FULL COMMITTEE HEARING ON EVALUATING THE IMPACT OF SMALL BUSINESS TRADE POLICY ON JOB CREATION AND ECONOMIC GROWTH

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FULL COMMITTEE HEARING ON EVALUATION THE IMPACT OF SMALL BUSINESS TRADE POLICY ON JOB CREATION AND ECONOMIC GROWTH

Wednesday, April 28, 2010

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360 Rayburn House Office Building, Hon. Nydia Velázquez [chairman of the Committee] presiding.

Present: Representatives Velázquez, Altmire, Bright, Graves and Thompson.

Chairwoman VELÁZQUEZ. Good afternoon. This hearing is now called to order.

In the last year, trade has emerged as the silver lining in an otherwise weak economy. Annual growth in exports has expanded by 18 percent, boosting the bottom lines of businesses in a wide range of industries, including many outside exporting traditional markets.

As a recent article in The Economist reports, even architectural firms, not exactly the vanguard of American trade, are selling more of their services abroad. For an economy on the mend, an uptick in trade is a welcome bright spot for small firms facing a shortage of domestic customers. It is especially appealing.

With trade on the rise, so are opportunities for small businesses. After all, they make up 97 percent of exporting companies and are by their very nature innovative and enterprising. But these virtues alone do not guarantee success abroad. Rather, it takes time to identify foreign markets, capital to target new customers, and training to learn the ins and outs of the exporting process. Some of these resources, however, are in short supply, particularly for small firms impacted by the recession.

In today's hearing, we are going to examine the challenges facing small business exporters and look for ways to ensure U.S. trade policies are doing all it can to support those firms. When armed with the proper tools, small businesses can create anywhere from 60 to 80 percent of new jobs. It is critical that those resources be available today, especially with the unemployment rate at 9.7 percent. But unfortunately, job creation has become an increasingly heavy lift for small firms. Small exporters are no exception. These businesses face significant roadblocks in reaching new markets. Some of those, like the challenge of identifying foreign buyers, have

been around forever. Others, such as difficulty accessing capital and increased red tape due to heightened security issues, have increased in recent years. We need to be sure small businesses are able to overcome these obstacles, because when a small company has the elements it needs to access customers abroad, it has the ability to create jobs here at home.

Equally important is the basic understanding of the exporting process. Unlike the larger competitors, small businesses tend not to have massive marketing departments or business development teams. So when it comes to navigating foreign economies and reaching new customers, they are often on their own. Countless other businesses are unaware that exporting is an option at all. That is unfortunate because trade is not industry specific. For small firms in sectors ranging from IT to textile manufacturing, exporting opens the door to a diverse new customer base.

At a time of sluggish consumer spending, it is important that all small businesses, regardless of industry, have the chance to leverage trade opportunities.

As Americans, we often worry about shipping jobs overseas. Well, one of the best ways to keep that from happening is by sending our industry, the goods and services that we create, as a nation overseas instead. Already trade supports one in five manufacturing jobs and studies have shown firms that focus on exporting increase employment levels faster than those that do not. Now more than ever, our country needs policies that encourage trade and promote growth.By improving resources for small business exporters, we can achieve both those things and take another promising step down the road to recovery.

I would like to take this opportunity to thank all the witnesses for taking time out of your busy schedule to be with us today and I look forward to hearing from you.

With that, I will now yield to Ranking Member Graves for his opening statement.

Mr. GRAVES. Thank you, Madam Chair, and thank you for holding his hearing on trade policy and its effect on small business exports.

Small business has played an important role in our economy. Not only do they create the majority of new jobs in this country, but they also drive American innovation that's critical to meeting the challenges of any given industry.

As our nation continues its quest for a full economic recovery, the success of our small businesses is paramount. One way we can help clear the path to success for small businesses is by improving trade opportunities. Trade is critical to America's prosperity and our trade industry supports roughly 10 million jobs and contributes 12.7 percent to the U.S. Gross Domestic Product.

In 2008 alone, the U.S. exported $1.8 trillion worth of goods. Unfortunately, small businesses only represent 30 percent of the total value of goods exported from the United States. Additionally, small businesses that do export goods are typically only able to sell to one foreign market. With 95 percent of the world's consumers living outside the United States, it is clear that expanding trade opportunities for small businesses could dramatically fuel development and increase revenue.

Currently, tree trade agreements with Panama, Colombia, and South Korea are awaiting congressional action. Creating more market access for small businesses, through the passage of these trade agreements, is one of the best things Congress could do to help small businesses and improve the American economy.

The passage of the Colombia Free Trade Agreement, for example, would eliminate duties on 80 percent of the U.S. exports of consumer and industrial products almost immediately. Passage of the Panama Free Trade Agreement would increase U.S. agriculture exports by more than a $195 million a year and eliminate all tariffs on U.S. ag. exports. The passage of the free trade agreement with South Korea would open up access to our seventh largest trading partner in the world and dramatically reduce tariffs.

The benefits of opening market access are obvious and plentiful, but failure to expand trade opportunities in the near future could prove detrimental to our economy. The European Union and countries like Canada are eager to enter into free trade agreements and displace our market presence. The time is right now to get this done, I think, and I think it's very, very important.

Again, thank you, Madam Chair, for having the hearing and I appreciate all the witnesses being here and taking time out of your busy schedule.

Chairwoman VELÁZQUEZ. Thank you. It's my pleasure to welcome Mr. Roger Johnson. He's the President of the National Farmers Union. He was elected president in 2009 and has previously served as the North Dakota Agriculture Commissioner. With 250,000 members, the Farmers Union addresses economic well-being and quality of life for family farmers and ranchers.

Welcome, Mr. Johnson, you will have five minutes, to make your statement.

STATEMENT OF ROGER JOHNSON

Mr. JOHNSON. Madam Chair, Ranking Members and Members of the Committee, as you indicated, my name is Roger Johnson. I'm President of the National Farmers Union and I'm also a farmer in North Dakota.

Trade policy isn't like flipping a coin with only two possible outcomes, heads or tails. It's more like rolling a six-sided dice in dealing with lots of issues, domestic producers, imports, exports, the WTO, jobs, markets, et cetera.

Many of the small and medium-sized farmers in the U.S. depend on foreign markets for a portion of their income. Exports are very important to agriculture. Seventy-two percent of our cotton is exported; 63 percent of all almonds, for example; 40 percent of our food grains, and the list goes on.

Increasing domestic market share can help insulate U.S. producers from the vagaries of foreign market which sometimes can be rather fickle. Another solution can be found in facilitating access to those foreign markets.

Two programs in particular at USDA I'd like to visit about. The MAP program, Market Access Program, and the Foreign Market Development Program, or FMD, both of these programs are very important. They provide matching funds. They help us with opening markets, help in particular shipping a lot of specialty crops,

fruits, vegetables, nuts, et cetera. The MAP program is used in many different ways.

In my capacity as the Commissioner of Agriculture in North Dakota, I participated in one of the SRTGs. My testimony goes into some detail about this. The SRTGs have helped thousands of small businesses enter export markets in cooperation with USDA. Export readiness training is made available: international trade shows, direct financial support for advertising trade missions, labeling, promotion in foreign markets. Unfortunately, many producers are unaware of these programs.

The Foreign Ag. Service also supports small businesses by organizing and hosting trade shows. And the identity for the U.S. is enhanced significantly through these U.S. pavilions at FAS-endorsed international trade shows.

In 2008, only about $30 million of the $200 million budget for MAP was spent on small businesses. We would argue that a larger percent of that total should be spent on small businesses. We need to do even more to ensure available federal dollars are being maximized to help small producers and companies.

We need to set aside a majority of the money for these kinds of producers. If the Federal Government does not recognize the importance of diversity of agricultural production scales, et cetera, we will be making a mistake. We must ensure that they are not inadvertently encouraging further concentration in agriculture through trade and export policies that might otherwise ignore the small producers and focus more on the very large companies.

Past trade policies sometimes have failed to live up to their proponent's promises and have placed sometimes an undue burden on America's family farmers and ranchers. U.S. trade deficit today is over $400 billion. Current trade policies are often not adequate in addressing issues like currency manipulation, environmental standards, labor standards, food safety issues, and others.

There are two pieces of very important legislation I would draw your attention to on page five of my testimony. HR 4645, sponsored by Chairman Peterson, would open up additional business opportunities to Cuba and also the Trade Act, which would largely help enforce existing trade agreements and help to bring some sense of coherence to the various foreign policies that we have in the country.

National Farmers Union is a member of the International Federation of Ag. Producers. Some one hundred countries are members of the this. We believe, as does IFAP, that every nation has the right to food security and should be allowed the ability to provide it for themselves with domestic production and with reliable trading partners. We need to do a better job of aligning our humanitarian and economic development policies with our trade policies so they do not work at cross purposes.

On page six of my testimony, I spend some time talking about jobs. And let me just conclude by saying that we need a more coherent trade agenda to develop, maintain, and advance jobs in this country. Our export markets and trading partners, even if they seem very stable, are often unreliable. The markets tend to be fickle. We sometimes lose them quickly through bogus science or food safety issues that simply are not true. And so we need to do what

we can to try and focus on these issues. I provide a number of examples with respect to that.

Finally, let me say that real growth in U.S. exports will come with the economic growth in other countries as they achieve the ability to pay for better diets. In many cases, that means allowing other countries to support their farmers and protect their markets from world dumping.

Thank you.

[The statement of Roger Johnson is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Johnson. Our next witness is Dr. Gary Clyde Hufbauer. He is Reginald Jones Senior Fellow with the Peterson Institute for International Economics.

Dr. Hufbauer has written extensively on international trade, investment, and tax issues. The Peterson Institute is a research institution devoted to the study of international economic policy.

Welcome.

STATEMENT OF MR. GARY CLYDE HUFBAUER

Mr. HUFBAUER. Thank you very much, Chairwoman Velázquez and Ranking Member Graves.

As you well know President Obama has committed his Administration to the goal of doubling U.S. exports in five years. Towards that end, among other things, he has promised an additional $2 billion of lending authority to the Export-Import Bank, and the Commerce Department has embarked on an outreach program. These are useful steps, but they are small steps. My remarks today concentrate on the very special problems facing small business exporters.

As you know the fixed cost for a firm to engage seriously in exporting goods and services are formidable. And the very high fixed costs go a long way to explaining why an exceptional share of U.S. merchandise exports are shipped by large firms.

Professor Brad Jensen of Georgetown University has assembled statistics on this aspect and in the year 2000, the top 1 percent of U.S. exporting firms--which is about 1,600 firms, less than 1/10th of 1 percent of all U.S. firms--accounted for 80 percent of U.S. merchandise exports. And there's absolutely no reason to think this picture has changed much in the last decade.

Small business firms are conspicuously under represented in the U.S. export picture, largely because of the fixed cost obstacles I have mentioned. Bearing these obstacles in mind, let me offer three suggestions that are targeted at small business.

My first suggestion is that the Congress should require the Administration to provide a quantitative annual report of past performance and future expectations of small business exports. Among the features of this report, it should specifically identify the expected contribution of each of the Administration's promotion measures.

My second suggestion is to boost very substantially the availability of export finance to small business firms. This cannot be done by the Export-Import Bank, both because the Export-Import Bank financing is limited by an array of congressional mandates which are quite complicated, and because the lending process itself

is very complex. A better approach is to create significant tax incentives for private banks to support the export financing needs of small business firms both on a pre-shipment basis and once goods and services are sold. Towards that end, I suggest--and I go into this in my testimony--that private banks be allowed to establish very large loan loss reserves for new export-related loans extended to small business firms.

My third suggestion is to bolster the information and technical assistance programs offered to small business exporters by the Small Business Administration and the Department of Commerce. I concur with what was said about the Agricultural Department as well. In 2008, I was a guest of the Hong Kong Government and saw quite a few things there, but of particular note was an agency devoted to library resources for small business firms in Hong Kong. These are big exporters from that small city-state. The library was backed up by technical experts. The set up is very impressive and I do not know that the U.S. Government matches that level of expertise and an evaluation would be useful.

The SBA and the Commerce Department are staffed by knowledgeable people, but I would suggest an external evaluation by a firm like McKinsey or Monitor, there are many others, as to improvements which might be done.

And I would finally comment that small business export cannot be doubled on the back of a public relations campaign.

Thank you.

[The statement of Clyde Hufbauer is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Hufbauer.

Our next witness is Mr. Phillip Bond. He's the President and CEO of TechAmerica. Mr. Bond has held his role since 2006 and previously served as an Undersecretary in the Department of Commerce. TechAmerica represents nearly 1,500 technology member companies of all sizes. Thank you for being here.

STATEMENT OF PHILLIP BOND

Mr. BOND. Thank you, Chairwoman Velázquez and Ranking Member Graves.

It's a privilege to appear before you. As was noted by the Chair, TechAmerica represents some 1500 companies across the entire scope of the technology industry. That industry relies on trade for investment, for innovation, for growth, for job creation.

About 17 percent of U.S. exports are high tech exports. And of those high tech exporters, 94 percent are small business, but 1 out of 4 total small business exporters in the country, 1 out of 4 of them are high tech small businesses.

A couple of examples, if I can real quickly, that illustrate this. Authentech is a small, American high tech company in Florida. In 2008—they do sophisticated biometric sensor chips. They grew by about 13 percent in 2008 which was 15 jobs for that company. Their primary customers, Samsung, Toshiba, Lenovo, Fujitsu, 97 percent of their sales go overseas.

Another example, out of Illinois, PCTel is a small high tech company, very active exporter. It designs products and solutions for the wireless industry. Forty-five percent of PCTel's 2008 sales came from outside the United States. These examples, I hope illustrate why it's important that the U.S. facilitate business opportunities for small business in overseas markets and eliminate impediments.

So TechAmerica supports an active, open market policy through bilateral, regional, and multilateral trade agreements. We believe these assist exports in several fundamental ways which my written testimony goes into more detail on, but certainly eliminating and reducing tariffs, just as important, non-tariff barriers, standards and other things that are often used by other countries to close a market. Improving intellectual property protection. Those are the crown jewels of these small companies. Streamlining trade facilitation and facilitating in this day and age, open Internet access and cyber security, because software services is really the fastest growing portion for high tech employment.

Secondly, we need to look at U.S. policies that could help small businesses grow their exports. This would include reforming export controls. Small companies, generally, are not equipped to deal with the complexities of our export control regimes. We are encouraged by the steps being taken by the Administration in this regard.

As the Chair noted in her opening statement, trade promotion is critically important and tough for small businesses. They have their hands full finding reliable business partners, navigating local laws and cultures, mining up financing, understanding the market. And we recognize while there are many programs designed to help them, the awareness and understanding of those leaves something to be desired. More could be done, better funding provided to try to help promote trade from small companies.

Small business innovation and new firm formulation ensure U.S. products and services are meeting at the cutting edge. That is our only hope as a country. We don't want to compete on wage. We want to compete in innovation and new products. And so we hope that the Chair and the Members of the Committee would take some of these thoughts and the details of the written submission into consideration.

Thank you.

[The statement of Phillip Bond is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Bond.

And last, but not least, Mr. Drew Greenblatt. He is the President of Marlin Steel Wire Products located in Baltimore, Maryland. Mr. Greenblatt is testifying on behalf of the U.S. Chamber of Commerce which represents the interests of more than three million businesses.Welcome.

STATEMENT OF MR. DREW GREENBLATT

Mr. GREENBLATT. Thank you, Chairman Velázquez, Ranking Member Graves and distinguished Members of the House Small Business Committee.

My name is Drew Greenblatt, and I'm the President of Marlin Steel Wire. We're based in Baltimore, Maryland and I'm testifying today on behalf of the U.S. Chamber of Commerce. This is the

world's large business federation and it represents more than three million businesses all across America, all sectors, all regions.

Five years ago today, I testified to this Committee in front of Ms. Velázquez on the need for simple regulation and tax policies to make it easier for small companies like mine to prosper and grow jobs.

Today, I want to speak to you about the need for trade agreements and this will help all companies grow jobs. Marlin Steel Wire is a leading manufacturer of custom wire baskets, things like this, and wire precision sheet metal fabrication assemblies like this. We make all of this in Baltimore City and we cater to clients from pharmaceutical, medical, industrial, aerospace, and automotive industries.

