



**United States Senate
Committee on Commerce, Science and Transportation
Subcommittee on Competitiveness, Innovation, and Export
Promotion**

**Hearing on “A World of Opportunity: Promoting Export Success
for Small and Medium-Sized Businesses”**

**Tuesday, October 6, 2009
2:30 p.m.
253 Senate Russell Office Building**

**Testimony by
Liz J. Reilly
Director, TradeRoots
U.S. Chamber of Commerce**

Thank you Chairwoman/Ranking Member Klobuchar, and members of the Committee on Commerce, Science, Transportation Subcommittee on Competitiveness, Innovation and Export Promotion. My name is Liz Reilly, and I am Director of the U.S. Chamber of Commerce's TradeRoots Program. The U.S. Chamber of Commerce is the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region.

TradeRoots is the only sustained, national trade education program dedicated to raising grassroots support and public awareness about the importance of international trade to local communities. We work in partnerships with local chambers of commerce, state and local economic development groups, federal agencies, trade associations, and the business community. TradeRoots takes the Chamber's message of promoting free enterprise through exports to local communities across the country.

Last year the TradeRoots team hosted more than 100 trade education events and visited more than 300 Congressional districts in 41 States. Many of those states are represented by the members of this subcommittee. I greatly appreciate the invitation to speak to this committee on "A World of Opportunity: Promoting Export Success for Small and Medium-Sized Businesses."

Trade Can Bring Growth and Prosperity

America cannot have a growing economy or lift the wages and incomes of our citizens unless we continue to reach beyond our borders and sell products, agricultural goods, and services to the 95% of the world's population that lives outside the United States.

Trade sustains millions of American jobs. Approximately 57 million American workers are employed by firms that engage in international trade, according to the U.S. Department of the Treasury. This sum represents about 40% of the private sector workforce. One in five factory jobs depends on exports, and one in three acres on American farms is planted for hungry consumers overseas.

Despite a sharp decline in international trade during the final four months of the year, the United States set a new record for exports in 2008. U.S. exports of goods and services reached \$1.84 trillion, comprising a record 13% of U.S. GDP in 2008, up from 9.5% of GDP five years earlier (2003) and 5.3% forty years ago (1968). For the first two-thirds of 2008, trade provided a significant economic

stimulus, partly countering the contraction seen in other sectors of the U.S. economy. The benefits reach every state in our nation.

More than 96% of the Chamber's members are small businesses with 100 or fewer employees, and 70% of our members have 10 or fewer employees. While most Americans tend to regard international trade as the domain of large multinationals, more than 250,000 small and medium-sized companies export, and their overseas sales represent nearly a third of U.S. merchandise exports. In other words, while large companies still account for a majority of American exports, smaller companies nonetheless play a critical supporting role in trade.

There are many seasoned exporters among America's small businesses, but there are many others that have never even considered exporting. However, I know first-hand that America's small business people are among the most creative, innovative, and hard working entrepreneurs in the world. We have told many of their success stories as part of our "Faces of Trade" series. These stories celebrate companies with fewer than 500 employees that are exporting "made-in-USA" products to destinations all over the world, and depend on new markets for profit and growth.

The Federal Government Should Do More to Promote Exports

If more U.S. small businesses were able to seize export opportunities, the gains could be immense. In a sign that they may just need a little help, a World Bank study (*Exports Promotion Agencies: What Works and What Doesn't*) found that each one dollar increase in export promotion expenditures brought a 40-fold increase in exports. The gains were especially large for countries that spend less than the average. As it happens, the United States spends just one-sixth of the international average helping its small businesses to export.

Given the limited resources dedicated by the federal government to support small and medium-sized exporters, some states and even private companies have created innovative and effective programs. We believe that many of these state programs should be replicated in other states and ideally on a federal level.

