FULL COMMITTEE HEARING ON U.S. TRADE POLICY AND SMALL BUSINESS

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FULL COMITTEE HEARING ON U.S. TRADE POLICY AND SMALL BUSINESS

WEDNESDAY, JUNE 13, 2007

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

The Committee met, pursuant to call, at 10:00 a.m., in Room 2360 Rayburn House Office Building, Hon. Nydia Velázquez [Chairwoman of the Committee] presiding.

Present: Representatives Velázquez, González, Larsen, Michaud, Cuellar, Moore, Clarke, Ellsworth, Chabot, Akin, Davis, and Jordan.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

ChairwomanVELÁZQUEZ. I'm pleased to call the Committee's first hearing this session on U.S. trade policies to order.

The country is currently facing many decisions concerning how we engage in global trade. New international commitments are being considered, such as free trade agreements with countries in Latin America and Asia, as well as with World Trade Organization members.

Congress is also considering reauthorizing the President's trade promotion authority which expires this month. Further, new resources are being proposed to help Americans adapt to global market integration through the reauthorization of the Trade Adjustment Assistance Act.

Designing this nation's trade strategy should incorporate a key source of competition and innovation in international markets and small businesses. U.S. businesses have experienced mixed results as our economy has become integrated with those of foreign countries. Benefits from these changes include increased availability of foreign goods and vast new markets for businesses to access. Since 2002, however, the nation's annual trade deficit has been rising to unprecedented levels, growing over 15 percent per year. This imbalance is largely attributed to a flood of imports which has resulted in many U.S. industries losing their position as global leaders.

Small businesses can help reverse some of the unfortunate trends caused by global integration and increase its benefits. Small businesses represent 97 percent of all export enterprises and dominate many industries that sell goods abroad. Entrepreneurs are also successful in meeting the challenges of a free market. Highly innovative, and flexible, they are capable of adjusting to the dynamic needs of consumers.

However, these firms face barriers in maintaining a significant share of domestic and global markets. They are hit with higher costs for overseas transactions and domestic production. As a result, small business companies generate less than one third of export revenues and confront stiff competition from low-cost producers.

Given their contributions, it is critical that small businesses are considered in this nation's trade strategy and that obstacles to their competitiveness are removed. The first step is to incorporate their interests in the negotiation and implementation of trade policies. It is not enough for trade commitments to open markets. They must also be accessible for all U.S. businesses.

Prioritizing small businesses in regional and world trade agreements requires mandated market access to the sectors in which entrepreneurs participate. It also involves providing trade facilitation measures and ensuring information is available to cost effectively market and transfer goods abroad.

As unfair trade practices continue, such as intellectual property violations, and import dumping, U.S. enforcement must be strengthened, harmonizing rules and fairly enforcing them helps level playing fields for small firms. Addressing unfair trade balances such as the U.S.-China deficit which increased by 12 percent since March ensures small businesses remain competitive, both globally and at home.

A comprehensive trade strategy must ensure that as we open our doors to foreign competition our firms remain strong. U.S. trade policies should create a modern framework that ensures businesses can access markets freely. Domestic assistance programs such as those administered by the federal agencies here today are key components of this framework. Related assistance such as that contained in the National Export Strategy and the Trade Adjustment Assistance Program will ensure small businesses can take advantage of new markets.

Small firms play a crucial role in promoting the global competitiveness of our country's industry. Including them in the process of developing U.S. trade strategy will support the growth of this nation's economy as well as reduce the trade deficit. Effective policies and enforcement will ensure this nation remains the global leader. By doing so, we will make sure the benefits of trade are more widely distributed to not only businesses, but also to more of our nation's communities.

I now recognize Ranking Member Chabot for his opening remarks.

OPENING STATEMENT OF MR. CHABOT

Mr.CHABOT. Thank you, Madam Chairwoman, and thank you for holding this important hearing on the impact of United States trade practices on small businesses. I'd like to welcome our distinguished panel of witnesses, especially Ken Seilkop, who is a constituent of mine, and a small business owner back in the greater Cincinnati area. One of the responsibilities of this Committee is to examine efforts to increase small business access to global markets, including initiatives to reduce excessively burdensome administration and legal requirements, promote free markets, support market-oriented reforms and determine how current programs are working or whether change is needed.

Our economy is robust and the most dynamic in the world, partly because we are so engaged in global trading. Exports generate economic activity that boosts our entire domestic economy. And exports create jobs, good paying jobs, and across a very diverse portfolio of sectors which increase prosperity throughout our states and communities, supplement the revenue base and fund critical local improvements.

Exporting is big business for small firms. In Ohio, for example, trade supports 1.2 million jobs or 18.3 percent of all Ohio jobs, many of which are export driven. Trade, particularly, benefits Ohio's small and medium size companies. In 2004, 88 percent of all Ohio exporters were small or medium size firms. In addition, U.S. small businesses need imports of raw materials, capital goods and industrial products used to manufacture goods here in the United States to remain competitive.

This year, Congress may consider four pending free trade agreements or FTAs and we have the opportunity to work in a bipartisan way to accomplish renewed trade promotion authority which will be essential to complete Doha Round. These efforts will help to reduce trade barriers and to ensure open markets to American products for all businesses, but especially for small companies that need the stability of negotiated agreements to create new trade in agriculture, manufacturing, and services. And I hope that the Office of the United States Trade Representative focus on WTO enforcement cases including on intellectual property and subsidies will help large and small businesses here at home to compete fairly.

The federal government assists small exporters through a number of programs, but studies indicate that few exporting manufacturers rely on government programs for export sales assistance. A recent National Federation of Independent Business poll showed that just 9 percent relied on the Department of Commerce's International Trade Administration for help, and only 4 percent contacted the Small Business Administration. Our barriers for small and medium size businesses that trade remain.

The potential for small firms who export and import is almost limitless. I strongly support free trade agreements and believe we must do all that we can to help America's small businesses, the generators of jobs and the engine of our economy to remain competitive and to grow through trade. However, in our very tight budget environment, I'm somewhat skeptical about funding increases for federal programs, so I look forward to hearing from our panel of expert witnesses about new and innovative ways we can expand trade relations and keep our small businesses competitive.

Madam Chair, I yield back the balance of my time.

ChairwomanVELÁZQUEZ. Thank you, Mr. Chabot. And now we have our first panel and I welcome you for being here this morning and I thank the other witnesses who will participate in the second panel, some of them who traveled from long distance to be here this morning.

Our witness is Ms. Tiffany Moore. Ms. Moore is the Assistant U.S. Trade Representative for Intergovernmental Affairs and Public Liaison at the Office of the U.S. Trade Representative. She leads domestic average efforts to state and local governments, the business and agriculture communities, labor, environmental, and consumer goods.

Ms. Moore, you have five minutes to make your presentation.

STATEMENT OF TIFFANY M. MOORE, ASSISTANT USTR FOR INTERGOVERNMENTAL AFFAIRS AND PUBLIC LIAISON, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Ms.MOORE. Thank you very much, Madam Chairwoman and I appreciate the opportunity to participate in today's hearing.

Office of the USTR or the Office of the U.S. Trade Representative is responsible for developing and coordinating international—

ChairwomanVELÁZQUEZ. Ms. Moore, can you bring the microphone closer to you?

Ms.MOORE. Is that better. Thank you. The Office of the U.S. Trade Representative is responsible for developing and coordinating U.S. international trade policy. Our work aims at increasing exports by expanding market access for American goods and services abroad and securing a level playing field for American workers, farmers, and businesses of all sizes in overseas markets.

Simply put, USTR negotiates, implements, and enforces trade agreements and works with our partner agencies, many at the table here today, to help small businesses walk through those markets. Small business is truly the backbone of the U.S. export portfolio. American small businesses benefit when we expand U.S. access to consumers and households abroad who want to buy and enjoy U.S. products. In fact, 97 percent of all U.S. exporters are small businesses accounting for more than a quarter of U.S. goods exports. Even the smallest of U.S. businesses are big players in global markets. According to the Department of Commerce, more than two thirds of U.S. exporters had fewer than 20 employees.

Under the leadership of Ambassador Susan C. Schwab, the Office of the U.S. Trade Representative is committed to reducing trade barriers so that American small businesses can succeed in the world market. The Department of Commerce and USDA work to make sure that small business is trade ready.

Our trade agenda is uniquely attune to helping small businesses by lowering the cost of selling to customers overseas, minimizing risks in foreign markets, insisting on intellectual property rights protection and enforcement, and protection for U.S. investors and small business owners by promoting the rule of law.

Small and medium size businesses have great potential for exporting their sales overseas, but the costs of doing business overseas if often too high for small firms. As a 2004 Small Business Administration report found, for those companies who wished to take advantage of the international market place, the large, fixed costs associated with exporting are so high that they serve as an impediment and in fact, serve as a barrier to exporting.

Small businesses need markets to be open and easy to navigate which is why the U.S. has concluded free and fair trade agreements around the world. Where large companies can take on the financial burden, manage their risk, and employ the necessary human capital to create new export opportunities abroad, small business owners frequently do not have these resources.

The U.S. trade agenda is crafted to meet this challenge by further honing American competitiveness by ensuring access to foreign markets for our goods and services, ensuring our manufacturers have access to the world's inputs and that our consumers have access to the best available products. USTR has pursued this agenda on three mutually conducive tracks including global negotiations within the World Trade Organization, regional and bilateral free trade negotiations with numerous partners, and stewardship of the multi-lateral trading system through establishment and enforcement of an agreed-upon set of rules.

Impediments to small business are addressed further in my written testimony, however, I would note that our multi-lateral negotiations and free trade agreements address the needs of small business by opening markets, eliminating non-tariff barriers such as licensing and Customs procedures, reducing transaction costs, increasing transparency, and enforcing intellectual property rights.

To be clear, trade agreements are our single best tool for creating a level playing field for U.S. small business by addressing all of these barriers. Within the negotiations at the World Trade Organization and the Doha Round, breaking down barriers in a multi-lateral setting among 150 member countries will create the greatest benefit in easing the cost of doing businesses for small businesses that sell abroad and use inputs from partners around the world. Within our bilateral and regional trade agreements, free trade agreements concluded by the United States represent the gold standard across the globe as our free trade agreements level the playing field for American exporters.

This approach has netted agreements close to home in Latin America and Chile and with our six CAFTA DR countries and now with Peru, Colombia, and Panama, awaiting congressional approval of implementing legislation.

It has enhanced our trading terms in Asia through agreements with Singapore and Australia and prospectively with a recently concluded FTA with Korea, our seventh largest goods trading partner.

Additionally, it's clear that the export that this market opening efforts of FTR are bearing fruit. Exports to our FTA partners are growing twice as fast as our exports to non-FTA countries. Additionally, FTA has implemented between 2001 and 2006, negative $13 billion U.S. trade surplus with trade agreement partners last year; and lastly, jobs that are supported by trade and goods exports by 13 to 18 percent higher than those not supported by exports.

On the issue of enforcement, the U.S. trade agenda recognizes the pressure created from a growing and increasingly competitive global economy and enforcement has been and continues to be a critical piece of the U.S. trade agenda. I know there is a lot of mention and concern about our developing relationship with China. We have also devoted considerable attention to enforcement with regard to China and now that China has completed its transition as a member of the WTO, we have moved into a mature relationship.

In the last year, we've brought several cases against China; last year, unfair Chinese charges on U.S. auto parts exports. In February of this year, we brought a case against China subsidy programs. These subsidy programs unfairly impact U.S. manufacturers, especially small businesses and their workers. Most recently, USTR requested two sets of dispute settlement consultations with China on deficiencies and intellectual property rights and enforcement and market access barriers that trade in books, music, videos, and movies.

I would also note that the United States was the first country to initiate a WTO disputes settlement against China and for all of these high profile disputes of the WTO against China, there are numerous enforcement priorities that are being achieved through quiet and on-going bilateral mechanisms such as joint commerce and Joint Committee on Commerce and Trade and the Strategic Economic Dialogue.

We have a unique and historic opportunity for the trade agenda still ahead and we look forward to working with the Congress in that endeavor. With pending FTAs, with Peru, Colombia, Panama, and Korea, and also the bipartisan deal which opens the door for an extensive trade promotion authority, it's important that we work together with the Congress.

To conclude, trade is good business for America's small businesses and producers and we are committed to leveling the playing field. Thank you.

[The prepared statement of Ms. Moore may be found in the Appendix on page 56.]

ChairwomanVELÁZQUEZ. Thank you, Ms. Moore.

Our next witness is Mr. Israel Hernandez. Mr. Hernandez is the Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service in the International Trade Administration of the Department of Commerce. He overseas the global operation of more than 1,700 employees, both American and in countries staffed operating in 47 states and 80 countries.

Welcome.

STATEMENT OF ISRAEL HERNANDEZ, ASSISTANT SECRETARY FOR TRADE PROMOTION AND DIRECTOR GENERAL OF THE U.S. AND FOREIGN COMMERCIAL SERVICE, INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr.HERNANDEZ. Madam Chairwoman, Members of the Committee, thank you for the opportunity today to discuss International Trade Administration's efforts to strengthen and support American small business and I would ask that my written testimony be submitted for the record.

American small and medium size companies are at the heart of our programs in the International Trade Administration and in the U.S. and foreign commercial service, particularly the one which I cam privileged to lead. In my 20 months on the job, I have met with hundreds, if not thousands, of small companies in our domestic and overseas offices that you just mentioned and our call centers that we have here in Washington, our web reporter which reaches thousands and gets over a million hits, our partnerships at the state and local level and the private partnerships and our inter-agency collaboration are all directed to help small and medium size companies succeed in overseas markets, and given the competitive pressures in today's global economy, I believe our mission has never been more important.

U.S. exports are at an all-time high. We have never exported more than we do today. In 2006, exports grew faster than imports and accounted for a growing share of the U.S. economy. Export growth is most impressive in major emerging markets such as China, India, and Brazil, and the markets of our new FTA trading partners.

Small businesses alone account for the 7 percent increase in the number of exporters in 2002. We have 14,000 new small and medium size companies that export, that never exported before. A major reason for this good news is that there has never been a better time to export. A growing consumer class that is developing around the world, new trade agreements, technology, and new business services are making exporting viable for small companies.

Free trade agreements are particularly important because it democratizes international trade. It allows small companies to now enter the playing field like large companies and they benefit from reduced tariffs, enhanced rule of law, and transparency to cut regulatory red tape. Technology, and specifically, e-commerce is a powerful factor that helps small companies reach out into the world with over one billion potential customers on line today.

And improvements in the global services from companies like FedEx and UPS are also making trade easier. The commercial service is doing its part to help American companies take advantage of all these trends and I want to briefly touch on a few highlights. Last year, the U.S. and foreign commercial service helped 12,000 export successes worth $32 billion. Our export specialists in Harlem, in our office in Kenya, were instrumental in helping a company, Leviathan, sell four large trucks in Djibouti valued at $250,000 and for them, it was a big sale.

In our fiscal year 2006, our advocacy center successfully completed a record $39 billion of U.S. contents in support of U.S. bids on major projects. The first half of this year in fiscal year 2007, the United States Department of Commerce has conducted 11 trade missions with hundreds of U.S. companies including small and medium size that attended these trade missions.

In addition, we have supported 15 certified trade missions by cities and mayors, by governors and states, in groups like the National Association of Women Business Owners. But despite the good news, tens of thousands of small and medium size companies throughout the United States that could potentially export their product or services are not. The challenge for everyone in this room is to raise the awareness on Main Street USA and how do we convince a company who never before has strategically thought about exporting to get into the game and to understand what resources are available to them.

Many companies have never thought about strategically exporting and still many today hold outdated notions that there are risks and difficulties to exporting much like years before but the climate has changed. Many are also not aware of healthy economic growth in regions all around the world, and many, simply put, have no idea where to start or how to start.

Our plan for addressing this challenge is outlined in the National Export Strategy. The goal is to deepen and to broaden our strategic partnerships with state and local governments, US trade associations and corporations that provide export-related services like FedEx and UPS and strategic partners like eBay and Google, PNC Bank, and Imaging Bank where we're reaching thousands more companies than we would otherwise.

We also have a plan called a 50-50 plan where we reached out to all 50 Mayors, all 50 Governors, the Mayors of the 50 largest cities and over 50 trade associations, encouraging them to work with us to lead trade missions or to conduct trade seminars. In May of this year, we came here to Capitol Hill and we invited all Members of Congress and staff to join us for a forum and to host it so that we can have trade seminars in your Districts and we have over 80 attend this conference here on Capitol Hill.

We are doing this because we know that small businesses are the backbone of our nation's prosperity and as businesses grow, they also create more jobs. We have, and we will continue to work to get more companies to enter into the global marketplace and the commercial service is the premiere front-line trade agencies that help companies enter foreign markets and understand opportunities that are out there for them. We take our mission very seriously. We're very passionate and we have an unwavering commitment in fulfilling this challenge.

Madam Chairwoman, this concludes my prepared statement and I'll be pleased to answer any questions following the testimony of my colleagues.

[The prepared statement of Mr. Hernandez may be found in the Appendix on page 64.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Hernandez.

Our next witness is Mr. Kirk Miller. Mr. Miller, is the General Sales Manager in the Foreign Agricultural Service of the U.S. Department of Agriculture. He oversees the Foreign Agriculture Service Export Promotion, Marketing and Trade Analysis, Export Credit Programs and USDA Food Aid activities.

Welcome, sir.

STATEMENT OF W. KIRK MILLER, ASSOCIATE ADMINISTRATOR AND GENERAL SALES MANAGER, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr.MILLER. Good morning, Madam Chairwoman, and Members of the Committee. I appreciate the opportunity to discuss the U.S. Department of Agriculture's export assistance efforts for small business. The Department, through the Foreign Agricultural Service, works diligently to help small-scale U.S. producers, processors and exporters compete in agricultural trade.

In addition to our Washington-based staff, the Agency maintains a network of more than 70 offices overseas that provide critical market and policy intelligence, respond quickly in cases of market disruption and represent all of our interests in consultations with foreign governments. Trade continues to be critically important to the long-term economic health and prosperity of the American food and agricultural sector. Roughly 20 percent of U.S. agricultural production is exported. And with productivity increasing faster than domestic demand, 95 percent of the world's consumers living outside the United States, it's clear that access to export markets is essential for the continued vitality of this important sector.

The latest USDA export forecast of $77.5 billion for Fiscal Year 2007 means that the U.S. food and agricultural community is on track for its fourth consecutive year of record exports. USDA estimates that U.S. world market share is almost one fifth of world agricultural trade. This is particularly impressive when you consider that the size of the world agricultural trade pie has doubled since 1990. U.S. agricultural trade benefits the entire U.S. economy. In 2005, which is the last year for which we have official data, each farm export dollar stimulated another $1.64 in business activity. So the 2005 export figure of $62.9 billion produced an additional $103.2 billion in economic activities.

Agricultural exports also supported 806,000 full-time jobs, including 455,000 in the nonfarm sector. Our core objective in FAS continues to be the expansion and maintenance of overseas opportunities for U.S. agriculture. To do this, FAS focuses its activities in three areas. First, we work to expand market access through the negotiation of new bilateral, regional, and multi-lateral trade agreements that lower tariffs and reduce trade impediments. FAS provides the critical analysis, policy advice and a voice at the negotiating table to help ensure U.S. agriculture achieve substantial benefits in trade negotiations.

Our activities to maintain existing market access continue to grow in importance. We monitor foreign compliance with trade agreements and coordinate with other trade and regulatory agencies to develop strategies to avoid or reverse trade disruptive actions. That may involve using the extensive expertise of other parts of the U.S. Department of Agriculture, or other U.S. non-government agencies, many of which are at the table here today, to resolve complex technical issues that restrict trade. It may be something simpler like educating U.S. exporters about a country's new labeling requirements.

Our third area of emphasis is trade development. The congressionally authorized market access program plays an instrumental role in our effort to assist American producers and processors in competing internationally. All companies receive funding from FAS on a cost-share basis through non-profit trade organizations and four state regional trade groups comprised of State Departments of Agriculture.

Each partnerships combine the resources of the private sector and the State Departments of Agriculture with program and financial of USDA to expand exports of U.S. agriculture products and to educate companies in export marketing. This program has helped small businesses succeed in the export arena. Total export sales for small companies participating in the map branded program grew from $218 million in 2001 to $492 million in 2005.

The small number or, excuse me, the number of small companies reporting that their export sales had grown more than 20 percent doubled during the 2001 to 2005 time period, going from 134 to

322. We have first-hand knowledge of how the map program has helped small businesses. As a matter of fact, Aladdin Bakers, Inc., based in Brooklyn, New York, in the Chairwoman's District, successfully leveraged support from a state regional trade group and the map branded program to develop its export markets.

Before participating in the program, the company had minimal sales in Canada. Now according to Paul Kasdindorf, the firm's vice-president of sales and marketing, we estimate in the next year will have a million dollars in sales to Quebec alone. The company has also started to exporting to other countries, including the Dominican Republic.

Another way that we help small businesses, including—excuse me—another way we help small businesses is by sponsoring their participation in trade missions. Since 2003, FAS has sponsored 11 trade and investment missions. Within the past 12 months, I personally have led two of them; one to Georgia last year, and just last month one to Azerbaijan. The mission to Georgia had six companies that were looking at business opportunities, but were concerned about risk, but as a result of the trip, two companies have announced business deals. Nine U.S. companies joined me in Azerbaijan last month. They met with the Azeri government officials and prospective business partners and exhibited their products at a trade show in Baku, Azerbaijan.

Madam Chairwoman, in just the next 60 minutes, about $7.8 million in U.S. agricultural products—grains, oil seeds, cotton, beef, poultry, vegetables, snack foods, you name it, will be consigned for export to foreign markets. That's what this nation's producers and processors export on average every hour, 24 hours a day, 365 days a year to more than 180 countries around the world. A growing proportion of that is coming from our nation's small businesses.

As small businesses look to the growing export market in addition to the maturer domestic market, we must make sure that the opportunities to take advantage of these markets are there.

Madam Chairwoman, that concludes my testimony. Thank you.

[The prepared statement of W. Kirk Miller may be found in the Appendix on page 71.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Miller.

Our next witness, Mr. Richard Ginsburg. Mr. Ginsburg is the Acting Assistant Administrator for International Trade of the U.S. Small Business Administration. He administers the Agency's international finance programs and outreach assistance centers across the country.

Mr. Ginsburg, you will have five minutes and without objection, your entire testimony will be entered into the record as well as the other witnesses.

STATEMENT OF RICHARD GINSBURG, ACTING ASSISTANT ADMINISTRATOR FOR INTERNATIONAL TRADE, U.S. SMALL BUSINESS ADMINISTRATION

Mr.GINSBURG. Thank you. Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee, thank you for inviting me to testify about SBA's Office of International Trade and the work we are doing to promote, assist, and train small businesses as they grow into the international marketplace. It is a pleasure to appear before you today to speak about what I believe is one of the most exciting programs in SBA, and one of the most promising areas for U.S. small businesses, international trade.

International trade is rapidly increasing in importance for the U.S. economy. In 2006, the U.S. experienced a record level of exports—$1.5 trillion. Millions of jobs are associated with international trade. Small business is a big part of this, accounting for $375 billion of exports, more than $1 billion a day.

International trade, exports plus imports, is now so important to the U.S. economy that it is equivalent to 28 percent of GDP, the highest level in modern history. Last year, exports grew four times faster than the economy as a whole, continuing a trend that began earlier in the decade. This means that as America's economy pie grows, the international trade share is getting larger. The bottom line is this—exporting is the new growth market for small businesses.

As an international office in a domestic agency, the Office of International Trade is able to work with the rapidly growing number of U.S. small business exporters and support the government's international commercial policy objectives. OIT's policies benefit domestic business concerns, international trade and economic policy and even the nation's diplomatic interests. As the international office of the Government's Small Business Agency, OIT is often expected to go beyond direct assistance to individual small businesses and participate in government-wide activities that contribute to U.S. international, commercial trade and economic policies.

With small business accounting for almost 30 percent of total U.S. exports, SBA's perspective is increasingly recognized as crucial to U.S. international trade, economic and diplomatic concerns. In addition to providing assistance to small businesses, SBA often complements the roles of other agencies, such as the Departments of Commerce and State. Ultimately, however, all U.S. international affairs efforts, whether carried out on a small scale in OIT or on a larger scale in the State Department, serve just one domestic beneficiary—the citizens of the United States.

SBA is also an original member of the Inter-agency Trade Promotion Coordinating Committee, as well as a member of the President's Export Council. The purpose of the TPCC is to coordinate the export promotion and financing activities of the U.S. government and develop a government-wide strategic plan for carrying out such programs. Small businesses are typically at a competitive disadvantage, with large or multi-national companies when it comes to trading internationally.

They do not have foreign affiliates, dedicated international departments, legal staffs, or economies of scale. Therefore, SBA and Commerce's International Trade Administration both focus on a system small and medium-sized businesses to reach export markets. Technical assistance with respect to participating and international market is a key component of our service delivery. This includes one-on-one counseling by U.S. Export Assistance Center personnel, export technical assistance partnership training, as well as informational and training material via the web.

Through its trade finance programs, SBA helps exporters carry out their export transactions. Under the Export Working Capital Program, which finances the short-term export working capital needs of small businesses, loans could be made for single transactions or multiple deals under revolving line of credit. SBA can guarantee up to 90 percent of an EWCP loan. We also oversee the International Trade Loan Program for long-term financing, and export express which reduces paperwork and streamlines the application and review process for EWPC loans of up to $250,000.

In 2004, SBA and the Export-Import Bank entered into a memorandum of understanding to establish a co-guarantee program for export work in capital loans, extended by financial institutions to small businesses engaged in exporting. By complementing each other, both agencies have achieved improved efficiencies, better customer service, and increased productivity benefiting small biosciences. We work closely with the USTR to provide a small business perspective for bilateral and multilateral trade negotiations and represent U.S. small business concerns at the Asia-Pacific Economic Cooperations Annual SME Ministers meeting, and its staff level SME working group.

OIT works closely with the State Department and others to advance the summit of the Americas process. OIT is also committed to developing relationships that can help promote and facilitate small business trade. The goal of these efforts its to bring U.S. small businesses together with potential partners in the international marketplace. For example, OIT manages strategic alliances with foreign governments small business agencies, such as those of Mexico, Brazil, Chile, China, and Korea. The focus of these relationships is creating and facilitating opportunity for small business trade.

Since I know my time is limited, I would just mention that the written statement, which I submitted to the Committee, highlights a number of the OIT accomplishments for Fiscal Year 2006. On the service delivery side of our operations, we expect to see an increased demand for U.S. exports and for small business demand for SBA's export programs. Our goals are to respond to this trend by approving our export finance products.

We will continue helping represent the United States at multilateral international organizations concerned with small business international trade. We also anticipate taking a more prominent role in the industry trade advisory committee, including Commerce's Small Business Advisory Committee.

Specifically, SBA, through the Office of International Trade will continue its mission to encourage, support, and manifest both the increasing number of small businesses going global, and their successful export transactions through SBA's credit and technical assistance programs. Thank you for the opportunity to testify before the committee today, and I do look forward to answering any questions that you may have.

[The prepared statement of Mr. Ginsburg may be found in the Appendix on page 77.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Ginsburg.

Ms. Moore, I would like to address my first question to you, not my colleague here. In my opening statement, I make reference to the fact that 97 percent of all exporters are small businesses. And yet, they generate less than one-third of export revenues. I would like to ask you, I know there are 22 Assistant U.S. Trade Representatives, but none are dedicated to small business concerns. Can you explain that?

Ms.MOORE. Thank you for the opportunity to answer. I think that the issues of small business are very cross-cutting within USTR, and so there are several different offices that are able to facilitate in reducing those trade barriers. We have an industry office that works on tariff barriers, of course, and then we have intellectual property rights. So while we are able to harness all of their expertise to make sure that we are looking out for small business, given its cross-cutting nature, we like the opportunity to pull folks from all around the building.

With regard to our negotiations and free trade agreements, I think I've mentioned—I may have mentioned in my testimony how larger companies are able to kind of finagle their way around regulations or have a human capital to try to get into new markets. The opportunities in our free trade agreements allow is for us to create a level playing field when it comes transparency, opening new markets, which are a specific assistance to small businesses that may not have those resources.

So we believe at USTR that we have the capacity to make sure that we addressing small businesses, and we also take every opportunity to talk with small businesses. We work very closely with the Department of Commerce, within their International Trade Advisory Committees, specifically ITAC 11, to make sure that we are getting input on our trade agreements for small business.

ChairwomanVELÁZQUEZ. Okay, I hear you. So you don't feel that given the important role that small businesses can play in our economy by exporting our goods, you don't feel that the there should be a person, at the USTR official to be the voice of small businesses?

Ms.MOORE. I believe given the importance of small businesses to our export portfolio that it should take the resources of everyone at USTR to pitch in and support.

ChairwomanVELÁZQUEZ. Can you explain why USTR previously employed a staff member to identify small business trade position. Is this position currently filled?

Ms.MOORE. It's not currently fulfilled. The person that had that position—

ChairwomanVELÁZQUEZ. When will it be?

Ms.MOORE. Actually, we're working with our colleagues at the Department of Commerce and also SBA to see if we could find someone and use the talent within the Foreign Commercial Service to see if we can get someone within their core to specifically address the issues since they've actually been in country—

ChairwomanVELÁZQUEZ. Are you going to do that before we finalize trade agreements that are pending?

Ms.MOORE. I'm hoping very much that we can find someone as soon as possible.

Chairwoman VELÁZQUEZ. Mr. Ginsburg, the SBA has established agreements with small business officials in other countries. In what specific ways has the Agency followed up with these agreements? I could give you one example. The agreement with India's Ministry of Small-Scale Industry.

Mr. GINSBURG. Yes, ma'am. The strategic alliances that SBA engages with foreign countries, small business agencies, is two-fold. They first come to us because they want to use our best practices to otherwise make attempts to stimulate the development and growth of their own SME sector. We agree in principle to that concept because the sooner foreign country's small businesses become acclimated to doing business successfully, the sooner they become trading partners of U.S. small companies.

With respect to India, the agreement that we have done is that we are currently collaborating and bringing small business together through the embassy that we work with here, their ministry, and with our agency in bringing some people together to discuss trade opportunities.

Chairwoman VELÁZQUEZ. Okay, my question is in what specific ways has the agency followed up with these agreements?

Mr. GINSBURG. Well, with all of our agreements we follow up by working with the foreign representatives in the commercial service offices of the embassies. We have our partners on foreign soil. We are developing—we have done video conferencing together. We have brought small businesses together in different forums, some in concert with the Department of Commerce.

Chairwoman VELÁZQUEZ. I would ask you to provide the Committee with details of this effort and updates on any new agreements.

Mr. GINSBURG. We can do that.

Chairwoman VELÁZQUEZ. Ms. Moore, given the limited resources of small businesses, it is clear that they have more difficulties engaging in international transactions than their corporate counterparts. Beyond the general harmonization of Customs requirements, what specific provisions are included in trade agreements to ensure small businesses can access newly opened markets.

Ms. MOORE. Thank you for the opportunity to answer. Specifically, first and foremost our free trade agreements and multi-lateral negotiations reduce tariffs, which actually work as an added—pardon me—as an added tax on small businesses and U.S. products. Again, non-tariff barriers, such as inconsistent Customs procedures, lack of transparency, and burdensome paperwork, we work very hard within our free trade agreement to reduce that.

