



GROWING TOGETHER
**China and
Los Angeles County**



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GROWING TOGETHER

China and Los Angeles County

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The LAEDC, the region's premier business leadership organization,
is a private, non-profit 501(c)3 organization established in 1981.



As Southern California's premier economic development organization, the mission of the LAEDC is to attract, retain, and grow businesses and jobs for the regions of Los Angeles County. Since 1996, the LAEDC has helped retain or attract more than 198,000 jobs, providing over \$12 billion in direct economic impact from salaries and over \$850 million in property and sales tax revenues to the County of Los Angeles. LAEDC is a private, non-profit 501(c)3 organization established in 1981.

Regional Leadership

The members of the LAEDC are civic leaders and ranking executives of the region's leading public and private organizations. Through financial support and direct participation in the mission, programs, and public policy initiatives of the LAEDC, the members are committed to playing a decisive role in shaping the region's economic future.

Business Services

The LAEDC's Business Development and Assistance Program provides essential services to L.A. County businesses at no cost, including coordinating site searches, securing incentives and permits, and identifying traditional and nontraditional financing including industrial development bonds. The LAEDC also works with workforce training, transportation, and utility providers.

Economic Information

Through our public information and for-fee research, the LAEDC provides critical economic analysis to business decision makers, education, media, and government. We publish a wide variety of industry focused and regional analysis, and our Economic Forecast report, produced by the **Kyser Center for Economic Research**, has been ranked #1 by the Wall Street Journal.

Economic Consulting

The LAEDC consulting practice offers thoughtful, highly regarded economic and policy expertise to private- and public-sector clients. The LAEDC takes a flexible approach to problem solving, supplementing its in-house staff when needed with outside firms and consultants. Depending on our clients' needs, the LAEDC will assemble and lead teams for complex, long-term projects; contribute to other teams as a subcontractor; or act as sole consultant.

Leveraging our Leadership

The LAEDC Center for Economic Development partners with the Southern California Leadership Council to help enable public sector officials, policy makers, and other civic leaders to address and solve public policy issues critical to the entire region's economic vitality and quality of life.

Global Connections

The World Trade Center Los Angeles-Long Beach works to support the development of international trade and business opportunities for Southern California companies as the leading international trade association, trade service organization and trade resource in Los Angeles County. It also promotes the Los Angeles region as a destination for foreign investment. The World Trade Center Los Angeles-Long Beach is a subsidiary of the Los Angeles County Economic Development Corporation. For more information, please visit www.wtca-lalb.org.



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Key Findings

- **Investment** into Los Angeles County from China has doubled over the past 5 years, with China becoming one of Los Angeles County's top investors
- China and Los Angeles County continue to increase **business and commercial** ties and the opportunities for Los Angeles
- **Tourism** has nearly quadrupled over the past four years alone, from 158,000 Chinese tourists in 2009 to 570,000 in 2013, making China the top overseas market for Los Angeles tourism
- Los Angeles is America's top **international trade** gateway to China and China's top gateway to the U.S., handling nearly 45% of trade between the two countries
- China is the Los Angeles Customs District's (LACD's) **#1 partner** in international trade, accounting for nearly 60% of all activity at the San Pedro Bay ports
- LACD **exports** to China have increased from \$23 billion in 2009 to \$35 billion in 2013 – less waste and scrap and more consumer and knowledge-intensive goods
- Los Angeles County has the largest Chinese **population** of any county in the nation, and has grown from 360,000 in 2008 to 413,000 in 2012
- Los Angeles County has the largest number of Chinese **students** of any county in the nation, increasing from roughly 3,000 Chinese students studying in local universities in 2009 to roughly 10,000 in 2013
- Strong **cultural and network** ties are the foundation of the relationship
- **Future business** prospects may be found in clean tech, entertainment, aerospace, e-commerce, real estate/property development, tourism, logistics and electronics



Executive Summary



In 2009, the LAEDC produced the first in a series of reports documenting how Los Angeles County's economy has grown as a result of certain key trading and investment relationships with major nations of the world. This series, entitled "Growing Together" began with a report that focused on the relationship between China and Los Angeles County. The LAEDC is now taking another close look at this long and mutually beneficial relationship by producing this second edition of *"Growing Together: China and Los Angeles County"* in order to provide updated information and insights on what has transpired over the past few years. The main objective is to properly assess, and identify strategies to efficiently maximize the benefits of this relationship.

