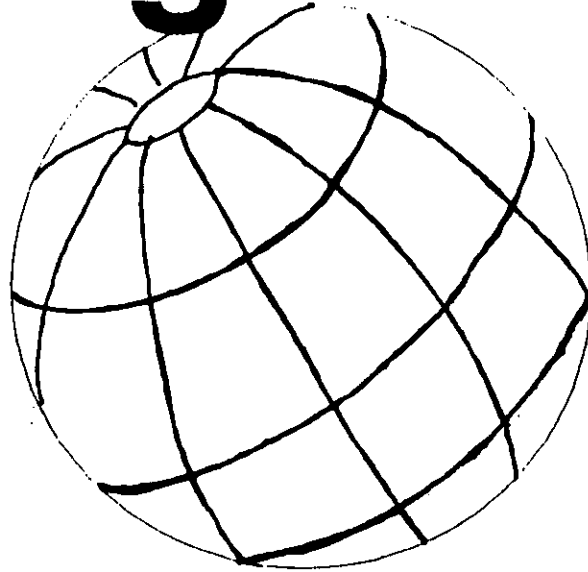


Going Global



A Strategy for Regional Cooperation

Western Governors' Association

by

Jerry Levine

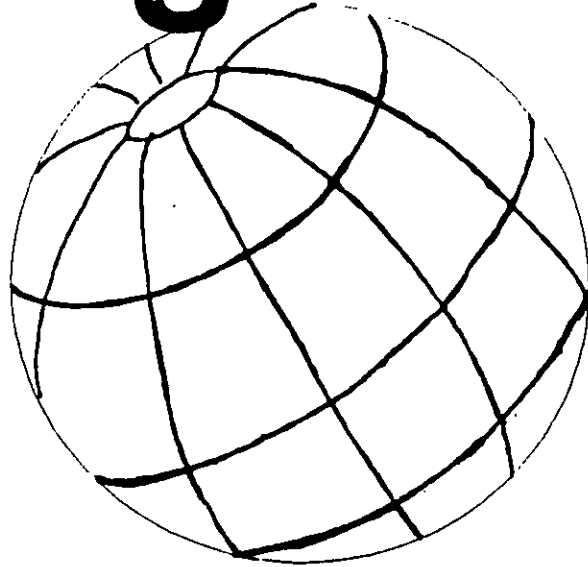
WGA, Scholar-In-Residence

July, 1989



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PREFACE

by

Governor George Deukmajian

The West's stake in the international economy is vital and indispensable. It is estimated that in 1988, exports from our western states were nearly \$80 billion. Foreign direct investment accounts for over 500,000 jobs, and foreign-based tourism creates an estimated 125,000 jobs.

Preserving this stake in an increasingly competitive world provides western governors with a compelling challenge. Expanding this stake in a dynamic, rapidly expanding global economy offers us a golden opportunity.

In recognition of both the challenges and the opportunities of a competitive, interdependent world economy, western governors, along with virtually all governors have embarked on global economic development strategies that would have been considered unthinkable just a few years ago. Through gubernatorial trade missions, overseas offices, export finance programs, advocacy in Washington, D.C. and foreign capitals and many other methods, we have been blazing new trails of involvement and activism in world economic affairs.

Yet it has concerned me and other western governors that we have been pursuing our international strategies separately. Therefore, I dedicated my year as Chairman of the Western Governors' Association to the development of a program which we call "Going Global: A Western Trade and Prosperity Strategy." The centerpiece of this program is contained in the following report by WGA Scholar-In-Residence Jerry Levine, titled "Going Global: A Strategy for Regional Cooperation."

Mr. Levine, a San Francisco-based international trade specialist and consultant, has over 35 years of experience in the international trade field and has been instrumental in the development of California's own international programs.

As you read Mr. Levine's cogent and thought-provoking report, I am confident that like me, you will learn a great deal about the scope of

the trade promotion efforts now underway throughout the West. You will learn where our efforts are sufficient and where they are not. You will find many imaginative proposals as to when, where and how the West should work together as a region.

But most important of all, the "Going Global" report presents a compelling case for regional cooperation. The western states share a large consumer market. We are linked by ports, transportation and communications networks, as well as by many similar products, investment opportunities and tourist attractions.

These linkages, our common needs and shared opportunities strongly suggest that we forge a cooperative strategy for raising the region's profile in the international economy.

The advantages of cooperation are many. Joint advocacy will give us more clout in Washington, D.C. and foreign capitals as we speak out for free and fair trade policies. Joint promotional and marketing efforts, where our interests converge, will open more doors and have a greater impact on targeted consumer markets than if we simply act alone. Joint projects can save money by eliminating duplication in our programs, thus freeing funds for additional trade programs or other needs.

Finally, by working cooperatively on trade, I believe we can move closer to our goal of forging a true western regional identity which can be harnessed to meet other challenges and seize opportunities in other aspects of public policy critical to our western states.

I would like to commend WGA Scholar-In-Residence Jerry Levine, the trade and tourism directors of our states, and the WGA staff for their excellent and tireless work on this important project. And, I would like to thank my fellow western governors for their strong and steady support for my efforts to make my year as Chairman of WGA a year that could make a difference in how the West responds to the opportunities of the global economy as we approach a new decade of competition, change, and challenge.



George Deukmejian

1. INTRODUCTION

1.1 Western Governors' Association

The Western Governors' Association is an independent, nonpartisan organization of governors from 17 states, two territories and a commonwealth. It is based on the need for regional leadership as the West becomes an important force nationally and internationally. It identifies key issues, assists in developing strategies, forms regional coalitions, serves as a research resource, and assists in the communication and advocacy of western issues.

1.2 Scholar-in-Residence Program

This is the fourth year of the WGA Scholar-in-Residence program, in which the Governors select a topic on which to focus, and a scholar to conduct research, prepare a report, and recommend action plans for implementation. Preceding scholars have contributed to successful action on the following programs:

- Western Water: Tuning The System, Bruce Driver, 1986.
- The Politics of Excellence, Jim Kunde, 1987.
- Occupational Education, Economic Competitiveness and the West, William Chance, 1988.

The WGA Scholar-in Residence for 1988/89 has been directed to take the lead in researching the intellectual and policy parameters of a "Going Global: A Western States' Trade and Prosperity Strategy" project, and to develop an action plan based on this research.

This year's scholar is in fact not a scholar at all, but a consultant who, for over thirty years, has focused on international challenges for governments and companies, and who practiced for this assignment by performing similar projects for a dozen foreign governments and the state of California.

1.3 GOING GLOBAL: The Project for 1988/89

Going Global: A Western Trade and Prosperity Strategy, is the focus of a regional cooperation project proposed by Governor George Deukmejian, Chairman of the WGA for 1988/89, and endorsed by the governors at the 1988 Annual Meeting.

The governors recognize the common interests of the western states in their increasing participation in the growing global economy. They observe shifts in America's trade patterns, the diversity of opportunities, the increased competition, and the growing influence of the West, in Washington and overseas.

They view these factors as justifying a strategy to generate jobs and prosperity by implementing a regional approach to the expansion of trade, investment, and tourism.

The project is intended to:

- Assess and evaluate present state programs.
- Identify areas of productive potential collaboration.
- Determine areas of consensus among the states.
- Identify problem areas.
- Establish avenues for personal contacts between governors and key leaders overseas.

This Executive Summary provides a synopsis of a full report about the project results. References to certain sections, tables and charts in the full report are included in the Executive Summary.

The Executive Summary frequently refers to the seventeen western states, and to the international activities of those states. We are aware that the governors of American Samoa, Guam, and the Northern Mariana Islands have an equal interest in global developments, and in fact are even more involved with Asia and the Pacific than the states. Though compatible data on their activities and

needs was not readily available, it is hoped that some of the recommendations, particularly involving advocacy and Asian offices, will be useful.

1.4 Regional Cooperation: The Rationale

Regional cooperation is not an end in itself; it requires justification. The rationale for regional cooperation on international trade, investment and tourism is to create quality employment and economic activity in a more effective and less costly manner than states can do independently. Programs which are rational when viewed state-by-state can be seen to be redundant or ineffective from a regional viewpoint.

The recommended modes of cooperation are varied. Some actions require full WGA endorsement. Others will facilitate small groups of states moving quickly to implement joint activities. Another brings the trade directors together for experience sharing and future plans.

All can enhance the economies of the states.

2. EXECUTIVE SUMMARY

2.1 The Present Situation

The West Is Global Now

It is time for the West to focus on global matters. Exports from the western states, we estimate, exceeded \$79 billion* in 1988, up 26% from \$63 billion in 1987 and over 7% of gross states product (GSP). Western states' international trade budgets were about \$25 million and growing. Almost every western state is either island, coastal, or border. Most of the others are also "coastal" if they have an airport which is, or could be, international, because 28% of all U.S. exports (60% of those to Europe) are now by air. 44% of all western exports were shipped by air in 1988.

Foreign direct investment into the West is not only growing but becoming controversial. It accounts for over a half million jobs.

Foreign-based tourism contributes ever increasing value to the West. It created an estimated 125,000 jobs in 1986.

Size of Programs

The seventeen western states have substantial programs for promoting international trade, investment, agriculture and tourism. Their total expenditure is estimated at over \$20 million per year. The state budgets range from a high of over \$10 million to a low of under \$100,000.

NASDA (National Association of State Development Agencies) data for fiscal 1988 covers mainly trade and investment related expenditures with a total of just over \$21 million [See Table 3-A: Western States International Budgets]

Furthermore, the personnel complement in international programs is also growing. The western states added 63 people, or 47% to their international programs from fiscal 1986 to fiscal 1988. [See Table 3-B: Western States International Personnel].

* This figure is adjusted upward from \$66 billion to account for unallocated state exports in the Department of Commerce state-of-origin export figures.

Though these are large amounts, they are not excessive. For example, the export expenditures are only 3/100 of 1% of exports, and could be considered to be a modest marketing expense.

Regional Cooperation

Regional cooperation is spotty.

In tourism, many states join together for promotion activities. In agricultural export promotion, there is a measure of cooperation, though much of the inter-state activity is organized by commodity or specialty crop industry groups rather than by state government organizations.

In promotion of inward investment, officers in the states rarely cooperate, though the directors of their overseas offices often do work and collaborate with each other.

In trade expansion, western trade directors have had minimal contact with each other until the current WGA project, and have rarely shared experiences or pooled their efforts.

Incongruities

There are a number of incongruities in the WGA state programs, both taken individually and as a group. In the WGA region:

- The WGA states have 24 offices in the East Asia region, and only 4 in Europe, though the two areas are about equal as export markets, and Europe exceeds Asia as a source of investment.
- The WGA states have 11 separate offices in Japan - the world's most expensive locale. There is duplication of effort and diminished impact from this fractionization.
- The WGA states have 8 separate offices in Taiwan; more than any other location except Tokyo, yet Taiwan is not in the top five export markets for any of the states except Alaska and Hawaii which are not represented there. Taiwan is not in the top ten sources of foreign direct investment for any state.

- No WGA states have offices in Singapore, the Philippines, Malaysia, Indonesia, India, the Peoples Republic of China, or Thailand, and only one in Hong Kong.
- There are no WGA states with offices in Canada, which is the top export market for seven of the states, and is in the top five export markets for all of the states. Canada is also the fifth largest source of foreign direct investment in the United States. Canada accounts for more than 20% of the foreign-affiliate employment in eleven of the western states, and over 40% in Montana, North Dakota, and South Dakota. It is a major source of tourism for many of the western states.
- There are no WGA offices in Germany, France, Italy, or the Netherlands.
- A few of the states do not participate in regional tourism promotion.
- There is a limited capability for the pooling of international positions in advocacy in Washington, D.C. or overseas.

2.2 Evaluation

The present situation, with the incongruities noted, presents a sharp and clear call for a concerted program to enhance regional cooperation in international programs. The benefits to be expected include:

- Cost reductions and economies from consolidation of efforts.
- Increased impact from a more massive presence of the states when operating in combination.
- Increasingly knowledgeable state officers as a result of pooling of experience.
- Greater, and more rational global coverage at little extra cost.

- An effective presence for western interests in Washington and overseas.

2.3 Action Recommendations

Some of the action recommendations involve voluntary, modular sub-groupings of interested western states. Others, such as a WGA office in Europe, call for a formal WGA initiative.

These actions are feasible; they are cost effective; they have been endorsed by many western state officers; and they are recommended for early action.

2.3.1 WGA INSTITUTIONAL ACTIVITIES

- A. Install a Western Governors presence in Brussels at the EEC.**
- B. Enhance WGA international advocacy for trade and tourism in Washington.**
- C. Facilitate Joint Governors' trips to Europe and/or Canada.**

- A. Install a Western Governors presence in Brussels at the EEC.**

The combination of the imminent arrival of "The Single Europe" in 1992 and the current GATT negotiations presents both opportunities and potential obstacles to the trade efforts of the western states. The possibility of a WGA representative to the European Community housed at the U.S. Embassy is a dramatic, and cost effective option.

WGA Representative Functions:

- Transmit relevant information from Europe to the western governors.
- Insure that western positions are conveyed to the appropriate American and European representatives in Brussels (EEC) and Geneva (GATT).

- Assist western governors and their officers in liaison with European and GATT officials for visits and other purposes.

Annual Costs

Depending on the structure adopted, the annual cost, including U.S. coordination, could range from \$100,000 to \$300,000 annually.

For a WGA person based at the U.S. Embassy to the EEC:
\$75,000 to \$120,000 annually.

For a contract representative: \$75,000 to \$125,000
annually.

For a two-person WGA office: \$250,000 to \$300,000
annually.

A sunset clause could require re-definition on December 31, 1992.

First Step

The Governors to authorize WGA staff to prepare a business plan, position description, and budget to be submitted for approval.

Further Details

See Section 7.1.1 for further details of a WGA European representative.

B. Enhance WGA international advocacy for trade and tourism in Washington.

There is a consensus among the western trade directors that the federal government has weakened the overseas portion of its export promotion activities, and has severely cut back the capabilities of the U.S. field offices to a dangerous extent. Many of the weakened functions have been assumed by individual states but many cannot be efficiently divided. There is a risk that the newly-available export data by state of origin which has been released for 1987 and 1988 may not be made available in future years. There is need for advocacy to restore the vitality of the federal programs.

There is a consensus among the western tourism directors that the federal government, through its U.S.T.T.A. (United States Travel and Tourism Administration), is failing to fund programs which are obviously successful. There is need for advocacy to enhance the funding of these programs.

There is a consensus among governors' staff, trade, tourism and private sector groups that the interests of the western states with respect to global trade, investment and tourism are often overlooked and need attention. There is need for further advocacy focused on western interests.

WGA Advocacy Functions

WGA already has a staff person in place in Washington. The only requirement is to allocate continuing Denver staff resources and to maintain a focus on the international interests of the western governors and their staffs so they can be pulled together, communicated to the WGA Washington office, and effectively conveyed to appropriate federal authorities.

Annual Costs

There should be little additional cost if the WGA staff activities described in Action Plan H are implemented.

First Step

The governors to authorize WGA staff to prepare a work plan for collecting and promulgating positions on international trade and investment.

Further Details

See Section 7.1.2 for further information about increased advocacy on international matters in Washington.

C. Facilitate governors' trips to Europe or Canada.

Many governors lead such missions. In 1987 alone, twelve western governors took twenty-eight trips overseas. Many of these trips could have had greater impact, been more effective and less costly if efforts had been pooled.

In May of this year, the governors of North and South Dakota led successful missions to Asia which incorporated joint functions in Tokyo. This was partly an outgrowth of WGA initiatives.

It is recommended that WGA staff be authorized to propose a mechanism to encourage and facilitate such joint activities.

The first initiative should be to plan and pull together joint governors' meetings with the EC in Brussels and GATT negotiators in Geneva, or; alternatively, to Canada to enhance the potential benefits from the Free Trade Agreement. In each case, governors would convene only for the agreed joint activities, and could otherwise travel on their own agendas.

Functions

The function of WGA would be to determine the consensus of the governors on where and when to go; to help to develop mission objectives, and to facilitate the forming of the delegation. In some cases, participation in overseas logistics would also be beneficial.

Annual Costs

The present WGA staff should be able to perform this liaison function at little additional cost.

First Step

Agreement by the governors that a joint mission is feasible and desirable.

Further Details

See Section 7.1.3 for further details of joint governors' missions.

2.3.2 MODULAR PROGRAMS OF SMALL GROUPS OF STATES

- D. Implement joint trade offices overseas.**
- E. Establish a Shared Foreign Sales Corporation to assist smaller exporters.**
- F. Establish a Joint Export Finance Service.**

D. Implement Joint Trade Offices Overseas

The economic savings and increased effectiveness of joint offices are very appealing in these times of budget stress.

Many, however, question whether one trade office can serve several states. Our recommendation is based on the premise that **trade offices do not serve states - they serve exporters!** And they can serve exporters from different states with no more difficulty than from different cities within a state.

CONSIDER A JOINT TRADE OFFICE IN CANADA

Canada is the most important market for seven of the western states. It is one of the top five markets for every one of the western states. And yet none of these states has a trade office in Canada, though several are considering such an initiative. (Minnesota is a participant in the just-announced Great Lakes office in Toronto, Ontario.)

The new Free Trade Agreement between the United States and Canada promises a significant increase in trade. Though Canada does not present the export difficulties that Japan, for example, does, there is still scope for assistance to exporters. Canada is in fact a bi-lingual foreign market with different practices, standards, and patterns.

New York and Michigan already have offices in Toronto, and the eight state Council of Great Lakes Governors is currently in the process of establishing an office in the U.S. Consulate in Toronto.

It is recommended that a Canada Task Force be formed from among the western states which wish to participate.

Canadian Office Functions

The Canadian office would be located in a major commercial center and would perform those functions which the participating states determined to be relevant. These would probably focus on trade and tourism rather than investment.

Annual Costs

Depending on the number of participating states and on the structure adopted, the cost per state could range from \$25,000 to \$100,000 annually.

First Step

The governors to authorize the WGA staff to convene interested trade directors to consider forming a Canada Task Force to examine possibilities.

Further Details

See Section 7.2.1 for further details of a Canada Task Force.

CONSIDER A JOINT TRADE OFFICE IN EUROPE

The EC as a whole is a market of 325 million people which imports twice as much from the seventeen western states as Japan does. Yet there are eleven western offices in Tokyo and only five in Europe.

The U. K. alone is one of the top five markets for thirteen of the western states, and Germany for nine of them. There are three western offices in the U.K., one in Belgium, and none elsewhere in Europe. Fourteen of the western states have no offices in Europe.

It is recommended that a European Trade Task Force be formed from among the western states which wish to participate.

European Trade Task Force Functions

- Define the structure and objectives of the office.
- Determine an optimum location for an office.
- Prepare a financial plan and staffing.
- Agree on which states will participate.
- Submit their plans to the governors for authorization.

First Step

The governors to authorize the WGA staff to convene interested trade directors to consider forming a European Trade Task Force to examine possibilities.

Further Details

See Section 7.2.1 for further details of a European Trade Task Force.

COMBINE AND ENHANCE TOKYO TRADE OFFICES

There are 11 western states with offices in Tokyo. Many of these offices are operating on minimal budgets. Seven have only a part-time representative. All are relatively expensive for the services provided.

Pooling of investment promotion activities is difficult. However, trade expansion activities are rarely directly competitive and could be combined.

It is recommended that a Tokyo Task Force be formed from among the western states which wish to participate.

Tokyo Task Force Functions

- Evaluate the functions, personnel, and costs of the 11 existing offices.
- Consider other alternatives for staffing.
- Attempt to form one or more consortia to operate joint offices in Tokyo.
- Invite the other 6 states which do not yet have offices in Tokyo to join in a consortium.
- Consider adding tourism functions to the office.
- Agree on which states will participate.
- Submit plans to their governors for authorization.

Annual Savings

The total expenditures of the 11 states in Tokyo are over \$4 million annually. From \$1 million to \$2 million of this is for export related activities. If even three or four states could collaborate on these trade activities, savings are possible.

The resulting savings can be used:

- To increase the level of effort and the export results in Japan.
- To open joint offices in other Asian or worldwide locations.
- To add other forms of trade promotion.

First Step

The governors to authorize the WGA staff to convene interested trade directors to consider forming a Tokyo Task Force to examine possibilities.

Further Details

See Section 7.2.1 for further details of a Tokyo Task Force.

COMBINE TAIWAN TRADE OFFICES

There are now eight western states with offices in Taipei. All of these offices are operating on minimal budgets. Five have only a part-time representative.

For most of the states represented, Taiwan is not in the top five export destinations. It ranked eighth as a western states export destination. Pooling of investment promotion activities is difficult. However, trade expansion activities could be combined.

It is recommended that a Taiwan Task Force be formed from among the western states which wish to participate.

Taiwan Task Force functions

- Evaluate the functions, personnel, and costs of the eight existing offices.
- Consider other alternatives for staffing.
- Attempt to form a consortium to operate joint offices in Taipei.
- Invite the other seven states which do not yet have offices in Taipei to join in the consortium.
- Consider adding tourism functions to the office.

Annual Savings

The total expenditures of the eight states in Taipei are about \$500,000, the majority of which is export related. It is estimated that a combination of the state operations could provide equal service to the states while saving up to \$100,000 annually.

First Step

The governors to authorize the WGA staff to convene interested trade directors to consider forming a Taiwan Task Force to examine possibilities.

Further Details

See Section 7.2.1 for further details of a Taiwan Task Force.

E. Establish a Shared Foreign Sales Corporation to Assist Smaller Exporters

Foreign Sales Corporations (FSC) are paper entities which permit significant federal tax savings to exporters which use them. They have been used successfully in a number of states. It should be possible to either set up a joint facilitation program, or to piggy-back on the Delaware program which is available to companies from other states.

FSC Functions

The function of a shared FSC is to perform the routine paperwork transactions which provide significant tax advantages to participating exporters. The exporters retain full control of their operations but save the administrative costs. The legal requirement for a titular presence overseas could be satisfied in Guam, a WGA member.

Annual Cost

The shared FSC would be at no cost to WGA because its operating expenses would be borne by the participating exporters.

First Step

WGA staff to compile information on the costs and benefits of a western states shared FSC.

Further Details

See Section 7.2.2 for further details of a shared Foreign Sales Corporation.

F. Establish a Joint Export Finance Service

In the states which have export finance or guarantee programs, exports of smaller or rapidly growing companies are facilitated and made feasible where they would otherwise be impossible.