Also, transaction costs. There are always a number of issues and paperwork again that limit the opportunity for small businesses to understand all that is involved in getting into an export market. Also, we make sure that we create greater transparency, in fact, to try to navigate into a new market, a lot of the regulations are not accessible through the website. There isn't a one place to go when trying to enter these markets. So what we do within our FTA is to make sure that we have greater transparency.

Another important thing that we do within our free trade agreements is increasing the respect for the rule of law, and making sure that U.S. small business owners have investment protection so that if they choose to take on the risk of investing or exporting their products that they have some protections. Also, I think one of the most important things for small businesses is making sure that their intellectual property rights are enforced and protected within these new markets.

ChairwomanVELÁZQUEZ. A major export barrier for small firms is the physical presence requirement, and this is the mandate that companies maintain an office within a country in order to sell to their market. For example, the pending trade agreement with Malaysia requires engineering service firms to be located for at least half of a year in the country in order to be licensed for projects. So this is a big burden for small companies. Can you talk to us if there is a way to assist these small exposure. Would the USTR commit to negotiating these provisions out of future free trade agreements?

Ms.MOORE. Thank you for the opportunity to speak on the negotiations between the U.S. and Malaysia. Unfortunately, given time restrictions and the expiration of trade promotion authority, we stopped negotiations with Malaysia. Those were on-going and so the latest information probably on Malaysia was the negotiations that we weren't able—

ChairwomanVELÁZQUEZ. Ma'am, I used example of the pending free trade agreement with Malaysia, but this is true with other trade agreements. So my question is a general question regarding the negotiation of free trade agreements and a commitment that this provision of requiring the small companies to at least have an office in those foreign countries for at least six months will be our future trade negotiations.

Ms.MOORE. We look forward to working with the Congress to look into that issue with any extension of trade promotion authority to make sure that those issues are addressed.

ChairwomanVELÁZQUEZ. And let me ask you, don't you think that such a concern like that in terms of the regulatory complexities of these free trade agreements could have been prevented if you have a USTR representing small businesses in your shop?

Ms.MOORE. I think we have the adequate resources to make sure that we're addressing a number of issues. Again, I meet regularly with our small business ITAC and they raised important issues that we need to incorporate in our negotiations. They have the privilege of being able to look at the U.S. text, the actual foreign FTA text and give us guidance and advice on changes that are necessary.

ChairwomanVELÁZQUEZ. Now I thank you. I recognize Ranking Member, Mr. Chabot.

Mr.CHABOT. Thank you very much, Madam Chair, and I'll begin with you, Ms. Moore, so if I can. Congress has the opportunity to renew trade promotion authority this year. How optimistic are you that Congress is going to be able to accomplish that and how important is it that we do that?

Ms.MOORE. Thank you for the opportunity to answer. Trade promotion authority is something that's extremely important, especially within our negotiation portfolio. I would note that we have been able to negotiate free trade agreements since 2001 and the

FTA partners that we have had since 2001, we actually have a $13 billion trade surplus, so if we're looking at opportunities to address perhaps trade deficits, our FTAs are one of the ways that we can address that.

Without trade promotion authority we are unable to begin or continue negotiations, an extension of trade promotion authority will be extremely important if we find a way for it on Doha. It's the best way to bring benefits to small businesses if we're able to negotiate tariff reductions with all 150 members of the World Trade Organization. If we sought to start new negotiations with the countries, we would not be able to unless there's an extension of trade promotion authority and I would note that most Presidents have had some form of trade promotion authority since 1974 and every President and every Administration seeks and wants trade promotion authority.

Mr.CHABOT. Thank you, and let me follow up with one other question with you, if I can. In his testimony, in his written testimony that I've already had an opportunity to review, one of the witnesses on the next panel who I mentioned before, Mr. Seilkop from my area in Cincinnati, Ohio, he addresses the challenges of competing against Chinese manufacturers and we've had an opportunity to speak, he and I, about this issue, both in my office and back at his business back home and about this many times.

And I think his view is shared by many other small manufacturers and other folks around the country. Could you tell us what USTR is doing or will do in the future to vigorously monitor China to ensure that it abides by its trade agreements and WTO obligations?

Ms.MOORE. Yes, thank you for the opportunity to answer. As many know, China acceded to the World Trade Organization in 2001. After five years in the WTO, the United States conducted a top to bottom review of China's commitments that they made during the accession to see where they were. In the areas where there were progress, we encouraged more progress. In the areas where there weren't, we were not afraid to use the dispute settlement process within the World Trade Organization and I think you'll find in the last year, in the areas where negotiations and bilateral discussions were not fruitful, we have been very vigorous in taking several cases to the WTO and I would add the United States was the first country to actually take a case against China.

We have several in the area of subsidies, which I think is probably what is of concern to small businesses. We have begun dispute settlement consultations with the Chinese, specifically on import substitution subsidies and export subsidies. In one case, in one facet, just bringing the case against China, have them eliminate one of the nine subsidies that we have understood and the WTO sees as inconsistent and not WTO compliant. So we will continue to go after these subsidies and we will continue to go after China.

Mr.CHABOT. Thank you. Mr. Hernandez, if I could turn to you in the time I have remaining. In your experience, what elements of trade policy have the greatest positive impact and what's the best way to eliminate trade barriers?

And secondly, you mention that free trade agreements are particularly important for small businesses. Could you elaborate on why they're so critical to small businesses?

Mr. HERNANDEZ. Yes, thank you so much for the opportunity to speak on that. I think when you speak about an opportunity for a small company to enter into a new market, there's a lot of concerns for small companies, first of all, if they do decide to enter into a new market, one of the great advantages we in the federal government have provided is with a free trade agreement no longer due to rules changed, where they have to figure out year by year what is it that they have to try to understand when they enter a new market. We democratize international trade. We provide a framework. So that means there is a greater understanding about a rule of law, a greater understanding about transparency. A greater understanding about how to enter this market.

So whether you're large or small and we see the newest growth is with small companies, we see them with a great product going to these countries, at least we in the commercial service arm them and educate them about these opportunities, but also in many ways, what is it that they have to do? How is it that they have to manage going into a new market? Because there's a lot of things that they are going to have to worry about, first of all. There is a language issue. There are standards issues. There are compliance issues that they need to fully understand. And we in the commercial service not only hold trade seminars throughout the United States, but if they ever make their way into country and have a problem, they can contact us at the embassy about how to enter these markets. And if what we're seeing is that there is a great interest for small companies to enter these, but what they want is a level playing field and an understanding, a clarity about how to do business.

And so we in the commercial service are helping them and arming them with this type of information, but we have seen dramatic growth in all the free trade agreement countries that we have signed thus far. When you look at the free trade agreements that have signed thus far, and you look at the 13, they make up 7 percent. These countries make up seven percent of the world's GDP, but it is 40 percent of our exports go to those countries. That means that countries, these companies now have a better understanding about how to do business. They're more secure to enter these countries. They have a better understanding about how to do business and that is what we're trying to achieve. How do we find a way to educate more companies about these opportunities and free trade agreements provide them an opportunity to enter new markets like never before.

Mr. CHABOT. Madam Chair, I yield back the balance of my time.

Chairwoman VELÁZQUEZ. And now I recognize Mr. Michaud.

Mr. MICHAUD. Thank you very much, Madam Chair. One good thing about being in session until about 2 o'clock this morning gave me time to read all the testimony for today. And in reading the testimony and hearing the speakers and seeing what's actually done out there, is kind of like an oxymoron as far as enforcing the agreements. They talk about helping small businesses. They talk about lifting millions of people, when you look at the Doha Round. And actually, the U.S. Trade Representative actually mentions the State of Maine in the testimony about exporting.

Yes, it might be true that we do have some who do export, but the bottom line is we have lost over 23 percent of our manufacturing base in Maine because of trade policies. They qualified for trade adjustment assistance, but also we were able to qualify for the national emergency grant, Madam Chairwoman, and the national emergency grant whereas actually the Commissioner of the Department of Labor was asked by the U.S. Department of Labor to stop applying for national emergency grants because we were receiving too many because of the devastation of what is happening with the economy in Maine.

Madam Chairwoman, you had mentioned about small business and it's very important that we do look at small business. However, I can tell you talking with a lot of small businesses, the USTR has turned away many small businesses' complaints because they do not have the staff, and there's been regular complaints with USTR. I think we have to staff up the Small Business Division of the USTR to devote primarily for small businesses.

The other issue that I'm concerned about and I'll get to some of my questions, that this issue since they have mentioned Maine so much, actually, we had the Maine legislature unanimously, Republicans and Democrats, have been opposed to fast track and other issues dealing with what USTR is doing on trade because they have seen first hand what's going on.

The enforcement agreement, they don't enforce. We definitely, when you look at the Jordan Agreement, that's not enforceable. U.S. Chamber of Commerce came out strongly for the so-called deal because they know it's not going to be enforced. When I look at small business, Madam Chairwoman, I hope that we can have another hearing like this with several small businesses and I do not look for the U.S. Chamber of Commerce. I was thinking if we could have like the United States Business and Industry Council which is truly small manufacturing here in this country.

The United States Chamber of Commerce, there are multi-national corporations on their boards that has operations over India and China. They really don't care about small businesses, so I think we've got to have a true representation of what's happening out there in the small business—

ChairwomanVELÁZQUEZ. If the gentleman would yield for a second?

I will invite you, if you can, to stay for the second panel where we're going to have small business representatives here.

Mr.MICHAUD. Yes, no, I do plan on staying as much as I can for the second panel. My question to the U.S. Trade Representative is I don't normally believe in outsourcing, but I have several questions.

The first one since, there's a lot of discussion, we're dealing with small businesses, would you mind outsourcing the negotiation of trade deals to an organization such as the United States Small Business Industry Council and you can look at what they've agreed to and either agree or disagree. That's my first question.

My question is what should the trade deficit be as a percentage of our GDP? If you look at all the economists and they say that we cannot sustain the type of trade deficit that we are currently seeing.

My third question is you had mentioned the so-called trade deal. Mr. Engel, Mr. Levin, said that trade deal applies only to Peru and Panama. It does not apply to Korea. It does not apply to Colombia. It does not apply to fast track.

My question is - is that your understanding as well?

The fourth question is under the Peru and Panama trade deal, the labor environmental standards is supposed to be part of the core text, so it's enforceable. So how is USTR coming along as far as having that as part of the core text agreement.

And my last question you had mentioned about the Doha Round, that's it's very important that we do it because that it potentially will help lift millions out of poverty world-wide. We heard that same discussion with NAFTA, that we have to pass NAFTA because it will help raise the standard of living for workers in Mexico and hence that will help with the illegal immigration problem which immigration is going to be a big issue here in this Congress. And if we're not going to take care of the crux of the problem and the crux of the problem is workers from Mexico coming over to the United States so they can get a job to provide for their family, if that problem is not going to take care, be taken care of, then we can put up all the walls that want to have all the Border Patrol Agents that we want, but people will still try to come to the United States because they want to provide a living for their families.

ChairwomanVELÁZQUEZ. I will call to your attention time has expired. So I will give you another extra one and a half minutes to ask your—direct your question to—

Mr.MICHAUD. I'm all done, so I'd like Ms. Moore to respond. If not verbally, if in writing.

Ms.MOORE. Congressman, thanks so much for the opportunity to answer your questions. Your fist question was about participation of a specific group and the negotiations of our free trade agreements. I would note that we have a very robust advisory committee system with over 700 advisors that include industry, labor, environment, small business, and different other sectors that eagerly and aggressively participate and are able to review our FTA text. So we welcome all the advice. And this is just the formal advice and consultations that we do with all stakeholders.

Mr.MICHAUD. So in other words, you do not want to give up your authority to actually negotiate?

Ms.MOORE. To give up the Executive Branch's?

Mr.MICHAUD. Yes.

Ms.MOORE. I would probably suggest that the system in place, working with the Congress—

Mr.MICHAUD. Well, I guess the answer probably is no. And the reason why you don't want to answer no is because my next question is why should Congress give up our authority under fast track? Can you answer the next question?

What is the ideal trade deficit?

ChairwomanVELÁZQUEZ. Sorry for the gentleman, the time has expired.

Mr. MICHAUD. Madam Chairwoman, if she could respond?

Chairwoman VELÁZQUEZ. In writing?

Mr. MICHAUD. Yes.

Chairwoman VELÁZQUEZ. Without objection.

Mr. MICHAUD. Thank you.

Ms. MOORE. I look forward to it. Thank you, Congressman.

Chairwoman VELÁZQUEZ. Now I recognize Mr. Davis.

Mr. DAVIS. Thank you, Madam Chairman. My first question I'd like to ask Mr. Ginsburg, and Mr. Ginsburg, if you could, could you tell me about the Office of International Trade and how it relates to small business firms?

Mr. GINSBURG. Well, considering small businesses represent 97 percent of all exporters in this country, we pay a lot of attention through our field network of senior international trade and finance specialists. We handle all the policy decisions within the Office of Capital Access, which is the finance division of SBA because we have both technical assistance as well as financial assistance programs.

And we're out there speaking at seminars. We certainly partner with our TPCC partners and our stakeholders and our state partners in sharing the information to do trade promotion to get more small businesses into the international marketplace.

Mr. DAVIS. If you were a small business owner, how would you recommend them to do business through this agency?

Mr. GINSBURG. We have representatives around the country. We're a very decentralized agency. We have 70 district offices. We have 16 representatives in U.S. export assistance centers around the office. We have 1100 small business development centers and we have 389 SCORE chapters all very well versed in international trade and trade promotion.

Mr. DAVIS. Are you starting to see an increase in small businesses in relation to working overseas?

Mr. GINSBURG. We do. And we also see a slight increase in small businesses that are now doing trade in a second or a third country. Seventy-five percent of small businesses are typically just dealing in one country, so we need to increase the number of their foreign markets.

Mr. DAVIS. Thank you for your answer.

Mr. Miller, if you could, could you talk to me a little bit about agriculture since agriculture is so important to small business and domestic producers and how they remain competitive. Can you talk to me about USDA's rural business opportunity grants and how they're available to small farmers?

Mr. MILLER. Mr. Davis, I really am not briefed on those rural development grants. We'll have to provide that for the record. I really don't know the answer to your question.

Mr. DAVIS. Does anyone else have that information on the panel? Okay, that would be—

Mr. MILLER. I have no one with me that has that information.

Mr. DAVIS. That would be good if you could get that to us, that would be good.

And Ms. Moore, if you could talk a little bit about the U.S. Export-Import Bank and where we're at percentage-wise right now what its mandates are.

Ms.MOORE. Congressman, thanks very much for the question. I probably would need to get some information from the Ex-Im Bank on their portfolio and what they're currently doing. I know that the head of the Ex-Im Bank had a presentation in Atlanta as part of the America's Competitiveness Forum and he spoke to some of those issues and I can definitely follow up with your office to make sure that you have more information.

Mr.DAVIS. Could you just give me a brief overview? Do you know enough about the program to just give me a brief overview?

Ms.MOORE. I would probably defer to the Ex-Im Bank. They're a core business and I'd hate to speak on—

Mr.DAVIS. Thank you. I yield back.

ChairwomanVELÁZQUEZ. Mr. González?

Mr.GONZÁLEZ. Thank you very much, Madam Chair. I guess a couple of observations and I'll get into a couple of questions in the short period of time that we have, but regarding fast track and I understand it's going to be a huge issue. It expires June 30th and something, but the benefits of it are truly in the eye of the beholder. What you are appearing before a committee that concerns itself with the small business interests of America. It is institutionalized. It is our role to look out for their best interests.

Some of us believe that fast track will diminish our ability to function in that representative capacity in this institution called the House of Representatives. That's the philosophical difference that may or may not translate into reality, but it's ever present for some of us on this side of the aisle.

The other thing is this Committee truly exists because we believe that small businesses face unique challenges and that one size does not fit all. The big size doesn't fit small businesses. Again, is this philosophical? Does it go into policy? I'd like to think it's going to be reflected in the policies and the bills that will be marked up out of this particular Committee that its chief concern is small businesses.

So I'm going to direct my first two questions to Ms. Moore and Mr. Hernandez, because in your testimony, to be quite honest, and I think Madam Chairwoman Velázquez touched on it, I believe that you have kind of a generic approach, that is, if you help big business, it will benefit small business. If we don't have tariffs, that should help all businesses. And you know, there is some logic to all that. If we have transparency, that will help all businesses.

Big businesses can pretty much fend for themselves. And you can make it easier for them as you should. But I don't think that it solves or addresses the unique challenges and problems that are inherent in small business operations.

Ms. Moore, is there some benefit to have someone that would be specifically assigned to address small business consideration in your trade negotiations?

Ms.MOORE. Thank you, Congressman, for the opportunity to answer. I believe the issues of small business are cross-cutting and I think it takes the resources of all of those at USTR to make sure that we are addressing the needs of small business. As you mentioned, larger companies and multi-nationals, although they benefit from FTAs, given the resources they have, the FTAs are, you know, helpful to them, but they're even of more importance to small businesses.

I was looking for some information and I look forward to following up with your office, but if you look at the increase in exports, say from the CAFTA countries where we've implementation, you see exports rising by small and medium size businesses, so those are the types of rewards I think that the FTAs offer with reward to increasing small business exports.

Mr.GONZÁLEZ. But I think if you look further, they may be increasing in numbers, but really not the size of the pie. You have maybe more small business being involved, but truly as far as the financial benefits are still being, I think, more appreciably experienced by the bigger businesses. I think that the facts and the figures will support that particular assertion.

But getting back to the fundamental question, wouldn't you be best served if you were sincerely concerned about the unique challenges faced by small businesses attempting to export their products to have someone assigned with that particular task within your organization, just as Congress has a committee dedicated to small business issues? Because we all acknowledge how instrumental they are to our economy.

Ms.MOORE. Well, I would offer that it takes a lot of resources in the federal government to make sure that small businesses have access to markets. As I mentioned in my testimony, USTR, we open markets and we work with our colleagues at USDA, SBA, and the Department of Commerce to make sure that those companies are trade ready to go into those new markets. So while we consider it something that we do at USTR to make sure that we're looking at the needs of small business, it takes all of us here at this table to make sure that they're trade ready and they have the resources.

Mr.GONZÁLEZ. And I understand what you're saying—and again, I think your approach is wrong to be honest with you. I think you just figure it's going to be addressed naturally because you have the interest. I believe that when you have a specific assignment, and that individual's whole purpose within your organization is to look at the impact of these negotiated treaties, which cause us a lot of heartburn many times because we don't think they work in the best interest of small business, are all of American consumers.

I just think you need to really re-examine that. The other thing I want to touch on, and Mr. Hernandez, I was hoping to get to you, but I was trying to confirm—because in the back of my mind, we always say every President has had fast track authority. Was it renewed or was it lapsed in the Clinton years and was never renewed by the Republican majority?

See, I think that is factual. So we're going to have this debate, but my understanding is that the Republican- controlled Congress did not confer fast track authority. that's what we used to call it, to President Clinton, for whatever reasons. Clearly, they didn't need any democratic opposition or help to make it happen.

My time is up, Madame Chair. Thank you very much.

ChairwomanVELÁZQUEZ. Time is expired.

Ms.MOORE. I just want to make one point, Congressman. We look forward to as we've touched on a little bit earlier, we did have someone from SBA within USTR detailed and we're working with

SBA and the Department of Commerce to see if we could leverage the expertise of the foreign commercial service to have someone who has actually been in those markets to assist us with the net portfolio. So we do look at trying to leverage resources within the government to make sure that we are addressing all of those needs.

Mr.GONZÁLEZ. Thank you very much.

ChairwomanVELÁZQUEZ. Before I recognize Mr. Ellsworth, I would like to ask Ms. Moore isn't it true that the Small Business Exporters Association has been advocating for USTR Rep. representing small businesses?

Ms.MOORE. We've actually have had a number of proposals from small business organizations.

ChairwomanVELÁZQUEZ. So this is one of the associations that represents small business exporters. They know what is needed to make sure that we only—that we do not only have open markets, but how can they benefit? How can they enter those open markets by having someone sitting at the table when you are negotiating those trade agreements that truly represent their concerns. Now I recognize Mr. Ellsworth.

Mr.ELLSWORTH. Thank you, Madam Chair. I'm going to start with Mr. Hernandez, and if anybody else wants to jump in, feel free. Just looking for your opinion on a small business friendly, I prefer fair trade to free trade. I'm not sure free is always fair. Musts that we must have, if you were designing the program on a fair trade program that was small business friendly what would be some have-to bullet point things that we would have to in that agreement? You get the magic wand and design it.

Mr.HERNANDEZ. Congressman, first of all, it's good to see you again. Thank you for the question. Is that with respect to a free trade agreement? I'm sorry. If you could just clarify further.

Mr.ELLSWORTH. Yes, free trade. I always use the fair trade because I always want it to be fair. If you were designing that, what's a small business friendly free trade agreement look like?

Mr.HERNANDEZ. With respect to free trade agreements and with respect to my responsibilities within the federal government, my real focus is small and medium-sized companies and how is it that they enter foreign markets. But how to design a template, I will defer to the agency that really focuses on creating and drafting a free trade agreement. What I can tell you what we do in the Department of Commerce is that we fundamentally, our whole purpose and our essence is how do we find opportunities for small and medium-sized companies. And the fact is that everywhere I go outside of the United States where 95 percent of the people live, where 70 percent of the consumer purchasing power, it's outside of the United States.

The question is—the question I get asked is where are the American companies? Because wherever I go whether it is Chile, Panama, whether it's Vietnam, whether it is China, and you go to the smaller cities, you find a lot of competitors from European markets, from all over the world. The fact is that strategically, American companies, when they think about growing, whether they're in your State of Indiana and they want to grow their company and they want to go south, they can all the way down to Florida. If they want to grow, they can go all the way to California. They have the blessing of a domestic market that can provide growth.

But strategically, moving forward, if you look in the Yellow Pages in Canada, if you're a company in Indiana, you're competitor is already in Canada. So how do we convince small companies that there are opportunities. Because if you exist in the most and dynamic market in the world, which is here in the United States, and you're growing, there's an amazing opportunity for you in some other country and we have to educate these companies about what they are. We have to find a way to find a new class of exporters and tell them look, you're growing domestically, there's great opportunities internationally. Reductions have gone down, there is a better way of doing business. You can use e-commerce, you can use fast delivery express service. Plus, if you ever run into a problem or a challenge in country, we in the commercial service are located at 80 embassies around the world.

So the fact is that a small company has more opportunities than ever in history today. There is huge growth going on. Outside of the Panama Canal that is being built, outside of the free trade agreements today, three years with our free trade agreement with Chile, we're going to expert and do more trade with Chile than we do with Spain. And look at the size and population—that's dramatic.

The provinces in China—they're going to grow at ten percent a year for the next ten years. They are a growing consumer class. Somebody is going to service and provide a product that they need. Why not America? So the whole point is we need to find ways to constantly educate American companies about the opportunities, because it is outside the United States and they can grow their business and they can add jobs and they can benefit to their community, because there has never been a better time to export than today.

Mr.ELLSWORTH. Thank you, Mr. Hernandez. I appreciate your passion, and Mr. Moore I will then turn to you in helping answer that. Besides obviously advertising to our American companies the opportunities out there, what other bullet point—paint the picture of a good free trade agreement that benefits small business here. How do we help these small companies?

Ms.MOORE. Well, I think the elements of a free trade agreement that helps small businesses is one that eliminates duties on goods. Tariffs work as taxes on small business and their products that opens trade to agricultural products. Most companies are closed to—not most, but a number, are closed to U.S. agricultural products. Make sure that we could protect investments, protecting intellectual property rights, create a procedure for dispute settlements to make sure there is an opportunity to resolve these trade disputes. Also, providing safeguard measures for specific, sensitive, or different industries that require it. Also, to make sure that within that we're respecting worker rights and environmental rights.

Mr.ELLSWORTH. Thank you very much. Thank you, Madam Chair.

ChairwomanVELÁZQUEZ. Thank you. Ms. Clarke?

Ms.CLARKE. Thank you very much, Madam Chairwoman and Ranking Member Chabot. This is a very wonderful hearing today, because I think we're getting a true sense of the level of commitment that our federal government has to working with small business. Quite frankly, I think we're dealing with some really fundamental issues in the American psyche that has to do with can we trust our government to do what is in our best interest.

On the ground, I have to say that we're failing. While we sit here and are very competent and composed about our enthusiasm for what the future brings on a global scale, in many communities throughout the United States, there is not that enthusiasms. I think we have an obligation to transmit that enthusiasm to the local communities where our entrepreneurs spring from. But to sit here today and say that the free trade agreements that we have negotiated have created a competitive edge for small business does not transmit to local communities such as mine in Brooklyn and many across the nation.

Let me just say this. I think that we've danced around this issue about how we can best help small business. It's very clear that the representatives here are giving you a lens to what we know is real. What we know is real within our communities, and what is real to them is that they don't feel that their U.S. Trade Office is really focused on their needs. When we talk about using a matrix of expertise, when we can simply create a department that specifically focuses on those needs, that sends the appropriate signal.

We can then go back to our communities and say you know what? They mean business, because they have dedicated themselves. They have allocated resources. They have more personnel to focus on this like a laser.

So Ms. Moore, I clearly understand where you are coming from - an intellectual, academic standpoint. But we're dealing with trustworthiness, and there's a lack of trust in many of our communities today, and I hope that you will take that into consideration.

I would like to ask a question, because I hear the enthusiasm about trade agreements that we are having around the world and the opportunities that they bring for small business. I'm excited about it, too. I would be even more excited about it if we could look at our own hemisphere and provide the same type of enthusiasm for entering markets in our own hemisphere that we do in other areas.

The reason I bring this up is because I'm a Jam-American. My parents are from the Caribbean. I noticed that we have not given as much emphasis to the opportunities that exist in that region that we give to many other areas of the world. When we look at homeland security, when we look at some of the issues that are now bearing on us in the 21st century, I would like to ask just a couple of questions about whether first of all, in this age, Caribbean governments and societies are more conscious of trade and investments that are environmentally and socially responsible. They are urging free trade agreements that shift towards sustainable development. You know, the CARICOM Prime Ministers will be meeting with President Bush next week. What approaches do you suggest in order to attract foreign investments and also protect biodiversity, workers, and women's rights and benefit small businesses and create jobs?

Ms. Moore, Mr. Hernandez?

Ms.MOORE. Congresswoman, thanks for the opportunity to answer. Actually, Secretary Hernandez and I were just in Atlanta for the America's Competitiveness Forum, and one of the panels that I had the pleasure to sit on was on regional business opportunities in CARICOM and the Caribbean. One of the things that I think is wonderful that the CARICOM countries are doing is moving towards a single-market economy, because in fact the barriers to trade—they have more barriers to trade between them than necessarily to the U.S. market.

So we look forward to the conference on the Caribbean June 19th. I think that we're trying to figure out ways to update a trade and invest—to strengthen the relationship, the trade relationship. We signed a trade and investment framework agreement in 1991. But you know, we definitely want to take the opportunity to incorporate some of the advances to increase investment. I had the opportunity to talk with some of the ministers and what they are doing to try to revitalize their economies there, you know, as far as education opportunities, services. They are really aggressively pushing.

Ms.CLARKE. They are, but let's be clear that when we don't have a global view to how we actually set up trade agreements, unintended consequences happen. Due to free trade agreements that we have done in the past, we shut down part of economies in that region. So, you know, I think that was the opportunity to engage, to make sure that U.S. small businesses had an opportunity to go in there and to help lift those economies. We shut down many of those nations in very simple agreements that we made without even a view to our neighbors in the Western hemisphere. So I can appreciate the rhetoric, but I think that it is important that if we're talking about a global economy, that we really—and I know that these nations have been reaching out. They have been crying out for our attention—that we really focus ourselves in a way in which we make sure that we don't have these types of adverse impacts. Because you know what? Ultimately, we're building neighborhoods that can be very detrimental to our safety. I think we need to put all of that into context. Thank you very much, Madam Chair. My name has expired.

ChairwomanVELÁZQUEZ. Time has expired. I know recognize Ms. Moore.

Ms.MOORE. I really look forward to working with you and the Congress in that endeavor.

Ms.MOORE OF WISCONSIN. Thank you, Madam. This is a very important hearing. I've been going nuts listening to people call you Ms. Moore. It's been very, very distracting. When you called on me, Madam Chair, I didn't really know how to respond.

I want to start out with Mr. Hernandez. In your role with the Department of Commerce, I didn't have the opportunity to read your testimony, but I do know that the mission of the Commerce Department really is to enforce trade laws. I am curious. When I look at the $800 billion trade deficit—this is a little bit beyond my public high school math—those zeros are just staggering. When I look at the trade deficit and I compare that with your testimony about the expanded trade relationship that we have with China and other places, when I look at your mission and your responsibility to enforce our laws against anti-dumping laws, in particular, those laws which would prevent really a lot of imports of very cheap material.

In your testimony, your pride in the expanded trade that we have had with China, for example, I am curious as to what the relationship, the nexus might be between a huge trade deficit of $800 billion, these expanded trade relationships, and the fact that this Administration has had very, very few—provided very few complaints to the WTO about unfair trade issues. It seems to me, it would appear, and I'm going to allow you to respond to it, that there are very few complaints that are tendered against unfair trade practices. So is it your opinion that—there were like ten trade agreements, the Clinton Administration, ten a year. The Bush administration only has about two. So are there fewer trade infractions today than there have been in the past?

Mr.HERNANDEZ. With respect to WTO questions and cases, I'm going to defer to USTR. But I will say that there are four units within the International Trade Administration. One of them is Import Administration, that they enforce U.S. unfair trade laws. They enforce them to make sure that we develop and implement policies to counter foreign unfair trade practices. But with respect to the United States Foreign Commercial Service, which is the bureau that I run, our focus is about making sure that small and medium-size companies and all American companies have an opportunity to enter into these markets.

So when you say, you know, USTR will create and navigate the law—I mean, a bill and the legislation when the President signs it, we helped implement it in the Department of Commerce. But we in the Commercial Foreign Service, our role is to educate companies. And how do we find a way to reach more American companies to export?

The facts that we can deal with is the fact that more—we have more exports than ever before. Exports right now are sizzling, so when you talk about growth, the fact is that more American companies are growing. More American companies are exporting, and we have to make sure that we have the right structure within the commercial service to make sure that we can educate them and have resources for not only in the United States—

Ms.MOORE OF WISCONSIN. All right. That didn't answer my question and my time is waning. As it relates to helping small business, I'm very proud of the fact that 97 percent of all exporters here in the United States are small businesses. But yet we still see this trade deficit of $800 billion because they only generated 30 percent of the revenues from these activities.

Are we still—and so, of course, large corporations still have a significant advantage in the globalized economic environment. And so I am wondering, do you think that you have adequate resources through maybe Ms. Moore, maybe, you can answer this? Do you think that just your one department that is devoted to helping small businesses is adequate or do you think that there is not enough articulation among the various agencies, which may be indicated by Mr. Hernandez's previous sort of non-answer to my question.

Mr.HERNANDEZ. I would like to answer your question as well.

Ms. MOORE OF WISCONSIN. Okay.

Mr. HERNANDEZ. I'll give time to Ms. Moore.

Ms. MOORE OF WISCONSIN. All right. I've got to hear from Ms. Moore. You know that, Ms. Moore to Ms. Moore.