Los Angeles County and China are two regions that have grown closer together by forging a more than 150-year partnership. The peoples of China and

Los Angeles County have a very special relationship and bond due to this long shared history. China's impact on Los Angeles County can be felt both personally and in business. Indeed, Chinese-Americans have had a noticeable effect on the socio-economic fabric of the Los Angeles region. The futures of Los Angeles and China are inextricably tied together. The close connections forged in the past and new possibilities that will open up in the future are highlighted in this special report.

Overview of the Second Edition

The objective of the report is to describe the long, deep and growing bonds between the People's Republic of China ("China") and Los Angeles County and how they have impacted the development of both areas. This report provides an overview of the scope of the ties between China and Los Angeles County beginning with the historical ties. Next, the report highlights the personal connections between China and Los Angeles County, including the educational, cultural and network ties. Third, the report takes a close look at the Chinese economy. Fourth, the analysis presents the economic links between the two with a focus on the critical trade links. Fifth, the report explains the significant role played by Foreign Direct Investment ("FDI") and cites some investment prospects for the future. Sixth, the study provides some details about the business and financial links between the two areas by profiling firms that are based in Los Angeles County and active in China (and some not based in L.A. County, but with China operations closely tied to LA County offices) followed by profiles of some major Chinese firms with a presence in Los Angeles County. In the final sections of the report, we describe some of the challenges and opportunities that lie ahead for this partnership and present some recommendations to further solidify the relationship.

¹ Throughout the entire report when we refer to China we mean Mainland China and the two special administrative regions (Hong Kong and Macau).



Historical Ties

The Chinese were the first Asian immigrants to come to the United States. A massive influx of Chinese immigrants took place in the mid 1800's due to the California Gold Rush. In 1850, the U.S. Census showed that there were two Chinese residents in Los Angeles. The history of the Chinese in Southern California really began in 1859 when Chinese fishermen established a presence on Catalina Island. By 1870, there were almost 6,000 Chinese citizens in Los Angeles, mostly because Chinese workers were needed to build the Central Pacific railroad down the San Joaquin Valley to Los Angeles. However, life was difficult for Chinese-Americans in Southern California after the railroad was completed and the local population dwindled. By the turn of the century, there were only 3,200 Chinese living in Los Angeles.

Conditions improved in the twentieth century, and the Chinese presence in Los Angeles County increased, especially after World War II when U.S. immigration laws began to be relaxed. Successive waves of Chinese immigrants landed and settled in Los Angeles. Today, the County has more residents of Chinese descent—estimated at 413,000 persons—than any other in the U.S.

Personal Ties

The Chinese culture has always emphasized the importance of education throughout its dynamic history. As the country opened up its society over the past thirty-five years and with the advent of globalization, many Chinese students have taken advantage of the opportunity to study abroad. The U.S. is the leading destination for Chinese students (with currently over 235,000 and this is expected to grow to over 365,000 by 2015), and no other state has attracted more of them than California.

As the leading gateway to the Pacific Rim, Los Angeles County has emerged at the center of Asian-American economic, business, educational and cultural exchanges. USC has the highest number of Chinese students of any university in the U.S., followed by UCLA. Other colleges and universities such as the Cal State campuses also enroll many Chinese students and offer programs that train provincial government professionals. The report estimates that in total, roughly 10,000 Chinese students are currently attending universities in Los Angeles County and when including community colleges that number rises closer to 20,000. When they become alumni and develop successful business, professional and government careers,

these students will become important new links between the two regions in the future.

China and Los Angeles County are tied together in many ways beside education. The personal connections between the two regions include many significant cultural ties targeted at the county's large Chinese and Chinese-American population. In addition, Los Angeles County has many useful business and professional associations for Chinese and Chinese-Americans along with organizations such as the Asia Society, the Committee of 100 and the 1990 Institute. These resources go a long way in strengthening the relationship between Los Angeles County and China. All of these networks will continue to provide the leadership needed in order for the partnership to thrive in the future.

