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California adrift internationally: resetting course for the 21st century

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ABSTRACT

After setting up the largest and most active international programs of any state, California dismantled its entire program in 2003. Grave concerns about the effectiveness and accountability of the California Technology, Trade and Commerce Agency (CTTCA) which was responsible for overseeing and coordinating all of California's international programs were brought to the forefront at a time when California was facing a historical budget deficit of $38 billion dollars and the recall of a governor. When the dust had cleared, the entire cabinet level CTTCA had been zeroed out of existence by the 2003-2004 Budget.

The implosion of the CTTCA left two strong impressions in its wake: first, the belief that public funds should not be expended to support trade and investment promotion efforts, and second, the idea that California does not need an international presence.

The purpose of this paper is to demonstrate that in fact California needs an international program, yet one that is integrated, coordinated, and strategically oriented. Furthermore, it will suggest a workable governance structure that is both comprehensive and multidisciplinary so as to set California's international course far into the 21st Century.

Keywords: California, international, trade, commerce, globalization, investment, budget, deficit

"The most important relation for Mexico after our relationship with the United States is with the State of California."[1] Mexican Undersecretary of Foreign Affairs Enrique Berruga

Introduction

Given the statement above, one might assume that California is exploiting not only its privileged situation with Mexico but with many other countries as well. But such is not the case. After setting up the largest and most active international programs of any state, California dismantled its entire program in 2003, too and including its office in Mexico.

Grave concerns about the effectiveness and accountability of the California Technology, Trade and Commerce Agency (CTTCA), which was responsible for overseeing and coordinating all of California's international programs were brought to the forefront at a time when California was facing a historic budget deficit of $38 billion dollars and the recall of a governor. When the dust had settled, the entire cabinet level CTTCA had been zeroed out of existence by the 2003-2004 Budget.

At its peak, CTTCA was composed of both domestic and international programs that employed nearly four hundred individuals. Internationally, the agency had twelve California Offices of Trade and Investment (COTI) located throughout the world and also boasted Offices of Export Development, Export Finance, and Foreign Direct Investment. Since the CTTCA was statutorily responsible for overseeing and coordinating all of California's international programs and commitments, one would think the demise of the Agency meant the elimination of California's international programs. But such is not the case.

California still maintains numerous international initiatives, projects, partnerships and commitments. In regard to Mexico alone, California currently has more than one hundred such programs existing within state government that are being administered by twelve separate departments and agencies, eight boards and commissions, and various campuses of the University of California, the California State University, and the California Community Colleges.[2] The problem is that no individual, department, agency, legislative or executive office oversees such participation. More important, there is no strategy, policy, or coordination between these remaining international efforts. Needless to say, California is adrift internationally.

Since the elimination of the CTTCA at the end of 2003 and until September of 2004, the California legislature proposed eight bills to re-establish a foreign program. Of these eight proposals six died in their house of origin,[3] while two Assembly bills made it to the Senate only

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[1] February 23, 2001 Meeting between Mexican Undersecretary of Foreign Affairs Enrique Berruga and California Secretary of Foreign Affairs Michael Flores, held at the central offices of the Mexican Ministry of Foreign Affairs, Mexico City, Mexico while preparing for President Vicente Fox's first official visit to California.

[2] *Inventory of Mexico Related Projects Conducted by California State Agencies*, Alicia Bugarin, California Research Bureau, November 2004; *See also* Assembly Bill 1395, June 1, 2005 version.

[3] 2005 Session – AB 790(Yee), AB 905 (Houston), AB 1562; 2004 Session – SB 1857 (Hollingsworth), SB 1837 (Karnette), SB 1261 (Vasconcellos).

to die in committee.[4] Not one came close to becoming law. The reason none of these bills garnered support is tied to the demise of the CTTCA. The implosion of the CTTCA left two strong impressions in its wake: first, the belief that public funds should not be expended to support trade and investment promotion, and second and more worrisome, the idea that California does not need an international presence.

A few key legislators struggled to overcome these impressions. In the 2005 legislative session, then-Assembly Speaker Fabian Nuñez authored Assembly Bill 1395 (AB 1395) which appeared to have a reasonable likelihood of being enacted given Governor Schwarzenegger's sudden interest in wooing Hispanic voters due to his upcoming reelection in 2006. AB 1395 aimed to restore order to California's international initiatives by requiring two key state entities to develop a comprehensive, multidisciplinary ten-year strategic plan regarding California-Mexico Relations. The strategic plan would have designed an appropriate governance structure to ensure that a coordinated state international program was put in place to manage the one hundred plus international endeavors that California currently maintains with Mexico.

The bill passed the assembly and the senate and was sent to the Governor's desk for signature. Governor Schwarzenegger, however vetoed the bill stating: 'My administration will continue to pursue avenues of common interest and mutual assistance and will do so as they need to be addressed."[5] This 'as they need to be addressed' ad hoc approach is not in the best interest of California. Instead, just the opposite is required.

This article will show that California needs an international program that is integrated, coordinated, and strategically oriented. Furthermore, it will suggest a workable governance structure that is both comprehensive and multidisciplinary so as to set California's international course far into the 21st Century. The paper will not attempt to suggest the actual strategy that should be employed. Rather, the Legislature, the Governor's Office, and private stakeholders should take advantage of the demise of the CTTCA to develop, over time, such a strategy. A detailed description of such an undertaking is beyond the scope of this paper.

In order to fully appreciate California's need for an international presence however, one needs to understand the diversity that marks California today. Therefore, this aspect of the state will be addressed first. Thereafter, the paper will review and examine the forty-five year history of California's international programs as this will bring to light the reasons for their eventual elimination in December of 2003. It will then demonstrate why California needs to maintain an active international presence. Following this, the article will illustrate the importance of establishing an integrated, coordinated, and strategically oriented international program. Afterward, it will suggest that California create a Foreign Affairs Agency that utilizes a joint public and public/private governance structure. Finally, the paper will conclude that the future overseas offices of Foreign Affairs should use the University of California, California House structure that currently exists as the vehicle for re-establishing its international program.

California

California is unique. It is unique in its diversity and its size. Geographically California has the highest mountain in the contiguous United States and the lowest point in the Western

[4] 2004 Session – AB 2206 (Firebaugh), and AB 2411 (Yee).
[5] The Governor's veto message
<http://www.gov.ca.gov/pdf/press/vetoes_2005/AB_1395_veto.pdf>

Hemisphere.[6] It has deserts, forests, world-famous beaches, as well as some of the most productive agricultural land in the world. Along with California's legendary sunshine there are winter snowpacks in the Sierra Nevada that commonly exceed twenty feet.[7] Northern California is as different from Southern California as coastal California is different from the inland portions of the state. These physical features have always had a strong impact on the formation of the California character, personality, and mindset.