We have a full-time crew of engineers and industry-leading technology, all kinds of fancy robots at our factory at Marlin. We produce world-class products and here in Baltimore City, Maryland. We import nothing from China. We import nothing from anybody else. We make it all right here in America. We've been exporting for six years. We export now to more than 20 countries. Over the years, Marlin Wire has grown its business and we've created jobs because of these exports. Today, we continue to look for new markets and we want to bring our products to customers all over the world.

I'm pleased to be before you today to discuss the opportunity of small businesses and we'd like to see more growth in exports so we can grow more and we can hire more people. The bottom line is trade brings growth and prosperity to our country.

What's unique about our company is that we're able to make a highly-customized product very quickly in very short order. This has made Marlin Wire stand out. We've been able to receive orders from countries like Australia, New Zealand, Taiwan, Ireland, Singapore, Brazil, Hungary, Poland, Canada, Mexico. Since we're shipping to over 20 countries around the world, we want to only do more of that, so we can grow more. America should use this strategy to grow its wages and grow its number of people hired, so we have less unemployed people.

Think about it. Ninety-five percent of the world's consumers are not Americans. They're foreigners. This is really important because trade sustains millions of American jobs. More than 50 million American workers today are employed by firms that engage in international trade. That's 40 percent of all private workers. One in four factory jobs are dependent on exports, just like my company. One in three acres on the average American farm is planted for foreign consumption. It's for hungry customers overseas.

Now as global demand for our products increase, we're going to have to hire more people which is good for America. We employ 28 people. Seven of them are due to all this export business. And studies show that it's not just my company. Companies that export typically grow faster. They hire more people and they pay better pages. This is a good thing for our country.

Now as the president of the firm, I truly understand the importance of international trade and its impact on Marlin and small business in general. It's simple. I want to ship to more and more

countries quick. It will make my company more safe and more stable.

The problem is, and this is a big problem, we have a complex array of foreign barriers that are stopping us from shipping to more countries. These barriers are alive and well. And they pose a major competitive disadvantage to my company and to my fellow companies that want to export. It hurts American industry. It hurts American workers. It hurts American agriculture.

I believe the number one and the U.S. Chamber believes the foremost goal of U.S. trade policy right now should be to tear down these barriers so companies like mine can really crank it up and start exporting and start hiring again. Free trade agreements have to be enacted quickly.

There's a number of pending free trade agreements going on right now and they would boost exports. It's an efficient way to grow exports if we can get these things past for Colombia, Panama, and South Korea. They're pro-growth. They're pro-trade. And they will create good, American jobs. It will help our allies and it shows that we're not ready to cede global leadership in trade. We shouldn't delay approval of these. This inaction is hurting American jobs.

The U.S. Chamber did a wonderful report called "Trade Action or Inaction: the Cost to American Workers and Companies" and it found that the United States would suffer a loss of 380,000 jobs and $40 billion in lost sales if we don't get these trade agreements past and fast.

The problem is our competitors are surging past us and they're signing deals, like EU and Canada have moved ahead with Colombia and Korea. I don't want to lose any of my seven employees that owe their jobs to exports and I know other countries don't.

In conclusion, if America stands still, we're going to fall behind because our competitors in Canada and Europe are moving forward. That's why I urge Congress to support the pending free trade agreements and seek a more effective trade policy that opens foreign markets, boosts our exports, and creates jobs here fast.

In the end, U.S. business is capable of competing and beating our foreign competitors. We can beat anybody in the world. We just need a level playing field. These trade agreements can provide just that opening and that leveling. Once again, I greatly appreciate the opportunity to testify today on behalf of the U.S. Chamber of Commerce.

Thank you very much.

[The statement of Drew Greenblatt is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Greenblatt. I would like to address my first question, if I may, to Dr. Hufbauer.

You highlighted that high fixed costs are one of the reasons that more large companies export. How can these costs be reduced to help small firms export?

Mr. HUFBAUER. Thank you, Chairwoman. I only addressed two aspects, the export finance aspect and the technical assistance. But of course, the costs go much further than that and as Mr. Greenblatt and Mr. Bond have emphasized, these trade barriers abroad are a big part of the cost.

Suppose you want to ship as a small exporter to Indonesia. It takes quite a bit of learning to figure out how the Customs Service operates. It's sad to say that corruption is part of the problem and this takes a bit of learning as well. And if you're selling something that requires after maintenance, that's a problem too.

So how much of this can the U.S. Government deal with? Well, as Mr. Greenblatt emphasized, trade agreements are an important part for dealing with foreign trade barriers and also the trade facilitation aspect which has a lot of dimensions that we don't have time to go into those. But trade agreements can do something.

At the end of the day, I regret to say small business will be handicapped because the fixed costs are just high. But the handicaps can be lowered and the one I focused on or the two I focused on were technical assistance, information, a lot of hand holding, you could call it that, plus the finance which is terrifically difficult. I don't know if Mr. Bond's firm is having problems, but I've heard in this recession that small business firms are really hurting on the financing front across the board, but on export finance, the hurt is terrific. So those are just come measures where the government might do a little bit.

Chairwoman VELÁZQUEZ. Thank you. Mr. Bond, exporters have expanded access to information on new markets and can use that information to grow faster. How do companies in exporting industries benefit from this acquired knowledge?

Mr. BOND. I think this relates to your last question in many ways. It's a scale advantage of large companies. They may be able to afford staff to look into all those things, know those things; small companies, much, much less so.

One of our members, in fact, said to take advantage of many of the government programs I would have to retain a full-time person in Washington. I can't afford to do that. So the answer is making this information available, making it transparent, maybe online or through export assistance centers and other—I think Dr. Hufbauer called it hand holding, ways to take the information to the small companies. I think those are the kinds of things that we're looking for, and welcome some of the things that the Commerce Department and Secretary Lock have talked about in this regard, trying to increase some awareness there.

Chairwoman VELÁZQUEZ. Thank you. Mr. Greenblatt, small exporters increase employment faster and pay higher wages than their domestic-oriented counterparts. Why is this so and what can we do to encourage domestic-oriented firms to look abroad for opportunities?

Mr. GREENBLATT. I think that companies that are shipping, exporting things abroad are a little more sophisticated. They're willing to deal with a country that doesn't speak English, and they're a little more aggressive and they're probably more innovative, like Mr. Bond was saying, so that they can differentiate themselves from a domestic competitor.

I think the best thing, the quickest way to help small business right now is to rip down trade barriers, because what will happen is it will make it a level playing field. We can go in there and we can fight in Colombia. We can go compete in Panama. And we can sell to South Korea. Right now, I sell to Japanese automotive cli-

ents and we do very well in that market, Toyota, Honda, et cetera. But we want to sell more to Hyundai and we want to sell more to them.

Chairwoman VELÁZQUEZ. Can you talk to me, I know that you have the knowledge know in terms of going into foreign countries and learning the processes that it will take in order to navigate their system.

What would you suggest we should do to help facilitate small businesses navigating the processes in those foreign countries?

Mr. GREENBLATT. There's a number of programs out there right now where through the U.S. Commerce Department that are available to help go to trade shows and things of this nature that I think are beneficial and positive and we should continue doing and I don't think they hurt.

But the big thing is ripping down taxes. Right now we have significant disadvantages. There's barriers where we pay duties when we ship to their countries, and they don't pay duties when they ship to our country. This is true in Panama and Colombia, et cetera. That's one quick way you help us.

Chairwoman VELÁZQUEZ. Okay. Mr. Johnson, according to USDA, the U.S. will have a $22.5 billion trade surplus for agricultural products and that sounds like good news for farmers and ranchers and to help them remain profitable in hard economic times.

How can we maintain this surplus and how important are small farmers and ranchers to that equation?

Mr. JOHNSON. I think maintaining it, if you focus on the two programs that I talked about at USDA, one is run through the Foreign Ag. Service, the other one through the Agricultural Marketing Service. There's a lot of technical assistance that's provided there.

I led trade teams to lots of different countries as the Ag. Commissioner in North Dakota and I will say that far and away, the biggest benefit that we got from that was having Foreign Ag. Service people located in those countries who knew the customs, knew the people, who knew the marketplace and could help match up those characteristics with the companies that we brought along.

And so we did a lot of that work in advance of going over to try and figure out how do you put the right company into the right kind of marketplace and then putting those meetings together. If you don't have that, you're just at sea. And so those kinds of things, and I think that's a lot of what Dr. Hufbauer was talking about with technical assistance. That's really important to small companies.

So I would—unfortunately, a lot of them don't know about that assistance. A lot of them, they're just busy doing what they're doing and they're struggling. So if we can get this information in front of them. If we can do more of that hand holding along the way, more of that marketplace discovery and information and put it in front of them, I think that would be very helpful.

Chairwoman VELÁZQUEZ. Thank you. Dr. Hufbauer, while the U.S. trade balance was declining over the past year, the last few months reversed course, increasing by 13 percent. As the global economy recovers, do you believe that we are now on a path toward higher trade deficits?

Mr. HUFBAUER. Yes. A lot of things have to be done to reverse that course, but the Administration has to back up its declared goal of doubling exports which I endorse fully, with much stronger policies than have been announced so far.

Chairwoman VELÁZQUEZ. Okay, thank you. Mr. Graves?

Mr. GRAVES. Thank you, Madam Chair. And this is a question for each of you.

Do you worry about, when we have free trade agreements sitting out there like the Columbian and the Panamanian, South Korea and they're sitting there and nothing is being done, losing that market share. I mean for instance and I use agriculture in the example. As we sit doing nothing on that Colombian free trade agreement, we've lost about 40 percent of that market share to Argentine. I mean they're coming in and they're just scooping it up just as fast as they can get their hands on it because they see an opportunity there.

Now do we lose—what are the chances we're going to lose that market forever? When you have countries that step in and fill that void and do it immediately, that's one of the things I worry about and that's just an agriculture example. There are examples out there probably for everything. And I would just like each of you to comment.

Mr. Greenblatt?

Mr. GREENBLATT. That's a great point. That's a big concern. I mean right now Panama is embarking on a huge project, the biggest project since the Three River Gorge project out in—Three Gorges Dam out in China, to redo the Panama Canal, rework the Panama Canal. And there's a lot of wire baskets you need in Panama over the next couple of years to make that.

So we want this trade agreement done right away, so we can sell wire baskets, sheet metal components to Panama as they go on this massive infrastructure binge. We want to be front and center when that all happens. And if America doesn't sign off on these trade agreements, we're going to be late to the party and we're going to miss that opportunity. And what that means is less people in America are going to have jobs. It's silly for us to give that up.

Mr. GRAVES. Mr. Bond?

Mr. BOND. Sure. I think that our industry is foursquare, one hundred percent behind open markets and free trade. We depend upon it. As I said in my testimony, it drives our efficiency. It drives our productivity. It drives innovation. So yes, we're concerned about markets. We're concerned about supply chains because we're also relying on these countries in many cases for supply chains and that ultimately adds up to our competitiveness.

I'm also happy to be here today because in the meantime we should also move ahead on trade promotion.

Mr. GRAVES. Dr. Hufbauer?

Mr. HUFBAUER. Well, the Obama Administration has many priorities, but trade policy is not amongst them. And the U.S. has basically retired from the trade agenda in the last couple of years, I realize there are other priorities.

Slow progress on trade agreements is like termites in the basement. I just saw some statistics this morning on—and I didn't bring them today. I can send them along, but U.S. agricultural

sales in Colombia were going down and in a number of agricultural products they were way down. Now whether that's because of the trade agreement not being ratified, I can't say, but the picture is not good.

The Chamber of Commerce has a report on job losses from not ratifying pending trade agreements has been cited. The big picture ahead is Asia. Asia is, of course, a very rapid growth area of the world and Asian countries are negotiating among themselves, and reducing barriers. We're not part of that picture now.

The goal of doubling exports, amongst other things, means that the United States has to get back into the game.

Mr. GRAVES. Mr. Johnson?

Mr. JOHNSON. My expertise is more in the area of agriculture and food, so maybe if I could address it from that perspective. I would say that there's another element of this that we should pay attention to and that is making sure that trade agreements that we have are enforced.

There are a lot of folks in our industry who are really concerned, for example, about even the Chinese market right now, given what you have with the exchange rates being so far out of whack. They basically have a very strong export centered policy which makes imports much more expensive and we need to figure out a way to bring some sort of balance to even those countries where we do have agreements, whether it's through the WTO or through its series of bilaterals or multilaterals, et cetera.

The other thing I would say is that as I indicated in my testimony, I think it's very important for us to have some sort of coherence among all of our foreign policies. We have very well meaning, very important foreign policy goals of making sure that hungry people are fed, of making sure that very poor countries develop economically, but at the same time, most of these countries begin to develop economically by developing their agriculture and so we sometimes are working at cross purposes where we want the lowest possible price in terms of in their marketplace for the very food products that they're raising and we end up hurting their ability to grow economically.

So I think it's really important that we get a broader perspective and try to get all of our different foreign policy goals sort of in a line, if you will.

Mr. GRAVES. Do you worry about losing those markets?

Mr. JOHNSON. Sure. We worry about losing markets all over the world, for all of the reasons that I mentioned.

Mr. GRAVES. Chairwoman.

Chairwoman VELÁZQUEZ. Mr. Altmire.

Mr. ALTMIRE. Mr. Bond, the technology industry cluster in Southwestern Pennsylvania where I'm from is a key economic driver for the region and relies on exports in key fields such as information and environmental technologies as well as advanced manufacturing. I was wondering if you could illustrate how trade promotion programs like clusters can help clusters like this one gain better access to international markets.

Mr. BOND. Sure, Mr. Altmire. Thank you for the question and I would just observe real quickly a review shows that in Pennsyl-

vania there are about 2,750 tech firms who are exporting today; 2,250 of those are smaller firms.

So it's a very vibrant part of the economy there and I think that the notion of innovation clusters, both for the development of the companies, but also development of awareness of that cluster globally has been a strategy and tactic that has worked so buyers, policymakers in other countries are aware of emerging innovation clusters in the U.S., most famous of which of course is Silicon Valley, but they track and are very aware of these other clusters.

So having visited other countries in official and nonofficial capacities I am abundantly aware that they track this and are aware of it, so I think this is probably a very smart tactic for the region.

Mr. ALTMIRE. Thank you. Dr. Hufbauer, small firms compete in a global market where some foreign companies exports are subsidized as you and the Chairwoman were discussing earlier.

What resources and strategies have you seen other countries utilize to support their export industries that you might recommend that we explore in this Congress?

Mr. HUFBAUER. Thank you. Well, perhaps the biggest steps have been taken in the European Union which, of course, has removed barriers right across the 27 countries, I sound like a broken record, but the fixed costs of exporting are very high and that has been observed in the European Union as well. But the reduction of barriers which means that you can send a truck across Europe, it doesn't even stop at the border. This is hugely important to small firms.

We have the same situation, to a very large extent between the U.S., Canada, and Mexico, not entirely because we have much heavier security controls at our borders than within Europe. But in any event, we have made some progress.

Now beyond that, I go to those examples that I mentioned in Asia and I can also mention examples in Chile. Let me just take Chile so I don't sound just Asia, Asia, Asia. When the free trade agreement with the United States was ratified with Chile, Chile set up a whole network in this country of offices to help their exporting firms get into the markets.

And if you go to Whole Foods or any other grocery store, you'll find a lot of Chilean goods. In a wine market, Chilean wines are now a big thing which they were not 15 years ago. And across a lot of manufactured products which probably aren't so noticed, like fabricated brass, coming out of the copper industry, the same thing happens.

So there is a whole network of offices which is very much more extensive for a country of Chile's size than the U.S. network is abroad whether you talk Asia, Europe, or whatever, the network helps your firm export.

Now Taiwan does the same. Taiwan is terrific for small business, high tech firms, helping them along. So it comes back to that assistance point which we've already discussed. Thank you.

Mr. ALTMIRE. Thank you. Very quickly, Mr. Greenblatt. You talked about Panama and the project they have with expanding the canal. What are some of the other industries, if you could go into a little more detail, that would benefit American industries that

specific to Panama could look forward to increased access with that trade agreement?

