



# The Florida Senate

Interim Project Report 2002-124

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Committee on Commerce and Economic Opportunities

Senator Alex Diaz de la Portilla, Chairman

## INTERNATIONAL BUSINESS PROMOTION

### SUMMARY

International business is key to the state's economy, supporting more than one million jobs in the state in 2000. Despite this impact, international business in the state could be better. The state has had varying levels of success in fostering the two main job-creating components of international business – exports and foreign direct investment.

Numerous public and private entities are involved in state international business promotion efforts. State trade offices are performing well, but their direct impact on state trade is negligible. Public entities in the state trade system, though, fill critical service gaps.

Although public entities in the state trade system are already following many of the international business best practices described in literature and used by other states and countries, the entities' relatively few resources (as compared to those of the private trade sector) prevent them from greatly impacting the international competitiveness of the state's economy. Thus, the most effective way for the Legislature to increase state international business activity is to continue to improve the overall attractiveness of the state's economy.

In addition, public entities in the state trade system should continue to fill service delivery gaps, such as encouraging trade participation, advocating state trade interests, providing state policymakers with trade and market intelligence, encouraging export diversity, forging diplomatic and cultural relationships, and optimizing trade websites. However, in filling service gaps, state entities should attempt to recover their costs and should be careful not to impede the market's ability to fill the gaps on its own.

### BACKGROUND

#### **International Business Is Key to the State's Economy.**

Put simply, international business means jobs for Floridians. Entities such as the U.S. Department of Commerce and the Office of the U.S. Trade Representative estimate that each \$1 billion in exports creates 15,000-20,000 jobs. Based on this ratio and data regarding foreign direct investment (FDI) in the state, it is estimated that international business activities supported more than one million jobs in the state in 2000. These jobs often pay more than the state average, an estimated 17 percent more if export-related.<sup>1</sup>

Involvement in international business benefits businesses, as well. Studies indicate that, compared to non-exporting firms, firms that export grow faster, fail less frequently, are less subject to recessionary cycles, have higher worker productivity rates, and have higher innovation rates. These characteristics hold true no matter the size of the business.

What does this mean for Florida? A lot given the state's untapped international business potential. Enterprise Florida, Inc., the state's principal economic development organization, estimates that there are 20,000-40,000 businesses in the state with unrealized export potential. Moreover, it is likely that most of these businesses are small- or medium-sized.

#### **International Business in the State Is Good – But It Could Be Better.**

The state has had varying levels of success in fostering the two main job-creating components of international

<sup>1</sup> Bureau of National Affairs, *International Trade Reporter*, June 30, 1993, p. 1081.

business – exports and foreign direct investment.<sup>2</sup>

### Exports

Although ranked ninth in the nation in terms of total merchandise exports, the state has lagged behind much of the country in terms of annual growth of these exports. (See Exhibit 1.)

Exhibit 1: Merchandise Exports to the World<sup>1</sup>

|         | 2000 Exports (Billions of Dollars) | Rank Among 50 States <sup>2</sup> | Percentage Change in Annual Exports 1995-2000 | Rank Among 50 States <sup>3</sup> |
|---------|------------------------------------|-----------------------------------|---|-----------------------------------|
| Florida | \$24.2                             | 9 <sup>th</sup>                   | 30.4%   | 32 <sup>nd</sup>                  |

Source: U.S. Census Bureau; prepared by U.S. Department of Commerce.

<sup>1</sup>This data is derived from the Exporter Location data series, which allocates exports according to the physical location of exporters.

<sup>2</sup>The states ranking higher were California, Texas, New York, Michigan, Washington, Illinois, Ohio, and New Jersey.

<sup>3</sup>Of the eight states exporting more than Florida in 2000, only New York and Illinois had a smaller percentage change in annual exports between 1995 and 2000.

This slower growth rate, though, is most likely due to the state economy's emphasis on service delivery and transshipment of goods rather than manufacturing. In 1998, only 14 percent of the state's gross state product was derived from goods-producing industries; only Hawaii had a lower percentage.<sup>3</sup> However, the state's low merchandise exports appear to be offset by significant services exports. Exports of international services from the state generated \$14.5-20.1 billion in sales in 2000.<sup>4</sup> Furthermore, goods originating in other states, valued at approximately \$12 billion, were shipped through Florida ports in 2000.<sup>5</sup>

### Foreign Direct Investment

The state has been relatively successful in attracting foreign direct investment. In 1998, there was \$33.9 billion of foreign direct investment in the state, which

generated 264,000 jobs.<sup>6</sup> The state was ranked 7<sup>th</sup> and 4<sup>th</sup>, respectively, in these categories.<sup>7</sup> Although the amount of FDI in 1998 was only 44.3 percent greater than in 1993 (resulting in a ranking of 18<sup>th</sup>), only one of the six states having more FDI than Florida in 1998, Michigan, had a larger percentage change in foreign direct investment.

