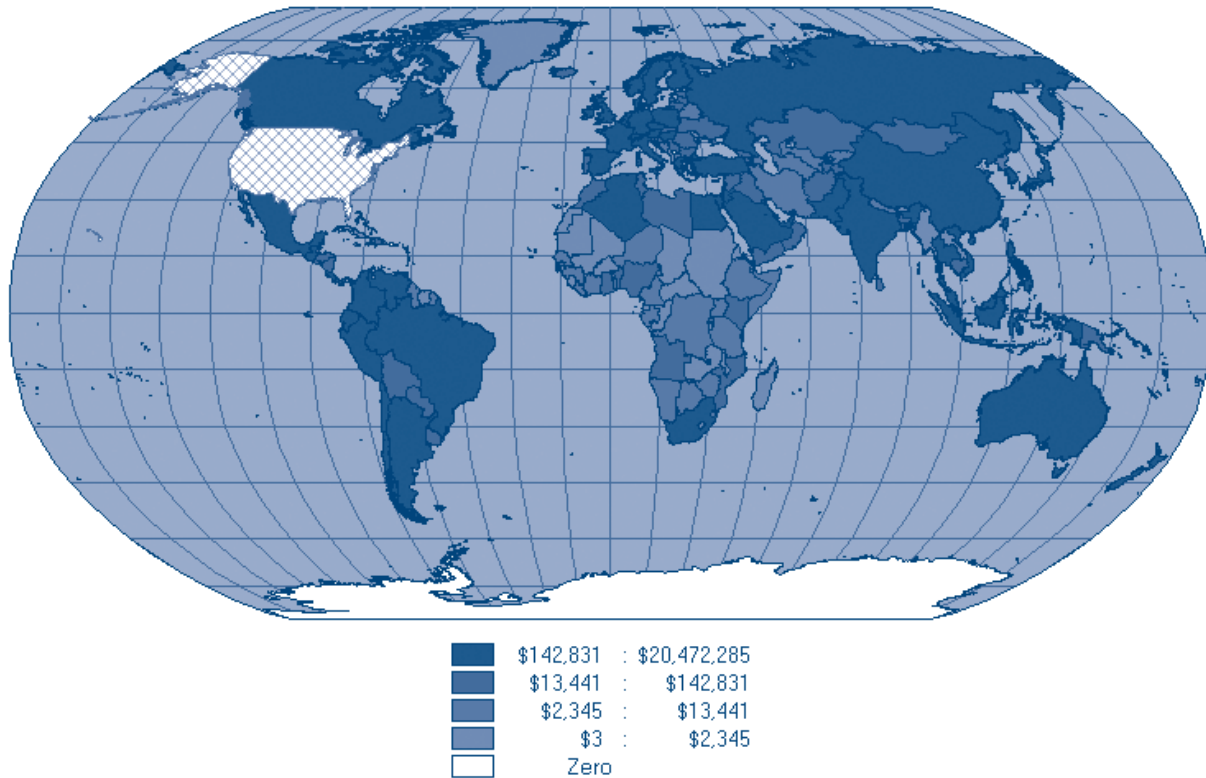
#### **U.S.-Singapore Agreement**

The U.S.-Singapore FTA went into effect in January 2004. Under the agreement, most tariffs were eliminated immediately, with the remaining tariffs phased out over a three- to 10-year period.

A major strategic trading partner of the United States and one of the nation's closest friends, Singapore has one of the most open, well-

## 2008 Exports from California

(\$ in thousands)



Source: U.S. Department of Commerce

regulated, safe and secure investment climates in the world. It is consistently rated among the most competitive economies in the world. The FTA is making this remarkably productive relationship even closer. Already, more than 1,300 U.S. companies have a presence in Singapore, and about 330 of these have made Singapore their regional business headquarters in Asia. In addition, an estimated 17,000 Americans live in Singapore.

Since implementation of the U.S.-Singapore FTA in 2004, U.S. exports to the nation have increased. New market opportunities also have been created, including those for pharmaceutical products and organic chemicals, according to the Office of the U.S. Trade Representative.

Singapore is the 11th largest foreign market for California. In 2008, California exported \$4.1 billion to Singapore.

The U.S.-Singapore FTA enhances mutual interests in a stable, prosperous ASEAN and East Asia, and will further strengthen the partnerships across the Pacific. With 4 million people, Singapore, one of the busiest port cities in the world, already has free trade pacts with New Zealand and Japan.