Ms. MOORE. Yes, Congresswoman Moore. To answer your first question on cases brought by the WTO, USTR is very focused on results. We only want to bring cases that we can actually win. So that's why we made sure that the cases that we have brought are sound and clearly go after WTO and consistent practices.

With regard, I guess, if you look at the arsenal of tools that we have, the last one would be dispute settlement. For instance, with the subsidies case, we filed in late April, if we do not settle in the consultation phase, it's going to take at least two to two and a half years to get a final ruling. So if we're looking at helping small businesses and getting something, having them benefit by some of these negotiations, we want to do it sooner rather than later instead of waiting, you know, the time it is going to take within the WTO. But we will do that.

I would note that in some cases it is bilateral consultations and bilateral discussions that we've been able to see some real benefit. For example, not in the case of a small business, but through consultations with the Chinese, we were able to create some better enforcement and protection of intellectual property rights and piracy through making sure that operating system software was pre-installed in Chinese computers. So that's just one example of how bilateral conversations netted an immediate results instead of the dispute settlement process that takes several years.

But we will continue to go after those who have unfair trade practices, but our first choice is to work through bilateral consultation so that we can get the most expedient result as possible.

Chairwoman VELÁZQUEZ. Time is expired.

Mr. HERNANDEZ. Am I allowed to respond or no?

Chairwoman VELÁZQUEZ. You are allowed to respond.

Mr. HERNANDEZ. So I don't want you to think that I am not answering your question. So the first part of your question dealt with WTO, which I think Ms. Moore has addressed that issue. The second question you talked about was the trade deficit. Obviously, that is a concern for everyone. That is a concern. But what you're also seeing is you have a country in the United States, a growing consumer. We are the best consumers in the world. We buy everything. Try to go one weekend without buying something. The fact is we are buying the world's products.

What we want in turn is for other countries to buy our products, and what we're seeing is that for the first time exports have outpaced imports. Now more people, there is a growing consumer class going on around the world. We want them to buy American and we want them to buy more. So the point is more Americans can save, or more other people around the world can buy. We want more people to buy.

What you're seeing is a trend in a right direction which is our exports are going up, and the majority of that is also more small and medium-sized companies entering into the market. So the point is we have a growing economy in the United States. We have a consumer that is buying a lot, and what we want is more people outside of the United States to buy. In many ways, that will help address a trade deficit. Because the fact is, and this is where I am going to very optimistic about American small business, is we have an amazing dynamic small business community that has really created products and high-value products and services that are sought after all the world. We just have to make sure that we find a market for them and that's what we would like to do with a commercial service. That's my response. Thank you.

Mr.LARSEN. Thank you, Madam Chair. I just came from a hearing in Armed Services Committee on China, from a little different angle than Ms. Moore has covered it, but an important angle nonetheless. And my questions are, in particular, about China.

And, you know, there are a lot of—you have heard them, a lot of concerns here in Congress about the U.S. economic relationship with China and China's economic relationship with the U.S. and who has the best advantage in that. And as a result of that, there is a lot of discussion in Congress about taking certain actions through legislation, which I think from certain perspectives I can have a full appreciation of from another perspective, that is a perspective of my district.

I think it would—some of the actions being discussed would be detrimental, frankly, to my district. But there has to be a balanced approach to how we deal with this.

One of the issues that I have been trying to struggle with, though, is how to encourage small and medium-sized enterprise business export to China. And so a group of us are putting together a package of bills, one of which would look at that issue. And we are going to be rolling out these bills, and the one I want to talk about in particular about is U.S.-China Market Engagement and Export Promotion Act, which is specifically designed to try to get the executive agencies to do a better job of getting small and medium-sized enterprise products and services into China.

But as we move through that, we are still crafting the legislation, getting some final things in place, and I think for Mr. Hernandez I would like to ask you, you know, just from your perspective, with regards to China, what do you all think the major challenges are for small and medium-sized businesses to get their products and services into China? What do they lack, and what do you all lack?

Mr.HERNANDEZ. Yes, sir. That is actually—thank you for the opportunity to address that. Actually, it is a very great question. I think that with media and communications today—

Mr.LARSEN. Most of the questions asked by members of Congress are great questions.

[Laughter.]

Mr.HERNANDEZ. Okay. Well, this is another good question.

[Laughter.]

And I will tell you why it is a really great question for me, because when I visit with small and medium-sized companies, they think because they have read all—whether what is on the cover of Business Week or Fortune, or they see a story, that they now want to export and they want to go to China.

But, in fact, what we really need to understand, and what we have seen from the experience of working with small companies, that it really takes 12 to 18 months to educate a company about—

we have to work with their line of credit, we have to understand what their product is, we have to understand their temperament, and we have to understand the workforce. What is it—do they have the patience? Are they ready either to begin exporting?

Our export assistance centers throughout the United States work with companies to make sure that we address all of those notes. You can't just say, "I want to export today," and then go out there. The burden with anyone who goes and does that is that they fall into a lot of challenges, and they might identify the wrong partner to do business with in China, in which case they are now obligated and they are stuck.

They have never properly found a way to—how do they protect their property? How do they have a better understanding about a culture? Because it is not so much just, you know, an agreement or an understanding. It is you are dealing with a completely different culture, a different way of doing things. And so if you are not—if you don't have a full understanding, then you are going to put yourself in a very difficult situation.

Now, for us, we have a strong commitment to help companies enter into China. For us, it is the largest office within the commercial service. We have over 120 staff in country in China to help American companies. We also have joined in partnership to create American trading centers in 14 cities throughout all the provinces. So if an American company wants to enter these markets, they have someone they can contact, and talk to about what the challenges are, because with great opportunity—and there is great opportunity cost in China, there is also amazing challenges.

And so China should not be the first country that you look to when you export, because you need to go maybe to Canada or Mexico or somewhere where we have a better—we figure out and test your product and figure out, can you do business there? China is very complicated. It is a little—like a little drop in a huge ocean.

The fact is, China will always—will be there. You don't have to enter that as your first market. And, in fact, that is the burden and challenge that we have is everybody feels with the pace that they have to be in China right now, or they have to be in India right now.

Mr. LARSEN. Just quickly, is there a difference in the challenge facing a small or medium-sized enterprise getting into, say, China, versus a larger business who is not yet exporting there?

Mr. HERNANDEZ. You have to be in somewhat a developed and mature company and have a very good understanding and have the flexibility to know that as far as payment, as far as the legal issues identifying a partner, a broker, it takes a long time. It could take, you know, months. And if they can't withstand that, we really have to make sure they have the right temperament.

But you are right. I mean, the great thing for a large corporation is they have a department to help them with these issues. We are the department for small companies. So in many ways what we do is we had a trade seminar exclusively on China in Ohio last year. We had 1,000 companies registered, because they are hungry for information about how is it they do business.

But we went and we went section by section about how is it that you are structured, how are your finances, did you know about how to protect your property. We have a checklist of top 10 things you should do to protect your property before you even call anyone in China. It is called Stop Fakes, and it is on our website. And it is amazing, because we get more hits on that than anything else.

The point is: we know that people are hungry for information—small and medium-sized companies—so we are doing more trade seminars. We have reached out to associations, to people here on House and Senate, to educate more companies.

ChairwomanVELÁZQUEZ. Time is expired.

Mr.LARSEN. Thank you. Thank you.

ChairwomanVELÁZQUEZ. We finished this round of questions. If there is any member who wishes to ask any questions to the witnesses before we excuse this panel?

[No response.]

Well, I do have another question. Mr. Hernandez?

Mr.HERNANDEZ. Yes, ma'am.

ChairwomanVELÁZQUEZ. I just can't help myself.

Mr.HERNANDEZ. Go ahead.

ChairwomanVELÁZQUEZ. I am stunned—

Mr.HERNANDEZ. Yes, ma'am.

ChairwomanVELÁZQUEZ. —you know, when I listen to your flowering rhetoric regarding the important role that small business exporters play, and how can we make sure that they take advantage of all these open markets?

Mr.HERNANDEZ. Yes, ma'am.

ChairwomanVELÁZQUEZ. So let me ask each one of you, you are going to leave a staff person here to listen to the second panel witnesses?

Mr.HERNANDEZ. Yes.

ChairwomanVELÁZQUEZ. Okay. Because in the second panel we are going to have some businesses who are saying that small businesses depend upon access to technology to support innovation and maintain their global competitiveness. Mr. Hernandez, do you agree with that assessment?

Mr.HERNANDEZ. I do feel that technology is going to be essential for a company to find opportunities, because an online service will allow them to reach more people than they would otherwise.

ChairwomanVELÁZQUEZ. Yes. So is that the reason why the U.S. Department of Commerce repeatedly proposed to drastically cut the Manufacturing Extension Partnership Program?

Mr.HERNANDEZ. Ma'am, actually, that does not fall in my purview, but I can find that information and get back to you on that particular issue.

ChairwomanVELÁZQUEZ. But do you think that is reasonable—

Mr.HERNANDEZ. I need to understand—

ChairwomanVELÁZQUEZ. —on the one hand?

Mr.HERNANDEZ. Yes. I just need to understand what the language is, and why is it that it was presented. And I am more than happy to bring that information back.

ChairwomanVELÁZQUEZ. Well, I can tell you that for the last few years the administration proposed to cut a manufacturing extension partnership program, the very program that helped small businesses and small business exporters. And then, you make reference to the U.S. export assistance centers.

Mr. HERNANDEZ. Yes.

Chairwoman VELÁZQUEZ. That is within your purview.

Mr. HERNANDEZ. Yes.

Chairwoman VELÁZQUEZ. You know what—

Mr. HERNANDEZ. Yes.

Chairwoman VELÁZQUEZ. —those centers are. And so those centers are important, because they provide assistance to small business exporters.

Mr. HERNANDEZ. Yes.

Chairwoman VELÁZQUEZ. So why is it that they have been flat funded for the last few years?

Mr. HERNANDEZ. Why has the commercial service ben flat funded? I think that we in the commercial service are no different than other agencies where we have tried to be very resourceful with a budget that we have. I mean, the fact is—

Chairwoman VELÁZQUEZ. This is how you are going to close the gap that exists in terms of the trade deficit?

Mr. HERNANDEZ. Ma'am, I think to close the trade deficit is not what I can do, but what American companies have the ability to do.

Chairwoman VELÁZQUEZ. Sure. If services and assistance and technical assistance and financing is provided by those very centers that are supposed to be here to assist those small business exporters. And also, in terms of the Small Business Administration, only 16 staff are assigned to those U.S. export assistance centers. Do you intend to increase the number of staff?

Mr. GINSBURG. We are evaluating the human capital resources that we have, and the administration will, you know, evaluate just exactly where we should put good people to take care of both domestic and international business.

Chairwoman VELÁZQUEZ. Does any other member wish to make a question?

[No response.]

With that, I excuse the panel.

Mr. GINSBURG. Thank you.

Chairwoman VELÁZQUEZ. I welcome the second panel to take their seats. It is almost noon, so good afternoon. I welcome all the witnesses, and I hope that you can help us by shedding some light into the impact of U.S. trade policies on small businesses.

Our first witness is Ms. Sage Chandler. Ms. Chandler is the Senior Director of International Trade for the Consumer Electronics Association. She is responsible for trade policy legislation and negotiation matters affecting the 2,100 member companies of Consumer Electronics Association.

Ms. Chandler, your entire testimony will be entered into the record, as well as the other witnesses. You have five minutes to present your testimony.

STATEMENT OF SAGE CHANDLER, SENIOR DIRECTOR OF INTERNATIONAL TRADE, CONSUMER ELECTRONICS ASSOCIATION

Ms. CHANDLER. Thank you, Madam Chair. The Consumer Electronics Association, or CEA, is the principal U.S. trade association for the consumer electronics industry. Our 2,100 members include manufacturers of audio, video, and IT products, which are enjoyed in the home and automobile, and oftentimes the office. Our industry drives the American economy and accounts for world leadership and innovation.

Although we represent virtually every large consumer electronics manufacturer, 80 percent of our members are small businesses. In fact, small companies are located in each state represented on this Committee.

International trade is the life blood of our industry. Last year, U.S. exports of consumer electronics products totaled nearly $4 billion, helping to support nearly two million American jobs. Many of our members are competing well abroad, but we need to do better. Ninety-five percent of world consumers who could be buying our products live outside of our borders.

To access those opportunities and remain competitive, fair and open trade in markets abroad is crucial to our small and medium-sized businesses. Our industry is highly competitive and globally integrated. Two-thirds of CEA members conduct international business of some sort, primarily in Asia, Europe, and Latin America. However, large investments are needed to manufacture our products. Even then, many of those goods have very narrow margins, so companies must feel secure entering new markets protected by trade negotiations and trade policies.

Therefore, we urge Congress and the United States Government to make the following actions. First, aggressively pursue bilateral free trade agreements. In the absence of an agreement in the DOHA round of the World Trade Organization, FTAs offer the next-best way to open foreign markets to small companies. They create sales opportunities, reduce costs, and diminish uncertainty. Through FTAs we can implement intellectual property rights standards, establish investment protections, and provide increased transparency for U.S. exporters.

Second, reauthorize trade promotion authority. TPA expires later this month, and without it our trading partners will be reluctant to negotiate trade agreements with the United States. Our hands may be tied, and the U.S. will fall behind the many other countries who are currently negotiating free trade agreements at an unprecedented pace.

Third, work to eliminate non-tariff trade barriers abroad. Examples of NTBs include cumbersome customs regulations, corrupt government practices, and recently divergent or non-harmonized approaches to environmental standards. These non-tariff barriers hinder trade and burden small companies with unnecessary compliance costs.

Fourth, in addition to pursuing new trade agreements, the U.S. must maintain and enforce agreements that are already in place. For example, we must take an aggressive stance to protect products which are already covered by the World Trade Organization's Information Technology Agreement. The ITA covers and eliminates duties on over 97 percent of trade and world information technology products.

However, the EU is currently claiming that the ITA does not cover the next generation of covered products. Therefore, it is crucial for the U.S. Government to uphold the ITA and make a case for its maintenance to allow for future innovation.

Fifth, promote a swift and effective temporary visa program. While safeguarding national security is paramount, many small businesses rely on tradeshows like CEA's annual event, the Consumer Electronics Show. CES is the nation's largest trade show and is an effective way for small companies to contact international buyers without breaking the bank on foreign travel.

To remain successful, we need as many foreign buyers to attend CES as possible. This year, we had over 25,000 international attendees, but thousands more were discouraged from attending due to restrictive U.S. visa policies. This leaves our small entrepreneurs at a disadvantage in their efforts to reach international buyers. In fact, CEA recently situated shows in Dubai and in China, so that we can help our members reach international markets.

Finally, it is essential that traffic moves across the borders quickly and efficiently. While trade among NAFTA countries has increased significantly in the decade since it was signed, the infrastructure and customs facilities have not been able to stay ahead of the increased commerce. For instance, during the peak season in 2006, there were two- to three-mile backups of trucks trying to cross into the United States, with some waits of up to 10 hours.

As long as there is a shortage of trucks and drivers along the southern border, there will be congestion. Therefore, we urge swift implementation of a Department of Transportation pilot program, which will allow a limited number of Mexican motor carriers to operate in the United States beyond commercial zones along the U.S.-Mexican border.

In summary, small businesses in the consumer electronics industry benefit whenever the United States implements policies that ease the process of getting products from port to shelf to consumer. If Congress and the United States Government are successful in advancing free trade, then we win, and so does the American economy.

The Consumer Electronics Association and its members pledge to work with the members of Congress to address these concerns to ensure that the consumer electronics industry is well situated to advance trade in a progressively competitive global environment.

Thank you again to appear today, and I will be happy to answer any questions from the Committee.

[The prepared statement of Ms. Chandler may be found in the Appendix on page 82.]

ChairwomanVELÁZQUEZ. Thank you, Ms. Chandler.

Our next witness is Mr. Ken Seilkop. He is a constituent of Congressman Chabot, and he is the President and Owner of Seilkop Industries, Inc. Seilkop Industries has been in the Seilkop family since 1946. Ken is the second generation owner, and the third generation is in place.

Welcome, sir.

STATEMENT OF KEN SEILKOP, A.G. TOOL & DIE, MIAMITOWN, OHIO, ON BEHALF OF THE NATIONAL TOOLING AND MACHINING ASSOCIATION

Mr.SEILKOP. Thank you. Chairwoman Velázquez, and members of the Committee, thank you for the opportunity to discuss the impact of currency manipulation and its effects on the precision machining industry under current U.S. trade policies.

My company is comprised of four divisions, including A.G. Tool & Die in Miamitown, Ohio. These four facilities have been in the Seilkop family since 1946. We employ approximately 95 people in the greater Cincinnati area. Both my wife and son work with me.

A.G. Tool & Die specializes in the design and build of a wide range of precision dies, fixtures, and tools for the automotive, appliance, defense, and aerospace industries. I am testifying as a second generation small business owner on behalf of the National Tooling and Machining Association. NTMA represents nearly 1,700 custom precision manufacturers and 55,000 employees across the nation.

Our members are small to medium-sized shops employing an average of 27 people. Every product that is manufactured is formed by a tool, a die, or a mold made by our industry. The future of the U.S. machining and tooling industry is being severely threatened by low price tools, dies, and precision machine parts imported primarily from China. The effect of China's economic growth and principally its unfair trade practices has been costly to the manufacturing, and in particular our industry.

Since 2001, nearly a third of all U.S. tooling and machining companies have been forced to shut their doors due to price constraints driven by the large influx of low-priced Asian imports into our markets. Our industry cannot compete when the playing field is rigged, and that is what China has been doing—rigging its currency at a level that economists agree is about 40 percent. This practice undercuts our numbers by artificially lowering the cost of Chinese goods, making it impossible for NTMA member companies to compete against their foreign counterparts.

This form of protectionism by China is reaping huge rewards. Its export-based economy is growing three or four times faster than the rest of the world, with factories being built at a record pace. It promotes investment in China over capacity and a dangerous accumulation of foreign exchange reserves in China. Furthermore, China is violating its International Monetary Fund and World Trade Organization obligations. It is time for the administration to hold them accountable and move aggressively on currency manipulation.

Our customers are spending less in the U.S. and continue to look to foreign plants and overseas suppliers every day. Every day my Chinese competitors beat my best quoted prices by 40 to 60 percent. I would like to share an example from a Dayton, Ohio-based manufacturing company that makes plastic injection molds for the industrial Fortune 500 customers.

Last month he quoted his lowest possible cost for a mold at $60,000. In the end, the contract was awarded to a Chinese manufacturer for $25,000 including shipping. The estimated cost of the materials alone on that mold were $18,000. There are no techniques or groundbreaking processes that could garner the cost savings needed to overcome such a large price differential.

While companies like this have a decent chance of competing with companies anywhere in the world, we can't compete with the government of China or other countries that manipulate their currency. At A.G. Tool & Die we continue to invest hundreds of thousands of dollars in technology to try and keep up, but this is tough to justify when our customers keep demanding lower and lower prices.

American tooling and machining shops must also compete against Chinese companies that have cheap labor costs, do not pay or pay very little health insurance, legacy costs, and do not have to meet our strict environmental and safety standards.

As I talked to precision tooling and machine shop owners across the nation, the plea is, "Level the playing field. We are not afraid of competition, but make it fair competition." I enjoyed the comment by the Congressman of "fair trade, not free trade."

Congress can enact legislation right now that is beneficial to U.S. manufacturers that could help to level the playing field. NTMA urges this Committee and the entire Congress to pursue every avenue possible to combat the damage of currency manipulation. Prolonged inaction will only lead to more manufacturing job losses and further erosion of our domestic manufacturing base. With little to show after years of pressure by the administration on China to revalue its currency, the NTMA urges you to pass the Fair Currency Act, H.R. 782, introduced by Representatives Tim Ryan of Ohio and Duncan Hunter of California.

This bipartisan legislation with over 100 co-sponsors gives the U.S. Government new tools to address currency manipulation and would brand such manipulation as an illegal subsidy under WTO rules. It would ensure that countervailing duty laws can be applied to non-market economies. It applies to any country that is manipulating its currency. Passage of the Fair Currency Act is a crucial first step.

It is obvious that China's economic strategy over the past decade has been to keep the value of its currency low, boost its exports, and hold down imports. The U.S. needs a coordinated, comprehensive national policy and strategy for manufacturing. Such a strategy must include addressing currency manipulation, vigorously enforcing our trade laws and agreements, making permanent the R&D tax credit, reforming health care to reduce its costs to small business, and amending our Tax Code.

Since China continues to enjoy the benefits of membership in the international economic community, it is only fair that it abide by the rules. The time for change is now, before our industry and the rest of U.S. manufacturing is put at further risk.

We look forward to working with this Committee and the members of the 110th Congress. Thank you again for giving me the opportunity to present our views on this important matter, and I will be pleased to answer questions.

[The prepared statement of Mr. Seilkop may be found in the Appendix on page 86.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Seilkop.

Our next witness is Jon Caspers. Mr. Caspers is an owner of a nursery-to-finish operation that markets 13,000 hogs annually. He is also past President of the National Pork Producers Council.

Welcome, sir.

STATEMENT OF JON CASPERS, SWALEDALE, IOWA, ON BEHALF OF NATIONAL PORK PRODUCERS COUNCIL

Mr.CASPERS. Thank you, Madam Chairman, and members of the Committee. I am Jon Caspers, past President of the National Pork Producers Council, and a pork producer from Swaledale, Iowa. I operate a nursery-to-finish operation marketing 13,000 hogs per year, and under anyone's definition I am a small producer.

I strongly believe that the future of the U.S. pork industry and the future livelihood of my family's operation depend in large part on further trade agreements and continued trade expansion under TPA. Trade agreements have fueled the export growth in the U.S. pork industry. Total U.S. exports of pork and pork products have increase by more than 400 percent in volume and value since the implementation of the North American Free Trade Agreement in '94, and the Uruguay Round agreement in '95.

Due to tariff reductions and improved market access under NAFTA, Mexico was the number one volume market and number two value market for U.S. pork exports in 2006. Thanks to a bilateral agreement with Japan on pork that became part of the Uruguay Round, U.S. pork exports to Japan have soared. In 2006, U.S. pork exports to Japan reached just over $1 billion, and Japan remains the top value foreign market for U.S. pork.

U.S. pork exports to Korea have increased over 2,000 percent as a result of concessions made by Korea in the WTO Uruguay Round in '95. More recently, U.S. exports of pork have expanded because of bilateral deals with Russia, Taiwan, China, and the U.S.-Australian FTA.

Increasing U.S. pork exports means increasing U.S. jobs. In 2006, the United States exported 15 percent of domestic pork production. By percentage, then, international trade attributed approximately 82,500 U.S. jobs in the pork industry alone. A majority of these jobs are located in rural America. In my home State of Iowa, about 62,500 jobs are involved in various aspects of the pork industry, ranging from input suppliers to producers to processors and handlers, as well as main street businesses that benefit from purchases by people in these industries.

According to Iowa State economists Daniel Otto and John Lawrence an estimated $2.2 billion of personal income and $3.8 billion of gross state product are supported by the hog industry based on 2005 levels of production in Iowa. Based on the export share of 15 percent of U.S. production, a comparable share of economic impacts, or 9,375 jobs, and $333 million of personal income in Iowa, result from the exporting of pork products to foreign markets.

U.S. pork and export growth directly impacts the Iowa pork industry and Iowa's overall economy. In addition to my home State, the Iowa State economists have examined the impact of pork exports on a number of states and congressional districts outside of Iowa. In the attached appendix to my written comments, I have included pork export district information generated by Iowa State for eight of the districts represented on the Small Business Committee.

As the export growth rates generated by the Uruguay Round and NAFTA begin to diminish because the agreements are now fully phased in, the creation of new export opportunities becomes increasingly important. The United States currently has four pending free trade agreements—the U.S.-Korea FTA and the Colombia, Peru, and Panama Trade Promotion Agreements. Each of these agreements were negotiated under trade promotion authority and will significantly benefit U.S. pork producers.

Pork exports positively impact the price of live hogs for all producers in the United States. Regardless of whether the pork from a particular hog is exported, the price impact of exports lifts the U.S. price for live hogs, so that all producers benefit. When fully implemented, the trade agreements with Korea, Colombia, Peru, and Panama, will eliminate tariffs and barriers to trade that currently limit U.S. pork products, contributing to the bottom line of producers nationwide.

According to Iowa State University economist Dermott Hayes, these four pending FTAs, when implemented, will bring unprecedented economic benefits. The Korea agreement alone will be the single most important trade agreement ever for U.S. pork producers. The U.S. Republic of Korea FTA, when fully implemented, will cause U.S. hog prices to be $10 higher than they would—than would otherwise have been the case. And, likewise, once fully implemented, the Colombia, Peru, and the Panama FTAs will respectively cause U.S. hog prices to be $1.63, 83 cents, and 20 cents higher, respectively, than would otherwise have been the case.

Any agricultural economist knows that our sector will tell you that pork exports have disproportionately contributed to the profitability of U.S. pork producers in recent years, and expanding market access through implementation of these agreements will further increase producer profitability and stimulate job growth.

In addition to the four pending FTAs, a successful WTO DOHA development round will increase pork exports and strengthen our producers. A large DOHA outcome, particularly with the EU and Japan, is needed to make the DOHA successful for producers. Currently, the United States supplies less than 1 percent of EU pork consumption. And while Japan is the biggest value market in the world for U.S. pork, there is still enormous potential growth.

In conclusion, trade agreements significantly benefit all U.S. producers. Fifteen percent of all U.S. pork production is exported abroad, and the impact of exports on the livelihood of small and medium-sized independent producers is substantial.

Thank you for the opportunity to present. I look forward to your questions.

[The prepared statement of Mr. Caspers may be found in the Appendix on page 93.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Caspers.

Our next witness is Dr. Lael Brainard. Dr. Brainard is Vice President and Founding Director of The Brookings Institution's Global Economy and Development Program. She has served as Deputy National Economic Advisor and Chair of the Deputy Secretary's Committee on International Economics during the Clinton administration.

Dr. Brainard, you are welcome.

STATEMENT OF DR. LAEL BRAINARD, VICE PRESIDENT AND DIRECTOR, GLOBAL ECONOMY AND DEVELOPMENT PROGRAM, THE BROOKINGS INSTITUTION

Ms.BRAINARD. Madam Chairwoman, Ranking Member Chabot, members of the Committee, thank you for the opportunity to testify on this important topic.

I want to make three observations. First, I wanted to talk a little bit about what is happening to our economy. My sense is that our economy is undergoing a very profound transformation. The individual elements feel somewhat familiar, but together the combined contours are unprecedented in scale, speed, and scope.

China is pursuing a growth strategy that is export led and foreign direct investment fed at a scale we really haven't seen before. Its booming economy is swelling the coiffeurs of some resource producers, but also posing enormous challenges in manufacturing. India's concurrent economic emergency has also added to the complexity of the challenge. While India's growth strategy has differed in important ways, its success in exporting higher skilled knowledge services, such as software programming, has led to a stunning expansion of the scope of globalization.

Many American businesses, large and small, are thriving on the new opportunities created by this breathtaking growth of more than 9 percent in two of the world's most populous markets. But other American businesses are confronting foreign competition at an intensity and a scale they have never experienced before. Some of them are faced with the choice of moving over or moving up the value chain, concentrating on highly specialized activities in this market, or diversifying their geographic base.

I think the current episode of global integration dwarfs previous episodes. If you look at it just from a pure numbers point of view, an economy of—an integrated world economy with a labor force of about 1.7 billion is being abruptly confronted with absorbing a labor force of 1.2 billion with wages that are up to 90 percent lower. It is a 70 percent expansion of the global labor force in a very short period of time. It is three times bigger than the globalization challenge associated with the sequential advances of Japan, South Korea, and the other Asian tigers.

So what is the role of business? And how is small business being affected by this globalization wave? As the most dynamic stratum of the economy, small business is on the front lines of this new wave. As a microcosm of the overall economy, there is enormous diversity in this group, and I think we see it. It is a very nice cross-section that we have at this table.

Many small businesses are encountering unprecedented opportunities. Others, frankly, are struggling. I think in the old models, product life cycle models, the notion was that many businesses would stay here until they saturated their market and then move abroad. A lot of small businesses or entrepreneurial people are going abroad early in their growth, often following their customers.

Because they are so often on the front lines of globalization, I think small businesses have a disproportionate stake in the policies shaping globalization. But as this Committee has pointed out today, they face much higher transactions costs relative to their size, both as they venture into new markets and as they seek to influence that policy environment.

If you think about it, it is true that transparent, predictable customs procedures and trade rules make it a heck of a lot easier for small businesses, but only if those policies are, first of all, accessible in the priority-setting stage, in the negotiating stage, and then, of course, on enforcement. So those trade rules are necessary but by no means sufficient.

And on the flip side, when an unanticipated surge of foreign competition causes injury, small businesses may have much less internal wherewithal to cushion the blow for their employees. They have to rely more on government programs, but it is very costly to access those programs. Eligibility criteria are stiff, it is time-consuming, and, as we know, the value threshold on safeguards is often hard to meet.

The vibrancy, I think, of our small business sector under any circumstances will remain a very key comparative advantage for the United States. This sector is the envy of the world, and so even as we think about what policies we can put in place to help them access international markets, I think it is important to make sure that the foundations remain strong at home.

Let me quickly just talk about the three pillars of the national competitiveness strategy that are important for business in general, but small business in particular. Those are investments in innovation, in education, in infrastructure, and the Chairwoman mentioned earlier before the Manufacturing Extension Program, which is one of those programs that is highly valued by small businesses in the realm of innovation policy.

On international rules, a second area, it is absolutely true that small business depends more than any other segment on a level playing field. But if you think about the China example that we were referencing earlier, it is astonishing to me that USTR waited five years before reviewing China's trade policy.

Enforcement should have started day one. When China entered the WTO, it was a mature exporter, even if it was not a mature importer. And Mr. Hernandez talked about democratizing international trade through bilateral trade agreements. That is only true if all interests have an equal say at the table.

And, finally, I think on this issue of bilateral free trade agreements they aren't the best way of moving forward for small business. It is very difficult for small business to be able to study the minutia of each particular trade agreement. Much better to have broad-based trade agreements, but this administration has presided over the death of the FTA, the death of the APEC trade agenda where they have ceded the ground to China, and DOHA is on life support. So a much more efficient result for small businesses would have been a much broader trade agreement.

Thank you.

[The prepared statement of Ms. Brainard may be found in the Appendix on page 114.]

ChairwomanVELÁZQUEZ. Thank you, Dr. Brainard.

Our next witness is Daniel Griswold. Mr. Griswold is the Director of the Center for Trade Policy Studies at the Cato Institute. Since joining Cato in 1997, he has authored or co-authored major studies on globalization, the World Trade Organization, the U.S. trade deficit, trade and democracy, immigration, and other subjects.

Welcome.

STATEMENT OF DANIEL T. GRISWOLD, DIRECTOR, CENTER FOR TRADE POLICY STUDIES, CATO INSTITUTE

Mr.GRISWOLD. Chairwoman Velázquez, and Ranking Member Chabot, thank you very much for allowing the Cato Institute to testify at today's hearing. America's growing engagement in the global economy is not just a Fortune 500 phenomenon. Increasingly, small and medium-sized U.S. companies are entering global markets, not just to sell but to buy and invest.

Expanding trade and globalization are not a threat to American small companies, but an opportunity. And let me briefly outline five ways.