### This Report Identifies Key Players in the State's International Business Efforts and Potential Best Practices.

Although the success of the state's international trade and investment levels is, to a certain extent, dependent on economic and political factors beyond the control of state government, there might exist more cost-effective ways for the state to promote international business. This project identifies the state's major international business programs/initiatives and proposes additions and alternatives to those programs based on best practices used by other states and countries and suggestions provided by relevant organizations.

## METHODOLOGY

Committee staff sent information requests to major public and private entities involved with state international business promotion.<sup>8</sup> The requests solicited information regarding program activities, marketing methods, internal fulfillment processes, performance data, and resources. Entities were also asked to suggest best practices used by other states, countries, or entities to increase international business and ways to increase international business within Florida (excluding infrastructure-related methods). Staff from select entities were then interviewed.

Committee staff also researched general industry best practices and performed literature and Internet reviews of select states' and countries' international trade and investment promotion programs.<sup>9</sup> Benchmark states and countries were selected based primarily on the levels and/or growth rates of their exporting and investment-attraction activities.

<sup>2</sup> The term "exports" includes both merchandise and services exports. The main components of merchandise exports are manufactured goods, agricultural and livestock products, and other commodities. Services exports are derived from industries such as travel, transportation, financial services, commercial/professional/technical, education and training, entertainment, telecommunications, information, equipment installation/maintenance/repair, and health care. The term "foreign direct investment" is defined as the ownership or control, directly or indirectly, by one foreign person of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or the equivalent interest in an unincorporated U.S. business enterprise.

<sup>3</sup> Richard M. Beemiller and Clifford H. Woodruff, III, "Gross State Product by Industry," *Survey of Current Business*, October 2000, p. 74.

<sup>4</sup> Raymond P.H. Fische, Ph.D., "Impact of International Services on Florida's Economy," May 2001.

<sup>5</sup> Source: Committee staff analysis of U.S. Department of Commerce data as prepared by Enterprise Florida.

<sup>6</sup> Source: U.S. Department of Commerce; prepared by Enterprise Florida.

<sup>7</sup> The states ranking higher with regard to total 1998 FDI were California, Texas, New York, Illinois, Ohio, and Michigan. The states ranking higher with regard to FDI-related jobs in 1998 were California, New York, and Texas.

<sup>8</sup> Federal, state, and local governmental entities were contacted.

<sup>9</sup> Benchmark states include Alabama, California, Georgia, Illinois, Indiana, Massachusetts, Michigan, New Jersey, New York, Ohio, South Carolina, Texas, and Washington. The proximity of Alabama, Georgia, and South Carolina to Florida was also considered when selecting states for review. Benchmark countries/cities include Canada, Spain, New Zealand, and Hong Kong.

## FINDINGS

### Numerous Entities Are Involved in State International Business Promotion Efforts.

Typically, state trade systems involve hundreds of public and private organizations. The executive and legislative branches of state government work with the federal government, local governments, regional organizations, for-profit firms, not-for-profit organizations, and foreign or multilateral entities to promote state international business efforts.

Florida’s state trade system follows this same pattern. Numerous public and private entities contribute to the state’s international business efforts. While Enterprise Florida, the Department of Agriculture and Consumer Services, and the Department of Citrus (the main “state

trade offices”) provide state-sponsored trade assistance and marketing, the Department of State lays the groundwork for future commerce by establishing diplomatic and cultural ties with foreign cities and states. State-level entities then work with the federal government, local governments, local economic development organizations, local chambers of commerce, and entities such as the Florida Small Business Development Center Network, the World Trade Association of Florida, the Florida Export Finance Corporation, and the Florida Ports Council to operate a comprehensive trade system that promotes the state’s international business interests. Exhibit 2 describes the purposes, activities, and resources of four of the major, state-level entities involved, directly and indirectly, in international business promotion.