In Massachusetts, the Massachusetts Export Center has created a program entitled "Compliance Alliance" in an effort to encourage additional international business. This program helps companies learn to export through seminars and networking events, and ensures they are complying with regulations. Last year, their clients reported nearly \$190 million in export sales as a direct result of assistance

provided by the Massachusetts Export Center and programs such as this. They estimate that the return on investment is 88-1, as the companies that were assisted generated over \$1.5 billion in export sales in 2008. By one estimate, these exports sustain over 3,000 jobs in the state.

The Nevada Commission on Economic Development has created a no-cost program for the state called the International Representatives Program. Under this program, independent voluntary representatives are selected to run international offices on behalf of the state. They receive payments from clients who are interested in these markets and work as salesmen on commission. To date, this program is now functioning in seven countries, and this has been the first time that any U.S. state has created an international representative at no cost to the state. Seven other states that have had their funding cut or eliminated are emulating this concept with some success.

One successful manufacturing exporter, York Wire and Cable in York, Pennsylvania, recently shared with us the positive impact of Market Access Grants (MAGs) in Pennsylvania. These grants are designed to help small and mid-sized Pennsylvania companies increase export sales. Export-ready companies in good standing are eligible for up to \$5,000 to explore new markets through trade shows, trade missions, and by internationalizing web sites. York Wire and Cable has taken advantage of three MAGs, and as a result its exports have increased over 5%, boosting the contribution of exports to total sales to 17%. We believe a similar MAG grant system should be created at the federal level for companies around the country.

Similarly, Enterprise Florida, a division of the Florida Governor's office, is promoting state exports through funding, programming, and partnerships. Some successful grants that it administers are Partner Trade Event Grants and Target Sector Trade Grants. The Partner Trade Event Grants are awarded to counties, partnerships or organizations across the state. They range from \$7,500 – 10,000 and cover export sales missions, in-bound buying missions and technical support. Target Sector Trade Grants are reimbursement grants of up to \$4,000 given to companies to participate in trade shows and exhibitions in target sectors.

Florida has also created a "Train the Trainer" series that teaches business executives how to navigate the international marketplace in order to feel comfortable exporting. They also offer export counseling to Florida manufacturers, export intermediaries, and services companies. Under this program, international marketing professionals evaluate the market readiness of current and potential exporters and help select target markets for a company's particular products and

services, as well as identify baseline legal, tax, and logistics requirements. Lastly, the state has partnered with the Export Yellow Pages (a private company endorsed by the U.S. Department of Commerce) to create a Florida Export Directory which increases businesses international exposure and allows them to be contacted directly by overseas buyers and distributors.

Private companies are engaging in export promotion as well. One California company is partnering with chambers of commerce and associations across the country to host trade delegations to China. In an effort to promote trade, the firm brings thousands of American businessmen and women, along with select local public officials, to visit China every year. Because the program has grant funding, the firm is able to provide this service at an extremely low cost to participants.

Another private enterprise example is an international airline that is offering business grants for companies that are interested in international business but cannot afford travel costs. They are committed to keeping entrepreneurship alive and to helping stimulate global business through their “Business Opportunity Grants.” The program offers small and medium-sized companies the opportunity to travel overseas and conduct face-to-face business meetings that can result in new and deeper partnerships, new projects, increased exports, and revenue for U.S. cities.

Government Programs Are Inadequately Funded

According to the Council of State Governments, U.S. states have spent over \$200 million in state funds for export promotion, educational exchanges, and other international programs. This money helps to fund a network of more than 200 state trade offices worldwide. This however is an insufficient amount of funding to promote exports effectively on a federal level. To address this need, the U.S. Chamber has proposed a doubling in federal expenditures on export promotion, with a focus on small companies’ exports. The federal government allocates about \$335 million annually to promote the exports of manufactured goods. (The federal government expends more than twice that sum promoting agricultural exports.)