First, globalization is a reality for American companies of all sizes. Americans have never spent or earned a higher share of our income in the global economy than we do today. Both exports and imports as a share of our GDP have never been higher. Small businesses that shun global markets are missing out on the great growth opportunity of our time.

Second, U.S. small businesses have benefited as exporters into growing global markets, including China. Last year, U.S. exports of goods to the rest of the world topped $1 trillion for the first time. Export of services reached $422 billion, another record. The Internet global logistics and an increasingly complex global supply chain have created opportunities for U.S. small businesses that simply did not exist before.

China is no exception. Since 2000, U.S. exports to China have grown from $16 billion to $55 billion. That is a 23 percent annual compound growth rate, fives times faster than our exports have grown to the rest of the world. When you add service exports and sales through affiliates, American companies are selling more than $100 billion worth of goods to the Chinese market each year.

And more than one-third of U.S. exports to China are produced by small and medium-sized enterprises, and the number of SMEs that are selling into China's market has increased five-fold since 1992. given China's spectacular double-digit growth, those opportunities will only continue to grow.

Third, U.S. small businesses benefit from import competition. Trade provides more affordable imported energy, lumber, iron ore, steel, rubber, computer chips, bearings, and other components used by U.S. companies, small and large, to make their products—their final products are more globally competitive prices.

Imports allow smaller U.S. firms to acquire the capital equipment they need, including computers, to increase their competitiveness. Import competition, thus, promotes innovation, efficiencies, and ultimately the productivity gains that mean higher profits and higher real wages.

Fourth, U.S. small firms benefit from access to global capital. Foreign producers who sell in the U.S. market can use their earnings to invest in our domestic economy. And inflow of foreign capital, which is really the flip side of the trade deficit we have been talking about, reduces long-term U.S. interest rates by almost a full percentage point. Lower rates mean lower borrowing costs for U.S. small businesses, allowing them to expand their productive capacity.

Fifth, U.S. small manufacturing firms can thrive in a more open economy. Tens of thousands of U.S. manufacturing companies are producing a higher volume of goods and services today than ever before. Since the early 1990s, the total volume of output of U.S. manufacturers has risen by 50 percent into record territory. Manufacturing profits last year in the United States reached a collective $400 billion. That is an 18 percent return on investment. It is a myth that our manufacturing base is shrinking.

To capitalize on all of these opportunities, America's small companies need a trade agenda that expands their freedom to sell, invest, and buy, in a growing global economy. That agenda should include bilateral, regional, and multilateral trade agreements that reduce trade barriers with our major trading partners. And those agreements—this is especially important to small business—they establish predictable and enforceable rules that increase the transparency when smaller U.S. companies venture abroad.

And absent trade agreements, Congress should enact unilateral trade liberalization here in the United States. What U.S. small businesses do not need are higher trade barriers to our domestic market. Punitive tariffs against a country such as China would threaten to drive up costs for U.S. small businesses and jeopardize export opportunities in growing markets abroad.

Anti-dumping orders and other tariffs against such imports as steel or agricultural commodities drive up costs for domestic producers, many of them small businesses. Nor do U.S. small businesses need a larger share of federal subsidies for international trade. While small and medium-sized companies may qualify for such programs as the Export-Import Bank or the Market Access Program, they account for a small dollar share of total federal support.

U.S. companies do not need federal subsidies to compete effectively in foreign markets. Our research at Cato has shown that U.S. exporters have outperformed their counterparts in Great Britain, Germany, France, Canada, and Japan, even though the share of U.S. exports receiving government support is relatively low.

Federal export subsidies do not promote more exports overall, but only reshuffle the export pie in favor of larger U.S. companies at the expense of smaller exporters.

ChairwomanVELÁZQUEZ. Mr. Griswold, your time expired. Can you summarize, please?

Mr.GRISWOLD. One sentence in conclusion. In conclusion, if Congress and the administration want to increase opportunities for U.S. small businesses to compete and thrive in a global economy, they should work together to reduce barriers to international trade and investment wherever they exist.

Thank you.

[The prepared statement of Mr. Griswold may be found in the Appendix on page 121.]

ChairwomanVELÁZQUEZ. Thank you.

I would like to address my first question to basically all the members of the panel, and this is talk about negotiation and trade agreements. We all know that the negotiation process is a critical component of the nation's trade strategy. By setting priorities, implementation procedures, and industry rules, this process determines who benefits from trade agreements.

So I would like to ask each one of you if you can recommend any provision that should be included in negotiation standards that you think will increase small business benefits from trade agreements. Ms. Chandler?

Ms.CHANDLER. Thank you. Well, the trade agreements that are currently being negotiated and that have been negotiated start to address a number of non-tariff trade barriers and tariff barriers that are helpful to any company that is looking to get into a foreign market.

Certainly, there are other provisions that could be negotiated and could help small and medium-sized companies as well as large companies. Some issues that we have been looking at recently for our membership include environmental standard harmonization, looking at the way standards are harmonized, as well as the use of fair use provisions in free trade agreements.

Intellectual property rights is a very, very important component to our members, both for copyright piracy, but there is also an IPR issue of fair use. A number of our members rely heavily on consumers' lawful use, sort of Section 107 of U.S. copyright law, to access domestic markets. And now increasingly with innovation and export to foreign markets, it is going to be an important component of innovation abroad.

The U.S.-Chile Free Trade Agreement is the only free trade agreement that has looked at fair use in some way in free trade agreement. It addresses knowingly circumvent language. We would advocate that other free trade agreements adopt a template that brings that language into future negotiations. That will allow companies like Google who cache images, Tivo, Sling Box, Sling Media, who take time and play shift content, to operate overseas.

Thank you.

ChairwomanVELÁZQUEZ. Thank you.

Mr. Seilkop?

Mr.SEILKOP. I think the biggest thing that I would ask is we just enforce the trade agreements that are in place, which I don't see happening. And, again, I embrace the Congressman who talked about fair trade. As I said, we are not against—we don't want tariffs and barriers. We just want to be able to compete on a level playing field, so anything that can be put into trade agreements that helps us in that area would be appreciated.

ChairwomanVELÁZQUEZ. thank you.

Mr. Caspers?

Mr.CASPERS. Yes, thank you. Regarding the negotiated process, I think certainly a number of the agreements we have today, as I mentioned in my testimony, have achieved much greater access in the markets across the world. A lot of the reasons the reduction in tariffs in those markets, and under a reasonable timeframe, I think a lot of the agreements that are pending achieve that as far as pork is concerned.

One issue that is a primary concern to us is our SPS issues, making sure that we have true access. The acceptance of the U.S. meat inspection system as an equivalent is certainly important. We have seen other agreements where that wasn't the case, that we, in reality, did not have access. But the current agreements that are pending in all cases they have agreed to accept the U.S. meat inspection system as equivalent to their own system. So that will give us good access.

Certainly, transparency and how all the rules and regulations of trade are applied is an important and consistent application of those regulations. And, lastly, I guess I would say that, you know, some kind of a timely mechanism for dispute settlement is certainly important.

ChairwomanVELÁZQUEZ. Thank you.

Dr. Brainard?

Ms.BRAINARD. It is an important question. My hunch is that there is probably not one particular provision, that there is a diversity of interest among the small business community. But they are going to weight priorities quite differently I think than their large corporate counterparts, who I believe do tend to get better representation because of their resources in the policymaking process and the negotiating formulation process.

And so rather than focusing on one provision, I think as this Committee has done in their earlier questioning is to ask whether there are things that Congress could ask for, either in trade promotion authority, in the budget, that would ensure that there is special access mandated for a small business to be represented either as a share of each industry represented or as sort of special access point within USTR and within Commerce.

ChairwomanVELÁZQUEZ. Do you think it was a fair question to ask to Ms. Moore when I questioned her regarding the lack of out of the 22 USTR representatives that none really is there to represent small businesses, or a special one just to represent small businesses?

Ms.BRAINARD. I mean, I think if you look at the kind of increase of the ouster positions, over the years they have been put in place where an industry segment or a set of concerns have been seen to not receive the kind of attention that they deserve in the economy. So I think it is one possible answer.

I think her answer, which is that it is a cross-cutting issue, is certainly true. The question is, okay, then, create an institutional mechanism to make sure that cross-cut happens for every trade negotiating priority setting.

ChairwomanVELÁZQUEZ. thank you.

Mr.GRISWOLD. My answer would be to just echo what—a couple of things Mr. Caspers said. One, I think small businesses have the same interest as large businesses in market access, not just abroad but here at home. So I think speedily implementing commitments to market access. What are we at now? Eighteen years for phase-in on some of these things? I think that is getting—bordering on ridiculous, so I would condense the phase-in period.

Secondly, I think non-tariff trade barriers are important. It is one thing to face a tariff. It is another to face these maddening regulatory barriers, which big business can handle more easily. They have got lawyers. They have got representatives on the ground. You are talking about SPS and other non-tariff barriers, so I think negotiating transparency is very important for small business.

ChairwomanVELÁZQUEZ. Thank you.

Dr. Brainard, many U.S. companies have established export facilities abroad, particularly in China. U.S. corporations produce goods in these factories and many times export them back to the U.S. In your opinion, do trade agreements which not only open markets but also permit businesses to locate in partnered countries encourage the offshoring of U.S. industries?

Ms.BRAINARD. I don't think they necessarily encourage the offshoring. I think China is a special case, because there have been all kinds of provisions that are kind of hidden in all kinds of different ways—tax provisions, special preferences, and then actual requirements that multi-nationals who want to locate there and sell into the market have been traditionally required to actually export as a share of their production.

Now, the WTO rules should, to a great degree, level the playing field. But as we know on some of the tax incentives, they were violating I think the rules, and so, you know, it took USTR a long time to take a case on that. But I think they will prevail on it. So I don't think that they necessarily do, but a lot of countries—and China is I think a very striking example—do put in place rules that create incentives like that for multi-nationals.

ChairwomanVELÁZQUEZ. Thank you.

Mr. Seilkop, during the Clinton administration, they filed over 10 enforcement cases per year with the WTO to fight unfair trade practices, yet the Bush administration has only filed three per year. And I know that you talked about the manipulation of the currency, the Chinese manipulation of the currency.

So what we have here is a lack of strong enforcement of international agreed-upon trade regulations. Can you talk to us a little bit about what does that mean for businesses like the one that you have?

Mr.SEILKOP. I pretty much I think stated it in my testimony is that it just creates a totally unfair, unlevel playing field for small manufacturers, particularly in the tooling and machining field. My customers, in creating tooling and special machining, things like that, we make tooling that is actually used to produce other products, so these products are then possibly exported.

For me to create tooling to export to the foreign market is not a good case in point. There is already an overcapacity of what we produce in the Far East. They have created a lot of capacity to produce this. That is why they are exporting it back here in this country. What I have actually been encouraged to do is shut down my operation in the United States, buy a company in China, build tooling in China, and export it back to the United States. And something seems just really wrong with that for me.

ChairwomanVELÁZQUEZ. Thank you, Mr. Seilkop.

And now I recognize Mr. Chabot.

Mr. CHABOT. Thank you very much, Madam Chair. And just one comment quickly, and I don't want to get into too much of a spat here of the Clinton versus the Bush administration on this issue, or a whole range of issues that we could probably debate until the cows come home.

But it is my understanding, just relative to raw numbers, that in the Bush administration that they have been focusing on cases that they believe that they can win, and they are exercising their discretion to some degree and focusing on—there have been settlements, and they are negotiating cases where they think that they can actually get the job done short of going to court.

It is kind of a quality versus quantity issue. But in any event, I am sure the truth is somewhere in between all of that, and I would be certainly happy to follow up with you on that particular issue.

But let me go to Mr. Seilkop, if I can. You expressed your support for H.R. 782, legislation that would define currency manipulation as a subsidy under U.S. trade law and make it easier for the U.S. to impose new tariffs on Chinese goods under the countervailing duty law. And as you probably know, I am a co-sponsor of that legislation. I agree with you on that.

Could you elaborate on why this is an important step that we should take again?

Mr. SEILKOP. Well, it is our opinion from the National Tooling and Machining Association that the Chinese manufacturers, because of the currency 40 percent difference, have a tremendous advantage in exporting tools to the United States, and it is a tremendous barrier on importing product into China. It kind of works both ways, and it creates a tremendous amount of cash being transferred to the Chinese economy.

As I stated in my example, the gentleman in Dayton who happens to be a personal friend of mine, you know, he quoted 60,000. The order was let for 25,000; 18,000 of that was material. There is just not enough labor content in there. There has to be some subsidies going on somewhere or some inequities, because the technology is the same.

We in the United States use exactly the same technology to produce tooling/precision machining that they do in China. The same machine tools are used here that are used there. There is a difference in labor, but the labor content, you have to realize, as manufacturing has gotten more technical, the labor content continues to shrink. So the labor content of what we do just keeps getting smaller and smaller, which really makes that dynamic get bigger and bigger. It just emphasizes the fact that this currency thing is playing a bigger part.

Mr. CHABOT. Okay. Thank you. And you still have your opening statement there, I assume, in front of you there. Could you refer to right towards the end of the statement, the very end, you stated five recommendations that you would make that you thought would be particularly helpful. And I was just wondering if you could go over those one more time, if they are easily available.

Mr. SEILKOP. Yes. The strategy must include addressing currency manipulation, enforcing our trade laws, as I already mentioned, making permanent the R&D tax credit. That is another area that U.S. manufacturing, and particularly the Precision Tooling and Machining Association, we really need that tax credit to be made permanent. I think it expires the end of 2007. Again, it just kind of gets moved up year by year, and that is what really helps small manufacturers to find newer, faster, better ways to machine products.

And then, the health insurance—of course, we have been talking about this thing—the access of small companies to health insurance, we want to offer our employees good health insurance. But access is really tough for small companies, and there is no way for us to pool together like the big companies do.

So there has got to be something done to help us pool together. And then, of course, the unfunded mandates that we get, you know, OSHA, EPA, and all those things that the offshore competition isn't forced to deal with.

Mr.CHABOT. Thank you very much. I appreciate that.

And then, finally, Mr. Griswold, if I could go to you for just one more question. As you probably know—well, Mr. Kirk Miller from the U.S. Department of Agriculture testified a little bit earlier, and one of the things he mentioned—and I agree with much of what he said—he did mention one program, however, the Market Access Program.

And as you probably know, you know, there are a number of us that have not been fans of the Market Access Program, not because we don't think that what they do ought to be done. And, essentially, what they do is help to pay for advertising for trade associations to advertise their products overseas, which ought to occur. That was reformed. Prior to that, companies could get the funding to advertise their products overseas, and it was reformed, and then it was trade associations now that get the money to advertise overseas.

And, again, I want to be clear. Trade associations and companies should advertise overseas. We want them to sell their products overseas. The question is: should it be the taxpayer that pays for that advertising? Which is what the Market Access Program does. Or should the folks who directly benefit do it themselves?

I would come down into the category that the taxpayer ought not to do that, and I have offered an amendment quite a few times over the years. We have never prevailed on that amendment. We usually get about 100 votes out of 435. It is usually split between Republicans and Democrats to some degree, but I was just curious if you might want to comment on that from Cato's point of view.

Mr.GRISWOLD. Mr. Congressman, I think you are on solid ground in your critique of the Market Access Program. We have examined that at Cato, along with other export promotion programs, and we found that, one, they do not promote overall U.S. exports. They tend to just reshuffle the pie and focus U.S. exports in a particular area.

These programs tend to be very much biased towards bigger businesses that are doing that kind of advertising abroad. McDonald's and others have benefited from the Market Access Program. I have nothing against McDonald's, but they shouldn't be relying on the U.S. taxpayer to underwrite their advertising budget.

So I think you are on solid ground. U.S. companies have all the resources they need to advertise abroad. As we heard earlier today, U.S. exports are sizzling, including manufacturing exports, and they don't need the federal taxpayer to underwrite that success. So your amendments are on solid ground. They would not hurt U.S. exporters one bit. In fact, I think they would help small U.S. businesses to get a little bigger share of that growing export pie, if Congress wasn't distorting the overall picture.

Mr. CHABOT. Thank you very much. And if I could just conclude by my—one of the—my recollection of one of the more egregious examples of how the dollars can be sort of wasteful was the infamous California grapes situation where you remember the I Heard it Through the Grapevine, had the dancing grapes and stuff, and they were trying to sell them over in Japan, I believe it was.

Well, the people over there—they weren't sure what they were. They weren't familiar with the song, and they thought they were prunes or potatoes that were dancing. They couldn't figure out why they were dancing. And, apparently, small children were being scared by these commercials, and it was just sort of American tax dollars that were wasted. And so it is a great story, and so I thought the folks would appreciate that out there.

So, Madam Chairwoman, I yield back the balance of my time. And, unfortunately, I am going to have to head over to the Judiciary Committee to offer that amendment. They just sent me an e-mail.

I want to thank all the witnesses for coming and their testimony. I thought it was very helpful, and especially, obviously, the gentleman from my district, Mr. Seilkop, and his bride, who also happens to be here with him today.

Thank you.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot.

Mr. González.

Mr. GONZÁLEZ. Thanks very much, Madam Chairwoman. I guess I want to start with some basics, because I don't even think we start with the same basic principles. I am going to assume that the following is accurate.

If the world was just a big store, the United States would comprise 20 percent of the consumers frequenting that store. That is our purchasing power. That is our performance in these markets. So you would think we, in our country, have the citizens and the ability of those citizens to purchase just about everything under the sun that we could produce in our own country. But that is not happening.

And I know, Mr. Griswold, you said that manufacturing is not diminishing. It is actually increasing. So this American consumer goes to the store and would like to buy an American-made garment. Not going to be there. How about an American-made pair of shoes? Not going to be there. How about an electronic device, a television? I can't remember the last time Zenith or Emerson or whoever it was built something in the United States. That is not going to happen either.

You can buy a car manufactured in the United States, more likely than not by an international owner of that particular manufacturing plant, but that is okay. Tool die and manufacturing, I think we have a witness here who is telling us that is a real difficult thing to do. It is ironic that Mr.—is it Seilkop?

Mr. SEILKOP. Yes.

Mr. GONZÁLEZ. Seilkop. Produces machinery that then produces products. But the individual that he is selling to may not even purchase that domestically, but, rather, internationally imported, and then whatever they may produce they may not even have a market. So, I mean, it is almost ridiculous when you think in terms.

So why is it that we don't have that manufacturing capacity? And a lot of it, look, we have to just face the reality that sooner or later other countries are going to develop and have the ability to manufacture certain goods. I mean, I would like to know, Mr. Griswold, what is American business' stock and trade when it comes to exports?

Mr. GRISWOLD. Congressman, thank you for the question. The U.S. economy is changing. First, 80 percent of Americans and probably 80 percent of your constituents work in the services sector. And you can earn a good middle class job in the service sector—teachers, accountants, financial analysts—all these other things. Your constituents—most of your constituents are middle class service producers.

When you look at manufacturing, the overall output of U.S. factories, the real value continues to grow. It is up 50 percent from the early 1990s, double what it was in the 1980s. We are trading up. Yes, we are producing fewer shoes in Maine and other states like that, fewer T-shirts. Those tend to be low-tech, labor-intensive goods that have been moving offshore for decades.

What we are producing more of, Mr. Congressman, are things like pharmaceuticals, chemicals. We are also exporting a lot of agricultural products, soybeans and that sort of thing, aircraft, sophisticated semi-conductors, sophisticated medical machinery. These are things that have a lot of brain power in them, a lot of capital machinery behind them. So we are trading up in manufacturing.

Our manufacturing base is expanding. If you look at value added, it is about the same share of the economy that it has been for years and years.

Mr. GONZÁLEZ. But what you have described is big business.

Mr. GRISWOLD. That—

Mr. GONZÁLEZ. And let us find a component there somewhere for small business, and that is what we are discussing here. How can we fit that small business component in this big picture that you just outlined, because if there is increasing manufacturing capacity and we are actually increasing rather than decreasing, you have just described the arena pretty much occupied by big business.

What advice would you give Mr. Seilkop regarding his enterprise? Short of moving to China. But if that is your advice, to move to China, open your shop up, you ought to be real honest about that advice and say, "Do that."

Mr. GRISWOLD. It depends on the business that you are in, and maybe ultimately that would be the decision he would have to make. I am just saying if you are interested in the U.S. maintaining and expanding a manufacturing base, we are expanding our manufacturing base. Yes, perhaps more of it is big business.

They are the ones that have the capital, the R&D departments that can move up the value chain, but there are also a lot of small Mom & Pop medal fabricating plants and that sort of thing. And by the way, they have an interest in being able to buy affordable steel and other inputs at global prices, so when we put steel tariffs on imports we are jeopardizing jobs and a lot of U.S. manufacturers that use steel in their components. So—

Mr.GONZÁLEZ. Mr. Seilkop had a real good point, though, that we impose many more conditions that drive the cost up of manufacturing a product. And rightfully so, I mean, we don't want Third World conditions in our factories and such. I mean, that makes a lot of sense. Hopefully, we have progressed it a little bit further down the road.

Does he have a point that maybe we ought to be considering some of that? And how do we implement that to protect the small business individual and his investment? In other words, if you have a cheaply produced product from China that is not subject to the same regulatory scheme that we have in the United States, and for good purpose and for good reason—that works to the benefit of the manufacturer and the consumer—how do we adjust that?

And the second part of it is Mr. Seilkop has also pointed out the disadvantage of the Chinese currency pegged to the—artificially pegged to the American dollar. What about those two components?

Mr.GRISWOLD. Well, first, I would always advocate Congress to lower taxes on business and streamline regulations. Let us do it for the benefit of U.S. businesses and our economy. U.S. companies can compete. Countries will have different regulatory systems based on their level of development. China will have one, we will have another one, Europe has got yet another regulatory system.

We need to find what we can specialize in, just my point being the overall U.S. manufacturing sector is doing relatively well—record profits, 18 percent return on investment. Some manufacturers are losing out, moving offshore, others are expanding. That is just my basic point there.

The currency—I wrote a study last summer. You can find it at freetrade.org. But the bottom line is I think China does need to move towards a more flexible currency. They are moving in that direction. If the purpose of China's currency has been to discourage U.S. exports to China, it has been a spectacular failure. As I testified earlier, our exports have been going up 23 percent a year. Manufacturing exports to China are going up.

Mr.GONZÁLEZ. But the converse of that is simply it has made Chinese exports much more affordable and attractive, and we are a consumer nation, and we can't—

ChairwomanVELÁZQUEZ. Would you gentleman yield?

Mr.GONZÁLEZ. Of course.

ChairwomanVELÁZQUEZ. If we are doing so well, how can you explain the huge trade deficit?

Mr.GRISWOLD. I would say two responses, to not be too concerned about the trade deficit. One, imports are good. You know, your constituents are buying those Chinese goods every day. They are making the lives of your constituents better every day at home and the office, especially low-income constituents who spend a disproportionate amount of goods of their income on the kinds of products made in China—affordable shoes, affordable shirts. Those are good things for your constituents.

Secondly, the flip side of the trade deficit is capital, an inflow of foreign capital. The Chinese are saving a lot. We don't save very much here in the United States, including the Federal Government, which eats into the savings with its deficit. So those Chinese savings come here to the United States and help reduce interest rates, which is promoting investment, keeping mortgages down.

I would like to see China's currency be more flexible. I would like to see Americans, starting with the Federal Government, save more. But absent that, I think we should appreciate the tremendously mutually beneficial trade relationship we have with China.

Mr.GONZÁLEZ. May I reclaim my time? And I will finish up, Mr. Griswold, and I really appreciate—I know I am ignoring everybody else, but obviously I have some issues regarding Mr. Griswold's testimony. Would you support the Ryan legislation on Chinese currency?

Mr.GRISWOLD. I don't believe so. I think anything that results in higher tariffs against Chinese goods may benefit a certain small segment of the U.S. economy, but at the overall expense of your constituents, American consumers, our overall trade relationship with China. I don't want to jeopardize our tremendously growing exports to China, and I don't want to deprive Americans of access to those goods from China that are making our lives better every day.

Mr.GONZÁLEZ. And you pinpointed something—the increase in manufacturing capacity. And I would imagine that maybe chip manufacturing and processors and such, like Intel, how would you explain Intel setting up shop in China as being beneficial for the economic interest of the United States?

Mr.GRISWOLD. I would defer to my friend down at the other end who knows all about this industry. But my understanding is chips are not homogenous. We specialize in the higher end specialized processing chips here. We tend to offload the lower tech memory chips and other things to China. I think U.S. businesses should be free to arrange their supply chains in a way that maximizes the value for their shareholders, increases opportunities for their workers, but ultimately serves their customers.

Mr.GONZÁLEZ. And the Chinese will be quite satisfied for an indefinite period of time producing that particular chip, and maybe not benefiting by the technology or maybe higher end chips down the line, which would be in direct competition with Intel's operation in the United States.

I am not saying it is an easy call, but I am talking about Intel. And the same considerations they may have, I have got Mr. Seilkop here who is telling us, "I don't really want to move my operation to China."

And thank you for that, Mr. Seilkop. And I yield back.

ChairwomanVELÁZQUEZ. Time is expired.

Dr. Brainard, I would like to ask you—a trade deficit, as a measurement, does it question the competitiveness of a country?

Ms.BRAINARD. A trade deficit, sort of at a point in time, doesn't tell you. It is not sort of a sufficient piece of information in the sense that if we are growing much faster than our other competitors, and our investment opportunities here, the money that we are absorbing from abroad is being put in the highest productivity uses, it might be okay for a period of time.

Our trade deficit today is not okay, and it is not okay because it has been sustained over a very long period of time, because we are borrowing seven percent of our income every year from foreigners, and a disproportionate amount from China. And so I think over a very sustained period of time it should lead us to be very concerned.

The other thing that I think you always want to look at is, so where is the capital going that is coming into the country? And if it is being absorbed by Treasury bills to feed the deficit, because we have got unaffordable tax cuts that we are using—that we are doing at the same time we are prosecuting a rather expensive war, that should trouble us because you are not going to see a turnaround in terms of productive investments that are going to then be available to service that debt.

And, of course, the biggest concern is that the markets get nervous. And at that juncture, you could have a very strong shift in interest rates, which would curtail growth here. So it is just an unnecessary risk that the administration should have taken policy to avoid several years ago.

Chairwoman VELÁZQUEZ. Thank you.

And with that, I would like to thank all the witnesses for the testimonies today. And members will have five legislative days to submit statements and other materials for the hearing record.

The hearing is adjourned, and I thank you.

[Whereupon, at 12:52 p.m., the Committee was adjourned.]

STATEMENT
of the
Honorable Nydia Velázquez, Chair
Committee on Small Business
Hearing U.S. Trade Policy and Small Business
Wednesday, June 13, 2007

I am pleased to call the Committee's first hearing this session on U.S. trade policies to order. The country is currently facing many decisions concerning how we engage in global trade. New international commitments are being considered – such as free trade agreements with countries in Latin America and Asia – as well as with World Trade Organization members.

Congress is also considering reauthorizing the President's Trade Promotion Authority, which expires this month. Further, new resources are being proposed to help Americans adapt to global market integration through the reauthorization of the Trade Adjustment Assistance Act.

Designing this nation's trade strategy should incorporate a key source of competition and innovation in international markets – small businesses. US businesses have experienced mixed results as our economy has become integrated with those of foreign countries. Benefits from these changes include increased availability of foreign goods and vast new markets for businesses to access.

Since 2002, however, the nation's annual trade deficit has been rising to unprecedented levels, growing over 15 percent per year. This imbalance is largely attributed to a flood of imports, which has resulted in many US industries losing their position as global leaders.

Small businesses can help reverse some of the unfortunate trends caused by global integration and increase its benefits. Small businesses represent 97 percent of all export enterprises and dominate many industries that sell goods abroad. Entrepreneurs are also successful in meeting the challenges of a free market. Highly innovative and flexible, they are capable of adjusting to the dynamic needs of consumers.

However, these firms face barriers in maintaining a significant share of domestic and global markets. They are hit with higher costs for overseas transactions and domestic production. As a result, small companies generate less than one-third of export revenues and confront steep competition from low-cost producers.

Given their contributions, it is critical that entrepreneurs are considered in the nation's trade strategy and that obstacles to their competitiveness are removed. The first step is to incorporate their interests in the negotiation and implementation of trade policies. It is not enough for trade commitments to open markets – they must also be accessible for all US businesses.

Prioritizing small businesses in regional and world trade agreements requires mandating market access to the sectors in which entrepreneurs participate. It also involves providing trade facilitation measures; and ensuring information is available to cost-effectively market and transport goods abroad.

As unfair trade practices continue, such as intellectual property violations and import dumping, US enforcement must be strengthened. Harmonizing rules and fairly enforcing them helps level playing field for small firms. Addressing unfair trade balances, such as the US-China deficit, which increased by 12 percent since March, ensures small businesses remain competitive both globally and at home.

A comprehensive trade strategy must ensure that as we open our doors to foreign competition, our firms remain strong. US trade policy should create a modern framework that ensures businesses can access markets freely. Domestic assistance programs – such as those administered by the federal agencies here today – are key components of this framework. Related assistance, such as that contained in the National Export Strategy and the Trade Adjustment Assistance program, will ensure small businesses can take advantage of new markets.
Small firms play a crucial role in promoting the global competitiveness of our country's industries. Including them in the process of developing U.S. trade strategy will support the growth of the nation's economy as well as reduce the trade deficit. Effective policies and enforcement will ensure this nation remains a global leader. By doing so, we will make sure the benefits of trade are more widely distributed to not only businesses, but also to more of our nation's communities.

I now recognize Ranking Member Chabot for his opening statement.

Opening Statement

Hearing Name	U.S. Trade Policy and Small Business
Committee	Full Committee
Date	6/13/2007

Opening Statement of Ranking Member Chabot

Thank you, Madam Chairwoman, and thank you for holding this important hearing on the impact of United States' trade policies on small businesses. I'd like to welcome our distinguished panel of witnesses, especially Ken Seilkop, a constituent from the Cincinnati area, who I will introduce later.

One of the responsibilities of this Committee is to examine efforts to increase small businesses' access to global markets, including initiatives to reduce excessively burdensome administrative and legal requirements, promote free markets, support market-oriented reforms, and determine how current programs are working, or whether change is needed.

Our economy is robust and the most dynamic in the world, partly because we are so engaged in global trading. Exports generate economic activity that boosts our entire domestic economy. And exports create jobs – good, high-paying jobs across a very diverse portfolio of sectors – which increase prosperity throughout our states and communities, supplement the revenue base and fund critical local improvements. In my home state of Ohio, export-supported employment supports 1 out of every 15 private sector jobs. Our changing economy presents even greater, more diverse opportunities for economic prosperity for U.S. products with new trading partners.

Exporting is big business for small firms. In Ohio, trade supports 1.2 million jobs (or 18.3% of all Ohio jobs). Trade particularly benefits Ohio's small and medium-sized companies: in 2004, 88% of all Ohio exporters were small or medium-sized firms. In addition, U.S. small businesses need imports of raw materials, capital goods, and industrial products used to manufacture goods here in the United States to remain competitive.