**Exhibit 2: Four Major Entities in the State Trade System<sup>10</sup>**

| <b>Enterprise Florida, Inc.</b> |   |
|---------------------------------|---|
| <b>Purpose</b>                  | Enterprise Florida, a partnership between Florida’s government and business leaders, is the principal economic development organization for the state. <sup>11</sup> (s. 288.901, F.S.) Enterprise Florida provides leadership for business development by aggressively establishing a unified approach to Florida’s efforts of international trade and reverse investment. (s. 288.9015, F.S.)   |
| <b>Activities</b>               | <ul style="list-style-type: none"> <li>• <i>Export Counseling:</i> Enterprise Florida trade specialists, located in Miami and six regional offices (Ft. Lauderdale, Orlando, Tampa, Pensacola, Tallahassee, and Jacksonville), assist companies with all aspects of the export process, including market research and identification, payment methods, and financing. Enterprise Florida also provides online access to various databases and directories, enabling the identification of companies and their products.</li> <li>• <i>Trade Missions and Exhibitions:</i> Enterprise Florida annually organizes and leads numerous export marketing missions and exhibitions worldwide. Marketing missions feature one-on-one, prearranged appointments with business executives in the specific area of interest of mission participants.</li> <li>• <i>International Representatives:</i> Enterprise Florida maintains a total of 12 international representatives in Canada, Brazil, Mexico, Venezuela, the United Kingdom, Germany, Spain, Israel, South Africa, Taiwan, Korea, and Japan. (s. 288.012, F.S.) These representatives identify and qualify potential buyers and distributors for Florida products, identify specific investment prospects for the state, and provide support for trade missions and shows.</li> <li>• <i>Florida Trade Network:</i> The network is a strategic alliance that makes the assets of all its member organizations available to each member so that Florida companies have coordinated access to a wide-range of export development programs and services. The current members of the network are Enterprise Florida, the Florida Economic Development Council, the Economic Development Commission of Mid-Florida, the Economic Development Commission of Central Florida, the Economic Development Commission of Florida’s Space Coast, the Jacksonville Chamber of Commerce, the U.S. Export Assistance Center in Miami, the Florida District Export Council, the Florida Small Business Development Center Network, and the World Trade Association of Florida. Enterprise Florida also maintains a separate strategic relationship with the Florida Export Finance Corporation (ss. 288.770-288.778, F.S.), which helps Florida companies increase their exports by providing them with informational, technical, and financial assistance (typically loan guarantees).</li> <li>• <i>Team Florida:</i> Approximately twice a year, Enterprise Florida conducts trade missions to key foreign markets. Recent missions have been made to Brazil, South Africa, Chile, and Argentina, and a mission to Spain will be conducted in November 2001. The missions are typically led by the Governor or his designee and include delegations of business and political leaders.</li> <li>• <i>Florida Certified Trade Events Program:</i> The program provides financial, technical, and logistical support for trade shows and missions sponsored by local economic development organizations. Counties involved with one or more certified trade events during the past three years include Pinellas, Hillsborough, Miami-Dade, Polk, Leon, Brevard, Duval, Sarasota, Orange, and Santa Rosa.</li> <li>• <i>Qualified Trade Leads Program:</i> Enterprise Florida finds trade leads through its internationally based representatives, its strategic alliances with importer associations, and the individuals its staff meets while conducting worldwide marketing activities. Assisted by its TRADE LINK system, Enterprise Florida qualifies leads and disseminates them to state businesses via its staff, its website, the Florida Trade Network, and local economic development organizations.</li> <li>• <i>Florida Services Export Program:</i> The program is a joint venture among Enterprise Florida, the Greater Miami Chamber of Commerce, and the Institute for International Professional Services at Florida International University. The program conducts service-focused trade missions, seminars, and workshops and maintains a website (Floridaservicenet.com) which provides trade information, business referrals, and an online database of qualified Florida service providers. Separate from Enterprise Florida’s appropriation, the Legislature appropriated \$400,000 to the program for FY 2001-02.</li> </ul> |

<sup>10</sup> Although these entities perform a variety of functions, information in this exhibit is specific to their international business-related operations.

<sup>11</sup> Enterprise Florida is under contract to the Governor’s Office of Tourism, Trade, and Economic Development (OTTED). OTTED assists the Governor in working with the Legislature, state agencies, business leaders, and economic development professionals to formulate and implement coherent and consistent policies and strategies designed to provide economic opportunities for all Floridians. (s. 14.2015, F.S.) OTTED is also responsible for monitoring the activities of public-private partnerships and state agencies in order to avoid duplication and promote coordinated and consistent implementation of programs in areas such as international trade and investment.

