

Services Export Opportunities for California--A Preliminary Assessment

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Abstract

In the age of offshoring, rising imports, and job loss concerns, it is vital to formulate strategies for export promotion. This paper identifies, examines and analyzes export opportunities for small and medium sized California services firms (SMEs), which employ the majority of California workers. The research assesses trends in services exports, characteristics of the California economy and of small (fewer than 100 employees) and medium-sized firms (100 to 500 employees), resources available from the US federal government and California state and local agencies, market research, and public and private foreign resources to identify services sectors with significant opportunities for export activity. The study focuses particularly on prospects for export growth to large, rapidly growing economies in Asia, including China and India. Services with strong export growth potential include education, energy, technical and scientific services, tourism and software. Additional sectors, where demand is strong but some institutional issues exist include, entertainment, finance, logistics, legal services and environmental services. A variety of public and private resources exist, in the US and abroad, to assist firms seeking export opportunities.

Keywords: California, China, education, emerging economies, energy, entertainment, environmental services, finance sector, foreign direct investment, globalization, India, legal services, market research, multimedia sector, offshoring, sectors, services exports, services trade, small and medium sized enterprises (SMEs), software sector, tourism sector

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Executive Summary

In the age of offshoring, rising imports, and job loss concerns, it is vital to formulate strategies for export promotion. This report identifies, examines and analyzes export opportunities for small and medium sized California services firms (SMEs), based on trends in services exports, characteristics of the California economy, the profile of small firms (fewer than 100 employees) and medium-sized firms (100 to 500 employees), resources available from the US federal government and California state and local agencies, public and private foreign resources, and market research and interviews by the authors.

Services Sector Export Trends

Services are generally produced and consumed simultaneously, but the mode of delivery may take several forms, including *cross border* (similar to merchandise trade), *consumption abroad* (as with tourism--a US tourism "export" takes place in the US), *foreign direct investment* (FDI, takes place where the consumer is located), and *short-term presence* (the provider temporarily relocates in the buyer's country to provide the service). Services trade accounted for 30 percent of exports and 16 percent of imports in 2005. From 1999 to 2004, the largest growth in services exports has come from royalty and license fees (encompassing a wide range of services, including software and entertainment); financial services; transportation; research, development and testing; education; operational leasing; insurance services; management and consulting; film and television rentals; and computer and information services.

The US has considerable competitive strengths in services sectors, and US services exports are spread broadly to Europe, Asia and the Americas. China and India are among the ten markets experiencing the largest increases in US services exports. This report focuses most heavily on prospects in China and India because of their current rate of growth and potential market size, combined with California's evolving economic structure, diaspora ties, and Asia-Pacific location.

California's SME Services Base

California holds a dominant position within the US in services exports in research, development and testing services; book, record, tape and software royalties; air freight; information and entertainment services, accounting, agricultural services, and international travel and tourism. California has a slightly higher share of establishments and employees in small to medium sized services firms than the US as a whole.

Services Export Opportunities for SMEs

Services exports have great potential for growth in the developing and fast-opening economies of China and India. Potential export sectors include:

- *Education*--Enrolling foreign students in US institutions; locating branches abroad; training services for foreign students and professionals either in the US or abroad.
- *Energy and Environmental Services*--Meeting the growing demand for services related to energy supply, energy efficiency, clean energy, and environmental management in emerging economies.
- *Technical, Engineering and Scientific Services*-- SMEs can piggyback on large US high-tech MNEs, with operations in China and India; potential to tap the technological leapfrogging taking place in many emerging economies.
- *Real Estate Services*--Ongoing boom in real estate in India and China means SMEs with specialized services have the opportunity to partner with US real estate services firms that are well-established there, as well as with local firms.
- *Architecture and Design Services*--US individuals and firms can partner with local firms; favorable demographics and other factors suggest sustained growth.
- *Logistics*--SMEs can participate in intermediary roles, providing specialized software and planning services for major transportation hubs.
- *Software and IT Services*--Successful US companies will have specialized expertise and/or a local presence and knowledge of local needs; diaspora and MNE linkages a plus.
- *Finance, Banking and Insurance*-- SMEs have considerable scope in specialized niche areas, including real estate finance, risk management, insurance and financial consulting, as mortgage financing, securitization, and mortgage insurance come into use.
- *Legal Services*--Special opportunities exist in international corporate law, Intellectual Property law, and related areas as business expands and India and China begin to increase IP protection for both foreign and local firms.
- *Travel and Tourism*--California has great potential for tourism from China and India, as these countries experience income growth. There is demand for consulting by travel services firms on tourism infrastructure and services development in these two countries and for investment in tourism related facilities abroad.

Challenges

There are a number of challenges and obstacles to services exports from the US:

- There are large differences between the price of services in the US and in the developing world, pressuring producers to provide services at lower prices.
- It is difficult to establish prices where there is no price history for some new services, and no experience in paying for this type of "intangible."
- SMEs may not have the initial capital necessary for effective scale of operations, or the ability to carry costs for up to three to five years before export income increases.

- Market knowledge may be costly and culture specific.
- Services may need modification for a different economic, cultural and physical setting.
- Legal structure, regulations and institutional setup may affect provision of services.

Resources and Strategies

There are resources in the US and abroad to help SMEs take advantage of business opportunities, as well as strategies that can be followed, including:

- Assistance from US Department of Commerce, Foreign Commercial Services, and other agencies and government affiliated programs
- Coordination with public and quasi-public resources in China and India
- Specialized consulting and intermediary firms exist in both countries
- Opportunities to piggyback on US MNCs
- Joint ventures with established Chinese and Indian companies or with US firms with FDI in China or India
- Building on family and cultural ties
- An SME focusing on secondary and tertiary urban centers
- Using franchising and process licensing to enter unfamiliar markets.

Conclusion

Services exports are likely to play a growing role in US foreign trade. The US and California potential for growth in services exports arises from a number of factors:

- Growing importance of services worldwide
- Competitive edge of US in services
- Increasing tradability of services
- Opening up of services sectors in developing countries
- The large existing presence of US foreign direct investment in complementary sectors of those countries
- The reputation and brand recognition of the US in services sectors.

With the right strategy, supportive policy and networks, SMEs will benefit from growing services trade opportunities, thus contributing to job creation and improving the trade deficit.

Services Export Opportunities for California--A Preliminary Assessment

1. Introduction

Services, broadly defined, account for more than half of US output and employment. While many services sectors are largely non-tradable and localized, technological changes in the past two decades have expanded the number of tradable services activities and their scope of trade. Services accounted for 30 percent of US exports and 16 percent of imports in 2005, and US transactions make up one quarter of the global trade in services. Services imports, in the form of offshored white-collar jobs, have attracted a great deal of attention in the past three years because of the potential negative effects on employment opportunities and wages of US workers, as well as on the increasing trade deficit. Much less attention has been paid to the growing opportunities for services exports from the United States, and many of the programs designed to assist US exporters have concentrated largely on merchandise exports, rather than on opportunities in the services sectors.

This paper examines services export opportunities for California, particularly from the point of view of small and medium sized businesses. Section II describes services export activities at the federal level, discusses attempts to translate federal data on services exports and state data on services activities into state level services exports, describes the population of small and medium-sized firms that engage in these services activities, and compares the population to those firms that have sought assistance from trade assistance programs. Section III highlights sectors where small and medium-sized firms may find export opportunities, with an emphasis on prospects in two of the most rapidly growing Asian economies, that could provide a customer base for US services

exports. Section IV concludes the paper with a discussion of future directions, including barriers that currently limit opportunities, and resources and strategies for expanding services exports.

2. Background

2.1. A Note on Definitions

In economics, "services" may be defined in many ways. For the purposes of this study, we use several criteria and definitions. Most broadly, a services activity is one that does not involve the direct production of goods or extraction of resources. Under this definition, sectors such as what is now called "logistics," involving the movement and distribution of goods, or wholesale and retail trade activities would be included as services. The intangible nature of services and the distinctive modes of delivery to the ultimate consumer result in a different typology when it comes to international trade. For understanding services international trade, we build from the GATS (General Agreement on Trade in Services) definition, which recognizes four types of trade in services, including i) cross-border supply (service produced in one country supplied to a purchaser in another country, such as software or services embedded in goods, and which for all practical purposes is similar to trade in goods), ii) "consumption abroad" (service consumed in the foreign territory, as with tourism; i.e. tourism to host country would count as exports by host country and tourism to foreign country as imports)--to avoid confusion, we call this *consumption in exporter's home country*, iii) supply through commercial presence (foreign business supplies services within the consumer's country through foreign direct investment)--we call this *FDI*, and iv) supply through the presence

of natural persons (service-providing individual comes to the consumer's location to provide the service on a temporary basis)--we call this *supply by visits abroad*.¹ In trade statistics, these definitions can include services provided by what is largely a manufacturing enterprise.

