Globalization and Beyond: Keynote Address

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Introduction

World Trade Week, first celebrated in Los Angeles in 1926, has become a national observance. In Southern California, it is at the center of a monthlong series of trade-related events. This year, RAND Corporation economist Howard J. Shatz delivered the Keynote Address to the Los Angeles World Trade Week Kickoff Breakfast on May 1, 2007, to start the 81st observance of World Trade Week, with the theme of "Globalization and Beyond." In this address, Shatz presents a portrait of Los Angeles's and California's global connections. He then discusses key policy issues that will affect the trade community in the near term and that likely will have effects throughout the broader economy, including California state trade policy, U.S. trade-liberalization efforts, and U.S.-China trade relations. He concludes with brief speculations about the future of globalization and the role Los Angeles will play.

This work was conducted under the auspices of the Transportation, Space, and Technology (TST) Program within RAND Infrastructure, Safety, and Environment (ISE). The mission of ISE is to improve the development, operation, use, and protection of society's essential physical assets and natural resources and to enhance the related social assets of safety and security of individuals in transit and in their workplaces and communities. As part of this effort, RAND has established a new Supply Chain Policy Center to conduct research that helps the public and private sectors address freight transportation issues critical to the U.S., North American, and international economies, issues discussed in this speech. For further information about the Supply Chain Policy Center and its research and publications, please contact Kate O'Neal by telephone at (310) 393-0411 x6376 or by email at koneal@rand.org, or Martin Wachs, the director of both the Center and TST, by telephone at (310) 393-0411 x7720 or by email at wachs@rand.org. Information about the Supply Chain Policy Center is available online (http://www.rand.org/ise/centers/scpc/).

Globalization and Beyond: Keynote Address

Howard J. Shatz, RAND Corporation

It is a great honor to speak to you at the annual kickoff breakfast of World Trade Week in Los Angeles. Not only is Los Angeles where World Trade Week was founded. Not only is Los Angeles one of the most important trading regions in the United States. More than that, the Los Angeles area is a global hub, linking the most dynamic advanced economy—the United States—with the most dynamic economies in the world—those of Asia—and indeed with the rest of the world as well.

Today I will focus on globalization in Los Angeles and in California, some current policy issues of great importance to the region, and factors that may take us beyond today's globalization.

Los Angeles founded World Trade Week to promote the ports of Los Angeles and Long Beach. Nationwide, it was founded to promote the U.S. Merchant Marine. But what we think of as globalization now extends far beyond commerce on the seas. At the most basic level, we include flows of people and goods across borders, and the port services that enable the flows of those goods. At a more involved level, we include companies that cross borders to operate abroad, trade in services, and international exchange of ideas and culture. Los Angeles and California are exemplars of all of these types of globalization.

Let's start with people. Less than half of all Californians live in the five-county L.A. area. But for foreign-born Californians, that proportion jumps by almost 10 percentage points to nearly 55 percent. Almost two-thirds of all Californians born in South America live here. About 70 percent of all Californians born in the Middle East live here. And this area hosts a remarkable 2.4 million Mexican-born Californians, nearly a quarter of all Mexican-born U.S. residents.

Trade illustrates the significant level of globalization in California as well. In 2006, merchandise exports from California totaled $128 billion, a new record, and more than 12 percent of all U.S. goods exports. Now, California's total goods-producing economy is only about 10 percent of that of the United States, so California producers export much more of their output than do producers elsewhere in the country.

California exports the goods that the rest of the world uses to run their economies. Nearly two-thirds of exports come from just four industries: computer and electronic products; machinery; transportation equipment; and chemicals, an industry that includes pharmaceuticals. These products go everywhere. Once again, in 2006 Mexico was the top export destination, buying almost $20 billion worth of California goods. Canada was No. 2 at $14 billion, surpassing longtime No. 2 destination Japan. Despite that, California remains a Pacific- and Asian-oriented economy. Six of the top 10 export destinations are in Asia. For the rest of the United States, only four of the top 10 are in Asia. Furthermore, if you think of China, Hong Kong, Macau, and Taiwan as one greater Chinese economy, that region would be California's top destination, attracting $20.5 billion worth of California goods.

When California businesses send their exports around the world, they use all means possible—air, truck, and ship. In fact, a remarkable 54 percent of all California exports in terms of value left the state by air in 2006. Compare this with exports from the rest of the United States, from which less than one-third were shipped by air. Many of the export goods Californians make are extremely high value to weight and are time sensitive, making air the most economical way to ship them and making California's airports important resources for California exporters.

Californians not only trade, but they facilitate trade by the rest of the United States. Almost 17 percent of all U.S. exports and imports moved through California ports in 2006, the most of any state. The vast majority of these—$329 billion worth—moved through ports in the Los Angeles area, including Los Angeles International Airport (LAX), the Port of Los Angeles, and the Port of Long Beach. Certainly, for imports, the port story is a seaport story. The Port of Los Angeles was the leading gateway in the nation for imports in 2006, largely because of the remarkable rise of China. For exports, LAX leads the pack among California ports. In fact, both LAX and San Francisco International Airport handle more exports by value than the major California seaports.