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|-----------|--|
|           | <ul style="list-style-type: none"> <li><i>Inbound Buying Mission Program:</i> The program is designed to attract foreign buyers to the state, who then travel to designated local communities and meet with potential Florida suppliers and manufacturers. In FY 2000-01, Enterprise Florida hosted or co-hosted inbound missions from Brazil, Japan, Israel, Mexico, Korea, and the Dominican Republic.</li> <li><i>International Recruitment:</i> Enterprise Florida identifies, qualifies, and disseminates international investment leads to local and regional economic development organizations. Enterprise Florida then works jointly with those organizations to help recruited businesses establish operations in the state.</li> <li><i>International Marketing:</i> Enterprise Florida uses its website and branding CDs to market the state as the “Technology Hub of the Americas” and as a global business destination. Trade articles and advertisements are also used to promote the state’s international business character.</li> </ul> |
| Resources | <p>In FY 2000-01, Enterprise Florida expended \$4,799,398 in performing its typical international business-related functions, dedicating 20 FTEs to associated activities. Enterprise Florida’s international activities generated \$520,078 in fees and revenues during the fiscal year.</p>  |

**Department of State**

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| Purpose    | <p>The department’s charge is to indirectly promote development of the state’s international business interests through cultural and artistic programs. (s. 15.18, F.S.) By statute, the Secretary of State, in coordination with Enterprise Florida and other organizations, is encouraged to initiate and develop relationships between the state and foreign cultural officers, their representatives, and other foreign governmental officials in order to promote Florida as the center of American creativity.</p>  |
| Activities | <p>Activities conducted under contract with OTTED:</p> <ul style="list-style-type: none"> <li><i>Free Trade Area of the Americas (FTAA):</i> The FTAA process is attempting to unite the economies of democratic Western Hemisphere nations under a single free trade agreement in which barriers to trade and investment would be progressively eliminated. The department has been monitoring and assisting with the process as well as promoting acceptance of Miami as the home of the permanent FTAA Secretariat (administrative headquarters).</li> <li><i>Gulf of Mexico States Accord (GoMSA):</i> The accord among the eleven U.S. and Mexican states that border the Gulf of Mexico was created to explore opportunities for partnerships, joint ventures, and bilateral and other agreements to enhance development with mutual benefits in the areas of (1) agriculture, forestry, and fisheries; (2) tourism; (3) health, ecology, and environment; (4) education and culture; (5) trade, finance, and investment; and (6) transportation and communications. In 1999, the department successfully negotiated for the Secretariat of the Gulf States Accord to be located in Tampa.</li> <li><i>Florida Association of Voluntary Agencies for Caribbean Action (FAVA/CA):</i> The department oversees the FAVA/CA, a not-for-profit international development organization that attempts to improve social and economic conditions in Central America and the Caribbean, thus reducing the impact of refugees on the state, protecting the state’s environment, and guarding Floridians’ health. The FAVA/CA regularly conducts missions, executes agreements, and seeks public- and private-sector funding to support its programs.</li> <li><i>Florida Delegation of the Southeast U.S./Japan Association, Inc. (SEUS-Japan):</i> The department, Governor’s Office, and Enterprise Florida work closely with the delegation, Florida’s leading private, not-for-profit statewide organization devoted to promoting increased trade, investment, and friendship ties between Florida and Japan through an annual joint meeting and other programs and events.</li> <li><i>Florida-Korea Economic Cooperation Committee (FLOR-KOR):</i> The department participates in, and sometimes coordinates, meetings of the committee, which serves as a point of contact and facilitator for Florida traders, investors, and professionals seeking business opportunities in Korea.</li> </ul> <p>Activities not conducted under contract with OTTED:</p> <ul style="list-style-type: none"> <li><i>Intergovernmental Liaison:</i> The department serves as a contact for the state with the Florida Washington Office, the Florida Congressional Delegation, and federal agencies with respect to laws or policies that might affect the interests of the state in the area of international relations. (s. 288.816, F.S.) Although inquiries regarding international economic trade development or reverse investment opportunities are referred to Enterprise Florida, the department serves as an international programs liaison with county and municipal governments, forwarding international program information when appropriate and beneficial.</li> <li><i>Sister City/Sister State Program (s. 288.816, F.S.):</i> The program facilitates economic, cultural, historical, and educational exchanges between Florida cities and foreign cities and between Florida and foreign states/regions. The department is expanding Sister City and Sister State partnerships by emphasizing economic development-based exchanges.</li> <li><i>International Education Linkage Institutes (s. 288.8175, F.S.):</i> These institutes assist in the development of stronger economic, cultural, educational, and social ties between Florida and strategic foreign countries through expanded cooperative research and technical assistance activities, bilateral commerce, student and faculty exchange, and cultural exchange between the post-secondary institutions in Florida and those countries. There are 11 linkage institutes in Florida which link the state with Brazil, Canada, the Caribbean region, China, Costa Rica, Eastern Europe, France, Israel, Japan, Mexico, and West Africa.</li> <li><i>International Days:</i> This annual conference, hosted by the department, provides a forum for internationalists to exchange information and ideas. Participants include cultural, diplomatic, and trade officials from the state as well as internationally distinguished leaders from around the world.</li> <li><i>Office of Protocol Activities (s. 15.19, F.S.):</i> The office works in conjunction with the Florida Consular Corps, other state agencies, city and county governments, and private-sector entities to ensure that standards of excellence are established and implemented in matters of domestic and international protocol. Through the International Visitors Program, the office manages visits to the state by high-level international officials.</li> <li><i>Outbound International Missions:</i> The department sponsors outbound cultural missions to other countries. Although international cultural exchanges in and of themselves provide valuable opportunities for cultural organizations, they often lay the groundwork for future economic development and diplomacy.</li> <li><i>Administration and Monitoring of International Agreements:</i> The department facilitates and monitors Sister State and cultural agreements between the state and foreign countries.</li> <li><i>International Inter-Agency Networking and Communication Group:</i> This group brings together, on a monthly basis, international policy-making professionals from Florida’s government, private firms, and non-profit organizations for presentations on and discussions about current developments and initiatives in Florida’s international affairs arena. The group promotes idea and information exchange as well as enhanced collaboration among participants. Participants in group meetings have included representatives of OTTED, Enterprise Florida, several state agencies and universities, the Governor’s Office of Drug Control, the Florida National Guard, SEUS-Japan, FLOR-KOR, the American Red Cross, the Greater China Foundation, GoMSA, and FAVA/CA.</li> </ul> |