However, it takes personnel, experience, and staff which might not be available to smaller states. A joint activity could be cost effective and relatively easy to implement.

Joint Export Finance Functions

The intent is that each participating state would allocate funds for export finance or export guarantees only for its own companies. However, a joint office would provide administrative services and expertise, with computer terminals in the trade offices of participating states. Experienced loan officers would be able to evaluate and rank finance applications from within each state.

Annual Costs

Each participating state would set its own budget for revolving loan funds or credit guarantees. The operating costs of the joint administrative office would be allocated to participating states in proportion to their usage. Each state could decide which proportion of these costs would be passed on to exporters via fees.

First Step

WGA staff to prepare a description of successful export finance programs, and a suggested program for WGA.

Further Details

See Section 7.2.3 for further details of a joint Export Finance Service.

2.3.3 AN ANCILLARY ACTIVITY

G. Initiate a Western Trade Directors' Council.

The three meetings of trade directors which have been held in the course of this project have demonstrated conclusively that the trade officers benefit greatly from the opportunity to exchange experiences and to compare the benefits and costs of different initiatives. They have expressed a strong desire to institutionalize this process. A Trade Directors Council, meeting twice a year, would accomplish this.

Trade Council Functions

This Council would be able to plan for the following year's trade shows and trade missions and to set in motion the process of joint participation in such events. It might choose to engage in some functions on a full group basis or to facilitate modular sub-groupings of states.

If successful, this Council might subsequently find it effective to have an ongoing secretariat.

Annual Costs

Initially, there need be no ongoing WGA costs other than travel for the first convening of the Council.

First Step

The governors to endorse the concept and mandate WGA staff to convene an organizational meeting of the trade directors in the September/October time frame.

Further Details

See Section 7.3 for further details of a Trade Directors Council.

2.3.4 NECESSARY WGA INFRASTRUCTURE

H. Build the WGA staff capability to catalyze, facilitate, and coordinate joint international activities.

It is strongly recommended that a WGA function be specified and maintained to facilitate the coordination and implementation of joint governors' missions, as outlined in Action Item C.

Additionally, the WGA staff should have the ongoing capability to act as a catalyst for modular state programs such as joint trade missions, and joint participation in overseas trade shows on a regional basis. Each modular group of states would assume responsibility for its own activities once launched with WGA assistance.

Functions

WGA might act as a clearinghouse for proposed missions or might initiate plans for missions.

Annual Costs

Initially these functions should be possible within existing WGA budgets.

First Step

The governors to authorize WGA staff to prepare a plan for submission to the Staff Council.

Further Details

See Section 7.4 for further details of a WGA international coordination plan.

3. WHAT THE WESTERN STATES DO NOW

Scope of Activities

The western states are engaged in an extensive and rapidly growing basket of activities for the development of international trade, investment and tourism. This section of Going Global highlights those state activities which lend themselves to regional cooperation.

The National Association of State Development Agencies (NASDA) has compiled data on state international budgets and personnel. They report:

Western states expenditures for fiscal 1988 exceeded \$21 million, up 59% from the 1986 figure. [Table 3-A: Western States International Budgets]

Almost 200 staff members are employed in these activities. [Table 3-B: Western States International Personnel]

In fact, these numbers substantially understate actual budgets when tourism, agriculture, and investment promotion are fully factored in. Further information from the western states indicates such additional budget items as :

California:	Tourism:	\$730,000
Colorado:	Tourism:	\$250,000
Idaho:	Add to total:	\$162,000
North Dakota:	Total:	\$322,500

The western programs include 29 offices in 7 countries [Table 3-C: Number of Overseas Offices, 3-D: Distribution of Overseas Offices]

Western governors in 1987 took 24 trips to 10 countries. [Table 3-E: Western Governors' Travel Abroad 1987]

Numerous other missions and trade show participations spread the western message throughout the world. [Table 3-F: Overseas Missions and Shows]

Most of the states have targeted particular industries for special attention. [Table 3-G: Targeted Industries]

Western Exports

Exports from the 17 western states totaled \$79 billion in 1988, up 26% from \$63 billion in 1987. These estimates include an upward adjustment of 20% to compensate for U.S. Department of Commerce Data, which does not allocate all U.S. exports by state-of-origin.

Foreign Investment in the West

Foreign direct investment (FDI), which is also referred to as reverse investment or inward investment, is also aggressively pursued and accounted for over 500,000 jobs in the western states in 1986.

Regional Cooperation

Examples of inter-state cooperation in these programs are, however, rare.

<u>PROGRAM</u>	<u>DEGREE OF REGIONAL COOPERATION</u>
OVERSEAS OFFICES	MINIMAL/IMPROVING
GOVERNORS' MISSIONS	RARE
TRADE MISSIONS AND SHOWS	MINIMAL
INVESTMENT MISSIONS	MINIMAL
AGRICULTURAL EXPORTS	COMMON
TOURISM PROMOTION	GOOD

3.1. Budgets, Personnel and Programs

Budgets

The budgets for international activities, as reported by the western states to the National Association of State Development Agencies, are not uniform in what they include, and comparisons must therefore be made with caution. However, as Table 3-A Western States International Budgets indicates, it is indisputable that the budgets are growing in 9 of the states and in the region as a whole.

Table 3-A: Western States International Budgets

(Thousands of Dollars)

	INTERNATIONAL TRADE BUDGETS		
	FY88	FY86	CHANGE
CALIFORNIA	10450	5700	4750
OREGON	2260	739	1521
WASHINGTON	1940	1940	0
MINNESOTA	1900	2202	-302
ALASKA	1500	790	710
UTAH	1055	550	505
COLORADO	700	220	480
ARIZONA	341	478	-136
WYOMING	300	355	-55
NEVADA	297	160	137
HAWAII	287	225	62
IDAHO	160	25	135
MONTANA	100	86	14
NEW MEXICO	94	N/A	N/A
SOUTH DAKOTA	51	51	0
NEBRASKA	N/A	N/A	N/A
NORTH DAKOTA	N/A	N/A	N/A
WEST, TOTAL	21436	13521	7915
U.S., TOTAL	62148	39211	22937
WEST AVERAGE	1261	795	466
U.S. AVERAGE	1295	980	314

NOTE: The numbers in this table were not reported by each state to NASDA in a consistent manner, and they are not strictly comparable, but do serve to indicate orders of magnitude. *Apparently all of the figures include trade budget funds, but not all of the figures include investment or tourism funds.

SOURCE: NASDA

Western States Budgets

The seventeen Western states have substantial programs for promoting international trade, investment, agriculture and tourism. Their total expenditure is estimated at over \$20 million per year. The state budgets range from a high of \$10 million to a low of under \$100,000.

NASDA data for fiscal 1988 covers mainly trade and investment related expenditures with a total of just over \$21 million.

Furthermore, the personnel complement in international programs is also growing. The western states added 63 people, or 47%, to their international programs from fiscal 1986 to fiscal 1988.

Though these are large amounts, they are not excessive. For example, the export expenditures are a tiny fraction of 1% of state exports and could be considered to be a marketing expense.

National Budgets

Nationally budgets and activity levels for states' international activities are also large and growing. All fifty states now have export development programs.

The fifty states budgeted 1988 expenditures of \$246 million for economic development, of which \$110 million was for investment attraction.

Fifteen percent of this or \$37 million was for attracting international investment. This is an average of over \$700,000 per state.

International budgets for the fifty states were \$62 million for 1988. This is an average of \$1.3 million per state. {NASDA}

The export programs have grown dramatically, with a fifty percent increase in personnel in four years. NASDA points out that state spending is beginning to rival federal government expenditures for export development.

This growth is a natural and correct response to:

- The increasing globalization of the western economies.

Table 3-B: Western States International Personnel

STATE	STAFF		
	FY88	FY86	CHANGE
MINNESOTA	38	41	-3
CALIFORNIA	35	14	21
NEVADA	30	10	20
WASHINGTON	22	10	12
OREGON	20	14.5	5.5
ALASKA	14	11	3
UTAH	11	8	3
COLORADO	7	7	0
HAWAII	6	6	0
ARIZONA	5	5	0
WYOMING	3	3	0
NEBRASKA	2	2	0
MONTANA	2	1	1
NEW MEXICO	1	N/A	N/A
NORTH DAKOTA	1	1	0
IDAHO	<1	<1	0
SOUTH DAKOTA	0	1	-1
WEST, TOTAL	198	135	63
U.S., TOTAL	652	515	137
WEST AVERAGE	12	8	4
U.S. AVERAGE	13	12	1

Source: NASDA

- The decline, in real terms, of the federal expenditure on export promotion. (An extraordinary phenomenon in view of the massive American trade deficit).
- The growing volume of American exports and of foreign direct investment in the western U.S.
- The growth in GNP of the states.

3.2 The Governors' Roles

The direct participation of a governor is widely recognized as a vital element in the international programs of a state. Without the leadership and encouragement of the governor, no state program can reach full effectiveness. In almost every state with an effective international program, the governor plays a leading role. From Tennessee to New York, from Illinois to North Carolina, as well as in the western states, this correlation exists.

In the western states the critical role of the governor is also widely recognized, and most governors take a strong and growing interest in the international programs of their states.

In California, as in many other states, the overseas offices are funded from the governor's budget, and their director reports to him.

3.3 Offices Overseas

The growth in overseas offices has been extraordinary. (Table 3-C: Western Overseas Offices, FY 86,88). From eight overseas offices in 1986, the western states have almost quadrupled their facilities to 29. More are in the planning stages. California's Governor Deukmejian, for example, has announced imminent offices in Frankfurt and Hong Kong.

Only Nebraska, New Mexico and South Dakota have yet to join the pattern, while Minnesota is the current leader with four offices operating.

Locations

Table 3-D. Distribution of Overseas Offices: 17 Western States, portrays the extensive outreach which has been developed.

The offices are highly concentrated. By region, there are 24 offices in Asia, 4 in Europe, and 1 in Mexico. Nineteen of the twenty-nine western offices are in Taiwan or Japan. Four are in Korea and three in Britain.

Within these regions, they are also highly concentrated by city. Ten of the eleven Japanese offices are in Tokyo. All of the eight Taiwan offices are in Taipei (seven in the same building). All four of the Korean offices are in Seoul. Three of the four European offices are in the West End of London.

A major finding of this study is that the distribution of western offices is not proportional to either exports from the states or investments into the states.

In addition to the state offices listed, there are a large number of ports and cities which have their own representation. The Ports of Seattle, Portland, San Francisco, Oakland, Los Angeles, Long Beach and San Diego have either an office or a representative in Tokyo.

In Japan, the states of Alaska, California, and Hawaii have their own personnel based in Tokyo, while Minnesota has an Osaka office. Seven other western states have part-time representatives in Tokyo. Tokyo is the world's most expensive locale in which to do business. Other western states have expressed interest in a Japanese office. At the same time, both those with and those without offices bemoan the very high cost of doing business there.

In Taiwan, the states of Idaho and Minnesota report having their own personnel, while six other states use representatives.

In Europe, only Minnesota has an office on the continent, located in Brussels, supplemented by honorary representatives in Sweden and Norway. California, Minnesota and Washington have offices or contact representatives in the United Kingdom. California has announced a Frankfurt satellite office for fiscal 1989.

National Trends

Nationally, the number of state overseas offices has doubled since 1986 ! The total exceeds 120 in 24 countries and is still growing. In comparison, the federal government maintains 122 foreign posts in 67 countries. Though the federal government offers a more widely dispersed service, it can be seen that the magnitude of state efforts now rivals that of the central authority. It can legitimately be questioned whether this is the most efficient way to promote exports.

Table 3-C: Number of Overseas Offices

STATE	NUMBER OF FOREIGN OFFICES		
	FY88	FY86	CHANGE
MINNESOTA	4	2	2
CALIFORNIA	3	0	3
OREGON	3	1	2
UTAH	3	1	2
MONTANA	2	0	2
COLORADO	2	0	2
HAWAII	2	0	2
IDAHO	2	0	2
WASHINGTON	2	1	1
NORTH DAKOTA	1	1	0
ALASKA	2	2	0
WYOMING	1	2	1
ARIZONA	1	0	1
NEVADA	1	0	1
SOUTH DAKOTA	0	0	0
NEBRASKA	0	0	0
NEW MEXICO	0	0	0
WEST	29	8	23
U.S.	117	67	50
WEST AVERAGE	1.8	0.5	
U.S. AVERAGE	2.3	1.3	

SOURCE; NASDA State Export Program Database, July 1988
 Jerry Levine, WGA Scholar in Residence

**Table 3-D: Distribution Of Overseas Offices:
17 Western States**

	ASIA PACIFIC				AMERICAS	EUROPE		TOTAL
	Japan	Korea	Taiwan	Other	Mexico	U.K.	Belgium	
ALASKA	X	X						2
ARIZONA			*					1
CALIFORNIA	X				X	X		3
COLORADO	*		*					2
HAWAII	X			X				2
IDAHO		*	X					2
MINNESOTA	X		X			X	X	4
MONTANA	*		*					2
NEBRASKA								0
NEVADA	*							1
NEW MEXICO								0
NORTH DAKOTA	*							1
OREGON	*	*	*					3
SOUTH DAKOTA								0
UTAH	*	*	*					3
WASHINGTON	X					*		2
WYOMING			X					1
TOTAL	11	4	8	1	1	3	1	29
REGION			24		1		4	

Key: X-State Facility. * - Contract representatives, probably part-time.

Notes: 29 offices, of which 14 are state, and 15 are part-time contract. Minnesota's office in Japan is in Osaka, also has honorary offices in Hong Kong, PRC, Tokyo, Sweden, and Norway. North Dakota representative in Tokyo is equivalent of 1 full-time person.

Source: Jerry Levine, Scholar-in-Residence, Revised June 22, 1989.

Office Functions

Five years ago, the state offices were largely or exclusively for promoting investment. Today, most are equally involved in export assistance. A few of them perform tourism functions.

3.4 Overseas Missions

Governor's missions, investment missions, and trade missions have been standard and popular tactics in the international programs of all the states.

There is logic behind these programs, since no substitute has yet been developed for personal contacts, whether the goal is export promotion, tourism, or inward investment.

Regional cooperation on these various missions has been negligible in the western states, with few exceptions. The reasons for the rarity of joint missions vary, depending on the type of mission, but generally can be ascribed to:

- Lack of a structure to facilitate and coordinate joint missions.
- Fear of competition from other states.
- Unwillingness to share hard-won expertise.
- Unwillingness to share the "spotlight".

3.4.1 Governors' Missions

The western governors, in 1987, took 24 trips overseas. The range was large. Four governors did not leave the country, while one took four trips. Six took two or three trips, while six went overseas once. {Source: NGA}

Governors traveled as heads of delegations of exporters, they were invited to address important conferences overseas, and they participated in the ceremonies of opening state offices. Governors also led missions to seek foreign investment and to promote tourism.

Table 3-E: Western Governors' Travel Abroad 1987 shows the distribution of these trips. It is noteworthy that eleven governors went

Table 3-E: Western Governors' Travel Abroad 1987

Destination: Number Of Visits

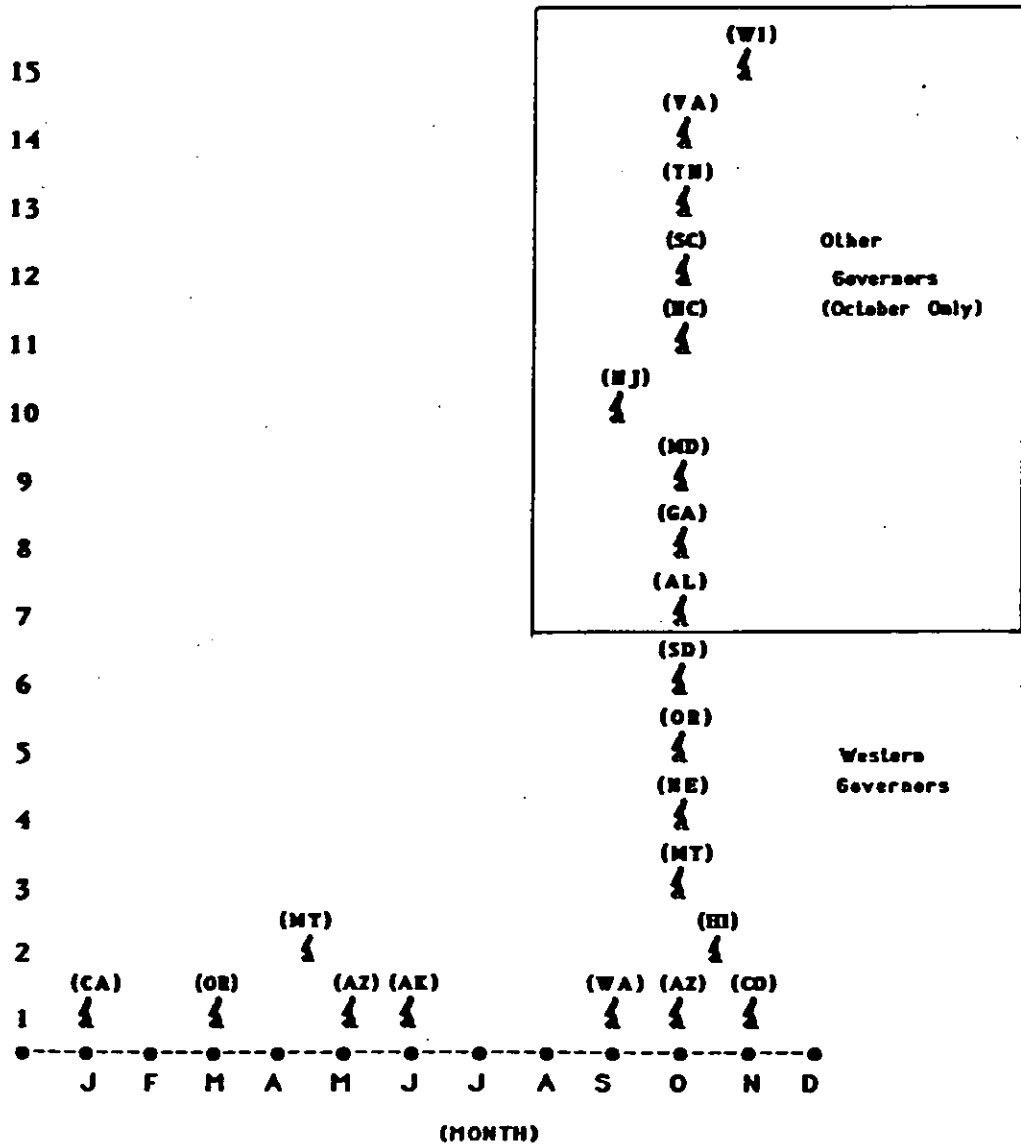
STATE	NO. OF TRIPS	JAPAN	CHINA	TAIWAN	KOREA	EUROPE (1)	OTHER (2)	TOTAL STOPS
AK	2	1	1					2
AZ	3	2		3				5
CA	2	1				1		2
CO	4	1	1	1	1	2		6
HI	3	1		1	1		1	4
ID	0							0
MN	1					1		1
MT	2	2						2
NE	0							0
NV	1	1		1				2
NM	0							0
ND	0							0
OR	2	2		1	1			4
SD	1	1			1			2
UT	0							0
WA	1	1						1
WY	1			1			1	2
TOTAL	23	13	2	8	4	4	2	33
GOVERNORS		10	2	6	4	3	2	12
VISITS		13	2	8	4	4	2	33

1) ENGLAND (4 VISITS), FRANCE (1), BELGIUM (1), GERMANY (1)

2) THAILAND (1 VISITS), AUSTRALIA (1)

Figure A: 1987 Governor's Missions: The View From Japan

NUMBER
OF
GOVERNORS
VISITING JAPAN



to Asia on 18 trips, while only three visited Europe for a total of four trips.

Ten of the trips were solely devoted to trade, while most of the others were multi-purpose. Only five included investment and four included tourism among the stated objectives. Three included the dedication of state offices.

To the best of our knowledge, not one of these 1987 trips was made jointly with another western governor. In May, 1989, the governors of North and South Dakota have organized joint mission activities in Japan.

3.4.2 Trade and Investment Missions and Shows

There are not as many overseas trade missions and show participations from the western states as one might have expected. NASDA data on 1988 scheduled trips covers 13 of the western states, which between them had some 77 overseas trips. Table 3-F Overseas Missions, describes the distribution.

California and Minnesota had sixteen or seventeen missions each.

Seven other states had from four to ten missions.

Four states had one to three missions.

Four states did not report.

Over fifty trips were to Asia, while just under twenty were to Europe.

About one third were missions or seminars, while two thirds involved participation in trade shows.

It does not appear that any of the trips were focused on information collection in the sense of market research or learning from the export or investment promotion activities of the countries visited.

Though in many cases several western states must have participated in the same show, we do not believe any of these participations involved shared booths or other forms of western inter-state cooperation.

**Table 3-F: Western States Overseas Trade
Missions and Shows**

OVERSEAS MISSIONS AND SHOWS							
1988							
STATE	NO. OF TRIPS	DESTINATION				PURPOSE	
		JAPAN	EUROPE	ASIA	OTHER	MISSIONS	SHOWS
AL	1	1					1
AZ	?						
CA	17	2	9	5	3	-	17
CO	6		1	5		3	3
HI	9		0	8	1	1	8
ID	2		0	1	1	-	2
MN	16	1	4	11	1	10	6
MT	?						
NE	1		0	1	0	0	1
NV	5	4	0	5	0	5	0
NM	?						
ND	?						
OR	4	1	0	3	1	0	4
SD	3	1	0	3	0	0	3
UT	5		1	4	0	2	3
WA	4		2	2	-	3	1
WY	5	1	0	5	0	3	2
Total	78	11	17	53	7	27	51

Source: NASDA

Table 3-G: Targeted Industries

A Partial Compilation: Some Possible Communities of Interest

Based on a partial compilation, the following communities of interest deserve follow-up by the states for cooperative action:

1. High Technology/Electronics Arizona, California, Colorado, Hawaii, Minnesota, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Utah, Wyoming
2. Agribusiness Alaska, California, Colorado, Hawaii, Idaho, Minnesota, Nevada, North Dakota, New Mexico, Oregon
3. Medical/Bio-engineering Arizona, California, Colorado, Minnesota, North Dakota, Oregon, Utah
4. Aircraft/Space California, Hawaii
5. Oil, Chemicals Nevada, North Dakota, Wyoming
6. Minerals Alaska, Colorado, North Dakota, Wyoming
7. Energy California, Hawaii, North Dakota

The preceding groupings are derived from the NASDA State Report Program Database, July, 1988, by Jerry Levine, WGA Scholar-in-Residence, and modified by some of the states.