Of course, there are many ways to measure port activity. Value is one, volumes are another, and when it comes to volumes of trade, the L.A. seaports not only lead the United States; they lead the world. In 2005, the latest year in which data are available for world comparisons, the two San Pedro Bay ports processed 14.2 million equivalents of 20-foot containers. This placed them fifth in the world, behind perennial leaders Singapore and Hong Kong and upstarts Shanghai and Shenzhen. It is remarkable that the ports that inspired World Trade Week have stayed at the forefront of world trade for more than three-quarters of a century. Last year, they handled 15.8 million equivalents of 20-foot containers, more than a 10 percent increase from the previous year.

I've told you a bit about old globalization. Let's move on to new globalization, the movement of companies, services, ideas, and culture across borders. Of course, none of this is actually new. Venice and the Islamic world exchanged artistic ideas in the late Middle Ages and throughout the Renaissance. Before that, Alexander exported Hellenism to much of Asia and the Middle East.

But today, when we think of globalization, we really think about companies setting up facilities in China; foreign companies coming to California; call centers in India, the Philippines, and El Salvador; scientists engaged in global efforts to cure diseases; and musical styles sweeping the globe.

Foreign companies own about $120 billion worth of property, plant, and equipment in California, the most of any state. More than 600,000 Californians work in foreign companies, or more than one in 20 workers. Almost one in ten California workers in manufacturing work in foreign-owned companies.

Who invests in California? It's easy to forget about California–Europe business ties, but by far, the largest investing region is Europe. In fact, the United Kingdom is the largest investing country in terms of employees, with 102,000 workers in UK majority–owned firms in 2004.

Despite Europe's large investments in the state, less than 10 percent of Europe's investments in the United States come to California. When we consider which regions disproportionately invest here, Asia, the Pacific, and Mexico rise to the top, once again. Japan is the largest investing country in terms of the value of property, plant, and equipment, almost $21 billion. In terms of workers, one in six workers in the United States who work in Asian-owned companies work in California. More than one in five workers in the United States who work for Australian-owned companies work in California. And a remarkable one in four workers in the United States who work in Mexican-owned companies work in California.

One of the reasons companies set up foreign operations is to deliver services. There are many other ways to deliver services as well—in person or electronically, for example—and because of policy and technology changes, trade in services is growing rapidly. The U.S. trade surplus in royalties and license fees and in private services such as education, consulting, research, and law hit record levels in 2006, and California is a strong player in traded services. Exemplary among California's internationally traded services are films, thanks to Los Angeles; software; research and development; and travel between the United States and Mexico.

The fact that California plays a global role in films, software, and research and development leads us to the most advanced and potentially disruptive form of globalization: the spread of ideas and culture. There is a global California dream. You see it whenever you travel, from the Hollywood films playing at local theaters, to the inevitable restaurant with "California" in its name, to people wearing T-shirts from California universities. The exchange goes both ways, and Californians are infused with ideas from throughout the world, often mixed in new combinations. Where else in America but in California can you get Mexican-style sushi, covered with chipotle sauce?

I've spent some time talking about L.A.'s and California's global connections to illustrate the variety of those connections and to show that California is a leader in many of the newest forms of globalization. Let me now move to the key policy issues that will face the trading community, and therefore the whole economy, and that may shape globalization in the next few years.

At the state level, as many of you know, California closed the Technology, Trade, and Commerce Agency in 2003, ending many of its services to the international business community. After more than three years of discussion, and several false starts, the legislature decided in 2006 to take a serious approach to the state government's role in the international economy with the passage of the California Trade and Investment Act. The bill called for the Business, Transportation, and Housing Agency to develop an international trade and investment policy and strategy, to convene a statewide business partnership to advise on international trade and investment, and to complete a study on the potential role of the state in global markets.

The study is proceeding under the auspices of the University of California Office of the President in partnership with the Bay Area Economic Forum. At the same time, there has been a parallel track at the University of California Center in Sacramento with a 10-session seminar series on California Trade and Investment Strategy in the 21st Century. Both tracks have included some of the state's leading authorities on trade, investment, and state policy; and if they are leading authorities in the state, it is safe to say they are leading authorities in the world. Based on watching state policy since 2000 and meeting and interviewing trade officials from throughout the United States and the world, I think this effort is unusual, if not unprecedented. California state government was a leading innovator of trade support in the 1980s and this may help it to become one again.

At the federal level things are less settled, with the extension of Trade Promotion Authority (TPA) and relations with China at the top of the trade agenda. Both affect California a great deal. California's industrial, agricultural, and services exporters still face a variety of barriers worldwide, and the multilateral trade round is the best way to lower these barriers broadly and efficiently, especially in the state's many Asian partner countries. Regarding China, California is the main gateway for China trade, California businesses have significant operations in China, and California venture capitalists are funding the next waves of Chinese and U.S.-Chinese businesses.