For the purposes of our study, we make use of and narrow these definitions as follows. In reporting general output and employment statistics, we rely to some extent on the Bureau of Labor Statistics and Bureau of Economic Analysis broad definition of services, which includes all nonmanufacturing/non-resource-based activities. However, our more disaggregated analysis covers a narrower range of services that excludes the distribution and retail/wholesale trade sectors of the economy. For international trade in services, the primary focus of this report, we use statistics as reported by US government agencies. Much of the US trade data is reported for modes 1, 2 and 4 according to GATS. Since one of the underlying motivations for undertaking this study is to identify services exports with the potential for domestic job creation, our primary focus would be on these modes, since Mode 3 is a case of foreign direct investment.

2.2 An Overview of Services Trade, Export Sectors, and Destinations

The Bureau of Economic Analysis reports cross border private services exports from the US at \$323.4 billion in 2004 and imports at \$258.1 billion.² Transportation and travel accounted for the largest share of US private services exports in 2004 (40%),

¹ See World Trade Organization 2006.

² Use of US services trade data requires careful attention to definitions. A single source, for example the US Bureau of Economic Analysis may report different aggregate numbers, depending on what is being measured--private vs private plus public, arms length vs trade among affiliates. The shares and data used in this section are for *private trade* only, with some attempt to distinguish between arms length and affiliate trade, where available. This was the level at which the greatest detail on services sector trade was available.

followed by royalty and license fees (16%)³, financial services (8.5%), education (4%), and film and tape rentals (3%). Just over one fourth of services exports are in "other private services," which include insurance services, telecommunications services, advertising, computer and data processing, research, development, and testing services, management consulting and public relations services, legal services, construction, engineering, architectural services, and medical services. Transportation and travel also had the largest share of 2004 private services imports (56%), followed by insurance services (11.6%), royalties and licenses (9.3%), financial services (4.3%) and computer and information services (2.2%). Table 1 shows the largest US services export and import sectors. Seven sectors appear on both the top ten services export and import lists.

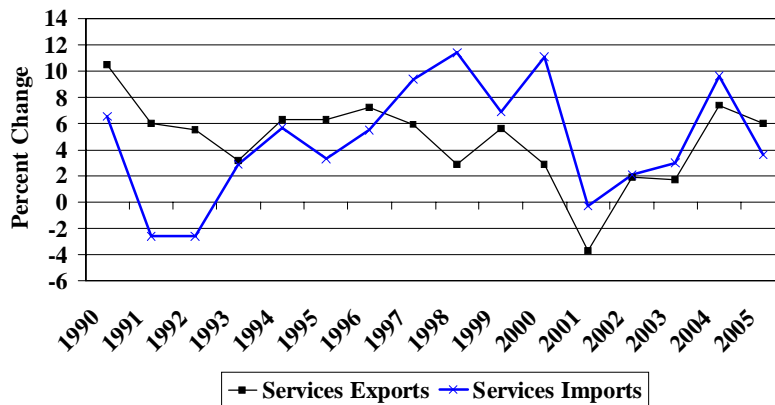
Table 1: Largest Services Export and Import Sectors, 2004				
(Millions of Dollars)				
Service Sector	Exports	Export rank	Imports	Import Rank
Travel	\$74,481	1	\$65,635	1
Royalties/License Fees	\$52,643	2	\$23,901	4
Transportation except Passenger Fares	\$36,862	3	\$54,169	2
Financial Services	\$27,397	4	\$11,168	6
Passenger Fares	\$18,858	5	\$23,701	5
Education	\$13,523	6	\$ 3,525	>10
Film and TV Tape Rentals	\$10,480	7	\$ 341	>10
R&D Testing Services	\$ 9,807	8	\$ 4,727	9
Computer and Information Services	\$ 8,501	9	\$ 5,804	7
Operational Leasing	\$ 8,234	10	\$ 1,184	>10
Insurance Services	\$ 6,126	>10	\$29,882	3
Management & Consulting Services	\$ 4,452	>10	\$ 5,023	8
Telecommunications	\$ 4,374	>10	\$ 4,365	10

Source: Authors from Bureau of Economic Analysis Statistics

³ Receipts arising from usage of US owned patents, techniques, processes, formulas, designs, know-how, trademarks, copyrights, franchises, and manufacturing rights.

Through 1996, services exports grew more rapidly than services imports. Between 1997 and 2004, services exports remained higher than imports, but services imports were growing more rapidly (see Figure 1). Services export growth once again outpaced import growth in 2005.

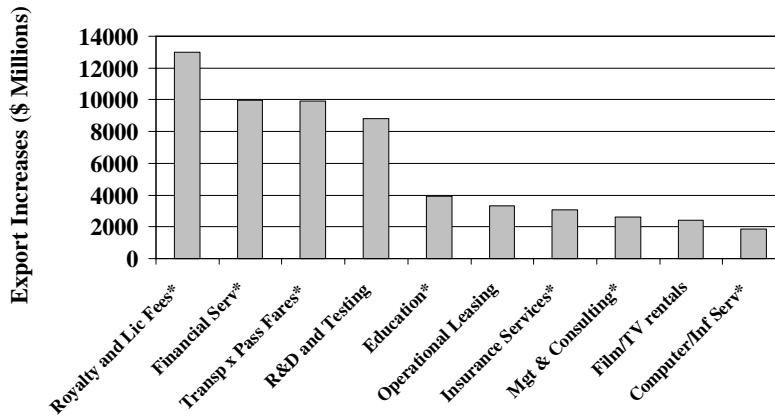
Figure 1
Percent Change in Services Trade from Preceding Year, 1990-2005



Source: US Bureau of Economic Analysis <http://www.bea.gov/bea/dn/home/gdp.htm>.

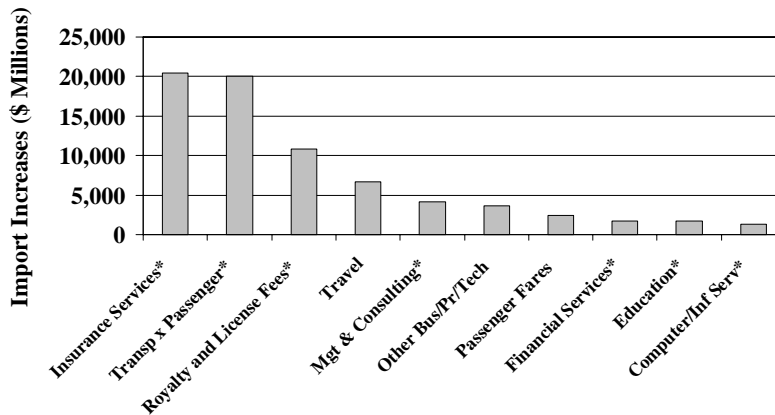
Consistent with existing trade patterns and the growing integration of economies throughout the world, many services sectors are experiencing both rapid import and export growth, similar to the growth in intra-industry trade in manufacturing. All but three of the top ten services export growth sectors as measured by increased volume of trade also appear on the list of top ten services import growth sectors, as shown in Figures 2 and 3.

Figure 2
 Sectors with Largest Growth in Services Exports
 1999-2004



Source: Author analysis from US Bureau of Economic Analysis data.
 * Also among services trade sectors with largest growth in imports.

Figure 3
 Sectors with Largest Growth in Services Imports
 1999-2004

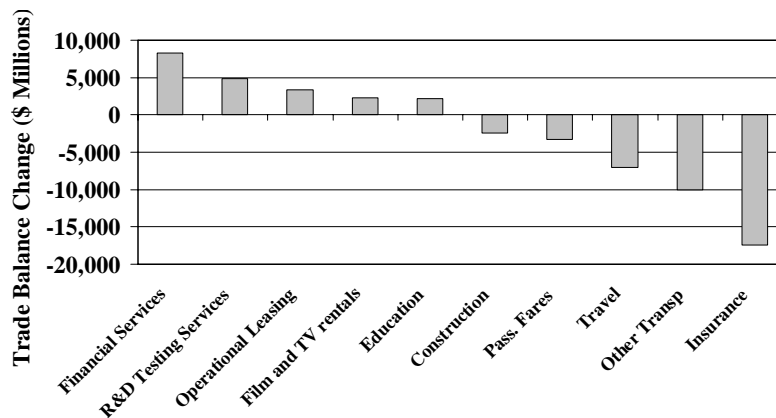


Source: Author analysis from US Bureau of Economic Analysis data.
 * Also among services trade sectors with largest growth in exports.

Apart from royalties and licenses (which in reality may encompass a large number of economic sectors), the largest increases in services exports indicate opportunities have

been growing in financial services, logistics related activities (tracked as transportation except passenger fares), research and development, education, leasing, insurance, management and consulting, multimedia, and computer and information services. Services sectors with the top *net* gains include financial services, research and development, operational leasing, multi-media and education, as shown in Figure 4.

