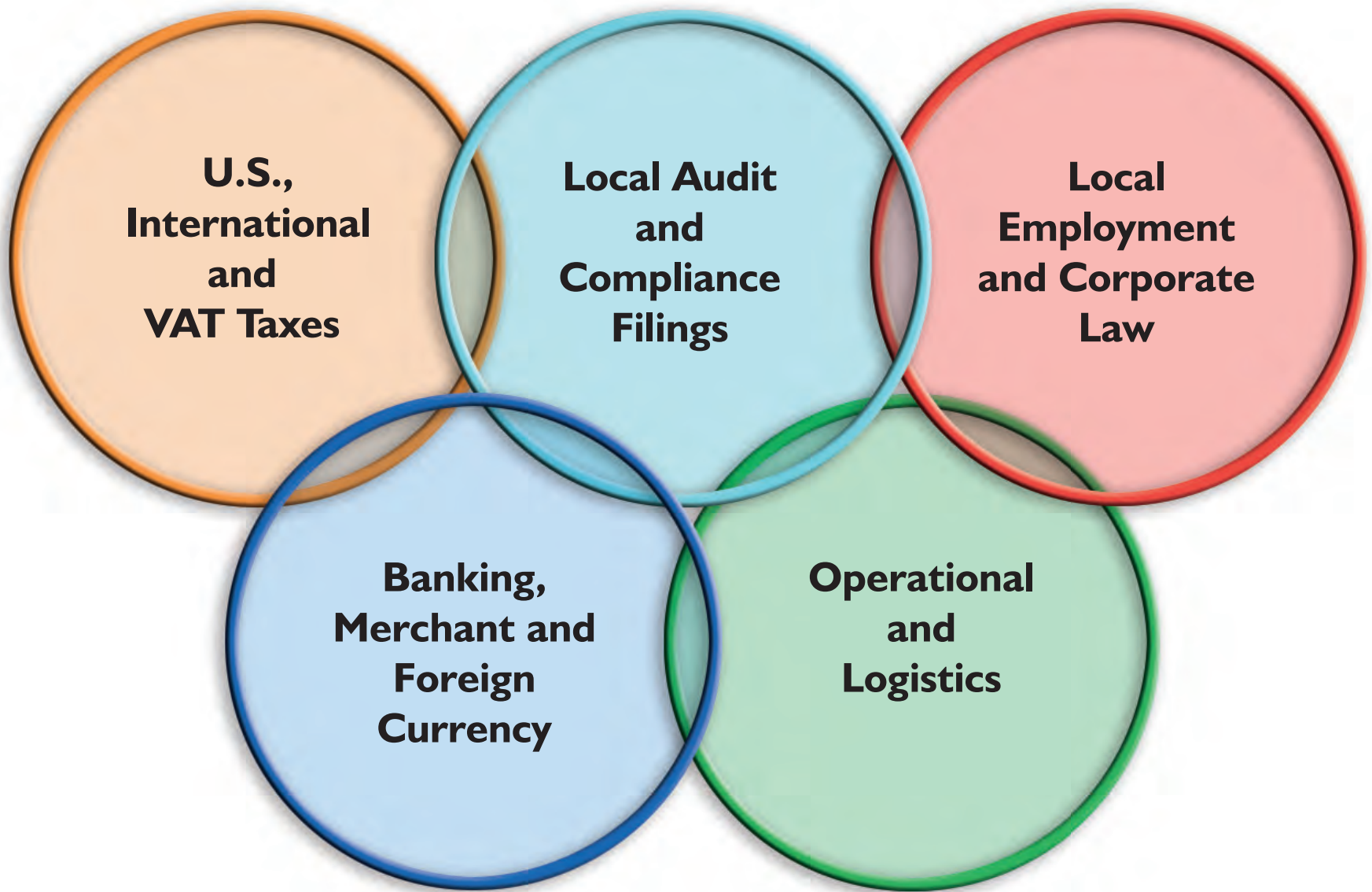


SAN DIEGO BUSINESS JOURNAL SUPPLEMENT

# **INTERNATIONAL TRADE**



Putting It All Together

# INTERNATIONAL TRADE OUTLOOK: A LOCAL TAKE ON GLOBAL OPPORTUNITIES

**E**merging global markets and shrinking domestic GDP are opening doors for San Diego companies. On Wednesday, Aug. 14, the San Diego Business Journal partnered with the World Trade Center San Diego, to host an International Trade Outlook forum that brought new insights into the growing opportunities for San Diego businesses to expand internationally. Chase and UPS, sponsors of the event, also provided their in-house experts to share knowledge of the changing face of global business expansion.