3.5 Targeted Industries

Targeting means that a state does not offer its export assistance programs equally and indiscriminately, but attempts to identify those industry segments whose export enhancement is most likely to succeed and would most benefit the state in terms of employment and economic activity. Targeting includes in-state activities such as seminars, trade directories, and in-company counseling. These are not readily susceptible to inter-state cooperation. Targeting also includes single industry (vertical) trade missions and overseas shows, and these do lend themselves to regional cooperation.

Fourteen of the western states have adopted some measure of targeting of manufactured products, and essentially all states have targeted agriculture for special assistance.

Nationally, the trend is the same, with NASDA reporting that 40 states use some kind of target industry profile.

Partial information from the western trade directors indicates that there is a substantial measure of concentration among the states in terms of the industries targeted. Table 3-G: Targeted Industries shows that, of the western states:

- Twelve have targeted high technology/electronics segments.
- Eleven have targeted fishing, forestry or agribusiness.
- Seven have targeted medical or biotechnology segments.

Enough evidence exists to support the contention that the western states do have communities of interest in export expansion and could benefit from regional cooperation.

3.6 Western Exports

We examine western exports in order to determine:

- How large they are.

Table 3-H: Western States' Exports: 1987-1988

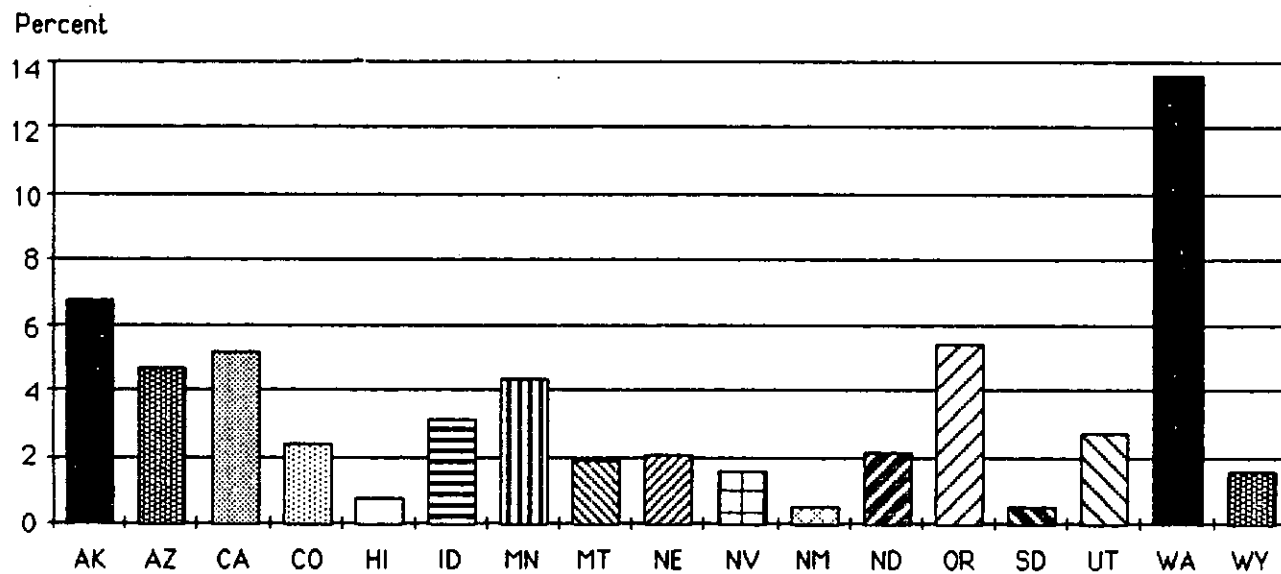
(\$ Million)

STATE	1988	1987	% CHANGE
AK	\$1,742	\$1,331	31%
AZ	\$2,880	\$2,538	13%
CA	\$34,678	\$27,834	25%
CO	\$1,783	\$1,423	25%
HI	\$131	\$153	-14%
ID	\$613	\$425	44%
MN	\$4,186	\$3,341	25%
MT	\$350	\$240	46%
NE	\$747	\$563	33%
NY	\$223	\$309	-28%
NM	\$164	\$133	23%
ND	\$220	\$233	-6%
OR	\$3,307	\$2,272	46%
SD	\$78	\$50	56%
UT	\$827	\$665	24%
WA	\$13,703	\$10,606	29%
WY	\$216	\$186	16%
WEST	\$65,848	\$52,302	26%
WEST (ADJUSTED)	\$79,000	\$63,000	26%
U.S.	\$322,225	\$252,866	27%

NOTE: West exports adjusted upward by estimated 20% to account for those exports not attributed to any state by the U.S. Department of Commerce. The 1987 data does not include state exports less than one million dollars to any country, e.g. if a state's total exports to a particular country are valued at less than one million dollars, this data is not included in the 1987 figures.

SOURCE: U.S. Department of Commerce, state of origin export data, 1987, compiled by WGA.

Figure B: Exports as a Percentage of GSP: 1987



- What is exported.
- Where the exports go, and what are the regional patterns.
- How well western export promotion activities match the market opportunities.

3.6.1 The Size of Western Exports

The analysis in this section is based on 1987 state-of-origin data. The 1988 data was received too late for inclusion except for summaries in Table 3-H, which shows substantial increases for most states. However, WGA will soon issue supplemental analyses of the 1988 export data and of the trend implications.

The seventeen western states are credited with 1987 exports of \$52.3 billion by the U.S. Department of Commerce. In fact, this number should be increased by some 20% to \$63 billion to allow for the volume of exports of unattributed origin in the statistics. The U.S. total was \$250 billion.

By state, the export volume ranged from South Dakota's \$50 million to California's \$27 billion. [See Table 3-H: Western States' Exports].

In terms of exports as a percentage of Gross State Product, the western average is just over 5%, slightly less than the U.S. average of 5.9%.

By state, the export percentage of GSP ranged from Washington's 13.5% to South Dakota's 0.5%. The median state, Colorado exported 2.4% of its GSP. [See Figure B: Exports as a Percentage of GSP 1987].

These numbers are even more impressive than they appear when multiplier effects are taken into account and when the value of shippers, carriers, finance, banking, insurance and other economic activities are taken into account.

3.6.2 What is Exported

The western states have diverse exports which go to many destinations. Table 3-I: What The West Exports shows that the major export commodities are dominated by manufactured goods. The four categories of machinery, transportation equipment, electrical and

Table 3-I: What The West Exports, 1987

(Millions of Dollars)

	NORTH AMERICA	EEC	SOUTHEAST ASIA	EAST ASIA	OTHER	TOTAL
FOOD	\$492	\$531	\$97	\$1,688	\$165	\$2,973
CROP	\$441	\$628	\$121	\$1,107	\$343	\$2,640
LUMBER	\$270	\$326	\$2	\$1,707	\$0	\$2,293
CHEMICALS	\$342	\$543	\$96	\$610	\$224	\$1,815
MINERALS, OIL & GAS	\$62	\$236	\$10	\$382	\$0	\$690
SUBTOTAL	\$1,607	\$2,264	\$326	\$5,494	\$732	\$10,411
MACHINERY (Except Electrical)	\$2,130	\$3,773	\$863	\$2,216	\$1,956	\$10,938
TRANSPORTATION EQUIPMENT	\$927	\$3,311	\$824	\$1,796	\$2,430	\$9,288
ELECTRICAL, ELECTRONIC	\$1,288	\$2,346	\$1,751	\$2,640	\$944	\$8,969
INSTRUMENTS	\$494	\$1,064	\$148	\$906	\$544	\$3,156
SUBTOTAL	\$4,839	\$10,494	\$3,586	\$7,558	\$5,874	\$32,351
ALL OTHER PRODUCTS	\$2,370	\$1,675	\$392	\$4,198	\$892	\$9,539
TOTAL WEST	\$8,816	\$14,433	\$4,304	\$17,250	\$7,498	\$52,301*

North America category includes Canada and Mexico

EEC (European Community) category includes Belgium, Denmark, France, Germany, Great Britain, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain

Southeast Asia category includes Bangladesh, Brunei, India, Indonesia, Malaysia, Pakistan, Singapore, Sri Lanka, Thailand, and Vietnam

East Asia Category includes China, Hong Kong, Japan, Mongolia, South Korea and Taiwan.

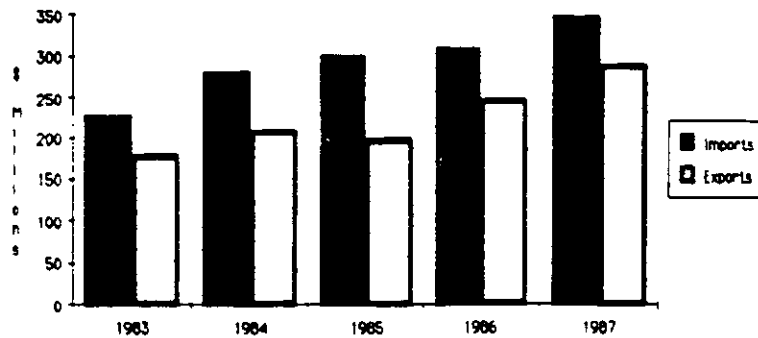
Note: All details may not add to totals due to rounding.

SOURCE: U.S. Department of Commerce, 1987 State of Origin Export Data

* This number may be adjusted upward by approximately 20% to compensate for the fact that this data series does not allocate all exports by state-of-origin.

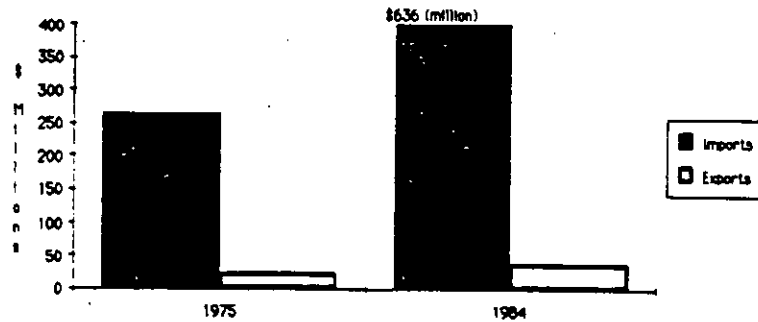
Table 3-1a: Trade Data Information: American Samoa, Guam and the Northern Mariana Islands

**American Samoa Imports and Exports,
FY 1983 - FY 1987**



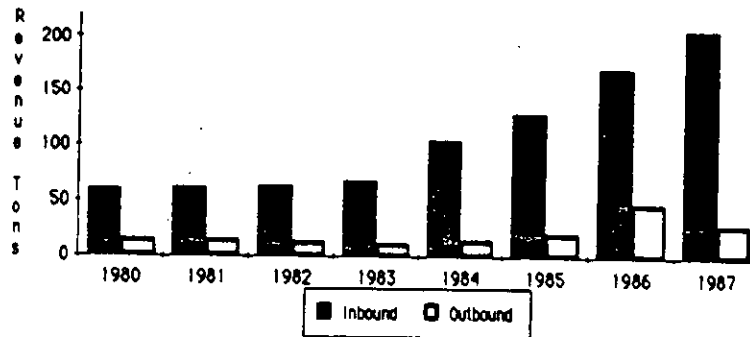
Source: Economic Development and Planning Office,
American Samoa Government.

Guam Exports and Imports, 1975 and 1984



Source: Bank of Hawaii

**Northern Mariana Islands Inbound and Outbound Ocean
Cargo**



Source: Bank of Hawaii

electronic equipment, and instruments together account for 62% of the West's exports. About 20% is included in food, crops, lumber, chemicals, mineral, oil and gas products.

There is significant variation from state to state with, for example, Arizona, California, Colorado, Minnesota, and Utah achieving half their exports in machinery, including electrical and electronics, while Alaska gets more than half its export revenue from food, lumber and wood products, and Montana over two thirds from metallic minerals and primary metal products.

3.6.3 Where the Exports Go

The Prime Country Markets

Japan is the most important market for eight of the western states.

Canada is the most important for seven states.

Mexico and Brazil are the most important for one state each.

Thus, only four countries vie for first place in importance to the West.

The Top Five Country Markets

Canada is in the top five markets for all seventeen states.

Japan is in the top five markets for sixteen states.

The United Kingdom is in the top five markets for thirteen states.

Germany is in the top five markets for nine states.

Korea and Mexico are each in the top five markets for six states.

In fact, only these six countries are in the top five markets for more than three states.

Table 3-J: Western States Top Ten Export Destinations 1987

	COUNTRY	\$ BILLION
	EEC	14.4
	JAPAN	10.4
	CANADA	5.9
[1]	U.K.	4.1
[1]	W. GERMANY	3.3
	MEXICO	2.9
	S. KOREA	2.5
[1]	FRANCE	1.9
	TAIWAN	1.9
	SINGAPORE	1.7
	AUSTRALIA	1.5
[1]	NETHERLANDS	1.5
	HONG KONG	1.4
	CHINA	1.2
	SUBTOTAL	33
	OTHER	19.3
	TOTAL	52.3

Source: U.S. Department of Commerce, August, 1988, Jerry Levine, WGA Scholar-in-Residence.

[1] EEC individual country values listed for reference.

Note: Actual exports are roughly 20% greater than shown due to unattributed origins.

Service exports not included.

The Top Ten Country Markets

Canada, Japan, The United Kingdom, Germany, Korea, Mexico, Taiwan, France, Australia and Hong Kong, are, in order, in the top ten markets for five or more states.

Thus, ten countries are the focus of the bulk of the exports from the western states.

If one considers the EC as a single market - a logical evaluation considering its common external tariff, essentially open internal borders, and population of 325 million people, most within about two hours flying time from London, Frankfurt, Amsterdam, Brussels or Paris, - then the EC becomes the most important western export destination, followed by Japan and Canada, with the top ten accounting for 63% of western exports.

Major Regional Markets

Figure 3-B: Distribution of West's Exports By Commodities, By Regions shows the relative importance of the regional markets and how this varies by commodity group.

In 1987, western exports to East Asia accounted for 33% of the total, followed by the EC with 28%, and North America with 17%. Southeast Asia is another 8%.

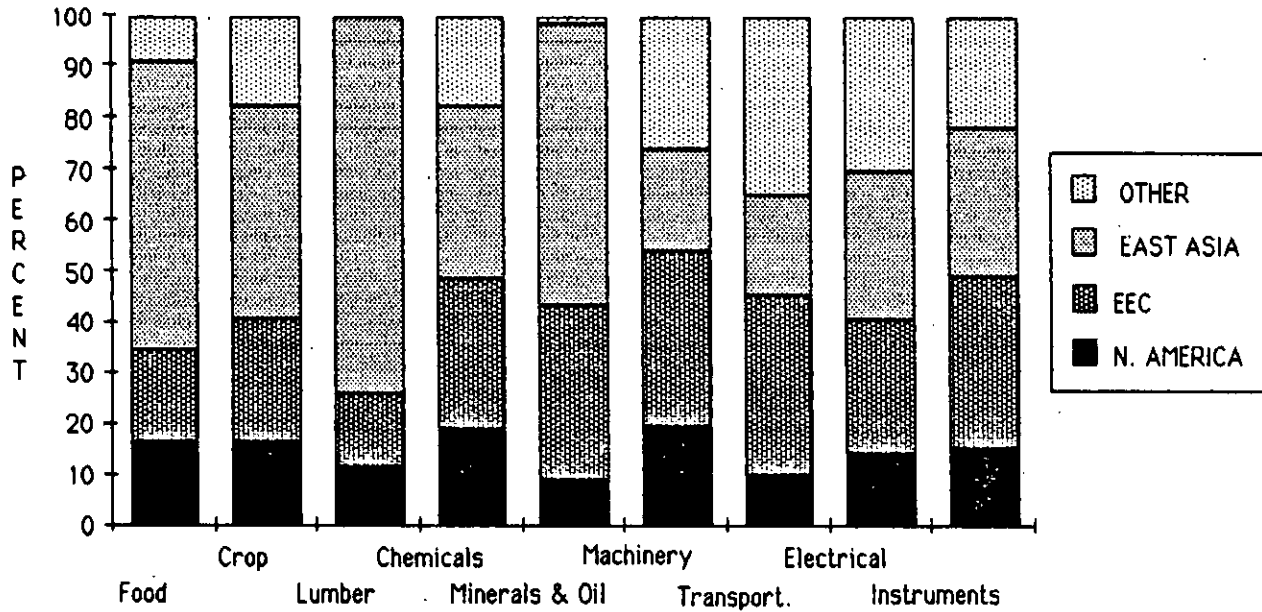
Within these totals, however, there are significant variations by product category. The EC is the major buyer of manufactured products, with 33%, compared to East Asia's 23%. If manufactured exports to Southeast Asia are added in to the East Asia total, they exceed western exports to Europe, but we believe that a major portion of such exports are to U.S.-owned assembly plants and as such are not relevant in planning export promotion efforts. (See Figure D: Where West's Manufactured Exports Go).

East Asia is the dominant buyer destination for food, crop, lumber and chemical products, with 53% of the total. (See Figure E: Where West's Natural Resource Exports Go).

U.S. National Exports

National export patterns are basically similar to those of the West. The Census Bureau using somewhat different geographic definitions shows 1987 exports divided about equally between the Asia/Pacific, EC, Canada, and All Other destinations.

Figure C: Exports, by Commodity, by Region, 1987



North America category includes Canada and Mexico.

EEC category includes Belgium, Denmark, France, Germany, Greece, Great Britain, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain

East Asia category includes China, Hong Kong, Japan, South Korea, and Taiwan.

Source: U.S. Department of Commerce, Census Bureau, 1987 State-of-Origin Export Data, compiled by WGA.

Figure D: Where West's Manufactured Resources Go, 1987

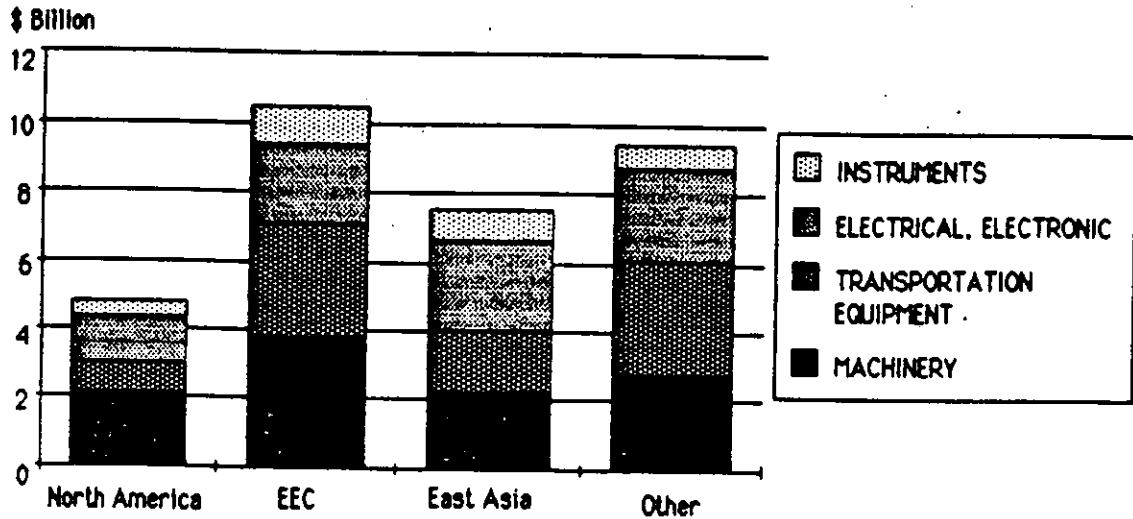
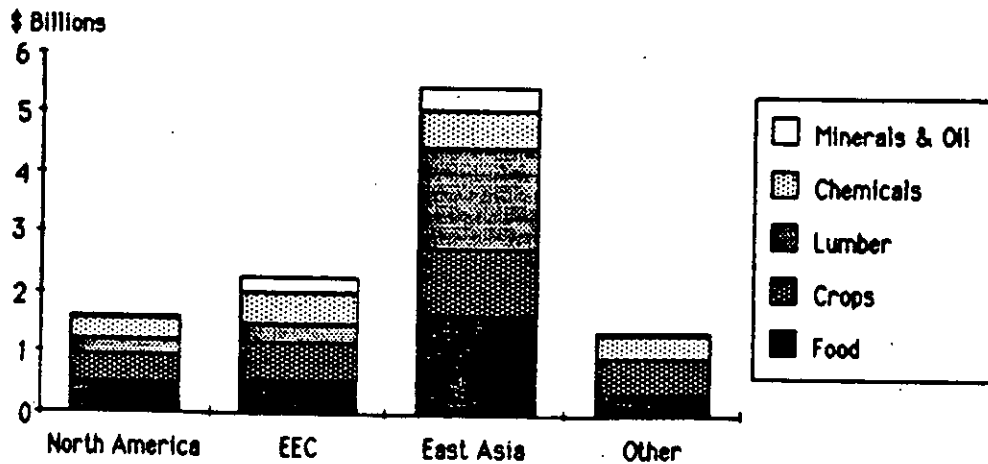


Figure E: Where West's Natural Resource Exports Go, 1987



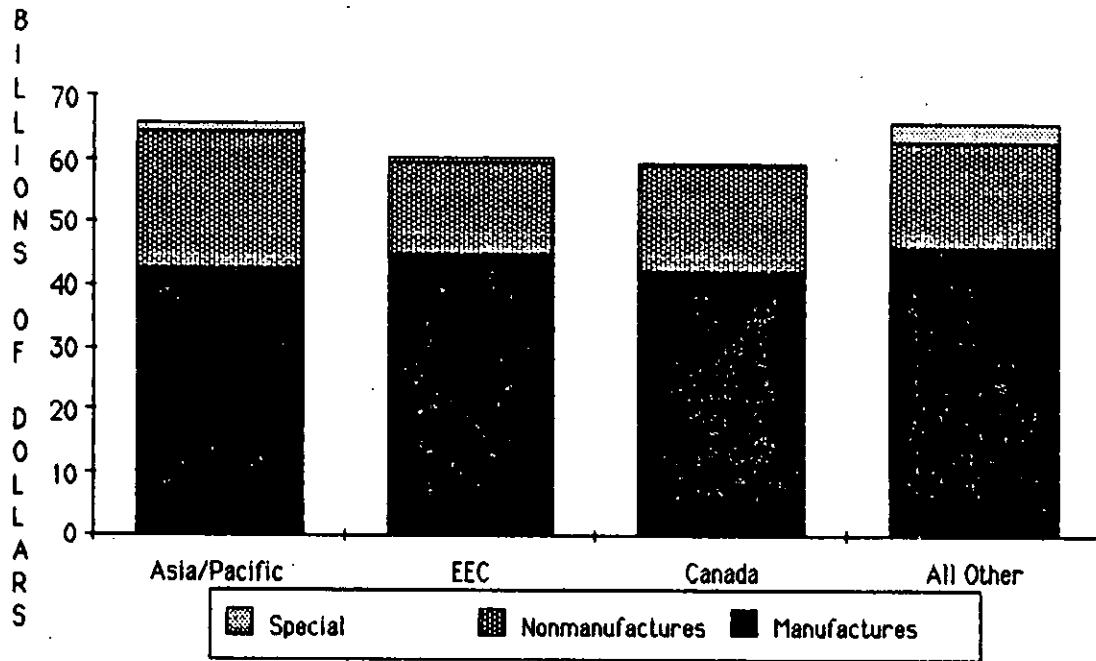
North America category includes Canada and Mexico.