The Chinese Economy

China has made many economic headlines since the first edition of this report was published in 2010. The Chinese economy surpassed the Japanese economy to become the second largest economy in the world in 2010 using market exchange rates. In addition, China will surpass the U.S. to become the largest economy in the world by the end of 2014 in purchasing power parity terms according to the World Bank International Comparison Program (ICP) or by 2016 or 2017 according to the International Monetary Fund (IMF).

The Chinese economy was able to avoid any substantial slowdown after the 2008 financial crisis by implementing the largest stimulus package in its history, consisting of both expansionary fiscal and monetary policies. The key development during this period was China's increased reliance upon fixed investment as a driving force for growth. Fixed investment (meaning in infrastructure, real estate and manufacturing) has been roughly 50% of China's GDP over the past few years. This is unprecedented in China's economic development.

Going forward China fully understands it must transition away from its export-oriented, investment driven, low-value added economic model to one based more on domestic consumption, high-value- added production and services. This is known as China's Great Rebalancing Act or the Great Transformation. In addition, the country began to take on substantial levels of debt that started during the stimulus period. Both of these developments (rebalancing and higher levels of debt) have caused a fundamental shift in the government's economic policies.



In 2011, China entered into its 12th 5-Year Plan (2011-2015), which mainly focuses on altering the overall economic model. The key objectives of the plan are expanding growth in the western regions, improving the environment and energy efficiency, growing domestic consumption, reducing inequality, and furthering scientific development.

The trajectory of the Chinese economy has become a hot topic in the past few years as the global economy has attempted to fully recover from the Great Recession. Some economists predicted a “hard landing” for China, while others like the LAEDC have correctly projected a “soft landing.”

Another key development for the Chinese economy has been the transfer of power from one government to the next which takes place every decade. The new government is led by President Xi Jinping who actually visited Los Angeles in February 2012 while he was still Vice President. President Xi Jinping stated that Los Angeles is the epicenter of the U.S.-China relationship. As this report attempts to demonstrate, no other region of the U.S. has a closer relationship with China.

China’s economic performance has suffered over the past two years, both as a result of internal factors and the global slowdown (especially the recession in Europe). The Chinese economy appeared to have turned the corner at the end of 2012, posting a growth rate of 7.9% in the fourth quarter, but GDP growth continued to decelerate into the 7.5% range in 2013. The country’s new leaders have attempted to address key concerns facing the Chinese economy including finding a balance between quantity and quality of growth. The slowdown has been detrimental to the global economy, particularly hitting those economies that have been most interconnected with the Chinese growth engine. A Chinese economic deceleration greatly impacts a wide range of industries and all of its trading partners. China is the first or second largest trading partner to roughly 80 countries, which account for nearly 60% of global GDP. It is the largest exporter in the world and the second largest importer. China has a significant impact on commodity markets as it has been the dominant player over the past 10 years.

The economic slowdown has also impacted the trading relationship between the Los Angeles Customs District (LACD) and China. China is the LACD’s top trading partner. Imports outnumber exports by roughly a 5:1 ratio, but this is expected to change in the coming years as China moves towards supplying less to the world (mainly due to higher wages) and consuming more. Our local ports will see more goods coming from Vietnam and elsewhere in Southeast Asia.

More exports will leave our ports as the Chinese middle class continues to expand (currently estimated to be roughly 350 to 400 million people and projected to increase to over 600 million by 2022). Over the past decade a large percentage of LACD exports to China have been driven by China’s huge appetite for raw materials and components as inputs to its manufacturing. With the slowdown in Chinese manufacturing, those LACD exports have been negatively impacted as all waste and scrap experienced declines the last two years. However, another trend has evolved as a higher proportion of our exports include consumer and capital goods. This is an important development and will present excellent opportunities for our regional exporters in the future. With China’s economy expected to grow by 7% to 7.5% in 2014 and the next few years, this should bode well for the U.S., California and Los Angeles County economies, most importantly as an expanding market for our exports (particularly where we have a comparative advantage meaning in knowledge-intensive goods and services). In addition, it is critical to understand that China’s income per capita growth figures are more relevant and significant to China’s future economic development than China’s GDP growth figures.