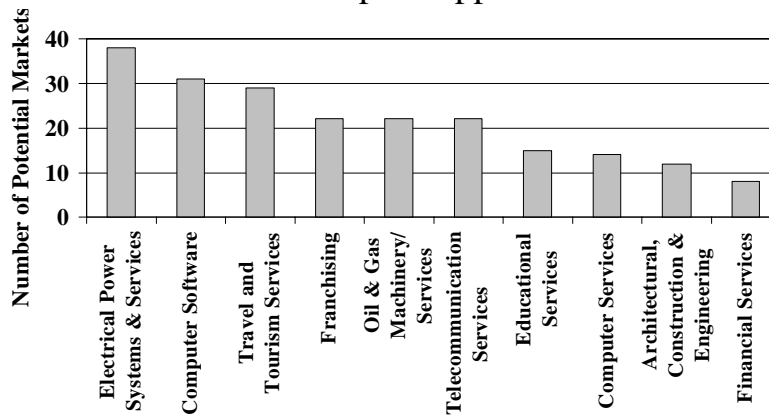
Figure 4
Sectors with Largest Net Gains and Losses in Trade
1999-2004



Country commercial guides provide further refinement on areas of services export opportunities. A list compiled by the El Camino Center for International Trade Development includes a number of additional services sectors that have been identified for US exports by the State Department and US Department of Commerce, as shown in Figure 5. In addition to the sectors already mentioned, energy related services and design and engineering services also appear to have markets in many countries. (These do not show up in Figure 4 because they are not reported separately. They are reported as part

of "other business, professional and technical services," which if considered a "sector" would rank as third in value of exports at \$40 Billion, and fourth in value of imports.)

Figure 5
US Country Commercial Guide Frequently
Mentioned Export Opportunities



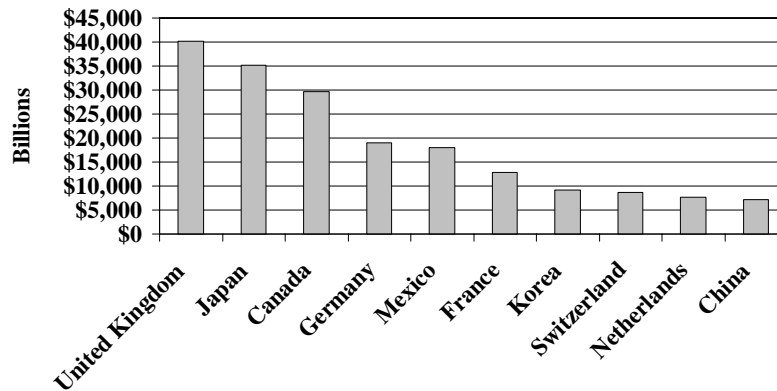
Source: Summarized from a compilation by the El Camino Center for International Trade Development from 2005 US Department of Commerce Country Commercial Guides.

International trade in services between the US and other countries is spread broadly throughout the world. As with sectors, the countries to which the US exports large amounts of services are often those countries from which the US imports large amounts of services. The United Kingdom, for example, is both the top US customer for *unaffiliated* services exports and for *unaffiliated* imports.⁴ (See Figures 6 and 7). Trade is spread broadly among Europe, Asia and Central and South America. With the absence of information on affiliate flows, some of the countries that have featured most heavily in

⁴ The separation of exports into affiliated and unaffiliated is particularly problematic for the services sector. Cross border trade is unambiguous, but other types of exchanges, particularly among affiliated parties, may be classified as international trade theoretically but accounted differently in company reporting when it occurs within firm or among affiliates. Where affiliate transactions are counted as trade flows, they are generally not reported by country. The discussion here for sectors takes into account affiliate trade, to the extent to which it is reported as such, while the discussion of countries that is drawn from Bureau of Economic Analysis data is taken only from "unaffiliated" trade. The last section of this brief also deals with some of the structural issues involved in the trade-off between exports and foreign direct investment in the case of services.

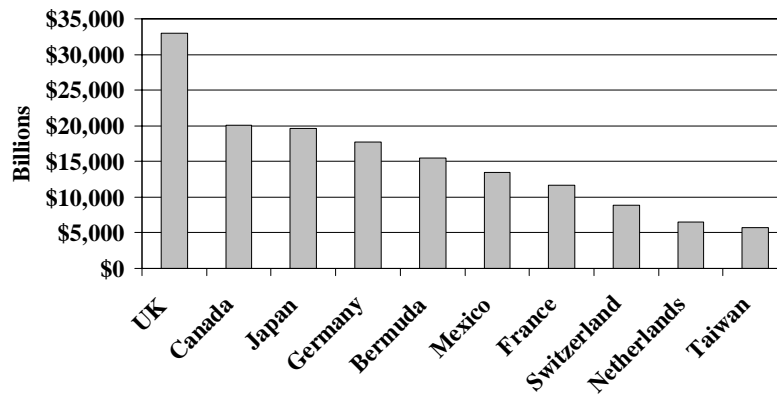
the press in services offshoring discussions, such as India and China, appear at relatively low levels of trade activity in services. However, both appear among the countries that have had the largest increases in services exports from the US (see Figure 8).

Figure 6
US Top Services Export Destinations, 2004
(Unaffiliated only)



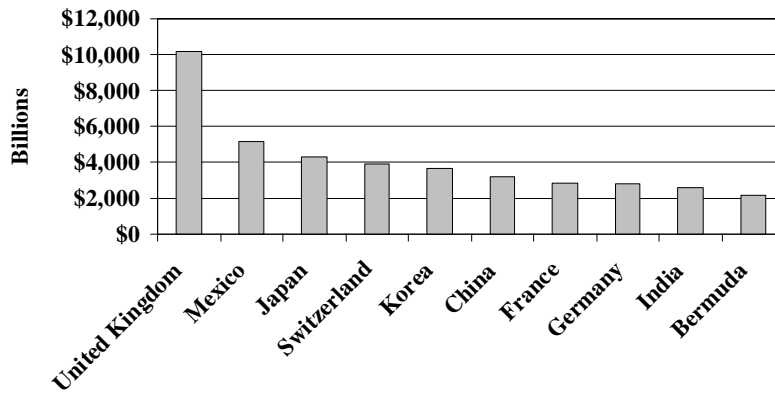
Source: US Bureau of Economic Analysis.

Figure 7
US Top Services Import Source Countries, 2004
(Unaffiliated only)



Source: US Bureau of Economic Analysis.

Figure 8
 Countries Receiving Largest Increases in Services
 Exports from the US 1999-2004
 (Unaffiliated only)

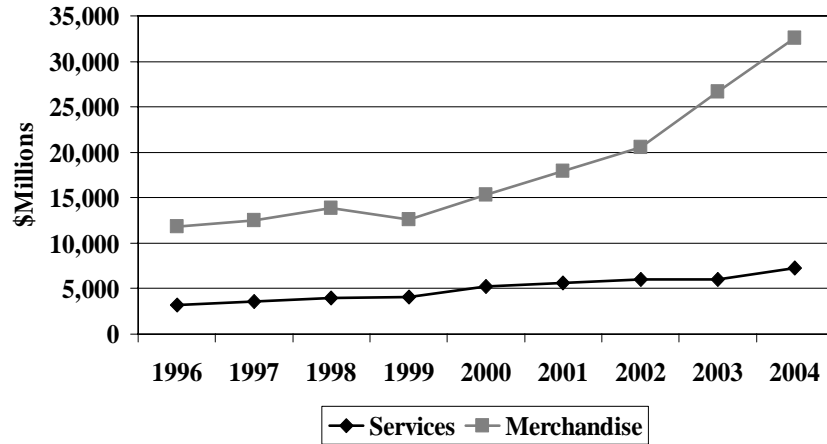


Source: US Bureau of Economic Analysis.

2.3. China and India

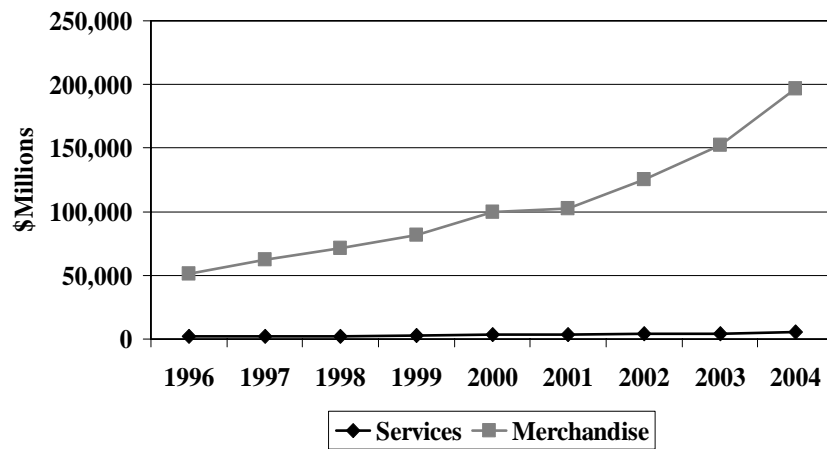
Data on unaffiliated trade indicate that US services exports to China and India have reached significant levels relative to US merchandise exports to these countries. Figures 9 and 10 compare services and merchandise exports and imports for China. In 2004, services accounted for 18 percent of US unaffiliated exports to China, but for less than 3 percent of unaffiliated imports from China. Between India and the US, services trade is even more important relative to merchandise trade, as shown in Figures 11 and 12. Unaffiliated trade in services accounted for 47 percent of unaffiliated US exports to India in 2004 and for 15 percent of imports.