California's economy is so large and varied that if it were a nation, it would rank as the fifth or sixth largest economy in the world.[8] Yet, even though California has been the leader of the high-tech information based economy currently reshaping the world, it also remains the largest agricultural producer among the fifty states, nearly doubling the output of second place Texas.[9]

In academic terms, with at least ninety-six Nobel laureates, California's universities and research institutions can claim more Nobel prize winners than any country other than the United States itself.[10] The University of California (UC) is the largest and most renowned public university system in the United Sates and is also the largest public research institution in the world.[11] Currently, the UC has 225,000 students, 170,000 faculty and staff (including forty-four Nobel laureates), and operates on an annual budget of $20 billion dollars. With collections totaling over 32 million volumes, the UC libraries are surpassed in size in the western hemisphere only by the Library of Congress.[12] Combined with its high-tech allure, this research

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[6] "The Land that is California," State of California Portal. June 15, 2005 <http://www.ca.gov/state/portal/myca_homepage.jsp.> Path: History and Culture of California; The Land that is California.

[7] California Department of Water Resouces. June 13, 2005 <http://cdec.water.ca.gov/snow/current/snow> Path: Snow Course Historical Data.

[8] California Technology, Trade and Commerce Agency, "The California Economy Is The Fifth Largest In The World" June 11, 2005 <http://commerce.ca.gov/ttca/pdfs/link_overview/ersi/california_economy_%20fifth_largest_in_the_world.pdf>; and "California's Economy," Public Policy Institute of California, October 22, 2004 <http://www.ppic.org/content/pubs/JTF_EconomyJTF.pdf> In 2002, the six largest economies were: the U.S., Japan, Germany, U.K, California, then France. By 2004 California and France had switched positions.

[9] United States Department of Agriculture, California and Texas Fact Sheets, June 3, 2005 <http://www.ers.usda.gov/StateFacts/CA.htm>; and < http://www.ers.usda.gov/StateFacts/TX.htm> According to the most recent figures in 2002, California's total agricultural production was $27.8 billion dollars while second place Texas had a total agricultural production of $14.1 billion dollars.

[10] "The Nobel Prize" Consulate General of Sweden, Los Angeles, December 14, 2004 <http://www.swedenabroad.com/pages/general____32634.asp>; and Stanford Report, September 5, 2001.

[11] "The University of California System." University of California.edu. 2004. Sept. 15, 2004. <http://www.universityofcalifornia.edu/aboutuc/mission.html>

[12] University of California Web Page, Cultural Resources: Libraries, Museums, the Arts and Science Centers, March 12, 2005 <http://universityofcalifornia.edu/cultural/welcome.html>

and entrepreneurial base allows California to consistently attract an amazing forty-five percent of all venture capital raised in the United States.[13]

Demographically with a little more than thirty-five million inhabitants,[14] California is the most populous state in the country, yet one out of every four Californians was born outside of the United States[15] while nearly one-third of all immigrants in the United States make California home.[16] The State Librarian Emeritus of California Kevin Starr noted: "Into California has come the human, racial, ethnic, linguistic, and cultural richness of the planet itself. There is no people, no race, no cultural or linguistic tradition that is not in some way represented in California."[17] In fact, California is so large and so exceptional its leaders have recently referred to California as a Nation-State.[18]

Past International Programs

Reviewing the history of California's international programs is critical to understanding why the previous system failed. It will also allow the reader to appreciate why California needs an integrated, coordinated, and strategically oriented international program.

As early as the 1960's California established offices in London, Tokyo, and Frankfurt to promote international trade. These efforts however were limited and failed to gain broad support. In 1967, Governor Ronald Reagan closed the last remaining office (Frankfurt) citing cost during a time of budget crises.[19] For the following ten years California drifted along without an international program. Then in 1977, the true beginning of California's international

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[13] The Advanced Technology Development Center, Winter 2005 Issue, April 8, 2005 <http://www.atdc.org/newsletter/2005-Winter/atdcnews.asp>

[14] State of California, Department of Finance, Demographic Research Unit, *Summary File 3 Analysis*. Sacramento, California, April 2005 <http://www.dof.ca.gov/HTML/DEMOGRAP/2000_SF3_CA.pdf>

[15] *Immigrants In California*, Public Policy Institute of California, July 2002, December 12, 2004 <http://www.ppic.org/content/pubs/JTF_ImmigrantsJTF.pdf>

[16] *Legal Immigration to California in 2002*, Linda Gage, California Department of Finance, Demographic Research Unit, April 2, 2005 <http://www.dof.ca.gov/HTML/DEMOGRAP/2002_INS_Report.pdf>

[17] *California: the Dream and the Challenge in the Twenty-first Century*, by Kevin Starr, State Librarian Emeritus of California, Feb 15, 2005 <<http://www.ca.gov/state/portal/myca_homepage.jsp.> Path: History and Culture of California; California the Dream the Challenge.

[18] *See* Governor Press Release dated May 20, 1999. At a luncheon hosted for Mexican President Ernesto Zedillo, Governor Davis stated the following: "For Mexico and California, a great nation and a great nation state, our deepening relationship is not merely the product of diplomatic niceties . . . it is an economic necessity;" *See also,* Speech by Governor Gray Davis at the American Chamber of Commerce, Mexico City, January 4, 2001; and Speech by University of California President Robert Dynes at the inauguration of the Mexico City California House of the University of California, April 11, 2005.

[19] *Golden and Global California*, Los Angeles Times, January 8, 1998, June 23, 2005 <http://www.cs.ucla.edu/~klinger/golden.html>; and *State Government Ventures Abroad*, Jock O'Connell, Golden State Report, January 1990 issue.

programs came about with the creation of the Department of Economic and Business Development that contained an Office of International Trade.[20] By 1980, the Department of Economic and Business Development was transformed into the Commerce Department.[21]

In 1982 California was mired in a recession and was facing a large budget deficit.[22] Throughout the United States and in California in particular, trade deficits became a hot-button issue for politicians.[23] In this atmosphere, the powerful Assembly Speaker Willie Brown authored a bill establishing the California State World Trade Commission (CWTC).[24] At the same time, Senate President pro Tempore David Roberti organized an influential international trade conference entitled "California and International Trade: Partners in Economic Development."[25] Both of these efforts led California down a narrow two-track international path based on promoting exports and attracting foreign direct investment.[26] This will be shown to have been an unfortunate and crucial error.

An even more important flaw, however, crept into the international program from its outset. The legislation relating to the CWTC contained one critical governance flaw that would hinder future programs and eventually led to the 2003 demise. As designed, the CWTC was to be the lead governmental entity for coordinating all programs related to foreign direct investment and international trade.[27] This, however, never occurred as the enabling legislation created a divided structure wherein the Secretary of State[28] served as the chair of the commission while the administrative powers of the CWTC were placed under the jurisdiction and control of the Governor's office.[29]

Whatever the reasons for the creation of this divided configuration, it had the unintended result of starting a feeding frenzy whereby various state entities and officials grabbed whatever piece they could of California's unfolding international program. This power grabbing activity would grow and prove to be uncontrollable for the next twenty-one years.