This year, Congress may consider four pending Free Trade Agreements (FTAs), and we have the opportunity to work in a bipartisan way to accomplish renewed Trade Promotion Authority, which will be essential to complete the Doha Round. These efforts will help to reduce trade barriers and to ensure open markets to American products for all businesses, but especially for small companies that need the stability of negotiated agreements to create new trade in agriculture, manufacturing and services. And I hope that the Office of the United States Trade Representatives' focus on WTO enforcement cases, including on intellectual property and subsidies, will help large and small businesses here at home to compete fairly.

The federal government assists small exporters through a number of programs. But studies indicate that few exporting manufacturers rely on government programs for export sales assistance. A recent National Federation of Independent Business poll showed that just nine percent relied on the Department of Commerce's International Trade Administration for help, and only four percent contacted the Small Business Administration.

Barriers for small and medium-sized businesses that trade remain. The potential for small firms who export and import is almost limitless. I strongly support free trade agreements and believe we must do all that we can to help America's small businesses – the generators of jobs and the engine of our economy – to remain competitive and to grow through trade. However, in our very tight budget environment, I am skeptical about funding increases for federal programs. So, I look forward to hearing from our panel of expert witnesses about new and innovative ways we can expand trading relationships and keep our small businesses competitive.

STATEMENT OF
TIFFANY M. MOORE
ASSISTANT U.S. TRADE REPRESENTATIVE
INTERGOVERNMENTAL AFFAIRS AND PUBLIC LIAISON
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

BEFORE THE
HOUSE COMMITTEE ON SMALL BUSINESS

June 13, 2007

Madam Chairwoman and members of the House Small Business Committee, I am pleased to participate in today's hearing.

The Office of the U.S. Trade Representative (USTR) is responsible for developing and coordinating U.S. international trade policy. Our work aims to increase exports by expanding market access for American goods and services abroad and securing a level playing field for American workers, farmers and businesses of all sizes in overseas markets. USTR negotiates with other governments on these matters. We work closely with other agencies, Congress and numerous other stakeholders in this effort. In addition, we enforce agreements and resolve trade problems using a wide variety of tools, including bilateral discussions, negotiations, and formal dispute settlement proceedings.

For small business, our key task is to break down trade barriers abroad through government-to-government negotiations so that we open the door to new markets. Our partner agencies, such as the Department of Commerce, the Department of Agriculture, and the Small Business Administration (SBA), help small and medium-sized business and farmers walk through the door to take advantage of these new markets and new customers. Since 95 percent of potential customers reside outside our borders, American small businesses benefit when we expand U.S. access to consumers and households abroad who want to buy and enjoy our products.

Small businesses drive U.S. exports. Ninety-seven percent of all U.S. exporters are small businesses, accounting for more than a quarter of U.S. goods exports. Even the smallest of U.S. businesses are big players in global markets – according to the Department of Commerce, more than two-thirds of U.S. exporters have fewer than 20 employees.

U.S. Small Businesses Export to the World

USTR is committed to reducing trade barriers so that American small businesses can succeed in the world market. Our trade agenda is uniquely attuned to helping small business, by lowering the costs of selling to customers overseas, minimizing risks in foreign markets, insisting on intellectual property rights protection and enforcement, and promoting the rule of law, providing certainty and predictability for U.S. investors and small business owners. Where larger companies can take on the financial burden, manage the risk, and employ the necessary human capital to create new export opportunities abroad, small business owners frequently do not have these resources. That is why USTR's efforts to open the doors to exporting abroad --- and Commerce, USDA, and SBA assistance to help small businesses walk through the door – are needed.

Allow me to present some statistics to give you a more concrete picture of the importance of trade to U.S. businesses, both small and large, and their workers. Across the 50 states, trade is helping small businesses to succeed. SMEs accounted for almost 99 percent of the 1992-2004 growth in the exporter population. The number of SMEs that exported merchandise more than doubled in this period, soaring from 108,026 in 1992 to 225,139 in 2004.

For example, businesses in New York State exported to more than 200 foreign destinations in 2006, with exports of merchandise totaling $57.4 billion. New York was the third largest exporter among the 50 states in 2006, with its exports to the world increasing by $20.4 billion from 2002 to 2006. The state's largest market in 2006 was NAFTA member Canada ($12.2 billion), followed by Israel ($4.6 billion), and the United Kingdom ($4.2 billion). Other top markets included Switzerland, Japan, Hong Kong, Germany, Mexico, Belgium, and China. One-sixth of all manufacturing workers in New York are supported by exports (2003 data are the latest available), in categories such as computers and electronic products ($7.7 billion in 2006), machinery ($5.7 billion), transportation equipment ($5.5 billion), and chemicals ($4.8 billion).

According to the Department of Commerce, 25,146 companies exported goods from New York locations in 2005, the third highest number among the 50 states. Of those, 94 percent, or 23,548 firms, were small and medium-sized enterprises (SMEs), with fewer than 500 employees. SMEs generated more than half (54 percent) of New York's total exports of merchandise in 2005. That is the fourth highest percentage among the 50 states and well above the national average of 29 percent.

Likewise, in the State of Maine, where 2006 goods exports were equivalent to 6.6 percent of state GDP, exporters have been recognized for their achievements. The U.S. trade agenda of opening markets abroad offers more growth and sales opportunities for these Maine businesses. In April, the state held its annual **International Trade and Investment Awards.** Recipients are businesses or individuals who have demonstrated outstanding success in international trade. For example, The Maine Exporter of the Year for 2007 is **Oak Island Seafood Inc**. Established in 1995, Oak Island Seafood is a scallop processing company located in Rockland that services the domestic, European and Asian markets, selling fresh and frozen scallops to distributors and retailers around the world. The company has also introduced new lines of Maine seafood products, such as frozen coldwater shrimp and clams, to international markets.

Another example is the Maine 2007 International Innovator of the Year, **Trillium Diagnostics, LLC** of Brewer. Established in 1996, Trillium develops innovative medical diagnostics for laboratory hematology based upon the research of company founder and President Dr. Bruce H. Davis, and presently exports products to NAFTA partner Canada, the European Union, FTA partner Israel, FTA partner Australia, China, Japan, Brazil, and our prospective FTA partner, Korea.

The U.S. Trade Agenda and Small Business

However, more needs to be done to open markets for companies like Oak Island Seafood, Trillium Diagnostics, and tens of thousands of others across the country. Small and medium businesses have great potential for expanding their sales overseas, but the cost of doing business overseas is often too high for small firms. As a 2004 SBA report entitled," Costs of Developing a Foreign Market for a Small Business: The Market and Non-Market Barriers to Exporting by Small Firms found, trade barriers, including red tape in foreign markets serve as impediments to U.S. small business exports. For those companies who wish to take advantage of the international market place, the large start-up fixed costs of exporting are so high that they have served as another obstacle to exporting.

Small businesses need markets to be open and easy to navigate. The U.S. trade agenda is crafted to meet this challenge by pursuing trade opening efforts on three, mutually reinforcing, tracks, including global negotiations at the WTO, regional and bilateral free trade negotiations with numerous partners, and stewardship of the multilateral trading system through establishment and enforcement of an agreed-upon set of rules.

Doha Round: Breaking down barriers in a multilateral setting among the 150 Members of the WTO would create the greatest benefit in easing the costs of doing business for small businesses that sell abroad and use inputs from partners around the world. The U.S. commitment to completing the Doha negotiations remains strong. We will provide the necessary leadership, but all major trading partners have responsibilities, and must contribute. This Round is of critical importance for American farmers, ranchers, and businesses providing goods and services. But it is also a Development Round that has the potential to help lift millions out of poverty worldwide. The key to a Doha success is to create new economic opportunities on a global basis, and that can only happen with a strong market-opening outcome. The litmus test is a market-opening outcome that delivers meaningful new trade flows in agriculture, manufacturing, and services – which is also the best way to secure real development benefits

Accession to the WTO: Vietnam has become the 150th member of the WTO, marking an economic and governmental transformation in that country of historic proportions. The accessions of Ukraine and Russia are also pending. Strong U.S. bilateral market access agreements negotiated with each of these countries will help to ensure that they are fully-integrated and fully accountable participants in the trading system. U.S. leadership in this regard and the consistent and principled application of enforcement provisions at the WTO are helping to construct a set of rules that is the very embodiment of fair trade.

Bilateral and Regional Free Trade Agreements: Free trade agreements concluded by the United States are comprehensive agreements with strong commitments, setting the standards for these agreements around the globe. Our free trade agreements (FTAs) not only level the playing field for American farmers, ranchers, manufacturers and service providers, they also strengthen intellectual property rights, and they promote transparency and the rule of law, and safeguard labor and environmental standards. Exports to our FTA partners are growing twice as fast as our exports to non-FTA countries, and the jobs supported by goods exports pay 13 to 18 percent more than those not supported by exports.

Since 2001, this work on FTAs has resulted in agreements close to home in Latin America with Chile and with the six CAFTA-DR countries. It has enhanced U.S. trading terms in Asia through agreements with Singapore and Australia. Our work has moved us toward an unprecedented Middle East Free Trade Area, through agreements implemented with Jordan, Morocco, Bahrain and soon Oman.

More recently we have signed agreements with Peru, and Colombia and expect to sign an agreement with Panama at the end of June. We also expect to sign an agreement with Korea, our 7th largest goods trading partner, at the end of June. Congress must enact legislation approving our agreements with Peru, Colombia, Panama and Korea before U.S. companies, farmers, workers, and consumers can reap the benefits of these negotiations

The results of these FTAs speak for themselves: FTAs implemented between 2001 and 2006, netted a $13 billion U.S. trade surplus with trade agreement partners last year.

It is clear from other metrics as well that these market-opening efforts with FTA partners are bearing fruit. For example:

- CAFTA-DR - U.S. exports to the four Central American countries that implemented the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR) in 2006 were up 18 percent last year. Exports to El Salvador were up 16%, to Nicaragua up 21%, to Honduras up 14%, and to Guatemala up 24%.

- Bahrain – U.S. exports to Bahrain grew 40% to $491 million in 2006, as the FTA entered into force on July 1.

- Chile - U.S. exports to Chile have risen by over 150% since 2004, making the United States Chile's largest trading partner.

- Singapore - The U.S. trade surplus with Singapore tripled after the first year of the U.S.-Singapore FTA, reaching $4.2 billion, and rose to $6.9 billion in 2006. Building on an already healthy trade relationship, U.S. exports to Singapore have risen by over $8 billion (49%) since entry into force.

- Australia - Since the U.S.-Australia FTA went into effect, the U.S. trade surplus with Australia grew to $9.6 billion, with U.S. exports rising $3.6 billion to $17.8 billion in the first two years. U.S. exports to Australia have risen 25% since the agreement entered into force.

- Jordan - U.S. exports to Jordan have risen by 92% since the U.S. – Jordan FTA went into effect in December 2001.

- Morocco - U.S. exports to Morocco increased by 67% in the first year after entry into force, growing from $525 million in 2005 to $878 million in 2006.

Moreover, SMEs account for substantial U.S. export shares in many key markets. In 2005, for example, small and medium-sized businesses accounted for 43% of U.S. exports to Central America. Central America and the Dominican Republic represent the second largest market for U.S. small business exports in Latin America, behind only Mexico. Of the more than 14,000 U.S. exporters to Central America in 2005, 88% were small and medium-sized. To take another example, in 2004, small and medium-sized businesses accounted for one-quarter of U.S. exports to FTA partner Australia. Of the over 22,000 U.S exporters to Australia, almost 90% were SMEs.

Enforcement: The Administration's trade agenda recognizes the pressure created from a growing and increasingly competitive global economy. Our agenda addresses these pressures in three positive and effective ways: by creating new opportunities in global markets, by setting fair rules for trade, and by enforcing those rules using every available tool. Enforcement has been and continues to be a critical piece of our trade agenda.

At the same time that we are negotiating new agreements, enforcement of existing agreements is also essential. We have remained vigilant in using all the tools we have to ensure that the rules of trade are fair and that our trading partners honor their commitments to these rules. We have been a party in over 70 WTO cases - on everything from high fructose corn syrup to biotechnology, to aircraft subsidies.

In this context, we have devoted considerable attention to enforcement with regard to China. Now that China has completed its transition as a member of the WTO, we have moved into a mature relationship with this valued trading partner. That means holding China to its WTO commitments, as we would any other WTO Member. Recognizing this and given our wide-ranging trade relationship with China, last year Ambassador Schwab established a chief counsel whose sole responsibility is enforcement of China's trade commitments.

We have shown that we are genuinely committed to challenging China's WTO-inconsistent practices that harm American workers and businesses. I would mention that the United States was the first country to initiate a WTO dispute settlement case against China. In addition, last year, USTR brought a case on China's unfair charges on U.S. auto parts exports. In February of this year, we brought a case against China's subsidy programs, and this has already resulted in the elimination of one of the challenged programs. By subsidizing China's exports to the United States and denying U.S. exporters a fair opportunity to compete in China, the Chinese subsidy programs unfairly affect U.S. manufacturers – especially small businesses - and their workers. Elimination of the subsidies will help level the playing field for U.S.-based manufacturers across a range of industries, and, in particular, for America's small and medium-sized businesses.

Most recently, USTR requested dispute settlement consultations with China on two issues. The first involves deficiencies in China's legal regime for protecting and enforcing copyrights and trademarks on a wide range of products, and the second involves China's barriers to trade in books, music, videos and movies. Inadequate protection of intellectual property rights in China costs U.S. firms and workers billions of dollars each year, and in the case of many products, it also poses a serious risk of harm to consumers in China, the United States and around the world.

An earlier dispute with China involving paper products was resolved with merely the U.S. threat of a WTO case. And for every one of these high profile disputes at the WTO against China, there are numerous enforcement priorities that we are achieving more quietly on an ongoing basis through bilateral mechanisms like the Joint Committee on Commerce and Trade. In addition, efforts like the Strategic Economic Dialogue allow us to discuss broad, cross-cutting issues with top Chinese decision-makers, in an effort to improve communications and avoid or minimize future problems.

For small businesses, this rules-based approach to trade is critically important to our continued competitiveness in international markets.

Addressing the Needs of Small Businesses

By reducing the (often hidden) costs of doing business overseas, U.S. trade agreements open promising new markets for American small business. Simply put, the trade agenda makes it easier for small business to sell overseas and expand their customer base. Here are some specific ways in which our WTO and FTAs open doors abroad for U.S. small business:

- **Reducing Tariffs -** High tariffs are added taxes on U.S. exports, driving up the cost of the product and narrowing potential markets. USTR is working both through Free Trade Agreements (FTAs) and in the WTO to open markets by bringing down tariffs on agricultural and manufactured goods.

- **Non-Tariff Barriers:** Inconsistent customs procedures, lack of transparency and burdensome paperwork can serve as barriers to trade. U.S. trade agreements eliminate numerous non-tariff barriers that are especially harmful to smaller companies because they usually add to the fixed costs of doing business, and they are often unforeseeable. The United States is leading efforts in the WTO to help enhance transparency, promote efficiency and reduce the costs of trade.

- **Transaction Costs:** Inconsistent licensing requirements and inspection standards can add costly processes and time prohibitive steps for a small business. While a licensing fee may be a nuisance for larger companies, it can be prohibitive for smaller ones. Smaller companies, with lower sales and profits than larger companies, have less revenue across which to spread fixed costs. U.S. trade agreements are particularly useful to American small businesses because they lower transaction costs in overseas markets. Lower transaction costs mean more small businesses will find sales that are profitable.

- **Enforcing Intellectual Property Rights -** Information for obtaining a patent in a foreign country is not easily accessible or readily digestible. Disparities in patent systems create a large capital expenditure for small businesses trying to protect their rights, and these businesses are then left with few resources to enforce their rights. Because a patent or trademark is only as valuable as its capacity to be enforced, USTR, in coordination with the Patent and Trademark Office, the Department of Homeland Security, and the Department of Commerce, launched the Strategy Targeting Organized Piracy ("STOP!") Initiative -- www.stopfakes.gov. This program helps small businesses learn how to protect their intellectual property. Additionally, the United States is actively working with our trading partners to ensure that patents and trademarks are enforced abroad. Activities in this area include capacity building and training programs for law enforcement and customs officials, for example.

- **Transparency:** One of the most significant obstacles to small U.S. companies seeking to do business overseas is the complicated web of differing rules, standards and business cultures they must negotiate. U.S. trade agreements are increasingly focused on creating a transparent business environment, so that U.S. companies know what the rules are and that they will be applied fairly and consistently. Trade agreements are our single best tool for creating a level playing field for U.S. small business.

- **Expanding Services Trade** – Services account for over two-thirds of the U.S. economy. For American small businesses, e-commerce and the Internet reduce transaction costs significantly, while increasing the pool of potential customers around the globe. Through the WTO and FTAs, the United States is working to reduce non-tariff barriers across all service regimes, including financial services, telecommunications, computer and related services, express delivery, distribution and energy services.

Conclusion

We have unique and historic opportunities for the trade agenda that are still ahead. The important bipartisan agreement on trade reached in May offers a clear and reasonable path forward for all four pending FTAs – with Peru, Colombia, Panama, and Korea -- even though each will move along that path in its own way and in its own time.

It also opens the door for an extension of Trade Promotion Authority, which will be essential to complete the Doha Round.

A successful conclusion to the Doha Round and passage of legislation implementing each of the pending FTAs would bring benefits to small businesses and households across the country. Consider the agreement reached with Peru, a strong ally in Latin America. Passage of legislation implementing this agreement will benefit Ross Valve Manufacturing Company in Troy, New York. The company's vice president, Andy Ross, recently summed up the direct benefits of the agreement for his company saying,

> We are a family-owned fifth-generation American manufacturer and have been doing business in Peru for 60 years, but without a free trade agreement our market share will remain small compared with other overseas manufacturers. A free trade agreement with Peru would allow Ross Valve to grow our overseas business while adding jobs here in the United States.

In Asia, the United States-Korea (KORUS) FTA offers tremendous export opportunities for small businesses and farmers across the United States. This is the most commercially significant FTA we have negotiated in over 15 years, as Korea is a trillion dollar economy and the United

States' 7th largest export market. Moreover, the KORUS FTA advances the ability for the United States to increase its economic footprint in Asia. Consider opportunities for pork farmers in Illinois. Commenting on the KORUS FTA, Jill Appell, President of the National Pork Producers Council and a pork producer from Altona, Illinois, said

> U.S. pork producers are excited about the new deal... the U.S. trade team came through for pork producers and delivered a fabulous deal that will eliminate duties on U.S. pork exports and generate hundreds of millions of dollars in new pork exports.

To conclude, trade is good business for America's small businesses and producers. We are committed to leveling the playing field abroad with an active trade agenda, and opening new doors of opportunity so that U.S. small businesses can succeed in the global marketplace.

Thank you and I look forward to taking your questions.

The Honorable Israel Hernandez
Assistant Secretary for Trade Promotion and Director General of the U.S. & Foreign Commercial Service
International Trade Administration, U.S. Department of Commerce
Testimony Before the House Committee on Small Business
"U.S. Trade Policy and Small Business"
June 13, 2007

INTRODUCTION

Madam Chairwoman, Ranking Member Chabot, and distinguished members of the Committee, thank you for the opportunity to appear today to discuss the International Trade Administration's (ITA) efforts to strengthen and support America's small businesses. I welcome the committee's ongoing focus on this topic, and its dedication to strengthening our nation's small businesses—the true backbone of our economy.

The mission of the International Trade Administration is to create prosperity by strengthening the competitiveness of U.S. industry, promoting trade and investment, and ensuring fair trade and compliance with trade laws and agreements that enhance the ability of U.S. firms and workers to compete and win in the global marketplace. This mission has never been more important than in today's dynamic and competitive global business environment.

We aggressively work to counter unfair market access barriers that impede U.S. exports. Moreover, when U.S. businesses seek to promote their goods and services in overseas markets, our programs smooth the way. In short, ITA helps America's firms and workers navigate through the often complicated and unpredictable waters of foreign trade -- so that U.S. firms' sales abroad help to bolster their growth here at home.

ITA is committed to strengthening the competitiveness of U.S. small businesses in the expanding global marketplace. This priority will continue to drive the work of each of the four operating units of ITA.

Import Administration (IA) - IA enforces the U.S. unfair trade laws (i.e., the anti-dumping and countervailing duty laws - AD/CVD) and develops and implements policies and programs aimed at countering foreign unfair trade practices.

Market Access and Compliance (MAC) - Ensuring that our trading partners fully comply with their trade agreements with us is a top priority for ITA's MAC unit. MAC is proactively monitoring compliance and helping U.S. firms gain market access as quickly as possible.

Manufacturing and Services (MAS) - MAS focuses on both the domestic and international aspects of U.S. competitiveness by working with our industries to evaluate the needs of both the manufacturing and service sectors, conducting economic and regulatory analysis to strengthen U.S. industry, obtaining input and advice from U.S. industries for trade policy, and participating in policy and trade negotiations.

U.S. and Foreign Commercial Service (USFCS) - As ITA's Assistant Secretary of Trade Promotion and Director General of the U.S. and Foreign Commercial Service, I have the privilege of being part of an organization that is dedicated to helping U.S. companies, especially small and medium-sized enterprises (SMEs), compete and win in the global economy. We are a field-based network of trade professionals stationed in 108 U.S. cities and 81 countries overseas who work with U.S. companies on the ground to develop customized solutions, including counseling and advocacy, market research, trade events, and identifying international partners. We guide companies through every step of the export process, from shipping and logistics to foreign regulations.

TRADE, SME EXPORTERS, AND THE U.S. ECONOMY

Madam Chairwoman, our mission has never been more important. Today, trade is booming, and our economy is more closely tied to the growing global economy than ever before. Exports comprised 11.1 percent of our GDP in 2006 – the highest ever in dollar terms. Four years ago, it was 9.6 percent. Clearly, America's companies depend more and more on the fact that 95 percent of the world's consumers live outside the United States.

In 2006, for the first time in nearly a decade, exports grew at a faster rate than imports; exports grew by 12.7 percent while imports increased by 10.5 percent. These numbers also reflect significant export growth to almost all of America's key trading partners, with U.S. exports rising to 29 out of 30 of our largest trading partners, including export growth of more than 20 percent to countries as diverse as Germany, Brazil, China and Chile.

One of the most important export trends is the continued boom in trade with major emerging markets where rapid economic growth has brought three billion new customers in the pipeline. Ten years ago, U.S. exports to China were $12.0 billion. Today, China is the fourth-largest export market for the United States, as well as the second-largest trading partner. Exports to China grew by 31.7 percent to $55.2 billion in 2006 over 2005. U.S. exports to India increased by 26.3 percent to $10.1 billion in 2006, while exports to Brazil increased 25.1 percent to $19.2 billion.

To put this in some context, U.S. exports to China were greater than exports to Argentina, France, Italy, Russia, and Spain combined. Among the industries that made headway last year in those challenging markets were energy, electrical machinery, organic chemicals, aircraft and medical equipment.

Among the fastest-growing sectors in manufacturing exports were capital goods, such as airplanes, semiconductors, and industrial machines; industrial supplies, such as petroleum products, organic chemicals, and precious metals; and automotive vehicles, parts, and engines. In services, travel and passenger fares stood out, with a record $107.4 billion in receipts last year.

SME exporters have benefited significantly from this growth. The number of companies exporting has increased by 7 percent from 2002 through 2005 (latest data available). This growth occurred exclusively in the small business category as over 14,000 SMEs were added to the ranks of exporters during this period. The total number of SME exporters now stands at 232,000. Ninety-six percent of manufacturing exporters were SMEs while 99 percent of wholesalers were SMEs. Almost 60 percent of SME exporters only export to one market, but there were about 33,000 SMEs that exported to five or more countries in 2005.

EXPORTING IS EASIER THAN EVER FOR U.S. SMEs

A major reason there is such good news regarding SME exporters is that it has never been easier for them to compete successfully in the global marketplace. Many of the barriers that once impeded the flow of international business have been greatly reduced. Trade agreements, technology, and new business services are all working to make exporting more viable for small businesses.

Eight rounds of multilateral trade negotiations since 1947 have dramatically reduced tariff rates. Tariff barriers have also declined with the major emerging markets. China, for example, has reduced tariff rates from an average of 25 percent in 1997 (before China joined the World Trade Organization) to less than 10 percent by the end of 2005.

By continuing to focus on opening new markets, either through multilateral agreements such as the Doha Round, or through bilateral Free Trade Agreements (FTAs), our firms and workers are gaining ever-greater access to world markets.

The positive impact of our FTA agenda is clear. In 2006, our FTA partners made up 7.3 percent of the world's GDP (excluding the United States) but our exports to these countries comprise almost 43 percent of our total worldwide exports. Given the positive impact of the FTAs, extension of Trade Promotion Authority is all the more essential as we move forward.

FTAs are particularly important for SMEs. Lower foreign market tariffs reduce SMEs' to-market costs. And FTA transparency obligations are very important to SMEs, which may not have the resources to cut through customs and regulatory red tape. In 2005 (latest data available), U.S. merchandise exports from SME exporters to our FTA partners totaled $82.1 billion. Over 90 percent of U.S. companies exporting to Canada, Mexico, and Australia are SMEs. At least 70 percent of all U.S. companies that export to Chile, Morocco, and the individual Central America–Dominican Republic FTA (CAFTA–DR) countries are SMEs. The SME share of U.S. exports exceeds 30 percent in eight of our 14 current FTA partners.

ITA will continue to work to ensure that U.S. businesses take full advantage of the FTAs, reaching out to U.S. exporters to ensure they have the information and tools to take advantage of commercial opportunities created by the FTAs. From enforcement to market access and trade promotion activities, all of ITA's units are engaged in this effort.

Technology and advanced global business services are bringing about the dramatic elimination of distance as an impediment to trade.

E-commerce is an increasingly powerful tool for marketing products and services around the world. In less than a decade, the number of Internet users worldwide has grown from 147 million in 1998 to more than one billion in 2006. While the United States leads the world in e-commerce, other major markets, both in developed and developing countries are growing more comfortable with placing orders and making payments online. The United States is home to the world's top e-commerce platforms, such as Amazon, eBay, and Google. For small companies particularly, e-commerce represents new access to growing business sectors and middle class consumers around the world.

Exporting has also been made easier through improvements in export business services, such as the full service logistics and shipping services of companies like FedEx, UPS, and DHL. These companies have hundreds of thousands of employees spread throughout the world, and continue to pioneer new management processes and technology applications to make exporting easier.

CHALLENGES REMAIN

Despite the good news, challenges remain for U.S. small businesses that are interested in entering into the global marketplace. While the share of our economy accounted for by exports has grown the last few years, it has remained roughly 10 percent over the past 25 years. Likewise, while the number of U.S. companies exporting has begun to rise in recent years, participation of U.S. companies in exporting has remained generally flat over the past decade. Thousands of U.S. companies have competitive products and services and the potential to export. Some may even be getting orders from overseas, but remain focused only on the domestic market. Thousands of U.S. companies also occasionally fill foreign orders, but have not developed a proactive business plan for targeting markets and going after foreign sales. We know that many companies are not fully aware of the opportunities that await them. Just as importantly, many hold outdated perceptions about the difficulties of exporting, and do not realize that exporting has become easier than ever through new market access, new technology, and the availability of new business services.

Our mission is to tackle this challenge by encouraging more U.S. small businesses to take advantage of improved ease of access to foreign markets and improved opportunities in a growing world economy. Our efforts, therefore, are aimed at deepening our exporter base and growing our exports, along with a continued focus on competitiveness, opening new markets, enforcing our trade laws, and ensuring compliance with our trade agreements.

THE U.S. COMMERCIAL SERVICE: HELPING AMERICA'S EXPORTERS OVERCOME THOSE CHALLENGES

Madam Chairwoman, I would like to take a moment to highlight how the programs of the U.S. Commercial Service within the International Trade Administration help America's SMEs seek and take advantage of global commercial opportunities.

Matchmaking and Counseling – Last year, the total number of export successes reported by our trade specialists and diplomats overseas reached nearly 12,000. The value of these successes, logged mostly on behalf of small companies, was $32 billion. An export success occurs when a U.S. exporter makes a new sale in foreign markets as a direct result of Commercial Service assistance, usually in the form of matchmaking, counseling or market information. We track three classes of export successes: New-to-Export successes are companies entering a market for the first time; New-to-Market successes are current exporters entering an additional foreign market; Increase-to-Market successes are companies that gain new sales in a current market. An example of what the Commercial Service does every day on behalf of American exporters is captured by the exporting success of Leviathan, a Brooklyn based trading unit of the I & E Tire Corporation.

Our trade specialists in the U.S. Export Assistance Center (USEAC) in Harlem, and in Kenya and Djibouti were instrumental in obtaining a key report about an industrial park venture outside Djibouti City, which will include a transportation plant for 500 Mack trucks. Obtaining this report was critical to the company's success as it enabled the company to quickly put together a bid for supplying tires for a truck assembly plant that was going to be built there. As a result of the market research and client background information provided, Leviathan reported the sale of four large used trucks to Djibouti for a total of $250,000. Leviathan continues to receive counseling from the Harlem USEAC as it seeks to identify trade opportunities worldwide.

Advocacy – The Advocacy Center has an SME advocate devoted to supporting SME requests to help level the playing field in international exports. In FY 2006, the Commercial Service successfully completed an unsurpassed total of $36.5 billion in U.S. export content of Advocacy cases. This total includes small and medium-sized Advocacy clients which won contracts worth an estimated $9.9 billion, with an estimated U.S. export content of $8.3 billion. Also in FY 2006, SMEs initiated new advocacy cases for projects still pending worth an estimated $5.8 billion and U.S. export content of $2.7 billion.

For example, Landrum and Brown, Inc. (L&B), a small Ohio architectural firm, came to our Advocacy Center seeking U.S. government advice and assistance on a bid for the expansion of the Shanghai Pudong Airport. The Center helped L&B to secure a competitive financial package and to demonstrate the full support of the U.S. government for this small business that was new to the China market. Specifically, the Center coordinated letters from Secretary Evans, Secretary Mineta and Ohio Governor Taft to key Chinese decision makers. In winning the Shanghai contract, the Cincinnati company, with fewer than 100 employees, beat out large multinational players from around the globe.

Trade Missions -- In the first half of fiscal year 2007, the Commercial Service conducted 11 missions with more than 350 U.S. business participants. The majority of participants on these missions were SMEs. In this same timeframe, the Commercial Service also supported or hosted another 15 Certified Trade Missions (missions supported by the CS but led by state/local officials or trade associations) including events led by several cities and states, as well as trade groups including the National Association of Women Business Owners (NAWBO) and the Center for Latin American Issues (CLAI).

Last December, we took more than 250 executives from 200 U.S. companies to India on the largest trade mission ever organized by the U.S. Government. The mission began with a business summit in Mumbai, with spin-off missions to Bangalore, Chennai, Hyderabad, Kolkata, Mumbai and New Dehli. Already, we have seen tangible results such as the following example.

> JQ American Corporation, a small American medical device company in Oakland, CA that participated in the India trade mission, won a $22.3 million deal with the Indian non-profit Bhopal Medical College Trust to provide a wide range of medical equipment to a new medical college to begin construction this year. The Oakland USEAC and our team in India were instrumental in setting up the talks that resulted in the deal.

GOING FORWARD: OUR PLAN TO REACH MORE POTENTIAL SME EXPORTERS

Building on this foundation of solid programs and services, we have developed a plan through the Trade Promotion Coordinating Committee (TPCC) to reach out to more potential U.S. exporters and expand the exporter base. The TPCC is comprised of the Federal agencies that have trade promotion activities, is chaired by the Secretary of Commerce, and is charged with setting forward looking trade promotion priorities. An example of such a relationship is the Small Business Administration which has 16 senior international trade specialists located throughout the country working at various USEAC locations.