The expert panel, introduced by Steve Weathers, CEO of the World Trade Center, included Kok-Chi Tsim, managing director and senior relationship executive, J.P. Morgan; Tracey Lewis Rendinelli, west region international director, UPS and Tim Van Linge, chief financial officer, LifeProof.



**Steve Weathers**  
CEO, World Trade Center San Diego.

The Journal's own Reo Carr, executive editor, moderated the discussions that focused on topics including creating a global strategy; where the growth is in emerging markets; issues involved in doing business internationally; and, most importantly, the significant resources available for companies going global.

Each panelist brought a unique perspective to the presentation. Kok-Chi Tsim stressed the importance of collaboration in the success of reaching into the global arena. According to Tsim, "You can't do it yourself. You need multiple sources of professionals to help you along. It is most important to seek help."

Tsim sighted an annual report by JPMorgan Chase that surveys CEOs and CFOs of middle market companies with annual sales of \$20 million to \$500 million. The survey posed two questions: What percent of your total sales comes from overseas? What percentage do you expect in five years' time? In 2011, only 24 percent said one quarter of their sales were overseas, two years later that had risen to 29 percent, with more than half expecting global sales to be significant by 2018.



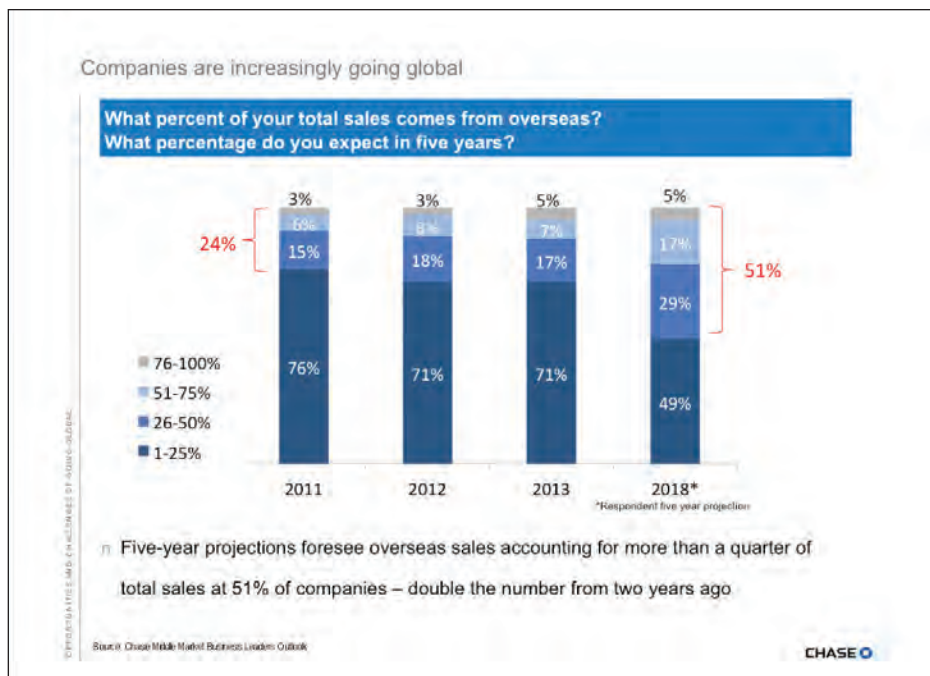
**Tim Van Linge**, Chief Financial Officer, LifeProof; **Tracey Lewis Rendinelli**, West Region International Director, UPS; **Kok-Chi Tsim**, Managing Director and Senior Relationship Executive, J.P. Morgan; **Steve Weathers**, CEO, World Trade Center San Diego.