The state legislature was the first on the scene. In 1983, it passed and enacted a law creating the Export Finance Office and funded a study to explore the possibility of re-establishing the foreign offices closed by Governor Reagan.[30] In 1984, the California Department of Food and Agriculture (CDFA) established the Agricultural Export Promotion Program.[31] The following year the California Energy Commission (CEC) developed and designed a program to help California firms market their alternative energy technology

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[20] *State Government and the Global Economy*, Senate Office of Research, February 2004, p 2.
[21] *Id.*
[22] *Id.*, p.3.
[23] *Id.*
[24] *California Trade Policy,* Gus Koehler, California Research Bureau, California State Library, November 1999, p 46.
[25] *State Government and the Global Economy*, p 3.
[26] *Id.*
[27] *See*, AB 3757 1982 session, Legislative Counsel's Digest.
[28] Under California law, the Secretary of State office is primarily responsible for overseeing state elections and for registering corporations and other business entities and has nothing in common with the Secretary of State at the federal level.
[29] *See* AB 3757 1982 session
[30] *California Trade Policy*, Attachment 1; and *State Government Ventures Abroad*, p.3
[31] *California Trade Policy*, Attachment 1; and *State Government Ventures Abroad*, p.3

internationally, while the Assembly created a Subcommittee on International Trade, Investment, and Tourism.[32] Anticipating the future, State Senator John Garamendi authored a bill attempting to establish foreign offices in Japan and China.[33]

In 1986, the Senate created the Senate Select Committee on the Pacific Rim while the Commerce Department expanded and further developed its role in bringing foreign direct investment into California.[34] In addition, two further yet separate events took place within the Commerce Department: the Office of Tourism mounted an extensive program to attract foreign tourists to California, and the Office of California-Mexico Affairs was established.[35] Other events also occurred in 1986. The Assembly created an Office of International Relations, the CWTC opened an office in Washington D.C., and Governor George Deukmejian requested $700,000 in the 1986-87 Budget for the creation of COTIs in Tokyo and London.[36]

In an attempt to reel in the numerous programs under one roof, the World Trade Reorganization Act was also passed in 1986. The Reorganization Act put the CWTC under the Governor's control by allowing the Governor to appoint the chair as well as a majority of the commissioners.[37] But this attempt was too little too late. By this time each program and entity guarded its turf religiously, and in the end, the free-for-all power grab game continued unabated.

In 1987 with the opening of COTIs in Tokyo and London, a huge tug-of-war developed between the CWTC, the California Department of Commerce, and the California Department of Food and Agriculture for the right to operate and administer the offices. Governor Deukmejian avoided an ugly fight by declaring in an executive order that the foreign offices would belong to the Governor's office. Objections were raised that the Governor's Office was simply too small, had insufficient funds, and was not designed to administer such programs.[38] A stronger concern was raised that a claim of executive privilege would hinder legislative oversight of the offices.[39]

Unhappy with the situation, the Little Hoover Commission Report of 1987 noted that: "California's trade activities are too dispersed among agencies to allow coordination and accountability, and lack a defined and integrated strategy."[40] Yet the uncoordinated international programs continued to grow. In 1987, the Office of Export Development was created and the Senate created the Senate Office of International Relations.[41] By 1989 additional COTIs were opened in Mexico City and Frankfurt.[42]

To further complicate the international structure, in the late 1980s the state legislature created fourteen Centers for International Trade Development (CITDs) with locations throughout the state. The CITDs were funded through the California Community Colleges, Economic and

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[32] *California Trade Policy*, Attachment 1; and *State Government Ventures Abroad*, p.4
[33] *California Trade Policy*, Attachment 1.
[34] *California Trade Policy*, Attachment 1; and *State Government Ventures Abroad*, p.3
[35] *State Government Ventures Abroad*, p.3
[36] *California Trade Policy*, Attachment 1; and *State Government Ventures Abroad*, p.4
[37] *State Government Ventures Abroad*, p.3
[38] *Id.; See also* comments of Assembly Speaker Willie Brown and the Little Hoover Commission Report of 1987.
[39] *State Government Ventures Abroad*, p.4
[40] *The 1987Little Hoover Commission Report*.
[41] Senate Office of International Relations, http://www.sen.ca.gov/soir/.
[42] *California Trade Policy*, Attachment 1

Workforce Development Program.[43] On top of this convoluted structure, Governor Gray Davis added seventeen California-Mexico Trade Assistance Centers that were funded through a grant administered by the Chancellor's Office of California's Community Colleges.[44]

In 1992, the legislature made one last attempt to rein in the international programs by creating the Trade and Commerce Agency (in 2001 the agency would be renamed the Technology, Trade and Commerce Agency - both will be referred to as the CTTCA). The Trade and Commerce Agency was formed by merging the Department of Commerce, the CWTC, and the COTIs from the Governor's office.[45] On paper the CTTCA and its new cabinet level Secretary were responsible for overseeing domestic and foreign economic development as well as being responsible for coordinating all of California's international programs.[46]

The responsibility of coordinating all of California's international programs became unrealistic for three reasons. First as mentioned earlier, each international program and entity guarded their turf religiously and had no desire to cede power or control to the CTTCA. For example, the CDFA retained complete control of its Agricultural Export Promotion Program as did the CEC regarding its alternative energy export program.

Second, the domestic programs of the Trade and Commerce Agency grew at an unprecedented rate. From its humble beginnings the new Agency mushroomed into a 120 program entity that employed up to 386 individuals.[47] Even though seven additional COTIs were opened from 1990 until 2001 (Hong Kong, Jerusalem, Johannesburg, Seoul, Taipei, Singapore, and Buenos Aires),[48] the vast majority of CTTCA's growth occurred in domestic programs.[49] In the end, the domestic programs of the agency employed approximately 308 individuals while the international programs employed 80 individuals.[50] The new and enlarged domestic responsibilities left the Secretary and the Agency unable to properly manage and oversee the international programs.

Lastly, the growth of California's economy (the state's GDP has exceeded one trillion dollars every year since 1997)[51] also hindered the Secretary of Trade and Commerce from applying the necessary amount of time, personnel, and effort toward the international programs. As the size of California's economy grew the demands on the agency's domestic programs increased proportionally. The final straw however came with the Dot Com bust of 2000 and 2001. The ensuing recession that hit California and brought high unemployment put an increased demand on the agency's domestic programs as they sought to reverse or at least to

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[43] Centers for International Trade Development, Path: About Us, June 18, 2005 <http://www.citd.org/about.cfm>

[44] *Inventory of Mexico Related Projects Conducted by California State Agencies*, p. 8. The 17 California-Mexico Trade Assistance Centers were added in 1999 but were eliminated in the 2003-2004 Budget.

[45] *State Government and the Global Economy*, p. 3.

[46] *See,* SB 1909 (Vuich) 1992.

[47] *The California Technology, Trade, and Commerce Agency*, State of California Publication 2001.

[48] *Id.*

[49] *Id.*

[50] *Id.*

[51] *California's Economy*, p. 1

ameliorate the economic hardships. This resulted in the Secretary ignoring the international programs.