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|           | <ul style="list-style-type: none"> <li><i>Notary Commissions and Certifications:</i> The department issues apostilles and Certificates of Notarial Authority. An apostille is a simplified certification issued by the Secretary of State, which entitles a document to recognition in the country of intended use. No further authentication or legalization by the embassy or consulate of the foreign country where the document is to be used is required.</li> </ul> |
| Resources | In FY 2000-01, the department expended \$2,853,170 (37% from trust funds, 63% from the General Revenue Fund) in performing its international affairs-related activities and was authorized 10 FTEs for those purposes. <sup>12</sup> The department's Notary Commissions and Certifications Section (4.5 of the 10 FTEs) generated \$3,546,569 in fees for the General Revenue Fund.  |

**Department of Agriculture and Consumer Services**

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| Purpose    | The mission of the Department of Agriculture and Consumer Services' International Marketing program is to extend, in every practical way, the distribution and sale of Florida agricultural products and services throughout the markets of the world. (ss. 570.07 and 570.071, F.S., and chs. 571, 573, and 574, F.S.)  |
| Activities | <ul style="list-style-type: none"> <li><i>Marketing:</i> The department performs numerous activities to help market Florida agricultural products and services. Those activities include leading and participating in trade missions, reverse trade missions, seminars, and shows; producing the Florida Agricultural Export Directory, an export primer, and agricultural facts brochures; compiling and disseminating trade leads; and maintaining a website (www.fl-ag.com).</li> <li><i>Trade Liaison and Counseling:</i> The department employs specialists in international trade and maintains an office in China. Department representatives work through global distribution channels to market Florida commodities. The department also helps state agricultural producers to begin or expand their export activities. Trade liaison services are extended to international buyers who visit Florida seeking information, farm tours, and meetings with government officials.</li> <li><i>Market Research:</i> The department provides farmers, ranchers, and other producers of agricultural commodities with information to assist them in making production and marketing decisions. Other important users of agricultural research are farm organizations, agribusiness and transportation firms, state and national policymakers, and foreign buyers of agricultural products.</li> </ul> |
| Resources  | In FY 2000-01, the department estimated its expenditures to be \$502,611 (14% from trust funds, 21% from the General Revenue Fund, 39% from the federal government, 26% from user fees) in performing its international business-related activities and was authorized 8 FTEs for those purposes.  |