The reasons driving today's global expansion include:

- Pursuing higher growth markets as overseas economies in emerging markets out strip our domestic growth
- Diversifying from local/home country to avoid over reliance on the domestic economy
- Suppliers and vendors following major clients overseas to support their expansion

- Reduced costs
- Improved innovation resources with growing pools of talent in countries such as China and India offering skilled engineers and technicians

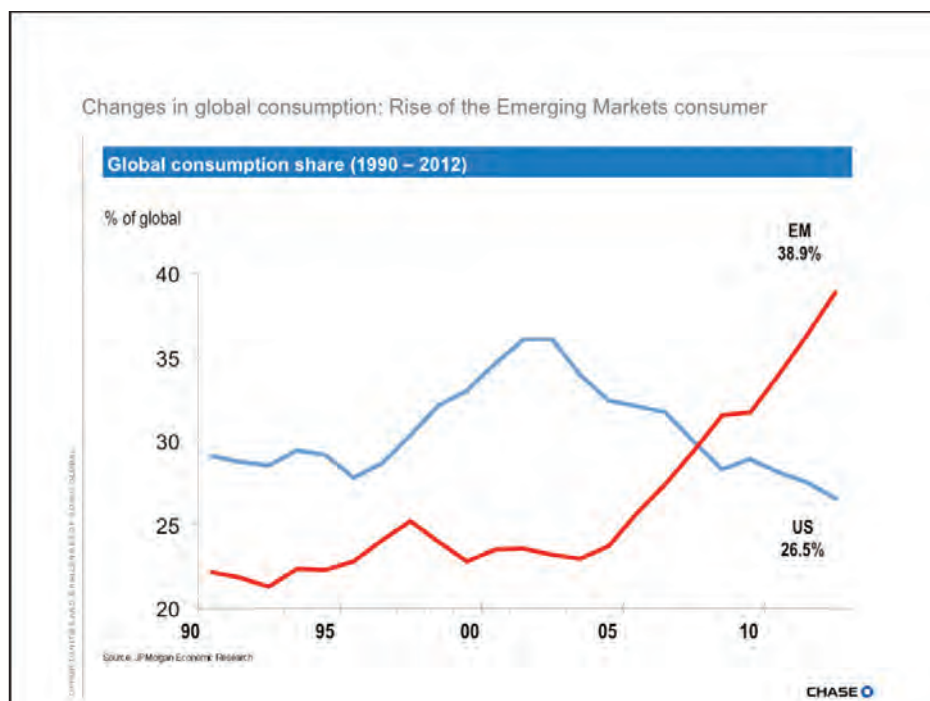
Tsim also acknowledged two developing major trends: First, the rise of the emerging market middle class. Global consumption share comparisons show reversing statistics over the last decade. Currently the U.S. is at 26.5 percent, while emerging markets have grown to almost 40 percent, with China a significant contributor to that growth.



Chase Middle Market Business Leaders Outlook

The question of San Diego's global outlook was explored by each panelist. Though there are no reliable statistics according to Tsim a recent study from UC San Diego ranked the region 17th among 100 U.S. metro areas in total export value, gross metro production (GMP) and population size, but only 55th in terms of export intensity (export share of GMP). San Diego's challenges include its physical and cyber infrastructure and the inability for local companies to "think globally." But with a diverse population, a highly-skilled talent pool, and many small and medium-sized companies capable of expanding worldwide, the potential in San Diego is unlimited.

Challenges, particularly on the financial side can be daunting. Navi-



J.P. Morgan Economic Research

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gating legal and regulatory issues; dealing with foreign currency and interest rates; and managing cash flow are a few of the factors that expanding companies must address. Finding the right advisors with practical and local experience is key. Tsim also offered a basic rule of doing business in another country — you need to be there often.

UPS's Tracey Rendinelli spoke to the basic strategy that has made her organization an international leader — the importance of logistics. Echoing UPS's brand identity, loving logistics is not just a tagline. Today, UPS serves 6 percent of U.S. GDP and 2 percent of global GDP and, according to Rendinelli, helping small business grow is the core of their strategy.

Rendinelli traced the essential elements in establishing an overseas presence. She stressed the importance of social media today in reaching customers. She also prioritized the importance of "feet on the street" locally to understand the changes, emphasizing that companies can't know everything about a market unless they are there.

Looking at the rising global GDP, Rendinelli stated, "You don't have to be a math major to understand where the opportunities are for your company. If you want new customers, globally is where to go." With "direct-to-consumer" becoming the fastest growing sales channel, a global scope becomes even more viable. Australia, for instance, is a prime area for seasonal products with their climate the polar opposite of the Northern Hemisphere.

Incomes are rising in developing economies at significant rates. Korea experienced the same growth in 10 years that took Europe more than 100 years to achieve. Other emerging centers including Dubai, Nairobi, Cape Town and Johannesburg, Istanbul, Sao Paulo and Rio de Janeiro are growing at rates that are surpassing the major U.S. urban centers. There is an untapped wealth of opportunity outside the U.S. border.