The agreement represents the new economy, focusing on removing Singapore restrictions on a wide range of services, including high technology sectors such as engineering, medical, information technology, environmental, legal, financial, education and distribution. Investment in Singapore can strengthen the region as an integrated production space and help anchor U.S. leadership in the global manufacturing operations of Southeast Asia.

With the bilateral relationship, the United States and Singapore can put

in place systems and procedures to ensure that only legitimate goods can claim preferential treatment under the FTA. The exchange of information will be increased so that both sides can use risk management techniques to block illegal trade.

### *U.S.-Australia Agreement*

On January 1, 2005, the U.S.-Australia FTA came into effect. The agreement eliminates tariffs on 99 percent of U.S. manufactured goods exported to Australia, accounting for 93 percent of all U.S. exports to the nation.

A comprehensive FTA combines more than 324 million consumers in a market of \$14.8 trillion annually.

The agreement has improved the business climate between the two nations. This is the first FTA between the United States and a developed country since the U.S.-Canada FTA in 1988. Some of the industries that

will benefit the most from the increase in exports include coal, oil, gas, machinery and equipment.

The United States and Australia share impressive economic growth and productivity growth. Both have a strong commitment to trade and investment liberalization. With the legal, regulatory and ideological similarities between the United States and Australia, Australia is an ideal trading partner.

The United States and Australia have major interests in each other's economies. The United States has long had a large trade surplus with Australia. The United States is the largest investor in Australia, while Australia is a major investor in the United States.

U.S. producers of transportation equipment, non-electrical machinery, computer and electronic products and chemicals are the strongest exports to Australia. Australia's strength as a producer of agricultural crops has made it a magnet for U.S. exports of related products, including machinery, fertilizers and chemicals.

U.S. consumers, including manufacturers of products in the United States, import a wide variety of goods from Australia. Manufactured food products, including meat products and transportation equipment, are the largest U.S. imports from Australia. Other key imports include primary metal manufacturing products, beverages (including wine) and chemicals. More than half of U.S. imports from Australia are inputs or capital goods used to manufacture products in the United States.

Australia is California's 12th largest export market. California is the largest state exporter to Australia, with more than \$3.2 billion in exports from California to Australia in 2008. Australian companies employ more than 84,000 U.S. workers.

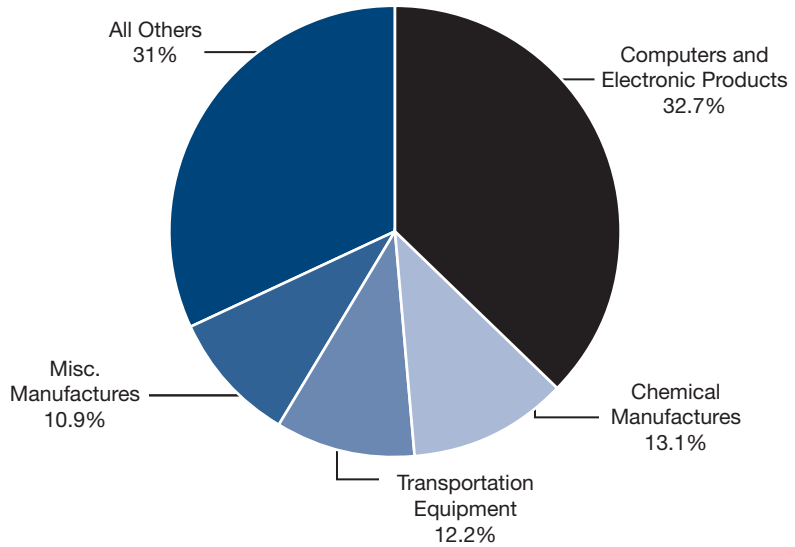
### Middle East

In May 2003, President Bush proposed a U.S.-Middle East Free Trade Initiative aimed at encouraging growth and opportunity in the region. The initiative is set to build on U.S. FTAs with Israel, Jordan, Bahrain, Morocco and Oman.

Once bilateral FTAs are established, the United States could seek to expand them into a regional FTA encompassing

## Exports from California to European Union 27 (EU 27)

Grand Total  
\$28.29 billion



Source: U.S. Department of Commerce (2008)

all willing countries in the Middle East and Mahgreb, creating a historic Middle East Free Trade Area (MEFTA) by 2013. The concept envisioned is to link the nations that have signed FTAs with the United States to one another, opening trade, not just with the United States, but also among Middle Eastern countries.

