

CITY OF RIVERSIDE

City Manager's Office of Economic Development

Foreign Trade and Investment Strategy

February 11, 2014



Executive Summary

The City of Riverside is well positioned to benefit from foreign trade and investment. We have successful partnerships with Riverside County Office of Foreign Trade, March JPA, and the Sister Cities Program, EB-5 Investment Centers, a Foreign Free Trade Zone, manufacturers, and universities. These partnerships are the foundation upon which we can successfully undertake a Foreign Trade and Investment Strategy.

By leveraging our partnerships and capitalizing on our assets we undertake the following strategies:

1. Attract Foreign Direct Investment to the City of Riverside in order to expand and diversify the tax base, increase employment opportunities for our residents, and provide financing opportunities for new and existing companies.
2. Increase exports from businesses located in Riverside in order to facilitate their growth, expansion and increased employment.
3. Capitalize on tourism from foreign visitors and students in order to increase our brand awareness, capture tourism revenue, and facilitate local business and job growth.

In order to secure a bright future for our residents, the City of Riverside must compete and succeed in an increasingly global economy. These strategies will help us focus our efforts on expanding business outside our borders, attract and facilitate foreign investment, and capitalize on the hundreds of billions of dollars being spent by international students and travelers every year.

Introduction

An important part of the City's economic development strategy is to grow the local economy and facilitate the growth and retention of local businesses through foreign trade and foreign direct investment (FDI).

Selling locally produced goods and services to international markets has the potential to expand our local economy significantly. International trade agreements and a growing world economy provide the foundation for success. 95% of the world's consumers live outside of the US. American products are in high demand throughout the world. In 2012, the US set a new record by exporting over \$2.2 trillion worth of goods and services.ⁱ Riverside County businesses combined to export \$11.5 billion in 2009. Local exports have grown at an annual rate of 11.5 %.ⁱⁱ The number of jobs in the US that are supported by exports has increased by 1.3 million to 9.8 million since 2009.ⁱⁱⁱ Regionally, 10% of all direct jobs are supported by exports from the manufacturing industry.^{iv}

The National Export Initiative (NEI) has set a national strategy for exports and is facilitating growth by providing US businesses opportunities for training, financing, and trade missions. NEI indicates that the three primary areas of recent export growth are in the motor vehicle industry, agricultural products, and the travel and tourism sector. Riverside is in a position to capitalize on each of these growing sectors with automotive component businesses such as Bourn's and K&N Filters, the Green Belt and local food movement, and our abundant sunshine, historical assets, convention center, universities, and tourist destinations in the City and region.

Small businesses account for 33 percent of the value of US exports. While the number of participating small businesses has increased since 2009, the true potential for small businesses to benefit from international trade is mostly untapped. In order to compete in a global economy, local businesses need specialized tools and training relative to export regulations, export financing, foreign currency exchange, trade tariffs, foreign direct investment, and market research. The City of Riverside can assist in growing our local economy by assisting our employers in these specific areas.

Rather than duplicating efforts of other agencies throughout the region, the Office of Economic Development collaborates with multiple city, county and regional partners in an effort to increase exports from our local businesses, attract foreign direct investment for local projects and facilitate intergovernmental cooperation and trade partners with cities around the world. These partners include the Riverside County Office of Foreign Trade, March Joint Powers Authority, and the Office of the Mayor.

Existing Programs and Partners

Riverside County Office of Foreign Trade

The City and County have entered into a Letter of Mutual Understanding wherein the Office of Foreign Trade (OFT) represents our interests relating to exporting, trade agreements and international marketing. Economic development staff work closely with the OFT in their efforts to assist business owners, corporate officers, investors, and entrepreneurs with export and import assistance with the objective of creating new jobs and investment within the county. The City of Riverside sponsors the College of Foreign Trade that the OFT conducts each year to educate existing businesses on the exporting process. The OFT serves as a link to developing and existing markets overseas, including our United States Export Assistance Centers, Foreign Agricultural Services, United States Chambers of Commerce operating abroad, United States Commercial Service, Foreign Trade Offices, and investors from other nations interested in establishing a business location in the County of Riverside. OFT works closely with local EB-5 Investment Centers to facilitate and attract foreign direct investment to the Riverside area.

The OFT is also directly responsible for government-to-government relations, as it pertains to economic development, trade, tourism, and good will building with the Organization of American States, United Nations, and all nations and governments formally recognized by the government of the United States of America. This office also exists to promote the use of the North American Free Trade Agreement, Central American Free Trade Agreement, and existing trade agreements or treaties. These treaties open markets for goods and products produced within the County. OFT is strategically placed within the Riverside County Economic Development Agency to have direct access to the vast resources, support, and assistance from its team of highly dedicated professionals within the agency.