Trade Ties

China has transformed its economy into the world’s fastest growing over the past thirty-five years since its adoption of its open door policy in 1979. A major factor in this performance was the nation’s decision in 1979 to open up to international trade. U.S.-China trade has increased dramatically over the past thirty-five years jumping from \$4.8 billion to \$366 billion. Los Angeles County has established very close economic ties with China. The Los Angeles Customs District (LACD) handles over 40% of total U.S. trade with China. Indeed, the ports of Los Angeles and Long Beach together handle nearly 37% of total trade between China and the U.S. In fact, roughly 60% of two-way trade volumes at the Port of LA and the Port of Long Beach and over 50% of the total two-way trade value at the Los Angeles Customs District (LACD) are related to trade with China.

Los Angeles has been referred to as the capital of the Pacific Rim due to its deep connections with the Asian continent. Like the personal ties, the economic ties between Los Angeles County and China are unmatched by any other region of the United States. In fact, the growth in international trade links between Los Angeles County and China has contributed greatly to the economic development of the Los Angeles



region. The San Pedro port complex, which includes the Ports of Los Angeles and Long Beach, is the busiest port complex in the U.S., the largest in the Western Hemisphere and the ninth busiest in the world (based on 2013 figures). Only Singapore, three China ports (Shanghai, Hong Kong and Shenzhen), the South Korean Port of Busan, and another three Chinese ports (Ningbo, Qingdao and Guangzhou) are ranked ahead of the San Pedro ports.

Trade between the U.S. and China increased during 2013 due to the continued economic recovery. China was the LACD's largest trading partner in 2013, with total two-way trade valued at \$221.4 billion (based on HS port-level data and includes general imports and exports). Total Chinese imports unloaded in the LACD were \$186.0 billion (#1), and total U.S. exports to China through the LACD came to \$35.4 billion (again #1). This gave the LACD a trade deficit with China of -\$150.6 billion (also #1). China's import-to-export ratio of 5.2 was by far the highest among the LACD's top trading partners.

China is the Los Angeles Metro area's #3 export market based on a study completed by the Brookings Institution called Export Nation. The L.A. Metro Area had exports equal to \$5.4 billion to China, which included \$3.7 billion in merchandise exports (goods) and \$1.7 billion in services. The top merchandise or goods exports were computers and electronics, transportation equipment, chemicals, machinery and food. The top services exports were royalties, travel & tourism, education, business services, and freight & port services. The overall top exports from the L.A. Metro Area to China were computers and electronics, transportation equipment, chemicals, royalties and travel & tourism.

Tourism (classified as a services export): In 2012, China became Los Angeles's top visitor overseas market when 470,000 Chinese tourists visited Los Angeles, an increase of nearly 40%. Then in 2013, Chinese tourists to Los Angeles reached 570,000, a jump of over 21% compared with the previous year. The number of Chinese tourists visiting Los Angeles was just 158,000 in 2009. China has gone from not being in the top 10 ranking of overseas visitors just a few years ago to the #1 source of overseas visitors to Los Angeles. As a direct result of this surge in Chinese tourism, areas like the San Gabriel Valley have been witnessing an economic transformation as tourism brings spending and attracts investment. Cities like San Gabriel and Monterey Park have benefitted greatly as it has sparked a boom in new development.

Investment Ties

The U.S. Bureau of Economic Analysis (BEA) defines foreign direct investment as "ownership or control, directly or indirectly, by one foreign person, or entity, of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise."

Foreign direct investment (FDI) into China has grown substantially over the past thirty-five years and has played an instrumental role along with international trade in propelling China's economy to becoming the second largest in the world. A significant portion of the growth of Chinese exports has been directly related to the rising number of foreign-owned and -invested factories, and economic development has been stronger in the regions that have higher proportions of FDI.

In a comprehensive multi-country study of foreign direct investment in Los Angeles County that was completed in 2008, the LAEDC identified 127 Chinese-owned business establishments in 2007-2008. Chinese investment into Los Angeles County has doubled since 2007-2008 to 254 establishments according to LAEDC research conducted in 2013-2014.