EEC Category includes Belgium, Denmark, France, Germany, Greece, Great Britain, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

East Asia category includes China, Hong Kong, Japan, South Korea and Taiwan.

Source: U.S. Department of Commerce, Census Bureau, 1987 State-of-Origin Export Data, compiled by WGA.

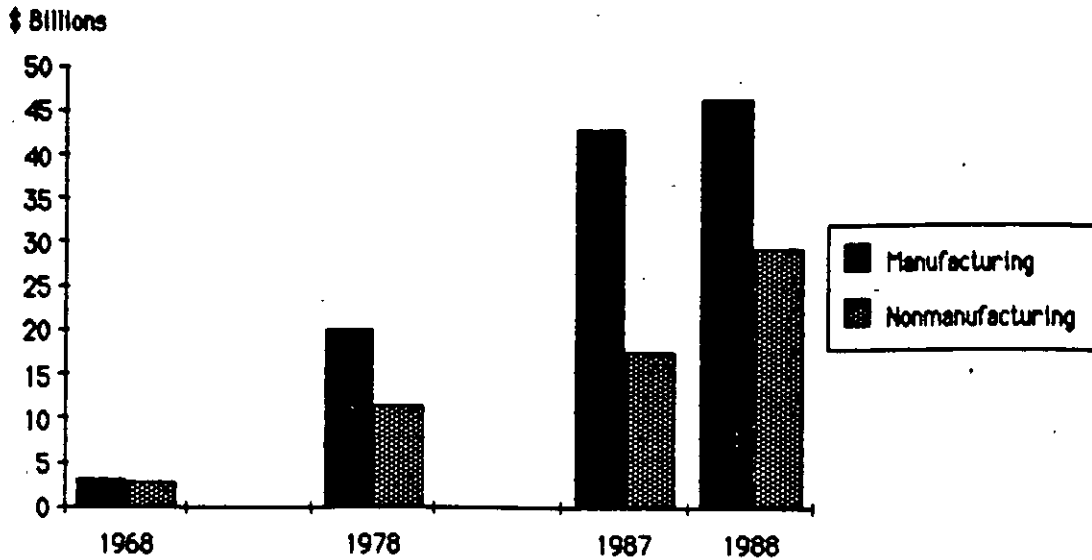
Figure F: U.S. Exports to the World, 1987



Note: U.S. exports are almost equal to the four regions. But manufacturing exports are heaviest to the European Community. Agriculture and other natural resource exports are heaviest to the Pacific Rim region.

Source: U.S. Census Bureau, Department of Commerce

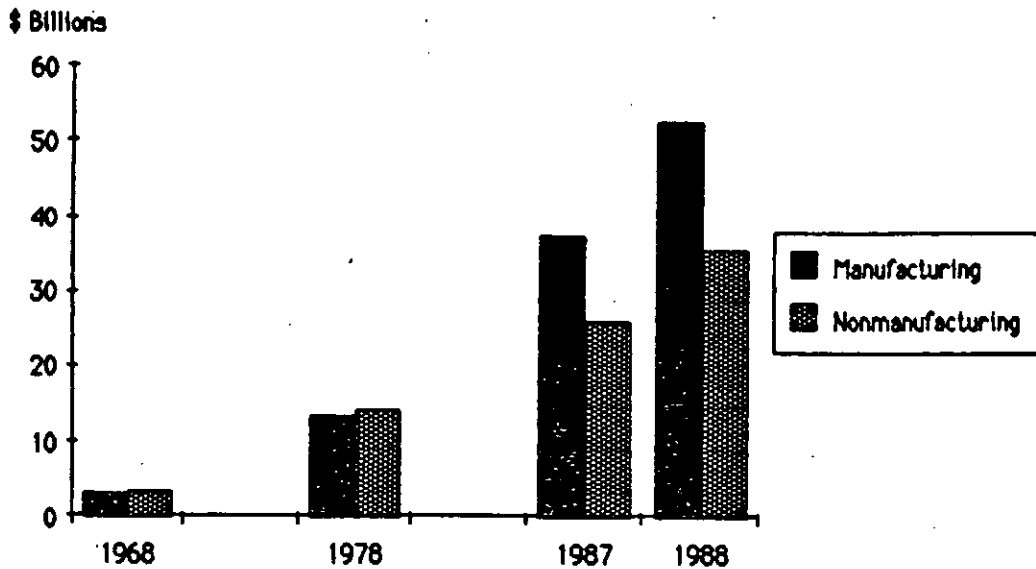
Figure G: Growth of U.S. Exports To The EEC



EEC includes: U.K., Germany, Denmark, Ireland, Netherlands, Belgium, Luxembourg, France, Spain, Portugal, Italy and Greece.

Source: U.S. Department of Commerce.

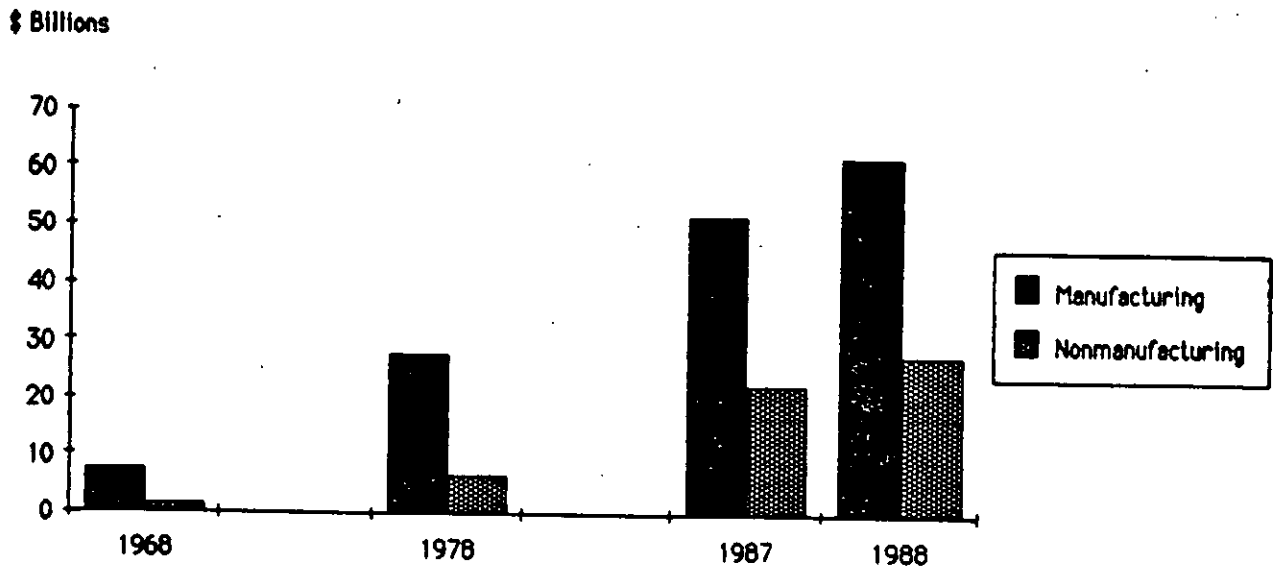
Figure H: Growth of U.S. Exports To Asia



Asia includes Vietnam, People's Republic of China, Mongolia, North Korea, Japan, Afghanistan, India, Pakistan, Nepal, Bangladesh, Sri Lanka, Burma, Thailand, Laos, Cambodia, Malaysia, Singapore, Indonesia, Brunei, Philippines, Macao, Southern Asia (n.e.c.), Republic of Korea, Hong Kong, and Taiwan.

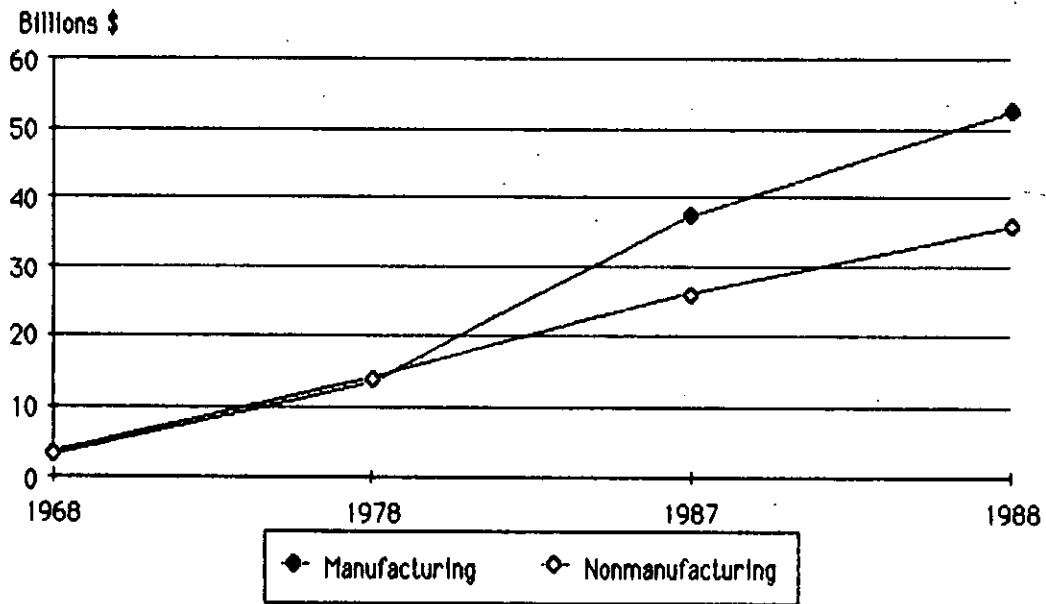
Source: U.S. Department of Commerce.

**Figure I: Growth Of U.S. Exports To
North America**
(Canada and Mexico)



Source: U.S. Department of Commerce

Figure J: U. S. Export Growth to Asia Pacific



Source: U.S. Department of Commerce

Asia includes Vietnam, People's Republic of China, Mongolia, North Korea, Japan, Afghanistan, India, Pakistan, Nepal, Bangladesh, Sri Lanka, Burma, Thailand, Laos, Cambodia, Malaysia, Singapore, Indonesia, Brunei, Philippines, Macao, Southern Asia (n.e.c.), Republic of Korea, Hong Kong, and Taiwan.

Of great importance is the rapid and continuing rise of the value of U.S. exports since 1968 to all regions. The Asia/Pacific has increased its total share over a twenty year period from about 17% in 1968 to 25% in 1987. Its share of manufactured goods rose in the same period from 13% to almost 23%.

3.6.4 Export Opportunities Compared to Promotion Activities

There appear to be a number of incongruities in the WGA state programs when compared to the size and nature of the market opportunities. Many factors determine the nature and scope of governors' missions, trade missions and shows, the number and locations of foreign offices and other export promotion activities.

Among these factors are external variables such as the size of the foreign markets, the ease or difficulty in entering those markets, the existence of new opportunities such as the Canadian Free Trade Agreement or of mixed opportunities and problems such as the Europe 1992 development.

Furthermore, internal state budget constraints and export composition and potential also affect promotion decisions.

Viewed individually, the programs of each of the states have generally concentrated on their most important markets. It is only now, when the seventeen western states are for the first time viewed as a composite that the incongruities appear. It is as if all the states were together in a leaking boat and very rationally each moved to plug the major leak, while none paid attention to the ten other leaks. The results are not optimal for the group.

Overseas Offices

Figure M: Western States Exports and Offices illustrates graphically the mis-match between them. It shows an apparent overabundance of offices in Taiwan, Japan, the UK, and Korea, with underrepresentation in the EC, Canada, Mexico, Singapore, the Netherlands and Hong Kong.

Office locations, of course, are determined by additional factors including sources of investment, difficulty of doing business, and of course the potential for future as opposed to historical factors.

Thus, the apparent surplus of offices in Japan and the UK can be justified by their dominant positions as suppliers of direct investment.

The WGA states have twenty-four offices in the East Asia region, and only four in Europe. And yet all of the East Asia region exceeds Europe by only some 19% as an export market for the western states. In manufactured products, the western exports to Europe actually exceed exports to East Asia by 39%. Western exports of transportation equipment, electrical and electronic manufactures, and instruments (which comprise 3 of the 9 major export categories) are greater to Europe than to East Asia. (See Table 3-1).

The WGA states have eleven separate offices in Japan - the world's most expensive locale. In Tokyo, an expatriate apartment, not luxurious by American standards, can cost \$5000 per month or more. Prime office space is in the range of \$150 to \$250 per square foot annually. Many of the states are reduced to the use of part time agents in order to minimize expenses. Sometimes this is not optimal. Certainly many of the expenses and functions of these eleven offices are needlessly duplicative, and have diminished impact because of their limited resources.

The WGA states have eight separate offices in Taiwan. This is more than in any other location than Tokyo, yet Taiwan is in the top five export markets for only two of the states. Strangely enough, these two, Alaska and Hawaii, are not among those with Taiwan offices. In contrast to Tokyo, office space is free in Taipei because of the intense desire of the Taiwan government to strengthen its ties with every segment of the United States. Yet office space, with the exception of Tokyo, is not a major cost component. It is potential accomplishments which should determine office locations.

The consequence of the office concentration in Taipei is relative neglect of other Asian markets. No WGA states have offices in Singapore, the Philippines, Malaysia, Indonesia, the Peoples Republic of China, India or Thailand. There are four offices in Korea and only one in Hong Kong.

There are no WGA states with offices in Canada, which is the top export market for seven of the states and is in the top five export markets for all 17 of the western states ! Canada accounts for more than 20% of the foreign-affiliate employment in eleven of the western states, and over 40% in Montana, North Dakota, and South Dakota. It is a major source of tourism for many of the western states.

Most U.S. export managers treat Canada as an extension of the U.S. market. But the Canadians do not view themselves that way. There are differences in the markets, and certainly in the sensibilities of the Canadians.

In contrast, the Canadian provinces of Ontario, Quebec, Alberta and British Columbia all have offices in the West.

Recent initiatives of the states of Washington, Montana, Minnesota and North Dakota with neighboring Canadian provinces may correct this gap.

There are no WGA offices in Germany, France, or the Netherlands, in spite of the importance of the EC as a market for western exports and the fact that if rated separately these countries would rank fourth, seventh, and eleventh as western export destinations.

Overseas Missions

Examination of trade mission and governors' mission patterns reveals similar distortions. Partial data from thirteen of the western states in Table 3-F: Overseas Missions and Shows, reveals that a total of 78 trips overseas were taken in 1988, of which about two thirds were for participation in trade shows. However, 64 of these were to Japan or other parts of Asia, compared to only 17 to Europe, and 7 to all other parts of the world, including North America.

Similarly, Figure N: Exports and Governors' Missions, shows an apparent surplus of trips to Japan, the UK, Korea, Taiwan, and China, with a corresponding under-representation in Canada, Mexico, Singapore, the Netherlands and Hong Kong.

3.7 Tourism

Tourism is not covered extensively in this report in spite of its economic and employment importance. The reason is simply that our focus is on exploring possible modes of increased regional cooperation, and the tourism professionals have already accomplished this to a large extent.

The major contribution which WGA can offer to its international tourism programs is to help advance their interests with advocacy in Washington and to expand capacity at home.

Foreign Tourism in The West

Tourism is recognized as a major source of revenue, employment and tax income in the western states. Table 3-L: Foreign Visitors' Spending Impact by State, was compiled by the U.S. Travel and Tourism Administration (USTTA). The data, from 1985/86 is

considered to be only a rough estimate, but it does indicate that some 125,000 jobs in the West are attributable to foreign visitors.

California with six million foreign visitors estimated for 1987, is the top U.S. destination for foreign tourists, although Arizona, Hawaii, Nevada and Washington are also over one million visitors each. However, other western states are seeing even faster growth as more foreign visitors make repeat trips to America and seek out new destinations. Among those states with foreign tourism growth exceeding the national average are ten of the western states: Alaska, Arizona, Colorado, Minnesota, Nevada, New Mexico, South Dakota, Utah, Washington and Wyoming.

Senator Pressler of South Dakota describes tourism as the state's second largest industry (after agriculture). Partly as a result of the "Old West Trail" promotion, it is claimed that foreign tourism in 1988 was up from 95 to 180% in South Dakota and Wyoming last year.

Visitors from Canada dominate foreign tourism in Alaska, Idaho, Minnesota, Montana, Nebraska, North Dakota, Oregon, South Dakota and Washington.

Mexican tourists are the most important for Arizona and New Mexico, and account for a quarter of California's foreign visitors.

Overseas tourists are the major contributor in California, Colorado, Hawaii, Nevada, Utah and Wyoming.

Western Regional Tourism Promotion

The western states are relatively well served by voluntary modular tourism promotion organizations. (It is this role model which we believe can be used as a basis for trade related cooperation among the western states). Regional cooperation is well advanced, in part because most foreign tourists make multi-state stops.

All of the western states except Hawaii and Minnesota are members of one or more of the regional tourism groups described below. Hawaii is a special case in that its reliance on tourism is so great that it maintains an extensive promotional program including separate tourism representation in Tokyo.

Nine of the states have responded to a survey aimed at determining their interest in further cooperative efforts. The consensus was that no further organizations were needed, and that perhaps WGA should focus its efforts in tourism on advocacy in Washington, D.C. or

capacity building at home. There was a strong feeling that the efforts of the USTTA were grossly inadequate, particularly in relation to the importance and the beneficial impacts of foreign tourism on the economies of the states, not to mention the balance of payments deficit. The Congress has not seen fit to adequately fund the USTTA, whose funding is also unnecessarily difficult to obtain by states. The Executive branch also needs further education on the economic benefits of tourism and the wisdom of promoting it overseas.

The survey gave first priority, in fact, to the need for additional tourism promotion trade missions. Five of the nine responding tourism directors ranked missions at a level of interest of ten out of ten, and only three were quite uninterested.

Increased Washington advocacy by WGA ranked second, with four ratings of ten and a median rating of nine.

In third place was greater joint participation in overseas tourism shows, with a median rating of seven.

Overseas offices and joint advertising were of relatively little interest.

Visit U.S. West

Visit U.S. West includes among its seven members a group of mainly contiguous though wide ranging states: Arizona, California, Idaho, Oregon, Washington and Nevada, plus Alaska. Their Board also includes representatives from cities which have independent tourism budgets. Its member states have expressed a high degree of satisfaction with the activities of the organization, which has recently established a secretariat based in San Francisco. Among their 1988/89 plans are a 40 page full color guide for world-wide distribution, an Asian trade mission, and an international tourism marketing seminar.

Visit U.S. West exemplifies the modular approach which is recommended for western state trade directors. It is a voluntary association, assesses its own dues (of \$5000 per state), has cities and tour operators as participants and has gradually expanded its joint and cooperative efforts.

Old West Trail Foundation

The Old West Trail Foundation has been operating for 25 years, and includes Montana, Nebraska, North Dakota, South Dakota, and

Wyoming. Its activities are financed by a public/private sector collaboration.

Foremost West

Foremost West includes New Mexico, Wyoming and Utah.

Centennial States Caucus

Centennial States Caucus includes Idaho, Montana, North Dakota, South Dakota, Washington, and Wyoming.

Other Regional Initiatives

There are a number of other cooperative activities, such as Montana, Wyoming and Utah cooperating in Japan tourism promotion of their major parks:

Nevada & Hawaii

Nevada is reported to rank first nationally in per-capita jobs created from tourism. Hawaii is almost equally involved. One third of all employment in Nevada is based on tourism, and some five percent of these can be attributed to foreign visitors. Nevada and Hawaii are also relatively unique in having their own tourism representative offices in Tokyo. The Executive Director of Nevada's Commission on Tourism nevertheless is quoted as considering "...perhaps the most significant effort has been our involvement with a seven-state cooperative marketing group. . ."

Foreign Tourism Nationally

At a May, 1988 hearing of the U.S. Senate Committee on Commerce, Science, and Transportation, Subcommittee on Foreign Commerce and Tourism, the following points were noted:

International visitors to the United States have been estimated to support over 300,000 jobs, to provide \$750 million in federal tax revenues and more than \$1.6 billion in state and local tax revenues. They were reported to have spent over \$19 billion in the U.S.

Surprisingly, the 1988 budget for the USTTA was only \$13.8 million. This compares to the International Trade Administration budget of almost \$200 million, mainly to promote exports of manufactured goods, and a further \$100 million spent by the Foreign Agricultural Service. Most of the tourism money was used in cooperative

advertising programs. It is reported that USTTA plans to devote an increasing emphasis on working with regional tourism promotion entities.

Foreign tourism to the U.S. has been increasing rapidly and is forecast to continue to do so. Arrivals were projected to rise to 29 million in 1988 and over 30 million in 1989, with export earnings to rise 11 percent this year, to \$22 billion.

State and local travel offices are also reported to spend only a small portion of their budgets on the international market. The USTTA estimates that state travel offices spent \$6.8 million, or 2.4 % of their budget of \$283 million on international promotions.

3.8 Foreign Direct Investment

Foreign direct investment (FDI) refers to the direct investment in U.S. companies by foreign entities and usually implies some measure of control, as opposed to purchase of small quantities of shares of publicly traded companies for investment purposes. FDI is also frequently referred to as reverse investment or inward investment.

It is not easy to determine where investment ends and control begins so that data on FDI is often fuzzy. The situation is not helped by the fact that the U.S. Government defines the investees as "U.S. affiliates of foreign direct investment" and counts all U.S. companies with 10% or more of their shares owned by one foreign entity. A tighter definition, of say 25% or 50% would probably reduce significantly the volume of FDI.