March Joint Powers Authority Free Trade Zone

The City is an integral part of the Joint Powers Authority (JPA) and has two seats on the governing board. The JPA sought the approval of a Foreign Trade Zone (FTZ) not only for the benefit of the businesses located on land controlled by the JPA, but for Riverside businesses such as Flexsteel who participate in foreign trade and benefit from being included in the FTZ.

On August 21, 2000, the Department of Commerce Foreign Trade Zones Board adopted Board Order No. 1104 - Grant of Authority, Establishment of a Foreign Trade Zone (FTZ), Riverside County, California Area. This designation is FTZ No. 244, and includes the March Inland Port property and the property on West March designated for business, commerce and industry. The March Inland Port FTZ includes the air cargo airport facility and 2000+ acres

of vacant land slated for the development of business and commerce center in Riverside County, at former March Air Force Base. FTZ No. 244 was expanded on May 13, 2011 to include the entire City of Riverside.

FTZs are treated, for the purposes of the tariff laws and Customs entry procedures, as being outside the Customs Territory of the United States. Under FTZ procedures, foreign and domestic merchandise may be admitted into zones for operations such as storage, exhibition, assembly, manufacture and processing, without being subject to formal Customs entry procedures, the payment of Customs duties or the payment of federal excise taxes. When merchandise is removed from a FTZ, Customs duties may be eliminated if the goods are then exported from the United States. If the merchandise is formally entered into U.S. commerce, Customs duties and excise taxes are due at the time of transfer from the FTZ.

For merchandise that is manufactured in a FTZ with permission of the FTZs Board, the importer may elect to pay Customs duty at the lower rate of either the finished product or its foreign components. In this manner, use of a FTZ zone can result in the reduction of Customs duty owed by companies that manufacture products in an FTZ.

It is the intent of the U.S. FTZ program to stimulate economic growth and development in the United States. In an expanding global economy there is increased competition among nations for jobs, industry and capital. The FTZ program was designed to promote American competitiveness by encouraging companies to maintain and expand their operations in the United States.

The FTZ program encourages U.S.-based operations by removing certain disincentives associated with manufacturing in the United States. The duty on a product manufactured abroad and imported into the U.S. is paid at the rate of the finished product rather than that of the individual parts, materials or components of the product. A U.S.-based company finds itself at a disadvantage vis-à-vis its foreign competitor when it must pay the higher rate on parts, materials or components imported for use in the manufacturing process. The FTZ program corrects this imbalance by treating a product made in a U.S. FTZ, for purposes of tariff assessment, as if it were produced abroad.

Office of the Mayor - Sister City Program

The Sister City Program is another component of our foreign trade program. Riverside's international ties predate President Dwight Eisenhower's concept of sister cities to 1951 when Riverside resident Jessie Halverson reached out to the Japanese women who had visited her son's bedside at a Red Cross hospital in Sendai on Mother's Day. The two cities signed a Sister City agreement in 1957. Since then, Riverside has entered into seven other Sister City relationships: Cuautla (1968) and Ensenada (1976), Mexico; Jiangmen, China (1996); Gangnam, Republic of Korea (1999); Hyderabad, India (2000); Obuasi, Ghana (2008); and

Erlangen, Germany (2011). The City budgets an average of \$10,000 annually for Sister City activities. The Office of the Mayor has estimated the economic impact of the Sister City Program at over \$112 million.

Local Strategies for Growth

Strategy 1:

Attract Foreign Direct Investment to the City of Riverside in order to expand and diversify the tax base, increase employment opportunities for our residents, and provide financing opportunities for new and existing companies.

Key Objectives:

- A. Launch an international marketing campaign aimed at foreign investors.
- B. Strengthen our relationships with the foreign trade offices by hosting visits and attending networking events.
- C. Continue to work closely with the Riverside County Office of Foreign Trade to secure investment opportunities.
- D. Develop a foreign travel plan with our Sister Cities for the purpose of marketing investment opportunities in Riverside.
- E. Update international marketing materials to include current investment opportunities and additional foreign language translations.
- F. Develop a program that connects local businesses and developers in need of capital with foreign sources.
- G. Promote the EB-5 Investment Centers in the City of Riverside to attract foreign direct investment.
- H. Consider joining the FDI Association and attending the World Forum for Foreign Direct Investment to build relationships with international business leaders and site consultants and promote local investment opportunities.