In 1999, two noteworthy additions took place outside of this disorganized export and foreign direct investment approach. The first occurred when Governor Davis created the position of Secretary of Foreign Affairs to facilitate the Governor's international relations.[52] Secretary of Foreign Affairs Michael Flores was mainly responsible for orchestrating the Governor's oversea trips as well as receiving foreign dignitaries in California. In this capacity, Secretary Flores carried out functions akin to the diplomatic corps on behalf of the Governor by working directly with embassies, consulates, and foreign officials to ensure closer social, economic and political ties between California and its international partners.[53] Both formally and informally, the Secretary of Foreign Affairs served as a vital unifying figure for California's disjointed international programs.

The second noteworthy and innovative program occurred when Governor Davis and University of California President Richard Atkinson announced the establishment of a California House in London.[54] The California House was a joint venture between the University of California and the CTTCA that was designed to strengthen academic and commercial links between California and the United Kingdom. The idea behind this undertaking was that by combining these two organizations it would fuel innovation in business and in higher education.[55]

A second California House was established in Mexico City in March of 2001.[56] Due to budget cuts and the impending elimination of the CTTCA, the California House, Mexico City was not officially inaugurated until April of 2005.[57] Unlike the California House in London which involved a long term lease, the UC purchased the property for the Mexico City California House.[58] This arrangement holds untold potential for future international programs and will form a key part of the recommendations in re-establishing an international program for the State of California.

By the time 2003 rolled around, California's hodgepodge international program had expanded from a structurally divided CWTC into a full-fledged multi-headed Medusa with no real center of gravity. Compounding this situation however was that Secretary of Technology, Trade and Commerce Lon Hatamiya's style and lack of follow through left him cut-off from the Governor's Office, the Assembly, the Senate, and even the private business sector he was to be representing.

Things only got worse when the huge 2003-2004 state budget crisis reared its ominous head. Given Secretary Hatamiya's political isolation, the CTTCA must have been in the cross

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[52] Governor Press Release May 20, 1999.

[53] Personal interview with former Secretary of Foreign Affairs Michael Flores, January 28, 2003. Governor Schwarzenegger did not follow Governor Davis' lead in this respect and elected not to have a Secretary of Foreign Affairs.

[54] Governor Press Release, March 22, 1999.

[55] *Id.*

[56] Governor Press Release, March 22, 2001.

[57] Center for U.S. – Mexico Studies, University of California, San Diego, June 12, 2005 <http://www.usmex.ucsd.edu/research/vinculos_may2005.php>

[58] The University of California, Casa de California, June 12, 2005 <http://www.universityofcalifornia.edu/casa/welcome.html>.

hairs of the budget cutters. The "coup de grace" however, came from a well-timed investigative piece in the Orange County Register in May of 2003.

While attempting to justify the performance results of the COTIs, Secretary Hatamiya made an unsustainable assertion to the reporter. He claimed that in order to qualify a trade or investment lead as a success the foreign office must have played a pivotal "but for" role in making the deal happen. In plain English this meant that "but for" the involvement of the COTI staff the deal would never have occurred.

The first time the twelve COTI directors heard about the "but for" test was when they read about it in the newspaper.[59] Moreover, no one in the Agency had ever used a "but for" standard. To the contrary, the foreign offices were instructed to use and in fact employed a sliding scale of one to five to note the level of an office's involvement.[60] On this scale a one signified minimal involvement while a five indicated substantial involvement.[61]

The newspaper article caused an uproar as it appeared as though the foreign trade offices were purposely misleading lawmakers and the public about their effectiveness by overstating and reporting their successes.[62] On the one hand was Secretary Hatamiya's unfounded statements to the press that the COTIs success stories were premised on a "but for" standard, while on the other hand the past history and all the supporting documentation used the sliding scale method.

This led to legislative hearings in July of 2003. At this time, the capital was buzzing with the imminent verification of sufficient signatures that would trigger the historic recall of Governor Davis. With this backdrop, the hearings before the Senate Banking, Commerce and International Trade Committee which had oversight responsibilities of the entire CTTCA took on a special dimension.

After a full day of hearings and the testimony of seven of the twelve COTI directors, the senate panel ended the hearings by concluding there had been no intent to mislead by any COTI office or staff and that only some minor discrepancies had occurred. Furthermore, most of the discrepancies that did exist were shown to have occurred in the CTTCA offices in Sacramento and not at the foreign offices. The committee recommended that the foreign offices remain intact and that they retain their current funding levels.[63] What the hearings proved however, was a lack of involvement from the Secretary regarding the twelve COTIs. When the hearings ended, the "but for" versus sliding scale rift lurked as a huge crevasse separating the Secretary from the COTI directors. The combined revelations proved to be the deathblow of CTTCA.

Two months later, the legislature and the Governor (who was now facing a recall election that he would eventually lose) were looking desperately for ways to cut items from the state budget.[64] Taking into account all of the previously mentioned problems and missteps of the international program as a whole and the CTTCA in particular, in retrospect it should have come as no surprise that the CTTCA was going to be eliminated.

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[59] Hearing Transcript of July 2, 2003 before the Senate Banking, Commerce and International Trade Committee.
[60] *Id*.
[61] *Id.*
[62] *State Government and the Global Economy*, p.4.
[63] Hearing Transcript of July 2, 2003. All twelve directors attended the hearings yet only seven directors actually testified.
[64] *A Rare Recall Bid Imperils Gray Davis*, The Christian Science Monitor, June 25, 2003, July 8, 2005 <http://www.csmonitor.com/2003/0625/p01s02-uspo.html>

As mentioned at the beginning of this paper, even though the CTTCA was eliminated, California still maintains hundreds of international efforts operating separately without coordination or strategy. This should not be allowed to exist. If these items do not provide a benefit to the people of California, they should be eliminated. If, however, reasons exist for California to have an international presence, and these projects can become part of a carefully drafted comprehensive and coordinated plan, they should in contrast, remain. The fact that California continues to maintain so many international projects hints at some underlying reason for such a presence. The next section will identify and analyze the major reasons justifying an international presence for California.

The Need for an International Presence

California should only have an international presence if it will maintain or enhance the well being of its citizens, and by implication that of the state as a whole. Currently, the world that we have known since the time of the industrial revolution is being replaced by a high-tech information based global economy. We are entering the "global localization era."[65] The world our parents and grandparents knew is quickly disappearing. Borders as we have traditionally known them are ceasing to exist. In this new global localization era, education, training, and access (connectivity) are crucial. Preparing to be the brightest, quickest, and most adept at exploiting this change may be the only way to ensure the well being of Californians. Stand still and this new era will leave you, your children, and your grandchildren behind.

As Kevin Starr stated, ". . . into California has come the richness of the planet itself." If California desires to continue attracting the best human, commercial, academic, entrepreneurial, and cultural capabilities the world offers, it cannot sit idly and expect this privileged situation to continue by itself. California has benefited greatly from attracting the best the world has to offer. In many ways the world looks upon California as the best of what the United States has to offer. It is of no coincidence that nearly one-third of all immigrants in the United States choose California as their home. This rich pool of immigrant entrepreneurial spirit allows California to compete in over 227 markets worldwide in a manner that few other countries can match.[66] In this way California is uniquely positioned to take full advantage of the global localization era. Therefore, it is in California's own self-interest to actively promote and enhance this privileged situation of attracting the best and the brightest.

