



CALIFORNIA C O M E B A C K

AFTER BEING ROCKED BY DEFENCE CUTS, EARTHQUAKES, RIOTS, DROUGHT, FIRES, FLOODS AND A SEVERE RECESSION, THE GOLDEN STATE HAS COME BACK. STRONG.

ACCORDING TO THE CENTRE FOR THE CONTINUING STUDY OF THE CALIFORNIA ECONOMY, A PALO ALTO-BASED THINK TANK, THE STATE WILL ADD MORE THAN 300,000 JOBS PER YEAR OVER THE NEXT DECADE. BY 2005, INCOME WILL INCREASE TO \$1 TRILLION FROM \$681 BILLION, A 48 PER CENT RISE, COMPARED TO 34 PER CENT FOR THE NATION. THE STATE'S POPULATION WILL BALLOON TO 39 MILLION FROM 32 MILLION, A 21 PER CENT INCREASE, COMPARED TO 12 PER CENT FOR THE NATION.

What happened? Why the turnaround? In a word: entrepreneurship. In the past four years, some 43,000 corporate "elephants—inward-looking and plodding firms—have been swept away. In their place have come over 33,000 "galloping gazelles"—globally oriented operations, many run by recent immigrants, with highly trained labour forces and a "sky's the limit" culture.

BY GARRETT WASNY

They have focused on several key sectors: foreign trade, high-technology and entertainment. California exports of goods and services are more than \$100 billion annually, tops among U.S. states. Exports of goods alone are responsible for an estimated 1.4 million California jobs and 15 per cent of US international sales. Between 1987 and 1993, merchandise exports from the state have more than doubled to over \$70 billion. By the end of the decade, exports are expected to double again as NAFTA and the new GATT agreement reduce trade barriers and create new cross-border and offshore business opportunities for California operations.

In high technology, hundreds of new businesses have sprung up in computer-hardware, software, biomedical and industrial-instrument industries. Many of the start-ups are products of the state's extensive research and development infrastructure. California spends \$31 billion annually on R&D, triple the amount spent in second place New York. The state is ranked number one in university and industrial R&D spending with more than 20 per cent of the national total.

In entertainment, recent studies concluded that the motion picture, television and commercial production industry has become one of the largest private-sector employers in the state, accounting for \$16.3 billion in payroll and expenditures to suppliers. The industry directly employs more than 164,000 people in California, of whom 95,000 are freelancers. This constitutes a "mobile army" of skilled technicians, artists and crafts people who are employed on a project-by-project basis.

Government has also taken the initiative. Governor Wilson and bipartisan members of the California Legislature have overhauled state business regulations and taxes. Recent reforms included workers' compensation reform, a first-ever six per cent tax credit for the purchase of manufacturing equipment, and a five per cent sales tax exemption for start-up companies. A research and development tax credit was expanded and made permanent. New laws also allow an eight-year carry-over period for losses occurring in the first year of business, and a 100 per cent carry-over during the first three years of operation.

Driven by innovation and entrepreneurship, the Golden State has not only rebounded. It's surpassed itself. California has become a more nimble, diversified and outward-looking corporate base. Situated on the borders of Latin America and Asia-Pacific, the world's two fastest-growing markets, California is ideally positioned to supply the coming powerhouse economies and lead global business into the next century. 