Figure 9
 Services and Merchandise Exports to China
 1996-2004



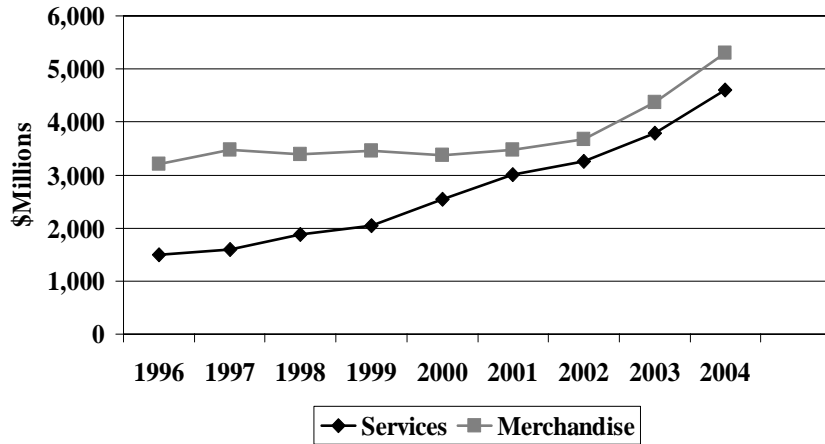
Source: FCREUE from US Department of Commerce and International Trade Commission data.

Figure 10
 Services and Merchandise Imports from China
 1996-2004



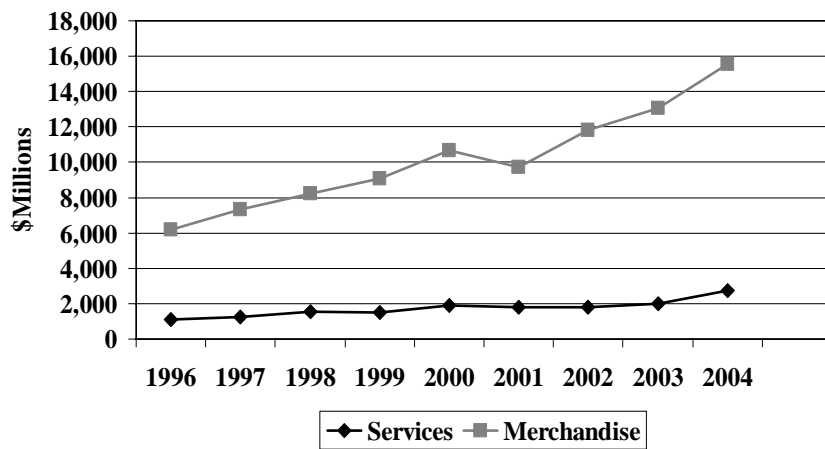
Source: FCREUE from US Department of Commerce and International Trade Commission data.

Figure 11
 Services and Merchandise Exports to India 1996-2004



Source: FCREUE from US Department of Commerce and International Trade Commission data.

Figure 12
 Services and Merchandise Imports from India 1996-2004



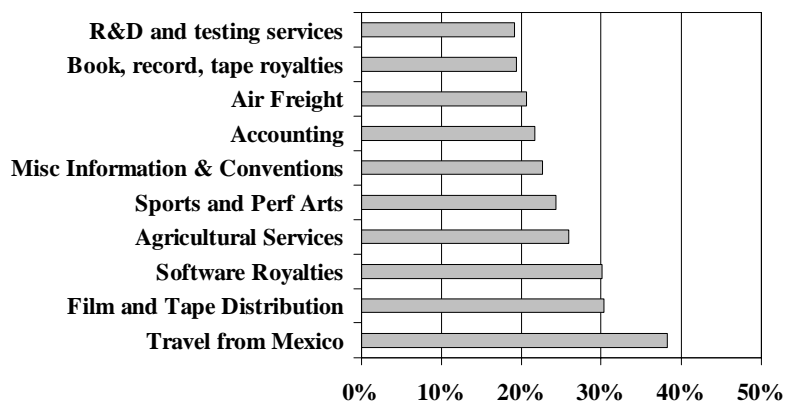
Source: FCREUE from US Department of Commerce and International Trade Commission data.

2.4. California Services Exports

Merchandise export figures are estimated at the state level by the US Department of Commerce, relying primarily on customs records, but services exports are not

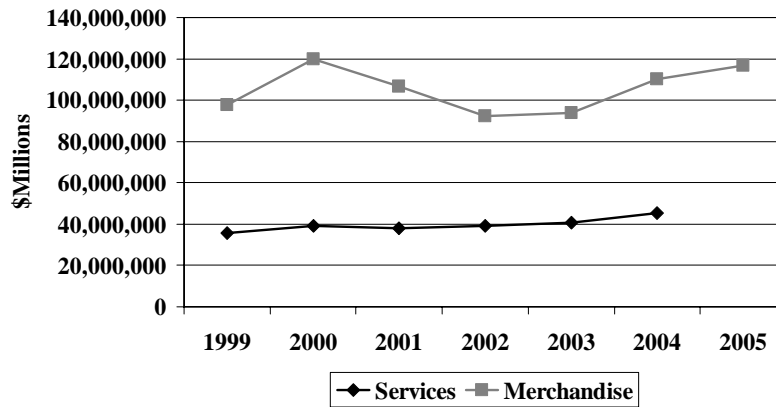
estimated below the national level by US agencies. Early estimates of services exports for California were made in the 1990s by the Center for the Continuing Study of the California Economy and by Bardhan, Kroll and Jaffee, based on California's share of service employment and output. These studies estimated California's total share of US services exports at over 20 percent. A more recent study by Miloslavsky and Shatz builds on the now much more detailed services export data available at the national level to estimate California's export shares through 2000. As shown in Figure 13, California has a strong position in a wide range of services, including those related to tourism, logistics, professional and technical services, and entertainment. Our own estimates, drawing on the ratios calculated by Miloslavsky and Schatz and extending the estimates to 2004 indicates that services exports from California have had steadier growth than merchandise exports. (See Figure 14)

Figure 13
California Shares of US Services Exports—Sectors
with the Highest Estimated Shares in 2000



Source: Miloslavsky and Shatz 2006.

Figure 14
 Services and Merchandise Exports from California, All
 Countries, 1999-2004

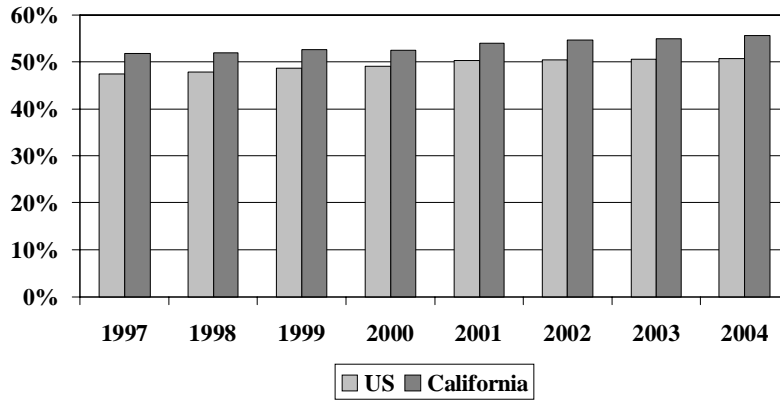


Source: FCREUE from US Census data, Miloslavsky and Schatz *Economic Development Quarterly* 2006, and FCREUE estimates.

2.5. Services Sectors Output and Employment

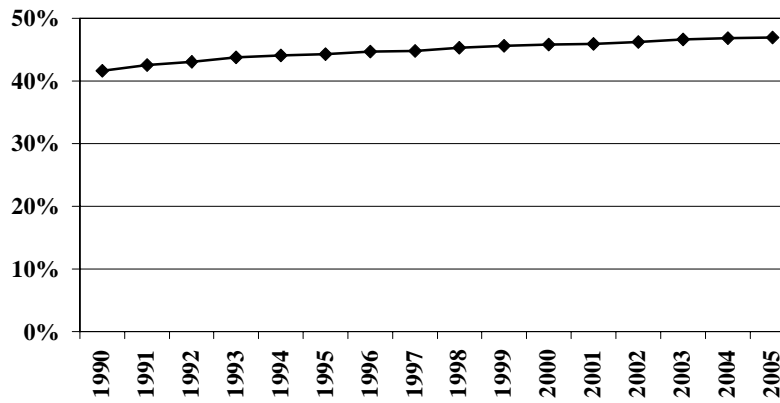
Services sectors (excluding wholesale and retail trade, distribution and government) account for a growing share of output in both California and the US, as shown in Figure 15. In 2004, according to US BEA estimates, services accounted for over 55 percent of California's GSP, up from 52 percent in 1997. The services share of employment has also grown, as shown in Figure 16. More than three-fourths of California services employment is in three sectors, with significant export potential in some of the sub-sectors subsumed within them: professional and business services, education and health services, and leisure and recreation. (See Figure 17).