Directions and trends of FDI are also fuzzy since reporting requirements are not rigorous, and the use of intermediaries disguises the national identities of many of the buyers.

Until the last few years, FDI was universally sought and considered to be an unmixed blessing. Recently, however, as local headquarters companies with a high sense of civic responsibility become subsidiaries of remote owners or as property values are driven up by foreign buyers, FDI is being questioned. One by-product is that the overseas offices of the states, which five years ago were almost exclusively devoted to seeking FDI, are now often devoting half their energy to export development instead.

Evaluating the realities of FDI data and of the benefits and costs thereof is beyond the scope of this project, though worthy of serious

Table 3-K: Foreign Tourists by State

1987 Estimates
(Thousands)

STATE VISITED	RESIDENCE			Total
	Canada	Mexico(1)	Overseas	
ALASKA	71	*	40	111
ARIZONA	184	921**	877	1982
CALIFORNIA	793	1515**	3884	6192
COLORADO	77	20	359	456
HAWAII	312	*	1886	2203
IDAHO	169	*	30	199
MINNESOTA	409	*	315	727
MONTANA	512	*	33	545
NEBRASKA	35	*	33	69
NEVADA	475	21	771	1267
NEW MEXICO	33	175**	119	327
NORTH DAKOTA	465	*	*	469
OREGON	342	*	170	514
SOUTH DAKOTA	93	*	32	125
UTAH	104	*	318	425
WASHINGTON	1658	*	441	2103
WYOMING	72	*	198	270
TOTAL WEST	5804	41	9506	17984
TOTAL U.S.	12418	6705	10534	29657

SOURCE: U.S. Travel and Tourism Administration, based on data from the Immigration and Naturalization, Statistics Canada, and the Bank of Mexico.

(1) Reflects new estimates on Mexican visitors spending at least one night in the U.S.

*Not provided due to high sampling variability.

**Data for Arizona, California and New Mexico are not comparable to 1986.

Table 3-L: Foreign Visitors Spending Impact By State

1985-86 Annual Average*

States	Expenditures (\$ millions)	Payroll (\$ millions)	Employment (jobs)	Taxes (\$ millions)
ALASKA	21.6	5.5	400	2
ARIZONA	335.9	69.4	7,100	34
CALIFORNIA	3,215.2	730.7	59,700	363
COLORADO	132.6	30.9	3,000	16
HAWAII	1,504.2	343.1	28,600	159
IDAHO	24.3	5.2	700	3
MINNESOTA	142.4	31.8	3,500	19
MONTANA	39.8	9.3	1,300	3
NEBRASKA	19.6	4.2	500	3
NEVADA	323.7	87.0	6,900	31
NEW MEXICO	69.8	12.9	1,500	8
NORTH DAKOTA	29.2	6.2	1,000	3
OREGON	101.9	23.1	2,500	9
SOUTH DAKOTA	15.5	3.0	500	2
UTAH	38.9	9.1	1,000	5
WASHINGTON	257.5	60.9	6,200	32
WYOMING	8.4	1.8	300	1
TOTAL WEST	\$6,280.5	\$1,434.1	124,700	693
TOTAL U.S.	\$15,334.7	\$3,527.1	319,000	\$1,776
WEST AS A PERCENTAGE OF TOTAL U.S.	41%	41%	39%	39%

* Does not include expenditures in U.S. Territories.

Note: Details may not add to totals due to rounding.

SOURCE: U.S. Travel and Tourism Administration.

consideration. It is nevertheless worthwhile to examine the apparent size of this phenomenon in the West and the probable implications.

Figure L: Employment Growth in U.S. Affiliates of Foreign Firms uses U.S. government data and definitions. We have selected employment as a more useful indicator than value or number of investments. It is clear that employment has increased steadily over the past decade, that the almost 300,000 jobs in European-owned companies as of 1986 exceeds the sum of jobs from the rest of the world, and is more than three times that from Japan.

These numbers are deceptive because many of the jobs existed before the foreign takeover and do not necessarily represent an increase. Also, Japanese companies have been more prone to start new companies with new hires than to follow the acquisition route favored by British firms. On the other hand, the net gain in Japanese employment in the U.S. comes to a certain extent at the expense of job losses in American companies.

Figure K: Employment in Affiliates of Foreign Firms, West and USA indicates that there are regional differences. Overall U.S. and western employment is dominated by European investors, with over 60% of total and over 50% of western jobs. However, Japan's share is increasing, particularly in the West.

Table 3-M: Employment in Affiliates of Foreign Firms, By State, reveals the patterns in each of the WGA states in 1986.

It mirrors the total US experience in that Europe is the dominant employer for the West as a whole and in fourteen of the WGA states.

It also indicates that Canada is equal to Japan as a western employer.

In view of the finding that western state officials find regional cooperation in investment promotion to be the least attractive of the options for joint activities, further analysis is not offered.

3.9 Agriculture

Food, crop, and wood products account for some 15% of the West's exports. As such, these categories deserve serious attention, and we have in fact gathered much information on the efforts of the states to assist their exporters, especially of crop products.

It has been decided, however, to omit this sector from detailed analysis, because, like tourism, it is already very well organized in a variety of regional cooperation modes.

**Figure K: Employment in Affiliates of Foreign Firms,
West and U.S.**

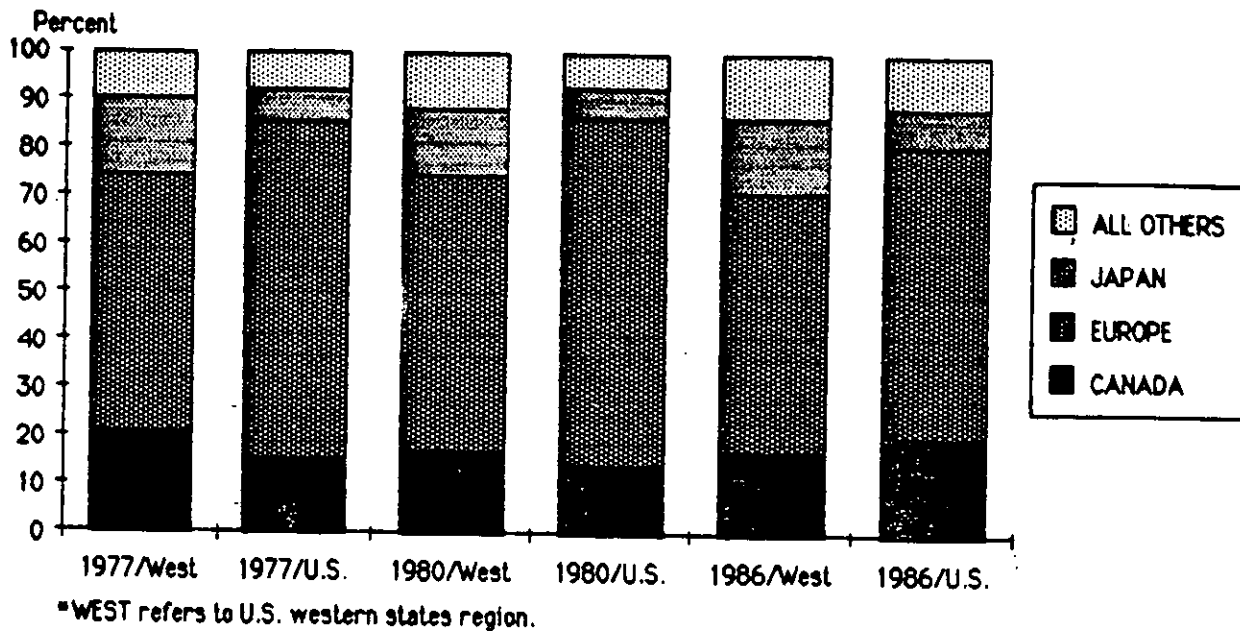


Figure L: Employment Growth in U.S. Affiliates of Foreign Firms

(NUMBER OF EMPLOYEES IN U.S. AFFILIATES* WITH FOREIGN DIRECT INVESTMENT IN WESTERN STATES: 1977, 1980 AND 1986)

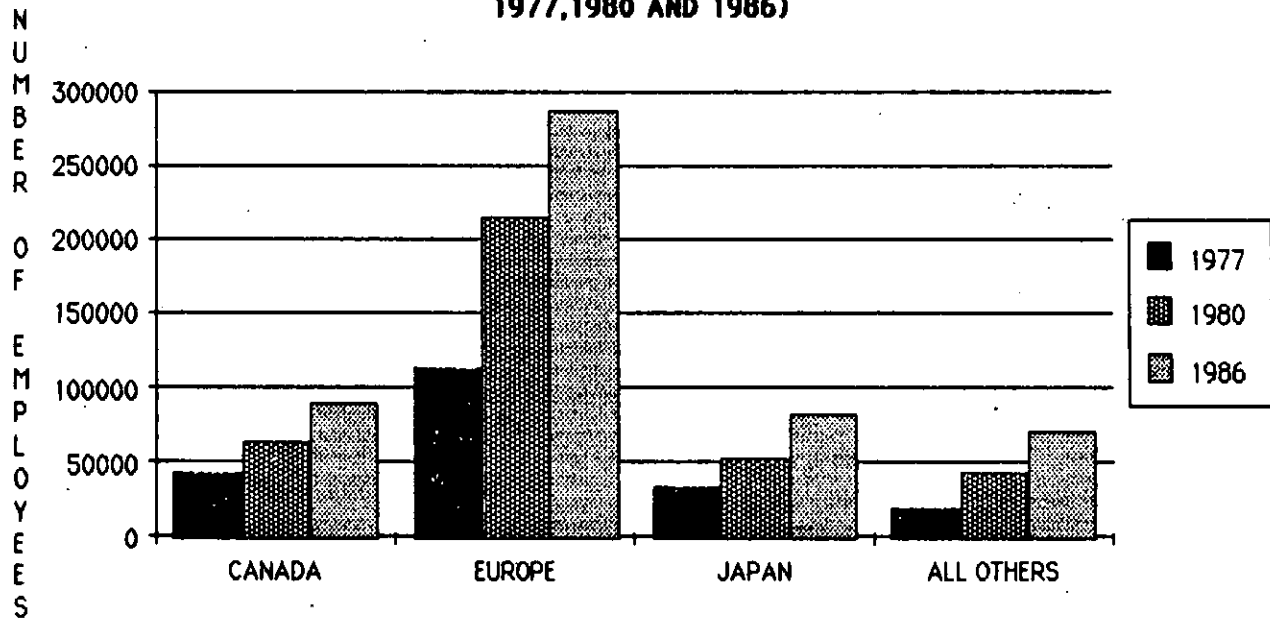


Table 3-M: Employment In Affiliates Of Foreign Firms By State

EMPLOYMENT GENERATED BY U.S. AFFILIATES* WITH FOREIGN DIRECT INVESTMENT BY STATE AND COUNTRY OF ULTIMATE BENEFICIAL OWNER (NUMBER OF EMPLOYEES)**

	1986			
	CANADA	EUROPE	JAPAN	ALL OTHERS
AK	914	2100	2361	1096
AZ	10035	19973	689	5036
CA	33907	149629	60044	40916
CO	7103	20976	1231	3235
ID	916	1593	18	545
HI	700	1085	11420	5646
MN	12538	33145	1018	1281
MT	1265	959	(D)	817
ND	960	1007	6	658
NE	751	4819	141	504
NM	880	8126	61	1554
NY	2079	5675	(D)	998
OR	4163	10521	1784	1004
SD	641	788	15	69
UT	0	7368	91	4171
WA	12156	17188	4123	3091
WY	759	1713	(D)	420
TOTAL	89767	286665	83002	71041

* A U.S. affiliate is a U.S. business enterprise in which there is foreign direct investment—that is, in which a single foreign person owns or controls, directly or indirectly, 10 percent or more of the voting securities of an incorporated business enterprise or an equivalent interest in an unincorporated business enterprise.

** An ultimate beneficial owner (UBO) is that person, proceeding up a U.S. affiliate's ownership chain, beginning with and including the foreign parent, that is not owned more than 50 percent by another person.

(D) refers to data which has been suppressed to avoid disclosure of data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, compiled by WGA.

For example, the Western United States Agricultural Trade Association, based in Vancouver, Washington, includes eleven of the western states and American Samoa among its members. The other western states have similar affiliations.

Other entities such as the Oregon-Washington-California Pear Board do cooperative marketing.

4. WHAT SOME OTHER STATES DO

4.1 Regional Cooperation

There are few examples of regional cooperation in export or investment promotion among either the western states or others. Cooperation in tourism, and in agricultural exports have, in contrast, been extensive and successful.

In proposing cooperative models in the trade field, we recognize that the precedents are limited. The recommendations to proceed are based on:

- The clearly increasing need for cooperation, as trade becomes relatively more important and more expensive for each state.
- The hope that the tourism and agricultural role models will be valid for trade cooperation, governors' missions, and other initiatives.

Some Examples

The New England Governors and Eastern Canadian Premiers have been meeting since 1972. Much of their work has been focused on the environment, but trade issues are also addressed.

The Southern Growth Policies Board has met since 1973. Its states and territories include Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Virginia and Puerto Rico. A unique feature is the participation of legislators as well as private sector representatives on the Board of Governors. Their 1989 annual meeting, the New Southern Export Markets, focused on Soviet and other emerging markets.

The Council of Great Lakes Governors was founded in 1983 by the governors of Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin. Like the WGA, it has recently expanded and now includes New York and Pennsylvania. During a joint governors' mission to Canada in May, they announced a precedent-breaking liaison office to be based in the U.S. and Foreign Commercial Services office at the U.S. Consulate in Toronto. Its focus will be trade and the environment but education, tourism, and seeking U.S. joint venture partners are included in the mandate.

The Mid-South Trade Council has, since 1983, fostered regional trade promotion activities for Alabama, Arkansas, Kentucky, Louisiana, Tennessee, and the New Orleans World Trade Center. In the past two years, an Asian trade mission and a New Orleans economic conference were included in their activities.

The governors of Arkansas, Louisiana and Mississippi have formed an agreement to cooperate on economic development and international trade. In September, 1988, the three governors undertook a joint trip to Japan to promote both trade and investment.

The National Governors Association has focused on international matters for the past year and will organize a governors' mission to Europe in July.

Washington and British Columbia formed a unique bilateral association in January when they agreed to launch joint tourism and business promotions. Joint promotion is to be targeted at computer software, medical technology, plastics, and other technological areas.

The U.S.-Mexico Border Governors' Conference and their representatives meet regularly to discuss issues of common concern such as industrial development, health, environment, ports of entry and transportation.

To the best of our knowledge, none of these programs, with the possible exception of the Great Lakes proposal for a joint Toronto office, have the scope and audacity of the action plans in this report.

4.2 Some Innovative State Programs

Though not involving regional cooperation, there are some unusual international state programs which deserve notice since they may spark either individual or joint activities among the western states.

Unusual Locations

Illinois has been a maverick for a number of years with its trade office in Sao Paulo, Brazil - the only state office in South America. In April, Illinois became the first state to open a trade facility in the Soviet Union.

Ohio has an office in Nigeria which covers West and North Africa. They claim it has been highly successful in promoting such products as farm machinery. Michigan is also there and reports successful sales.

Unusual Programs

Delaware has established a shared foreign sales corporation which is open to companies from other states. The first one was established by them in Barbados in February, 1988, and within a few months had participant companies from Connecticut, Illinois, Kentucky, Minnesota, Pennsylvania and Texas. The focus on international trade has paid off for Delaware which leads the country in exports per resident.

Minnesota has an extensive network of overseas representation provided by the donation of facilities and part-time services from civic minded private companies.

New York State, Delaware, and others have state-operated or supported export trading companies to assist smaller exporters.

The states of Arizona, Colorado, Utah, and Wyoming are currently planning a joint mining equipment trade mission to Mexico and Chile. We believe this initiative was facilitated by WGA-sponsored meetings of the trade directors.

5. REGIONAL COOPERATION; THE RATIONALE

Regional cooperation is not an end in itself. Representing as it does an additional layer of governmental activity, it requires justification before it should be considered for implementation. The activities of the Western Governors' Association, and of the governors themselves as they find common cause on various subjects, have demonstrated the value of specific regional cooperations.

The rationale for regional cooperation on international trade, investment and tourism is based on the facts developed in Section 3 of this report. To recap briefly,

The western states are spending over \$20 million annually on international projects. Among the benefits were \$63 billion in exports from these states in 1987 and \$79 billion in 1988.

Regional cooperation is generally negligible in trade, investment and missions.

As a result, programs which are rational when viewed state by state are seen to be irrational or ineffective from a regional viewpoint.

More overseas offices could be made available at lower cost if some were shared. A more rational global distribution of offices would also result. (See Figure M: Western States Exports and Offices)

More trade missions could be accomplished more economically if arrangements were made jointly. (See Figure N: Western States Exports and Governors' Missions)

U.S. embassies, foreign government and industry targets, and the overseas general and trade press would be more receptive if six western governors did not appear separately in the same month in Japan.

The goal of regional cooperation in international matters is to create quality employment and beneficial economic activity in a more effective and less costly manner than can be accomplished by states acting independently. We believe this can be accomplished.

Figure M: Western States Exports And Offices

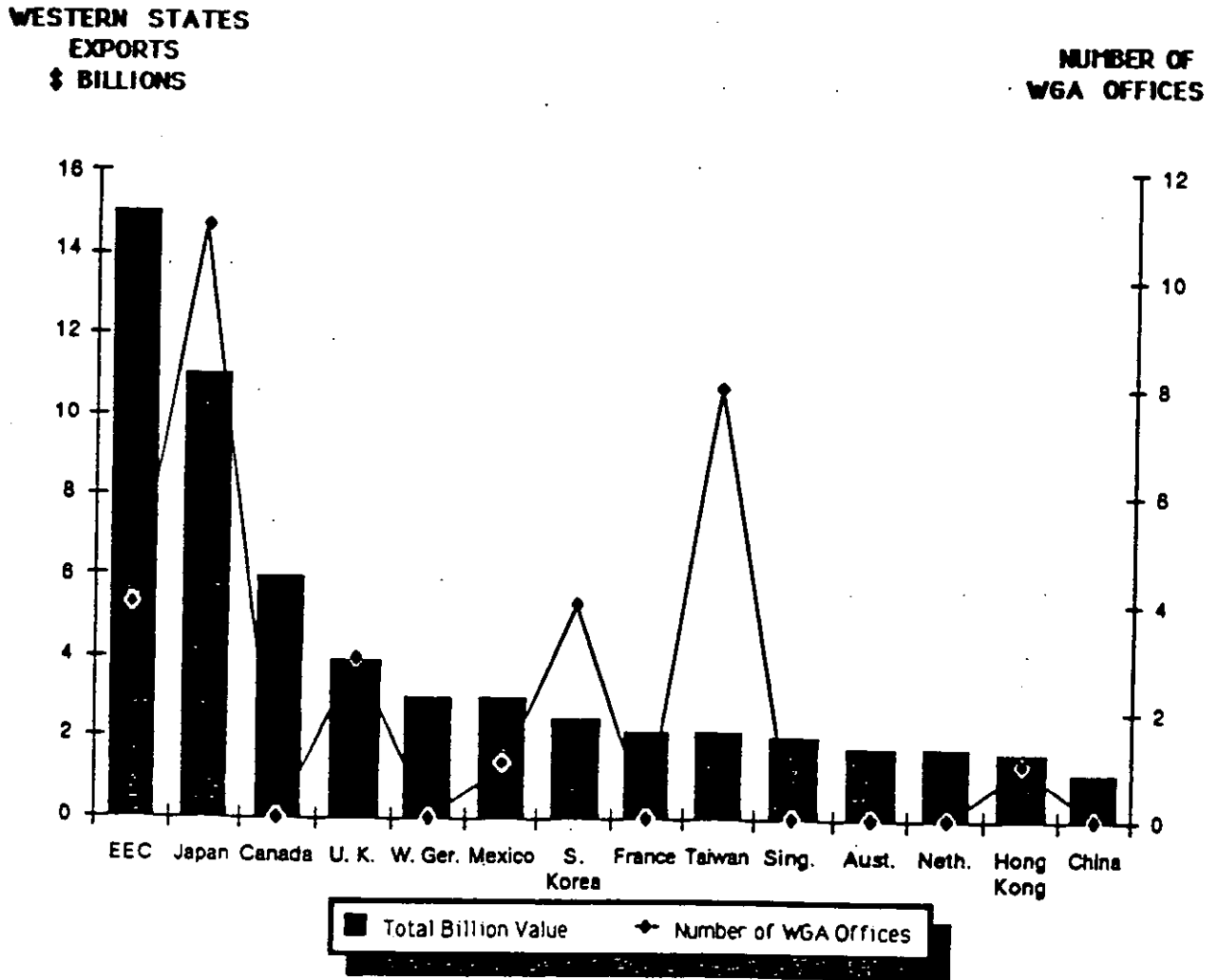
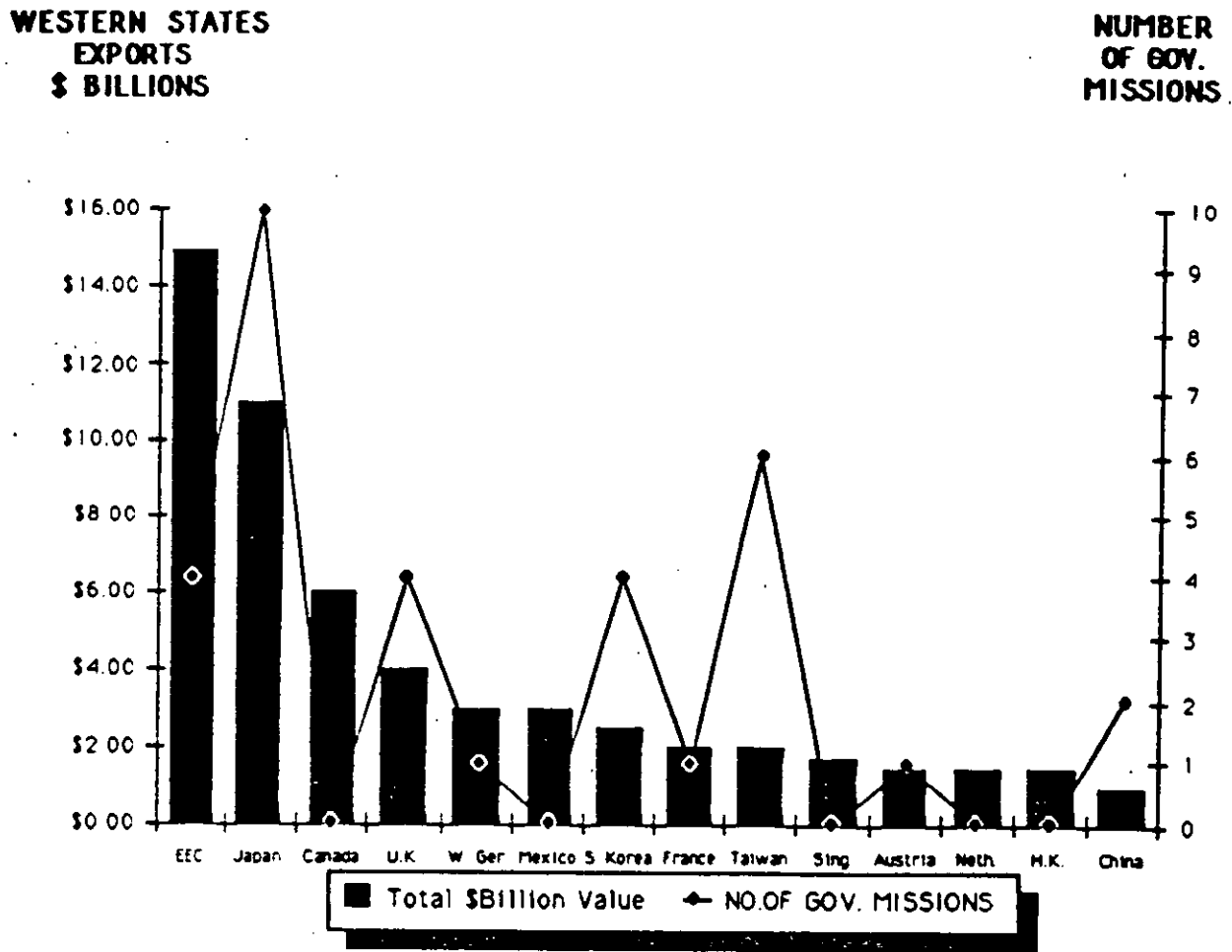


Figure N: Western States Exports And Governor's Missions



Why Regional Cooperation ?