Mr. GREENBLATT. Caterpillar. They make bulldozers. They need a lot of bulldozers when you expand the Panama Canal. All kinds of trucks and vehicles need to be made. Machinery to help make the canal. I mean there's a company in Iowa called Vermeer. They make construction equipment.

So I think there are many, many companies out there that could help make—we made it the first time. We might as well help make it the second time.

Mr. ALTMIRE. And if we don't do it this time, we're not in that market. Which of our competitors are going to—

Mr. GREENBLATT. The EU is going to eat our lunch. And why give it to them? We should have it.

Mr. ALTMIRE. Thank you.

Chairwoman VELÁZQUEZ. Mr. Thompson.

Mr. THOMPSON. Thank you, Madam Chairwoman, Ranking Member, thanks to the panel for being here and really an important topic in terms of trade. A week or so ago I was with the Pennsylvania Secretary of Agriculture who laid out, I thought, in rather unique terms the opportunities within trade when he said "America is a country of 303 million stomachs and the world has 7 billion." That made sense to me.

My question, first of all, is traditionally we have miscellaneous tariff bills, MTBs as it's referred to around the Hill, are introduced in each session of Congress and these bills usually request certain imports into the United States to be given duty free or reduced duty status. MTBs tend to be really noncontroversial. Everybody signs off on them.

In the 110th Congress, there was no MTB and in the 111th, we've yet to see for consideration. I recently was told by representatives of the National Association of Manufacturers that the MTB is critical on the wish list for things to get done during the remainder of the 111th Congress.

My question is where would you place this on your membership's collective radar and I'll open it to anyone that may have an opinion.

Mr. Greenblatt?

Mr. GREENBLATT. As a manufacturer, this is a very big topic for us and we need to get these things passed. It helps American jobs. It helps America grow and thrive.

Mr. THOMPSON. Thank you.

Mr. BOND. On behalf of the tech community, we have enjoyed past agreements like the Information Technology Agreement and others which are designed to do exactly this. They can be beneficial for U.S. technology because we still are the envy of the world in that regard, but also because our supply chains extend to these different countries and different customs or tariff reductions, as I mentioned in my testimony, can then be expressed in a more competitive price buyer small companies exporting back.

Mr. HUFBAUER. It seems me, in following this, that the MTBs unfortunately got caught under the general cloud of earmarks, which I think is very unfortunate. I think the MTBs--I don't know all the details—basically reduce the cost of inputs, often to a firm

which is exporting. I really don't think they should be bagged together with the other earmark issues.

Mr. THOMPSON. Thank you. Mr. Johnson?

Mr. JOHNSON. I'm not aware that it's an issue in food products. It might be.

Mr. THOMPSON. Thank you. Mr. Bond, following up on the technology, how does engaging the global marketplace spur cutting edge innovative ideas?

Mr. BOND. Sure. That's where companies can have success initially as they start up a new product. I'm quoting a former Commerce Secretary who after hearing about all these small companies were starting in garages, said "Well, America needs more garages."

We need more small innovative companies. They often find success in a particular niche. They may make a product like Mr. Greenblatt's overseas because they're embedded in the production process or something. There are numerous ways. But it's the innovation, the lion's share of innovation comes from the small companies and they're finding unique opportunities all around the world. So I think it does have to be central to U.S. policy, how are we going to help small businesses. They drive innovation which then reverberates throughout the entire economy.

Mr. THOMPSON. Just kind of a follow up, can you elaborate on the connection between increased exports and job creation?

Mr. BOND. Sure. We continue to see growth in software services and other very high value add portions of our economy. Those are as my testimony tried to point out, disproportionately relying on overseas sales and those are—those small companies are where the cutting edge innovation is coming from. So I think the two are inextricably linked and that's why I'm so happy to be appear today.

Mr. THOMPSON. Thank you. Mr. Johnson, most of my farmers are fairly small farmers. Our dairy herds are about 86 head in most of Pennsylvania and certainly in my congressional district.

How significant is the export trade in your opinion to smaller farmers?

Mr. JOHNSON. Well, all of what farmers produce in most cases is aggregated and then those commodities are sold. And as has already been said, depending on the commodity, it may be well over half. It may be a third of a commodity that finds a home in an export market.

You mentioned dairy. It's interesting. In my testimony I talked about some of the issues we've faced with being frozen out of markets relative to poultry, to pork, to BSE issue with beef is another really good example. We're still out of many countries without any real scientific basis for it.

Just this week, I believe China has put in place barriers to dairy products. And if you think of the irony there, it was not that long ago when we were all reading on the front page of the papers about melamine in infant formula. And it wasn't in this country that folks were doing that kind of thing. So that's an example of the kinds of things that I've tried to talk about, making sure that we, even after we sign these agreements, we've got to go back and make sure that we hold their feet to the fire.

Mr. THOMPSON. Thank you. Thank you, Madam Chairwoman.

Chairwoman VELÁZQUEZ. Mr. Bright.

Mr. BRIGHT. Thank you, Madam Chair. Let me thank each one of you for being here and for your very valuable, informative testimony, quite frankly. It's very heartening to see you and hear you say the things you've said today.

Mr. Bond, I'm not sure if it was your testimony or Mr. Greenblatt, but did I hear, understand you to say that a small business that has exports grow at a three times rate of small business that does not exports? Is that correct? Was that one of you?

The present economic status of our country right now, would that deter some of those small businesses from being attracted to the export market, in your opinion?

Mr. GREENBLATT. It's the opposite. I mean you want to sell, sell, sell right now. You want—you've got factories that are not running at full capacity. You have employees that are working 32 hours a week and you want to get them back to 40 hours a week and heck, you want to get them on to overtime and then hire more.

Mr. BRIGHT. I know that would be the goal and that's what we would hope, but do you see whether or not it would have a deterring effect on small business with today's economic climate out there?

Mr. GREENBLATT. No, because there's so many more of them over there. There's—as you said, there are 7 billion stomachs over there we should be selling to right now and we shouldn't focus on the 300 million here. We should try to sell, sell, sell overseas like crazy.

Mr. BRIGHT. I understand. Mr. Bond, you want to add to that?

Mr. BOND. Yes, real quickly. I think what it might do, the current economic circumstance might exacerbate the problem of small companies taking advantage of some of the government programs and assistance that are out there because they've had to tighten their belt a little bit more to get through the tough times, and I noted one of my member's company said look, I'd have to have a full-time person in Washington to understand all that stuff. I can't afford that. Even perhaps a little less so, when times are tight, but certainly they are more compelled than ever to look for other markets.

Mr. BRIGHT. Sure, you need to out of necessity, but having the resources to do so is another factor.

Madam Chairman, thank you very much. That's all the questions. Once again, let me thank you, gentlemen, for being here. It's very valuable information for us to hear.

Chairwoman VELÁZQUEZ. Mr. Johnson, I have one more question. The National Farmers Union has stated that market access does not equal market share. What is the single most important element needed to turn to access into revenue?

Mr. JOHNSON. Perhaps it's enforcement. Perhaps it's—you know all these issues that I've talked about trying to figure out if there isn't a better system for holding other countries accountable. As I've been sitting here listening to the testimony, knowing that we have this enormous trade deficit in the country, but also knowing that agriculture historically has had a substantial trade surplus, it probably helps to explain why the kinds of issues we face in agriculture are rather than different than the kinds of issues that you've been hearing from the other three panelists here.

Perhaps it's because other countries are looking and saying well, you guys already have a surplus. We're going to try and push that back. I think it's much more complicated than that because food is such a basic, fundamental product that everyone absolutely needs. It's not one of those discretionary kinds of things.

And I think countries all look at food security kind of like we do. We want to make sure that we've got it. We want to do what we can to make sure that when everything else is bad, at least we can feed our people. And so I think you have just a whole bunch of different dynamics at play here and as a consequence I would say that we have to be very attentive to holding everyone accountable in this system.

Chairwoman VELÁZQUEZ. Mr. Greenblatt?

Mr. GREENBLATT. Where we have foreign trade agreements, we have trade surpluses, so when we cut those deals, we get—we ship more to them than they do to us. So these deals really work out in our benefit.

Chairwoman VELÁZQUEZ. Okay, well, Mr. Johnson, it looks like he has some concerns about enforcement being part of it. So it's not only to have the trade agreements, it's just to have in place an effective trade strategy that involves trade agreements, enforcement, technical assistance, to help those small firms, because the reality is 97 percent of all exporters are small businesses, yet the revenues, the share is much, much, much lower than it should be.

Mr. Bond, do you have a—yes, go ahead.

Mr. BOND. I was only going to respond in terms of your earlier question. I think that if you had full-blown access which I'm taking to include enforcement, then I think the single most important element is going to be the value you're delivering and that's where we could be very optimistic when it comes to food, when it comes certainly to technology, we're the envy of the world in those regards. So getting that access, getting streamlined, getting compliance, getting those things done which is the policy that we're talking about, then I think Americans can compete with just about anybody.

Chairwoman VELÁZQUEZ. Let me ask you, Mr. Bond, the fastest growing large export market for U.S. tech exports between 2007 and 2008 was in developing countries, particularly in South and Central America. What makes U.S. tech exports so uniquely desirable in developing countries and the same is true today compared to 2007, 2008?

Mr. BOND. I don't have the latest data in front of me but I don't doubt that that is true. Just listen to Microsoft's Chief Strategy Officer last night talking about this phenomena a little bit, that because of the applications and technologies that have been developed here applying it then to developing countries and low-cost markets in new ways is a big growth opportunity because American technology is generally regarded as the best the world has to offer. It's in demand.

There are companies there setting up who want to build off those products, leverage off those products to give them a local flavor or taste and add some value. So it makes sense that we grow there and we have other more developed countries where they have very aggressive trade policies that are designed to perhaps slow the competition down a little bit.

Chairwoman VELÁZQUEZ. So thank you again for being here today and providing such insightful information and for the discussion. I ask unanimous consent that Members will have five days to submit a statement and supporting materials for the record. Without objection, so ordered. This hearing is now adjourned.

[Whereupon, at 2:05 p.m., the hearing was concluded.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

SAM GRAVES, MISSOURI
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
Of the Honorable Nydia M. Velázquez, Chairwoman
United States House of Representatives, Committee on Small Business
Full Committee Hearing: "*Evaluating the Impact of Small Business Trade Policy on Job Creation and Economic Growth*"
Wednesday, April 28, 2010

In the last year, trade has emerged as the silver lining in an otherwise weak economy. Annual growth in exports has expanded by 18%, boosting the bottom lines of businesses in a wide range of industries—including many outside exporting's traditional margins. As a recent article in *The Economist* reports, even architecture firms, not exactly the vanguard of American trade, are selling more of their services abroad. For an economy on the mend, an uptick in trade is a welcome bright spot. For small firms facing a shortage of domestic customers, it is especially appealing.

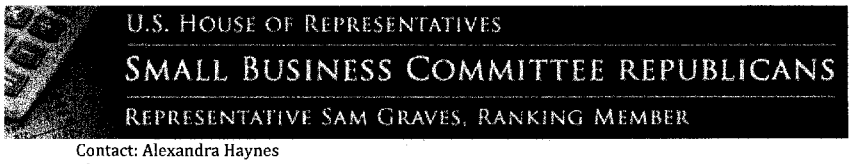
With trade on the rise, so are opportunities for small businesses. After all, they make up 97% of exporting companies and are, by their very nature, innovative and enterprising. But these virtues alone don't guarantee success abroad. Rather, it takes time to identify foreign markets, capital to target new customers, and training to learn the "ins and outs" of the exporting process. Some of these resources, however, are in short supply—particularly for small firms impacted by the recession.

In today's hearing, we are going to examine the challenges facing small business exporters, and look for ways to ensure U.S. trade policy is doing all it can to support those firms.

When armed with the proper tools, small businesses can create anywhere from 60 to 80% of new jobs. It is critical that those resources be available today—especially with the unemployment rate at 9.7%. But unfortunately, job creation has become an increasingly heavy lift for small firms. Small exporters are no exception. These businesses face significant roadblocks in reaching new markets. Some of those obstacles, like the challenge of indentifying foreign buyers, have been around forever. Others, such as difficulty accessing capital and increased red tape due to heightened security issues, have increased in recent years. We need to be sure small businesses are able to overcome these obstacles. Because when a small company has the freedom to access customers abroad, it has the ability to create jobs here at home.

Equally important is a basic understanding of the exporting process. Unlike their larger competitors, small businesses tend not to have massive marketing departments or business development teams. So, when it comes to navigating foreign economies and reaching new customers, they are often on their own. Countless other businesses are unaware that exporting is an option at all. That's unfortunate, because trade is not industry specific. For small firms in sectors ranging from IT to textile manufacturing, exporting opens the door to a diverse new customer base. At time of sluggish consumer spending, it's important that all small businesses—regardless of industry—have a chance to leverage trade opportunities.

As Americans, we often worry about shipping jobs overseas. Well, one of the best ways to keep that from happening is by sending our industry—the goods and services that we create as a nation—overseas instead. Already, trade supports 1 in 5 manufacturing jobs and, as studies have shown, firms that focus on exporting increase employment levels faster than those that don't. Now, more than ever, our country needs policies that encourage trade and promote growth. By improving resources for small business exporters, we can achieve both those things, and take another promising step down the road to recovery.



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Opening Statement for Hearing:
"Evaluating the Impact of Small Business Trade Policy on Job Creation and Economic Growth"
Sam Graves
Ranking Member
House Committee on Small Business
United States House of Representatives
Washington, D.C.
April 28, 2010

Good afternoon, and thank you for participating in today's hearing on U.S. trade policy and its affect on small business exports. I would like to thank Chairwoman Velázquez for holding this hearing.

Small businesses play an important role in our economy. Not only do they create the majority of net new jobs in this country, they also drive the American innovation that is critical to meeting challenges in any given industry. As our nation continues its quest for a full economic recovery, the success of our small businesses is paramount.

One way we can help clear the path to success for small businesses is by improving trade opportunities. Trade is critical to America's prosperity. Our trade industry supports roughly 10 million jobs and contributes 12.7 percent to the U.S. Gross Domestic Product. In 2008 alone, the U.S. exported $1.8 trillion worth of goods.

Unfortunately, small businesses only represent 30 percent of the total value of goods exported from the United States. Additionally, small businesses that do export goods are typically only able to sell to one foreign market. With 95 percent of the world's consumers living outside the U.S., it is clear that expanding trade opportunities for small businesses could dramatically fuel development and increase revenue.

Currently, free trade agreements with Panama, Columbia, and South Korea are awaiting Congressional action. Creating more market access for small businesses through the passage of these trade agreements is one of the best things Congress can do to help small businesses and improve the American economy.

Passage of the Columbian Free Trade Agreement, for example, would eliminate duties on 80 percent of U.S. exports of consumer and industrial products almost immediately. Passage of the Panama Free Trade Agreement would increase U.S. agriculture exports by more then $195 million per year and eliminate all tariffs on U.S. agriculture exports. Passage of a free trade agreement with South Korea would open access to our 7th largest trading partner in the world and dramatically reduce tariffs.

The benefits of opening market access are obvious and plentiful, but failure to expand trade opportunities in the near future could prove detrimental to our economy. The European Union and countries like Canada are eager to enter into a trade agreements and displace our market presence. The time to act is now.

Again, I thank the Chairwoman for holding this hearing today and I look forward to hearing the witnesses' testimonies. I yield back.

Testimony of Roger Johnson
National Farmers Union

Before the
U.S. House of Representatives
Committee on Small Business

Evaluating the Impact of Small Business Trade Policy on Job Creation and Economic Growth

Wednesday, April 28, 2010
Washington, D.C.

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SUBMITTED TESTIMONY OF ROGER JOHNSON, PRESIDENT

NATIONAL FARMERS UNION

BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS

CONCERNING: EVALUATING THE IMPACT OF SMALL BUSINESS TRADE POLICY ON JOB CREATION AND ECONOMIC GROWTH

APRIL 28, 2010

Introduction

Chairwoman Velazquez, Ranking Member Graves and members of the committee, my name is Roger Johnson and I am president of the National Farmers Union (NFU). NFU is a national organization that has represented family farmers, ranchers and rural residents for more than 100 years. I appreciate the opportunity to testify today on the impacts of trade policy on rural small businesses, particularly family farms and ranches.