**Department of Citrus**

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| Purpose    | The department seeks to protect and enhance the quality and reputation of Florida citrus fruit and processed citrus products in both the domestic and foreign markets. (s. 601.10, F.S.)   |
| Activities | <p>The department regulates, conducts research for, and promotes Florida's citrus industry. With regard to international business, the department provides marketing, market research/evaluation, and counseling/liaison for Florida citrus exporters in Europe, Canada, and Asia for Florida grapefruit, grapefruit juice, and orange juice.</p> <ul style="list-style-type: none"> <li><i>Marketing:</i> Activities consist of various combinations of advertising, public relations, and merchandising in targeted countries. In Japan, China, Hong Kong, and Taiwan, these activities are handled by in-country promotion agencies that work for the department as outside contractors. The department also maintains public relations agencies in Japan, China, Canada, France, and England.</li> <li><i>Market Research:</i> The department provides industry decision-makers pertinent product and market information for investment decisions impacting the Florida citrus industry in general and Florida citrus growers in particular.</li> <li><i>Trade Counseling/Liaison:</i> The department provides state exporters with news, information, and assistance through regular meetings, individual contacts with staff, and e-mail and fax lists.</li> </ul> |
| Resources  | In FY 2000-01, the department estimated its expenditures to be \$10,493,367 (61% from trust funds, 39% from the federal government) in performing its international business-related activities and was authorized 7 FTEs for those purposes.  |

**State Trade Offices Are Performing Well, But Their Direct Impact on State Trade Is Negligible.**

Typically, state trade offices provide a standard set of services, including counseling, mission support, lead generation, research, and some form of policy advocacy. Interviews and available data indicate that Florida's trade offices, in conjunction with the

Department of State, are performing these functions well. For example, through its standard activities in FY 2000-01, Enterprise Florida:

- assisted companies in generating \$246 million in actual export sales and \$396 million in expected export sales;
- helped attract \$57 million in capital investment to the state;

<sup>12</sup> Reported expenditures might not reflect all of the department's international affairs-related expenses. The Auditor General recently reported that, during at least part of FY 2000-01, the department routinely recorded the expenditures of one program in the accounting records of another, including the travel expenditures incurred by a Latin American Affairs Consultant, which were accounted for in the Division of Elections records. (See Auditor General, *Administrative Functions of the Department of State Operational Audit*, Report No. 02-041, September 2001.)

- had a conservatively estimated return-on-investment (ROI) of \$3.79 for every \$1 spent;<sup>13</sup>
- generated a conservatively estimated 4,600-5,900 jobs in the state;<sup>14</sup> and
- had a high customer satisfaction rate.<sup>15, 16</sup>

However, despite positive ROIs, trade offices across the country have only a negligible direct impact on their states' overall trade results.<sup>17</sup> Enterprise Florida, for example, helped directly generate approximately 1 percent of the state's exports during the past year.

The main reason for this low impact is a structurally unavoidable trade-off that such programs face "between providing broad and shallow versus deep and narrow assistance" to state businesses.<sup>18</sup> As noted by Conway and Nothdurft,

On the one hand, providing data, referrals and contacts costs relatively little and is an essential and classic task of government. But moving beyond providing information is difficult and raises a central strategic question: Should state trade offices aim for maximum exposure or maximum impact? Going for exposure gets the word out, but it doesn't get deals made. Going for impact gets deals made, but no state trade office has the resources to provide the kind of in-depth assistance that yields deals for more than a few dozen individual firms in a given year.<sup>19</sup>

### **However, Public Entities in a State Trade System Fill Critical Service Gaps.**

As noted above, the private sector generates most of its own trade activity. Moreover, there are numerous private-sector entities that provide trade assistance in one form or another.

<sup>13</sup> Calculations were based on actual export sales and new capital investment results multiplied by a 6 percent sales tax. Based on export sales generation, Enterprise Florida had a much higher return on investment than the California trade office.

<sup>14</sup> Calculations were based on the "standard" that each \$1 billion in exports creates 15,000-20,000 jobs and include estimates of jobs supported by foreign direct investment.

<sup>15</sup> Ernst & Young, LLP, last conducted its annual Enterprise Florida customer satisfaction survey in November 2000.

<sup>16</sup> The Department of Agriculture and Consumer Services also reports that, for its FY 2000-01 international trade shows, \$1.60 of outside contributions were raised for every \$1 spent by the department for the shows.

<sup>17</sup> Carol Conway and William E. Nothdurft, *The International State – Crafting a Statewide Trade Development System*, Washington, D.C.: The Aspen Institute, 1996, p. 47, 52-3.

<sup>18</sup> *Ibid.*, p. 47.

<sup>19</sup> *Ibid.*

Still, there are service gaps in the international business market that must be filled, at least temporarily, by government. For example, because the transaction costs for trade development assistance to smaller businesses are generally higher than for larger firms, the price of private-sector assistance often outweighs the initial benefits for smaller firms. Enterprise Florida, though, fills this market gap by focusing its services on smaller firms.<sup>20</sup> Enterprise Florida also manages the Florida Certified Trade Events Program, which provides support for trade shows and missions sponsored by local economic development organizations, many of which would not otherwise have the financial or technical wherewithal to conduct such events.

