

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein

SUBJECT: See Below

DATE: October 1, 2024

Approved



Date

10/3/24

INFORMATION

SUBJECT: Opportunity for San José to Establish a Sister City or Economic Partnership with Shenzhen, China

This information memorandum provides the City Council with background on the opportunity to establish a sister city or economic development relationship between the City of San José and the Shenzhen, China Municipal Government.

BACKGROUND

During Governor Gavin Newsom's trip to China in October 2023, the Governor visited Shenzhen and Guangdong Province, a region that is arguably the economic engine that has guided China's economic growth over the past five decades. While in Shenzhen and following his return from China, Governor Newsom proposed that San José and Shenzhen consider establishing a sister city affiliation to foster economic relations and people-to-people exchanges.

The United States sister cities program was established in 1956 as part of President Dwight Eisenhower's White House Conference on Citizen Diplomacy. A sister cities affiliation aims to build peace and understanding by encouraging cities in the United States to establish city affiliations with cities in other nations. The city-to-city affiliations also create opportunities for residents and community organizations to engage internationally. To build and strengthen sister-city ties, cities and community organizations often work to build programs through exchanges and collaboration in education, the arts, sports, economic development, civic affairs, and other initiatives.

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The City is a charter member of Sister Cities International, a non-profit organization in the United States that recognizes sister city affiliations established by cities and counties in the United States. San José's sister city affiliation with Okayama, Japan, was established in 1957 and was the third sister city affiliation established in the United States. Today, in addition to the sister city linkage with Okayama, San José has sister city ties with San José, Costa Rica; Veracruz, Mexico; Tainan, Taiwan; Dublin, Ireland; Pune, India; Ekaterinburg, Russia; and Guadalajara, Mexico.

Many cities in the United States have established sister city affiliations with cities in China since the United States and China formalized diplomatic relations in 1979. The 2024 Sister Cities International Membership Directory reports that 109 cities in the United States have sister city affiliations with cities in China, including Los Angeles, San Francisco, Sacramento, and 17 additional California cities.

At the February 21, 2024, Rules and Open Government Committee meeting, the Committee directed the Administration to return to the City Council with a recommendation to approve a sister city affiliation with Shenzhen, China, and work with the Mayor's Office to identify non-profit community partners that can help provide fundraising and community building capacity for the sister city affiliation. At the March 20, 2024, Rules and Open Government Committee meeting, the Committee dropped the item from the March 26, 2024, City Council meeting agenda. The Administration later recommended that staff provide an informational memorandum on the topic.

ANALYSIS

Shenzhen, China's third largest city, was established as a city only 45 years ago. Located in southern Guangdong Province and near Guangzhou and Hong Kong, Shenzhen is the center of China's high-tech economy. Then China's leader Deng Xiaoping designated Shenzhen as a Special Economic Zone in 1980 for a new economic policy model promoting investment, manufacturing, and trade for the nation. In 2020, Shenzhen's population was estimated to be 17.5 million, and today's economy is driven by technology, manufacturing, finance, and transportation. Shenzhen has the world's fourth busiest seaport and seventh-largest stock exchange and is home to many of China's leading technology companies, including Huawei and Tencent.

Trade and investment linkages help to drive economic growth in San José and the San José Metro Area. In 2022, the United States Department of Commerce reported that San José Metro Area exports surpassed \$24.3 billion. China was the top export destination with \$2.3 billion in merchandise goods, followed by Mexico, Taiwan, Canada, and the Netherlands. Several companies from China have established business operations in San José, including China Telecom, NIO, Auto Z, SAIC, We Ride, and the Hangzhou Overseas Center's Q Bay facility, which includes several Chinese business enterprises. According to a 2019 Pew Research Center report, the

San José Metro Area has the fourth largest Chinese population in the United States, following New York, Los Angeles, and San Francisco. San José's economic ties with China are strong, and many Chinese business enterprises seek to expand to the United States.

Sister-City Relationship

An official city-to-city relationship with Shenzhen can potentially increase trade and investment linkages between Shenzhen and China. Shenzhen currently has 26 sister city affiliations worldwide, including Houston, Texas, and Reno, Nevada.

A sister-city relationship often encompasses programs facilitating education, the arts, sports, economic development, civic affairs, and community engagement. Following City Council approval, both cities send documentation to Sister Cities International, which formally recognizes the sister city affiliation. Cities typically sign a sister-cities agreement after both cities have approved the sister-city affiliation. Community engagement, city government involvement, and support from elected officials are important to an international agreement or partnership. A sister-city relationship often involves an exchange of delegation visits, generally coordinated by the cities.

Should the City Council provide direction for a sister city affiliation with Shenzhen and authorization to execute an agreement with the Shenzhen Municipal Government, the City Manager's Office of Economic Development and Cultural Affairs will work with the Shenzhen Municipal Government to prepare an agreement that will highlight the priorities for building a strong economic relationship between the cities. This type of agreement is expected to take up to two months to negotiate and execute.

A Request for Proposal or Request for Qualifications process would be established for a group to form and act as a non-profit community sister city organization that would plan and implement sister city programs and activities in San José and to raise funds to support the sister city program. This could include educational exchanges for university students, programs in the arts or sports, or plans to foster the sister city relationship. The City's sister city guidelines require a minimum of 20 members in a sister city community organization. Developing a process and selecting a community organization would likely require six months of staff time. Some sister city organizations work to enhance San José's sister city affiliations with Okayama, Tainan, Dublin, Pune, and Guadalajara.

Economic Partnership Agreement

Another option for the City is to develop an economic partnership agreement with Shenzhen with a narrower focus on building trade and investment linkages to facilitate stronger economic development. An economic partnership does not require approval from an outside organization and can be for a specific time period, with an agreed renewal by both cities. An economic partnership would prioritize trade and investment opportunities in Shenzhen and southern China for San José companies and meeting with Shenzhen companies interested in establishing a presence in San José. This would become a primary focus of staff in a work plan. An Economic Partnership would entail an agreement with the Shenzhen Municipal Government outlining the specific goals of both cities to foster economic relations. One goal is to attract a Shenzhen company to San José that could operate as part of the City's Foreign Trade Zone. The first phase of an agreement would be developing the economic relationship for the initial 18 months.

Subject to City Council approval of an official city affiliation with Shenzhen and the authorization to execute an agreement with the Shenzhen Municipal Government, the City Manager's Office of Economic Development and Cultural Affairs will work with the Shenzhen Municipal Government to prepare an agreement that will highlight the priorities to build stronger economic relations between the cities.

Bay Area Council Partnership

The Bay Area Council, a San Francisco business organization, has facilitated logistics, travel, and meetings in China for the San Francisco – Shanghai sister city program. Its staff members based in China facilitate communication and assist Shanghai delegations visiting San Francisco. Staff has met several times with the Bay Area Council staff engaged in the Council's China efforts. The Bay Area Council is supportive of a San José relationship with Shenzhen and could potentially play an active role in facilitating travel to San José by Shenzhen delegations and visitors and a potential San José delegation to Shenzhen.

Summary

There are two mechanisms for a formal relationship between San Jose and Shenzehn. A sister city affiliation would allow the San José community to develop a permanent relationship with China's third-largest city and the nation's most important high-tech region. A sister city affiliation would entail City Council approval, establishing a sister city agreement, and forming a community sister city organization working in San José to foster the sister city relationship.

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/s/

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