China is one of the ten largest sources of foreign-owned and -affiliated businesses in Los Angeles County, (estimated to be the eighth largest) based on a preliminary analysis of 2013 business data by the LAEDC. Out of a total of 254 establishments, the largest industry area for Chinese-owned companies is wholesale trade with 63 total establishments. This is followed by retail trade (51 total establishments) and transportation & warehousing (39 total establishments). Well known Chinese and Hong Kong companies with operations in Los Angeles County include the Bank of China, Industrial and Commercial Bank of China, Air China, China Southern Airlines, Cathay Pacific Airlines, China Telecom, China Mobile, China Unicom, COSCO Container Lines, China Shipping, and BYD.

The LAEDC and its WTC-LA subsidiary have played a pro-active and significant role in attracting this investment including conducting and publishing regular research on China and L.A. County, leading many trade and investment mission trips to China, hosting dozens of inbound delegations each year, signing and fulfilling many memoranda of understanding and mutual cooperation agreements with trade and investment promotion organizations throughout China, and opening an office in China to facilitate further trade and investment.



More direct investment from China is on the way. Chinese companies see Los Angeles as an attractive investment for many reasons. First, Los Angeles is a large market, with a population of 10 million people and over 300,000 business establishments. The county has an excellent transportation network, with the ports, an international airport, plus a well-developed network freeway system and railroads to carry goods to the rest of the U.S. The county has a world-class system of higher education with three superb research universities. Also, the Chinese government provides many incentives and subsidies to Chinese companies looking to invest abroad as part of the “go global” campaign and recent economic reforms. Importantly, setting up abroad allows companies to avoid the obstacles associated with trade disputes. Finally, the large Chinese population in Los Angeles County (the largest of any county in the U.S.) provides a “comfort factor” to Chinese business managers who must move to the area.

The LAEDC believes that future Chinese investments will be made in the real estate and property development area along with green/clean technology industries like electric vehicles and renewable energy (solar and wind). Also, high-tech consumer electronics will be another core area as this has been targeted by both the government and the private sector. Other key industries likely to attract investment range from e-commerce to the auto industry to construction and engineering to logistics to biotech. In addition, more and more Chinese investors are looking for opportunities to acquire start-ups with brand new technologies or collaborating with local universities as this has become a new focus for outbound Chinese investment.

The County of Los Angeles is aggressively pursuing foreign investment from China and has a very strong interest in attracting real estate/ property development and green/clean technology. The World Trade Center – Los Angeles (WTC-LA) strategy targets Chinese investment in property development, e-commerce, high-tech, clean technology automotive industry and the alternative/renewable energy industry amongst others. The report describes a number of trade missions and conferences that took place over the past few years and summarizes the results to date. The latest effort culminated in Shanghai Greenland’s \$1 billion mixed-use property development investment adjacent to L.A. Live that will include a hotel designed by LA-based architectural firm Gensler. This section of the report also includes a list of trade and investment resources in Los Angeles County for the benefit of foreign investors along with a parallel listing of Chinese trade and economic development organizations that have offices in Los Angeles.

Business Ties

This section of the report presents two annotated lists of companies involved in foreign direct investment activities in Los Angeles County and in China. The first consists of companies headquartered in Los Angeles (Fortune 500 companies, Key Industry Cluster Firms and Others) and having a physical presence—an office, factory, store, etc.—in China and companies not headquartered in L.A. County, but with China operations closely tied to L.A. County offices. This list includes over 70 companies at present and there are summary profiles of each firm’s activities in China. The list is surprisingly diverse—reflecting the wide variety of industry clusters in Los Angeles County. The companies range from large to small, in industries ranging from architecture and engineering to fashion, finance, law, professional services and advanced technology.

The second list includes some (not all) key Chinese firms with a presence in Los Angeles County. There are over 40 companies at present—the number is expected to grow in the future—including four passenger airlines operating between LAX and various cities in China. This list includes well known names like the Bank of China, China Mobile, China Telecom, and COSCO as well as others perhaps not so well known today but eager to participate in the Los Angeles economy.