Yet another gap is filled by the Department of State, which advocates for state trade interests in national and international foreign policy arenas. Given the number and variety of issues at stake in current international trade negotiations, it is unlikely that any one state business or industry could effectively voice and promote state trade interests in a coordinated manner that would be optimal for the state as a whole.

## **RECOMMENDATIONS**

### **The Legislature Should Continue Improving the Overall Attractiveness of the State's Economy.**

Although public entities in the state trade system are already following many of the international business best practices described in literature and used by other states and countries, the entities' relatively few resources (as compared to those of the private trade sector) prevent them from greatly impacting the international competitiveness of the state's economy. Therefore, according to Enterprise Florida and the Florida Chamber of Commerce, improving the overall attractiveness of the state's economy is key to the expansion of both domestic and international business in the state. Specific topics that should be addressed include workforce education, infrastructure adequacy, capital availability, and tax/incentive policy.

### **Public Entities in the State Trade System Should Continue to Fill Service Delivery Gaps.**

Improving the economy's attractiveness might be key to improving the state's international competitiveness, but public entities involved in the state trade system

<sup>20</sup> Enterprise Florida estimates that at least 90 percent of the businesses served by its international activities are considered "small" by U.S. Small Business Administration standards.

can still play a crucial role by filling service gaps left by the private sector. Areas in which the state can play a role include:

*Encouraging Trade Participation:* Many of the 20,000-40,000 businesses in the state with unrealized export potential might not know about the importance or benefits of international trade. These firms might also perceive barriers to their trading that could be readily overcome with the assistance of public- or private-sector trade organizations. State entities should explore ways to cost-effectively further trade education in the state through public and/or private means.

*Advocating State Trade Interests:* National trade policy decisions and agreements (e.g., NAFTA) greatly affect state businesses. It is critical to ensure that state interests are protected during international trade discussions and negotiations. State entities should continue to work together, with the private sector, and with the state's congressional delegation to voice and promote state trade policy.

*Providing State Policymakers with Trade and Market Intelligence:* One important responsibility of public entities in the state trade system is to use their research capabilities and foreign information sources to present policymakers with timely, relevant trade data and intelligence. This information helps policymakers optimize state trade policy and take preventive action when there are potential threats to the state's economy.

This function will be even more important in the months ahead. The Economist Intelligence Unit, a sister company of *The Economist*, predicts that world trade growth will be only 3 percent this year, down from a 13-percent growth rate in 2000 and representing the sharpest drop since 1975.<sup>21</sup> Bearing out this prediction, the U.S. Department of Commerce's September 2001 trade report shows that U.S. exports declined by \$2.2 billion from June to July, the largest month-to-month decline since the current series of data was first collected in 1992.<sup>22</sup> Moreover, several of the state's Latin American trading partners, including Argentina and Brazil, are experiencing economic difficulties.

Compounding this trade decline is the uncertainty over the global economic effects of the September 11 terrorist attacks on New York, Pennsylvania, and

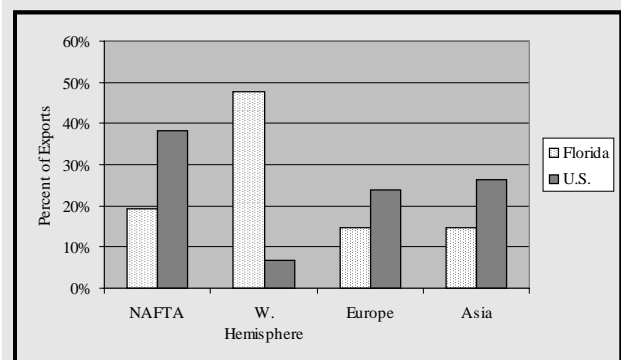
Washington, D.C., and the U.S. response to those attacks. If the economies of Florida's major trade partners are further weakened or destabilized, the state's trade balance could be affected. Florida's exports might also decline if the state economy slows, international perception of the state changes, or trade-related security and transportation costs increase.<sup>23</sup>

Amid global economic uncertainty, public entities in the state trade system should increase their collection of international business-related data and intelligence. Conclusions and policy recommendations based on this information should be regularly developed in a coordinated manner through existing multi-entity groups and presented to state policymakers.