Figure 15
 US and California Share of Gross Product in
 Services, 1997-2004



Source: Computed from US Bureau of Economic Analysis data drawn from <http://www.bea.gov/bea/regional/gsp/>

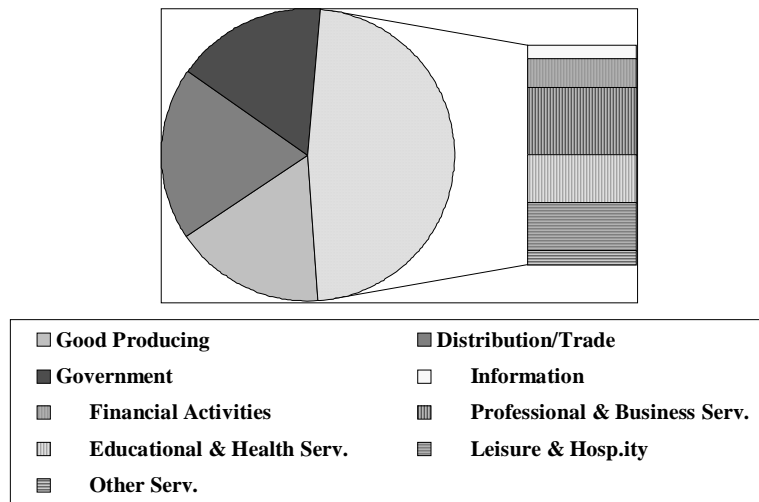
Figure 16
 California Services Employment as Share of Total,
 1990-2005



Source: Computed from California Employment Development Department, Labor Market Information Division, March 2005 Benchmark data.

Note: Definitional differences may limit comparability between employment and GSP services definitions.

Figure 17
Services Sectors Share of California Employment 2005



Source: Computed from California Employment Development Department, Labor Market Information Division, March 2005 Benchmark data.

2.6. Small and Mid-Sized Services Firms--the Potential Client Population

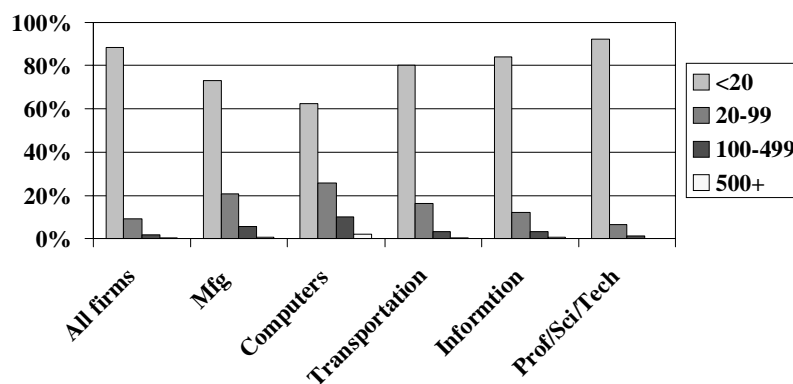
Earlier research by the authors shows that many large services firms are already heavily engaged in services trade, especially in the sectors described in the preceding section as having export potential. Trade assistance services from the California Centers for International Trade Development and the US Commercial Service focus primarily on small to medium sized firms, which may face structural limitations or other barriers to participating in trade. These firms are less likely than larger firms to be international in scope or to have resources for developing trade opportunities.

What are small and medium sized firms? After interviews with CITD and US Commercial Service staff, and reviewing small business administration standards, our analysis focuses primarily on firms with 500 employees or fewer, defining small firms as firms with fewer than 100 employees, and medium sized firms as having 100 to 500 employees. We also distinguish between establishments and firms. The census defines an

establishment as "a business or industrial unit at a single geographic location that produces or distributes goods or performs services, for example, a single store or factory" (City and County Data Book), while the US Small Business Administration defines a firm as "the aggregation of all establishments owned by a parent company (within a geographic location and/or industry) that have some annual payroll. A firm may be located in one or more places." (US Small Business Administration 2006b).

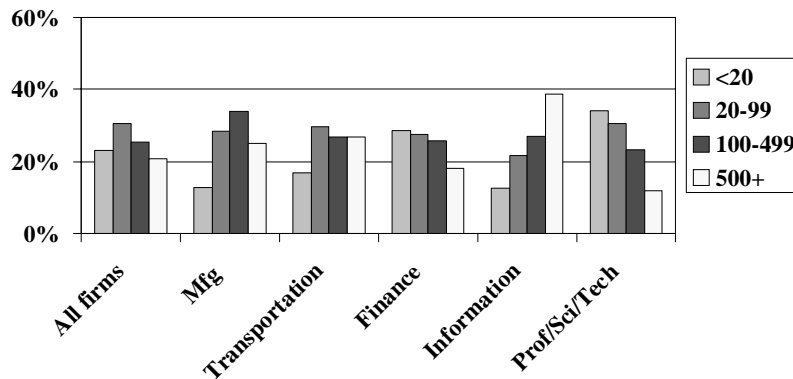
The most detailed size-related information is readily available at the establishment level, rather than by firm. Fewer than 1 percent of California's 1.2 million establishments have more than 500 employees, but these large establishments account for over 20 percent of employment (Figure 18). Establishment size distribution varies by sector, with the professional, scientific and technical services sector (a sector with significant new export potential) more heavily weighted to small establishments than the other major sectors (Figure 19).

Figure 18
Establishment Distribution by Size and Sector
California, 2004



Source: California Employment Development Department, Labor Market Information Division, Table 2A: Third Quarter Payroll and Number of Businesses by Size Category.

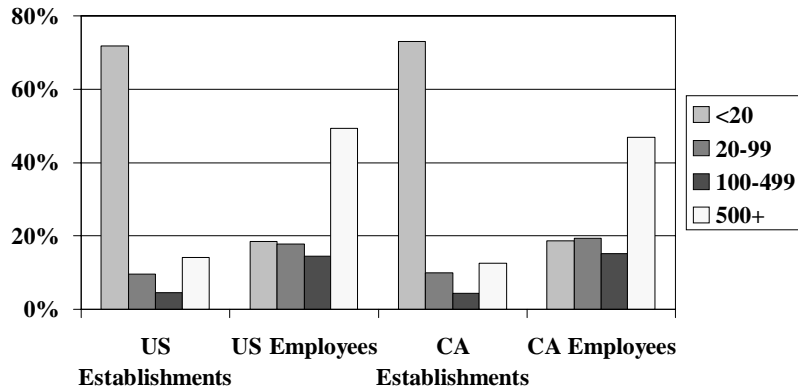
Figure 19
 Employment Distribution by Size and Sector of
 Establishment, California, 2004



Source: California Employment Development Department, Labor Market Information Division, Table 2B: Number of Employees by Size Category, Third Quarter 2004.

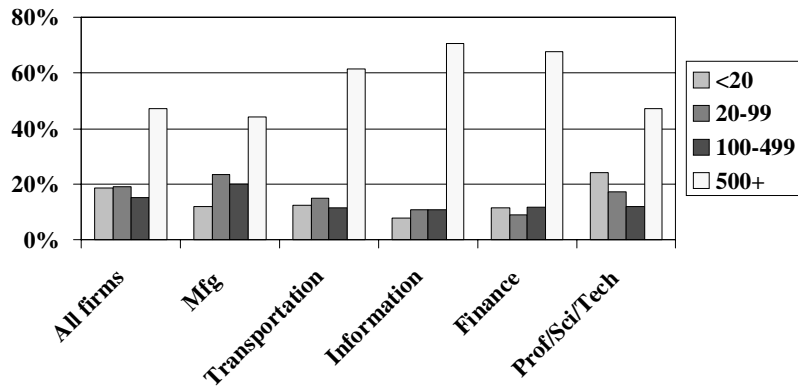
Because small establishments may be part of larger firms, we also looked at the US Small Business Administration's data, which reports some statistics by firm size category. SBA data indicate that 87 percent of California establishments and 53 percent of California jobs are in *firms* of fewer than 500 employees (Figure 20)--a larger share of small and medium sized firms than is found nationwide. As shown in Figure 21, some industries are much more heavily concentrated than others, with more than 60 percent of employment in transportation, information and finance in large firms. (These sectors include such giants as United Airlines, the Walt Disney Company, Time Warner, Wells Fargo and Bank of America). As with establishments, professional, technical and scientific services have a relatively greater share of employment in small and medium sized firms (53 percent) compared to other basic sectors of the economy.

Figure 20
US and California Establishments and Employment
by Firm Size Category



Source: US Small Business Administration, Office of Advocacy,
<http://www.sba.gov/advo/research/data.html>

Figure 21
Employment Distribution within by Size of Firm
California, 2003



Source: US Small Business Administration, Office of Advocacy,
<http://www.sba.gov/advo/research/data.html>

How does this profile compare to the profile of firms coming to CITD for assistance? CITD records from a 9-month period in 2005-06 give a sample of the firms served by CITD programs. About 28 percent of firms served by CITD during this period were services firms. Professional and scientific services, education services, and management consulting were the most represented services sectors among CITD clients. Education services firms were more likely to be large or medium sized, while professional/scientific and management consulting firms all had fewer than 100 employees. Interviews of CITD directors and staff indicate that most of the centers' assistance has been channeled to manufacturers or distributors. The services firms working with CITD offices are often seeking opportunities as intermediaries in trade or in a support service capacity, rather than as services exporters on their own.