Trade policy isn't like flipping a quarter with only two outcomes, heads or tails, but more like rolling a six-sided die. Trade policy must take into consideration domestic producers, imports, exports, the World Trade Organization, jobs and the effects on the market due to supply and demand shifts. Because of the complexities of trade policy, there are several programs that work with domestic producers to make sure there is a market for their products overseas.

Small family farms with annual sales less than $250,000 account for 90 percent of the 2.2 million farms in the United States and 25 percent of the total value of U.S. agricultural production. Many of these small- and medium-sized farmers depend on foreign markets for a portion of their income. For example, the average percentage of total domestic production for fiscal years 2006 through 2008 of the following commodities exported was: 72 percent of cotton; 63 percent of almonds; 45 percent of raisins; 40 percent of food grains; 20 percent of peaches; and 20 percent of chickens. Increasing domestic market share can help insulate U.S. producers from the vagaries of foreign markets. Another solution can be found in facilitating access to foreign markets.

USDA Export Programs

Since 2006, USDA's Market Access Program (MAP) and Foreign Market Development (FMD) programs have been funded at $200 million and $34.5 million per year respectively, to promote U.S. exports. Both of these programs receive matching funds from the industry and have enjoyed success in opening markets and shipping predominantly specialty crops, fruits, vegetables, nuts and value added products to other countries. MAP was strongly advocated by specialty crop producers from California, Florida and the New England states. This program also serves other commodities in the protein market, but has been the best boost for specialty crops.

MAP is used in many different ways. Small and Medium Enterprises (SME) programs indirectly use MAP, but the results have been great for many of the small companies that export agricultural products. SMEs consist of four State Regional Trade Groups (SRTGs): Western U.S. Agriculture Trade Association; Southern U.S. Trade Association; Food Export Association of the Midwest USDA; and Food Export USA Northeast.

The four SRTGs have helped thousands of small businesses enter export markets around the world for forty years. The SRTGs offer export readiness training for companies, support for a variety of activities including participation in international trade shows, direct financial support for advertising, trade missions, and labeling and promotion in foreign markets. Unfortunately, many producers are not aware these programs exist and are therefore unable to take advantage of their benefits.

The Foreign Agriculture Service (FAS) also supports small businesses by organizing and hosting trade shows. International trade shows provide marketing opportunities for small- and medium-sized food businesses which are responsible for 3 out of 4 jobs in the United States according to the USDA. Over fifty percent of the exhibitors in the U.S. pavilions at FAS-endorsed international trade shows are small businesses. Participation in these events by American agricultural businesses creates national identity and visibility for all U.S. exhibitors, including FAS Market Development Cooperators, and this kind of grouping has a halo effect on small companies.

In 2008, the most recent year for which data is available, only $30 million of the $200 million budget for MAP was spent on small businesses. This funding went to

675 small companies that fall under the Small Business Administration's (SBA) definition of a small business and was used to finance export marketing activities under the Brand Program. I commend USDA for this investment in small businesses through MAP; but we need to do even more to ensure available federal dollars are being maximized to help the small producers and companies we all value.

Any successful export program at USDA, USTR or the Department of Commerce must specifically set aside the majority of its money for small- and medium-sized producers. If the federal government does not recognize the importance of diversity of agricultural production scales, large, consolidated companies will use up the bulk of the funds for projects they can afford to do themselves. Existing USDA export programs are crucial to finding new markets for small- and medium-sized farmers. However, we must ensure that they are not inadvertently encouraging further concentration in agriculture through their trade and export policies. By supporting multinational conglomerates, profits are taken overseas and small domestic producers and processors are forced out of business.

In July 2007, Congressman Joe Sestak said, "Small businesses currently make up 97 percent of all exporters and there is a great untapped potential for small businesses to continue to grow their exports overseas. Additionally, I believe it is critically important to expand trade adjustment assistance to firms that are adversely affected by globalization." The Congressman was absolutely correct in his assessment, and I would personally like to add small family farms and ranches should be included on his list of small firms adversely affected by globalization.

Trade, Hunger, and Domestic Policy

NFU will continue to advocate that the structure of future and pending trade language and other acts must allow U.S. agriculture to continue to be a net exporter as a result of the agreement.

Past trade policies have failed to live up to their proponents' promises and have placed an undue burden on America's family farmers and ranchers. For example, the CAFTA agreement only passed by two votes and the NAFTA agreement was passed by a very close margin. Agriculture did not win in either of these agreements. These were clearly divisive issues that have had tremendous negative effects. Since the passage of NAFTA, over 38,000 U.S. small farms have gone under and U.S. farm income has continued to decline. The U.S. trade deficit has

grown to over $400 billion under this agreement. Continuing on this path will only result in higher unemployment and the further decline of rural communities.

Currency manipulation by other countries, a topic which has not been often discussed in trade negotiations, must be addressed, as well as equitable labor and environmental standards. Negotiators must also consider the cost of production in the United States because of our superior safety and labor regulations many countries do not have or enforce. Trade agreements must result in a level playing field for all parties.

There are two pieces of very important legislation that will help with these trade problems. The first is H.R. 4645, the Travel Restriction Reform and Export Enhancement Act, sponsored by House Agriculture Committee Chairman Collin Peterson. This would open a market for small agriculture and businesses in Cuba, a country in our own backyard that relies heavily on imports.

The second is the Trade Reform, Accountability, Development and Employment Act, commonly referred to as the TRADE Act, sponsored by Congressman Michael Michaud. This bill would force the United States to revisit past trade agreements to ensure all aspects of the agreement are being fulfilled. Unfortunately, agricultural export provisions of many of the existing agreements are not being honored, yet we continue to import and displace our own domestic production.

National Farmers Union is a member of the International Federation of Agriculture Producers (IFAP). This is an international organization of small to medium sized family farmers. We believe as does IFAP that every nation has the right to food security and should be allowed the ability to provide it for themselves with domestic production and reliable trading partners.

As a country we have many foreign policies that often conflict with one another. We do much to help starving people around the world; we provide food, we help them develop their infrastructure and are currently focusing on helping with rural development activities in poor countries. These are all good things. Unfortunately; we too often follow trade policies that then insist on us having "market access" to the same struggling farmers who are hungry. We need to do a better job of aligning our humanitarian and economic development policies with our trade polices so they do not work at cross purposes.

Jobs

As a nation, we need a more coherent trade agenda to develop, maintain and advance jobs in this country. Our export markets and trading partners, even if they seem to be very stable, are often unavailable. Japan, South Korea, Russia and other countries have frequently closed their borders to our agricultural products without any scientific or food safety concern behind their decisions. It has taken more than ten years for U.S. poultry products to be permitted into the European Union because of the Europeans' desire to protect their domestic market. The U.S. pork industry lost hundreds of millions of dollars because the H1N1 virus, often called "swine flu," lead almost 20 countries to ban imports of pork products from the United States, which in turn drove many farmers out of business due to the market collapse.

Global market instability indicates agricultural exports alone are not an effective way to create permanent jobs for family farmers and ranchers. In order to create economic stability for small businesses and family farms, we must first look domestically for markets and job creation and recognize that foreign exports will provide a stronger foundation for job creation only when we have coherence with our foreign policies dealing with trade, hunger, humanitarian and economic development. Other countries are recognizing the same thing

The International Fund for Agricultural Development (IFAD) said in February 2010, "Faced with this situation, last year the international community demonstrated a growing political and financial commitment to food security and agriculture. In L'Aquila, 26 countries and 14 multilateral agencies agreed on a coordinated Food Security Initiative … as of 2015, the target year of the Millennium Development Goals, is approaching a renewed consensus is emerging to support poor rural women and men in their effort to overcome poverty, achieve their right to food, and adapt to and contribute to mitigating climate change."

Real growth in U.S. exports will come with the economic growth in other countries as they achieve the ability to pay for better diets. In many cases that means allowing other countries to support their farmers and protect their markets from world dumping.

Summary

In summary, existing agricultural export programs are working, but need adequate funding and additional outreach targeted largely to small producers and businesses, to be successful. Our trade agenda needs to be substantially changed and the passage of the Peterson and Michaud bills previously mentioned would be important first steps in that direction. Lastly, we must reconcile our trade agenda with other foreign polices to keep, develop or maintain jobs in the United States. Our government should facilitate export programs that will guarantee jobs here in the U.S. and not overseas.

I appreciate your time today and l look forward to your questions.

U.S. House of Representatives
Committee on Small Business

Hearing on

Evaluating the Impact of Small Business Trade Policy on Job Creation and Economic Growth

April 28, 2010

Statement by

Gary Hufbauer, Reginald Jones Senior Fellow
Peterson Institute for International Economics

Chairwoman Velazquez and members of the Committee, thank you for inviting me to testify on an important national problem: how to promote more exports by small business firms. President Obama has committed his Administration to the goal of doubling US exports in five years. This worthy initiative envisages a substantial boost in exports from small business firms. Towards this end, the Administration has promised an additional $2 billion of lending authority to the Export-Import Bank, and the Commerce Department has embarked on an outreach program.

These are useful steps, but they are small steps. As you know, the fixed costs for a firm to engage seriously in exporting goods and services are formidable. The firm must acquaint itself with the special needs of foreign markets, and adjust its product line accordingly. It must learn to navigate trade barriers of all kinds. Often it must set up a system abroad to ensure quality maintenance after the initial sale. All these requirements are costly.

The very high fixed costs of exporting go a long way to explain why an exceptionally high share of US merchandise exports are shipped by large firms that can spread the necessary costs over a large volume of foreign sales. Professor J. Bradford Jensen of Georgetown University has assembled relevant statistics. In 1993, the top 1 percent of exporting firms (about 1,300 firms or 0.03 percent of all firms) accounted for 78 percent of US exports. In 2000, the top 1 percent of exporting firms (about 1,600 firms or 0.03 percent of all firms) accounted for 80 percent of exports. There is no reason to think that the picture is much different in 2010. These giant firms accounted for 11 percent of US employment and, as the numbers show, they are an overwhelmingly important channel for US exports.

Small business firms are conspicuously underrepresented in the US export picture, largely because of the obstacles I have mentioned. Bearing these obstacles in mind let me offer three suggestions that are targeted at the small business dimension of the Administration's export goal. Before turning to these suggestions, I should mention that an accepted coefficient indicates that each $1 billion of exports now supports, on average, 6100 jobs in the US economy. The coefficient could be larger for small business firms, since they tend to employ more workers per billion dollars of sales than giant firms. Export growth not only supports jobs, it also enhances US productivity that enables our country to maintain a high standard of living.

My first suggestion is that the Congress should require the Administration to provide a quantitative annual report of past performance and future expectations (over a 5 year horizon) of small business exports. Among other features, the report should specifically identify the expected contribution of each of the Administration's promotion measures to future export sales. The report should be specific as to product categories and destination markets. My guess is that the measures so far announced will not go far towards the implied goal of at least doubling small business exports over the next five years.

My second suggestion is to boost very dramatically the availability of export finance to small business firms. This cannot be done through the Export-Import Bank, both because Exim financing is limited by an array of Congressional mandates, and because the Exim lending process is quite complex. A better approach is to create significant tax incentive for private banks to support the export financing needs of small business, both on a pre-shipment basis and once the goods or services are sold.

The main fear of private banks (especially in the wake of the Great Crisis) is that they will be stuck with losses when they lend to small business – especially for an activity as risky as export sales. On the whole, I think banks exaggerate the risk, but that's the reality of today's financial environment. It is often said that fewer than a dozen banks are seriously engaged in export finance, and their lending is targeted at medium and large firms.

To offset these fears, I suggest that private banks be allowed to establish very large loan loss reserves for new export-related loans extended to small business firms. For example, private banks might be permitted to establish loan loss reserves – deductible from current income for federal and state tax purposes – equal to 50% of new export-related loans. To the extent these reserves are not, in fact, absorbed in actual losses, they would be taken back into taxable income after, say, five years. This would give private banks an incentive to expand their loan book: otherwise, the reflow of unused reserves to taxable income would equal the new loan loss reserves after a fairly short period. Of course, any program along these lines would need to be carefully monitored, both to avoid abuse and to assess its effectiveness.

My third suggestion is to bolster the information and technical assistance programs offered to small business exporters by the Small Business Administration and Department of Commerce. In 2008, I was a guest of the Hong Kong government, and among the agencies I visited was a terrific library – both hard copy and electronic – of relevant guides and sources for small business firms. The library was backed up by technical experts ready to assist small Hong Kong firms explore foreign markets. I don't know how US government efforts compare with Hong Kong in this respect, but a comparative evaluation might be useful.

SBA and Commerce Department programs have been around for many decades. They are staffed by dedicated and knowledgeable officers. However, an external evaluation by experienced consultants – such as McKinsey or Monitor – might point to useful improvements. Improvements will, however, cost money. A serious push for small business exports could well require a serious boost in SBA and Commerce Department budgets. In export promotion, as in most business endeavors, there is rarely a free lunch. Small business exports cannot be doubled on the back of a public relations campaign.

Thank you, Chairwoman Velazquez. I will try to answer any questions that you or members of the Committee may have.

Written Testimony of

Phillip J. Bond
President and CEO, TechAmerica

Before the
House Small Business Committee

Concerning

The Impact of Small Business Trade Policy on Job Creation and Economic Growth

April 28, 2010

Good afternoon Chairwoman Velazquez, Ranking Member Graves and Members of the Committee. My name is Phil Bond and I am the President and CEO of TechAmerica. Thank you for giving me the opportunity to testify today on the importance of trade policy to smaller technology companies. As the former Undersecretary of Commerce for Technology, it is an issue I am passionate about.

TechAmerica is the leading voice for the U.S. technology industry, which is the driving force behind productivity growth and jobs creation in the United States and the foundation of the global innovation economy. Representing approximately 1,200 member companies of all sizes from the public and commercial sectors of the economy, it is the industry's largest advocacy organization. It is also the technology industry's only grassroots-to-global advocacy network, with offices in state capitals around the United States, Washington, D.C., Europe (Brussels) and Asia (Beijing). TechAmerica was formed by the merger of AeA (formerly the American Electronics Association), the Cyber Security Industry Alliance (CSIA), the Information Technology Association of America (ITAA), and the Government Electronics & Information Technology Association (GEIA).

Small businesses are the lifeblood of the U.S. economy. Over the last two decades, small firms have accounted for, on average, 64 percent of net new jobs created by private sector firms.[1] In the tech sector, they also play an essential role in U.S. innovation. They are our nation's entrepreneurs and innovators because of their flexibility, willingness to take risks, and openness to suggestions from workers. Many small technology firms create specialized niche technologies, and internationalize very early on to tap into a global marketplace.[2]

Small Businesses Engaging in Trade Key to U.S. Innovation

Engaging in international trade enhances small businesses' ability to innovate and create good, U.S-based jobs. Small exporters have also been shown to be more skill- and capital-intensive, have higher productivity, and pay higher wages than non-exporting firms.[3]

By engaging in the global marketplace, U.S. high-tech companies are forced to remain competitive and are better able to stay at the cutting edge of innovation. Having access to foreign markets enlarges the consumer base and allows companies to achieve economies of scale in production that might otherwise be impossible for a small business. This also allows for larger investment in research and development that can lead to technological breakthroughs, benefiting the economy and society at large.

Large and small high-tech firms alike are dependent upon revenues derived from outside the United States for their continued existence. Some high-tech companies would argue that one

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[1] From 2002 to 2009, SMEs accounted for 64.1 percent, on average, of net new jobs created per quarter by private sector firms. From USITC Publication 4125. p. 2-7.
[2] "The Small Business Economy, 2008" U.S. Small Business Administration, Office of Advocacy. Pg.93.
[3] "Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports," Investigation No. 332-508, U.S. International Trade Commission Publication 4125. January 2010.
http://www.usitc.gov/publications/332/pub4125.pdf

hundred percent of their U.S. workforce owes its existence to trade, because their U.S. operations and sales would not be viable without foreign revenues. Many large companies report upwards of 80 percent of revenue generated abroad, but trade and foreign investment are not only important to giant multinationals. In fact, 94 percent of companies exporting high-tech goods are small and medium sized enterprises.[4]

Some small high-tech companies earn as much as 97 percent of their revenues overseas – helping to achieve the scale necessary to produce highly specialized and sophisticated products by selling to consumers around the world. (See Table 1 for a sampling of small TechAmerica companies that are heavily reliant on trade.)