There are compelling reasons for the western governors to facilitate regional collaboration on missions. These include:

- To reduce duplication of effort.
- To achieve critical mass for greater effectiveness.
- To achieve economies of scale and greater cost-effectiveness.
- To enhance state programs through networking and information exchange.
- To re-empower federal programs when this is the most rational allocation of resources.

Why Should Governors Participate ?

The direct participation of a governor is a vital element in the international programs of a state. Without the leadership and encouragement of the governor, no state program can reach full effectiveness. In almost every state with an effective international program, the governor plays a leading role. From Tennessee to New York; From Illinois to North Carolina, as well as in the western states, this correlation exists.

5.1 To Reduce Duplication of Effort.

Every state office overseas has certain functions which are unique to the state. These include the provision to host country entities of information about the state as an investment location, of information about tourist attractions in the state, and of trade source information unique to the state.

However, each state office repeats and duplicates many of the functions performed by the other states in the same country. These duplications clearly include the collection and maintenance of information about the distribution channels, marketing customs,

information sources, government regulations and other data on the host country. They also include expenditures on advertising, office equipment and space, show participations, publications, local travel, entertainment, and particularly on personnel.

The degree to which these duplications can be eliminated without disproportionate loss of effectiveness can only be determined by the states themselves. As an example of the types of possible savings, Table 5-A: Tokyo Office Consolidation, presents a very theoretical example.

Similarly, every overseas trade mission involves extensive advance preparation, ranging from the arrangement of display, exhibition and hospitality space to the identification of, invitations to, and contact with prospects for business. Mailings, advertisements, purchase of lists, and payment of facilities are all directly susceptible to shared expense patterns.

5.2 To Achieve Critical Mass for Greater Effectiveness

Frankly, the prospect of meeting a delegation from a smaller state is often of less than compelling interest to the foreign government and business leaders who are the targets of the delegation. It is not simply a matter of saving money on a joint mission. It may well be the only way to put together a delegation of sufficient impact to attract the attention of the intended targets.

Even California may not be able to draw enough companies from a narrow industry segment to achieve its goals. Five California makers of specialized medical equipment might well meet ten times the potential customers if joined on a trip by ten others from other western states.

And even the most obliging prime minister or secretary of industry may not find it possible to receive all of the governors who pass through his capital in a year.

5.3 To Achieve Economies of Scale and Greater Cost-Effectiveness

The economics of collaboration do not result simply from the elimination or reduction of duplications. Purchasing five copies of a multi-client \$7500 market research report often costs only \$2000 or less per copy.

Some top level executives might not be available at all at the \$60,000 which a single state could afford for an office director in Frankfurt, while five states could share a senior managing director from a major corporation for \$25,000 each, and gain greatly increased experience, ability and clout.

A group of governors together could place a full page advertisement in a local publication if there were a trade position to be filled, while individually each state would pay much more for far less impact.

5.4 To Enhance State Programs Through Networking and Information Exchange

One of the most valuable results of this project has already been achieved. Trade directors of the western states have had several opportunities to meet with each other, together with the WGA staff and the Scholar-in-Residence. The resulting exchange of information has been gratifying to the participants. Probably their major benefit came from each other, and the sharing of wisdom and experience.

There is scope to multiply these benefits tenfold at little cost.

5.5 To Re-empower Federal Programs When This is the Most Rational Allocation of Resources.

Underlying all of the programs proposed for greater regional cooperation is the certain knowledge that a number of the proposed programs, though not all, could be more effectively performed at a federal level. The regional programs are made necessary, in part, because of the significant decline, in real dollars, of the federal programs in export promotion.

There is need for WGA to increase its advocacy in Washington in favor of the federal programs which deserve support. In the interim, greater regional cooperation is even more urgent than it would otherwise be.

6. REGIONAL COOPERATION: RECOMMENDED MODES

It is our thesis that the need for regional cooperation among the seventeen WGA states has been clearly demonstrated, and that cooperation offers significant advantages in enhanced effectiveness, reduced costs, expanded areas of activity, and greater exchange of information and know-how among the participants.

This section demonstrates that such regional cooperation is in fact feasible, in spite of the fact that there have been few effective examples to date.

It is our intent to propose institutional initiatives with ongoing impact, and not merely specific WGA events.

Three modes of regional cooperation are proposed.

WGA Institutional Activities

A limited number of WGA operated activities of an ongoing nature, which will require budget allocations and staff.

These activities include the following Action Recommendations:

- A. Install a Western Governors presence in Brussels at the EC.
- B. Enhance WGA international advocacy for trade and tourism in Washington.
- C. Facilitate Joint Governors' trips to Europe and/or Canada.

Modular Activities

Modular activities would involve different voluntary groupings of western states. WGA could function initially as a catalyst and facilitator of modular activities, and subsequently as a coordinator only if requested to do so.

These activities include the following Action Recommendations:

- D. Implement Joint Trade Offices Overseas
- E. Establish a Shared Foreign Sales Corporation to assist smaller exporters.
- F. Establish a Joint Export Finance Service.

An Ancillary Activity

The trade directors of the western states have demonstrated their interest in and need for an ongoing mechanism for cooperation and exchange of information. WGA can help to launch this activity, after which it may function either as an adjunct of WGA or in an independent mode.

- G. Initiate a Western Trade Directors' Council

6.1 WGA Institutional Activities

Three actions are proposed which require enhanced activity from the WGA staff. One is in Europe, one in Denver, and one in Washington, D.C. Though some emphasis is placed on modular activities of discrete clusters of states operating together, there are certain instances where only a WGA activity makes sense.

The European presence, for example, is a whole new function, focused on policy matters, information collection and distribution, and the facilitation of contacts for all of the western governors. As such, it is a proper WGA function.

The Denver and Washington activities, in contrast, are simply enhancements and institutionalization of existing WGA activities. In Denver, it would be desirable to serve as the clearing house and secretariat for helping the western states to coordinate their various international promotional activities. Until such time as the Trade Directors' Council could take over the responsibility for trade activity coordination, this function could best be performed in Denver.

WGA's Washington representative should select relevant information from U.S. government and foreign diplomatic sources to make available to the states, and should effectively communicate to

appropriate Washington authorities the advocacy positions from the states which relate to international matters.

6.2 The Modular Approach

The seventeen western states are incredibly diverse, by almost any measure. In size, they range from the most populous state, California, with 27 million people to Wyoming with just over a half million. In location, they stretch from the islands of Hawaii to the Great Lakes of Minnesota, and from arctic Alaska to sub-tropical Arizona. They are agricultural states, industrial states, technology states, and natural wonder states.

Why then should they cooperate on anything like international trade, tourism and investment ? And how can they possibly do so ? The preceding Section 5 indicates why they should cooperate. Here are some feasible ways to do so.

The key to resolving the strong imperative to cooperate, with the equally strong diversity of interests and needs of the seventeen states, is to avoid forcing all of the states into a single mold, and to avoid delaying action programs until all of the states have ratified them. The solution is a series of modular programs, with the means to facilitate them.

A few of the most interesting modular programs are outlined in this report. State participants will devise many others. The governors can make implementation possible. The key is: whenever two or more states believe they have something to gain from a collaborative effort, it should be made easy for them to initiate contact with each other and with other interested states, and they should then form their own independent entity to achieve their mutual goals.

This cooperation has not occurred before now, because, in the first place, the extent of the overlap and duplication of state activities has not been recognized and the resultant skewing of effort has not been visible. Secondly, specific modes or arenas for cooperation have not heretofore been identified and brought to the attention of the relevant state officers. Third, there has been no active forum in which the trade directors or the investment directors of the states have been able to meet to exchange experiences and to explore ways to cooperate. Fourth and finally, there has been no mechanism for facilitating and implementing promising initiatives.

This project has, in large measure, resolved the first difficulty - lack of awareness of the problem, by demonstrating the overlaps and skewing in over-concentration of offices and missions and the less than optimal location of Asian , European and North American offices.

The second difficulty - the lack of clear areas for cooperation, has been addressed here by highlighting feasible action programs.

The third problem - the lack of a forum, can be rectified by the proposed Trade Directors' Council.

The fourth - a facilitation mechanism, will be accomplished by the inauguration of a WGA facilitation and coordination function.

A modular system might work in the following sequence of steps, for example: to launch a joint Tokyo trade office:

1. The Western Governors, as a group, endorse the concept.
2. The WGA Coordinator, in Denver, prepares a project memorandum which is circulated to the seventeen state trade directors. This memorandum outlines the concept of combining some Tokyo office functions and invites those interested from among the eleven states which have existing Tokyo representation, and the six who do not, to join in a task force to explore means of collaboration.
3. The WGA Coordinator prepares background information on the various Japanese activities of the participants, an outline of possible actions, and a meeting agenda.
4. An initial conference is held at which degrees of interest and modes of cooperation are ascertained. The attending trade directors select a chairperson or task force leader.
5. At this point, there could be various outcomes:
 - A. There may be no agreement on action.
 - B. All those attending may agree on an action plan or on further information to be gathered.

- C. More probably, a sub-group of three or four states may decide to vigorously explore an office consolidation, and to form a sub task force to pursue this. Possibly Colorado, Montana, North Dakota, and Utah, all of which have contract representatives in Tokyo will agree to jointly evaluate each other's Japan trade activities to seek greater effectiveness. Perhaps Alaska, Hawaii, and Minnesota, which all have employees in Japan, will form a separate alliance to explore joint advertising or receptions. Perhaps California will volunteer some services for a fee.

The principle should be that any group which wishes to work together may draw up its own rules, with assistance from the WGA Coordinator if requested.

The role of WGA as an organization would be limited to acting as a catalyst and to initial facilitation, and would end once the task force was launched. WGA would, however, become a cross-pollinator and experience repository to the extent desired.

Once a task force is established and operating, it would retain control of its own destiny, with the right to accept or reject the subsequent participation of other states and of course with the right of states to withdraw.

Table 6-A: Trade Directors' Interest In Joint Activities

STATE	ADVOCACY	OVERSEAS OFFICES	TRADE MISSIONS	TOURISM	TRADE SHOWS	AG
AK	•			•		
AZ	•	•		•	•	
CA	•				•	
CO		•			•	
HI	•	•		•		
ID	•		•	•	•	•
MN		•				
MT						
NE						
NV						
NM	•	•	•	•		
ND	•	•	•			
OR	•			•		
SD		•	•			
UT		•	•			
WA	•		•			
WY		•	•			
Total	9	9	7	6	5	1

7. ANALYSIS OF PROPOSED ACTION PLANS

The preceding sections of this report have outlined what the western states do now in their international programs, what some other states have found to be effective, the general rationale for regional cooperation, the two recommended modes of operation for achieving regional cooperation, and a number of specific high-priority action recommendations.

Each of these action recommendations has been selected because we believe it to be highly advantageous, quite practical operationally, cost-effective for the states, and feasible to achieve. However, these are not the only actions possible, nor are these necessarily the highest priorities for any one state or group of states.

In this Section 7, each of the action plans is described and analyzed so that governors and their staffs can form their own evaluations and priorities.

7.1 WGA INSTITUTIONAL ACTIVITIES

7.1.1 Install a Western Governors presence in Brussels at the EC.

The combination of the imminent arrival of "The Single European Market" in 1992 and the current GATT negotiations presents both opportunities and potential obstacles to the trade efforts of the western states.

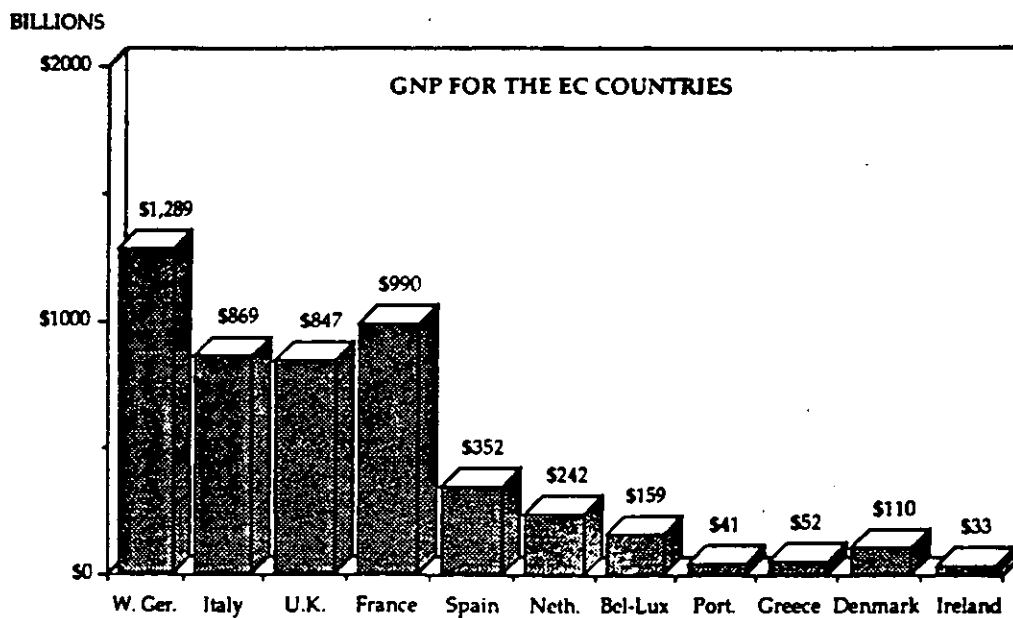
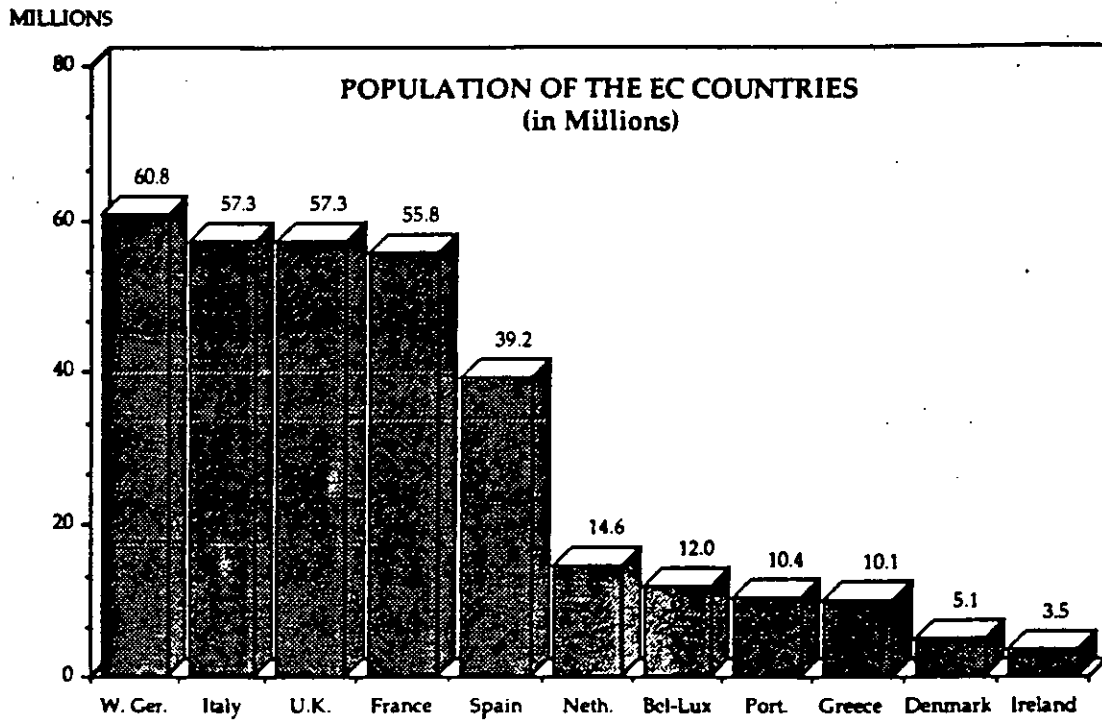
Background on Europe

Figure O: The European Economic Community, shows the population, and the GNP for the member countries of the EC. With a population of 325 million people, and a combined GNP of nearly \$5 trillion, the EC merits more serious attention than it has been receiving from the western states.

This Figure was taken from *Europe: 1992, A Guidebook*, issued by the California State World Trade Commission and the California European Trade and Investment Office. The Guidebook also noted that " . . . 81% believed that Europe: 1992 will increase competition. . . "

Figure O: The European Economic Community

The chart below shows there are some 325 million consumers that constitute the single market.



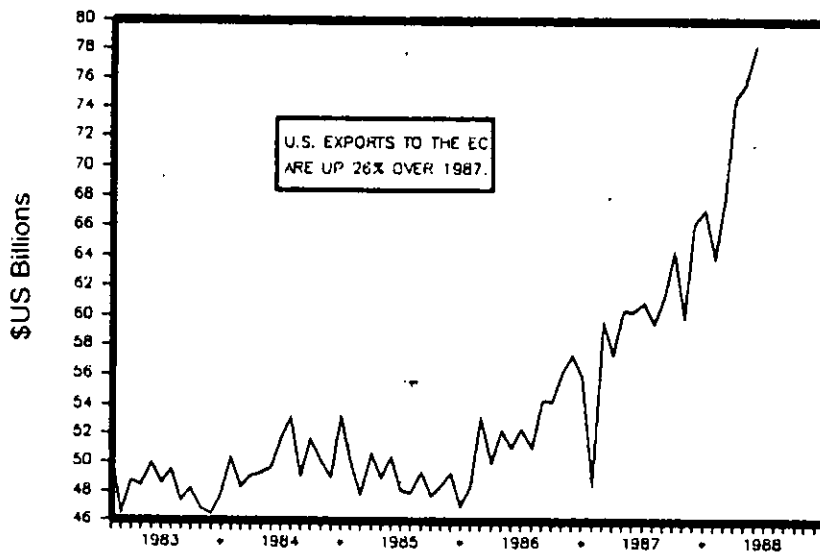
Source: Economist, Economy 1989; and KPMG Peat Marwick

The chart above shows that the GNP for the EC is nearly \$5 trillion.

Figure P: U.S. Exports to the EC, Monthly

U.S. EXPORTS TO THE EC GROWING RAPIDLY

(Seasonally Adjusted Monthly Data at Annual Rates)



Source: Business America, U.S. Department of Commerce

while ". . .72% viewed 1992 as an opportunity for expanding their business." These numbers reinforce both the probable high level of opportunity, and the equally impressive status of competition in the EC.

The Guidebook further indicates that ". . .64% of the executives are . . .pursuing association with non-EC companies." and ". . .63% intend to expand . . . outside the EC." Thus, western firms face not only opportunity in Europe, but competitive threats at home.

Western exports to the EC are much more significant than is generally appreciated in the West. The exact ratios depend on the definition of which countries are included in Europe (EC only, or all Europe) and in Asia (East Asia only, or South and East Asia, or Australia). If, however, the EC is compared to East Asia, comprised of Korea, Japan, Taiwan, China and Hong Kong, then in 1987, the West's exports of manufactured products to Europe exceeded those to East Asia by over 25%. The U.S. Census Bureau reports that total U.S. exports to Western Europe in 1987 were 28% of the total while 21% went to East Asia, and another 5% to 18 additional countries in South and Southeast Asia.

It is also important to note that U.S. exports to Europe have been growing rapidly for over three years. Figure P: U.S. Exports to the EC, shows the total to have almost doubled in that period.

Recap of Western States Activities in Europe

As has been illustrated in Section 3, California, Minnesota and Washington have offices in London. Minnesota also has one office in Brussels and honorary agents in Sweden and Norway. California has announced a satellite office to be opened in Frankfurt.

Three western governors visited Europe in 1987.

Seventeen separate missions or trade show participations took place in Europe in 1988.

Altogether, considering the magnitude of opportunities in Europe and the structural changes taking place there, this is strikingly inadequate. It is true that the Pacific Rim is vital to the western states. This is no excuse to neglect the equally important "Atlantic Rim".

Why There Should Be a WGA Presence in Europe

Europe has been demonstrated to be of great importance to the western states: as a buyer of western exports, and as a source of investment and tourists. Western attention to Europe has been shown to be relatively weak. And European consciousness of the West is also sparse. That alone, however, does not justify the institution of a WGA office in Europe.

In addition, there is an ongoing process of change in Europe which climaxes, though it does not end, in 1992, and this change involves not only the 12 nation European Community, but the governments of the constituent countries, as well as the EC relationships with their East European and West European neighbors. There is at the same time, the very serious Uruguay round of GATT negotiations occurring in Geneva.