The surest way of bringing the best of the world to California is by bringing the best of California to the world. Developing an effective and coordinated strategy that can showcase the strength, power, potential, and special allure of California internationally is crucial. In short, California needs to market California.

There are at least ten key areas where an international presence can increase the well being of California. Since September 11 one of the most obvious reasons California needs an international presence is to enhance its security. The United States federal government obviously plays a preeminent role in this task, however California law enforcement agencies, the

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[65] I use this term to describe the rapid and ongoing process of how the Internet based world is localizing the planet in ways thought unrealistic even ten years ago.

[66] U.S. Department of Commerce, International Trade Administration, *California: Exports, Jobs, and Foreign Investment*, April 2005 <http://www.ita.doc.gov/td/industry/otea/state_reports/california.html#Markets>

Governor's Office for Homeland Security, and the California Department of Transportation (CalTrans) each play an important role regarding California's border with Mexico. In it's "California Transportation Plan 2025 (Plan 2025), CalTrans states that: "The security of California's borders, gateways, and transportation system must be improved to ensure traveler safety, cargo security, and the state's economic prosperity."[67] Having an international program that promotes discussions between California and Mexican officials regarding border security issues would prove useful in ensuring safe borders. Currently, the California Highway Patrol has a Mexico Liaison Unit (MLU) assigned out of the Border Division Office in San Diego that has direct contact with Mexican Government officials.[68] The MLU maintains contact with municipal, state, and federal Mexican government officials along the border area of Baja California to facilitate the prosecution of Mexican Nationals arrested in Mexico with U.S. stolen vehicles. Additionally, these same contacts facilitate general public information regarding missing persons, Amber Alerts, and intelligence gathering.[69]

Second, given the realities of today's global localization, education will play a crucial role in California's well being. Possessing knowledge of multiple languages, cultures, histories, customs, and perspectives will be required in order to efficiently communicate from one global location to another. Education abroad programs will take on new meanings and importance not only in the area of social sciences, but in arts and humanities, sciences, engineering, and computer sciences. Executive studies in approved certificate programs, especially those for international students in institutions such as the UC Extensions will also experience an increase in demand. Studying abroad is frequently the first step an individual may take in acquiring this non-native knowledge, and the roots it establishes frequently last generations. In this respect, academic exchanges of faculty and students should serve as one of the best tools California can employ to ensure its ability to continue attracting the best and the brightest of the world.

Third, the global localization era will impact strongly on California's economy. California's ability to maintain its special allure in the high-tech information based global economy that is epitomized by Silicon Valley will be paramount to the economic well being of its citizens. In his report, 'Business Without Borders? The Globalization of the California Economy,' Howard Shatz of the Public Policy Institute of California noted that: "California's economy is most globalized in the aspects of the international economy that are at the leading edge of trends in globalization."[70] This includes three key areas: production-sharing, trade in services, and air trade (as opposed to land or sea shipments).[71] Consistent with this trend, however is that California manufacturers produce exports at a higher rate than manufacturers elsewhere in the United States.[72] In fact, such a production for export approach may prove instrumental in sustaining California manufacturing.[73] Having a well-designed international

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[67] California Transportation Draft Plan 2025, <http://www.dot.ca.gov/hq/tpp/ctp/2025/goal4.htm>

[68] *Inventory of Mexico Related Projects Conducted by California State Agencies*, p. 17.

[69] *Id.*

[70] *Business Without Borders? The Globalization of the California Economy*, Howard Shatz of the Public Policy Institute of California, 2003, p. xii.

[71] *Id.*

[72] *Id.*

[73] Id., p. 89.

program that promotes such trends would serve to protect or enhance California's economic well-being.

Fourth, transportation and California's ports and airports serve a vital function in keeping California plugged into the global economy. In fact, CalTran's Plan 2025 concludes:

> "The state's economic growth is directly connected to the system's ability to transport people, goods, and information reliably and efficiently into and throughout the state, as well as to other states and countries. If projections prove correct, we can expect that the volume of goods moving by all modes within and through California to double by 2020."[74]

This situation has the added potential benefit of allowing the state to capture salaries and additional spending that accrues through port usage.[75] Even though the Los Angeles/Long Beach port is the largest port in volume of containers in the United States and the third largest in the world (behind Hong Kong and Singapore),[76] amazingly California's leading gateways in dollar terms are its airports. The airports of Los Angeles and San Francisco accounted for nearly 10 percent of all U.S. exports in 1998.[77] In fact, in the year 2000 an impressive 74 percent of total trade through the San Francisco customs district was by air.[78]

The importance of air trade is due in large part to California's high-technology components that have a high value-to-weight ratio. These components are needed quickly to meet strict "just in time inventory" demands, and form a crucial part of the international production sharing chains in the high-tech industry.[79] In the international production sharing economy of today, this air trade imprint marks California's geo-economic location as front row and center. With the rapid ascension of China and India as economic powers in the world economy, California needs to prepare and plan for the future so it can fully exploit its truly privileged geographic and geo-economic location.

Fifth, environmentally California currently maintains various international programs pertaining to Mexico that help alleviate trans-border environmental problems.
The CalEPA Border Affairs Unit directs the Border Environmental Program for the California/Baja California border region. The purpose of the program is to promote international cooperation and collaboration regarding environmental and natural resource issues that will ensure a cleaner, safer, and healthier, prosperous border region.[80] Some of its more important contributions include the signing of three cooperation agreements in 2001 between California and Mexico on industrial wastewater monitoring and pretreatment along the California/Baja California border, implementation of a "Smog Check" pilot program in Tijuana, and cooperation in the protection of the Sea of Cortez ecosystem.[81] Other examples include inspecting heavy-duty vehicles at the Otay Mesa and Calexico international ports of entry by the Air Resources Board that has been ongoing since 1998.

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[74] California Transportation Draft Plan 2025, at Goal 4: Support the Economy.
[75] *Business Without Borders? The Globalization of the California Economy*, p. 87
[76] *Id.,* p. 80. It should also be noted that both Hong Kong and Singapore are transshipment ports while the Los Angeles/Long Beach network is a destination port.
[77] *Id.,* pp 11-12.
[78] *Id.,* p. 75.
[79] *Id*., p. 77.
[80] *Id.,* p. 10.
[81] *Id*., p. 11.

Sixth, tourism plays a vital role in generating jobs and tax revenue for the California economy. Tourism ranks as the third-largest employer and as the fifth-largest contributor to California's gross state product.[82] As the number one travel destination in the United States, international tourism pumps in more than $82.5 billion in direct travel spending into the Californian economy. In 2004, roughly 2.2 million foreign visitors came to California.[83] Furthermore, tourism employs more than 1 million Californians and raises $5 billion in state and local tax revenue annually.[84] Due in large part to tourism's importance to the California economy, in 1997 the legislature passed The California Tourism Marketing Act which declared: "It is in the state's public interest and vital to the welfare of the state's economy to expand the market for, and develop California tourism . . ."[85] Given the above, having an effective program that could protect or enhance this important sector would promote California's own well being.