This data suggests that there is ample scope for expansion of assistance efforts to small and medium sized services firms with the potential for benefiting from trade-related counseling and assistance programs. The firm size profile of services sectors with significant trade potential shows a relatively high proportion of small to mid-sized firms.

3. Export Opportunities for California Small and Mid-Sized Services Firms

3.1. Identifying Target Export Potential Sectors and Locations

The past quarter century has witnessed the increasing significance of services sectors in economies worldwide. According to the WTO, the share of services in world GDP has been increasing; this increase has been much more rapid in developing than in developed countries. The share of services in GDP (by the broadest definition described in section 2.1) in the developed economies of Europe and the United States is over 70%.

From the point of view of US services exports, developed countries are mature markets with established players, and US services firms already play a significant role in these markets. However, services export *growth* in the future is likely to have greatest potential in the developing and fast opening economies of Asia, particularly India and China. The services sectors in both these countries are rapidly liberalizing and opening up to foreign companies. The share of services in GDP is just over 40 percent in China and close to 50 percent in India, which suggests considerable scope for further growth. (World Bank Group 2006).

The US enjoys a competitive edge in global markets in a range of services as witnessed by the growth in its services exports, its global market share in many services sectors, its brand recognition and its reputation for quality and reliability in service delivery. The potential for growth in US services exports arises from a range of factors, such as:

- Growing importance of services worldwide
- Competitive edge of US in services
- Increasing tradability of services
- Opening up of services sectors in developing countries
- The large existing presence of US foreign direct investment in complementary sectors in those countries
- The reputation and brand recognition of the US in services sectors

These factors suggest that there is potential for the rapid growth of US services exports, particularly to the emerging economies of Asia. California companies have an additional competitive advantage in this region because of the state's Pacific Rim location, its

economic structure with an emphasis on services, and the transnational networks of its international population base.

There is little existing research on export potential of services sectors both for the US and California, so the discussion here should be seen as preliminary. The methodology for identifying the services export sectors with growth potential for California included identification of existing economic structure and trends, as described in previous sections of the report, extensive research and review of business and technical literature, and approximately 80 personal and telephone interviews conducted in California, China, India, and Washington DC, with representatives from the government, business world, nonprofit organizations, consulting firms, trade bodies and academic and research institutions. Based on this data and interview findings, export sectors that have begun to show success and continue to have growth potential and opportunities for small and medium sized businesses include:

- Education
- Energy and Environmental Services
- Engineering and Design
- Entertainment
- Finance and Insurance
- Legal Services
- Logistics
- Management Consulting and Marketing
- Real Estate Development and Services
- Software
- Tourism

The discussion that follows evaluates how existing and potential demand, industry composition, and institutional structures in the US and Asia affect the overall potential for services exports in these sectors, especially for small and medium sized enterprises.

3.2. Export Potential and Mode of Delivery in Selected Services Sectors

In understanding the implications of services exports from the point of view of a US economic development organization, it is useful to keep in mind the structure and mode of delivery of the export activity. Table 2 gives a summary description of several potential services export sectors in terms of the type of exports that could be generated. As the global economy becomes more integrated, it may become increasingly difficult to separate out services trade activities that are purely export opportunities (such as those shown in Column 1, the cross-border supply type of services trade) from those that involve either location of the activity abroad (as in Columns 3 and 4), or from activities that may provide a short-run export boost followed by establishment of foreign based delivery efforts (e.g. legal consulting provided by a US firm to a foreign firm can initially involve exports of legal services but may finally result in setting up of offices abroad for closer coordination and more effective service delivery).

Table 2: Characteristics* of Potential US Services Export Sectors

*** Note: Many services exports are a mixture of Mode 1 and Mode 4. See for example Mode 1 of Architecture and Design, which will most often involve a Mode 4 element as well. Mode 3 is a form of Foreign Direct Investment (FDI) rather than a traditional export activity.**

Services Sector	(1) Cross-Border Supply	(2) Consumption In Exporter's Home Country	(3) FDI (Supply Through Commercial Presence*)	(4) Supply by Provider Visits Abroad
Education	Distance learning programs; educational tools produced in the US	Education of foreign students in US Universities (also training for many of the sectors below).	University satellite programs in foreign locations	Experts travel to foreign locations for short courses and seminars
Architecture and Design	US based firms compete in design competitions for buildings, planning projects; blueprints		US firms set up branch in foreign location to provide local presence for design services	US based experts travel to foreign location to provide short-term project consulting advice.
Entertainment	US-produced entertainment products sold abroad (films, music, computer games)		US franchise operations set up locations abroad (video rental, film distribution)	US entertainers travel to foreign location to perform
Software	US staff designs software system for foreign client		US software company establishes branch in foreign location for custom design and technical assistance	Individual consultants work abroad on temporary contract basis to design or service software.
Tourism	US travel agent over the Internet provides information and reservation services to foreign travelers	Foreign travelers visit US	US travel firm establishes branch overseas to provide travel services to foreign clients	US travel professionals provide short-term services abroad to foreign clients

Education and Training: Education and technical training is a rapidly growing export sector and has potential for all modes of export and FDI mentioned above. The US has a well-deserved reputation for excellence in higher education, some of the world's leading University "brands," and a long history of educating foreign students (see "Consumption in Exporter's Home Country," Mode 2, in Table 2). It has also benefited from the technical and entrepreneurial skills these students bring with them. Educational institutions in the US have faced challenges in recent years because of visa restrictions related to security concerns. Although some of these restrictions have been loosened recently, many universities have begun to change their mode of delivery of education services to foreign students. A common approach, especially among large institutions, is to set up satellite programs in Asia (a Mode 3 operation), benefiting the University but without some of the positive impact on the local economy at home. Universities and other educational institutions also are extending their reach through a combination of FDI and faculty visits, establishing a program abroad to which they bring in instructors from the US on a course-by-course basis. In addition to traditional degree programs, there are opportunities for smaller companies in providing short training courses, in the US or abroad, particularly in industries that are deregulating and changing structurally to become more like US sectors (eg. the financial sector in China, medical training and consulting in India).

Energy and Environmental Services: As China and India's economies industrialize, energy and environmental issues become major concerns, both for reasons of sustainability in supporting domestic growth as well as the spillover effects on environmental quality worldwide. In 1992, the US established the US-Asia

Environmental Partnership initiative under the US Agency for International Development with the purpose of assisting with environmental policy related to urbanization and industrialization in Asia. The partnership was funded through 2005, and during that time multiple federal agencies were involved in helping US environmental firms identify demand for their services in Asia. California agencies have also participated in programs that encourage China and India to take into consideration environmentally sound and energy efficient strategies in the course of development (Collier 2002). Some California companies have already begun working with Asian clients on energy efficiency projects, and there is much greater potential for this work. Regulatory issues in India and China, sometimes both at the central/federal and local levels, and obvious cost concerns of environmental clearances in the face of pressures of development and job creation complicate the market for environmental services. That said, there is increasing interest shown by authorities in both India and China, sometimes spurred on by civil society lobbying to engage with environmental/green technologies, and US AID continues to provide support for these efforts. Plans for new special economic zones and technology parks routinely include major roles for clean technologies and firms promoting alternative energy development. While the market breakthroughs in this field might lie in the future it would be appropriate to address issues of getting a foot in the door right now. For both energy and environmental services, the type of exports provided may be a combination of cross border trade, provider visits, and FDI. Successful firms currently doing business in these sectors in Asia find a local presence critical for implementing plans and strategies, but continue to do much of the more advanced research, design and planning work in the US.

Technical Engineering and Scientific Services: The major presence of US firms in Chinese and Indian markets and large foreign direct investments in many high-tech manufacturing sectors lay the groundwork for major opportunities for specialized SMEs in technical engineering services to piggyback on larger firms. For example, high-tech services are embedded in high-tech manufacturing goods such as healthcare diagnostic equipment and devices, and communications hardware. The industrial profile of both India and China is such that there has been some leapfrogging in technologies in their domestic markets, particularly in mobile communications, thus opening up opportunities for specialized high-tech services vendors. While small firms may operate at first as purely cross-border or provider-visit exporters, as business grows firms are likely to invest further, setting up a local office. In both China and India, US educated professionals are taking advantage of these opportunities to become the local presence for a firm that provides technical consulting and specific technical design products to high-tech manufacturers and the expanding information sector.