Graph courtesy of LifeProof

Rendinelli also underscored the importance of relationships in building business in the rest of the world. "There is nothing like a real world feel for the culture to help you understand how people will use your service or product."

She reiterated the abundance of resources to help businesses capture these opportunities. From the Commerce Department to supply chain management companies like UPS, every phase of the process can be supported from warehousing to distribution.

San Diego has its own global success story with the phenomenal rise of LifeProof from a small start up to a global giant in warp speed time, capped by its recent sale for \$350 million. LifeProof's CFO Tim Van Linge, the third panelist, contributed insights into the company's rapid expansion onto the world smart phone stage and the obstacles and rewards they experienced.



Brian Frawley, Leap Frogs Industries, with Reo Carr, Executive Editor, San Diego Business Journal.

After establishing its dominant U.S. presence with its signature protective case for iPhones and iPads, LifeProof realized that a bigger market existed outside the U.S. Only 20 percent of smart phone sales are within the U.S. with four out of five iPhones sold outside the country, leaving a huge untapped market worldwide. In making the decision to expand globally, LifeProof stepped through key development stages that are universal for any organization considering global positioning.

Key areas in the global expansion process include:

- U.S. international and VAT taxes
- Local audit and compliance filings
- Local employment and corporate law
- Banking, merchant and foreign currency
- Operational and logistics

Van Linge acknowledged that a blend of all these elements also is necessary and joined Tsim and Rendinelli in recommending a collaborative approach. He outlined resources which should include accounting firms and tax partners with international offices and expertise; in-country legal experts; global banking partners with international capabilities; and logistics providers with international capabilities including warehousing and duties compliance knowledge. He summed up remarks: "The key is balance. Not one of these things is more important than the other."

### PANELISTS



**Tracey Lewis Rendinelli**  
West Region International Director  
UPS

As UPS' West Region International Director, Tracey Lewis Rendinelli is responsible for the growth and development of both imports and exports for the 15 western states. Her responsibilities include small package, ocean and air freight growth along with brokerage and clearance.



**Kok-Chi Tsim**  
Managing Director and Senior Relationship Executive  
J.P. Morgan

Kok-Chi Tsim is managing director and senior relationship executive at JPMorgan Chase Bank, N.A. He is responsible for marketing JPMorgan Chase's international capabilities to the bank's Commercial Banking clients in the U.S. and heads the Commercial Bank's China advisory service.



**Tim Van Linge**  
Chief Financial Officer  
LifeProof

Tim Van Linge serves as the chief financial officer for LifeProof. In this position, Van Linge is responsible for strategic financial management, including accounting systems, reporting, and analysis. He brings a proven combination of strong strategic, financial, and business skills to LifeProof.

# Are you Ready for the Global Marketplace: Opportunities and Challenges of Emerging Markets



With about 80 percent of the world's population, emerging market countries offer a number of growth opportunities for mid-sized businesses. When you narrow your focus to China, India and Brazil, you find that these three countries make up more than 20 percent of the global economy – and the proportion is growing. In fact, some anticipate that all of the emerging markets will represent about 70 percent of total global GDP growth over the next four to five years with more than half of this growth coming from China and India alone.

With this level of growth potential, emerging markets are attractive for U.S. companies seeking to expand globally.

## The Ascent of Emerging Market Economies

There are many factors that contribute to the growing importance of emerging markets in the global economy. Three of the most important are scale, growing middle classes and infrastructure needs.

### Scale

The scale of the emerging markets is huge. With more than a billion people each, the populations of China and India combined dwarf those of developed countries such as the United States. In addition, the economies of China and India are anticipated to grow at a rate of seven to eight percent annually versus a U.S. economic growth of about two percent to three percent per year. Based on this level of growth, more than 50 percent of global GDP will originate from China and India over the next 40 years.

### Growing Middle Classes

A critical component of the explosive growth in emerging markets is the rapidly expanding middle class:

- China's middle class is currently estimated to be about 157 million people and could swell to 670 million by 2021.
- India's middle class, while currently small by global standards, is expected to grow to 267 million people in the next five years, a 67 percent increase.
- Brazil's middle class is now equal to 50 percent of its population of over 200 million people.

The significance of middle class growth is that businesses are beginning to focus on selling their goods to the rising consumer class within the emerging markets rather than exporting them to other countries.