In order for the high-tech industry to continue growing, innovating, and creating jobs in an indisputably global economy, it is important to resist the urge to espouse protectionism when the economic going gets rough. International trade and investment serve to buoy GDP growth, enhance productivity, spur innovation, and support the jobs of millions of Americans, the vast majority of which are employed by small businesses.

Trade Crucial to U.S. Economic Growth

Despite the much maligned trade deficit, exports have kept the economy afloat during the past two years of economic distress. Even as economic growth slowed, trade was an essential driver of what growth we *did* experience in 2007 and 2008, and mitigated the decline in 2009.[5]

The high-tech industry is a critical part of the picture, exporting $223 billion in 2008, constituting 17 percent of total U.S. exports. High-tech exports grew 38 percent from 2002 to 2008. According to the conservative methodology employed in the TechAmerica Foundation's *Trade in the Cyberstates Report*, these tech exports supported 1.2 million U.S. jobs in 2008.[6] The U.S. high-tech industry and the 5.9 million people it employs rely on international trade and investment for continued growth, innovation, and job creation.

Exports = Small Business

Census data shows that 97 percent of U.S. exporters were small businesses in 2007. That amounts to 259,400 small U.S. firms. This means that small businesses would be the primary beneficiaries of efforts to reduce barriers to U.S. exports. [7] Research has shown that many small and medium enterprises (SMEs) concentrate their exports in high-income countries, and the majority has only exported to one country. This suggests that there is much to gain by expanding

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[4] Exporter Database (EDB), Office of Trade and Industry Information, International Trade Administration, Department of Commerce. http://ita.doc.gov/td/industry/otea/edb/index.html Percentage derived using NAICS code 334 (Computers and Electronic Products) as proxy for high tech.

[5] Data from the Bureau of Economic Analysis (BEA), National Income and Product Accounts, Table 1.1.2. Contributions to Percent Change in Real Gross Domestic Product.

[6] *Trade in the Cyberstates 2009*. TechAmerica Foundation. October, 2009.

[7] "Small & Medium-Sized Exporting Companies: Statistical Overview 2007," Office of Trade and Industry Information, International Trade Administration, Department of Commerce. http://ita.doc.gov/td/industry/otea/sme_2007/SME_index_2007.htm#Part1

this breadth, and small companies would benefit from open access to emerging markets.[8]

The importance of small businesses to the international trade of high-tech goods is no different. High tech accounts for nearly a quarter of all exporting small businesses. In 2007, 94 percent of the companies exporting high-tech goods were small companies with less than 500 employees, and the role of small businesses in this area has been increasing. Small businesses accounted for 28 percent of all high-tech exports in 2007, up from 22 percent in 2002. This means SMEs accounted for around $50 billion in tech exports in 2007. [9]

Table 2. shows that small high-tech companies play a crucial role in tech exports at the state level.

Affordable Technology Benefits Small Business

It is not merely exports that benefit small businesses. Imports are also a crucial piece of the supply chain for many small tech businesses. The affordability of materials and components is essential for these companies to remain viable. When the United States puts up barriers to trade it does not just harm our international counterparts, it hurts any small business that uses imported materials in their business model.

Technology facilitates entrepreneurship and high-growth private enterprise across all sectors. When trade is free and open, the resulting international competition helps keep prices affordable for consumers on the very technology that helps small businesses flourish. I cannot think of a consumer more important than the small business owner, and it is precisely these entrepreneurs who benefit from the affordable prices that result from open international competition.

Small Tech Companies Rely on Trade

Examples of SMEs in the Tech Sector that Benefit from Trade

Authentec is a small American high-tech company that makes sophisticated biometric fingerprint sensor chips used for identity authentication for secure systems and devices. This rapidly growing innovator recently went public and in 2008 reported employment growth of thirteen percent, adding fifteen research and development (R&D) jobs. The company's major customers include Fujitsu, Lenovo, Samsung, and Toshiba --- in fact, 97 percent of this company's sales come from outside the United States.

Without the sales generated by exports the individuals working at the Florida headquarters would be out of a job. The United States would be without a young innovative company whose patented technologies add value to our economy and drive its growth.

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[8] "Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports," Investigation No. 332-508, U.S. International Trade Commission Publication 4125. January 2010. http://www.usitc.gov/publications/332/pub4125.pdf

[9] "Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports," Investigation No. 332-508, U.S. International Trade Commission Publication 4125. January 2010. http://www.usitc.gov/publications/332/pub4125.pdf

PCTEL is another example of a small high-tech company that is an active exporter. Headquartered in Bloomington, Illinois, 45 percent of PCTEL's 2008 sales came from outside the United States.

Promoting Small Technology Business Exports

In the current economic environment it is particularly important that the United States pursue policies that help create business opportunities for small business in foreign markets and eliminate impediments to trade that make it difficult for them to compete on a fair and level playing field with businesses in other countries. Growth through improved exports for small business will be critical to their continued ability to generate jobs.

To create more business opportunities globally, TechAmerica supports active efforts to open markets through bilateral, regional and multilateral trade agreements. These agreements can assist exports in several ways:

- **Eliminate/Reduce Tariffs:** While larger companies can be hampered by high tariffs, they can often avoid them by establishing operations in a foreign market. Small businesses generally cannot take this route and tariffs of even five percent (and they are often higher) can make their products non-competitive on price with local companies. Any agreements, such as the Information Technology Agreement, that can eliminate or reduce tariffs can help U.S. small businesses to increase exports.

- **Eliminate Non-Tariff Barriers:** In many instances, the elimination of tariffs is not sufficient as foreign governments develop other non-tariff barriers to U.S. products and services. These often take the form of regulations that are non-transparent, difficult to comply with, time-consuming and arbitrary. Technical barriers to trade can also be created through creation of technical standards that are inconsistent with accepted international standards or the establishment of conformity assessment procedures that make it especially hard for U.S. companies to get the needed approvals to market their products in that country. These are very problematic for larger U.S. technology companies, but they again have resources to address these barriers that are not available to small businesses. While these types of trade barriers are difficult to address in trade agreements, the United States has developed many creative approaches to eliminate such barriers in its agreements, and continued pressure through trade negotiations will be vital to the future of small business exporters.

- **Intellectual Property Protection:** The key to success for many small technology companies lies in the innovative ideas, products or services that they bring to the market. Protection of their intellectual property (IP) is essential to their ability to grow their business and export to foreign markets. The lack of adequate IP protection in many key global markets prevents U.S. small businesses from entering those markets. U.S. efforts to press countries for better IP protection laws and better enforcement of those laws will be the key to whether many U.S. small businesses can expand their business globally. It is also important to remember that while protection of IP is essential for US small tech

companies, it is also important that we also contain balancing protections like copyright fair use and intermediary liability protections, or we will potentially hamper thousands of small e-commerce companies. Tying up agreements that will protect IP with sections on Internet commerce, like in the proposed draft of the Anti-Counterfeiting Trade Agreement released by the USTR last week, get in the way of moving forward with needed true anti-counterfeiting international trade agreements.

- **Trade Facilitation:** Delays at borders due to local customs processes can be very costly to small businesses, lead to lost business and discourage efforts to export. TechAmerica has had a strong Customs Committee for over 30 years working on ways to streamline and improve global customs processes and support continued efforts in trade negotiations to get other countries to eliminate unnecessary and burdensome requirements, make their customs rules more transparent and get customs authorities to work in partnership with other government entities in enforcement of customs regulations.

- **Open Internet Access and Cyber Security:** Many of the products and services being developed by small U.S. technology companies are dependent on access to an open and safe Internet. Increasingly, access to the Internet in foreign markets is being hindered by government regulations or cyber security risks. This is an area that has not been addressed in many of our previous trade policies and negotiations but is likely to be a growing impediment to our most innovative small businesses seeking to leverage access to a global market.

At the same time that the United States is seeking to press foreign governments to open their markets and eliminate barriers to trade, we need to look at U.S. policies that could help small businesses grow their exports.

- **Reform Export Controls:** For many years the TechAmerica Export Controls Committee has been providing the U.S. government with recommendations for reforming the export regulations that retain many outdated provisions from the Cold War. Small technology companies are generally not equipped to deal with the complexities of the export controls and can be discouraged from exporting by the risks of not properly complying with the rules. We are encouraged by the steps of the Obama Administration to finally move forward with changes that we hope will address these concerns and are working with members of Congress on updated legislation.

- **Trade Promotion:** Small businesses seeking to export to foreign markets must grapple with finding reliable business partners in other countries, navigating local laws and cultures, understanding the market for their products or services and working out financial issues. U.S. policies that provide assistance to small businesses in tackling these challenges will promote trade and exports. We recognize that there are many programs designed to help small businesses but feel that more can be done and better funding can be provided to strengthen the programs aimed at helping U.S. small businesses export their goods and services.

- **Education:** Both our large and small technology companies are international leaders because they are developing the most innovative products and services in the world. For many years TechAmerica has been pressing for policies that will improve our primary education system and promote the development of more scientists and engineers who drive the innovation leadership of our technology companies. If we do not continue to stay out front on technology innovation, our companies will not generate exports and will not create the jobs small businesses have traditionally provided due to trade.

Small business innovation and new firm formation help ensure U.S. products and services remain at the cutting edge. Enforcing existing and pursuing new free trade agreements brings down barriers to entry for the goods and services of small businesses and allows them to market themselves to new consumers around the world.

Table 1.

Company Name[10]	Sales Generated Outside the U.S. in 2008, %	Employment	Headquarters
Entropic Communications	98	297	CA
InterDigital	95	299	PA
Pixelworks	95	222	OR
California Micro Devices Corporation	91	103	CA
Ceva, Inc	87	187	CA
CyberOptics	86	179	MN
Amtech Systems, Inc	85	210	AZ
Integrated Silicon Solution	84	445	CA
Endwave Corporation	81	228	CA
BTU International	77	352	MA
Exar	75	368	CA
Intevac	69	370	CA
Lecroy Corporation	67	389	NY
Cascade Microtech	66	292	OR
MIPS	55	146	CA
PCTEL	45	346	IL
Giga-tronics	38	97	CA
Aehr Test Systems	36	83	CA
inTest	25	107	NJ

[10] All data is publicly available through SEC filings, and compiled in Hoovers. Because this data is required to be reported only by public companies, there are many even smaller private companies dependent on overseas sales that we cannot provide data on.

Table 2.

	*Number of Firms Exporting Tech Goods**			
State	***Small***	***Large***	***Total***	***Small Tech Exporting Firms, Percent***
California	*15,013*	*1,167*	*16,180*	*93%*
Florida	*8,955*	*636*	*9,591*	*93%*
Texas	*5,460*	*910*	*6,370*	*86%*
New York	*4,998*	*649*	*5,647*	*89%*
Illinois	*2,962*	*661*	*3,623*	*82%*
Massachusetts	*2,614*	*440*	*3,054*	*86%*
Pennsylvania	*2,251*	*499*	*2,750*	*82%*
Minnesota	*1,326*	*302*	*1,628*	*81%*
Virginia	*1,154*	*302*	*1,456*	*79%*
Arizona	*1,187*	*239*	*1,426*	*83%*
Oregon	*821*	*186*	*1,007*	*82%*
Missouri	*624*	*213*	*837*	*75%*
	**Exports to the world, computers and peripheral equipment*			
	Export Database, Office of Trade and Industry Information, International Trade Administration, Department of Commerce			

Statement
of the
U.S. Chamber of Commerce

ON: Hearing: "Evaluating the Impact of Small Business Trade Policy on Job Creation and Economic Growth"

TO: U.S. House of Representatives Committee on Small Business

BY: Drew Greenblatt, President, Marlin Steel Wire Products LLC, Baltimore, MD

DATE: April 28, 2010

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 113 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Thank you Chairwoman Velázquez, Ranking Member Graves, and distinguished members of the House Small Business Committee. My name is Drew Greenblatt, and I am the President of Marlin Steel Wire Products, LLC, based in Baltimore, Maryland. I am testifying today on behalf of the U.S. Chamber of Commerce, the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. I testified to this committee five years ago, to the day, on the need for simpler regulations and tax policies, to make it easier for small companies like mine to prosper. Today I want to speak about the need for trade agreements to help all companies.

Marlin Steel Wire Products is a leading manufacturer of custom wire baskets, wire forms, and precision sheet metal fabrication assemblies. We cater to clients from the pharmaceutical, medical, industrial, aerospace, and automotive industries all over the world. With a full-time team of engineers and industry-leading technology, Marlin Steel Wire is able to produce a world-class product entirely in the United States. We have been exporting for six years, with exports now going to more than 20 countries.

Over the years, Marlin Steel Wire Products (www.MarlinWire.com) has grown its business and created jobs through exporting. Today we continue to look for new markets, bringing our products to customers all over the world. I am pleased to be before you today to discuss the opportunities that small businesses would like to see made more available, so we can grow even more.

Trade Can Bring Growth and Prosperity

What is unique about Marlin Steel Wire is our ability to provide a highly customized product to our clients with little production time. This has allowed Marlin Steel Wire to stand out in its industry and receive orders from nations such as Australia, New Zealand, Ireland, Singapore, Brazil, Hungary, Poland, Israel, Canada, Mexico and Taiwan.

While most Americans tend to regard international trade as the domain of large multinationals, more than 250,000 small and medium-sized companies like ours export, and their overseas sales represent nearly a third of U.S. merchandise exports. In other words, small companies like ours play a critical role in creating jobs here at home.

Today we are selling to over 20 countries around the world and we continue to expand our market as we develop long-term relationships within the countries and communities we service. 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. More than 50 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 four factory jobs depends on exports, and one in three acres on American farms is planted for hungry consumers overseas.

As global demand for Marlin Steel Wire's products has increased, so too has the effect of global sales on the work force. We employ only 28 people, which means that seven people, one-fourth of our employees, are employed as a direct result of the company's export business. And it is not just the extra employees we have. Studies show that firms that export tend to grow faster, hire more, and pay better wages than those that do not. We want more of that growth.

As the president of the firm, I truly understand the importance of international trade and the impact it can have on small business. It's simple: we want to ship to more countries, grow our client base, and create more jobs. The more we diversify our client base the more stable we will be.

Standing in the way, however, is a complex array of foreign barriers to American exports. Those barriers are alive and well, and they pose a major competitive challenge to U.S. industry and agriculture and the millions of U.S. workers whose jobs depend on exports.

From a business perspective, the **foremost** goal of U.S. trade policy should be to tear down those barriers so companies like mine can start exporting to new markets. Free trade agreements have helped us accomplish this in the past, and will help our business grow in the future.

American workers and businesses are facing one of the harshest economic storms we've seen in years. Over eight million Americans have lost their jobs since the recession began, and we need to put Americans back to work. Recognizing that 95% of the world's consumers living overseas, I applaud President Obama's goal to double U.S. exports over the next five years. I urge Congress to move swiftly to make export growth and job creation a reality.

Pending Free Trade Agreements Would Boost Exports

An efficient way to promote U.S. exports would be for Congress to pass the pending trade agreements with Colombia, Panama, and South Korea. These pro-growth trade agreements will create good American jobs, bolster important allies, and confirm that America is not ready to cede its global leadership role in trade. They will generate billions of dollars in new American exports within a few short 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. These agreements would knock down those barriers, opening the door for American companies like mine to sell to these consumers. They all need more baskets and hooks, in my opinion.

Over the past 25 years, the United States has negotiated free trade agreements (FTAs) with 17 countries around the globe. While those 17 countries represent just 7.5% of global GDP, in 2009 they purchased more than 40% of U.S. exports. Some of these countries are small, but

FTAs make big markets even out of small economies. In fact, the United States has a trade surplus with its 17 FTA partners in manufactured goods, services, and agricultural products. For those worried about the U.S. trade deficit, trade agreements are clearly the solution — not the problem. We are helping to create the trade surplus by exporting wire baskets and wire forms (www.marlinwire.com/custom_wire_forms.htm) to countries all over the world. We need more of these agreements and we need more U.S. factories exporting.

