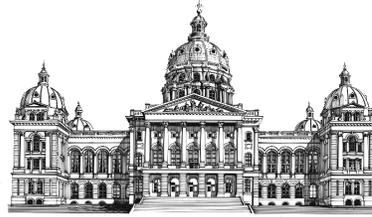

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Iowa's International Trade Offices

ISSUE

The Department of Economic Development's (DED) ability to maintain the 3 international trade offices is becoming difficult due to the reduction in General Fund appropriations and the fluctuation of foreign exchange rates.

AFFECTED AGENCIES

Department of Economic Development

CODE AUTHORITY

Chapter 15, Code of Iowa

BACKGROUND

Iowa opened its first international trade office in Frankfurt, Germany in 1977. Since that time, the State has established 2 additional offices in Tokyo, Japan, and Hong Kong. The offices were established primarily to assist in the marketing and sale of Iowa goods and services to international markets and to promote Iowa as an ideal location for foreign investment.

An office director and administrative assistant manage each office. The European Office, however, was the only one of the 3 offices which had a director, administrative assistant, and a trade specialist position. The trade specialist position was eliminated from the European Office due to the implementation of the Reduction In Force (RIF) Plan during FY 1992, causing the European Office to discontinue its internship program.

Every year the International Division of the DED develops individual Action Plans which specify the scope of programs for each respective trade office. The DED staff located in Des Moines and the directors of each trade office assume an active role in developing the Action Plans and programming activities, emphasizing the importance of trade promotion, investment attraction, and global education.

In 1992, the percentage of time each office devoted to trade promotion, investment attraction, and global education varied (See Table 1 below).

Table 1
INTERNATIONAL OFFICES TIME ALLOCATION

<u>Descriptions</u>	<u>Consultation</u>	<u>Trade</u>	<u>Investment</u>
Asian (Hong Kong) Office			
FY 1992 (5 months)	38.0%	48.0%	14.0%
FY 1991	41.0%	38.0%	21.0%
Japan Office			
FY 1992 (5 months)	26.0%	27.0%	47.0%
FY 1991	35.0%	31.0%	34.0%
European Office			
FY 1992 (5 months)	30.0%	37.0%	33.0%
FY 1991	16.0%	57.0%	27.0%

The Asian Office devoted 41.0% toward consultation in FY 1991. By comparison, the European Office allocated 16.0% during the same period. The percentages of time allocations between the 3 trade offices vary due to the priorities of the Offices. The Japan Office was established primarily for investment attraction whereas the Hong Kong Office was established primarily for trade promotion. The percentage of time the European Office devoted to trade promotion decreased in FY 1992 by 35.1% mainly due to the loss of the trade specialist position. (See Attachment 1 for additional information relating to the 3 trade offices time allocations.)

CURRENT SITUATION

The General Assembly appropriated \$743,000 for the international trade offices for FY 1993, which was a decrease of \$33,000 compared to the estimated net FY 1992 appropriation. The General Assembly, however, did not specify the amount of funds which would be allocated to the 3 trade offices thereby giving discretion to the DED. The DED allocated \$269,332 for the Japan Office, \$221,963 for the Hong Kong Office, and \$239,739 for the European Office. Actual allocations were less due to the 5.0% across-the-board reductions specified in SF 2393.

The following services are currently provided by the international offices on an as needed basis: market research, trade lead generation through participation in trade shows, maintenance of a catalog library of Iowa companies, development of market entry strategies, cultural awareness education, translation services, investment missions, targeted mailings, coordination and facilitation of business itineraries, access to research library, seminar coordination, governmental introductions, and foreign student recruitment.

One of the challenges faced by the DED is maximizing the buying power of U.S. currency when dealing with foreign exchange rates. Funds allocated for the international trade offices are exchanged for foreign currency to pay for expenditures incurred by the trade offices. The DED attempts to buy currency "forward" or in advance to get the best rate, because the value of U.S. currency is in constant flux with foreign currency. For example, the European Office operated during the fourth quarter of FY 1992 at an exchange rate of 1.64 Dutch Marks (DM), equivalent to \$1.00. During the first quarter of FY 1993, the exchange rate was 1.5 DM, reflecting an 8.0% decrease in purchasing power from the fourth quarter. The DED has indicated that the dollar is currently trading at 1.38 DM which is an even further decline in purchasing power. This means that as the value of the dollar continues to decline, it costs considerably more to maintain the operations of the international trade offices.

In addition, inflation is also a significant factor which impacts the value of the dollar. According to the DED, inflation in Hong Kong is approximately 16.0%. However, Japan and Europe rates of inflation are comparable to the 5.0% experienced in the U.S.

The DED has indicated that there is added value in having the 3 international trade offices. The Department reported in January 1992, that in 1986 when Iowa opened its third office in Tokyo, the State was a location for 56 international firms involved in the manufacturing and service industries. Since that time, Iowa has welcomed 25 new foreign investments from 5 different countries: Japan, Canada, Germany, Netherlands, and Korea. These new activities represent an estimated \$623 million of capital investment in plants and equipment and over 2,900 new jobs with an annual payroll in excess of \$48 million (See Attachment 2 for targeted countries and industries for FY 1991 and FY 1992 investment attraction and the listing of FY 1992 investment attraction calendar).