Focusing on Strategic Partnerships:

Commercial Service is deepening and broadening its partnerships with state and local governments, trade associations and business groups, major U.S. corporations and banks, and all other potential stakeholders. We know that many current exporters value the Federal Government's unique services, such as its global network of trade experts, market research, risk management and financing solutions, and problem-solving services. Some stakeholders such as cities and states, trade associations, corporations and banks possess customer contacts, marketing skills, financial services, logistical might, and technological sophistication that can help the Federal government reach the thousands of U.S. companies unaware of the assistance available and the export opportunities in their reach.

The Corporate Partners Program: Our efforts undertaken over the past few years to partner with key private sector firms is proving to be very successful. Through force multipliers, such as Federal Express, UPS, eBay, Google, PNC Bank, and M&T Bank, we are reaching out to more small and medium-sized exporters. This effort is absolutely key to our future success. Through these marketing partnership contracts, we are reaching thousands of companies that are either new or potential exporters. These partnerships allow the Commercial Service to reach far beyond its previous limits to more SMEs throughout the country. For example, in early March, Google reviewed Export.Gov and gave us suggestions on how to make the site easier for companies to find when doing Google searches. Since instituting these changes, visits to Export.Gov from Google search engines increased three and a half times from 6,975 to 24,914.

State & Local Partners and Trade Associations: We recently kicked off an outreach strategy that we have dubbed the "50/50/50" plan. To date, the Commercial Service has contacted all 50 governors, 50 mayors, and over 50 trade associations, encouraging them to work with us to lead trade missions. State governments often have an unrivaled understanding of local market dynamics, and are often the trusted first point of contact for businesses seeking assistance. We want to work more closely with the states on client tracking, and are encouraging governors and mayors to lead more trade missions. Likewise, trade associations have unique expertise on the export potential and the issues surrounding their industry sectors. Again, we are encouraging trade associations to conduct more trade events and to ensure greater access for their members to export assistance.

In addition we invited all Members of Congress and staff to join us on May 1, 2007, for a Congressional Trade Mission/Export Seminar Forum to provide information on how Members can engage constituent companies in learning about exporting opportunities. As a result, we are working with a number of Members who want to host "Exporting 101 Seminars" for constituent businesses in their districts or states and/or lead a trade mission comprised of companies from their district or state.

The Administration's National Export Strategy establishes partnerships as a top priority, encouraging all trade promotion and finance agencies within the Federal government to develop broader and deeper partnerships with all stakeholders in society that have the same interest in seeing their clients or constituents succeed in foreign markets.

Using the Internet

More and more small businesses are using the Internet to find opportunities and conduct business. This is an especially important tool for SME's as it reduces their barriers to entry by decreasing the amount of time and resources they have to spend to identify and interact with customers. For example, eBay reports that they have over 233 million registered users in 36 markets that buy and sell on-line and that 15 percent of the company's trade volume is export/import related.

Our strategy is to be the central resource for exporting but not to duplicate what the private sector is doing successfully. Some of our corporate partners – eBay, Google, Federal Express, UPS, PNC -- recognize the value of our trade promotion services and have chosen to link to Export.gov to help educate their customers on the basics of exporting and expand their export opportunities. We are working with our corporate partners to build more on-line tools to help exporters. For example, FedEx now has an on-line NAFTA certificate of origin tool.

Export.gov is our principal web site designed to help small business get through the exporting maze. In 2005, Export.Gov had more than three million visitors. In 2006, that increased to 4.5 million, and so far this year we are over one million more visitors than at the same time last year. In addition, already this year more companies have visited the trade leads page than in all of last year.

We continue to improve our web presence to make it easier for SMEs and our partners to get what they need from us. We have built-out our China Business Information Center and Middle East and North Africa Business Information Center to be central resources for information about these two critical markets. We are also using the Internet to make it easier for U.S. SMEs to get the information they need to protect their intellectual property rights through StopFakes.Gov.

CONCLUSION

In closing, international trade and competitiveness issues are more important than ever for small businesses and to the future of the United States. Those of us in the International Trade Administration are fully committed to ensuring U.S. economic expansion, job growth, and unsurpassed support for our nation's small businesses.

Madam Chairwoman, I will be happy to answer any questions you and other Members may have.

Statement of W. Kirk Miller
General Sales Manager
Foreign Agricultural Service
U.S. Department of Agriculture
Before the House Small Business Committee
Washington, DC
June 13, 2007

Madam Chairwoman, Members of the Committee, I appreciate the opportunity to discuss the U.S. Department of Agriculture's (USDA) export assistance efforts for small businesses.

Importance of Agricultural Exports

The Department, through the Foreign Agricultural Service, works diligently to help small-scale U.S. producers, processors, and exporters compete in world agricultural trade. The trade programs administered by FAS help to open new markets and maintain and expand existing markets for U.S. agricultural products. These programs complement our efforts to open and maintain markets through trade negotiations, diplomacy, and enforcement of trade agreements. To ensure that agricultural interests are well represented at the negotiating table, FAS works closely with the Office of the U.S. Trade Representative (USTR) and coordinates the involvement of USDA regulatory agencies. FAS officers at over 70 posts around the world help agricultural exporters, big and small, discover and capture business opportunities.

Together, our trade programs and negotiations have contributed to a strong farm economy and increasing foreign demand for U.S. food and agricultural products. Trade continues to be critically important to the long-term economic health and prosperity of the American food and agricultural sector. Roughly 20-25 percent of U.S. production is exported and, with productivity increasing faster than domestic demand, export markets are important, particularly markets with growing middle classes such as China, India, Indonesia and Brazil.

The latest USDA export forecast of $77.5 billion for fiscal year 2007 means that the U.S. food and agricultural community is on track to increase exports by an estimated $8.8 billion over last year. That would be the second largest increase on record and the fourth consecutive year of record exports. USDA estimates that U.S. world market share is over 19 percent – almost one-fifth – of world agricultural trade. This is particularly impressive when you consider that world agricultural trade has doubled since 1990.

U.S. agricultural exports generate employment, income, and purchasing power far beyond the farm. In fiscal year 2005 (the last year for which we have official data), each farm export dollar stimulated another $1.64 in business activity here in the United States. So the 2005 export figure of $62.5 billion produced an additional $102.5 billion in U.S. economic activity – the first time that supporting activity surpassed the $100 billion mark. Agricultural exports also supported 806,000 full-time jobs, including 455,000 in the non-farm sector.

One area where we are seeing particularly strong growth is in the export of high-value products. High-value products are agricultural products with value added through processing (such as soybean and other processed oils and many consumer-ready products) and those that require special handling or shipping (such as fresh fruit). This is also the area where the number of small businesses participating in our programs is blossoming. Last year, these products accounted for nearly 63 percent of U.S. agricultural exports.

Assistance for Small Businesses

USDA's Market Access Program (MAP) plays an instrumental role in our efforts to assist American agriculture and our processors in competing internationally. Small companies receive funding from FAS on a cost-share basis through nonprofit trade organizations and four State-Regional Trade Groups (SRTGs) comprised of state departments of agriculture.

The four State-Regional Trade Groups – Food Export Association of the Midwest USA, Food Export USA Northeast, Southern United States Trade Association, and Western U.S. Agricultural Trade Association – support FAS' efforts to coordinate international marketing programs for processed foods and other regional agricultural products. These partnerships combine the resources of the private sector and state departments of agriculture with program and financial resources of USDA to expand exports of U.S. agricultural products and to educate companies in export marketing. Working with trade and regional organizations helps us reach those that can benefit most from export promotion assistance – namely, small business.

Total export sales for small companies participating in the MAP branded program grew from $218 million in 2001 to $492 million in 2005. The number of small companies reporting that their export sales had grown by more than 20 percent more than doubled during the 2001-2005 time period, from 134 to 322.

In addition, many agricultural cooperatives comprised of small-sized growers participate in the program. Without these cooperatives, many growers would not otherwise be able to compete in the marketplace and would not participate in any international marketing efforts.

We have heard first-hand how MAP has helped small businesses. Aladdin Bakers Inc., based in Brooklyn, NY, successfully leveraged support from an SRTG and the MAP branded program to develop export markets. Before participating in the program, the company had minimal sales in Canada. Now, according to Paul Kasindorf, the firm's vice president of sales and marketing, "we estimate in the next year we'll have $1 million in sales to Quebec alone." The company has also started exporting to other countries, including the Dominican Republic.

Woeber's Mustard of Springfield, Ohio, has used MAP branded funds to tackle the international condiments market. The company's rapid international expansion began less than five years ago with sales to England. Now Woeber's products can be found in markets from

Mexico to South Africa, China, Singapore and Lebanon. International sales now account for 5-10 percent of the firm's overall business revenue, and the company is looking to expand to new markets in the Caribbean and South America.

In addition to our market development programs, we have additional tools to help small business. As our exports have grown, some of our trade partners have increasingly turned to sanitary, phytosanitary, and technical barriers to protect their domestic industries and deny market access to U.S. agricultural products rather than basing these policies on science. USDA has successfully helped U.S. exporters regain market access for millions of dollars of products from almonds to spinach. The Technical Assistance for Specialty Crops (TASC) grant program assists U.S. food and agricultural organizations in addressing phytosanitary and technical barriers that prohibit or threaten the export of U.S. specialty crops. In recent years, TASC funding has been used to gain market access for California nectarines in Japan, harmonize organic standards with Canada and the EU, and create a database of pesticide tolerance levels and standards for more than 300 specialty crops in more than 70 countries.

Another way we help small businesses is by sponsoring their participation in trade shows and missions. FAS-sponsored trade missions give U.S. companies the opportunity to forge closer trade links with prospective suppliers, distributors, and other business representatives in targeted countries. With over three-quarters of participating companies having fewer than 1,000 employees, a trade and investment mission is particularly structured for small- and medium-sized enterprises. Over the course of a week, participants get an overview of the economic situation, legal and regulatory environment, banking sector, privatization process, investment climate, and U.S. government business assistance programs. Participants also meet with key government officials and conduct one-on-one business meetings and site visits.

I have led two trade and investment missions – to Georgia last year and then just last month, to Azerbaijan. The mission to Georgia had six companies that were looking at business opportunities but were concerned about risks. As a result of the trip, two companies have announced business deals. Nine U.S. companies joined me in Azerbaijan. There the companies met with Azeri government officials and prospective business partners and exhibited their products at a trade show in Baku, Azerbaijan.

FAS also coordinates participation at international trade shows and exhibitions for food and agricultural products. These shows provide an economical way for small businesses to meet foreign buyers and consumers, test a new product or market, and assess the competition. In 2006, over 900 companies participated in 31 FAS-endorsed trade shows and missions. These companies reported over $210 million in on-site sales and projected estimated sales of over $700 million for the next year.

FAS also administers other export assistance programs that are used by small business. Our export credit guarantee programs are open to businesses of any size; there are no minimum levels for export transactions. Two smaller programs –the Quality Samples Program (QSP) and the Emerging Markets Program (EMP) – provide financial and technical support to U.S. exporters. For example, through the Minority Exporter Training Program, the EMP provided funding to train employees of Heritage Family Foods in Grand Prairie, Texas, to help the company develop export markets for its products. The training has helped increase their export sales by more than 300 percent.

In addition to our export assistance programs, we also reach out to small businesses for their advice and counsel. USDA and USTR use the Agricultural Policy Advisory Committee (APAC) and six commodity- and product-specific Agricultural Technical Advisory Committees (ATACs) to ensure that U.S. trade policy and negotiation objectives adequately reflect U.S.

commercial and economic interests. USDA works to ensure that small businesses are represented on these committees to draw on their technical competence and experience. For example, one member of our Fruits and Vegetables ATAC, Joe Zanger, is a managing partner of Casa de Fruta, a family owned company in Hollister, California. With financial help from the MAP, Mr. Zanger attended two trade shows in Mexico to gauge market opportunities there. He has used U.S. government services to help his firm identify potential distributors and expand its sales south of the border. He knows directly about the challenges faced by small business in the export arena, and we value his contribution.

Conclusion

Madam Chairwoman, in just the next 60 minutes, about $7.8 million in U.S. agricultural products – grains, oilseeds, cotton, beef, poultry, vegetables, snack foods, you name it – will be consigned for export to one of more than 180 foreign markets. And a growing proportion is coming from our nation's small businesses.

As small businesses look to the growing export markets in addition to the domestic market, we must make sure the opportunities to take advantage of these markets are there. Recently, the Administration concluded free trade agreements with Peru, Colombia, Panama, and Korea that will create significant market access opportunities for U.S. exporters. We look forward to working with the Congress to pass the implementing legislation for these important agreements.

Madam Chairwoman, that concludes my testimony. I would be happy to answer any questions.

TESTIMONY OF
RICHARD GINSBURG, (ACTING) DEPUTY DIRECTOR
OFFICE OF INTERNATIONAL TRADE
U.S. SMALL BUSINESS ADMINISTRATION
BEFORE THE
HOUSE SMALL BUSINESS COMMITTEE
JUNE 13, 2007

Chairwoman Velazquez, Ranking Member Chabot, and members of the Committee, thank you for inviting me to testify about SBA's Office of International Trade and the work we are doing to promote, assist and train small businesses as they grow into the international marketplace.

It's a pleasure to appear before you today to speak about what I believe is one of the most exciting programs in SBA and one of the most promising areas for U.S. small business – international trade.

International trade is rapidly increasing in importance for the U.S. economy. In 2006 the U.S. experienced a record level of exports, $1.5 trillion. Millions of jobs are associated with international trade. Small business is a big part of this, accounting for $375 billion of exports, more than one *billion* dollars per day. International trade -- exports plus imports -- is now so important to the U.S. economy that it is equivalent to 28% of GDP, the highest level in modern history. Last year, exports grew *four times faster* than the economy as a whole, continuing a trend that began earlier in the decade. This means that as America's economic pie grows, the international trade share is getting larger. The bottom line is this: exporting is the new growth market for small business.

As an international office in a domestic agency, the Office of International Trade (OIT) is able to work with the rapidly growing number of U.S. small business exporters and support the Government's international commercial policy objectives. OIT's activities benefit domestic business concerns, international trade and economic policy, and even the Nation's diplomatic interests.

As the international office of the Government's small business agency, OIT is often expected to go beyond direct assistance to individual small businesses and participate in Government-wide activities that contribute to U.S. international, commercial, trade and economic policies. With small business accounting for almost 30% of total U.S. exports, SBA's perspective is increasingly recognized as crucial to U.S. international trade, economic and diplomatic concerns.

In addition to providing assistance to small businesses, SBA often complements the roles of other agencies such as the Departments of Commerce and State. Ultimately, however, all U.S. international affairs efforts -- whether carried out on a small scale in OIT or on a larger scale in the State Department -- serve just one *domestic* beneficiary, the citizens of the United States. SBA is also an original member of the interagency Trade Promotion Coordinating Committee (TPCC). The purpose of the TPCC is to coordinate the export promotion and financing activities of the U.S. Government and develop a government wide strategic plan for carrying out such programs.

OIT's activities can be broadly divided into two categories -- direct service delivery to small business and support for U.S. international commercial and economic policy.

Small businesses are typically at a competitive disadvantage with large or multinational companies when it comes to trading internationally. They do not have foreign affiliates, dedicated international departments, legal staffs or economies of scale. Therefore SBA and Commerce's International Trade Administration both focus on assisting small and medium sized businesses to reach export markets.

Technical assistance with respect to participating in international markets is a key component of our service delivery. This includes one-on-one counseling by USEAC personnel, Export Technical Assistance Partnership (ETAP) training, as well as informational and training material provided on OIT's website.

Through its trade finance programs, SBA helps exporters carry out their export transactions. Under the Export Working Capital Program (EWCP), which finances the short-term export working capital needs of small businesses, loans can be made for single transactions or multiple deals under a revolving line of credit. SBA can guarantee up to 90% of an EWCP loan. With SBA's guaranty limit of $1.5 million, EWCP loans of up to $1,675,000 are eligible to receive the full 90% guaranty. OIT also oversees the International Trade Loan program for long-term financing, and Export *Express* which reduces paperwork and streamlines the application and review process for EWCP loans of up to $250,000.

In 2004, SBA and the Export-Import Bank (Ex-Im Bank) entered into a memorandum of understanding to establish a co-guarantee program for export working capital loans extended by financial institutions to small businesses engaged in exporting. By complementing each other, both agencies have achieved improved efficiencies, better customer service and increased productivity benefiting small businesses.

OIT represents SBA and small business on the inter-agency TPCC and the private sector advisory body, the President's Export Council. We work closely with the Office of the U.S. Trade Representative (USTR) to provide a small business perspective for bilateral and multilateral trade negotiations, and represent U.S. small business concerns at the Asia-Pacific Economic Cooperation's (APEC) annual SME ministers' meeting and its staff-level SME Working Group. Nearly one-half of world trade takes place among the APEC countries. OIT works closely with the State Department and other USG counterparts to advance the Summit of the Americas process. SBA, through OIT, chaired the Small Business Working Group for the U.S.- Mexico Partnership for Prosperity. OIT participates in the inter-agency Economic Working Group of the Commission for Assistance to a Free Cuba (CAFC) to assist with planning for economic and business relations in a post-Castro Cuba. OIT works closely with inter-agency partners on the Africa Growth & Opportunities Act.

OIT is also committed to developing relationships that can help promote and facilitate small business trade. The goal of these efforts is to bring U.S. small businesses together with potential partners in the international marketplace. For example, OIT manages strategic alliances with foreign governments' small business agencies, such as those of Mexico, Brazil, Chile, China, and Korea. The focus of these relationships is creating and facilitating opportunities for small business trade.

I would like to spend a few minutes highlighting some of our recent accomplishments. In FY 2006 SBA experienced record export lending, surpassing $1 billion for the first time in the history of the program and doubling the number of loans compared to three years ago. These 3,300 loans, guaranteed under SBA's 7(a) program, supported over $2 billion in U.S. export sales.

Our latest data, based on Commerce Department statistics, indicate that there are now 233,000 small business exporters, including 60,000 in manufacturing.

A trend we've noticed is that SBA's loan rate to exporters -- that is, the number of export loans divided by the number of exporters -- is 15 loans per thousand. By comparison, the rate for SBA's regular loans is 4 per thousand[1]. Many borrowers find SBA's

[1] 100,000 regular business loans divided by 26,000,000 small businesses

guarantee is useful for export loans because of their size and perceived risks to lenders.

On the service delivery side of our operations, we expect to see an increased demand for U.S. exports and for small business demand for SBA's export programs. Our goals are to respond to this trend by improving our export finance products.

Concerning our international trade and economic policy effort, we will continue to support the Government's efforts to advance U.S. objectives in international trade policy, including through ongoing trade negotiations. We will continue helping represent the U.S. at multilateral international organizations concerned with small business and international trade, such as APEC and the Organization for Economic Cooperation and Development (OECD). We also anticipate taking a more prominent role in the industry trade advisory committees, managed by the Commerce Department, including its small business advisory committee. Some specifics include:

SBA, through its Office of International Trade, will continue its mission to encourage, support and manifest both the increasing number of small businesses going global and their successful export transactions through SBA's credit and technical assistance programs.

Thank you for the opportunity to testify before the Committee today. I look forward to answering any questions that you may have.

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
HEARING ON "U.S. TRADE POLICY AND SMALL BUSINESS"
JUNE 13, 2007

TESTIMONY OF SAGE CHANDLER
SENIOR DIRECTOR FOR INTERNATIONAL TRADE
CONSUMER ELECTRONICS ASSOCIATION

Madame Chairwoman, Ranking Member Chabot, Members of the Committee: On behalf of the Consumer Electronics Association (CEA), thank you for the opportunity to discuss U.S. small business access to foreign markets.

CEA is the principal U.S. trade association for the consumer electronics industry. Our 2,100 members include manufacturers of audio, video and IT products which are enjoyed in the home or in the automobile. Our industry drives the American economy and accounts for our world leadership in innovation.

Although we include represent virtually every large consumer electronics manufacturer, eighty percent of our members are small businesses, which we define as a company having annual revenues below $30 million. In fact, our small business members are located in each state represented on this Committee.

Our industry relies heavily on international trade. Last year, U.S. exports of consumer electronics totaled nearly $4 billion, helping to support nearly two million American jobs. Fair and open access to markets abroad is absolutely crucial to our small- and medium-sized member if they are to remain competitive in the global marketplace.

One of our small member companies, The Guitammer Company, is a typical example. This Columbus, Ohio company manufactures high-end subwoofers and supports 11 jobs. Approximately twenty percent of their business is based on international sales. The Guitammer Company has been recognized as one of the nation's fastest-growing companies and its products are sold in over 35 countries worldwide. The company has managed to grow and create high-wage jobs even at a time when the United States and Ohio in particular, has lost manufacturing jobs.

To ensure the continued success of members like the Guitammer Company our trade negotiators and lawmakers must make every attempt to reduce foreign trade barriers and promote an aggressive trade policy agenda. Because of market opportunities created by free and open trade, our small business members will be able to continue to create high-paying U.S. jobs and positively contribute to the U.S. economy.

The U.S. consumer electronics industry is highly competitive and globally integrated. Two-thirds of CEA members conduct some sort of international business primarily in Asia, Europe, and Latin America. And the industry is growing. In a recent industry survey, preliminary results show that almost half of CEA members said they plan to, or would like to, export to a new market within the next 12 months. However, large investments are needed to manufacture consumer electronics products, and even then many of these goods often have narrow profit margins.

In order for companies to implement these ambitious plans and make a profit, it is imperative that the United States continue its push for further market expansion and advance the principles of free and open trade. These policies help mitigate the risks involved and help to prevent supply chain disruptions for American manufacturers.

In the absence of strong trade promotion and enforcement, distortions in the market can affect pricing and manufacturing costs and can have a major impact on the ability of small businesses to compete in the global marketplace. It is not easy for U.S. small businesses to sell their goods abroad. But by enforcing the trade rules and carrying out policies that establish a clear and cohesive rule of law, small businesses are more adequately equipped to maneuver in foreign markets and make their exporting business as competitive and profitable as possible. This means advancing several aspects of public policy that affect small exporters, including:

- Pursuing Bilateral Free Trade Agreements (FTAs) – Though a multilateral approach is certainly best, in the absence of an agreement in the Doha Round of the World Trade Organization, bilateral FTAs offer the next best way to open foreign markets to small U.S. businesses. FTAs create sales opportunities, reduce costs, and diminish uncertainties associated with exporting to new markets. FTAs implement intellectual property rights standards, establish substantive investment protections, and provide increased transparency for U.S. exporters.

- Reauthorizing Trade Promotion Authority (TPA) – As you know, TPA expires later this month. Without TPA our trading partners will be reluctant to negotiate trade pacts with the United States. Absent TPA, America's hands will be tied and the U.S. will fall behind the European Union, Brazil, China and other countries currently negotiating FTAs at an unprecedented pace.

- Eliminating Non-Tariff Trade Barriers – The U.S. must continue to work with our trading partners to reduce and eliminate non-tariff barriers to trade. Examples of these include cumbersome customs regulations, corrupt government procurement processes, and most recently, a proliferation of divergent or non-harmonized approaches to environmental standards, among others. These non-tariff barriers hinder trade and burden small companies with unnecessary compliance costs.

- Upholding and Enforcing Trade Agreements – In addition to pursuing new agreements, the U.S. must commit to maintaining and enforcing those agreements already in place. While the global high-tech industry remains hopeful that a global electronics sectoral negotiation to eliminate tariff and non-tariff barriers for the electronics sector can take place within the Doha Development Round, in the interim the United States must take an aggressive stance to protect products already covered by the WTO's Information Technology Agreement (ITA). The ITA covers over 97 percent of world trade in information technology products, and provides for the elimination of duties on those covered products. However, as technology has evolved, many countries – particularly the European Union – now claim the ITA does not apply to the next generation of covered products. It is crucial for the U.S. Government to uphold the provisions of the ITA that allows for future developments of IT products and enables companies to enjoy the full scope of the agreement's intended duty-free benefits.

- Promoting an Efficient Temporary Visa Program – Like many small businesses, those in the consumer electronics industry rely on trade shows like CEA's annual event, the International Consumer Electronics Show (commonly known as CES). CES is the nation's largest trade show, and is an outstanding opportunity for companies to introduce their new and innovative products and make important sales. For a small business this is a huge opportunity because it means that it can make important contacts with international buyers, press and partners without breaking the bank on international travel and meetings. But in order for this event to remain successful, we need as many potential foreign buyers to attend the CES as possible. At this year's event, over 140 countries were represented. These foreign buyers and partners promote U.S. consumer electronic products abroad, which in turn expand future sales opportunities. Although we had over 25,000 international attendees (all contributing to our economy), thousands more were discouraged from attending due to unduly restrictive U.S. policies on visas. For many overseas business executives, the visa process is often slow, arbitrary and unpredictable. This leaves our small American entrepreneurs at a major disadvantage to their foreign competitors in their efforts to reach international buyers. CEA has even situated shows in Dubai and China so that our members could reach foreign markets. While safeguarding national security interests is paramount, Congress should recognize that it is important for the U.S. visa process to operate quickly and efficiently in order to maintain a strong foreign customer base at CES and similar events around the country.

While trade among NAFTA countries has increased significantly in the decade since it was signed, the infrastructure and customs processing facilities have not been able to stay ahead of the increased commerce. For instance, during the peak season in 2006, there where two to three mile backups of trucks trying to cross into the United States, with some waits up to 10 hours. C-TPAT (officially known as the Customs Trade Partnership Against Terrorism) is invaluable in keeping traffic moving. But as long as we continue to face a shortage of trucks and truck drivers all along the southern border, there will be continued congestion. Consequently, the swift initiation of a Department of Transportation pilot program that will allow a limited number of Mexican motor carriers to operate in the U.S. beyond the commercial zones along the U.S.-Mexico border is vital to increase the exports of small business.

In short, small businesses in the consumer electronics industry benefit whenever the United States implements policies that simplify the movement of products from port, to shelf, to consumer.

CEA and its member companies pledge to work with Members of Congress to address these concerns and ensure that the consumer electronics industry is well situated to advance in an increasingly competitive global trading environment.

Madame Chairwoman, thank you for the opportunity and I would be happy to answer any questions from the Committee.

NTMA
PRECISION

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Testimony of Ken Seilkop
President
A-G Tool & Die - Miamitown, Ohio
On behalf of the National Tooling & Machining Association
Before the
House Committee on Small Business

Hearing on U.S. Trade Policy and Small Business
June 13, 2007

Introduction

Good Morning. Thank you for inviting me to this hearing to discuss the impact of U. S. trade policies upon small manufacturers of the precision machining industry. I am Ken Seilkop, President of Seilkop Industries Inc. My company is comprised of four divisions, including A-G Tool & Die in Miamitown, Ohio. Our four manufacturing businesses have been in the Seilkop family since 1946, and we employ approximately 95 people in the greater Cincinnati area. I am speaking as a second generation small business owner and on behalf of the National Tooling & Machining Association (NTMA).

A-G Tool & Die specializes in the design and development of a wide range of precision dies, fixtures, jigs, tooling, and special machinery for the automotive, appliance, furniture, machine tool industries, as well as many other sectors.

NTMA, is one of the nation's leading tooling and machining trade associations, representing nearly 1,700 custom precision manufacturers and 55,000 employees across the nation. Our members are comprised primarily of small to medium-sized companies, employing an average of 27 people with annual sales of four million dollars. NTMA is a member of the China Currency Coalition, a group of U.S. industry, agriculture, and labor organizations, working toward and achieving as promptly as possible a commercially realistic revaluation of China's underalued yuan.

Every product that is manufactured is formed by a tool, die, or mold made by our industry. Precision machining and tooling is truly the backbone of manufacturing. Our industry produces thousands of special tools, dies, jigs, fixtures, gages, molds, special machines, and precision machined parts. These parts are supplied to the defense, automotive, medical, aerospace, appliance, electronics, agriculture, transportation, construction, and environment industries.

I appreciate the opportunity to be here today to share my experiences about the devastating impact of extremely low-priced imports from Asia on the precision tooling and machining industry. In addition, I will outline several pieces of legislation that this Congress should enact this year to level the playing field in order for domestic manufacturers be more competitive.

Impact of Currency Manipulation on Tooling & Machining

Manufacturing is a critical part of the American economy. It employs more than 14 million workers in the United States and another 6 million in related industries. We provide reliable, good-paying and rewarding jobs, while substantially adding to the tax base. It drives more than 70 percent of private sector R&D. And it makes the highest contribution to economic growth of any sector.

Manufacturing has given millions of Americans a road to the middle class and a shot at the American dream. But today, this part of the American way of life is threatened, as millions more manufacturing jobs hang in the balance. Since 2001, America has lost 3 million manufacturing jobs. The closing of thousands of U.S. factories and the corresponding loss of jobs in a wide range of communities, states, and regions of America coincides with China's entry into the World Trade Organization (WTO).

The future of the U.S. machining and tooling industry is being severely threatened by low-priced tools, dies and precision machined parts, imported primarily from China. The effect of China's economic growth and principally its unfair trade practices has been severe and costly to manufacturing and in particular to the precision tooling and machining industry. Since 2001, nearly a third of all U.S. tooling and machining companies have been forced to shut their doors due to price constraints driven by the large influx of low-priced Asian imports into our markets.

American tool and die makers, as well as machinists cannot compete when the playing field is rigged. And that is what China has been doing - rigging its currency at a level that economists agree is substantially below its fair value. Since 1994, the Chinese government has actively manipulated its currency, a practice deemed illegal under existing international trade law. China's currency is estimated to be undervalued by about 40 percent. This practice undercuts U.S. manufacturers and our members by artificially lowering the cost of Chinese goods - making it impossible for NTMA member companies to compete against their foreign counterparts.

Furthermore, these lower priced imports do not reflect lower input costs or more efficient processes. U.S. manufacturers buy their raw materials on the same world markets as their Asian competitors, and pay the same prices. What accounts for the lower prices of their competitors has nothing to do with free markets. It has everything to do with foreign government intervention, including in the currency markets.

In 2006, the U.S. trade deficit grew to over $232 billion with China. This bilateral deficit keeps rising because China undervalues its currency and this makes Chinese exports artificially inexpensive and U.S. products too expensive in China. Past and current interventions in the currency market by the Chinese government are certainly not the sole cause of this trade deficit, but they are a big cause.

This form of protectionism by China is reaping huge rewards. Its export-based economy is growing 3 or 4 times faster than the rest of the world, with factories being built at a record pace. Furthermore, it promotes investment in China, overcapacity and exports, and a dangerous accumulation of foreign exchange reserves in China. Many U.S. multinationals corporations have earned huge profits investing in China's protected markets. China is violating its International Monetary Fund (IMF) commitments by keeping a currency peg in place that creates a trade advantage. In addition, the Chinese also disregard and violate several of its World Trade Organization (WTO) obligations.

Many of the big name and large U.S. manufacturing firms have picked up and moved plants and work to China. Vendor chains, including my company and many others in the tooling and machining industry, previously supplied tooling, components and assemblies to these plants. As a result, we have lost a tremendous amount of business. Our customers are spending less in the U.S. and continue to look to foreign plants and overseas suppliers. Every day my Chinese competitors beat my best quoted prices by 40 to 60 percent. We usually provide a quote and then are simply told that the work is being sent to China or Korea for a much cheaper price.

