BULLETIN
CALIFORNIA COUNCIL FOR INTERNATIONAL TRADE
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Niels Erich, Editor
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Soviets Join the Pacific Rim

It will take more than enterprise zones, factory joint ventures and a willingness to do business for the Soviets to turn Siberia into a Pacific Rim trade gateway.

Professor Robert A. Scalapino, director of the University of California's Institute of Asian Studies at Berkeley, made that assessment after having recently returned from a Vladivostok conference on Pacific Rim economic and security cooperation hosted by the Soviet government.

Scalapino, one of only two Americans invited to attend the 40-nation conference, offered his impressions of Soviet General Secretary Mikhail Gorbachev's plans for an emerging Asia policy at a luncheon hosted in San Francisco by CCIT.

"One debate in this country that should end," Scalapino told the luncheon audience, "is whether Gorbachev is serious and whether the reforms he's pushing are truly far-reaching. The answer to both questions is yes."

He said the Soviet leader is attempting to achieve economic and political reforms by building a coalition of the Soviet intelligentsia and the technical classes to put pressure on a recalcitrant bureaucracy. The difficulty, Scalapino noted, is that the U.S.S.R. doesn't have the same history of entrepreneurship as the People's Republic of China and Gorbachev has only a limited amount of time to produce results for Soviet consumers. Moscow is attempting to open up the Siberian Peninsula as a regional trade gateway in the Pacific. It has announced intentions to open special economic zones (SEZ) near the southern border with China and North Korea. These SEZs would be structured along the lines of the PRC model in Guandong and other provinces.

With the principal resources of timber, fish and some mining, the Soviets have only one joint venture to date with an American company, for fish processing. A territorial dispute over the Kurile Islands has kept Japanese investment out so far, but South Korea has jumped in to fill the vacuum. One Korean furniture maker has already agreed to build a plant and turn Siberian timber into export product.

But immediate problems are apparent. "The amount of capital that would have to go into building a sizable infrastructure in Siberia would be enormous," Scalapino pointed out, citing the failed attempt at a trans-Siberian rail connection, "and the immediate output would not warrant it."

He added that inconvertibility of the rouble still means having to take product out of any joint venture as payment, and the regulations involved in joint venture participation remain onerous.

Labor is also scarce, Scalapino said, and Chinese laborers that will eventually be allowed to cross the border to work will be required, for security reasons, to return home in the evenings.

Soviet plans to convert what has been in the past a largely military Asia policy to an economic one will require coming to terms with China. Scalapino explained that the so-called "Three Obstacles" to accommodation - Afghanistan, border issues and a Cambodia settlement - are all close to being resolved, and now Gorbachev hopes "to woo China without losing India, which would be a neat trick."

It has also begun putting pressure on client states North Korea and Vietnam to make peace with their neighbors, in an effort to reduce the Soviet costs of shoring up those countries' economies. That has produced a liberal Vietnamese investment law, an agreement in principle between Vietnam and China on Cambodia, and talks between North Korea and both Japan and South Korea. "This will be a very interesting time for the smaller countries of Asia," Scalapino suggested, "as the Soviet Union and China move closer together."

NEWSBRIEFS

SBA CONSOLIDATES

The U.S. Small Business Administration has consolidated its six California offices and all of its California lending activities under a single office in Fresno. SBA processes about 15,000 loans each year in the state, and the consolidation — characterized as a streamlining — reflects the agency's falling out of favor in Washington. SBA international programs received only $500,000 of the additional $8.5 million in funding authorized by the 1988 trade bill. Some trade interests have argued that SBA loan guarantees and technical assistance for small exporters are duplicative programs that should be placed under the U.S. & Foreign Commercial Service. CCIT's legislative committee is considering supporting that position, and invites comments from CCIT members.

CDFA GOES ON-LINE

The California Department of Food and Agriculture has developed an on-line trade leads system, piggybacked onto the Agricultural Technology Information Network (ATI-Net), a farm news and weather information service operated by California State University, Fresno. CDFA collects leads from the Foreign Agricultural Service, California overseas offices, trade shows and other sources. These are sorted by commodity and are automatically made available — both electronically and in hard copy by mail — to the 1,200 listings in CDFA's California Agricultural Export Directory. An Additional 35 subscribers have signed on in the first week of operation. The service is free of charge, raising concerns over costs to the state, especially in light of a similar World Trade Commission system, which uses many of the same sources for trade leads.