Strategy 2:

Increase exports from businesses located in Riverside to facilitate their growth, expansion and increased employment.

Key Objectives:

- A. Continue to work closely with the Riverside County Office of Foreign Trade to sponsor and promote the Riverside County College of Foreign Trade.
- B. Identify local businesses that would benefit from foreign trade and encourage their attendance at the Riverside County College of Foreign Trade.
- C. Promote the Foreign Trade Zones to local businesses and to new business prospects.
- D. Develop a Trade Mission Plan that leverages our relationships with our Sister Cities and our existing businesses that may be ready for international operations and trade.
- E. Leverage our partnership with the Office of Foreign Trade to connect with the large number (636) of foreign-owned establishments in the region and understand investment from their perspective.
- F. Continue to participate in Team California marketing and international trade show attendance when aligned with our targeted industries.

Strategy 3:

Capitalize on tourism from foreign visitors in order to increase our brand awareness, capture tourism revenue, and facilitate local business and job growth.

Key Objectives:

- A. Strengthen our relationship with Visit California by attending tourism events and conferences.
- B. Develop sample itineraries for visitors and supply them to travel websites, Visit California's foreign tourism offices, DiscoverIE's website and Visitor Center located in Ontario Mills Shopping Center.
- C. Promote Ontario Airport and participate in the effort to gain local control.
- D. Provide resources on RCVB website in foreign languages.
- E. Utilize relationships with Sister Cities to market tourism and destination travel. Consider developing an exchange program or familiarization tour for travel agents and tour operators.
- F. Collaborate with the local universities to market and promote education services to foreign students.
- G. Develop a targeted marketing campaign for international students studying in Riverside in an effort to capture business and investment opportunities from them and their families.

Quick Facts on Exports

State of California

- In 2012, California exported \$161.7 billion worth of goods.
- California ranked as the top exporting state in the United States and accounted for more than 10% of all US exports in 2012.
- Ranked order of countries exported to:
 1. Mexico, \$26.3 billion
 2. Greater China, \$21.9 billion
 3. Canada, \$17.3 billion
 4. Japan, \$13.1 billion
 5. South Korea, \$8.2 billion
- Ranked order of type of goods exported:
 1. Miscellaneous manufactured commodities, 45%
 2. Computer electronics and products, 28%
 3. Transportation Equipment, 10%
 4. Machinery, not electrical, 9%
 5. Chemicals, 8%
- California ranks first among US states in exports of services (\$89.3 billion, 2011).
- Service industries represent more than 70% of the state economy and employ 15.1 million workers.

Riverside County Region

- Export goods account for 10% of direct jobs.
- In 2009, exports totaled \$11.5 billion.
- Exports have grown by 11.5% recently.
- Top trading partners:
 1. Canada, 44%
 2. Netherlands, 17%
 3. Mexico, 17%
 4. Japan, 11%
 5. China, 11%

Quick Facts on Tourism

State of California

- Tourism generated \$102.3 billion in spending in 2011 (up 7.6%).
- International travel accounts for 20% of all travel spending (\$10.2 billion).
- Travel spending supports nearly 900,000 direct jobs statewide.
- Top countries for visitors to California (2011):
 1. United Kingdom (702,000)
 2. Australia (563,000)
 3. Greater China (517,000)
 - a. 47% of all Mainland China visitors to the US
 - b. 52% of all US visitors from Hong Kong
 4. Japan (561,000)
 5. France (443,000)
 6. Germany (423,000)
 7. South Korea (410,000)
 8. India (194,000)

Riverside Region (MSA)

- Total international visitors in 2011: 223,000 (only 3.6% of total)
- Number of foreign visitors by country:
 1. United Kingdom (54,000)
 2. Germany (27,000)
 3. Mexico (27,000)
 4. France and Australia (20,000)
 5. South Korea (15,000)
- Reasons for visit (can give multiple reasons):
 1. Vacation (67%)
 2. Visiting friends/relatives (34%)
 3. Business (23%)
 4. Attend a convention (9%)
 5. Study/Teaching (6%)
- Visitors from countries reporting to visit for business purposes:
 1. India (48%)
 2. South Korea (38%)
 3. China (31%)
- Almost one-half of foreign visitors plan their visit three months in advance or more.
- 46% planned their trip on their personal computer.
- The average income of foreign visitors in 2011 was \$96,500.
- The average foreign visitor to California stays 22 nights and spends \$117/day.