### Infrastructure Needs

As the emerging market countries grow in both population and economic strength, the need for improving and expanding infrastructure grows with them. Expansion of roads, railways, ports and other infrastructure components will require extensive funding and investment. For example:

- India's government has pledged to spend well above \$1 trillion on infrastructure in the next five to six years.
- Public and private investments in Brazil for infrastructure improvements are expected to exceed \$500 billion by 2015.

These and other infrastructure projects provide opportunities for U.S. companies to invest and participate in this expansion.

### Opportunities for Mid-Size U.S. Companies

Because of the tremendous growth in emerging markets, the opportunities for mid-size U.S. companies span the spectrum from services to heavy equipment, and from export opportunities to in-country physical expansion. At Chase, we are seeing a number of trends among our mid-size U.S. company clients:

- Physical expansion of manufacturing or distribution facilities to various emerging market countries to shorten their supply lines and reduce costs.
- Manufacturing companies taking the opportunity to export construction materials and a variety of heavy equipment – such as trucks, turbines or manufacturing equipment.
- Increasing interest from professional services firms to export expertise such as architectural design, engineering, education, training and legal services.

### Key Challenges in Emerging Markets and How Chase Can Help

Operating in emerging market countries can provide exceptional opportunities for business growth; however, it can be confusing and complex. Each of these countries presents different challenges due to business processes and procedures, varying financial structures and complex regulations. With country specialists in the U.S. and dedicated commercial bankers located in these key growth markets, Chase can provide guidance to assist U.S. mid-size companies navigate these challenges and identify solutions for your global growth strategy.

Challenges	Chase Solutions
Leverage strength of business in the U.S. into a global position	Our bankers in the U.S. have a deep understanding of each client's business and can work with their in-country counterparts to help businesses establish their presence in these markets.
Managing costs	Many U.S. businesses move into emerging markets to help manage their distribution costs and shorten their supply chain. We can help companies establish a financial foundation for their expanded business: opening accounts, establishing lines of credit and managing other treasury services.
Growing companies face growing business complexities	We help businesses deal with unique international standards, operating nuances, political obstacles and unexpected market turbulence.
Fragmented banking relationships	Our firm's extensive global resources and operations in more than 60 countries enable us to help create a consolidated and portable banking relationship between the U.S. parent and its in-country subsidiary. In addition, our robust technology provides clients with a consolidated view of multiple statements and operations providing the big financial picture.
Navigating through the complex and changing regulations	We have a deep understanding of the regulations and procedures in each country and can advise clients on how to meet these requirements.
Currency restrictions and risk	Chase can provide currency and other risk management for clients worldwide.

# Q&A with Chase Commercial Banking

## How have changes in the global economy affected your U.S. clients, and what advice have you given to help them?

**Answer:** As globalization continues to introduce new sources of supplies, new markets and new competition, U.S. companies cannot ignore what is occurring in other parts of the world. Doing business internationally is a complex process. When our clients formulate global strategies, they have to face the realities and nuances of different business, regulatory, tax, and banking environments. And that's where advice and assistance from professionals with global experience and presence is critical. Trying to do it all on your own will drain the resources of even large U.S. corporations, not to mention small and mid-sized companies. We give our clients the most current information on the global economy and individual countries and provide analysis on specific industries and trends that may impact their business. We also encourage clients to travel to other parts of the world to see for themselves the forces that are driving globalization.

## Have you seen a change in the way your international clients manage their overseas banking and finance?

**Answer:** Many U.S. companies allow their overseas operations to manage their finances fairly independently. This is often the result of the way most U.S. companies began expanding internationally. For example, they established small outposts in overseas locations and continued to grow as business developed in that region. In other cases, a high degree of autonomy is important in certain industries for global operations to be successful. But, as companies expand their global presence and do more business overseas, they find that this decentralized financial management model can be expensive, inefficient and risky. As international operations grow, more U.S. companies are looking for a centralized banking and financial model with better monitoring and control over financial activities. They need a bank that can provide the global network and sophisticated tools necessary to execute the centralized model.

## What are common issues that you have observed when companies grow internationally, and what have you learned from them? How have your clients managed them?

**Answer:** The most common issues we see are:

- (1) navigating the local regulatory environment,
- (2) understanding and managing cultural differences,
- (3) finding the right management talent for their overseas operations,
- (4) financing their international business activities and
- (5) managing the risk associated with doing business internationally.