Real Estate Services: Real estate and related sectors in both target markets are experiencing a continued boom. In the case of China, real estate growth is a result of increasing commercial fixed investment and overall economic growth and in the case of India, a fall-out of the Information Technology boom in offshoring and the pent up demand for quality residential space. Real estate development in both countries is increasing at rates well over 20% per annum. The lack of local professionalization and the prevalence of fragmentation in the sector suggest significant opportunities for foreign players in real estate development, property management services and real estate consulting. Most foreign real estate developers have come from other parts of Asia (with

Singapore developers playing a strong role in both China and India). This is in contrast to Europe, where US developers successfully operate in niche markets. However, in 1996, a number of US developers, funded by investors and pension plans, have begun exploring opportunities in China and other Asian countries (see for example *California Real Estate Journal* 2006). Major US real estate services firms, such as CB Richard Ellis and others, have a strong presence in both China and India, largely catering to US MNCs, and the local competition has been slow to develop in the management and consulting arenas. In the case of China, some issues remain regarding real estate law, property and title rights, but accession to the WTO has reduced regulations inhibiting foreign investment in property, and current government reforms specifically address legal disputes. India, too, has liberalized the entry of foreign developers. Overall, the huge populations, rapid growth in the economies, whether investment led or consumer driven, and the backlog in quality housing and Grade A office space suggest significant opportunities, particularly given returns better than international averages, albeit with a higher risk profile. The type of exports likely generated in this sector will be a combination of cross border supply, FDI, and provider visits, with a particularly high share of FDI. Real estate, even as it globalizes, continues to be a "local" business. Much of the real estate service business in these countries is staffed by local-hires or US nationals living abroad. Many of the real estate opportunities discussed here will be most easily realized by large firms. For SMEs, opportunities may be strongest in specialized niche services, in partnership with large firms, or in related services such as architecture and design, discussed next.

Architecture and Design Services: There is substantial scope for the participation of US companies in architecture, design and urban planning in India and China because of the expanding real estate opportunities, both residential and commercial, and the broad changes that are taking place in the urban fabric due to economic growth. In architecture, planning and design, regulatory restrictions abound but are being eased gradually. Currently, US (and also European and Australian) firms use a variety of export strategies to participate in design opportunities. Some firms or individuals bid across national boundaries on projects in China, India (or other foreign locations). On successful bids, the design work is usually done by US staff. A few firms have established a presence in China or India. This presence may range from working with a small number of local affiliated architects or designers, to full branch offices staffed by a mixture of local-hires, US nationals, and other foreign nationals. Over time, a firm with a full branch presence in Asia may use US staff less and less for its contracts, and may become less an exporter and more of a local producer. In both countries, licensing regulations continue to require some collaboration with licensed local professionals as designs are implemented in a development/construction project. For cross-border supply and provider visits, SMEs face challenges in completing transactions. Firms report a reluctance on the part of clients to pay for design services, and some intellectual property concerns, where the firm provides a design as part of a bid, only to find the bid rejected but the design used by the lower cost local winner.

Logistics: The logistics sector (transportation and supply chain management) is underdeveloped relative to the requirements for the projected increase in physical movement both within these countries as well as through their coastal ports and

international airports. Major infrastructure projects, including new highways, modernization of ports, cargo terminals and construction of warehouses portends significant opportunities for logistics firms and specialized logistics-related technical services firms. The basic movement of goods is more likely to become an opportunity for large firms, to the extent that regulations allow the entry of foreign firms into these markets. Opportunities for SMEs will be stronger in intermediary roles, providing supply chain management consulting, freight transportation management, and specialized software for planning and management of shipping for international trade and transportation.

Software and IT Services: Although most of the media focus in this sector is on the movement of software and IT-services offshore (imports to the US), the factors that contribute to offshoring also have opened up extensive US export opportunities. There is potential for many types of offshoring-linked software exports, such as sophisticated software for chip design abroad, as well as software for banking systems, or software for business management. At the same time competition in the form of local companies is building up in these economies. Companies with specialized expertise, companies that have a local presence and knowledge of local needs, and companies that bridge both worlds through hiring Asian graduates from US higher education programs are most likely to compete successfully. The continuing growth of technology demand and the increasing dependence on technological systems suggest that this is an area with potential for future growth in all markets. California in particular should have an advantage in those industries--information technology and the energy sector are two examples--that are also centers of innovation in the state.

Finance, Banking and Insurance: Significant reforms and liberalization have taken place in the financial sectors in both the target markets. In relative terms the Indian financial sector is more developed and sophisticated, with the oldest stock exchange in Asia, a long history of commercial banking and insurance, albeit mostly in the public sector, institutional compatibility with the developed economies, and professional management practices. The Chinese banking sector is increasingly attracting the interest of foreign investors, as seen in the recent purchases of equity stakes in some of the largest banks in the country, the Bank of China (BOC) and the Industrial and Commercial Bank of China (ICBC). While the financial system is still immature and stock market manipulation rampant, there has been recent progress in dealing with non-performing bank loans to state-owned enterprises (SOEs). China is now poised to become an appealing destination for investment in financial service industries. Demand for financial services is growing rapidly in both countries relative to the mature financial markets in western countries, as people look beyond traditional channels of investment, such as savings accounts, real estate and gold, and begin to appreciate the value of other investment opportunities. The rapidly growing real estate markets and rising automobile ownership rates are also fueling demand for insurance products, in addition to life insurance and commercial insurance. The industry is heavily regulated with restrictions on market shares and ownership structures, but financial reforms continue apace.

In both banking and insurance sectors, SMEs would have considerable scope in specialized niche areas with large foreign and local banks and insurance companies as clientele. Companies that assist in risk management or sell risk-related software, for example, will be important to financial institutions in both countries as the sector

becomes less regulated. Pension fund products are also becoming increasingly important, especially in China, where the social safety net has thinned as the economy has liberalized. Real estate finance is perhaps one area where everything lies ahead. Mortgage financing, securitization, mortgage insurance and Real estate investment trusts (REITs) are all in their infancy but with concerted efforts being made to develop them. The US firms have a natural competitive edge once the regulatory issues play out.

Legal Services: Opportunities in legal services will grow commensurate with the growing presence of US companies in Asia and as Asian companies expand in the US. Licensing requirements restrict the type of legal work that can be done by foreign nationals in both India and China (as in most other countries). Despite these restrictions, many law firms have offices in these and other Asian markets, serving the needs of their US multinational clients as well as of foreign firms interested in or already doing business in the US. In India, similarities of legal systems have allowed extensive use of local legal services, and fairly limited use of US legal services (except insofar as US legal firms are on retainers with US MNCs and in turn have working relationships with Indian legal firms). In China, a "parallel" system has built up, where a company may have both US legal advisors and a Chinese firm to conduct any court business or file any required forms. The most likely routes for expanding legal services "exports" is through building on existing client relationships, expanding international work as clients expand their international activities. One area of legal services in particular, intellectual property law, shows promising growth opportunities in both China and India, as these countries attempt to expand the IP protections not only for foreign firms but also for their growing numbers of domestic firms.

Entertainment and Multimedia: Entertainment and multimedia can include a wide range of activities, from computer graphics and video games to films, music, and video productions, to live performances. At one end of the spectrum, cultural exchanges are expanding the opportunities for top artists, while at the more "virtual" end, the increasing availability of computers is expanding the potential consumer base in developing countries. Within the motion picture industry, there is potential for both cross border supply (through shipment of films and video productions) and for supply through commercial presence, *e.g.* when American companies set up theater branches abroad, as has happened historically in Europe. In China and India, substantial challenges exist for sales of both computer entertainment products and motion pictures and related products, such as DVDs and video recordings. Intellectual property protection and censorship remain significant issues for this industry in Asia. Both China and India are on the Office of the US Trade Representative's priority watch list for 2006, despite China's efforts following entry into the WTO. Even with piracy concerns, there has been a growing market internationally. The US enjoys brands of global significance in this sphere, whether it is Hollywood or all forms of popular US music. Some firms interviewed noted that despite piracy, the size of these markets offers opportunities for sales, and that pirated sales at times help to initially advertise a company's products. Piracy is not the only problem faced by US firms in this sector. In China, firms also face the challenge of controls and restrictions on movie releases, which further dampen growth of multimedia opportunities.

Travel and Tourism: The travel, tourism and hospitality industry is one with major potential for California. The state has all the diverse factors necessary for attracting

tourists, such as natural attractions, pleasant climate, shopping possibilities, a diverse population with family linkages through recent immigrants, and a large business community. The tourism and business travel infrastructure is excellent. The increasing integration of the state's economy with the economies of the Asia-Pacific region and its location on the Pacific Rim, the biggest growth source of both tourists and business travelers in the next few decades, guarantees a steady supply of tourism consumers. There are both cross border and home-country opportunities in tourism. Burgeoning tourism and travel both within national borders and abroad of the rapidly expanding middle-class, particularly in China, can be a major market for the California businesses, both at home and abroad. There are provider-visit (Mode 4) opportunities as well, as tourism infrastructure, hotel and hospitality consulting services will be required on a massive scale in the developing countries, which have a shortage of hotel rooms across the price spectrum. A major boom in hotel construction is taking place and will continue in cities such as Bangalore, Shanghai (for the forthcoming World Expo), Beijing (forthcoming Olympics) and scores of other major and secondary metros in addition to airline growth, airport modernization programs, resort development, and related services. Concern has been expressed about US visa processing delays and inefficiencies that discourage potential travelers, both business, tourist and even educational, to the benefit of Asian, European and Australian economies.

3.3 Summary of Export Potential

Overall prospects for each of these sectors are summarized in Table 3. Market potential is high in both India and China for education services, technical services and

software, engineering, architecture and design, finance, software design and services, entertainment and tourism. There is also significant potential for energy and environmental services, legal services, and management consulting and marketing.