Many substantive issues are being raised, debated, legislated, and negotiated which will have direct and significant impacts on the western states. These include setting product standards, import rules of origin, tariff and non-tariff barriers, air carrier routes, fares and landing rights, taxation, and mergers and acquisitions.

Though much of the responsibility for influencing the course of these events, and for informing the interested state and local government agencies and the private sector firms, rests with the U.S. Government, yet we have learned that western interests are not always well served by a federal government establishment focused on Washington.

Similarly, much of the responsibility for events in Europe is properly the function of the private interests which will be affected. These include growers, food processors, manufacturers and service industries such as travel, banking, construction and insurance. These entities, particularly through their respective local and national trade associations, are already active in Europe and can be expected to become more so.

Nevertheless, a strong argument can be made that the western governors, and the states they represent, have a responsibility to be aware of the impending developments in Europe which will affect their economies and to reach this awareness in sufficient time and detail to be able to have an impact on those developments.

The appropriate nature and scope of the governors' response to European developments could include any or all of the following:

- Maintaining awareness within their respective state governments.
- Advising and notifying the appropriate private sector groups in their state.
- Formulating a WGA position on European and GATT issues.
- Contacting the U.S. government authorities in Washington, Brussels, and Geneva to promote and advocate the western views.
- Contacting European official bodies to advocate western positions and influence the course of events.
- Providing an information office which could respond to information inquiries from Europe.

What an Office Would Do

If these are appropriate responses for the western governors, then they can only be implemented if they are based on relevant and timely input of information from Europe. There is no shortage of information, announcements, publications, brochures and articles about Europe 1992 and the Uruguay round. The European Community alone has five different types of legislation and publishes three journals daily which log the formal proposals.

The emphasis must therefore be on selectivity. And the selectivity can only be exercised by someone with an extensive and deep knowledge of the needs and characteristics of the western states, and also with the capability to obtain, screen, comprehend and encapsulate the relevant topics, with clear portrayals of their significance and of possible steps to be taken.

For these reasons, the recommendation is made to install a WGA presence in Europe. Whether this office performs mainly "listening post" functions, or is also to be active in advocacy and flow of information to Europe, will be decided by the governors. The decision will determine the optimal form and structure of the WGA presence. It is clear, however, that this would be a Western Governors' Association office, performing collegial functions of a policy and

informational nature, rather than being devoted to specific and individual trade or investment projects.

The Office Format

The format of an office would be dependent on two major variables: the definition of goals and functions, and, of course, the budget:

One option would be to retain an independent contractor who, for a monthly fee, would perform services for WGA. There are a host of such consultants already in place in Brussels and Geneva. They range from major international consulting firms to independent American and European individuals who function as reporters, writers, editors, consultants, analysts and lobbyists. Use of an independent contractor could be less expensive and could draw on the existing and ongoing expertise of a well-staffed group with an already developed information infrastructure. This option might well be the least expensive.

A second option would be to recruit a small staff of WGA personnel. There are no doubt available, from present western states personnel or from the pool of contractors just mentioned, qualified individuals who could be hired by WGA. Though probably a more expensive alternative, the advantages of a fully dedicated staff are worthy of serious consideration, and even a \$300,000 operation would be just over \$17,000 per state. (We understand that the Council of Great Lakes Governors is prepared to commit \$75,000 per state for a joint office in Canada.)

An interesting option for a WGA office has just surfaced. The Council of Great Lakes Governors has announced plans to open a joint liaison office in Toronto, Canada. The location will be in the U.S. Consulate General with all of the resultant economies, plus the cachet of the endorsement of the U.S. government. We understand that the U.S. Departments of Commerce and State have endorsed this initiative, which was announced at the Great Lakes Governors May trip to Canada.

We urge a rapid investigation of the possibility of a WGA representative based in the Embassy of the United States to the European Community.

WGA Representative Functions

Prime Functions:

- Maintain full awareness of the information needs, economic, trade, investment and tourism concerns of the western states and of the focus of western interests in Europe, through liaison with WGA headquarters.
- Screen the mountains of EC information in order to abstract those items which will be significantly important to the western governors and their states.
- Forward relevant information from Europe to the WGA in Denver for transmittal to the western governors.
- Insure that western positions, as formulated by WGA, are conveyed to the appropriate American representatives in Brussels (US Ambassador to the EC), Geneva (U.S. Trade Representative to GATT), and Washington, D.C.
- Liaison with individual western state offices in Europe.

Possible Optional Functions

- Insure that western positions and concerns are conveyed to appropriate European entities (The European Commission, Parliament, Council of Ministers, and member states as well as non-member European states).

This function requires careful scrutiny since it may impinge on the responsibilities reserved to the Federal government. On the other hand, the 1988 publication entitled "The GATT and The Uruguay Round of Multilateral Trade Negotiations: A Guide for California Business", which was jointly produced by the private sector California Council for International Trade and the California World Trade Commission, has been beneficially distributed in Geneva with the approbation of the USTR.

- Assist western governors and their officers in liaison with and visits to European and GATT officials.

This function also deserves careful evaluation since it could swamp a European office. Perhaps it should be limited to official WGA sponsored and organized visits to

Europe for which an important and functional role could be played.

- Serve as an information office to provide European inquirers with information about the policy positions of the West and to direct them to further information sources for information about the western states. This function could be limited to the distribution of literature and publications from WGA or the states, but could include publications focused on and reflecting understanding of and sensitivity to the Europeans.

Furthermore, an active speaking program would serve to dramatically increase awareness of the West. As an illustration, Barbara Jacob, the newly appointed representative of the EC in San Francisco has been in constant demand as a speaker for the past six months. She has contributed greatly to the awareness of the EC in the locations where she has spoken.

- Offer trade assistance to western exporters. This export assistance function could be a further justification for the cost of a Brussels office, but it is not recommended because we believe such activities could swamp all of the other functions, and still be inadequate to service companies from seventeen states. Many states with offices in Europe already would not wish to participate. Instead, it is suggested that a "modular" joint trade office should be established elsewhere in Europe if a small group of states wish to do so. (It is also our belief that Brussels is not the optimal European location for an export promotion office).

Annual Costs:

Depending on the structure adopted, the annual cost, including U.S. coordination, could range from \$100,000 to \$300,000 annually.

For a WGA person based at the U.S. Embassy to the EC:
\$75,000 to \$120,000 annually.

For a contract representative:
\$75,000 to \$125,000 annually.

For a two-person WGA office:
\$250,000 to \$300,000 annually.

First Step

The governors to select the functions to be performed by a WGA European office, and specifically whether it should be concerned with more than the flow of information from Europe.

Second Step

The governors to authorize WGA staff to prepare a business plan, position description, and budget to be submitted for approval. At the same time, it has been suggested that the Minnesota representatives now in Brussels could explore and report on the potential.

An Alternative Approach

In the event that all governors do not support the concept of a WGA presence at the European Community, it could be possible to proceed with a modular presence of a smaller number of states in Brussels. The disadvantages:

- Only a WGA presence is likely to be granted facilities at the U.S. Embassy.
- It is WGA as an entity whose voice will have impact with both U.S. and European officials.
- It is probable that a modular trade office will be established elsewhere in Europe by a smaller number of WGA states. See Section 7.2.1.

Sunset Clause

In either case, we recommend a sunset clause providing that the accomplishment should be revived as of December 31, 1992, and a determination made as to whether an ongoing WGA presence is desirable.

7.1.2 Enhance WGA international advocacy for trade & tourism in Washington.

Trade Promotion

There is a consensus among the western trade directors that the federal government has weakened its export promotion activities overseas and has even more damagingly cut back the trade

assistance functions of the domestic field offices. Many of the weakened functions have been assumed by individual states but many cannot be effectively assumed.

In September, 1988, the Inspector General's Office of the U.S. Department of Commerce submitted a report of a study conducted in response to an initiative of the Office of Management and Budget (OMB). OMB contends that the field offices of the Department of Commerce, whose mission is to assist companies to export, should be further cut back or closed entirely. The findings of the Inspector General explicitly opposed this contention, yet OMB is once again pursuing the closure goal.

The Inspector General found:

- "We did not find any other organizations that could serve as viable alternatives to the district offices for the purpose of promoting exports."
- "Without the district offices, some aspects of the current national export promotion effort would be lost."
- "Exports accounted for 5.6% of our GNP in 1987, or 14% of our produced goods."
- "It is estimated that 25,000 jobs are created for every one billion dollars in U.S. exports." (A minimum of 1.3 million jobs in the western states, and probably close to 2 million when services and unattributed exports are added in.)
- District office funding levels fell, from 1984 to 1987, from \$6.4 million per \$ 1 billion of exports, to \$4.8 million per \$1 billion.

The Inspector General's survey included three western states: California, Minnesota and Washington. It included interviews with state export development offices, non-profit corporations, private organizations active in export assistance, local chambers of commerce, and other federally sponsored organizations. In each of the three western states, as in the five other states, alternatives to the field offices were considered not workable by 70% to 90% of those interviewed.

There was also a conviction that the diversion of funds for export services from the beleaguered Department of Commerce field offices

to the Small Business Administration was a dilution of limited resources.

The importance of the western governors taking a firm stand on this issue is underlined by the severe attrition in the capabilities of those offices which serve western exporters, primarily small businesses.

Tourism Promotion

The western tourism directors also feel that their cause is not yet heeded adequately in Washington in so far as international tourism is concerned. The current USTTA budget of \$13.8 million is miniscule in comparison to those of other countries and in comparison to the foreign visitor expenditures in the U.S. of \$19 billion in 1987.

The cooperative advertising program of the USTTA, which uses most of the available funds, is very helpful, but inadequate facilities and supplies of literature overseas are reported to greatly hamper the program.

Other tourism needs which call for increased advocacy include greater availability of data already collected but not distributed by USTTA and focus on western needs in international air landing rights and schedules.

There is therefore a felt need for an expansion of the international elements of the WGA presence in Washington.

7.1.3 Facilitate governors' trips to Europe or to Canada

Governors' Missions Overseas

Among the important contributions a governor can make, overseas missions, with appropriate frequency, rank highly. The reasons are:

- A. The governor's trip emphasizes, within the state, the importance of a global outlook. It rallies support and participation from the business community.
- B. The governor can open doors overseas which otherwise remain closed. U.S. embassy personnel, foreign government officials, and heads of companies become more accessible.

- C. The mission receives greater publicity and press coverage in the overseas and domestic press when a governor is present.
- D. The governor becomes personally aware of both the opportunities and the difficulties of international trade, tourism and investment. Without this personal exposure, it is not possible for anyone to comprehend fully the immense and growing impact which developments around the world have on every community, large and small, in the western states.
- E. The governor and the private sector mission participants learn from each other about effective modes of public-private cooperation in developing international trade and investment.
- F. More private sector participants will be encouraged to join in the mission.

There are also arguments against overseas trips by governors. Too often, the governors are accused of boondoggles. These accusations are absurd to anyone who has participated in the ceaseless activity, demanding schedules, endless flights, continuous packing, unpacking, checking in and out, smiling at receptions, waiting at airports, and never-ending protocol of the typical trip. A more valid criticism is that trips are sometimes not to optimal destinations, or the planners are unable to define clearly and then to accomplish their objectives.

It is true that export sales are made by companies according to their capabilities, that inward investment is decided by rational foreign business leaders who base their decisions on competitive advantage, that tourists go where there is something that interests them. But governors facilitate all of these functions, draw attention to their states, and contribute to the feelings of welcome, stability, familiarity and efficiency that lead to economic participation in their states.

Should Governors Participate in Joint Missions ?

Reference to Table 3-E : Governors' Travel Abroad: 1987, argues strongly for regional cooperation in western governors' overseas travel.

First, there is skewing in the present trip distribution. Eleven western governors took eighteen trips to Asia, while equally important Europe was visited by only three governors in four trips. No western governors made official trips to Canada in 1987, though Canada is one of the top five markets for all of the western states. (There have been subsequent Canadian visits by western governors.)

Second, ten of the western governors went to Japan in 1987, on twelve trips. Six of those Japanese visits were in October, 1987. In that same month, nine governors from the other 33 states were also in Japan. See Figure A 1987 Governor's Missions: The View From Japan. This overlap and concentration of visits makes an effective trip almost impossible since the Japanese are totally saturated with visits from governors, and each individual trip suffers in consequence.

As noted earlier, the governors of North Dakota and South Dakota have successfully coordinated their missions to Japan this May, incorporating joint functions in their otherwise separate itineraries.

There is no way that busy US Embassy officials, Japanese government officials, Japanese business executives, or the Japanese trade and business press can be expected to cope with such a deluge of governors or to grant them adequate attention.

Regional cooperation and pooling of visits is thus a practical necessity and can be facilitated by WGA.

It can be argued that if the prime goal of a trip is to attract foreign investors to the state, it is foolish to share the contacts with a competitor state. And yet, if the state is relatively unknown in the target country; if the other governors in the mission have different advantages to offer and different liabilities; if four or five governors can draw five times as many potential investors to a seminar as one alone; if the costs of publicizing the visit overseas, drawing up contact prospect lists, hiring publicists, placing ads, and mailing invitations can all be shared; then is that not worth the risk of possibly losing an investor to a neighbor state? Especially if your state can still benefit from use of your airports, your power, your professional services, etc. It is always possible to have private meetings with hot investment prospects. It is our belief that even investment seeking missions can be arranged jointly.

However, the 1987 statistics indicate that close to two thirds of the governors' missions were exclusively devoted to trade expansion and only some 15% included investment promotion. Collaboration should be feasible even if investment missions are excluded.

Joint missions are also justifiable because a group of governors together will have much greater success in attracting the important officials and companies with which they would like to meet than any single governor could. Even Macy's and Sears prefer to share a shopping mall with Bloomingdales or Nordstrom in order to be sure of attracting customers.

Joint Trip Format

Typically, each governor would formulate and travel on an individual itinerary, with the governors coming together for specific joint events. For example, a European trip could include a Brussels day featuring joint meetings with European and Belgian officials and the American Ambassador, and a Geneva day of joint meetings with GATT and Swiss officials.

A typical procedure might be:

Governors' Missions

1. A western governor, considering a trip overseas whose purposes incorporate trade or tourism promotion, and who feels that the participation of other governors would be both economical and beneficial, will send a brief description of the proposed trip to the WGA, which will circulate it to the other governors and solicit comments, suggestions, and expressions of interest.

- 1A. On occasion, when WGA staff become aware of a promising opportunity or a significant need for a governors' trip, a description, as above, will be circulated to the governors.

2. WGA will evaluate the responses, and if there are positive indications, will prepare a summary document which not only presents the collected comments but proposes a consensus program incorporating a suggested mission, duration, destinations, objectives.

3. WGA will facilitate a meeting of staff representatives of the interested governors, who will then assume responsibility for the trip and will appoint a lead governor whose staff would make trip arrangements.

- 3A. Alternatively, it would be possible for WGA, if funded to do so, to assign a staff person to the mission on an ongoing basis. There could be advantages to this since most states and most governors have only limited experience in the logistics of overseas missions.

It is anticipated that there would be a number of proposals in the course of a year, but that from two to five might result in a "modular" mission involving two or more governors.

It would also be useful to plan on an annual official WGA governors' trip which would be designated as such. In 1989, for example, it might be to Canada. In 1990, particularly if a WGA presence has been established in Europe, it might be there, with an official focus on the EC in Brussels, and the GATT in Geneva. Individual governors could of course add additional Canadian or European destinations to these trips.

7.2 MODULAR PROGRAMS OF SMALL GROUPS OF STATES

7.2.1 Implement Joint Trade Offices Overseas.

There are several attractive opportunities to benefit from regional cooperation in the operation of joint trade offices overseas. These result from:

The present multiplicity of western offices in Tokyo and Taiwan.

The absence of western offices in Canada and the minimal number in Europe.

The consolidation of offices in Taiwan and Tokyo is very attractive because it offers the possibility of both cost savings and increased effectiveness. One must note, however, that existing offices have contractual and lease arrangements which will in many cases have to be allowed to expire. It may prove more difficult to accomplish such mergers than to open new joint offices in Europe, Canada, Asia or elsewhere. The states themselves will determine their own priorities.

It should be emphasized that any joint offices which result would not be a WGA responsibility or cost, but would be funded by those states which choose to participate.

WGA could assist by drawing up some sample forms of agreement for a modular initiative.

Export promotion and investment promotion

It is the consensus of the trade directors that pooling of activities in export promotion is more feasible than collaboration on investment promotion which is more directly competitive. It has been our experience that the two functions are in fact quite different.

Export promotion involves assisting private companies in their efforts to launch or expand the sales of their products. The prime requisite of the state officers is a deep and up-to-date knowledge of the foreign country's markets, distribution channels, competitors, and ways of doing business. These are the elements with which the exporter needs assistance.

Investment promotion, on the other hand, demands personnel with deep familiarity with the state they represent: with its infrastructure, its leading industries, its cost and taxation factors, and the general investment attractions which it can offer. This knowledge should be complemented by a familiarity with, and access to the decision makers and executives of the target country's private industry structure, and with the third party facilitators such as accountants, consultants, bankers and chambers of commerce which can refer investment prospects. Investment promotion officers typically have closer contact with higher-level officers in larger companies than do their trade counterparts.

In spite of the very different roles, investment and export functions are almost invariably combined in the overseas offices of the states, mainly because of personnel and budget constraints. Only in the few larger offices is there some degree of specialization.

Since trade expansion activities are rarely directly competitive and could be combined, with minimal adverse impacts, the western states could benefit from such a collaboration.

Some have objected that ". . . an overseas trade officer cannot handle different states." In fact, trade officers do not "handle states", they serve companies. And two companies from Oregon are no more or less likely to be in conflict with each other than one from Colorado with one from Minnesota. In fact, a trade officer can much more effectively learn to help thirty electronics firms from four states than thirty very diverse firms from a single state.

Alternate Forms of Cooperation

There is more than one way in which states could cooperate in a joint office. These include:

- A fully shared operation in which the overseas employee or representative serves all of the participating states from a common facility.
- A group of co-located but independent offices sharing certain facilities such as facsimile, computer, copier and perhaps secretarial services.
- A group of independent offices each of which is assigned a specific function for the benefit of the group. In Japan, for instance, one state might monitor specialty crop developments, another electronics, and a third machinery and equipment. Alternatively, each might focus on a different Japanese ministry. In Europe, states might have country specializations, and share contacts.

Any of these modes could be useful. The selection should be made in each case by the states which are participating in the particular modular activity.

A Joint Trade and Tourism office in Canada

Canada is the most important market for seven of the western states. It is one of the top five markets for every one of the western states. Exports from the West to Canada were reported at \$5.9 billion in 1987 and \$7.5 billion in 1988. Total U.S. exports to Canada have grown from \$19 billion in 1970 to \$130 billion in 1987. With the implementation of the Free Trade Agreement, these exports should continue to grow. Present Canadian tariffs generally run from 4% to over 25%. Though many U.S. goods already benefit from free entry, others will also enjoy lower tariffs in the future. Dutiable products will fall into one of three categories: immediate tariff elimination, elimination over five years, or elimination over ten years. Non-tariff barriers will be reduced. And yet none of the western states has a trade office in Canada !

Though Canada does not present the export difficulties that Japan, for example, does, there is still scope for assistance to exporters. Canada is in fact a bi-lingual foreign market with different practices, standards, and patterns. Its cultural and economic patterns are in

many ways different from those of the United States. Almost one third of the market is French speaking. Metric measurements are widespread. Canadians are generally more reserved than Americans; their social support system is more extensive; their customs and tastes are often different. Distribution patterns typically involve shorter channels.

New York and Michigan already have offices in Toronto, and the eight state Council of Great Lakes Governors is currently in the process of establishing an office in the U.S. Consulate in Toronto.

It is recommended that a Canada Task Force be formed from among the western states which wish to participate.

Canadian Office Functions

The Canadian office would be located in a major commercial center and would perform those functions which the participating states determined to be relevant. These would probably focus on trade and tourism rather than investment. Toronto, Ontario is the center of Canadian economic activity, and Ontario alone receives more than 50% of California's exports to Canada. It is possibly of equal importance to the other western states so that Toronto is one logical location. Other more westerly alternatives, including Calgary and Vancouver should also be considered seriously.

Annual Costs

Depending on the number of participating states, and on the structure adopted, the cost per state could range from \$25,000 to \$100,000 annually.

First Step

The governors to authorize the WGA staff to convene interested trade directors to consider forming a Canada Task Force to examine possibilities.

This office would be intended to compensate for the relative neglect of Canada in the activities of the western states. It would be "modular" in the sense that it would be comprised only of those states which wish to participate, and they would assume responsibility for the location, goals, budgets, staffing, etc.

A Joint Trade and Tourism Office in Europe

This office would be similar to the Canada Trade and Tourism office described above. It would not duplicate the information and advocacy functions of the WGA office in Brussels as proposed in Priority Item A.

The EC as a whole is a market of 325 million people which imports twice as much from the seventeen western states as Japan does. Yet there are eleven western offices in Tokyo and only four in Europe.

The U.K. alone is one of the top five markets for thirteen of the western states and Germany for nine of them. There are no western offices at all in France, Germany, Italy, Scandinavia, the Netherlands, Switzerland, Austria, Spain or Portugal.

Fourteen of the western states have no offices in Europe.

It is recommended that a European Trade Task Force be formed from among the western states which wish to participate.

European Trade Task Force Functions:

- Define the structure and objectives of the office.
- Determine an optimum location for an office.
- Prepare a financial plan and staffing.
- Agree on which states will participate.
- Submit their plans to the governors for authorization.

First Step

The Governors to authorize the WGA staff to convene interested trade directors to consider forming a European Trade Task Force to examine possibilities.

COMBINE AND ENHANCE TOKYO TRADE OFFICES

The importance of Japan as a market for western goods, and a source of tourism and investment, is widely recognized by the western states. With 1987 Japanese imports from the western states

of \$10.4 billion, more than any other single country, and with over 80,000 jobs in Japanese affiliates in the West, it is not surprising that eleven of these states have offices in Japan, all but one in Tokyo. [See Table 7-A : Western States Offices in Tokyo].

Four of these offices are operated with state employees. Six use contract representatives, most of whom are part time. One is an honorary representative (Minnesota). Many of these offices are operating on minimal budgets. All are relatively expensive for the services provided.