It's not just the level of the monetary tariffs in these countries. 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. When I sell $5,000 of wire hooks to a Colombian distributor, can I afford a $10,000 permit?

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.

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. But that's just part of the price of inaction. A 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. I don't want any of those lost jobs to be my seven employees.

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)

A Closer Look at the Agreements

When examining President Obama's goal of doubling U.S. exports in the next five years, it's plain that approval of the negotiated agreements with Colombia, Panama, and Korea is critical to success.

Colombia: We very much want to increase trade with Latin America. Marlin Steel is aggressively going after the Spanish speaking market that we have translated our website into Spanish to make us friendlier to foreign wire basket and wire form manufacturing engineers. We need U.S. policies also to be friendlier to trading with our Spanish-speaking prospects.

The U.S.-Colombia Trade Promotion Agreement (TPA) is a critical component to both increasing exports, and a step in U.S. efforts to promote through trade rather than aid. The agreement sustainable economic growth in the Western Hemisphere resembles highly successful trade agreements that have already been enacted with such countries as Chile and Morocco. Its provisions are virtually indistinguishable from those in the U.S.-Peru Trade Promotion Agreement, which Congress approved by an overwhelming bipartisan majority in 2007. Like the agreement with Peru, the U.S.-Colombia TPA is a comprehensive agreement that will accelerate Colombia's progress as a resilient and strong democracy and a committed ally of the United States.

U.S. exports to Colombia have more than tripled since 2003, exceeding $11 billion in 2008. We estimate that since the agreement's signing those exports have been penalized by the imposition of over $2 billion in tariffs that could have been eliminated by the implementation of the agreement (*see* Colombia Tariff Ticker — www.latradecoalition.org). The benefit from U.S. exports to Colombia has been widespread both in terms of industry sectors and geographic diversity. A wide range of industries — including food and other agricultural products, chemicals, computers and electronic products, electrical equipment and appliances, and motor vehicles to name just a few — have seen exports grow into the hundreds of millions of dollars each year. On a local level, in 2008, 40 states plus Puerto Rico enjoyed at least $10 million in exports to Colombia; 18 states surpassed the $100 million export mark; and, exports from three states, Louisiana ($1.4 billion), Florida ($2.4 billion), and Texas ($3 billion) reached ten figures. As of 2006 (latest available figures), more than 8,500 U.S. small and medium sized businesses were selling to Colombia, totaling 85% of all U.S. companies exporting their products to Colombia.

Notwithstanding the success of U.S. exporters, the trade relationship with Colombia has been fundamentally imbalanced from a market access standpoint. In 1991, Congress overwhelmingly approved the Andean Trade Preference Act (ATPA), which has been renewed by bipartisan majorities several times in recent years. ATPA allows 90% of all imports from Colombia into the U.S. market duty free. By contrast, Colombia's average duty on imports from the United States is 14% for manufactured goods and much higher for key agricultural exports such as corn and wheat. In short, Colombia enjoys nearly free access to the U.S. market while U.S. access to Colombia's remains limited. The U.S.-Colombia TPA will put the U.S.-Colombia trade relationship on an even footing.

The U.S.-Colombia TPA will eliminate all Colombian tariffs on U.S. products, ushering in a mutually beneficial, reciprocal partnership. The day the agreement enters into force, four-fifths of U.S. consumer and industrial products and more than half of current U.S. farm exports will enter Colombia duty-free. Remaining tariffs will be phased out, most in just a few years. Consider the following examples:

Without the U.S.-Colombia TPA		**Products**	**With the U.S.-Colombia TPA**	
We Pay	**They Pay**		**We Pay**	**They Pay**
35%	2.5%	Automobiles	0%	0%
20%	0%	Furniture	0%	0%
5-15%	0-3.9%	Audiovisual (film and DVDs)	0%	0%
5-15%	0%	Mineral fuels and coal	0%	0%
10%	0%	Cotton	0%	0%
5-15%	0-3.9%	Copper, gold, silver products	0%	0%
5-21%	0-1.9%	Cereals (oats, corn, soybeans)	0%	0%
10%	0%	Computers & related products	0%	0%

The inequities in our trade relationship with Colombia mentioned previously are especially profound in the agricultural sector. Over 99% of food and agricultural products exported by Colombia to the U.S. already enter duty free. Our exports to Colombia, on the other hand, face applied tariffs that range from 5% to 20% with WTO bound rates as high as 388%. With the U.S.-Colombia TPA, we will receive immediate duty free treatment on 77% of all tariff lines accounting for more than half of our total agricultural exports, and Colombian import duties on all other farm products will ultimately be phased down to zero. Colombia has also committed to immediately eliminate the "price band" scheme that has obstructed imports of many U.S. agricultural products and it will immediately recognize the inspection system for U.S. meat and poultry as equivalent to its own.

However, despite these clear benefits that stand to accrue from the implementation of the agreement, at present it appears equally likely that the outlook for U.S. agricultural, manufacturing, and service exporters in Colombia is poised to deteriorate significantly. This is because while U.S. implementation of the agreement has been delayed, other important trading partners are moving ahead. Canada's parliament is poised to give final approval to the Canada-Colombia FTA within weeks, and the European Union and Colombia will sign an FTA in May. If these agreements with major trading partners and competitors go through ahead of the U.S. agreement, not only will U.S. producers have lost the competitive advantage that would have applied from a preferential tariff margin, they will actually be at significant disadvantage to European and Canadian competitors.

Unfortunately, this scenario is already unfolding. Following implementation of a new trade accord between Colombia and Mercosur, the U.S. share of Colombia's market for yellow corn, wheat, and soybean meal dropped by 53%, 37%, and 67%, respectively, in 2008-2009. Large gains by Argentine and Brazilian farmers mirror losses for U.S. producers. Only urgent action can arrest the loss of U.S. producers' market share.

Panama: Similarly, the U.S.-Panama TPA is a front-loaded, ambitious, and comprehensive agreement, with considerable benefits to both the United States and Panama. The day the agreement enters into force, 88% of Panama's tariffs on U.S. consumer and industrial goods and a majority of the tariffs on U.S. farm exports will be eliminated. The fastest-growing product categories among U.S. manufactured exports to Panama have been sophisticated machinery; organic chemicals; and sound equipment. The American Farm Bureau Federation expects export gains in excess of $151 million per year by 2027 in items such as wheat, rice, corn, cotton, soybean products and livestock products.

The agreement will substantially improve market access for American farm products, consumer and industrial goods, and services in Panama, and it will bolster the rule of law, investor protections, internationally recognized workers' rights, and transparency and accountability in business and government. The agreement's strong intellectual property rules and related enforcement provisions will help protect and promote America's dynamic innovation-based industries and creative artists. The opportunities created by lowering tariff and non-tariff barriers to U.S.-Panama trade and investment promise to expand two-way trade opportunities and lift living standards in both countries.

Looking forward, the agreement with Panama is an important step in the U.S. strategy to promote trade liberalization and economic integration with the region. As well as being a gateway from the Pacific to the Atlantic, Panama is a literal and figurative bridge between Central and North America on one end and South America on the other. U.S. total exports to trade agreement partners in the Western Hemisphere reached $471 billion in 2008. This region represents a significant and growing market that has largely avoided the worst of the current economic crisis.

Panama is also an important market for U.S. small business. Nearly 6,000 U.S. companies exported their products to Panama. Of this total, 4,748, or 81%, are small and medium-sized enterprises. These SMEs exported $775 million worth of merchandise to Panama in 2005. This represented 40% of all U.S. merchandise exports to these countries, well above the 29% share of U.S. exports that our smaller companies contribute globally.

The U.S.-Panama TPA further opens Panama's market to products and services made by American workers, farmers, and companies. Panama's purchases of U.S. manufactured goods and farm products reached $4.6 billion last year, and the $4.2 billion U.S. merchandise trade surplus with Panama in 2008 was among the largest with any country. The United States is far and away Panama's largest trading partner, with a 33% share of Panama's imports, and purchasing 36% of all Panamanian exports. The $5.25 billion expansion of the Panama Canal is now moving ahead and presents significant opportunities for U.S. companies to provide goods and services to the government of Panama as they embark on one of the largest public works project since the Three Gorges Dam in China. Projects like this require a tremendous amount of wire baskets (www.MeshBaskets.com) that we want to sell to the contractors and vendors that are awarded the bids. We will hire more people in Baltimore City to keep up with this demand.

U.S. export success in Panama comes despite a fundamental imbalance in the playing field. The United States unilaterally opened its market to Panama and its neighbors through the Caribbean Basin Initiative in 1983 and expanded that access through successive acts with the support of strong bipartisan majorities in Congress. Currently, under the Caribbean Basin Trade Partnership Act, fully 96% of all imports from Panama already enter the U.S. market duty-free. By contrast, Panama's average applied duty on imports of manufactured goods is 10%, and agricultural products face even higher tariffs. In other words, Panama enjoys virtually free access to our marketplace, while U.S. products continue to be taxed at steep rates when entering Panama.

When considering the role of services, these commitments and improvements in Panama's services regime will allow U.S. firms to take full advantage of the benefits of the agreement across all sectors, including express delivery, logistics, energy, audiovisual, computer, construction, wholesaling, health, education, and environmental services. The agreement will strengthen protection and enforcement of U.S. trademarks, patents, and geographic indicators, internet domain names and copyrighted works, creating new opportunities for U.S. innovation-based and creative industries in Panama. In specific terms, the Panama TPA includes strong intellectual property enforcement mechanisms and penalties provisions, including the criminalization of end-user piracy and counterfeiting and the authority to seize and destroy not only counterfeit goods but also the equipment used to produce them. The agreement also provides necessary mechanisms to fight the problem of trans-shipment of counterfeit goods with specific provisions that are aimed at goods-in-transit.

Korea: Currently we sell to Japanese automotive suppliers in the U.S. and in Japan. However, over the last decade the Korean automotive market has surged and we want to sell to them as well. The extent of trade and investment between the United States and Korea makes the U.S.-Korea FTA one of the most commercially significant trade agreements for the United States. This agreement will stimulate new demand in Korea for U.S. goods and services which are affected by these trade barriers. Increased U.S. exports to Korea under the agreement, in turn, will generate new U.S. jobs and economic growth.

U.S. small and medium enterprises play an important role in exporting goods and services to Korea, and these firms accounted for 89% of all U.S. companies exporting in Korea in 2007 and $10.8 billion of total U.S. exports to Korea that year. These exports in every category are expected to grow significantly once the agreement is passed.

Korea, with a $1 trillion economy, is the United States' eighth-largest trading partner in terms of two-way trade, which reached nearly $83 billion in 2008. Korea is a major market for U.S. producers across numerous sectors. Over 80% of U.S. merchandise exports to Korea are manufactured goods. Korea is the sixth-largest market worldwide for U.S. agricultural goods, with U.S. agricultural exports totaling $5.6 billion in 2008. In addition, Korea is the second-largest market for U.S. services in Asia, and U.S. cross-border exports of services to Korea totaled $12.5 billion in 2007. Korea boasts the highest broadband internet penetration levels in the world, making it an important growth market for U.S. companies in the information and communications technology sector.

The U.S.-Korea FTA will create substantial new opportunities and economic benefits for U.S. businesses and farmers by eliminating high tariffs and restrictive non-tariff market access barriers in Korea. Under the agreement, almost 95% of bilateral consumer and industrial goods trade will become duty-free within three years, with almost all remaining tariffs on goods eliminated within ten years. Korean average applied tariffs on U.S. goods are now 11.2%, as compared to the average U.S. applied tariff of 3.7%. The elimination of these tariffs on almost all goods will significantly benefit U.S. producers and exporters by making their products more price-competitive in the Korean market.

In agriculture, the agreement will eliminate immediately Korean tariffs on nearly two-thirds of U.S. agricultural exports to Korea. It will phase out over 90% of all Korean tariffs on major U.S. agricultural exports, including beef, pork, poultry, and oranges, over 15 years. At present, U.S. agricultural goods face an average applied tariff in Korea of 52%. The U.S. Chamber expects the elimination of these tariffs to boost significantly U.S. agricultural exports to Korea and to create important new growth opportunities for U.S. ranchers and farmers.

The timing of implementing the U.S.-Korea FTA is crucial for the United States to realize the maximum possible economic benefits of the agreement. Korea is rapidly expanding its network of bilateral trade agreements, including with major U.S. global competitors. In particular, Korea concluded FTA negotiations with the European Union in July 2009, and the accord will be signed in May. If the EU-Korea FTA enters into effect before the U.S.-Korea FTA, it will likely generate significant trade diversion in the Korean market away from U.S. exports as Korean consumers turn towards more price-competitive EU member country goods and services by virtue of benefits under the EU-Korea agreement. A comparison of leading U.S. and EU exports to Korea reveals the significant degree of overlap between them — indicating the competitive disadvantage that U.S. manufacturers, farmers, and ranchers could be placed in under an EU-Korea FTA without implementation of the U.S.-Korea FTA. Korea also concluded a Comprehensive Economic Partnership Agreement with India in August 2009, and it has ongoing negotiations with Canada, Australia, Peru, New Zealand, the Gulf Cooperation Council, and Japan and is exploring the possibility of FTA negotiations with China.

Conclusion

It is worth noting that the commercial benefits of recent free trade agreements have surpassed all expectations. Consider the U.S.-Chile FTA, which was implemented on January 1, 2004, and immediately began to pay dividends for American businesses and farmers. While the U.S. International Trade Commission (USITC) had forecast total export growth of 18-52% over the first 12 years of the agreement's implementation, U.S. exports to Chile leapt by 34% in 2004, 43% in 2005, 31% in 2006, 22% in 2007, and more than 50% in 2008. All told, U.S. exports to Chile quadrupled in just five years.

This outcome is five times as robust as the USITC's most cautious scenario and nearly twice as robust as its most optimistic scenario. Given the similarities between the pending trade agreements and the U.S.-Chile FTA, we may surely expect impressive benefits from these new agreements as well.

Other recent FTAs have borne similar fruits.

- Trade with Jordan has risen nearly 600% from $300 million in 1999 to $2.1 billion in 2009. These commercial flows have fostered the creation of tens of thousands of jobs in a country that is a close ally of the United States.
- Implemented in January 2005, the FTA with Australia (which is a buyer of our products) helped boost U.S. exports down under by over 60% in four years.
- The U.S. trade surplus with Singapore rose nearly 10-fold over the first five years of implementation of the U.S.-Singapore FTA (2004-2008), reaching nearly $13 billion.

On trade, if America stands still, we fall behind. That is why I urge Congress to support the pending trade agreements and seek a more effective trade policy that opens foreign markets, boost exports, and creates jobs. In the end, U.S. business is quite capable of competing and winning against anyone in the world when markets are open and the playing field is level. These trade agreements can provide just that.

Once again, I greatly appreciate the opportunity to testify today on behalf of the U.S. Chamber of Commerce.

Thank you very much.

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SUBCOMMITTEE ON FINANCE AND TAX

Statement for Small Business Full Committee Hearing
"Evaluating the Impact of Small Business Trade Policy on Job Creation and Economic Growth"
May 4, 2010

Thank you, Chairwoman Velazquez and Ranking Member Graves, for holding a hearing on trade policy and its impact on small businesses.

As you know, improving U.S. trade policy is one of my top priorities in Congress.

Through my work as the Chair of the House Trade Working Group, and the introduction of the TRADE Act, I've tried to raise awareness of the problems with our trade policies.

And I've pushed for a new model of trade that will be better for U.S. businesses and U.S. workers alike.

I represent the state of Maine, which has been hard-hit by a decline in U.S. manufacturing, a decline made worse by our misguided trade priorities.

And each week, I see the consequences of this among the small businesses I represent.

Certifications for Trade Adjustment Assistance are granted far too often for companies in my district that can no longer keep their doors open in the face of foreign imports, some of which are unfairly dumped into our market at subsidized or below-market prices.

That is why we must fix our approach to trade before we pass any more of the pending free trade agreements and before we advance too far along in the negotiations for the Trans-Pacific Partnership.