Seventh, as mentioned in the introduction, California is the largest agriculture producer in the United States with a yearly production of $27.8 billion dollars while second place Texas produced $14.1 billion dollars.[86] To protect this vital source of food supply, the CDFA participates in international projects designed to protect and promote California's agriculture. These projects focus on matters of mutual interest that include agricultural security, sanitary, phytosanitary and food safety issues.[87] Additionally, CDFA collaborates with Mexico in programs that involve control and eradication of pests and diseases, and implementation of good agricultural practices. These projects help ensure a safer and abundant food supply, and also protect California from major pests and diseases.[88] Examples of the importance of such undertakings include: (1) bovine tuberculosis epidemiology training to support Mexican efforts after an increase of cases originating from Mexico; (2) Baja California supporting efforts to eradicate the deadly and highly contagious Exotic Newcastle Disease that plagued California poultry in 2003; (3) Mexico providing California with high quality sterile Mexican Fruit Flies which are used for eradication efforts in California; and (4) the cooperative bio-control effort regarding the Pink Hibiscus Mealy Bug.[89]

Eighth, energy is another crucial area where international cooperation has directly protected or enhanced California's well-being. At the height of California's infamous energy crisis of 2001, negotiations between California and Mexican officials led to an agreement wherein Mexico provided electricity to the energy starved San Diego area. These efforts allowed

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[82] California Transportation Draft Plan 2025, <http://www.dot.ca.gov/hq/tpp/ctp/2025/goal4.htm>

[83] California Tourism Travel Research Bulletin, March 2005, May 14, 2005 <http://www.visitcalifornia.com/tourism/pdfs/TI_RS_Bulletin_11_04_A.pdf>

[84] California Lodging Industry Association, California Tourism's Contributions to the California Economy, May 14, 2005< http://www.clia.org/tourism.cfm>

[85] The California Tourism Marketing Act, May 14, 2005, <http://gocalif.ca.gov/tourism/pdfs/BC_AP_Tourism_Marketing_Act.pdf>

[86] United States Department of Agriculture, California and Texas Fact Sheets, June 3, 2005 <http://www.ers.usda.gov/StateFacts/CA.htm>; and < http://www.ers.usda.gov/StateFacts/TX.htm>

[87] *Inventory of Mexico Related Projects Conducted by California State Agencies*, p. 12.

[88] *Id.*

[89] *Id.*, pp 13-16.

50,000 households in San Diego to remain with electricity during the entire period of the crisis.[90] Additionally, as mentioned in the introduction, the CEC operates an Energy Technology Export Program that assists California companies export energy technologies to international markets. Mexico is the largest market for California energy technology exports.[91] According to the figures published by this program it has stimulated over $500 million dollars in export sales for California firms.[92]

Ninth, culture and entertainment will play an increasingly important role in helping all Californians feel, think, act, work, and live like Californians. Celebrating and promoting the cross-cultural richness of California through international exhibits, other cultural outlets, as well as through the power of Hollywood will help educate Californians regarding the diverse background of their fellow citizens. This will enhance cultural awareness, and will promote respect and acceptance of the diverse peoples who form Californian. An example of the ongoing internationalization of the entertainment industry was 20th Century's Fox multimillion-dollar studios built in Rosarito, Mexico in 1996.[93] These studios constructed a few miles south of the border in Baja California were designed specifically for filming of the blockbuster movie Titanic. Since then, they have been used to film: Tomorrow Never Dies; In Dreams; Deep Blue Sea; Weight of Water; Pearl Harbor; as well as television commercials and music videos.[94] Such innovation and international partnerships will become crucial in future years as Hollywood competes with emerging entertainment hotspots such as India's Bollywood.

Tenth, foreign affairs has, and will continue to be, a vital tool that California can exercise to protect and or enhance the well being of California. For this reason both the legislature and the Governor's Office have a long tradition of promoting foreign affairs. For example, The California Senate has established the Senate Subcommittee on International Trade Policy and State legislation. According to the subcommittee's mission statement:

> California has an important role to play in the developing global economy; we also have an equally important role to play in setting environmental standards, maintaining high public health features . . . and ensuring the best opportunities for our local businesses.[95]

It is important to note that the aforementioned ten reasons for having an international presence are not all inclusive - additional reasons and justifications exist. Focus was placed on these ten reasons because they should resonate easily with the citizens, politicians, and policy makers of California. Having demonstrated that California should maintain an international presence for at least ten reasons, the paper will now address the need of developing a coordinated and strategically oriented international program.

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[90] Zoellick, Robert, *Stop the Complaints: With NAFTA Everyone Wins*, Los Angeles Times, July 31, 2001, available at: < http://www.ustr.gov/Document_Library/Op-eds/2001/Stop_the_Complaints_With_NAFTA,_Everyone_Wins.html>

[91] *Inventory of Mexico Related Projects Conducted by California State Agencies*, p. 9.

[92] *Id.*

[93] Fox Studios Baja, An Overview, June 14, 2005 <http://www.titanic.com/modules/articles/print.php?id=21>

[94] *Id.*

[95] California State Senate, Senate Subcommittee on International Trade Policy and State Legislation <http://www.senate.ca.gov/ftp/sen/committee/sub/bp_inter_trade/_home/>

Developing a Coordinated and Strategically Oriented International Program

There are three vital lessons to learn from the past international programs. Lesson one: A narrow focus that only seeks to promote exports and attract inward foreign direct investment is too limited. Rather, California should take advantage of the entire range of policy items so as to fully exploit its potential. In this manner, California will be able to extract the maximum amount of benefit for its citizens from its international presence. In other words, California should have an all-encompassing international program - it should play with a full deck of cards, and not just with the suit of international commerce.

The global localization era will continue unabated whether or not California chooses to take an active role. If California retracts and refuses to play an active role internationally it will put its well being at risk. More importantly, California will be unprepared to ameliorate the negative impacts that are guaranteed to come along with the favorable effects of the global localization era. By taking an active role, California can maximize its benefits and minimize its losses.

Solution: Employ an all encompassing approach and avoid the unsuccessful self-limiting export and foreign direct investment path by enacting a strategic plan that realistically considers all the benefits and costs incurred from trading internationally.

Lesson two: The past programs lacked coordination. As discussed earlier, even though the CTTCA was statutorily responsible for coordinating the international programs it was unable to fulfill this duty. The overriding problem in this regard is that California's entire international programs and commitments are simply too large for an agency that has additional statutory duties. Whether such programs are placed under a new Commerce Agency or are incorporated into the existing Business, Transportation and Housing Agency, the result will be the same – failure. Nations figured this out years ago. For this reason, among others, most sovereign nations have a ministry of foreign affairs to oversee, coordinate, and manage their foreign relations. California should learn from this. Solution: Create a new agency that will have only one duty – that of managing and coordinating California's international efforts. In short, create the California Foreign Affairs Agency (CFAA).