A Joint Tokyo Export Office

Because states have different modes of organization and of budget allocations, and because the Tokyo offices are organized in many different modes, it has been difficult to compile a valid picture. Determination of actual potential for increased effectiveness and decreased costs may have to wait for a meeting of interested trade, agriculture and tourism directors. A joint office will result if perceived accomplishments exceed apparent loss of control and responsibility.

An illustrative example will demonstrate one of the possibilities: Montana, Nevada, North Dakota, Oregon and Utah each have contract representative offices in Tokyo. Their individual budgets range from \$150,000 to \$598,000, and the percentage of the activity devoted to export expansion is reported to vary from 10% to 40%.

<u>State</u>	<u>Tokyo Budget</u>	<u>% Export</u>	<u>Tokyo Export Budget</u>
Montana	\$236,000	28	\$66,000
Nevada	\$150,000	10	\$15,000
N. Dakota	\$200,000	30	\$60,000
<u>Utah</u>	<u>\$360,000</u>	<u>20</u>	<u>\$72,000</u>
Subtotal	\$946,000		\$213,000
<u>Oregon</u>	<u>\$598,000</u>	<u>40</u>	<u>\$240,000</u>
Total	\$1,544,000		\$453,000

Table 7-A: Western States Offices in Tokyo

STATE	\$1,000 BUDGET	STAFF	TRADE	INVEST.	AGRIC.	TOURISM
AK*	400	3	75%	25%		little
CA*	750	4	50%	50%		
CO	150	1	50%	50%		
HI*	750	3	?	?		\$200,000
MN	[Honorary] 7	0	70%	5%	25%	0%
MT	236	2	28%	2%	35%	35%
NY	150	0.5	10%	90%		
ND	[2] 200	3	30%	70%		
OR	598	4	40%	40%		
UT	360	6	20%	50%		[1] 30%
WA*	300	2+1 Ag.	47.50%	47.50%	extra	5%

[1] Possibly as high as 80%.

[2] Includes \$100,000 from private sector.

Note: Information gaps and uncertainties reflect dispersion of responsibilities within most states.
All numbers subject to revision.

It is difficult to imagine how \$15,000, or \$72,000 could buy very much in the way of a year's export promotion. However, if the first four states could combine their efforts, perhaps using the best of their four contract representatives, they would have essentially a \$200,000 annual budget which could merit much more serious attention from the representative.

The participating states themselves would have to decide about budget contributions and allocations. Perhaps each state would be assessed \$30,000 to \$40,000 for trade promotion. Perhaps Utah would retain the balance of their present Tokyo budget for a special individual promotion, or to enhance its in-state services to exporters. The resulting Tokyo budget of \$160,000 would give each of the four states something meaningful.

Meanwhile, the investment promotion activities of the cooperating states could, if they wished, be continued in their present format, but with greater focus and concentration.

If Oregon were to join in, the four states together, with a budget of \$200,000 to over \$400,000, would be in a position to really help their exporters with targeted promotions, booths in trade shows, distributor selection and other activities. In this case, different fiscal contributions would be arranged. Again, Oregon might either enjoy the savings or supplement the joint program with further individual efforts.

Even more ambitiously, if a few more of the smaller states would join this core group in pooling their export promotion budgets, they could together hire a staff and open a full time office, or perhaps locate these people in, e.g., the California office for further cooperation.

A Tokyo Task Force

It is recommended that a Tokyo Task Force be formed from among the western states which wish to participate.

Tokyo Task Force Functions:

- Evaluate the functions, personnel, and costs of the 11 existing offices.
- Consider other alternatives for staffing.
- Attempt to form one or more consortia to operate joint offices in Tokyo.

- Form a Board of Directors from among the participating states to establish programs, budgets, and contributions.
- Invite the other 6 states which do not yet have offices in Tokyo to join in a consortium.
- Consider adding tourism functions to the office.

The resulting economies could be used:

- To reduce budgets for some states.
- To increase the level of effort and thus the export results in Japan.
- To open joint offices in other Asian or worldwide locations.
- To select other forms of trade promotion.

First Step

The governors to authorize the WGA staff to convene interested trade directors to consider forming a Tokyo Task Force to examine possibilities.

Combine Taiwan Trade Offices

There are now eight western states with offices in Taipei. All of these offices except Colorado are operating on minimal budgets. Six of them have only a part-time representative. [See Table 7-B : Western States Offices in Taiwan]

For Hawaii and Alaska, Taiwan is in the top five export destinations. But neither of these states have offices there. Of the states which do, Taiwan ranks 7th and 9th respectively for Utah and Oregon and is not in the top ten markets for any of the others. This certainly suggests that funds saved could be spent profitably in other more significant markets.

In Taiwan as elsewhere, pooling of investment promotion activities is difficult. However, the data on foreign direct investment in the United States from Taiwan suggests that this is not a prime objective of the state offices. The trade expansion activities could be combined with resulting savings.

Table 7-B: Western States Offices in Taiwan

	\$1,000					
STATE	BUDGET	STAFF	TRADE	INVEST.	AGRIC.	TOURISM
AZ	120	2	30%	60%	10%	0
CO*	135	3	80%	20%	0	0
ID*	75	2	yes	yes	yes	yes
MN*	59 [1]	1	70%	5%	25%	0
MT	35	?	28%	2%	35%	35%
OR	12	1	50%	50%	?	?
UT	60	2	?	?	?	?
WY [2]	65	2	70%	10%	10%	10%

Source: NASDA - 1988 Data Base, estimates from states

* State-Operated Office

[1] Fiscal 1990

[2] Opens 6/27/89

Note: Same as 7-A

The following comments are preliminary and should be re-evaluated after more accurate data on current state activities in Taiwan has been compiled.

The total export promotion expenditures of the eight states in Taipei are probably about \$300,000. It is estimated that a combination of the state operations could provide equal service to the states while saving up to \$150,000 annually. If all eight states joined in, they could support a staff of two full time people with increased effectiveness.

The resulting savings might be used, for example, to open a similar office in Singapore which could support exports to South Asia, including Malaysia, Indonesia, India and Thailand.

A Taiwan Task Force

It is recommended that a Taiwan Task Force be formed from among the western states which wish to participate.

Taiwan Task Force functions:

- Evaluate the functions, personnel, and costs of the eight existing offices.
- Consider other alternatives for staffing.
- Attempt to form a consortium to operate joint offices in Taipei.
- Invite the other 9 states which do not yet have offices in Taipei to join in the consortium.
- Consider adding tourism functions to the office.
- Consider where else in Asia to establish a joint trade office.

First Step

The governors to authorize the WGA staff to convene interested trade directors to consider forming a Taiwan Task Force to examine possibilities.

7.2.2 Establish a Shared Foreign Sales Corporation (SFSC) to assist smaller exporters.

Foreign Sales Corporations are paper entities which permit significant federal and state tax savings to exporters which use them. The federal benefit is a 15% exemption on export profits. Each exporter runs its own business as usual, but routes the paperwork through the FSC.

Larger firms set up their own FSC's. However, small and medium sized firms find the process expensive and complicated. For this reason, shared FSC's have merit. Typically, the cost to an exporter for participation in a SFSC is \$3000 for the first year and \$2500 per year thereafter for up to \$2.5 million of exports annually.

In early 1988, Delaware set up a SFSC incorporated in Barbados and made participation available to companies from other states. Delaware is also willing to assist other states to establish similar operations.

It should be possible for the western states to either set up a joint facilitation program or to piggy-back on the Delaware program which is available to companies from other states.

Guam, a WGA member, is one of the small number of "overseas" locations qualified by the U.S. Government, which requires that an entity be incorporated outside the U.S. in order to qualify for SFSC tax status. It would be particularly appropriate if a western SFSC could be established in conjunction with Guam.

7.2.3 A Joint Export Finance Service

Many smaller companies have had neither the experience nor the credit rating to qualify for export loans, and exports have consequently been lost.

Many local banks do not offer export financing because they do not have the expertise. For these reasons, NASDA reports that 27 states had passed legislation to implement some form of export finance by the end of 1988, and 22 of these were operational. Table 7-C: Some State Export Finance Programs, indicates the scope of services offered.

Over \$32 million has been allocated by these states for financing exports. The most common form of assistance is loan guarantees to

the commercial banks which actually issue the loans. A number of states do actually offer loans.

According to the National Governors' Association, of the western states, only Alaska, California, Colorado, Minnesota, Washington and Wyoming offer such services.

Almost everyone who has operated or studied these programs in the states which have them has been impressed with the results. Exports of smaller or rapidly growing companies are facilitated and made feasible where they would otherwise be impossible. However, it takes personnel, experience, and staff which might not be available to smaller states. Appendix A, Illinois Export Finance Program, describes in some detail the operation of one such activity.

We suggest that among the eleven western states which lack such a program, there is scope for collaboration. A joint activity, with terminals in the trade offices of participating states could be extremely cost effective and relatively easy to implement.

The intent is that each participating state would allocate funds for export finance or export guarantees only for its own companies. However, a joint office would provide administrative services and expertise.

7.3 AN ANCILLARY ACTIVITY

Initiate a Western Trade Directors' Council

The trade directors of the western states have had little opportunity to meet together to exchange experiences, to learn from each other, and to plan for regional cooperation.

The three meetings of trade directors which have been held in the course of this project have demonstrated conclusively that the trade officers benefit greatly from the opportunity to exchange experiences and to compare the benefits and costs of different initiatives. They have expressed a strong desire to institutionalize this process. A Trade Directors Council meeting twice a year would accomplish this.

This Council would be able to:

- Plan for the following year's trade shows and trade missions and to set in motion the process of joint participation in such events.
- Identify target industries of mutual interest
- Consider locations and functions of new joint trade offices.
- Select topics for joint advocacy.

The Trade Directors' Council would itself be an institution fostered by WGA, but would also be a forum to help facilitate modular trade promotion activities of various sub-groups of states with a common interest.

7.4 Build the WGA Staff Capability to Coordinate Joint International Activities.

It is strongly recommended that a WGA function be established which will facilitate the coordination and implementation of joint governors' missions, joint trade missions, and joint participation in overseas trade shows on a regional basis.

The first initiative should be to plan and pull together a governors' mission to Canada, or to Europe for meetings with the EC in Brussels and GATT negotiators in Geneva.

Trade Missions and Shows

There can be no disadvantages, and there are major benefits, from combining the export promotion activities of several states. Almost all successful trade shows are focussed on one single industry. All of these bring together competitors from all over the world as exhibitors. Why would a company wish to join its competitors ?

Because that is precisely what draws the customers. And customer contact is the objective.

The fact is that most of the western states trade directors have great difficulty in attracting enough companies from a single industry in their state to put together a meaningful trade mission or trade show participation. And yet it is universally agreed by the experts, that

Table 7-C: Some State Export Finance Programs

STATE	TYPE OF AUTHORITY	YEAR ESTABLISHED	FUNDING SOURCE	AMOUNT OF FUND	COUNSELING	INSURANCE		LOANS TO LENDERS		LOANS TO EXPORTERS		LOAN GUARANTEES	
						ADMIN-ISTRATION	LIAISON	PRE EXPORT	POST EXPORT	PRE EXPORT	POST EXPORT	PRE EXPORT	POST EXPORT
California	Creation (a)	1985	Appropriation	\$3,000,000	X							X	X
Colorado	Expansion (b)	1987	Appropriation	\$500,000	X		X	X					
Connecticut	Expansion (b)	1987	Appropriation	\$1,000,000						X	X	X	X
Illinois	Creation (a)	1984	Bonds	\$100,000,000	X	X		X	X				
Indiana	Expansion (b)	1983	Appropriation	\$8,500,000 (c)								X	
Louisiana	Creation (a)	1984	Bonds	Promissory (d)							X		
Maryland	Expansion (b)	1985	Appropriation	\$7,000,000	X	X						X	X
Michigan	Creation (a)	1986	Bonds	\$50,000,000	X							X	X
Minnesota	Creation (a)	1983	Appropriation	\$2,000,000	X	X						X	
Missouri	Expansion (b)	1984	N/A	N/A			X						
Ohio	Expansion (b)	1983	Allotment (e)	\$100,000,000 (c)			X	X					
South Carolina	Creation (a)	1985	Appropriation	\$50,000	X		X						
Tennessee	Creation (a)	1983	Appropriation	\$100,000	X								
Washington	Creation (a)	1983	Appropriation	\$400,000	X								

NOTES:

(a) Creation of a new export authority or agency as a separate entity or as a new office within an existing department.

(b) Expansion of the responsibilities of an existing agency.

(c) Program is not specifically an export financing program, but export financing is one of several eligible activities for program funding.

(d) Promissory notes issued as needed.

(e) This is a "linked deposit" program. Using state funds, the state deposits money that the bank then lends to a qualified small business at below market rates. This is a variation on the loans-to-lenders approach.

"vertical" or single industry missions are the ones most likely to be successful.

A WGA Coordinating Function

It seems clear that there are benefits to be derived from regional cooperation in a modular or case by case, mode, that is, groups of states coming together in different combinations for specific purposes. One of the major reasons this has not occurred is that there has been no mechanism to facilitate such collaboration.

It is recommended that the WGA, as an existing organization which effectively serves the western governors and their states on analogous projects, be authorized to perform this clearinghouse, facilitating and coordinating function.

Trade Missions

The procedure would be the same as in the case of governors' missions, but actions would be initiated by and followed through by the trade directors of the states. The role of the WGA staff would be limited to assisting in initial liaison among the states.

Trade Shows

Again, the procedure would be the same as with trade missions.

WGA Staff Requirements

On a very preliminary estimate there might be as many as twenty proposed trips in a year, with five or six joint missions carried through to fruition. Of these, one or two could be governors' missions coordinated by WGA. The balance would be trade shows and trade missions for which WGA would be a catalyst.

If so, it might be possible for someone on the WGA staff to accomplish the basic facilitation functions and other ongoing international activities on a part time basis. In the event that WGA staff is requested to provide continuing assistance as the mission plans proceed, or if liaison functions with the WGA office in Washington, D.C. or the potential office in Europe are included, then it would probably be very worthwhile to add an international position to the present WGA staff.

8. EPILOGUE

In looking back over the experience of researching the Going Global project, some strong impressions remain, and are worth noting.

Interest in Going Global

Above all, the widespread strength and depth of interest in the Going Global topic is both gratifying and surprising. Individual governors, in the West and elsewhere, are conscious of the growing importance of the global economy and its significance for their states. They and their staffs are much more knowledgeable on international matters than would have been the case even a few years ago.

Regional associations of governors, in addition to the WGA, such as the Council of Great Lakes Governors, the New England Governors and Eastern Canadian Premiers, and the Mid-South Trade Council, are all taking new international initiatives.

State legislatures are determined not to be left behind and are passing implementing legislation for international programs.

National organizations, including the National Governors' Association, the National Association of State Development Agencies, the Council of State Policy and Planning Agencies, are focusing on international trade and investment. The Urban Institute has launched a fruitful series of programs which include a systematic approach to measuring the effectiveness of state international programs. (It would be of great interest, subsequently, to match state results with those of the federal government.) The German Marshall Fund of The United States hopes to launch cooperative programs.

Perhaps the only entity we encountered which was not devoting increasing resources to promoting international trade, tourism, and investment is the U.S. federal government.

The High Level of Competence

The capabilities of the state trade, tourism and investment officers are almost invariably of a higher level than was apparent in a similar study which we did four years ago. A much higher percentage of these officers are truly qualified for their positions by virtue of extensive experience in the private sector, in overseas employment, or in governmental economic activities.

The WGA staff has also developed greater international information resources and awareness and has shown enthusiasm for working with this information to assist the governors in their international programs. Their awareness of the needs of the governors enhances their ability to utilize the information collected.

The Need for More and Better Information

In spite of the growing levels of interest and competence in the states, numerous decisions are still made with inadequate information. States with limited resources put offices in less than optimal locations, neglect market opportunities, and often fail to develop a long term international strategy based on the facts about market size and problems in other countries. Much work remains to be done on:

1. The size of company which can be most effectively assisted by states: A large enough export potential to be worth helping; not so large that they can do it themselves.
2. Clarification of goals: A program which maximizes assistance to the smallest companies is not necessarily the same as one which aims to maximize the growth of exports.
3. Organization and lines of reporting within a state of the various sections concerned with international activities: The diversity of organization charts is great, but coordination among departments leaves room for improvement in many states.
4. Experiments with modular combinations of two, three, four or more states: There are many modes of such cooperation which have never been tried, or if tried have not been measured and analyzed for effectiveness.
5. Allocation of international resources: There is little evidence that states allocate their total international budgets among the competing demands of agriculture, trade, investment, tourism and advocacy in proportion to any consistent set of criteria. Most international budgets are a by-product of the total domestic and international programs of individual departments, so that figures for all segments of a state's international effort are not available to most governors. It was in fact not possible to put together such figures for this report.

The Scope For Regional Cooperation

The opportunities for regional cooperation, with substantial benefits to the participants, exceed the original expectations. Whether manifested in joint offices, missions, trade show participations, informational activities, advocacy or research, there is much to be developed. It is hoped that this project will further such cooperation, and will contribute to the already visible internationalization of the governors and their staffs.

Private Sector Cooperation

There seems to be a correlation between the active participation of the private sector, and the success and effectiveness of state programs. In Minnesota, North Dakota, Washington, and California, among others, the private sectors are very active. It seems probable that increased volunteer activity and private funding could make possible some of the action programs described in this report.

Cooperation

The support and cooperation rendered during the course of this project was exceptional. The Staff Council, the Trade Directors, and the Tourism Officers came together in a series of meetings to share experiences and to evaluate action programs. Many of the concepts in this report arose at these meetings.

On our visits to California, Colorado, Minnesota, New Mexico, North Dakota, Oregon and Washington, full cooperation was extended. And at WGA in Denver, the environment was one of enthusiastic participation, without exception.

Special thanks are due to Paul Cunningham and Jo Clark for their understanding of what is possible, achievable, and worthwhile for the Governors. And to Liz Santillanez for an intense level of effort.

My personal gratitude is extended to Governor Deukmejian for having formulated the Going Global project to begin with, supporting it continuously, and moving the recommendations towards implementation.

APPENDICES

Appendix A: Illinois Export Finance Program

The Illinois Export Development Authority (IEDA) makes competitive-rate, low-risk export financing available to Illinois small businesses through a loan-to-lender program. The Authority is an independent agency which raises program funds through the issuance of taxable bonds. It was originally created by the Illinois General Assembly in 1983, but raised its first funds in July, 1986 through a \$15 million, five-year taxable bond issue. Dean Witter served as the underwriter on the issue. The proceeds of the issue, prior to being lent out, are being invested by the Authority in short-term securities.

Revenue generated by IEDA's operations and investments will be used to retire the bonds. The bond issue is not a general obligation of the State; it is backed by a letter of credit from the Chicago Bank of Tokyo, Ltd., and by a \$650,000 reserve fund appropriated by the State.

The Authority is designed to serve small and medium-sized businesses, most of which have been able to obtain competitive-rate, low-risk export financing. Many local banks do not offer export financing and, of those that do, many are only willing to look at larger transactions. Even if an exporter is able to obtain financing, he/she must deal with the commercial and political risks associated with export transactions.

To decrease risk, many businesses have been forced to sell their goods and services by requiring cash in advance or an irrevocable letter of credit payable on sight. Such terms are considered very unattractive by most importers. According to Authority officials, Illinois businesses have in the past lost many opportunities to export because financing was unavailable. IEDA was established to address that problem.

IEDA can provide both pre-shipment financing (for working capital for the production of goods and services outlined in sales contracts or orders) and post-shipment financing. The exporter may borrow up to 90 percent of the invoice value of the transaction, up to a maximum of \$500,000. Of the amount financed, the Authority lends up to 90 percent and requires that a participating bank lend the remaining 10 percent. The maximum term for both pre- and post-shipment financing is 180 days.

In order to qualify for the IEDA funding, the exporter and the transaction must meet certain criteria:

- At least half the exported product must be of U.S. content.
- A minimum of 25 percent of the final added value must have been generated in Illinois.
- The exporter must be an Illinois corporation or be qualified to conduct business in the state.
- The export transaction must maintain or create jobs in Illinois.
- The exporter, buyer, and transaction must be insurable for commercial and political risks under the unique U.S. Eximbank/FCIA policy administered by the Authority.

The costs to the exporter include:

- Interest on IEDA's 90 percent of financing (fixed rate).
- Interest on the bank's 10 percent financing.
- the equivalent of one percent per annum loan origination fee charged by the bank on the term of the total loan (e.g., 180-day loan, 1/2 percent fee);
- 1/10 of one percent loan commitment fee paid by bank, passed on to exporter; and
- the premium for Eximbank/FCIA insurance, which varies depending on amount, term, and ultimate obligor.

The Authority has negotiated a tailored insurance policy with Eximbank/FCIA under the Umbrella Policy program. The insurance is required on each IEDA loan. The Eximbank/FCIA insurance covers 90 percent of the gross invoice value on commercial risk and 100 percent of the gross invoice value on political risk. Because of the Eximbank/FCIA insurance coverage, the only collateral generally required for loans is the contract or receivable generated by the export sale.

Authority officials view the insurance feature as the key to the program because it reduces the risk enough to allow smaller banks to participate. In addition, IEDA has a "hold harmless" provision covering IEDA and the participating bank for all defaults.

As of the end of the August, 1988, the Authority had completed or approved approximately 80 loans supporting \$6 million in exports. An additional 100 loans totaling over \$9 million are in the process of being approved. The average term on the loans has been approximately 68 days and loan rates have averaged 100 to 125 basis points over prime, exclusive of the cost of the insurance. More than 70 Illinois banks and 150 exporters have applied to participate in the program.

Roughly 45 percent of IEDA-supported exports have been to western Europe, 45 percent to the Pacific Basin, and the remaining 10 percent to Canada, Africa, and other countries. IEDA financing has supported the export of a variety of products, including breeding cattle, medical equipment, electronics equipment, movie videotapes, auto parts for secondary markets, agricultural products, hardwood lumber, and other goods.

In addition to making financing available, IEDA reduces the time and expense required of the exporter and the banks by handling all aspects of the financing, ranging from general counseling to assisting in obtaining political and commercial risk insurance. The agency also evaluates the credit of domestic importers and foreign importers, and completes most of the program and insurance documentation. Lieutenant Governor George H. Ryan, Chairman of the Authority, and a staff of five handle all of the administrative work and all credit decisions.

The program is expanding rapidly, and Lieutenant Governor Ryan credits the Authority's comprehensive approach with making export financing loans "as simple, from a banker's standpoint, as making a loan for an automobile."