FROM THE PRESIDENT

Now, About the Staff...

Governor George Deukmejian deserves continued praise for his efforts to internationalize California. Recently the Governor concluded a visit to Germany where he announced plans to open two new California overseas trade and investment offices, in Frankfurt and Hong Kong, by year-end. Later this month, he will leave for Mexico City to open a similar office there.

Throughout this process of developing an overseas office network for California, the Governor has taken a cautious, thoughtful approach to assessing the need for new offices and then creating them. Locations have been chosen based on careful study of where California's trade and investment interests are strongest, and only after seeking private sector input. Where offices have been approved, they have also received a strong, ongoing funding commitment from the State, including rental space in a central business district and adequate staffing.

Unlike other states, California has not resorted to opening surrogate offices through either overseas agents or the foreign branch offices of California firms. Nor has it accepted offers of free space from countries which are not necessarily the most appropriate locations at the time for the state to establish a presence.

Now comes a final but crucial component in setting up these three new offices representing California's state government and its business community: staffing. CCIT is pleased with the recent choice of Carlos Valderrama to head the Mexico Trade and Investment Office. His appointment is a sign that the Administration remains committed to a hiring policy based upon experience and professionalism. As California moves ahead with appointments in Mexico City, Frankfurt and Hong Kong, however, we think it appropriate to take another look at the initial 1985 staffing criteria established by the state to maximize benefits of the overseas office program.

Office directors should, of course, be Californians or qualified nationals with broad business experience in the countries where they are located; fluency in the local languages, familiarity with regional sources of trade and investment information; and knowledge of California industries, legal and tax structures and investment incentives. Deputies, to be complimentary, should normally be recruited in the foreign countries and/or possess strong bilingual or multilingual skills, a strong regional business and sales background, and solid local contacts in both industry and government.

California has a lot to sell overseas, in terms of exports and investment opportunities, but so do other states. In this competitive environment, California's "product" will often be only as strong as its initial point of contact with foreign buyers and investors. It is critical that the State continue to take the same care in staffing its overseas offices as it does in choosing where to put them.

\- Jerry Levine

Competitive Technology Program Gets Moving

Helping to translate California's $22 billion annual expenditure on high-tech research into commercial products and services for the future is the job of the new California Competitive Technology Program.

Funded at an initial level of $7 million this year and then $20 million in subsequent years, the program is the outgrowth of three legislative initiatives brought together by an executive order from Gov. Deukmejian. The program has been placed under the state

Department of Commerce. Its objective is to identify future areas of technology research in California with commercial potential, and to provide matching seed grants for the state's universities, and laboratories, enabling them to work with high-tech firms on development of such research for the marketplace. Tom Walters, formerly an official with Jet Propulsion Laboratories in Pasadena, has been named director of the newly created Office of Competitive Technology. An advisory council made up of representatives from the various private and public universities throughout the state will identify long-range research needs.

In addition to the basic program, the Governor has proposed allocating $5 million a year for five years specifically for commercial development of superconductivity research.

CALENDAR

Tuesday February 7 — **Edwin H. Clock**, Deputy Comptroller of the Currency. "Implications of the Financial Integration of Europe in 1992." 11:30 a.m. reception, 12:15 lunch. Le Meridien Hotel, **San Francisco**. Sponsor: CCIT. $30 members/$35 nonmembers.

Friday, February 24 — Federal Maritime Commission Chair **Elaine Chao**, on the FMC's role in shaping and carrying out the new Administration's maritime policies. Co-sponsored by CCIT in cooperation with the **Long Beach** International Business Association. 11:30 a.m. reception, 12:15 lunch. Accompanies half-day seminar 9 a.m. to 11:30 on the Community Cargo Information System. Sheraton Long Beach Hotel. $30. Contact IBA at (213) 436-1251.

February 27 through March 1 — "Asia/Pacific Business Outlook for 1989". University of Southern California International Business Education and Research (IBEAR) program, featuring former Deputy USTR **Michael Smith**, Morgan Stanley & Co. managing director **Frederick Whittemore**, Lockheed Aircraft Asia president **Donald Neese** and US&FCS senior commercial officers. Co-sponsored by CCIT. Davidson Conference Center, USC, **Los Angeles**. $550. Contact IBEAR, (213) 743-2272.