I believe that a trade policy that emphasizes higher labor and environmental standards, and that doesn't include unfair protections for giant corporations, will benefit U.S. small businesses far more than our current and imbalanced trade policy.

Not only will American small businesses be able to stay afloat if we negotiate fairer trade agreements, but they will also have a more level playing field when they compete in foreign markets that meet our standards of worker rights and environmental protections.

An improved trade policy would also limit big U.S. companies from taking their production to countries where labor is cheaper and the consequences for polluting are far less than they are here.

This means more jobs for Americans and more opportunities for our small businesses.

I want to thank the Chairwoman for holding this hearing about an issue that I believe is the most important to helping our economy recover in a sustainable way.

I look forward to hearing from the witnesses and discussing how my legislation, the TRADE Act, can help the firms testifying today and across the country.

I yield back.

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The Computing Technology Industry Association

House Small Business Committee

"Evaluating the Impact of Small Business Trade Policy on Job Creation and Economic Growth"

April 28, 2010

Dear Chairwoman Velázquez, Ranking Member Graves, and Members of the Committee:

On behalf of the Computing Technology Industry Association (CompTIA), we would like to submit for the record a CompTIA survey titled "Small and Medium Size Business Export Insights and Opportunities", published in January 2010. This study found that 12% of revenue at small and medium-size firms is generated from international markets. Of note to our industry and members, 43% of exporting information technology SMBs indicated that international sales were growing significantly faster than domestic sales.

For those firms not exporting, most felt that their products were not a good fit for export. However, other hurdles included lack of resources and expertise, as well as distribution challenges. For those SMBs that were exporting, the top suggestions for needed improvements included:

- Greater availability/transparency of regulations affecting trade;
- Greater consistency of regulations from one country to the next;
- Further reduction of non-tariff barriers, i.e. regulations/ bureaucracy; and
- Better resolution of disputes or issues.

These are all factors that can and should be addressed, as SMBs can no longer afford to ignore the export market.

As we work to rebuild jobs within America, we must assure that small and medium businesses have the knowledge and assistance needed to access markets outside of the United States. This is especially important for CompTIA members who are providers of technology solutions, including the ever-growing delivery of "cloud-based" products and services.

Accordingly, we urge the Committee to continue its efforts to assist SMBs in gaining access to international marketplaces, and we commend your efforts in this undertaking.

CompTIA
April 28, 2010

About CompTIA. The Computing Technology Industry Association (CompTIA) represents the interests of the $3 trillion global information (IT) technology industry. CompTIA members are located in more than 90 countries and include major computer hardware manufacturers, software publishers, and service providers; the distribution partners they rely on to bring their products and services to market; and thousands of small IT services businesses called value added resellers (VARs). CompTIA members are the companies at the forefront of innovation; and are the professionals responsible for maximizing the benefits organizations receive from their investments in technology. CompTIA is dedicated to advancing industry growth through its educational programs, market research, networking events, professional certifications, and public policy advocacy.

Likewise, we are proud to represent American IT workers who are responsible for maximizing the benefits consumers and organizations receive from their technology investments. CompTIA develops and promotes strong government and private programs that support IT training and education for both IT and non-IT workers. According to the Bureau of Labor Statistics data, U.S. businesses employ approximately 3.6 million IT workers. Adding in peripheral technology-related occupations more than doubles the figure, reflecting the true impact of the tech sector to the U.S. workforce.

CompTIA
April 28, 2010

CompTIA

Advancing the Global IT Industry

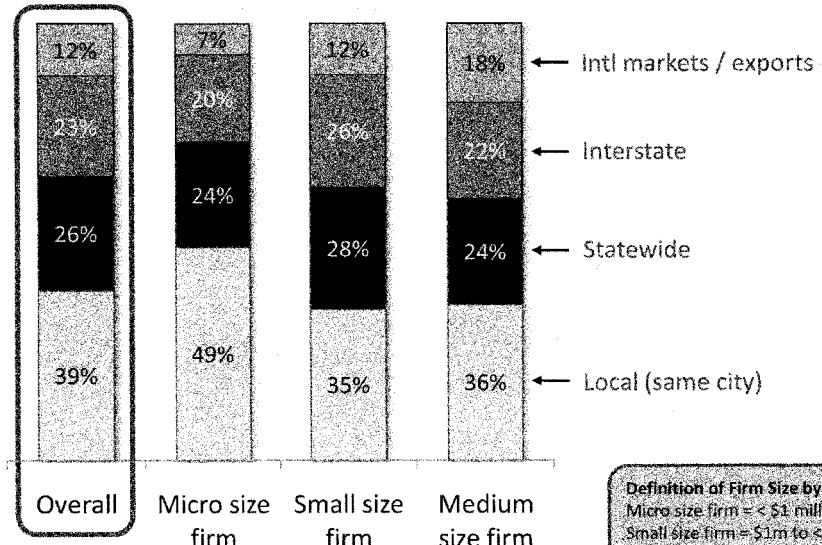
Small and Medium Size Business Export Insights and Opportunities

Executive Summary
January 2010

www.comptia.org

SMBs Derive an Average of 12% of Their Revenue from Exports

Average distribution of sales by source: local (same city), statewide, interstate or international markets/exports. For example, the SMBs in this study report generating on average 12% of their revenue from international markets/exports.



Definition of Firm Size by Revenue
Micro size firm = < $1 million (n=196)
Small size firm = $1m to < $20 million (n=273)
Medium size firm = $20 million + (n=218)

Sample size: 687 SMBs, including exporters and non-exporters
See the Research Methodology at end of report for a full description of the sampling frame

CompTIA
Advancing the Global IT industry

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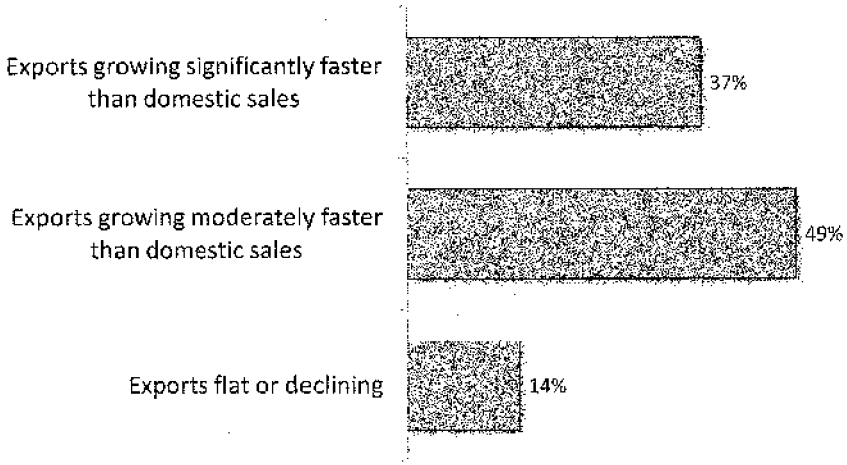
SMBs Report Export Growth Rates Outpacing Domestic Sales Growth Rates by Wide Margin

86% of SMBs in this study report their export sales are growing faster than their domestic sales.



Sample size: 458 SMBs that sell to international markets / export

CompTIA

Advancing the Global IT Industry

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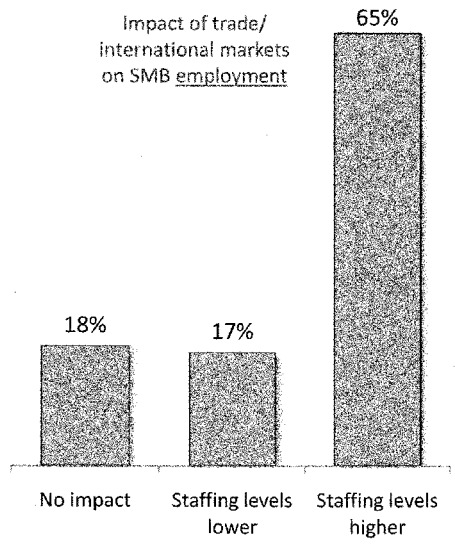
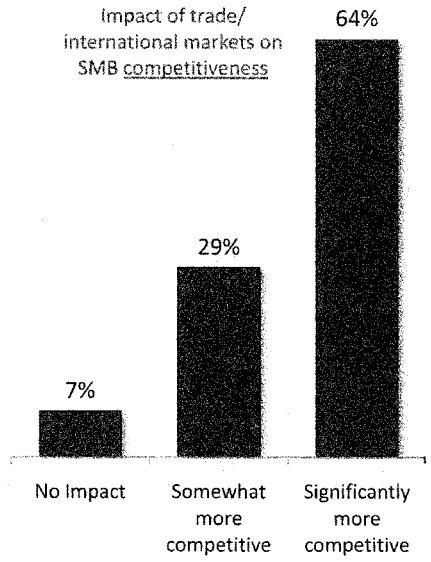
Many SMBs Report Being More Competitive and Having Higher Staffing Levels Due to their Exports Business





Sample size: 391 SMBs that sell to international markets / export

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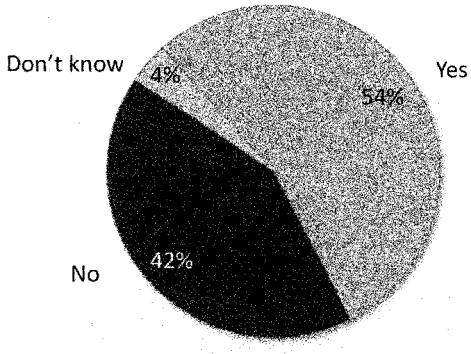
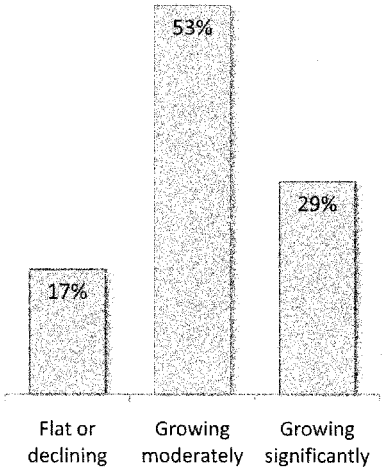
SMBs also Report Strong "Indirect" International Sales

Percent of SMBs that report selling products/services to US firms that generates business from international markets/exports



Selling to US Subsidiaries of Foreign Companies: 45% of SMBs in this study report selling products/services to US subsidiaries of foreign companies. Among this segment, 82% indicate sales to this market are growing (moderately or significantly).

Degree to which SMB sales to US firms that generates business from international markets/exports are growing or declining



Sample size: 696 SMBs

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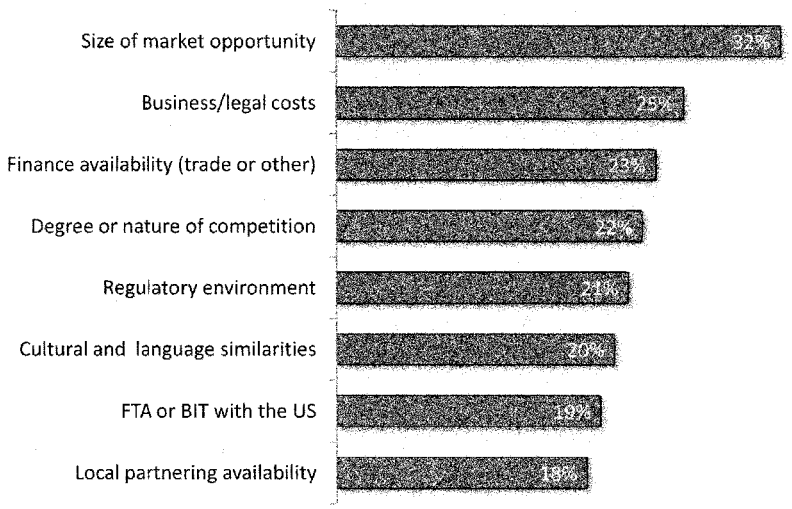
Size of Market Opportunity a Key Evaluation Criteria for SMBs Looking to Enter New Markets

SMBs were asked to check the top 3 criteria for deciding to enter a new international market. Top responses listed below.



Sample size: 410 SMBs that sell to international markets / export

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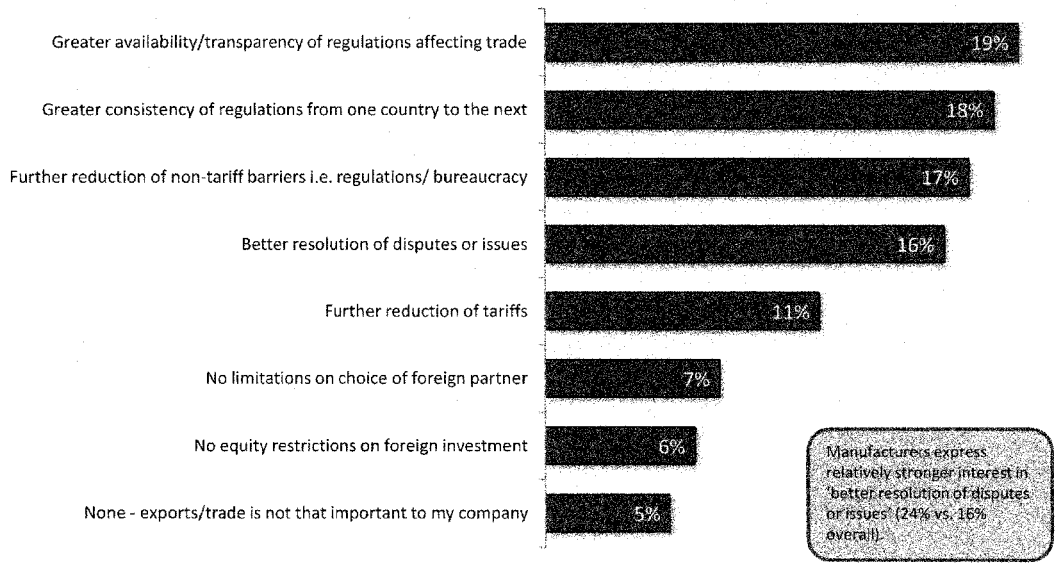
SMBs Seek Greater Transparency and Consistency of Trade Regulations

One improvement exporting SMBs would like to see:



Sample size: 393 SMBs that sell to international markets / export

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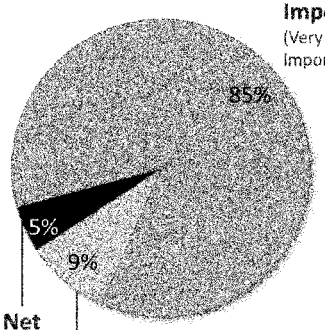
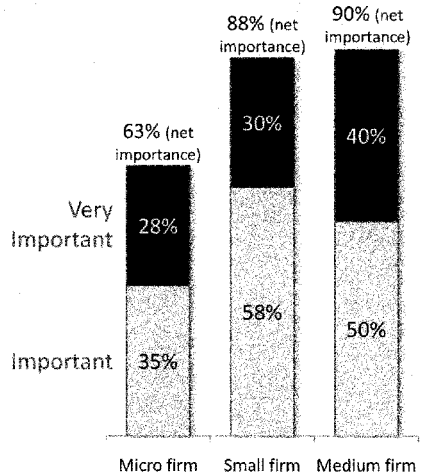
Overwhelming, Exporting SMBs Rate FTAs as Important





Provisions of FTAs that SMBs Rate as Most Important:

31% Eases way for access to new markets
25% Reduction or elimination of non-tariff barriers
23% Robust resolution of disputes or issues
20% Reduction or elimination of tariffs

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Sample size: 393 SMBs that sell to international markets / export

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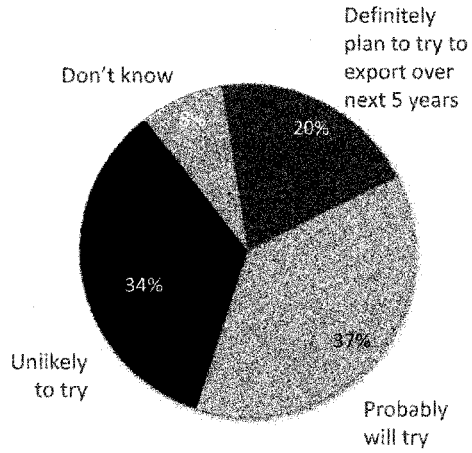
More than Half of Non-Exporting SMBs Hope to Test Export Waters Over Next Five Years



Top Reasons SMBs give for NOT Exporting:

67% Products/services not a good fit for export
61% Lack of resources
58% Lack of expertise
57% Distribution channel challenges
56% ROI / cost to export

Resources SMBs Expect to Use to Learn More About Exporting:

40% State or local government resources
36% Federal government resources
36% Trade associations / similar type groups
31% Partners or colleagues
27% Consultants

Sample size: 262 SMBs that do NOT sell to international markets / export

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HOW GOVERNMENT CAN HELP INCREASE U.S. EXPORT PERFORMANCE

TESTIMONY BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS

111th Congress, 2nd Session

April 28, 2010

Prof. Michael R. Czinkota
Georgetown University
Washington D.C. 20057
and
University of Birmingham, UK

Honorable Committee Members:

Thank you for inviting me to testify today. It is a great pleasure to do so, since it allows me to use our three decades of research at Georgetown University on export issues and smaller sized firms in order to provide you with a frank and objective perspective on export promotion activities. I ask that my statement be included in full in the record. Thank you.