Another major problem causing the lack of coordination was the total independence of most programs. This resulted in a highly dispersed structure where one program or agency had no idea of what the other is doing. The offices of the CTTCA did what their Secretary instructed as did the international offices of other state agencies such as CDFA, CEC, and CalEPA, with very little or no coordination. If a successful international program is to be established this problem must be rectified. This will require a certain amount of very difficult and unpopular bureaucratic reshuffling within state government. All of the State's international programs, efforts, and commitments should be transferred, to the greatest extent possible, over to CFAA.

For those programs, efforts, and commitments that cannot be transferred over to CFAA, very clear statutory language should be enacted requiring these remaining programs to coordinate their efforts through the CFAA. This appears to be the only real way of achieving a cohesive and coordinated international program. To ensure this, the legislature would have to be vigilant in its oversight capacity. Solution: To the greatest extent possible, transfer the international programs over to CFAA, and for those non-transferred programs enact statutory language requiring them to coordinate their efforts through the CFAA, backed up with legislative oversight to ensure compliance.

Lesson Three: Develop a strategy. The numerous short fallings of the past program have been well documented. In retrospect, the elimination of CTTCA and its international programs has presented California with a golden opportunity not only to correct the errors of the past program, but to create a cohesive, coordinated, strategically oriented program that can help ensure California's future.

California must learn that its past strategy was flawed. Even though the export/foreign direct investment approach served its purpose by justifying the establishment of an international program in the 1980s, such an approach today is outdated by the current body of trade theory. Present day trade theory almost universally realizes that international trade creates both winners and losers. The winners exceed the losers to such a degree however, that international trade is much preferred over a system of autarky. North Korea, the country closest to living in autarky today only drives the point home of the fallacy of following a no-trade approach. What is needed is a balanced approach that takes into account both the positive and negative effects of trade.

The two pronged export/foreign direct investment approach allowed California to avoid the more controversial issues of production sharing, outsourcing, and outward foreign direct investment as no one really knew the impacts of such factors back in the 1980s. It was a period in which opinions were abundant yet facts were scarce. Much remains in contention today, however in the interceding twenty-five years there has been a wealth of new empirical works and studies that document the winners and losers of free trade.[96] California policy planners need to familiarize themselves with this data and meet this challenge head on. Not only must they be aware of the benefits realized through trading internationally, they must be mindful of the negative effects as well and be ready to assist those harmed by world trade. Additionally, California policy makers should not only focus on economic factors, they should be keenly aware that the other nine reasons mentioned in the last section must form a key part of any international strategy.

Developing such a strategy will be a monumental undertaking. If done properly, it will require years of legislative hearings seeking input from the best universities, think tanks, non-governmental organizations, state agencies and departments, the Governor's office, past international state employees, and the private sector. California will also have to consider options undertaken by other states or countries in establishing and carrying out their international interests. California has risen to monumental undertakings before; establishing its higher educational systems of the University of California, the State Universities, and its Community Colleges, as well as creating the California Aqueduct – the time has come to commence another

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[96] *See generally*, Paul Krugman and Maurice Obstfelf, *International Economics*, 6th Edition (2003); Richard Caves, Jeffrey Frankel, and Ronald Jones, *World Trade Payments*, 8th Edition (1999); Carsten Kowalczyk and Donald Davis, *Tariff Phase-Outs: Theory and Evidence from GATT and NAFTA* in Jeffrey A. Frankel, ed.: *The Regionalization of the World Economy*, University of Chicago Press; Thomas W. Hertel, *PotentialGains From Reducing Trade Barriers in Manufacturing, Services and Agriculture*, Federal Reserve Bank of St. Louis Review 82, No 4, July/August 2000, pp 77-99 <http://research.stlouisfed.org/publications/review/2000index.html#jul>; Jeffrey Schott, *Unlocking the Benefits of World Trade*, The Economist, November 1, 2003, <http://www.iiw.com/publications/ papers/schott1103.htm>.

monumental undertaking. Solution: Enact into law a bill similar to AB 1395 but have it apply to all of California's international efforts, not just those in Mexico.

If a new coordinated and strategy based international programs is put into place, one of its top priorities must be to distance itself from the failures of the past. For such a program to be viable, it must be clear that lessons have been learned from the failures of the past, that they have been corrected, and that such an effort has resulted in a program that will lead California far into the 21st Century. Having demonstrated that California needs to develop such a coordinated and strategically oriented international program, attention will now be given to suggesting a workable governance structure that is comprehensive and multidisciplinary.

Creating the California Foreign Affairs Agency With a Public and Public/Private Governance Structure

Creating a new agency to oversee, manage, and coordinate the international program seems as the only viable alternative given the current hodgepodge situation that exists and the past error of placing such an enormous duty in an agency that has other major responsibilities. To ensure that such an agency is all encompassing and focuses solely on internationally related topics, the name of the agency must bespeak of such an undertaking; hence the California Foreign Affairs Agency.

To begin with, this agency should be led by a Secretary who is appointed by the Governor, subject to Senate confirmation, who will form part of the Governor's cabinet. The Secretary would have three Deputy Secretaries. First, would be a Deputy Secretary for Protocol. This Deputy Secretary would be responsible for orchestrating the Governor's oversea trips as well as assisting foreign dignitaries on official visits to California. Since the early 1980s, California Governors have made on average five official foreign trips per term,[97] and have received on average over twenty high ranking foreign dignitaries per year (including heads of state).[98] Additionally, this Deputy Secretary would also oversee the relations with the 209 consulates[99] and the 48 national trade offices[100] that foreign governments maintain throughout California.

There should also be a Deputy Secretary for International Affairs, as well as a Deputy Secretary for Intrastate Affairs. The Deputy Secretary for International Affairs would be responsible for overseeing, coordinating, and managing all of California's international programs and offices. The Deputy Secretary for Intrastate Affairs would be responsible for overseeing, coordinating and managing the domestic programs in their support of the foreign offices and international programs. This is a critical point that cannot be lost. The state must develop a seamless international program that is supported by robust domestic offices. Without such an arrangement, the foreign programs and offices will fail to live up to their potential, and this would negatively impact the entire program.

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[97] Personal interview with ex-Secretary of Foreign Affairs Michael Flores
[98] *Id.*
[99] California Business Portal, International Business Relations Program, July 8, 2005 <http://www.ss.ca.gov/business/ibrp/fgncons.htm>
[100] California Business Portal, International Business Relations Program, July 8, 2005 <http://www.ss.ca.gov/business/ibrp/trade_offices.htm>

Regarding the funding of CFAA, the vast majority of it should come from public funds, while a small amount should come from a public/private fund. The reason this two tiered funding source is being recommended is based on four factors: (1) there are many functions that should only be carried out by the State; (2) California's limited public resources; (3) current political realities; and (4) because of certain particularities in California law that prohibit the use of public funds for certain promotional activities.