The assistance offered by the federal government needs to be promoted more effectively. The services, expertise, and dedication of representatives of the U.S. Commercial Service, Export-Import Bank, and Small Business Administration are world class, but I have seen first-hand from Bakersfield to Buffalo that many U.S. companies are not aware of the government services that are available to help them break into new markets. This isn’t the fault of America’s small business

owners, rather it reflects the inadequate resources dedicated by the federal government to export assistance and a failure to promote these services adequately. It is for this reason that TradeRoots puts on programs across the United States highlighting the resources that are available to companies such as Export Assistance Centers (USEAC), Small Business Loans, and World Trade Centers.

However, the more experienced small business exporters are a different story. These are the companies that have taken advantage of their USEACs and perhaps taken advantage of Export-Import Bank or Small Business Administration Loans. Some companies, such as Askinosie Chocolate in Springfield, Missouri, have worked with their USEACs to access information about opportunities in countries to which they are interested in exporting, even when they cannot afford the fee for the U.S. Commercial Service's Gold Key Service. With over 15% of Askinosie's gross revenue coming from overseas markets, finding new ones is imperative to growth.

Other companies, however, like Quality Float Works in Schaumburg, Illinois, have had experiences with U.S. Commercial Service offices overseas that are illustrative. Quality Float Works President Sandy Westlund-Deenihan reports she normally has great experiences with overseas offices of the U.S. Commercial Service, but she recently found the offices in Dubai so severely understaffed that they were unable to assist her in setting up business meetings. Additional funding for the Department of Commerce should eliminate or lower service costs for programs like Gold Key and ensure that DOC staff are available to assist small businesses who are interested in exporting.

Some additional successful small business exporters are members of the Department of Commerce's District Export Councils (DECs). The DECs are organizations of leaders from the local business community, appointed by the Secretary of Commerce, whose knowledge of international business provides a source of professional advice for local firms. For more than 30 years, DECs have served the United States by helping companies in their local communities export, thus promoting our country's economic growth and creating new and higher-paying jobs for their communities.

Closely affiliated with the U.S. Commercial Service's U.S. Export Assistance Centers, the 56 DECs combine the energies of more than 1,500 exporters and private and public export service providers throughout the United States. DEC members volunteer their time to sponsor and participate in numerous trade promotion activities and to supply specialized expertise to small and medium-sized businesses that are interested in exporting. We would recommend selecting an ex-

officio DEC member to participate on the President's Export Council in order to represent small businesses in devising export assistance programs.

As a tool for export promotion, Market Development Cooperator Program (MDCP) Grants are efficient and effective, but in recent years they have all but dried up. TradeRoots was actually founded based on an MDCP Grant to help small businesses learn about exporting in select states around the country. As a result of this grant, TradeRoots reached more than 3,800 small and medium-sized businesses and helped generate more than \$9.2 million in U.S. exports. We support continuing and expanding MDCP Grant Funding.

Pending Free Trade Agreements Would Boost Exports

Another efficient way to promote U.S. exports would be for Congress to pass the pending trade agreements with Colombia, Panama, and South Korea. A recent analysis by the U.S. Chamber determined that these accords would provide an immediate boost for American workers, farmers, and companies worth an estimated \$42 billion over five years.

Most importantly, these are "fair trade" agreements that promise a level playing field for American workers and farmers. Many Americans don't know that the U.S. market is already wide open to imports from these countries, with most imports from Colombia, Panama, and South Korea entering our market duty free. However, these countries impose tariffs on U.S. products that often soar into the double digits, limiting our competitiveness overseas.

Importantly, according to the most recent U.S. Census data, more than 25,000 small and medium-sized companies are already exporting to Colombia, Panama and South Korea. We believe this number could rise sharply with implementation of these trade agreements. Passing these FTA's would reduce tariffs and allow US companies to compete on an even footing of those countries domestic suppliers, just like they already experience here in the US.

These agreements will open the door to new opportunities for smaller U.S. firms in ways that go far beyond just cutting tariffs:

- **Non-Tariff Barriers:** NTBs are especially harmful to smaller companies because they add to the fixed costs of doing business. A \$10,000 permit is a nuisance for a big firm; it can be a show-stopper for a smaller one.