I would like to share an example from the president of a Dayton Ohio-based company manufacturing plastic injection molds for industrial Fortune 500 customers. Last month, he quoted a price for a mold on the following basis: the sales engineer quoted $72,000, with ten weeks delivery; the owner knew the quote was too high, but the company really needed the work, so he submitted a quote of $60,000, with nine weeks delivery. In the end, the customer awarded the contract to a Chinese company for $25,000 and seven weeks delivery, including shipping. They estimated the materials alone for this order would be about $18,000.

There are no techniques or ground-breaking processes that could garner the cost savings needed to overcome such a large price differential. While companies like this have a decent chance of competing with companies anywhere in the world, we can't compete with the government of China and other countries that manipulate their currencies.. At A-G Tool, we continue to invest hundreds of thousands of dollars in technology to try to keep up, but this is tough to justify when the customers keep demanding lower and lower prices which results in very low profit margins.

Moreover, American tooling and machining shops must compete against Chinese companies that have cheap labor costs, do not pay, or pay very little for health insurance and legacy costs, and do not have to meet our strict environmental and safety standards. The Chinese social safety net remains inadequate. There is no universal Social Security, less than twenty percent of workers have pensions, and less than fifteen percent are covered by unemployment insurance.

U.S. manufacturing produces some of the highest paying jobs with the best benefits in the country. At A-G Tool & Die, our "cost burden" over wages, with benefits, averages in excess of 35 percent.

U.S. Trade Policies

China's entry into the WTO was supposed to bring it into compliance with an enforceable, rules-based regime, requiring the country to open its markets to imports from the U.S. and other nations. The U.S. also negotiated a series of special safeguard measures designed to limit the disruptive effects of surging Chinese imports on domestic producers. China, however, has blatantly violated the WTO rules and not abided by its trade agreements. We have failed to persuade China to be a responsible player in the international community and have not fully enforced the trade laws passed by Congress.

Unfortunately, the U.S. Department of Treasury in its semi-annual reports to Congress has persistently chosen not to cite China for exchange-rate "manipulation" within the meaning of the International Monetary Fund's Articles of Agreement. The Treasury Department claims that it cannot be determined if China's policy of undervaluation is intended to gain an unfair competitive advantage in trade or to prevent adjustments in China's balance of payments. NTMA believes this longstanding approach by the Department has been fruitless and will remain so, and a legislative strategy needs to be adopted to hold countries like China to account under their international legal obligations.

In addition, China provides numerous tax incentives, rebates and low interest loans to encourage exports and replace imports with domestic products. These practices clearly violate China's obligations in the WTO. This year the Bush Administration has finally filed a WTO petition to force China to either rescind these practices or ultimately face WTO approved tariffs to offset their effects. U.S. manufacturers will be watching this case closely. Unfortunately, this is a long and arduous process.

In March, the U.S. decided to apply its countervailing duty laws to subsidized Chinese imports as it does to imports from Japan and most industrialized and developing countries. This WTO compliant action will permit private U.S. firms harmed by China's subsidized exports to bring suit for relief. These lawsuits would bring quicker and more certain action than the WTO complaint process. Unfortunately, the Administration did not include China's undervalued currency and foreign exchange market intervention in its WTO complaint.

Loss of Manufacturing Jobs

Since China entered the WTO in 2001, job losses across the country increased to an average of 441,000 per year—more than the total employment in greater Dayton, Ohio. Between 2001 and 2006, jobs were displaced in every state and the District of Columbia. According to the Economic Policy Institute, nearly three-quarters of the jobs displaced were in manufacturing industries. Simply put, the promised benefits of trade liberalization with China have been unfulfilled.

In a recent report by the nonprofit research institute Policy Matters Ohio, my home state of Ohio lost over 13,000 manufacturing jobs in 2006, the highest drop-off in 10 years. The report, based on data from the U.S. Department of Labor and federal Trade Adjustment Assistance program, cites international trade as the primary cause of this job loss.

The 13,432 workers who were laid off in 2006 reflect the result of import competition and the shift towards overseas production, the report stated. Between August 2004 and December 2006, more than 50 percent of the job losses were caused by moving production or replacing Ohio-made products with foreign imports, while shifts in production to Canada or Mexico led to 4,964 jobs lost, the research showed.

But it's not only about jobs. It is also about national security and our entire economy. Factories producing goods and services necessary for US national defense are moving offshore. As we look at more and more of the industries that are critical to national security, we realize that in many of them we only have a few companies left that are capable of making particular components critical to America's military strength. Virtually all elements of our infrastructure – defense, energy, transportation, health, public safety and buildings - are dependent upon the precision tooling and machining industry.

Call for Action

As I talk to precision tooling and machining shop owners across the nation, the plea is common, ***"level the playing field."*** Most in our industry have endured some hard times. We are not afraid of competition, but make it fair competition.

Congress can enact legislation right now that is beneficial to U.S. manufacturers that could help to level the playing field. NTMA urges lawmakers to take action on:

1. **Trade** - NTMA urges this Committee to pursue every possible avenue to combat the damage of currency manipulation.

   a) **The Case For H.R. 782** - Currency manipulation has been an external pressure that has unnecessarily burdened the industry's competitiveness. Prolonged inaction will only lead to more manufacturing job losses and further erosion of our domestic manufacturing base. With little to show after four years of U.S. pressure on China to revalue its currency, I urge you and your fellow lawmakers to pass, *The Fair Currency Act* (H.R. 782/S. 796), introduced by Representatives Tim Ryan (D-OH) and Duncan Hunter (R-CA). This bipartisan legislation, with over 100 cosponsors, would define currency manipulation as a subsidy under U.S. trade law and make it easier for the U.S. Commerce Department to impose new tariffs on Chinese goods under a countervailing duty law against foreign government subsidies. If enacted, this legislation would help U.S. manufacturers and workers to counteract currency undervaluation by China and other countries that injure our economy. Countries that engage in "exchange-rate misalignment" should be put on notice that such behavior is not acceptable and has legal consequences.

   b) **U.S.-China Economic and Security Review Commission: 2006 Report to Congress** – Numerous academic experts have weighed in on currency manipulation as well. The bipartisan, congressionally appointed U.S.-China Economic and Security Review Commission (USCC), in its 2006 report, found that China's currency manipulation "harms American competitiveness and is also a factor encouraging the relocation of U.S. manufacturing overseas while discouraging investments in U.S. exporting industries." The

Commission also found that "American small and medium-size enterprises are particularly disadvantaged by having to compete for U.S. market share with Chinese exporters who enjoy the subsidy of an artificially undervalued renminbi." I encourage each of you to read this report and review the Commission's 44 recommendations, several related to currency manipulation.[1]

2. **Research & Development** - American manufacturers benefit from the *R&D Tax Credit.* This critical tax credit, which expires at the end of 2007, needs to be made permanent so we can continue making investments in product development, lighter weight materials and improvements in automation. This will help to offset some of our labor and production costs so we can compete in the world market. We urge Congress to enact H.R. 2138 to strengthen and make permanent the R&D tax credit. The bill, recently introduced by House Ways and Means members Sander Levin (D-MI) and Dave Camp (R-MI) has over 60 cosponsors. It increases the rate for the Alternative Simplified Credit (ASC) to 20 percent, makes both the strengthened ASC and the traditional credit formula permanent, and repeals the Alternative Incremental Research Credit.

3. **Health Care** – There is a need for Congress to address ever-rising health insurance costs. Small-business owners have very few choices when selecting insurance coverage for their employees. The tipping point is here, and small businesses are begging for solutions to rising health-care costs, lack of access and other issues. NTMA believes a multi-faceted approach will allow millions more to find health care at costs they can afford. This approach should include health-insurance purchasing pools for small businesses, tax-based incentives to assist with the purchase of health insurance, and the implementation of cost-containment measures.

4. **Skilled Workforce** – It is critical that the United States support a national emphasis on math, science and engineering in education, and improve coordination of our workforce training and recruiting programs. There continues to be a growing shortage of skilled workers in manufacturing. On one end of the workforce, the Baby Boomer generation is retiring leaving fewer skilled people in the job market. On the other end, a smaller group of younger workers is entering the workforce and, unfortunately, not choosing tooling and machining as a profession.

5. **Competitive Tax Policy** - Avoid imposing new taxes on manufacturers, making it more difficult for us to compete in the global marketplace.

   a) **Death Tax** - We need to fix the estate tax which will be phased out by 2010 and then revert to rates as high as 55 percent in 2011. Full repeal or, at a minimum, significant reform of the death tax is needed. Small and medium-sized tooling and machining companies spend, on average, over $50,000 annually on estate planning costs to deal with

[1] U.S.-China Economic and Security Review Commission: 2006 Report to Congress. USCC, 444 North Capitol Street, NW Suite 602 · Washington, DC 20001 – www. uscc.gov - http://www.uscc.gov/annual_report/2006/annual_report_full_06.pdf

this tax. This is more than a one-time tax. Legislation, H.R. 2380, introduced by Representatives Bud Cramer (D-AL) and Kenny Hulshof (R-MO), would permanently repeal the death tax. The bill has over 80 House cosponsors.

6. **Regulatory Fairness** – The federal government needs to minimize conflicting regulatory schemes and technical standards. It also should reduce excessive regulatory costs through sound science requirements and economic analysis. Companies cannot pass on these cost increases to customers because of intense global competition from producers in countries that do not face these same structural costs.

Conclusion

It is obvious that China's economic strategy over the past decade has been to keep the value of its currency low, boost its exports and hold down imports. The U.S. needs a coordinated comprehensive national policy and strategy for manufacturing. Such a strategy must include among other things, addressing currency manipulation, vigorously enforcing our trade laws and agreements, making permanent the R&D tax credit, reforming health care to reduce its costs to small businesses, and reforming our tax code.

Since China continues to enjoy the benefits of membership in the international economic community, it is only fair that it abide by the community's rules and responsibilities. The time for change is now, before our industry and the rest of U.S. manufacturing is put further at risk. We look forward to working in a bipartisan fashion with members of the 110th Congress on these and other policies that foster a vibrant manufacturing environment in the U.S. today and for future generations.

Thank you again for giving me the opportunity to present my views on this important matter. I will be pleased to answer any questions you have on these issues.

Statement Of

the

National Pork Producers Council

Before the

U.S. House of Representatives Committee on Small Business

On the

Impact of U.S. Trade Policies

June 13, 2007

Madam Chairwoman and Members of the Committee:

I am Jon Caspers, Past President of the National Pork Producers Council (NPPC) and a pork producer from Swaledale, Iowa. I operate a nursery-to-finish operation, marketing 18,000 hogs per year.

Madam Chairwoman, I strongly believe that the future of the U.S. pork industry, and the future livelihood of my family's operation, depend in large part on further trade agreements and continued trade expansion under Trade Promotion Authority.

The National Pork Producers Council is a national association representing 44 affiliated states that annually generate approximately $15 billion in farm gate sales. The U.S. pork industry supports an estimated 550,200 domestic jobs and generates more than $97.4 billion annually in total U.S. economic activity and contributes $34.5 billion to the U.S. gross national product.

Increasing U.S. pork exports means increasing U.S. jobs. In 2006, the United States exported 15 percent of domestic pork production. By percentage, international trade attributed to approximately 82,500 U.S. jobs in the pork industry alone. A majority of these jobs are located in rural America. In my home state of Iowa, about 62,500 jobs are involved in various aspects of the pork industry. Using the export share of 15 percent implies that a comparable share of the economic impacts, or 9,375 jobs and $330 million of personal income in Iowa result from the exporting of pork products to foreign markets.[1]

An attached Appendix includes pork export district information on eight congressional districts represented on the Small Business Committee. The reports, completed by Iowa State University economists, breakdown the general economic impact of the pork industry and pork exports in each district. The districts include: Congressional District 4 of Colorado, Congressional District 8 of Indiana, Congressional Districts 1 and 5 of Iowa, Congressional District 6 of Missouri, Congressional District 1 of Nebraska, Congressional District 4 of Ohio, and Congressional District 9 of Pennsylvania.

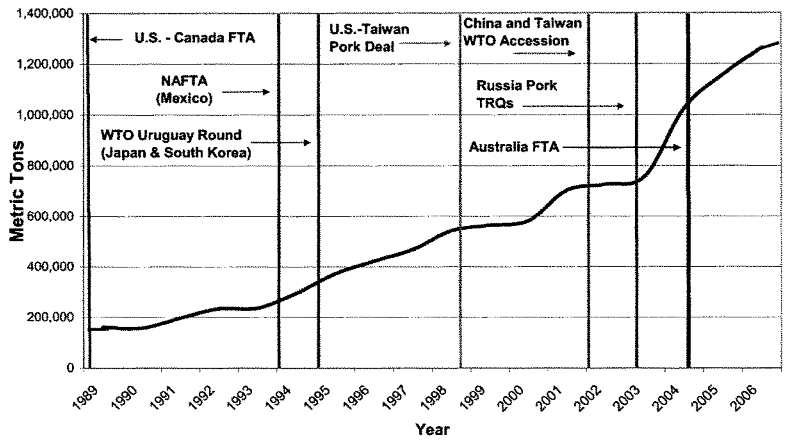
Pork is the world's meat of choice. Pork represents 40 percent of total world meat consumption. (Beef and poultry each represent less than 30 percent of global meat protein intake.) As the world moves from grain based diets to meat based diets, U.S. exports of safe, high-quality and affordable pork will increase because economic and environmental factors dictate that pork be produced largely in grain surplus areas and, for the most part, imported in grain deficit areas. However, the extent of the increase in global pork trade – and the lower consumer prices in importing nations and the higher quality products associated with such trade - will depend substantially on continued agricultural trade liberalization.

PORK PRODUCERS ARE BENEFITING FROM PAST TRADE AGREEMENTS

[1] Daniel Otto and John Lawrence, Extension Economists. "The Iowa Pork Industry 2006: Patterns and Economic Importance." Iowa State University, Ames, Iowa. January 2007.

In 2006, U.S. pork exports totaled 1,262,499 metric tons valued at $2.9 billion, an increase of 9 percent by volume and 9 percent by value over 2005 exports[2]. U.S. exports of pork and pork products have increased by more than 433 percent in volume terms and 401 percent in value terms since the implementation of the NAFTA in 1994 and the Uruguay Round Agreement in 1995.

U.S. Pork Exports



The following 8 export markets in 2006 are all markets in which pork exports have soared because of recent trade agreements.

Mexico

In 2006 U.S. pork exports to Mexico totaled 356,418 metric tons valued at $558 million. 2006 export figures indicate U.S. pork exports to Mexico increased 8 percent by volume and 9 percent by value over 2005 exports. Exports in 2005 were 331,488 metric tons valued at $514 million. Without the NAFTA, there is no way that U.S. exports of pork and pork products to Mexico could have reached such heights. In 2006 Mexico was the number one volume market and number two value market for U.S. pork exports. U.S. pork exports have increased by 274 percent in volume terms and 398 percent in value terms since the implementation of the NAFTA growing from 1993 (the last year before the NAFTA was implemented), when exports to Mexico totaled 95,345 metric tons valued at $112 million.

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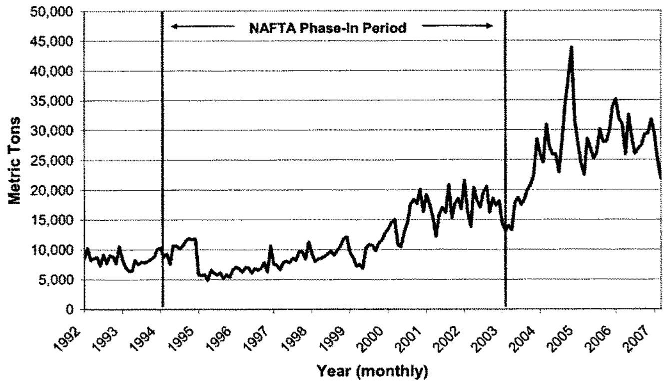
[2] All export data is from Foreign Agricultural Service's U.S. Trade Internet System. http://www.fas.usda.gov/ustrade/USTHome.asp?QI=

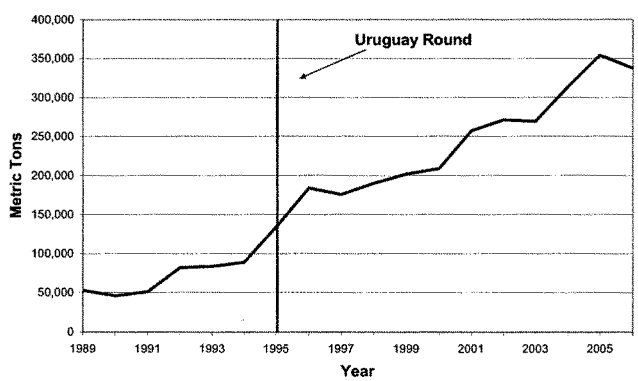
U.S. Pork Exports to Mexico



Japan

Thanks to a bilateral agreement with Japan on pork that became part of the Uruguay Round, U.S. pork exports to Japan have soared. In 2006, U.S. pork exports to Japan reached 337,373 metric tons valued at just over $1 billion. Japan remains the top value foreign market for U.S. pork. U.S. pork exports to Japan have increased by 279 percent in volume terms and by 178 percent in value terms since the implementation of the Uruguay Round.

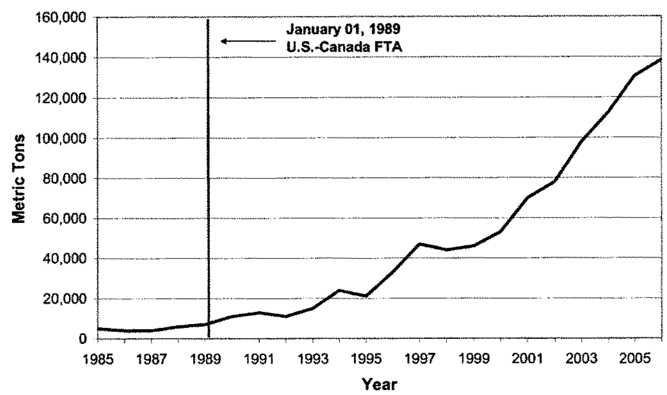
U.S. Pork Exports to Japan



Canada

U.S. pork exports to Canada have increased by 1,933 percent in volume terms and by 2,689 percent in value terms since the implementation of the U.S. – Canada Free Trade Agreement in 1989. In 2006 U.S. pork exports to Canada increased to 138,564 metric tons valued at $437 million—a 6 percent increase by volume and an 11 percent increase by value over 2005 exports.

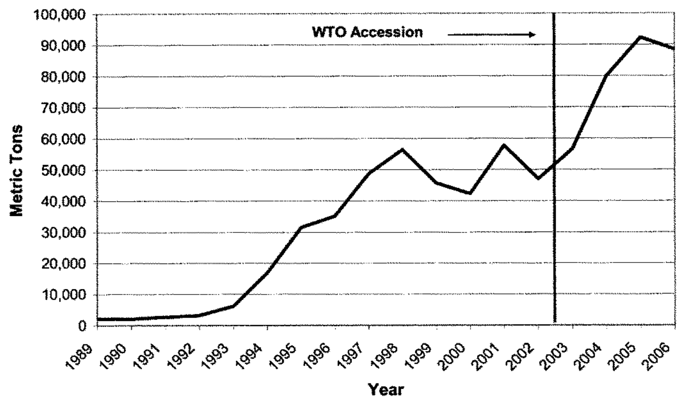
U.S. Pork Exports to Canada



China

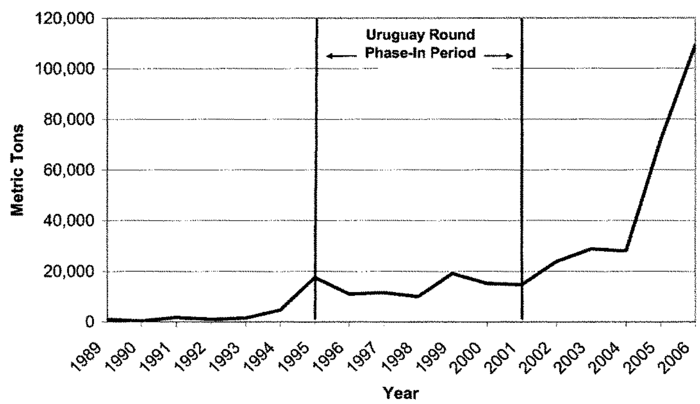
From 2005 to 2006, U.S. exports of pork and pork products to China increased 13 percent in volume terms, totaling 88,439 metric tons valued at $126 million. U.S. pork exports have exploded because of the increased access resulting from China's accession to the World Trade Organization. Since China implemented its WTO commitments on pork in December 2001, U.S. pork exports have increased 53 percent in volume terms and 90 percent in value terms.

U.S. Pork Exports to China



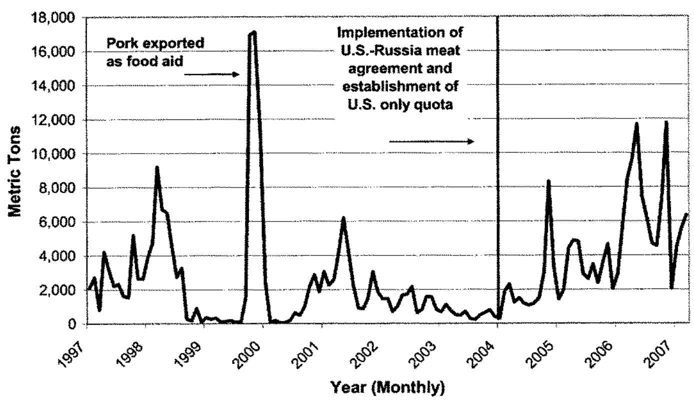
Republic of Korea
U.S. pork exports to Korea have increased as a result of concessions made by Korea in the WTO Uruguay Round. In 2006 exports climbed to 109,198 metric tons valued at $232 million, an increase of 2,217 percent by volume and 2,606 percent by value since implementation of the Uruguay Round in 1995. 2006 pork exports to South Korea increased 52 percent increased in volume terms and a 50 percent increase in value terms over exports in 2005.

U.S. Pork Exports to South Korea

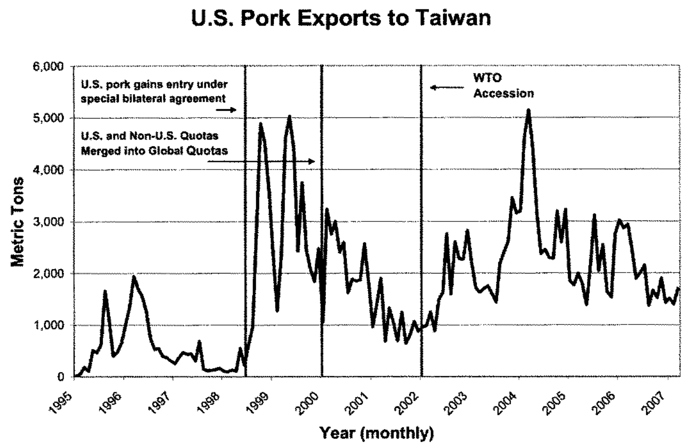


Russia
In 2006 U.S. exports of pork and pork products to Russia totaled 82,677 metric tons valued at $164 million—a 105 percent increase in volume terms and 127 percent increase in value terms over 2005. U.S. pork exports to Russia have increased largely due to the establishment of U.S.-only pork quotas established by Russia as part of its preparation to join the World Trade Organization. The spike in U.S. pork export to Russia in the late 1990s was due to pork shipped as food aid.

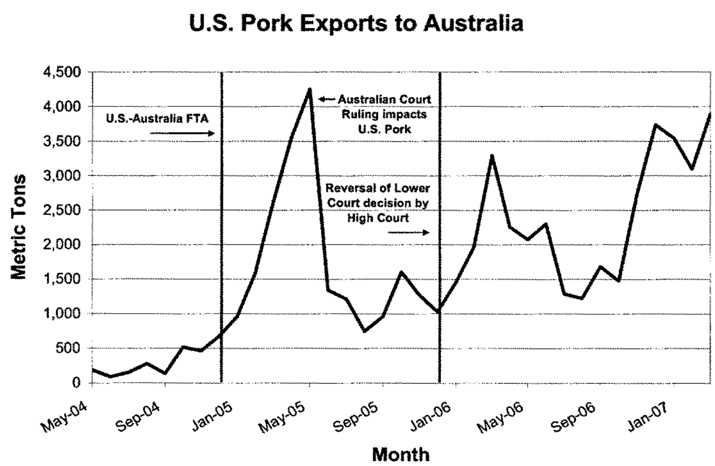
U.S. Pork Exports to Russia



Taiwan
In 2006, U.S. exports of pork and pork products to Taiwan increased to 25,198 metric tons valued at $38 million. U.S. pork exports to Taiwan have grown sharply because of the increased access resulting from Taiwan's accession to the World Trade Organization. Since Taiwan implemented its WTO commitments on pork, U.S. pork exports have increased 99 percent in volume terms and 103 percent in value terms.



Australia
The U.S. pork industry did not gain access to Australia until recently, thanks to the U.S. – Australia FTA. U.S. pork exports to Australia exploded in 2005 despite a legal case over Australia's risk assessment of pork imports. Australia is currently one of the top export destinations for U.S. pork U.S. pork exports, and in 2006 pork exports totaled 25,486 metric tons valued at $62 million.



Benefits of Expanding U.S. Pork Exports

Prices – The Center for Agriculture and Rural Development (CARD) at Iowa State University has calculated that in 2004, U.S. pork prices were $33.60 per head higher than they would have been in the absence of exports.

Jobs – The USDA has reported that U.S. meat exports have generated 200,000 additional jobs and that this number has increased by 20,000 to 30,000 jobs per year as exports have grown.

Income Multiplier – The USDA has reported that the income multiplier from meat exports is 54 percent greater than the income multiplier from bulk grain exports.

Feed Grain and Soybean Industries — Each hog that is marketed in the United States consumes 12.82 bushels of corn and 183 pounds of soybean meal. With an annual commercial slaughter of 105.3 million animals in 2006, this corresponds to 1.34 billion bushels of corn and 9.63 million tons of soybean meal. Since approximately 15 percent of pork production is exported, pork exports account for approximately 201 million bushels of corn and 1.44 million tons of soybean meal.

However, as the benefits from the Uruguay Round and NAFTA begin to diminish because the agreements are now fully phased-in, the creation of new export opportunities becomes increasingly important.

The United States currently has four pending free trade agreements-U.S.-Korea FTA, and the Colombia, Peru and Panama Trade Promotion Agreements. Each of these agreements were negotiated under TPA and will significantly benefit U.S. pork producers.

KORUS FTA

- U.S. pork exports to Korea have increased as a result of concessions made by Korea in the Uruguay Round. In 2006 exports climbed to 109,198 metric tons valued at $232 million, an increase of 2,217 percent by volume and 2,606 percent by value since implementation of the Uruguay Round. Exports to the Republic of Korea in 2006 grew aggressively over 2005 exports—52 percent increased in volume terms and a 50 percent increase in value terms. South Korea currently is the 4th largest export market for U.S. pork.

- The United States is the largest foreign supplier of pork to South Korea. Major competitors include the EU, Canada, Chile and Australia. The U.S.-Korea FTA will give U.S. pork preferences in this lucrative market over other foreign competitors.

- U.S. pork products currently face significant tariffs in South Korea. For example, the current South Korean duty on bellies, a high demand pork product, is 25 percent. However, under the terms of the U.S.-Republic of Korea FTA tariffs will be eliminated on all frozen and processed pork products by 2014. Fresh chilled pork will be duty free ten years after implementation with a safeguard.

- In addition to ambitious market access gains -the Republic of Korea has agreed to accept all pork and pork products from USDA approved facilities. This provision ensures trade will be possible without onerous technical or sanitary barriers.

- The U.S.-Republic of Korea FTA will add hundreds of millions of dollars to the U.S. pork industry in additional pork exports. Exports positively impact the price of live hogs and therefore the agreement will benefit all U.S. pork producers. According to Iowa State University economist Dermot Hayes, the Korea agreement, when fully implemented, will cause live U.S. hog prices to be **$10.00** higher than would otherwise have been the case.

Colombia Trade Promotion Agreement

- The Colombia Trade Promotion Agreement (CTPA) negotiated between the United States and Colombia, once fully implemented, will significantly benefit U.S. pork producers. Under the terms of CTPA, the tariffs on some pork and pork products will be eliminated immediately while the tariffs on others will be phased out over a five-year period.

- In addition to the favorable market access provisions, significant sanitary and technical issues have been resolved. By a letter dated February 26, 2006 the Colombian government confirmed that it shall recognize the meat inspection system of the United States as equivalent to its own meat inspection system.

- Live hog prices are positively impacted by the introduction of new export markets. According to Iowa State University economist Dermot Hayes, the Colombia agreement, when fully implemented, will cause live U.S. hog prices to be $1.63 higher than would otherwise have been the case. That means that the profits of the average U.S. pork producer will expand by 14 percent, based on 2005 data.

Peru Trade Promotion Agreement

- The free trade agreement negotiated between the United States and Peru, when implemented, will create important new opportunities for U.S. pork producers. U.S. pork exports to Peru currently are restricted by duties as high as 25 percent. However, the Peru Trade Promotion Agreement (PTPA), if implemented, will establish immediate tariff reductions on all pork products. Some pork products will receive unlimited duty free access upon implementation of the agreement. Tariffs on most pork items will be phased out within five years. All pork tariffs will be completely phased out in ten years.

- In addition to the favorable market access provisions, significant sanitary and technical issues have been resolved. By a letter dated January 5, 2006 the Peruvian government confirmed that it shall recognize the meat inspection system of the United States as equivalent to its own meat inspection system. The aggressive market access provisions coupled with the agreement on equivalence make the Peru agreement a state of the art agreement for pork producers to which all future FTAs will be compared.

- Live hog prices are positively impacted by the introduction of new export markets. Recent price strength in U.S. pork markets is directly related to increased U.S. pork exports. Mexico continues to be a strong and growing export market for U.S. pork. The same competitive advantage that has resulted in expanded U.S. pork exports to Mexico will also facilitate an expansion of U.S. pork exports to 28 million new consumers in Peru.

- According to Iowa State University economist Dermot Hayes, PTPA, when fully implemented, will cause hog prices to be 83 cents higher than would otherwise have been the case. That means that the profits of the average U.S. pork producer will expand by 7 percent.

Panama Trade Promotion Agreement

- The Free Trade Agreement negotiated between the United States and Panama, when implemented, will create important new opportunities for U.S. pork producers. U.S. pork exports to Panama are currently restricted by a very limited quota and out-of-quota duties as high as 80 percent. However, the Panama Trade Promotion Agreement, if implemented, will provide immediate duty free treatment on pork variety meats and expanded market access for U.S. pork through tariff rate quotas.

- In addition to the favorable market access provisions, significant sanitary and technical issues have been resolved. By a letter dated December 20, 2006 the Panamanian government confirmed that it shall recognize the meat inspection system of the United States as equivalent to its own meat inspection system. This technical agreement ensures U.S. pork producers will benefit from the Panama Trade Promotion Agreement without being blocked by unnecessary sanitary barriers.

- U.S. pork competes in Panama with pork from Canada and the EU. The Panama Agreement, if implemented, will give U.S. pork products a competitive edge in the market.