The most important immediate issue is that TPA, previously known as Fast Track, is set to expire on July 1. TPA essentially provides for an up or down vote by Congress on trade agreements without the dozens of amendments that likely would be attempted. The key sticking points to extending TPA include two issues that have been in play since the North American Free Trade Agreement (NAFTA) debate (namely, enforceable international labor and environmental standards) and one issue that has remained unresolved since the early 1960s (namely, better assistance to workers harmed by trade).

The expiration will not affect votes on four completed agreements: those of Colombia, Peru, Panama, and South Korea. The agreement with Korea is particularly important because Korea is the largest trading partner included in an agreement since NAFTA went into effect in 1994. Last year, Korea was the seventh-largest merchandise trade partner of the United States, with total two-way goods trade of $78 billion. It was California's fifth-largest export destination, with California exports totaling more than one-fifth of all U.S. goods exports to Korea.

The end of TPA might affect the ability of the United States to conclude future bilateral and regional deals, such as those proposed with Southern Africa, Malaysia, and the Americas as a whole. More importantly, it could affect the world's ability to bring the Doha Development Round of the World Trade Organization (WTO) to a meaningful completion. Both California and the United States as a whole benefit more from the major multilateral rounds than from bilateral and regional treaties.

If for whatever reason the Doha Development Round does not succeed in a meaningful way, we could be entering unusual territory, as no previous rounds have failed since the process started after World War II. Trade liberalization will not end. It will just take a different direction. The most likely result would be a more aggressive continuation of the trend toward bilateral and regional trade agreements, further creating complex and confusing webs of rules.

The other major trade issue to watch is China, in particular whether behind-the-scenes diplomacy or more public attempts at enforcement will gain the upper hand. On one side, the U.S. administration's Strategic Economic Dialogue with China is proceeding as a quiet way to settle differences comprehensively. On the other side, the administration has recently put duties on glossy paper, to counter Chinese subsidies, and it has filed two cases against China at the WTO, both related to intellectual property protection.

What is most fascinating about the China debate is that in terms of the economy, bilateral deficits, such as the one we have with China, or surpluses don't much matter. What matters is the overall current account surplus or deficit, and this is determined by factors beyond whether China is subsidizing its glossy paper, ignoring piracy, or suppressing the value of its currency. In part, the deficit with China stems from other Asian countries redirecting their exports of inputs to China rather than to the United States, and from China taking market share in the United States from other countries. Between 1997 and 2001, the Chinese share of the U.S. merchandise trade deficit averaged 19.4 percent. Between 2002 and 2006, it rose to 22.5 percent, a pretty large jump. However, the developing East Asian share of the U.S. merchandise trade deficit—including China—actually fell from 36.4 percent to 33.2 percent of the total U.S. deficit. Both the overall merchandise trade deficit and the East Asian trade deficit rose; it just so happens that the overall deficit rose much faster.

The theme of World Trade Week is "Globalization and Beyond." I've told you a bit about California's globalization and walked you through several policy issues that will shape that globalization in the next decade. What about the longer view? How will the world be different in 2025, or 2050?

I'd like to be able to tell you about the marvelous advances in biofuels, hybrids, nuclear energy, U.S. oil shale technology, and clean energy technologies that will fuel a new era of cheap, environmentally friendly production and trade, and global travel with California as the central link. I'd like to tell you about a Mexico that has become rich and whose scientists and engineers collaborate with California scientists and engineers to create new medicines and new technologies. I'd like to be able to tell you about the new settlements on the moon and Mars, marking the beginning of "solar-systemization" and making globalization seem so 2007. Maybe we'll even get those personal jet packs we were promised long ago. But any prediction today is likely to be wrong and is even more likely to seem silly with hindsight.

I think it's more useful to say that the globalization of tomorrow will be shaped by innovations that we have little idea of today, but that will emerge with surprising effects. Who in 1950 would have envisioned Malcom McLean inventing containerized shipping just six years later with the transport of 58 boxes from Port Newark to Houston aboard the *Ideal X*? He irreversibly changed the ports of Los Angeles and Long Beach, the Long Beach Freeway, the Harbor Freeway, and land use in Riverside County. Who in 1990, outside of a few researchers, would have predicted that the Internet and the World Wide Web would enable an explosion of services trade, reshape India's economy, and create new opportunities worldwide for increased goods trade and better information exchange?

So I'll make two safe predictions for what will move us beyond today's globalization. First, it will likely come from innovations and new technologies that we cannot foresee but that will occur because of the millions of scientists, engineers, and business people constantly inventing, improving, and commercializing. Second, Los Angeles has been at the center of reshaping the world, and whatever form globalization takes, it will have a Los Angeles stamp on it. The future will continue to be created here, and it will be very exciting to watch.

Thank you.