Table 3: Export Assessment Matrix

Services Sector	Market Potential		Regulatory Barriers		Competition		Overall Outlook	
	India	China	India	China	India	China	India	China
Education in US	High	High	Low	Low	Medium	Medium	High	High
Education in India and China	High	High	Med.	Low	Medium	Medium	High	High
Energy and Environmental Services	Medium	Medium	H/M	H/M	Medium	Medium	H/M (Energy) M/L (Env)	H (Ener) M/L (Env)
Technical, Eng And Scientific Services	High	High	Low	Low	H/M	H/M	High	High
Entertainment	High	High	Medium	High	Medium	Medium	H/M	M
Finance and Insurance	High	High	Medium	H/M	Medium	Low	H/M	H/M
Legal Services	Medium	Medium	Medium	H/M	H/M	Medium	Medium	Medium
Logistics	High	High	M/L	M	Medium	Medium	Medium	Medium
Management Consulting and Marketing	Medium	Medium	Low	M/L	Medium	M/L	Medium	Medium
Real Estate Development and Services	High	High	Med	Med	M/L	M/L	H/M	H/M
Architecture/ Urban Design	H/M	H/M	Med	Med	Med	Med	Med	Med
Software	High	High	Low	Low	Medium	Medium	High	High
Tourism	Medium	High	Low	low	Medium	Medium	H/M	High

4. Challenges, Strategies and Future Directions

The export opportunities we have discussed have significant potential but also face major obstacles. The challenges arise from two factors. First, the nature of the service activity in question, and second, problems associated with SMEs and their limited resources, lack of scale and scope, as well as a tendency to be focused domestically. An additional issue complicates the analysis from an economic development and job creation point of view. This is the aforementioned nature of most, albeit not all services activity to migrate from a Mode 1 or Mode 4 to Mode 3 activity, with perhaps a detrimental effect on job creation in the home country, at least at first glance. The following distinctive characteristics of services activities and trade, and which distinguish them from goods, are responsible for the specific nature of delivery, impacting the exports versus foreign investment trade-off issue: 1) The customization aspect of services versus the standardization of goods; 2) Customer input as a necessary requirement in final service delivery; 3) The institutional and cultural specificity embedded in services; 4) The heavy arm of regulation, which is an integral part of services; 5) The only “medium” of delivery, apart from the Internet and goods embedded with services, are people embedded with services knowledge!

4.1. Specific Obstacles

1) Price or "quality discernment" effect: The price difference is large between what services sell for in the United States and other developed countries, and what they sell for in developing countries. In the case of new types of services that only become important as a country develops, there may be no price history at all, indeed no

experience in paying for "intangibles" of this type. The limits to economies of scale in services, the traditionally low productivity growth vis-à-vis manufacturing and the hourly basis for compensation further complicate matters when it comes to pricing. Firms (not only US firms but also Chinese and Indian) and trade organizations frequently brought up the problem of perceived value of intangibles during our interviews and discussions. Customers were not accustomed to paying top-dollar for services as opposed to tangible goods. The price a US company or individual consultant would expect to obtain in the US or another developed country may therefore be unattainable in China and India, particularly in the presence of local competition and alternatives. This makes it more difficult to market services abroad, and puts added pressure on the company to lower costs by establishing a local presence rather than conducting the work in the US (especially in high-cost California). The problem is of particular concern for SMEs, since the larger US firms have a brand value that can transcend the pricing concerns.

2) Coordination and Scale Problem: Lack of resources and an absence of a range of complementary activities carried out by larger firms hampers SMEs from fully exploiting international markets. Market research can be an expensive affair --it can take three to five years and a minimum initial expenditure on the order of \$25,000 in travel and legal fees to identify an export market, establish an initial customer base, and comply with legal and licensing requirements. While there are many specialized intermediary and consulting firms that assist SMEs in the trade of goods, the relatively recent transformation of non-tradable service activities into the realm of tradables has meant that there is a relative paucity of similar firms for services SMEs.

3) Regulatory, Institutional and Cultural Specificity: Services are designed “to market” to a greater degree than are goods. Services that sell successfully in US markets may need major modifications for similar success in developing countries. Familiarity with language, customs and culture is an integral part of success in many services markets. The prevailing local institutional and cultural requirements can impact both the demand and supply side which can intimidate the smaller foreign firms from venturing abroad.

4) Home Country Bias: While there is relatively little research on this topic, as with many others related to services trade, it is possible that there may be a home country bias when it comes to the consumption of some services, thus rendering the job of foreign firms somewhat more difficult in non-domestic markets.

These obstacles and limitations do not prevent growth in services exports but affect who is involved, how exports grow, and potential for specific types of firms and industries. Public and private sector resources can assist individual firms in expanding exports.

4.2. Resources and Strategies

A number of resources and strategies exist that can help foster services export activity:

1) Public and semi-public sector assistance from US sources: A wide variety of sources provide assistance to firms interested in exporting. Some CITDs have worked in cooperation with the US Commercial Service to target opportunities for selected sectors (two examples are a marketing program in South America for design firms and

bringing together a Chinese trade mission of financial firms with US financial software providers). Many US states market their firms abroad through the coordinated efforts of state agencies and elected officials, local organizations, industry trade associations, trade fairs, and exchange trips.

2) Public and quasi-public coordination with foreign organizations: China has a well-developed infrastructure of economic development and trade organizations at the national, regional and local levels, as well as a strong incentive to redress the trade balance with the US by fostering services exports from the US to China. Assistance is available for organizing trade missions, identifying market areas, and participating in trade shows. At the local level, options exist for cross-national partnerships among economic development organizations, allowing one country's organization to assist firms from another country. Because CITDs, for example, already provide assistance to foreign companies seeking information about US opportunities, partnership arrangements might be natural with similar organizations in China.

3) Utilizing Services of specialized consulting and intermediary firms: Consulting firms have started emerging in India and China to assist services firms doing business in these countries. Feedback Consulting, for example, does market research to help companies assess business opportunities in India. Several US entrepreneurs with ties to China have started consultant services to assist US firms interested in doing business in China (Johnson 2006). US trade assistance organizations could develop a directory of businesses that can act as a support service for firms venturing into foreign markets.

4) Piggybacking on US MNCs: A number of services firms have moved into foreign markets as they follow their US MNC clients, many in manufacturing, abroad. Accounting firms, management consulting firms, and real estate services firms are three examples. As firms become more familiar with the foreign markets in which their MNC clients are operating they may be able to extend their services to local manufacturing and emerging companies.

5) Time honored joint ventures: A decade ago, a joint venture was an essential part of the strategy of American companies doing business in China. While this is much less the case today, joint ventures are still an option in both countries for a company to develop the familiarity necessary to serve a new market.

6) Building on family and cultural ties: Indian-American and Chinese-American expatriates are a prominent vanguard in the attempt to break into those markets. Many of the successful SME ventures in China and India have built on existing knowledge of the country, either through the original nationality of the firm founder or through family and friendship ties of company employees. This can ease the process of finding local markets and local representatives or of communicating with customers and regulators. California's multicultural population provides a strong base for this approach.

7) Secondary and tertiary urban center-based strategies for SMEs: For certain types of services exports, secondary and tertiary urban centers in India and China may offer greater opportunities to SMEs than the primary centers, where they may face stiff competition from large MNC services providers, as well as local companies. Indeed, secondary and tertiary metros in these countries, including cities such as Ahmedabad, Nagpur, Pune, Chandigarh, Jaipur and Coimbatore in India, and Chengdu, Harbin,

Wuhan, Shenyang, Tianjin and Dalian in China, to name just a few, are fast growing and have lower costs of doing business coupled with relatively lower levels of competition.

8) Using franchising and process licensing to enter unfamiliar markets: For some firms, franchising (essentially licensing a specialized service to local providers) has become a lower cost and lower risk means of entering foreign markets. Fast food franchises have been extremely successful in China and India, but opportunities exist well beyond the retail sector. Specialized product services as well as software development have successfully expanded their markets to other parts of the world through this strategy (Sowinski 2000). While franchising is more often resorted to by firms with a recognizable brand, in the right circumstances, the strategy can be used by SMEs that seek market expansion without the additional costs of a foreign presence.

4.3. Future Directions

The services sector, already the largest segment of economies of developed countries, is increasing in importance in developing countries and increasing in terms of its tradability. These trends suggest that more attention be devoted to the role and promotion of services exports. Opportunities exist for California services firms to increase exports to the developing economies of India and China as well as to Central and South America, Canada, Europe, and other parts of the world. The pace of growth of the Indian and Chinese economies, liberalization of these markets, and their modernization all imply a growing demand for a wide range of services. A number of major services activities that have potential for expanding exports are currently in the domain of SMEs.

With the right strategies, coordination, public-private cooperation and concerted effort by trade bodies these firms can take advantage of these growth opportunities.

Much of services export development will involve a combination of cross-border supply and some type of local presence. Numerous examples exist of large firms involved in services exports that have established branches in China and India. For small to medium-sized firms, the local presence requirement can be a challenge. Strategies to establish a local presence may include i) partnerships with private firms, which may be either local companies or US firms with established foreign branches; ii) networking through the state, US and foreign economic development structure; iii) working with consulting firms in the US or in the foreign country that specialize in linking US firms with a customer base overseas; and iv) building on personal connections through family, friends, or employees.

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