Exports are important. They increase the availability and choice of goods and services to individuals around the globe, and improve the standard of living and quality of life. Exports deserve government attention because they can affect currency values and the fiscal and monetary policies of governments, and determine the level of imports a country can afford. Exports also shape the public perception (both at home and abroad) of the competitiveness of a nation, which in turn influences the trust and confidence, a nation experiences and can draw on. The impact of exporting has grown substantially during most of the past forty years, as the value of world exports of goods and services has risen from $ 200 billion to almost $ 19 trillion (WTO, 2010).

On the level of the firm, exports offer the opportunity for economies of scale. By broadening its market reach and serving customers abroad, a firm can produce more and do so more efficiently, which is particularly important if domestic sales are below breakeven levels. As a result of exports, a firm may achieve lower costs and higher profits both at home and abroad. Through exporting, a firm benefits from market diversification, and can take advantage of different growth rates and different risk levels in different markets, and gain stability by not being overly dependent on any particular market. Exporting also lets the firm learn from the competition, makes it sensitive to different demand structures and cultural dimensions, and proves its ability to survive in a less familiar environment in spite of higher transaction costs. All these lessons tend to make the firm a stronger competitor both abroad and at home.

A successful export performance is therefore typically proof of a firm's special talents which enable it to prosper. Such a display of economic strength of the firm is, on an aggregate level, also a manifestation of the economic success and security of a nation.

In spite of all these positive aspects of exporting, there are obstacles, both real and perceived, which often prevent firms from exporting. Many U.S. businesses often are satisfied to remain local, because of the size and vitality of the domestic market. Many also see only the risks involved in exporting rather than the opportunities that the international market can present. The psychological distance of foreign markets, caused by a lack of familiarity with foreign markets and uncertainty about export processes, is a real barrier to many U.S. managers, particularly small business owners. As a result, the United States under-participates in exports when compared to other nations. On a per capita basis, German exports in 2009 were $ 13,670 for every man, woman, and child. The figure for Japan was $ 4,063; for the United States, it was only $ 3,238. Given our imports of $ 4707 (an activity in sharp decline after the global financial crisis) we are encountering on an ongoing basis large trade deficits, which make

us indebted to other nations and let them acquire leverage over us. It is therefore worthwhile and necessary to increase the export activities of U.S. firms.

President Obama has announced the goal of doubling US exports within the next five years. A noble goal, particularly since, for the time being, export growth has been halted on a global level. For example, in the United States, exports in 2009 were below the level of those in 2007. Although U.S. exports had grown at an impressive rate in the 2006 to mid-2008 period, overall, in the ten years from 2000-2010, U.S. exports grew only by about 50 percent. Doubling of exports in five years is an ambitious goal, but a goal which can bring much improvement to the nation.

Key issues are: How we can achieve such a goal? What activities need to be rebalanced or restructured to set us on the right path? Which countries will reduce their participation in world trade in order to afford new opportunities to U.S. firms? Where will the market growth for increased U.S. exports come from? How can, with prudent use of government resources, U.S. firms be enticed to export more?

Particularly the latter question is crucial if we are to achieve major behavior modification by private sector firms. Our research has shown that as a firm starts to export, unusual things can happen to both risk and profit. In light of the gradual development of expertise, the many concerns, and a firm's uncertainty with the new environment it is about to enter, management's perception of risk exposure grows. In its previous domestic expansion, the firm has gradually learned about the market, and therefore managed to gradually decrease its risk. In the course of international expansion, the firm now encounters entirely new factors such as currency exchange rates and their vagaries, greater distances, new modes of transportation, new government regulations, new legal and financial systems, new languages, and often substantial cultural

diversity. As a result, the firm is exposed to increased risk. At the same time, due to the investment needs of the exporting effort to provide for information acquisition, market research, and trade financing, the immediate profit performance may deteriorate. Our research has clearly found that export procedural expertise is crucial for successful performance. We find however that such expertise and managerial ability falls short even by experienced large exporters (Czinkota and Kotabe 1998)

Eventually, a firm will become familiar with international markets, and the diversification effects of marketing internationally are likely to reduce the risk below the previous "domestic only" level. Over time, profitability is likely to increase as performance data of exporters have shown. Yet, in the short and medium term (typically during the first two years of exporting), managers may face the unusual and perhaps unacceptable condition of rising risk accompanied by decreasing rewards. Also, mistakes will happen during the export learning process, some of which can be particularly distressing to small businesses. In light of this reality, and not knowing whether there will be a pot of gold at the end of the rainbow, many executives either do not initiate export activities or discontinue them. A temporary gap in the working of market forces seems to exist. Government export assistance can help firms over this rough patch to the point where profits increase again and risk heads downward. Bridging this short-term market gap may well be the key role of export assistance, and the major justification for the involvement of the public sector.

Export assistance can target the organizational characteristics and capabilities of the firm and try to improve them. It can also work on the managerial characteristics and contribute to the improvement of knowledge and competence. Government also needs to be continually involved in the international market environment, in terms of learning, tracking and negotiating the shape

of the environment.

Export assistance will be most effective when it reduces the risk to the firm and increases the rewards from export operations, particularly when the stage-specific experience and concerns of firms are taken into account. For example, providing information on market potential abroad is likely to decrease the risk (both real and perceived) to the firm. Offering low-cost credit is likely to increase the rewards. Macro assistance in the foreign market environment can consist of international trade negotiations designed to break down foreign barriers to entry. Micro assistance consists of learning from the foreign market and its customers, and passing on that knowledge to enable entering firms to adjust to that market.

Export assistance should be concentrated primarily in those areas where profit and risk inconsistencies produce market gaps, and be linked directly to identifiable organizational or managerial characteristics that need improvement. Otherwise, assistance supports only exports that would have taken place anyway. There should be a clear demonstration of export additionality which occurs due to government support. In order to assess such effects, it is important to encourage and devise export performance measurements which don't just evaluate issues such as governmental budget compliance, but assess bottom line performance shifts, not just in terms of profitability, but also in terms of major competitive achievements.

There also needs to be consideration of international rules. The regulatory aspects of the trade environment have changed. Decades ago governments were virtually unrestrained in their export promotion activities. Today, international accords are very restrictive when it comes to such government intervention. NAFTA, for example, sharply limits the extent to which governments can encourage their exports, and provides for very specific and rapid remedies when violations are suspected.

The World Trade Organization has taken a much closer look at export promotion activities, has identified trade distorting practices and has devised rules which circumscribe the permitted export promotion practices. These WTO rules are particularly opposed to export subsidization, though they are confined mainly to the export promotion of goods rather than services.

Yet, export promotion support is necessary. Every day, new firms are beginning to learn about the international market and are running into barriers to international trade. For example, in any given year, 15 percent of U.S. exporters will stop exporting, while 10 percent of non-exporters will enter the global market (Bernard and Jensen, 1997). The most critical juncture for firms is when it begins or ceases to export, which is where export promotion may have its greatest impact.

Export assistance should emphasize those areas where government can bring a particular strength to bear such as connections and contacts, prowess in opening doors abroad, or information collection capabilities. Externally, programs should aim at the large opportunities abroad in order to also provide for economies of scale for the governmental assistance efforts. As far as firms are concerned, attention should not just concentrate on assisting or bailing out industries in trouble, but also on helping successful firms do better. There should also be some focus on the benefits triggered by increasing exports. For example, one important reason for export promotion is the creation of jobs and the strengthening of the economy. We know that different industries create different amounts of jobs when they increase their production activities. This difference in jobs created per billion $ of exports, is a function of competence, competition, automation and the labor intensity of an industry. In prioritizing national expenditures, it might help to consider the job creation as one criterion in the allocation of resources.

SOME SPECIFIC EXPORT ASSISTANCE PROGRAM CHANGES

Traditionally, export promotion has aimed to please the local customer, the constituent – the exporting firm. Given the intent to increase exports, however, it may make sense to devote promotional funds to achieve a better understanding of the actual buyers of exports, namely the customers abroad. What it is they want and need, and what are their alternatives? The goodwill and interest of these customers is crucial, since any promotion of exports will fall short, if customers in the target market are not buying.

Such a demand-oriented customer focus requires substantial research activities abroad. Findings could tell us about the weaknesses of export activities. In what areas does an industry or a firm need to improve its export product or export processes? How can it be more responsive to changing demand patterns? For example, is better/faster/safer transportation required? How can transport-tracking systems be linked to facilitate better global supply chain management? A better understanding and meeting of such customer driven needs can well help propel the potential exporter to become the winning bidder.

Making Accidents Happen

Many firms become exporters by accident. Managers often receive unsolicited orders over the transom from abroad, and then have to make a choice as to whether or not to fill these orders. Such unsolicited orders have been found to account for more than half of all cases of export initiation by small and medium sized firms in the United States. (Czinkota 1982). Today, due to the growth of corporate web sites, firms can easily become unplanned participants in the international market. For example, customers from abroad can visit a web site and place an international order. Of course, the firm can choose to ignore foreign interest and lose out on new markets. Alternatively, it can find itself unexpectedly an exporter. In the services area, specialty

retailers such as bookstores and fitness equipment sellers are examples of industries that in this way have become international.

Export promotion can focus on such unsolicited orders and try to ensure that more of them reach a firm. Key questions are: In which ways can the offering of a firm be disseminated globally so that interested parties learn about the existence of a product? How can such parties then be guided in order to make it easy to submit unsolicited inquiries about such product? How can both the buyer and seller exchange information and develop a trust level to such a degree that order placement and order fulfillment becomes possible?

With regard to specific initiatives which are likely to increase exports, here are some suggestions: Exporting competence and confidence are crucial to our economy. The customer will particularly witness the procedural expertise of firms. The Department of Commerce could encourage, collaborate with, and sponsor a Professional Certification in Exporting. Such Professional certification could be taught in Business Schools and Community Colleges. It also makes sense to encourage liberal arts students or language program participants to incorporate some international business education in their programs. Exporting must become part of the national game plan, just as it has been for decades in Japanese and German society. The time is right for such an initiative.

In order to learn by example, each State could rally an annual competition for the best case study written on an export entry success by a company in the State. Such studies should present an export problem which needed to be addressed and was solved. A substantial prize for the winner (s) would encourage such work. Just like the peer reference power of adolescents, companies need concrete success stories they can read about to convince them that exporting is worth

pursuing and problems can be solved. Preferably such case work would involve support from Export Assistance Centers and Chambers of Commerce. Hundreds of such short cases a year could be added to national resource centers and be made available on-line through the Department of Commerce Centers would provide for a substantial data base which would help in training swaths of interested people.

Today is an era of social responsibility and the awakening of personal participation in major issues. Discussions of public service abound – but, so far, have mainly been confined to issues such as climate concerns, sustainability and poverty relief. Social service is seen mainly in the context of doing good works for disadvantaged people. Yet, it would seem that exporting should also qualify as a highly desirable social goal. Business Schools should encourage their students to carry out unpaid internships in order to help stimulate export growth. Doing so can involve research for government and private sector reports, development of marketing campaigns, or even forming the vanguard for a group of companies in exploring markets abroad.

Collaboration between Business Schools, Export Assistance Centers, and Chambers of Commerce should be much greater than it is now, and should be institutionalized rather than dependent on the initiative of individual professors etc. One could even envision a period of national service devoted to the achievement of national priorities, in this case, to export enhancement.

Finally, it might be useful for Congress to consider the development and implementation of an "Export Impact Statement" in connection with major policy decisions. Export trade considerations should also become an integral part of foreign policy negotiations instead of just an afterthought. It must be recognized that successful international trade leads to a strong U.S.

economy, which in turn is a necessary prerequisite for this country to remain the guarantor of its political achievements.

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TESTIMONY BEFORE THE HOUSE SMALL BUSINESS COMMITTEE

111th Congress, 2nd Session

April 28, 2010

Professor Timothy J. Wilkinson

Montana State University Billings

Billings, MT 59101

Honorable Committee Members:

It is a privilege to provide testimony to the leaders of our beloved country. I ask that my statement be included in the record. Thank you.

My doctoral dissertation was on the subject of state export promotion. This was followed by more than 30 journal articles, most of which are on this same topic. Based on my research and the research of many others in the field, I think that we have learned several things. I would like to first tell you some of the things that can help companies to become successful exporters, followed by a broader statement of caution.

What we know is that appropriately crafted export promotion programs can increase exports for small to medium-sized businesses. To summarize:

* There is a positive relationship between state export promotion spending and exports.[1]

* There is a positive relationship between state sponsored trade shows and exports.[2]

* There is a positive relationship between the presence of state sponsored foreign trade offices (FTOs) and exports.[3]

* There is a positive relationship between state sponsored trade missions and exports.[4]

The effectiveness of the activities mentioned above is nuanced; depending upon the experience of the exporting firm, its readiness to export, the time spent developing overseas markets and other factors. But the point is that the most effective programs involve "experiential" activities that connect American exporters with partners in foreign markets. This is the key. A constant theme of international business instruction is the importance of building relationships with people operating in targeted markets. Trade shows, trade missions, and foreign trade offices are the primary means that government agencies have used to create and facilitate these experiences. Once a business person or organization develops an effective, long-term business relationship with an appropriate entity in an overseas market, the sky is the limit. The importance of relationship building (which takes much more time than we Americans want it to take) cannot be overstated. Export promotion programs make a substantial contribution to building such relationships when they help smaller business owners and managers get into foreign markets to see what international business is all about.

Other export promotion activities, such as training in export documentation, are also important. But the key is to get individuals into personal contact with overseas business people.

Another point. Most international business for small to medium-sized companies is conducted through overseas distributors. However, the question of how to recruit and manage overseas distributors is almost entirely neglected in the international business literature and in the curriculums of international business programs. My co-author Andrew R. Thomas (a professor at the University of Akron) and I wrote an article with a title – "It's the Distribution, Stupid!" – that address the distribution issue. Understanding distribution is a key to business performance for small to medium-sized companies and training in this area should be an important element of export promotion programs.[5]

Finally, the ability to track the effectiveness of export promotion programs has been severely hampered with the disappearance of the National Association of State Development Agencies (NASDA). This organization conducted periodic surveys of state export promotion activities which made it possible to do some comparative analysis and benchmarking over time. Without reliable and consistent secondary data on export promotion activities (e.g. number of trade missions per year, number of trade shows per year), it is difficult to analyze the effectiveness of program activities.

Now for the larger concern. It is important to realize that in the studies that I have done (as well as all of the other studies on export promotion) promotional activities work only at the margins. Exports are generated by the private sector. Government cannot "program and policy" the American economy into prosperity. It is the energy of entrepreneurs and small business owners that drives the economy; not government grants, programs or policies. The President would like to double exports within the next five years. The contribution of small businesses to this goal is bound to be negligible if smaller companies find themselves in a high tax environment with onerous new regulations. Moreover, the current turbulent policy environment has produced a great deal of uncertainty in the business community. Managers are more likely to take risks (i.e. export) under predictable, stable, circumstances.

I would be happy to provide more information to the committee or to appear before the committee at a future date. Thank you.

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[5] see our book, The Distribution Trap, available at distributiontrap.com

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