In summer 2004, the 9/11 Commission recommended the United States pursue MEFTA further "to encourage development, more open societies and opportunities for people to improve the lives of their families." Exports in the region have decreased significantly over the last 20 years. Although the region has the world's largest oil reserves, the combined economies of all the nations of the Middle East are smaller than that of France and Belgium combined. Part of the initiative would involve supporting private organizations and businesses working to increase trade and development in the region with more than \$1 billion from U.S. government agencies.

### U.S.-Israel Free Trade Agreement

In 1985, President Ronald Reagan signed the U.S.-Israel FTA. It was the first FTA the United States entered

into, and has served as a model for many later trade agreements. The FTA eliminates all custom duties between the two countries, and has resulted in a huge increase in the overall volume of binational trade to total \$36.8 billion in 2008.

U.S. exports account for roughly one-fourth of all Israeli imports, with a value of more than \$14 billion. Israeli exports to the United States also have increased since the FTA's implementation. In 2008, Israeli imports to the United States were \$22.3 billion, an increase of more than 300 percent since 1985. Israel is the 19th largest export market for U.S. goods and services.

### U.S.-Jordan Free Trade Agreement

The U.S.-Jordan FTA has brought significant benefits to both nations since its implementation in 2002. The positive impact on some of the major industries in the United States has been staggering. Exports of U.S. automobiles to Jordan have risen by 1,500 percent. Corn exports have increased 2,300 percent and exports of TV and radio transmitters have grown by 500 percent.

On September 28, 2001, President

Bush signed into law the U.S.-Jordanian Free Trade Implementation Act (JFTA). The agreement went into effect on December 17, 2001.

The JFTA eliminates duties and commercial barriers to bilateral trade in goods and services originating in the United States and Jordan. It is the third U.S. FTA, following the U.S.-Israel FTA and NAFTA, and the first with an Arab country. The JFTA will support Jordan's domestic economic reforms, encourage efforts by other Middle Eastern countries to open their economies and enhance regional stability. The JFTA will play a major role in fostering closer bilateral business ties between U.S. and Jordanian firms. It also will provide benefits to consumers and businesses in the United States and Jordan by increasing choices and lowering the prices of goods and services.

The JFTA also includes, for the first time in the text of a trade agreement, provisions addressing trade and environment, trade and labor, and electronic commerce. Other provisions address intellectual property rights protection, balance of payments, rules of origin, safeguards and procedural matters, such as consultations and dispute settlement.

#### **U.S.-Bahrain Free Trade Agreement**

On August 1, 2006, President Bush issued a proclamation making official the U.S.-Bahrain FTA, opening the way for tariff-free bilateral trade in all industrial and consumer goods and creating new opportunities for trade in services and agricultural goods.

The agreement eliminates duties on all consumer and industrial products and 81 percent of U.S. agricultural exports. This FTA is particularly beneficial to U.S. exports of aircraft, machinery, pharmaceuticals and agricultural products.

#### **U.S.-Morocco Free Trade Agreement**

The U.S.-Morocco FTA was implemented on January 1, 2006. The agreement eliminates tariffs on more than 95 percent of bilateral trade in consumer and industrial products, with all tariffs being phased out within nine years. This reduction in duties creates a huge opening in Morocco's market for U.S. exports such as information technology, machinery and agriculture.

The United States currently has a

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## International Concepts

For the sake of clarification, it is important to note the differences among the following:

- A **free trade area** gives a completely free movement of goods and services between two or more countries, but leaves each free to establish its own policies with respect to trade with third countries, and hence, requires the continuation of customs points to control the movement of goods and services between the two countries to prevent goods from third countries entering the high-tariff country via the low-tariff country. NAFTA is an example.
  - A **customs union** gives free trade in goods and services between two or more countries, without the necessity of freedom of factor movements, but with a complete harmonization of trade policy with respect to the outside world. The Common Market of the Southern Cone (MERCOSUR) is an example.
  - A **common market** is a complete integration of two or more economies, allowing complete freedom of movement of goods and services, as well as all factors of production such as exists within a single, unified country. The European Union is an example.
  - An **economic union** is when national economic policies also are harmonized among members of a common market, for example, the European Union with its implementation of a common currency.
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trade surplus with Morocco. Some of the major products the United States exports to Morocco are aircraft, corn and machinery. There are significant growth prospects for U.S. products under the agreement in areas such as oilseeds, feed grains and products in the energy, tourism and environmental sectors.

#### **U.S.-Oman Free Trade Agreement**

On September 26, 2006, President Bush signed legislation to implement the U.S.-Oman FTA, making it the fifth Middle Eastern country to have a free trade deal with the United States. Under this agreement, all bilateral trade in consumer goods and industrial products became duty-free.