Of the ten factors mentioned earlier of why California should have an international presence, the majority of the sectors should only be carried out by State employees. There are five areas however, that could benefit from being carried out by public/private funding. The following sectors could benefit from such an arrangement: commerce, tourism, agriculture, energy, and culture. The reason for this is tied to California law.

Under California law, public funds cannot be expended for promotional purposes such as serving or providing food, beverages, or alcohol. These restrictions also prohibit the use of state funds to host receptions, rent conference rooms, and other events that are part of the normal business practices of promotional activities.

This was such a crucial problem of the past system, that the COTIs formed public purpose non-profit 501(c)(3) corporations to raise private funds for promotional purposes.[101] The importance of having access to such funds should not be underestimated.

For the above-mentioned reasons it is recommended that both a public and a public/private system by adopted. Lastly, the paper will address how the State of California should use the California House establishments of the University of California as its vehicle for housing overseas offices.

Using the California Houses as the Vehicle for the Overseas Offices

The California Houses of the University of California were designed as a truly innovative program to strengthen academic and commercial links between California and its host country. As mentioned earlier, the first California House was established in London in 1999, and the Mexico City House, La Casa de la Universidad de California, was announced two years later in 2001. The demise of the CTTCA has obviously changed the dynamics of the Houses since they were originally devised as joint ventures between the UC and the State of California through the CTTCA.

The elimination of one of the joint venture partners left the UC as the sole participant. This caused enormous financial difficulties for the UC and nearly led to the untimely deaths of the Houses. Luckily for California however, the past presidents of the UC Richard Atkinson, and Robert Dynes understood and appreciated the future value these institutions hold not only for the UC system but to California. Thankfully their vision and support has allowed the Houses to weather very turbulent budget cuts. In fact, the easy route would have been to abandon the California House concept, close shop and simply walk away. Yet the presidents and key UC personnel managed to keep the vision and the hope alive during these very difficult times.

The survival of the California Houses is not guaranteed. As mentioned earlier, there is one key difference between the London and Mexico City Houses. The London House was established through a long-term lease arrangement while the Mexico City property was

[101] Friends of California – Mexico City Chapter, Inc. *See* California Secretary of State filing dated August 21, 2001.

purchased outright. Given this fact, the state could open a Foreign Affairs Office in Mexico City, pay rent to the UC for use of the office space and this will allow the funds to remain in state coffers. This is a much more attractive option than what was done in the past. For example, the COTI Mexico City paid roughly $150,000 dollars in annual rent to a private company. This cost was never recovered. By multiplying this amount by the number of years the office existed (14), the attractiveness of paying rent to the UC becomes self-evident.

Another key benefit of using the California Houses as the vehicle for the new overseas offices of Foreign Affairs is the selection process the UC utilizes in choosing their sites. In the past, the selection process that determined the location of the COTIs came under constant criticism.[102] In contrast, the rigorous selection process employed by the UC will guarantee that future sites will hold a vital interest for California. To begin, the UC requires the site to have a very strong and historic academic based relation with the UC. Second, the site must fit into the UC's long term strategic plan. These steps will guarantee that only vital multidisciplinary hubs will be selected as possible future sites.

The State of California should be aware however, that the present window of opportunity will not return for many years. Should the California Houses not survive, UC officials have indicated that the fallout would be enormous. A huge amount of time and planning went into developing the two Houses and given the current financial condition, they estimate it would take at least 20 to 30 years before a similar opportunity and time may present itself.

Conclusion

As stated at the outset, the purpose of this paper was to prove that it is in California's interest to have an international presence and to suggest a workable governance structure that was both comprehensive and multidisciplinary so as to set California's international course far into the 21st Century. To accomplish this undertaking a number of steps needed to be discussed and analyzed in order to answer these two assertions.

First, the paper addressed the uniqueness of California. This provided an understanding of the diversity of California and showed why international matters are important for California and its citizens. It also showed that due to its large immigrant make-up, California is well positioned to take full advantage of the global localization era. Its immigrant rich human capital allows California to compete in 227 foreign markets.

Second, for the first time the complicated forty-five year history of California's international programs has been chronicled. This effort has given a new perspective of the past efforts and showed why the programs were eliminated in 2003. Numerous missteps and problems of the past programs were identified. Hopefully the lessons will be learned and the errors of the past will not be repeated.

Third, it was shown why California should maintain an active international program. Ten very strong reasons were identified and analyzed. This exercise, demonstrated that California could enhance the well being of its citizens and that of the state by re-establishing an international program.

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[102] O'Connell, Jock, *Foreign-Trade Offices Are More Politics Than Business*, Los Angles Times, November 12, 2000, opinion page. See generally, Foreign Office Location Study, California World Trade Commission, Robert T. Monagan, Chairman, 1998.

Fourth, the importance of establishing a coordinated and strategically oriented international program was analyzed. This led to identifying three vital lessons from the past programs: (1) a narrow focus that only sought to promote exports and attract inward foreign investment was too limited of an approach; (2) the past programs lacked coordination; and (3) a strategy needed to be developed for the international program. In turn, a solution was purposed for each lesson. First, the new international program should employ an all-encompassing approach and avoid the limiting export and foreign direct investment path. Second, to correct the coordination issue, most of the international programs should be transferred over to CFAA, and for those non-transferred programs statutory language requiring them to coordinate their efforts through the CFAA should be enacted. Third, in order to develop the necessary strategy for the international programs a bill similar to AB 1395 that applies to all of California's international efforts should be enacted into law.

Fifth, a conceptual analysis was conducted regarding the use of a joint public and public/private governance structure. This analysis led to findings that a split public and public/private funding approach was preferable given California's limited public resources, its current political realities, and because of certain particularities of California law that prohibit the use of public funds for promotional activities.

Sixth, the paper concluded by finding that the future overseas offices of Foreign Affairs should use the University of California, California House structures that currently exist as the vehicle for re-establishing its international presence.

This paper does not suggest the strategy the state should employ for its international program. Such an undertaking is far too large for this paper. Additionally, the findings are limited by the investigative methods that were employed and utilized in conducting the necessary research for this work. Not all of the stakeholders were taken into account.

Other areas for further research and development include evaluating whether or not the state should be involved in promoting international business and if so what standards and evaluation methods could be used to evaluate if the program is meeting its goals. Hopefully, the legislature will conduct thorough hearings that will lead to a new trend setting strategy, chartering California on a new groundbreaking course for the 21st century.

Lastly, it is important to point out that most of the projects and efforts undertaken by the past programs had merit. Additionally, most of these programs had very talented and devoted staff members who brought distinction to California through their hard work and dedication. In the end however, even their valiant efforts could not offset the endemic problems of a system devoid of structure, coordination, and strategy.

If an ill-planned international program was able to bring distinction to California, imagine what a well-planned and conceived program could accomplish. The time is ripe, the elements and facilities are in place. History is there for the making. Let us hope the legislature and the Governor's Office are mindful enough of the consequences that may befall California if they fail to act, such that they seize this golden opportunity and reset California's course for the 21st century.

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