The Future of the Relationship

The report next considers the factors that will influence what lies ahead for the relationship between China and Los Angeles County. The Chinese economy is expected to continue growing (albeit at a slower pace), which suggests that exports to China and FDI flows from China also will increase. The key issue going forward is not whether or not Chinese policymakers will succeed in “re-balancing” the economy so that spending by China’s consumers for goods and services plays a larger role and exports and perhaps investment decline in importance (as a share of the total economy, not in absolute terms) but at what speed this takes place. Most China experts agree that it will not happen overnight. However, over the past few years we have already witnessed the impact of such a shift as China has become the Los Angeles Metropolitan Area’s third largest export market by demanding more of our key goods and services exports. It has already altered the direction and composition of goods moving through the Los Angeles Customs District as we are exporting more goods and services and less waste and scrap. The continuation of this trend along with continued strength in imports should translate into a very robust outlook in the coming years for the local ports.



With regard to foreign direct investment, there will be strong competition from other parts of the world as well as other regions of the U.S. Also, China will be continuing to look to secure its natural resource requirements (oil, natural gas, iron ore, etc.) with investments in Africa, South America and Australia for example. Still, the opportunities for Los Angeles County are undeniable and worth pursuing. They include not only increased flows of trade but also increased employment in Chinese-owned and -operated plants and offices.

The outlook for foreign direct investment from China into Los Angeles County is very bright. Chinese companies are especially attracted to the Los Angeles area as the County has the highest population of Chinese-Americans in the U.S. along with a broad economic base and necessary business infrastructure to enable profitable returns on their investment. Los Angeles County offers Chinese companies the following: a huge market, a well-educated and trained workforce, outstanding trade infrastructure, excellent access to national and international markets, technology rich area, first-rate apparel, auto and engineering design, the nation's largest manufacturing base, competitive costs and great weather.

The greatest opportunities for Chinese investment are in the real estate/property development, green/clean tech, aerospace, entertainment, e-commerce, electronics, logistics and apparel industries. Near term, investment will most likely occur within real estate, electric automobiles, solar energy, e-commerce, hi-tech electronics and textiles. The investment will be in the form of manufacturing, distribution, sales & service, research & development and regional headquarters. Other relevant opportunities are likely to be in bio-tech and healthcare, banking and financial services, professional and business services, materials & machinery, construction & engineering and creative design.

The governments in both China and California attach great importance to promoting trade and investment cooperation between the two business communities. Chinese leader Xi Jinping visited the Los Angeles area twice in recent years (2012 and 2013), which also highlights the importance of the area in bilateral relations. The trade relationship was not only one of the focal points of President Xi's visits, but it also was considered as the propeller and stabilizer for China - U.S. bilateral relations. After President Xi's visit, California and China's Ministry of Commerce and six provinces established a Joint Working Group on Trade and Investment Cooperation. The Working Group, in partnership with the business

community and through various programs led by organizations like the LAEDC, will work to promote trade and investment, strengthen communications, enhance trust, boost economic growth and create jobs.

Conclusions and Recommendations

This second edition report demonstrates that China and Los Angeles County do have a very special relationship based on cultural and personal ties as well as trade, investment and business transactions. In addition, this report provides strong justification for classifying Los Angeles as the epicenter of the U.S.-China relationship.

While trade, investment and business ties will be even more important in the future, Los Angeles County's large Chinese population, the growing numbers of Chinese students at area universities and colleges, and the area's many cultural organizations will enhance and deepen the relationship even further as commerce between China and Los Angeles County does not happen in a vacuum.

The futures of China and Los Angeles County are very bright. Both locations possess the resources and tools necessary to reap the benefits of increased globalization. China and Los Angeles County will continue to play vital roles in the California economy and for that matter in the U.S. and global economies. The world will continue to look to China as a global economic engine that propels the global economy forward. Together, Los Angeles County and China can take the lead on pressing global issues such as renewable energy and climate change. Innovation and new technologies will come out of Los Angeles area research universities and also Chinese universities as both places continue to produce some of the brightest talent.

Los Angeles County is in a unique position to benefit from China's continued economic rise and to fortify its position as the nation's leading gateway with China. This 2nd edition report concludes with recommendations for nurturing the existing relationship to ensure that future ties are stronger still.