- **Intellectual Property:** Trade agreements protect the innovation and creative content captured in so many U.S. exports; in fact, these agreements will oblige Colombia, Panama, and South Korea to give protections for intellectual property similar to those in U.S. law.
- **Services:** These agreements will also open up service sector sales by American companies, expanding the opportunities for a part of our economy that's humming with efficient and innovative smaller companies.
- **Government Procurement:** These agreements will give American small business expanded access to international government procurement contracts. Those contracts for roads, schools, clinics, and the like are often too small for major American companies to perform profitably. But they are just the kinds of contracts that our smaller construction companies, distance learning companies, and medical equipment companies (to mention just a few) can fulfill beautifully.

A recent study by the U.S. Chamber entitled *Trade Action—Or Inaction: The Cost for American Workers and Companies* found the United States could suffer a net loss of more than 380,000 jobs and \$40 billion in lost export sales if it fails to implement its pending trade agreements with Colombia and Korea while the European Union and Canada move ahead with their own agreements with the two countries. If the U.S. agreements are not implemented, American workers and farmers will be put at a competitive disadvantage in Colombia and Korea. For example, Canadian wheat farmers will be able to sell their crop to Colombians at a steep discount, and European manufacturers will easily undercut their American competitors in the Korean market. (See www.uschamber.com/trade)

Delaying approval of these agreements only means American workers and farmers will continue to face steep tariffs in these important markets—taxes, in fact, paid into those countries' treasuries. These agreements are a potentially critical tool for boosting exports by America's small businesses.

Infrastructure Investment Is a Priority

In addition, without a solid and sustainable infrastructure and capacity building system, goods produced across the United States will not be able to their points of exit in an efficient and profitable way. Reauthorization of SAFETEA-LU must be a high priority in order to advance a robust, thoughtful, and comprehensive plan to build, maintain, and fund a world-class 21st century

infrastructure. Despite the recent economic downturn, the growth in international trade is still expected to overwhelm U.S. intermodal freight capacity over the next 20 years.

Manufactured goods and cargo move through the United States on a system primarily consisting of ports, roads, rail, and inland waterways. According to the National Surface Transportation Policy and Revenue Study Commission, on a typical day, about 43 million tons of goods valued at \$29 billion moved nearly 12 billion ton-miles on the nation's interconnected transportation network. The supply chain is viewed from initial point of origin to the final destination, with frequent junctures in between. To remain competitive domestically and internationally, many U.S. businesses have developed complex logistics systems to minimize inventory and ensure maximum efficiency of their supply chains. However, as congestion increases throughout the U.S. transportation system, these supply chains and cargo shipments are frequently disrupted and the cost of doing business increases.

In Memphis, at a hearing of the National Surface Transportation Policy and Revenue Study Commission (NSTPRSC), on November 15, 2006, Doug Duncan, CEO of FedEx Freight and a Chamber member, summed up the freight community's acute interest in infrastructure: "I'm afraid if things don't turn around soon, we'll begin turning the clock back on many of the improvements that these supply chains have made and begin to restrain commerce instead of support commerce."

In order to provide a transportation system that encourages exporting in the United States, Congress should develop federal policy and programs that support congestion mitigation and improved mobility in urban areas by providing incentives for the adoption of strategies and use of technology that maximize the use of existing facilities, supporting public transportation capacity, availability and ridership strategies and highway capacity where appropriate. By providing federal investment in small communities and rural areas to support connectivity to major economic and population centers, it will make it easier for more small and medium-sized businesses to access the international marketplace and grow their exports.

Conclusion

Investing in the export potential of America's small and medium-sized businesses could bring dramatic gains and stimulate the economy. Showing how smaller companies can gain from trade would also help build political support for international trade. By adding to the ranks of small businesses that see direct

benefit in exporting, Americans will be able to see more clearly the possibilities offered by worldwide trade.

Once again, I greatly appreciate the opportunity to testify today. The U.S. Chamber of Commerce stands ready to work with you on these and other challenges in the year ahead.

Thank you very much.