ALTERNATIVES

Since FY 1991, the General Assembly has allocated approximately \$2.2 million in General Fund appropriations for the international trade offices. The offices assume an active role in strengthening the relationship Iowa has established with Japan, Asia, and Europe. However, as the General Fund appropriation for the 3 trade offices continues to be reduced and the value of the dollar continues to fluctuate downward, it will become an even greater challenge for the DED to maintain the operations of the offices at a level which is most beneficial to the State. Subsequently, the General Assembly may wish to consider the concept of developing an alliance with other states located in the Midwest Region in establishing a Midwest International Office in each of the 3 countries. This could result in less General Fund appropriations required to maintain the operations of the offices since the costs would be shared. Further, a midwest alliance could increase the visibility and image abroad thereby increasing the potential of attracting foreign investments to all states located in the Midwest Region. Potential side effects: may be time consuming and difficult to persuade other midwestern states to consider the concept, regulating the funds may also be a challenge, and each State would lose some autonomy.

Another alternative would be to contract for services with a consultant in each of the 3 countries to promote the goods and services of Iowa and to attract international investments. This approach may reduce the amount of funds needed to cover the cost of maintaining the office facilities.

The General Assembly may also wish to consider the alternative of continuing to require the International Division to submit an annual report to the General Assembly in February of each year on the trade development programs of the international trade offices. Reporting requirements were specified in HF 479 during the 1991 Session. However, the General Assembly did not include any reporting requirements in HF 2462, which was adopted during the 1992 Session.

BUDGET IMPACT

**Table 2
International Offices Revised FY 1992 Budgets**

<u>Description</u>	<u>Japan Office</u>	<u>%</u>	<u>European Office</u>	<u>%</u>	<u>Asian Office</u>	<u>%</u>
General Fund	\$ 287,686	100.0	\$ 241,991	100.0	\$ 244,533	100.0
Expenditures:						
Personal Service	109,935	38.2	56,615	23.3	86,719	35.4
Outside Travel	33,659	11.6	26,324	10.8	20,512	8.3
Office Supply	18,576	6.4	10,159	4.1	1,741	0.7
Print & Bind	12,382	4.3	967.00	0.3	629.00	0.2

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Communications	7,740	2.6	16,447	6.7	4,983	2.0
Rentals	69,000	23.9	45,033	18.6	91,429	37.3
Professional Ser.	13,110	4.5	74,497	30.7	21,220	8.6
Advertising	13,622	4.7	1,451	0.5	7,740	3.1
Miscellaneous	9,662	3.3	10,498	4.3	9,560	3.9
Total FTE Positions	2.00		2.50		2.00	

Note: There is a significant disparity between the amount of funds which were budgeted for rental expenses for each of the 3 international trade offices in FY 1992. Approximately 37.3% of the funds allocated for the Hong Kong Office was budgeted for rental expenses. By contrast, 18.6% of the funds allocated for the European Office was budgeted for the same purpose.

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FOREIGN OFFICE TIME ALLOCATION

<u>ASIA</u>	<u>CONSULTATION</u>	<u>TRADE</u>	<u>INVESTMENT</u>
FY '92 (5 mos.)	38%	48%	14%
FY '91	41%	38%	21%
FY '90	29%	51%	20%
FY '89	31%	50%	19%

<u>JAPAN</u>	<u>CONSULTATION</u>	<u>TRADE</u>	<u>INVESTMENT</u>
FY '92 (5 mos.)	26%	27%	47%
FY '91	35%	31%	34%
FY '90	39%	26%	35%
FY '89	22%	39%	39%

<u>EUROPE</u>	<u>CONSULTATION</u>	<u>TRADE</u>	<u>INVESTMENT</u>
FY '92 (5 mos.)	30%	37%	33%
FY '91	16%	57%	27%
FY '90	31%	42%	27%
FY '89	20%	57%	23%

TARGETED COUNTRIES FOR INVESTMENT ATTRACTION FY '91 & '92

Japan
Korea
Canada
Germany

Austria
the Netherlands
Sweden
United Kingdom

Taiwan
Hong Kong

TARGETED INDUSTRIES FOR INVESTMENT PROMOTION FY '91 & '92

Food Processing
Biotechnology
Light Manufacturing
Insurance

Research & Development/Commercial
Testing Laboratories
Pharmaceuticals

INVESTMENT ATTRACTION CALENDAR FY '92

July

Investment Iowa Seminar - Hong Kong
Investment Iowa Seminar - Singapore
Governor's Investment Mission - Germany and Austria

August

Investment Iowa Seminar - Taiwan

September

US-ROC Business Conference - Taiwan

October

CASE Investment Days - The Netherlands

November

CASE Investment Days - The Netherlands

December

Investment Mission - Japan & Korea
1991 U.S. immigration Act Seminar - Des Moines

January

February

Los Angeles "Sell Iowa" - California
Investment Mission - Japan

March

CASE Investment Days - Denmark & Sweden

APRIL

Investment Mission - the Netherlands, Germany, France and
United Kingdom
Hannover Fair "Invest USA" - Germany

May

June

Governor's Investment Mission - Japan and Korea