Prior to engaging in international business, a company should have a better understanding of the issues and complexities of doing business globally, including an honest assessment of their company's strengths and weaknesses with respect to expansion. They should also dedicate the proper resources to the project and seek advice and assistance from professionals with global knowledge and experience. A business needs an expert on the ground to help them navigate these issues.

## What are the benefits of using a professional service firm that specializes in international business?

**Answer:** As I mentioned earlier, regulations in many foreign countries are constantly changing and are often subject to local interpretation. For example, in China, it's not uncommon for the same regulation to be implemented differently from one city to another. As a result, clients should look for a firm with an expert on-the-ground that knows how

regulations are implemented locally and keeps up with the changes. In many countries, regulations touch on multiple aspects of doing business. The range is so wide that one single professional service provider cannot be familiar and keep up to date with all the different regulations and companies should not rely on only one type of service provider for all the answers. For example, lawyers may have expertise in business and foreign investment regulations, but you also need an accountant who understands local tax issues and a banker who knows the local finance and foreign exchange control regulations.

## What are the issues U.S. companies face in trying to obtain financing for their overseas operations?

**Answer:** Financing overseas operations is a common issue for U.S. companies, but can be particularly challenging in developing countries such as China or for newer operations. This is due to a lack of knowledge and familiarity with the U.S. parent company or a lack of local infrastructure to support secured lending, which makes using local assets as collateral difficult. Newer operations, which have a minimal track record and may not yet be profitable, can have difficulty securing financing.

As a result, many U.S. companies often find themselves left with limited options in financing their global operations. They can either provide inter-company loans, which are often subject to limitations and controls by the foreign country, or they can provide additional equity capital, which can often lead to trapped cash overseas. To overcome this problem, many U.S. companies have sought the assistance of banks that have in-country presence and can leverage their U.S. relationship to provide financing on the ground to overseas operations.



*Submitted by Chase Commercial Banking*

*By Brennon Crist*

*About Chase Commercial Banking*

*Chase Commercial Banking serves more than 23,000 corporate, state, municipal, financial institution and nonprofit clients in the U.S. with annual revenue generally ranging from \$20 million to \$2 billion and nearly 36,000 real estate investors and owners. The firm offers a comprehensive set of financial products and services, including credit, equipment finance, real estate finance, treasury services and provides clients with access to the investment services of J.P. Morgan.*



*Brennon Crist is Market Manager of Middle Market Banking in San Diego, and represents Chase in San Diego area civic and philanthropic activities. He leads a team of senior bankers, credit underwriters and service professionals in providing comprehensive financial solutions to companies with revenues between \$20 million and \$500 million. Brennon can be reached at 619.358.6361 or [brennon.j.crist@chase.com](mailto:brennon.j.crist@chase.com).*

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## The "Virtual" U.S.-Mexico Border: Vital to Region's Economy

Most of the border news in the press understandably focuses on Otay Mesa and San Ysidro. The latter is the busiest land point of entry in the U.S., serving more than 50,000 northbound vehicles and 25,000 northbound pedestrians daily, according to The U.S. General Services Agency.

While that's something to marvel, there's a more active gateway running between San Diego and Baja; and it's rarely seen. We estimate that electronic data is being sent across both regions at an astronomical rate. Technology has empowered companies to extend their applications to global operations just as easily as if they were working from within the same office. Support for supply chain, finance, and manufacturing is sent at the click of a mouse; far faster and with greater economic potential than on San Ysidro's or Otay Mesa's best day.

There are many efforts in the region to improve the challenges presented by the physical border crossing, including those by the San Diego Regional EDC and the Desert Line Railroad. But another real challenge now is to recognize that, like the physical San Diego/Mexico border, information must flow freely – yet securely – between the regions. This is a call to action for providers like us to be catalysts in expediting commerce across both regions. It's why we launched a metro-fiber network between Tijuana and San Diego just over a year ago, committing ourselves to being the first private and secure data transport from Tijuana without relying on third parties. Commerce is certainly the backbone of our relationship with Mexico and Baja, but that border is becoming more "virtual" each day.

Submitted by redIT

By Matt Thoene

Matt Thoene is the Managing Director of U.S. Operations for redIT, a provider of managed IT services, high-capacity connectivity and data centers in the southwestern U.S. and Latin America. More information is available at [www.redit.com](http://www.redit.com).

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