Furthermore, public entities in the state trade system should be extra vigilant for signs of long-term shifts in international business conditions or paradigms. If major changes are detected, these entities should devise new, even creative, strategies to help the state maintain or increase its international business activities.<sup>24</sup>

*Encouraging Export Diversity:* In 1997, the Florida Chamber of Commerce noted that, because of the state's location, state exporting was heavily skewed toward Central/Latin America.<sup>25</sup> As noted in Exhibit 3, this trend has not changed.<sup>26</sup>

**Exhibit 3: Comparison of U.S. and Florida Export Destinations in 2000 (Top 50 Destinations)**



Source: U.S. Census Bureau; prepared by U.S. Department of Commerce.

Lack of export diversity leaves the state vulnerable to economic downturns in a single region of the world. For example, Enterprise Florida attributes a 1999 downturn in state exports to a Brazilian economic

<sup>21</sup> "A Global Game of Dominoes," *The Economist*, August 25, 2001, p. 22.

<sup>22</sup> See Doug Palmer, "Trade Gap Shrinks Slightly in July," *Reuters News*, September 19, 2001. Florida's exports also declined from June to July 2001.

<sup>23</sup> It is also possible that exports will increase if the dollar weakens against the currencies of major state export destinations.

<sup>24</sup> For example, if increased shipping and security costs raise the cost of exporting goods, the state might want to increase its promotion of service exports, which already contribute heavily to the state's economy.

<sup>25</sup> Florida Chamber of Commerce Foundation, Inc., *International Cornerstone Florida – Building a Crossroads Economy*, 1997, p. IV-V.

<sup>26</sup> It should be noted that the state's export sales to Japan increased 153 percent between 1999 and 2000.

crisis. Argentina's recent financial troubles make it all the more important to examine ways to achieve an export distribution balance similar to that of the nation as a whole. Public entities in the state trade system should continue to build trade bridges to other regions of the world and encourage firms to cross those bridges.

*Forging Diplomatic and Cultural Relationships:* Diplomatic and cultural relationships between countries often serve as a basis for private business dealings. State entities should continue to establish such relationships with foreign cities and nations in order to lay a foundation upon which commercial ties can be forged.

*Optimizing Trade Websites:* Typical state trade office websites contain an abundance of trade information, statistics, and "how-to" manuals. While these items are important, they are available from the U.S. Department of Commerce and various private organizations and can be (and should be) linked to the websites of public entities in the state trade system. Beyond these basic elements, though, are four key functions/characteristics that best-practice trade websites possess and that websites of public entities in the state trade system should add or enhance as resources allow.

First, an entity's website should be easy to find. It should have a prominent hyperlink on major, relevant portals as well as related trade websites. Currently, there are no hyperlinks on the MyFlorida.com homepage that lead directly to eflorida.com (the Enterprise Florida website) or to other international trade-related state websites.<sup>27</sup> Moreover, not all websites of public entities in the state trade system feature prominent hyperlinks to one another.

Second, an entity's website should strongly encourage visitors to call the entity's experts. A "live" person is much better than a computer monitor at solving trade problems and selling businesses on the merits of conducting international trade and doing business with the state. Although websites of public entities in the state trade system currently provide contact information, the entities' ability to provide expert assistance is not always promoted as strongly or prominently as it could be.

Third, an entity's website should act as a broker of information and a facilitator of communication. Public entities in the state trade system are in prime position to

gather trade information and leads that are typically unavailable to businesses. Entity websites should facilitate the collection and dissemination of this information. Public entities in the state trade system are beginning to add such functionality to their websites. For example, Enterprise Florida intends to implement an online trade-lead system, and the Department of State is planning a "Florida Citizen's Diplomat Club" information web page.

Fourth, an entity's website should not assume that all potential visitors are fluent in English. Critical, if not all, information on a trade website (or in trade marketing materials) should be presented in the languages of targeted foreign markets. Currently, the Department of Agriculture and Consumer Services publishes parts of its agricultural export directory in languages other than English, while Enterprise Florida plans to add country-specific sections to its website.

#### **Public Entities in the State Trade System Should Optimize User Fees.**

Although it is important for public entities in the state trade system to fill service gaps left by the private sector, the state should attempt to recover its costs when doing so and should be careful not to impede the market's ability to fill those gaps on its own. Many public entities in the state trade system provide financially valuable services to Florida businesses. Enterprise Florida, for example, helped companies generate \$246 million in actual export sales and \$396 million in expected export sales during FY 2000-01. Although Enterprise Florida and other state trade entities do charge user fees for certain services that generate private-sector profits (*see* Exhibit 2), entities should regularly reevaluate fee levels to ensure that they are maximizing cost recovery and that they are not undercutting market attempts to provide similar services to a similar clientele.

<sup>27</sup> The "Business & Industry" hyperlink on the MyFlorida.com homepage leads to state purchasing information.