The U.S.-Oman FTA benefits both California and the United States. The U.S.-Oman FTA continues to increase the state's exports in computers, electronics, agricultural products and manufactured goods.

Oman is a potential market for U.S. oil equipment and services, transportation equipment, water and environmental technology, medical equipment, electrical and mechanical equipment, and many other competitive U.S. products and services.

The U.S.-Middle East Free Trade Initiative sent a strong signal that the United States intends to remain heavily engaged in the Middle East for a long time to come in business, economics, security and international politics. The free trade initiative contributes to regional and global trade liberalization and strengthening of the multilateral trading system.

#### **Africa**

President Bush signed legislation on July 13, 2004 extending the African Growth and Opportunity Act (AGOA) from 2008 to 2015. The AGOA initially was enacted in 2000, eliminating duties on imports from African nations into the United States if those nations made significant efforts to open their economies. In a signing ceremony speech to members of Congress and the African diplomatic corps, the President commented that the AGOA will create "jobs, wealth and opportunity on both continents."

Since its inception in 2000, AGOA has helped increase U.S. two-way trade with sub-Saharan Africa. In 2008, U.S. total exports to sub-Saharan Africa totaled \$17.6 billion, almost

triple the amount from 2001. U.S. total imports from sub-Saharan Africa more than quadrupled during this period to \$81.4 billion. At year-end 2007, U.S. direct investment in Africa rose 52 percent from 2001, to \$13.8 billion.

### European Union

As of 2008, the European Union (EU) consisted of 27 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, the United Kingdom and new members Hungary, Poland, Estonia, Lithuania, Latvia, the Czech Republic, Slovakia, Slovenia, the Mediterranean Island of Malta and Cyprus, Bulgaria and Romania.

The EU presidency rotates among member countries, which each take turns for six months at a time as chair of EU meetings and representing the European Union at international events.

Beginning with the Treaty of Rome in 1957, the European Economic Community began a process that led to the adoption of standards designed to implement freedom of labor, capital, goods and services. This continues as the cornerstone of the development of the "single European market" instituted on January 1, 1993.

The November 1, 1993, Maastricht Treaty took the European Community even further, creating European citizenship and a three-part framework:

- detailed plan for economic and monetary union;
- authority for a common foreign and security policy; and
- policies for justice and domestic affairs.

Membership in the single currency, known as the euro, includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Britain, Sweden and Denmark have chosen to remain out.

On January 1, 1999, governments, businesses and banks started using the euro in their accounting. On January 1, 2002, national currencies were discontinued and euro bills are being used for day-to-day commerce.

On March 1, 2002, domestic currencies within the euro zone lost their legal status.

A proposed Euro-Mediterranean agreement or FTA between nations of the European Union and countries of the South Mediterranean is under consideration. Together with the European Free Trade Association (made up of non-EU member states Switzerland, Iceland, Liechtenstein and Norway), the Euro-Mediterranean Free Trade Zone would include 600 million to 800 million consumers.

Business and government leaders from the United States and the European Union regularly participate in the Transatlantic Business Dialogue (TABD) to discuss priorities for eliminating trade and investment barriers across the Atlantic. The TABD includes senior representatives from EU and U.S. companies that meet on a regular basis to discuss ways to ease the flow of bilateral trade. Representatives also gather for "early warning system" meetings when potential trade disputes arise.

### CalChamber Positions

The California Chamber of Commerce, in keeping with long-standing policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business.

Recognizing the current state and federal trade deficits, the CalChamber:

- supports reducing the federal budget deficit by controlling federal spending;
- supports efforts to achieve and maintain a stable and competitive relationship between the U.S. dollar and the currencies of major trading partners;
- supports actions designed to eliminate barriers that impede U.S. and California commerce domestically and abroad by aggressively negotiating fair and equitable market access for California agriculture, manufactured

products and services by aggressively negotiating to reduce trade barriers; and

- promotes educating California's citizens, legislators and businesses about the benefit of trade to the state economy.

### Legislative Issues

The CalChamber has supported a number of state and federal programs, but it should be noted that the CalChamber also dissuades the introduction of legislation that is unnecessary, unconstitutional or violates existing trade agreements.

The CalChamber:

- opposes protectionist-oriented legislation that leads to higher prices and limited choices for consumers. The negative impact of this sort of policy often expands to include job loss in related industries, retaliation by our trade partners, and violations in WTO provisions;
- opposes state and local legislation that imposes sanctions on businesses engaged in international trade and/or conflict with federal international policies; and
- supports legislation that allows California companies to compete more effectively in foreign markets, as well as to attract foreign business to California.



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