- According to Iowa State University economist Dermot Hayes, the Panama agreement, when fully implemented, will cause hog prices to be 20 cents higher than would otherwise have been the case. Therefore exports to Panama will be worth approximately $20.6 million to the U.S. pork industry in additional revenue than otherwise would have been the case.

NPPC Supports Presidential Trade Promotion Authority

Trade Promotion Authority (TPA), also known as fast track, allows the President to negotiate trade agreements with other countries. It simplifies the process of congressional consideration of such agreements by requiring a straight yes or no vote with no amendments permitted. New and expanded market access through trade agreements has been the most important catalyst for increased U.S. pork exports. In particular, renewal of TPA is needed in order to allow for a successful conclusion to the Doha Round.

Multilateral Trade Negotiations: WTO Doha Round

With 96 percent of the world's population residing outside of the United States, it is essential that U.S. pork producers continue to gain access to more of these potential customers. A successful World Trade Organization Doha Development Round had the ability to increase the world economy by $300 billion over the next decade. While pork exports have exploded in recent years, future growth is dependent on further trade liberalization. The average global tariff on pork is still a staggering 77 percent.

The WTO Doha Round began in 2001. Unfortunately, the proposals put forward by the European Union and the G-20, if implemented, will not bring about significant increases in U.S. pork exports. A large outcome, particularly in the EU and Japan, is needed to make Doha successful for pork producers. Currently, the United States supplies far less than 1 percent of EU pork consumption, and while Japan is the biggest value market in the world for U.S. pork exports, there is still enormous potential for growth.

In conclusion, trade agreements significantly benefit all U.S. pork producers. 15 percent of all U.S. pork production is exported abroad, and the impact of exports on the livelihood of small and medium sized independent pork producers is substantial. Trade Promotion Authority is necessary for the continued trade liberalization and growth of the U.S. pork industry.

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APPENDIX:

Statement
Of the
National Pork Producers Council
Before the
U.S. House of Representatives Committee on Small Business
On the
Impact of U.S. Trade Policies
June 13, 2007

Economic Impacts Associated with Hog Production in Pennsylvania's 9th Congressional District

Daniel Otto and John D. Lawrence[1]

The pork industry in Pennsylvania is a major generator of jobs and income for the state's economy. These impacts can be demonstrated at regional levels as well. The hog production occurring in Pennsylvania's 9th Congressional District make it the 45th largest hog producing region in the United States. The results from the statewide[2] study of the hog industry in Pennsylvania can be used to estimate the economic contribution of the hog industry to Pennsylvania's 9th Congressional District.

Based on the most recently available information in the 2002 Ag Census, 614 farmers in Pennsylvania's 9th Congressional District have 20.7% of the state's hog inventory. Using this share, in 2005 hog producers in the district marketed 378,516 head valued at an estimated $49.5 million. As a significant agricultural value-added activity, hog production in the region uses other agricultural inputs in its production process. An estimated 3.9 million bushels of corn and 25,600 tons of soybean meal as well as a significant amount of other inputs are used by hog production in Pennsylvania's 9th District.

The hog production activities also have secondary effects in the local economy. Because specific employment numbers in slaughter and processing are not disclosed at regional levels, we can use the state numbers pro-rated back to the district level, based on hog production numbers, to estimate total regional economic impacts. The results of this process are presented in the table below. The $49.5 million of hog marketing directly supports 116 jobs and $4.02 million of income in hog production. This supports an additional 79 jobs in the rest of agriculture. When pork processing is included and through economic linkages and secondary impacts to the rest of the economy, an estimated total of 1,675 jobs, $71.7 million of income and $397.9 million of total sales are generated in the District's economy because of the hog industry. Nationally, exports accounted for 15% of US production in 2006. The final row of the table indicates the impact of pork exports applied at this rate to the District. The table estimates are based on 20.7 % of the state's hog production, yet Pennsylvania's 9th District does not have a major hog slaughter facility thus the actual impact on the rest of the economy may be smaller than reflected in the table.

Economic Value of the Pork Industry in Pennsylvania's 9th Congressional District, 2006.

	Total Sales ($)	Labor Income ($)	Value added ($)	Jobs
Hog Production	49,517,919	4,025,705	4,509,553	116
Rest of Agriculture	11,092,426	2,365,560	4,246,424	79
Rest of Economy	337,244,935	65,269,963	103,284,399	1,480
Total	397,855,164	71,661,228	112,040,376	1,675
Due to Exports	59,678,275	10,749,184	16,806,056	251

Source: IMPLAN Model for Pennsylvania

[1] Extension Economists, Iowa State University, Ames, Iowa
[2] The Pennsylvania Pork Industry 2006: Patterns and Economic Importance

Economic Impacts Associated with Hog Production in Ohio's 4th Congressional District

Daniel Otto and John D. Lawrence[1]

The pork industry in Ohio is a major generator of jobs and income for the state's economy. These impacts can be demonstrated at regional levels as well. The hog production occurring in Ohio's 4th Congressional District make it the 36th largest hog producing region in the United States. The results from the statewide[2] study of the hog industry in Ohio can be used to estimate the economic contribution of the hog industry to Ohio's 4th Congressional District.

Based on the most recently available information in the 2002 Ag Census, 610 farmers in Ohio's 4th Congressional District have 24.3% of the state's hog inventory. Using this share, in 2005 hog producers in the district marketed 737,441 head valued at an estimated $97.8 million. As a significant agricultural value-added activity, hog production in the region uses other agricultural inputs in its production process. An estimated 8.2 million bushels of corn and 52,860 tons of soybean meal as well as a significant amount of other inputs are used by hog production in Ohio's 4th District.

The hog production activities also have secondary effects in the local economy. Because specific employment numbers in slaughter and processing are not disclosed at regional levels, we can use the state numbers pro-rated back to the district level, based on hog production numbers, to estimate total regional economic impacts. The results of this process are presented in the table below. The $97.8 million of hog marketing directly supports 260 jobs and $9.6 million of income in hog production. This supports an additional 135 jobs in the rest of agriculture. When pork processing is included and through economic linkages and secondary impacts to the rest of the economy, an estimated total of 2,046 jobs, $81 million of income and $493 million of total sales are generated in the District's economy because of the hog industry. Nationally, exports accounted for 15% of US production in 2006. The final row of the table indicates the impact of pork exports applied at this rate to the District. The table estimates are based on 24.3% of the state's hog production, and Ohio's 4th District does not have a major hog slaughter facility thus the actual impact on the rest of the economy should be similar to the values reflected in the table.

Economic Value of the Pork Industry in Ohio's 4th Congressional District, 2006.

	Total Sales ($)	Labor Income ($)	Value added ($)	Jobs
Hog Production	97,819,164	9,592,415	11,296,812	260
Rest of Agriculture	17,035,488	2,034,934	7,382,393	135
Rest of Economy	378,121,228	69,416,492	105,901,945	1,650
Total	492,975,881	81,043,842	124,581,151	2,046
Due to Exports	73,946,382	12,156,576	18,687,173	307

Source: IMPLAN Model for Ohio

[1] Extension Economists, Iowa State University, Ames, Iowa

[2] The Ohio Pork Industry 2006: Patterns and Economic Importance

Economic Impacts Associated with Hog Production in Indiana's 8th Congressional District

Daniel Otto and John D. Lawrence[1]

The pork industry in Indiana is a major generator of jobs and income for the state's economy. These impacts can be demonstrated at regional levels as well. The hog production occurring in Indiana's 8th Congressional District make it the 30th largest hog producing region in the United States. The results from the statewide[2] study of the hog industry in Indiana can be used to estimate the economic contribution of the hog industry to Indiana's 8th Congressional District.

Based on the most recently available information in the 2002 Ag Census, 565 farmers in Indiana's 8th Congressional District have 13.3% of the state's hog inventory. Using this share, in 2005 hog producers in the district marketed 748,193 head valued at an estimated $102.5 million. As a significant agricultural value-added activity, hog production in the region uses other agricultural inputs in its production process. An estimated 7.6 million bushels of corn and 50,300 tons of soybean meal as well as a significant amount of other inputs are used by hog production in Indiana's 8th District.

The hog production activities also have secondary effects in the local economy. Because specific employment numbers in slaughter and processing are not disclosed at regional levels, we can use the state numbers pro-rated back to the district level, based on hog production numbers, to estimate total regional economic impacts. The results of this process are presented in the table below. The $102.5 million of hog marketing directly supports 201 jobs and $9.5 million of income in hog production. This supports an additional 90 jobs in the rest of agriculture. When pork processing is included and through economic linkages and secondary impacts to the rest of the economy, an estimated total of 2,358 jobs, $87.7 million of income and $580.2 million of total sales are generated in the District's economy because of the hog industry. Nationally, exports accounted for 15% of US production in 2006. The final row of the table indicates the impact of pork exports applied at this rate to the District. The table estimates are based on 13.3% of the state's hog production, yet Indiana's 8th District does not have a major hog slaughter facility thus the actual impact on the rest of the economy may be smaller than reflected in the table.

Economic Value of the Pork Industry in Indiana's 8th Congressional District, 2006.

	Total Sales ($)	Labor Income ($)	Value added ($)	Jobs
Hog Production	102,531,562	9,532,145	11,285,500	201
Rest of Agriculture	10,174,203	3,037,158	6,088,022	90
Rest of Economy	467,526,195	75,154,986	117,934,609	2,066
Total	580,231,961	87,724,288	135,308,130	2,358
Due to Exports	87,034,794	13,158,643	20,296,220	354

Source: IMPLAN Model for Indiana

[1] Extension Economists, Iowa State University, Ames, Iowa
[2] The Indiana Pork Industry 2006: Patterns and Economic Importance

Economic Impacts Associated with Hog Production in Colorado's 4th Congressional District

Daniel Otto and John D. Lawrence[1]

The pork industry in Colorado is a major generator of jobs and income for the state's economy. These impacts can be demonstrated at regional levels as well. The hog production occurring in Colorado's 4th Congressional District make it the 22nd largest hog producing region in the United States. The results from the statewide[2] study of the hog industry in Colorado can be used to estimate the economic contribution of the hog industry to Colorado's 4th Congressional District.

Based on the most recently available information in the 2002 Ag Census, 478 farmers in Colorado's 4th Congressional District have 98.3% of the state's hog inventory. Using this share, in 2005 hog producers in the district marketed 1.433 million head valued at an estimated $218.1 million. As a significant agricultural value-added activity, hog production in the region uses other agricultural inputs in its production process. An estimated 9.61 million bushels of corn and 63,140 tons of soybean meal as well as a significant amount of other inputs are used by hog production in Colorado's 4th District.

The hog production activities also have secondary effects in the local economy. Because specific employment numbers in slaughter and processing are not disclosed at regional levels, we can use the state numbers pro-rated back to the district level, based on hog production numbers, to estimate total regional economic impacts. The results of this process are presented in the table below. The $218.1 million of hog marketing directly supports 381 jobs and $16.23 million of income in hog production. This supports an additional 206 jobs in the rest of agriculture. When pork processing is included and through economic linkages and secondary impacts to the rest of the economy, an estimated total of 3,636 jobs, $151.4 million of income and $928.4 million of total sales are generated in the District's economy because of the hog industry. Nationally, exports accounted for 15% of US production in 2006. The final row of the table indicates the impact of pork exports applied at this rate to the District. The table estimates are based on 98.3% of the state's hog production, yet Colorado's 4th District has no major hog slaughter facility thus the actual impact on the rest of the economy may be smaller than reflected in the table.

Economic Value of the Pork Industry in Colorado's 4th Congressional District, 2006.

	Total Sales ($)	Labor Income ($)	Value added ($)	Jobs
Hog Production	218,098,210	16,226,155	20,533,533	381
Rest of Agriculture	32,383,254	6,632,378	13,983,517	206
Rest of Economy	677,975,047	128,500,910	209,069,602	3,049
Total	928,456,517	151,359,443	243,586,652	3,636
Due to Exports	139,268,478	22,703,916	36,537,998	545

Source: IMPLAN Model for Colorado

[1] Extension Economists, Iowa State University, Ames, Iowa
[2] The Colorado Pork Industry 2006: Patterns and Economic Importance

Economic Impacts Associated with Hog Production in Nebraska's 1st Congressional District

Daniel Otto and John D. Lawrence[1]

The pork industry in Nebraska is a major generator of jobs and income for the state's economy. These impacts can be demonstrated at regional levels as well. The hog production occurring in Nebraska's 1st Congressional District make it the 18th largest hog producing region in the United States. The results from the statewide[2] study of the hog industry in Nebraska can be used to estimate the economic contribution of the hog industry to Nebraska's 1st Congressional District.

Based on the most recently available information in the 2002 Ag Census, 1,420 farmers in Nebraska's 1st Congressional District have 32.8% of the state's hog inventory. Using this share, in 2005 hog producers in the district marketed 1.69 million head valued at an estimated $252 million. As a significant agricultural value-added activity, hog production in the region uses other agricultural inputs in its production process. An estimated 15.6 million bushels of corn and 101,300 tons of soybean meal as well as a significant amount of other inputs are used by hog production in Nebraska's 1st District.

The hog production activities also have secondary effects in the local economy. Because specific employment numbers in slaughter and processing are not disclosed at regional levels, we can use the state numbers pro-rated back to the district level, based on hog production numbers, to estimate total regional economic impacts. The results of this process are presented in the table below. The $252 million of hog marketing directly supports 499 jobs and $14.3 million of income in hog production. This supports an additional 175 jobs in the rest of agriculture. When pork processing is included and through economic linkages and secondary impacts to the rest of the economy, an estimated total of 3,534 jobs, $126.1 million of income and $860.8 million of total sales are generated in the District's economy because of the hog industry. Nationally, exports accounted for 15% of US production in 2006. The final row of the table indicates the impact of pork exports applied at this rate to the District. The table estimates are based on 32.8% of the state's hog production, yet Nebraska's 1st District has all of Nebraska's major hog slaughter capacity thus the actual impact on the rest of the economy may be larger than reflected in the table.

Economic Value of the Pork Industry in Nebraska's 1st Congressional District, 2006.

	Total Sales ($)	Labor Income ($)	Value added ($)	Jobs
Hog Production	252,009,616	14,278,306	22,895,722	499
Rest of Agriculture	25,631,940	8,471,417	14,359,076	175
Rest of Economy	583,170,010	103,363,862	160,805,174	2,860
Total	860,811,567	126,113,585	198,059,973	3,534
Due to Exports	129,121,735	18,917,038	29,708,996	530

Source: IMPLAN Model for Nebraska

[1] Extension Economists, Iowa State University, Ames, Iowa
[2] The Nebraska Pork Industry 2006: Patterns and Economic Importance

Economic Impacts Associated with Hog Production in Missouri's 6th Congressional District

Daniel Otto and John D. Lawrence[1]

The pork industry in Missouri is a major generator of jobs and income for the state's economy. These impacts can be demonstrated at regional levels as well. The hog production occurring in Missouri's 6th Congressional District make it the 12th largest hog producing region in the United States. The results from the statewide[2] study of the hog industry in Missouri can be used to estimate the economic contribution of the hog industry to Missouri's 6th Congressional District.

Based on the most recently available information in the 2002 Ag Census, 585 farmers in Missouri's 6th Congressional District have 47.1% of the state's hog inventory. Using this share, in 2005 hog producers in the district marketed 1.98 million head valued at an estimated $290.3 million. As a significant agricultural value-added activity, hog production in the region uses other agricultural inputs in its production process. An estimated 15.2 million bushels of corn and 100,855 tons of soybean meal as well as a significant amount of other inputs are used by hog production in Missouri's 6th District.

The hog production activities also have secondary effects in the local economy. Because specific employment numbers in slaughter and processing are not disclosed at regional levels, we can use the state numbers pro-rated back to the district level, based on hog production numbers, to estimate total regional economic impacts. The results of this process are presented in the table below. The $290.3 million of hog marketing directly supports 474 jobs and $22.7 million of income in hog production. This supports an additional 471 jobs in the rest of agriculture. When pork processing is included and through economic linkages and secondary impacts to the rest of the economy, an estimated total of 4,547 jobs, $170.9 million of income and $992.6 million of total sales are generated in the District's economy because of the hog industry. Nationally, exports accounted for 15% of US production in 2006. The final row of the table indicates the impact of pork exports applied at this rate to the District. The table estimates are based on 47.1% of the state's hog production, yet Missouri's 6th District has all of Missouri's slaughter capacity thus the actual impact on the rest of the economy may be larger than reflected in the table.

Economic Value of the Pork Industry in Missouri's 6th Congressional District, 2006.

	Total Sales ($)	Labor Income ($)	Value added ($)	Jobs
Hog Production	290,269,293	22,706,618	33,243,062	474
Rest of Agriculture	23,369,833	6,764,057	10,972,869	471
Rest of Economy	678,978,373	141,474,320	231,474,703	3,601
Total	992,617,499	170,944,995	275,690,634	4,547
Due to Exports	148,892,625	25,641,749	41,353,595	682

Source: IMPLAN Model for Missouri

[1] Extension Economists, Iowa State University, Ames, Iowa
[2] The Missouri Pork Industry 2006: Patterns and Economic Importance

Economic Impacts Associated with Hog Production in Iowa's 1st Congressional District

Daniel Otto and John D. Lawrence[1]

The pork industry in Iowa is a major generator of jobs and income for the state's economy. These impacts can be demonstrated at regional levels as well. The hog production occurring in Iowa's 1st Congressional District make it the 6th largest hog producing region in the United States. The results from the statewide[2] study of the hog industry in Iowa can be used to estimate the economic contribution of the hog industry to Iowa's 1st Congressional District.

Based on the most recently available information in the 2002 Ag Census, 1815 farmers in Iowa's 1st Congressional District have 12.2% of the state's hog inventory. Using this share, in 2005 hog producers in the district marketed 3.6 million head valued at an estimated $524.6 million. As a significant agricultural value-added activity, hog production in the region uses other agricultural inputs in its production process. An estimated 36.1 million bushels of corn and 250,000 tons of soybean meal as well as a significant amount of other inputs are used by hog production in Iowa's 1st District.

The hog production activities also have secondary effects in the local economy. Because specific employment numbers in slaughter and processing are not disclosed at regional levels, we can use the state numbers pro-rated back to the district level, based on hog production numbers, to estimate total regional economic impacts. The results of this process are presented in the table below. The $524.6 million of hog marketing directly supports 776 jobs and $36.7 million of income in hog production. This supports an additional 626 jobs in the rest of agriculture. When pork processing is included and through economic linkages and secondary impacts to the rest of the economy, an estimated total of 7,640 jobs, $268.8 million of income and $1.8 billion of total sales are generated in the District's economy because of the hog industry. Nationally, exports accounted for 15% of US production in 2006. The final row of the table indicates the impact of pork exports applied at this rate to the District. The table estimates are based on 12.2% of the state's hog production, yet Iowa's 1st District has 17% of Iowa's slaughter capacity thus the actual impact on the rest of the economy may be larger than reflected in the table.

Economic Value of the Pork Industry in Iowa's 1st Congressional District, 2006.

	Total Sales ($)	Labor Income ($)	Value added ($)	Jobs
Hog Production	524,647,946	36,715,680	86,523,474	776
Rest of Agriculture	104,705,268	12,306,917	36,104,497	626
Rest of Economy	1,180,074,613	219,774,143	342,938,233	6,237
Total	1,809,427,709	268,796,741	465,566,207	7,640
Due to exports	271,414,156	40,319,511	69,834,931	1,146

Source: IMPLAN Model for Iowa

[1] Extension Economists, Iowa State University, Ames, Iowa

[2] The Iowa Pork Industry 2006: Patterns and Economic Importance

Economic Impacts Associated with Hog Production in Iowa's 5th Congressional District

Daniel Otto and John D. Lawrence[1]

The pork industry in Iowa is a major generator of jobs and income for the state's economy. These impacts can be demonstrated at regional levels as well. The hog production occurring in Iowa's 5th Congressional District make it the number 1 hog producing region in the United States. The results from the statewide[2] study of the hog industry in Iowa can be used to estimate the economic contribution of the hog industry to Iowa's 5th Congressional District.

Based on the most recently available information in the 2002 Ag Census, 2,505 farmers in Iowa's 5th Congressional District have 36.9% of the state's hog inventory. Using this share, in 2005 hog producers in the district marketed 10.9 million head valued at an estimated $1.59 billion. As a significant agricultural value-added activity, hog production in the region uses other agricultural inputs in its production process. An estimated 109 million bushels of corn and 751,900 tons of soybean meal as well as a significant amount of other inputs are used by hog production in Iowa's 5th District.

The hog production activities also have secondary effects in the local economy. Because specific employment numbers in slaughter and processing are not disclosed at regional levels, we can use the state numbers pro-rated back to the district level, based on hog production numbers, to estimate total regional economic impacts. The results of this process are presented in the table below. The $1.59 billion of hog marketing directly supports 2,348 jobs and $111 million of income in hog production. This supports an additional 1,895 jobs in the rest of agriculture. When pork processing is included and through economic linkages and secondary impacts to the rest of the economy, an estimated total of 23,108 jobs, $813 million of income and $5.5 billion of total sales are generated in the District's economy because of the hog industry. Nationally, exports accounted for 15% of US production in 2006. The final row of the table indicates the impact of pork exports applied at this rate to the District. The table estimates are based on 36.9% of the state's hog production, and Iowa's 5th District has 37% of Iowa's slaughter capacity thus the actual impact on the rest of the economy should reflect in the values in the table.

Economic Value of the Pork Industry in Iowa's 5th Congressional District, 2006.

	Total Sales ($)	Labor Income ($)	Value added ($)	Jobs
Hog Production	1,586,845,017	111,049,886	261,698,047	2,348
Rest of Agriculture	316,690,523	37,223,381	109,201,307	1,895
Rest of Economy	3,569,242,068	664,726,711	1,037,247,606	18,865
Total	5,472,777,252	812,999,979	1,408,146,970	23,108
Due to Exports	820,916,588	121,949,997	211,222,046	3,466

Source: IMPLAN Model for Iowa

[1] Extension Economists, Iowa State University, Ames, Iowa
[2] The Iowa Pork Industry 2006: Patterns and Economic Importance

TESTIMONY OF
LAEL BRAINARD
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES
JUNE 13, 2007
WASHINGTON, DC

Chairwoman Velázquez, Representative Chabot, members of the Committee, I appreciate the opportunity to testify before the House Committee on Small Business today on the subject of U.S. Trade Policy and Small Business.

The New Wave of Globalization

Our economy is undergoing a profound transformation. Although the individual elements feel familiar, the combined contours are unprecedented – in scope, speed and scale.

China is successfully pursuing a growth strategy that is export-led and foreign direct investment fed – at a scale that has never been seen before. As a result, its rise is sending waves to the farthest reaches of the global economy – swelling the coffers of resource producers and becoming deeply embedded in global manufacturing supply chains. No economy has been left untouched.

India's concurrent economic emergence has greatly added to the scale and scope of the new wave of globalization. While India has pursued a growth strategy more reliant on domestic consumption and investment than China, nonetheless its success in exporting higher skilled "knowledge" services, such as software programming has led to a stunning expansion of the scope of globalization.

Many American businesses large and small are thriving on the new opportunities created by breathtaking growth of more than 9 percent for the two most populous nations in the world – along with strong growth in other developing economies around the world—and the entry of hundreds of millions of consumers into the middle class.

But other American businesses are confronting foreign competition at an intensity and scale they have never experienced before. They are faced with the choice of moving over or moving up the value chain, concentrating on functions such as R&D or marketing that have unique advantages here, or diversifying their geographic base. In addition, many businesses in the services sector are confronting the reality of low wage foreign competition for the first time, and that number will grow substantially over the next decade.

While it may feel familiar, the current episode of global integration dwarfs previous episodes. An economy with a labor force of 1.7 billion has been abruptly confronted with absorbing a labor force of 1.2 billion --with wages as much as 90 percent lower. The entry of India and China amounts to a 70 percent expansion of the global labor force. That is more than three times bigger than the globalization challenge of the 1970s and 80s associated with the sequential advances of Japan, South Korea, and the other Asian tigers.

Textbook economics would predict a squeeze on wage earners until capital and technology investments adjust. Indeed, the data suggests inequality is once again on the rise in many of the world's richer economies. In the United States, profits are capturing a larger share of income and wages are capturing a lower share than at any time in the last 50 years.

The Role of Small Business in a Global Economy

As the most dynamic and flexible stratum of the economy, small business is on the front lines of this new wave of globalization. As a microcosm of the overall economy, there is enormous diversity within this group of businesses. Many small businesses are encountering unprecedented growth opportunities associated with the new wave of globalization and are rapidly integrating into global supply chains. Meanwhile, others are struggling to compete with low wage foreign competitors for the first time.

The old product life cycle model predicted that businesses would first grow and mature in their own markets before moving overseas. But this linear model no longer fits the high tech, high speed, highly global economy of today. It should come as no surprise that many entrepreneurs are identifying new markets overseas early in their growth and quickly moving to explore them. It is well known to this committee that small businesses account for 97 percent of all exporters and nearly a third of total U.S. export value. In the wake of NAFTA, Mexico and Canada became the top two markets for small business exporters in value terms. Now we are seeing record numbers of U.S. small and medium enterprises (SMEs) making forays into China's market with the result that China is now the highest growth market for SME export transactions.

Because they are so often on the front lines of globalization – both in taking advantage of opportunities and in facing adjustment pressures – small businesses have a disproportionate stake in the policies affecting globalization. But by the same token, small businesses face higher transactions costs relative to their size as they venture abroad and as they seek to influence the policy environment in comparison with large companies and especially multinationals.

On the export opportunity side, small business has an enormous stake in the establishment of transparent trade and investment rules – and in their enforcement. Most small businesses simply do not have the scale or resources of the major multinationals to spend long months and even years identifying and getting to know the foreign officials who have bureaucratic jurisdiction over their exports and investments. Nor do they have the internal resources to study the minutiae of widely varying trade and investment provisions for each new market. As such, small businesses have a disproportionate interest in the establishment of a clear rules-based system with clear enforcement of intellectual property rights, nondiscriminatory standards, predictable customs procedures, and accessible distribution channels whether direct or electronic. They also benefit from easily accessible export promotion services when contemplating opportunities in unfamiliar markets.

Similarly, when an unanticipated surge of foreign competition causes injury to domestic producers and their employees, small businesses may have less internal wherewithal to cushion the blow, so that government remedies and adjustment programs become all the more important. But it may be difficult for small businesses to secure relief in a timely and effective manner if the eligibility process is time-consuming and daunting and there are high transactions costs to establish industry-wide injury, for example.

Wherever small businesses find themselves on the spectrum of opportunity and adjustment, it is important to emphasize that the vibrancy of our small business sector will remain a key comparative advantage for the United States in the global marketplace. Rates of entrepreneurship remain significantly higher in the United States than in other advanced economies – and this is especially true for so-called "high expectation" entrepreneurship. America's sophisticated financial markets remain unequalled globally in providing risk capital to high-growth potential entrepreneurs. The ease of starting up and expanding a business are enormous advantages that are now recognized the world over through the annual publication of the World Bank's *Doing Business* report. So as we think about how to help America's small businesses thrive and adapt in an increasingly competitive marketplace, it is important to start from the foundation of ensuring a favorable environment here at home.

Helping Small Business Compete Effectively

Maintaining America's preeminence in the global economy while supporting rising living standards and easing adjustment to the bracing winds of global commerce requires a seamless web of forward-looking policies –not a patchwork of uncoordinated policies that address yesterday's challenges. While the key elements of an effective national competitiveness strategy are likely to be the same for businesses of all size, programs within each pillar must be tailored to address the special challenges and strengths of small businesses. A truly effective set of policies would include three pillars:

1. **Investments in Competitiveness**

Investments in 21st century education, innovation, and infrastructure will be critical to ensure that America remains the most attractive economy in the world to produce high-value goods and services. On innovation, this means increasing funding for basic R&D and prizes to reward innovation, sustaining a well-designed tax credit for innovative activity, and allocating research funding against national challenges, such as energy and climate security. It means strengthening programs like the NIST Manufacturing Extension Program, which supports the competitiveness of U.S. based manufacturing by helping small businesses incorporate new technology and best practices. It also means improving broadband access. These measures are particularly critical to those small businesses whose core strength is as innovation incubators.

On education, it means improving the teaching of science and engineering and making these fields more attractive to students through fellowships and industry linkages. While America will never win at the numbers game, we can do a better job of systematically emphasizing innovation and problem solving in our educational system—skills where America must continue to excel in order to remain at the commanding heights of the world economy. It also means improving America's attractiveness in an increasingly competitive worldwide market for talent. Finally, attention must extend to lifelong learning so that American workers can upgrade their skills as frequently as they are likely to change jobs.

2. Strong International Rules

Small business more than any other segment depends centrally on the negotiation and enforcement of strong, transparent international rules to compete effectively in foreign markets. U.S trade policy can benefit small business not just by securing lower tariff and nondiscriminatory standards across services, agriculture, and manufacturing but also by working towards customs procedures that are predictable, fair, and not unduly burdensome, and improving intellectual property enforcement. It is also critical that the U.S. work actively to prevent sustained exchange rate misalignments, such as the undervaluation of the Chinese yuan.

While small business as a group may have disproportionately high interests in the enforcement of strong trade rules, it is difficult for small businesses to actively monitor and seek to influence the priorities of our negotiators. The special consideration that this committee has asked the agencies responsible for trade negotiations, export promotion, and trade remedies to give small business is thus entirely appropriate. The special financing provisions that are available to small business through ExIm, OPIC, and SBA are also critical to help small businesses with more limited financing options penetrate foreign markets.

3. Adjustment Assistance

For small businesses and their workers who find themselves on the front lines of the new wave of globalization, strong adjustment programs are critical. Improving Trade Adjustment Assistance (TAA) to better meet the needs of small businesses and their employees calls for making the time consuming and excessively burdensome eligibility determinations faster and more automatic – triggered for instance by sector-wide adjustment – and tied to globalization broadly, not just trade agreements. Some of the changes under consideration in the context of TAA reauthorization this year have important implications for small business. Given the importance of small business in the services sector and as suppliers to large companies competing in the global marketplace, it is critical to extend the coverage of TAA to the services sector and make the provisions for secondary impact more effective. Improving TAA for firms so that adjustment policies are proactive and forward-looking is also critical for helping small businesses to adapt and survive, as are rapid response programs for community adjustment. TAA benefits should be flexible so that starting a small business becomes a viable option for more dislocated workers. Finally, TAA should be strengthened to provide for affordable health insurance during transitions and a flexible combination of income support during periods out of work, wage insurance to cushion against significant wage losses during reemployment, and training opportunities that are flexible, accessible and attuned to the marketplace.

* * *

As we navigate the turbulent waters of this new era of intensified globalization, America's vibrant small business sector will remain a critical comparative advantage. Many of America's small businesses will thrive as they take advantage of exciting opportunities in foreign markets, while many others will face challenges as they confront competition from lower wage economies. Execution of a strong national competitiveness strategy built on the pillars of innovation investments, trade and currency rules, and adjustment assistance will be critically important for the small business sector. It is important for policymakers to make sure the small business community is heard in the design of these policies and special emphasis is placed on ensuring programs are accessible.

"The Large Stake of U.S. Small Business in an Expanding Global Economy"

Testimony by Daniel Griswold
The Cato Institute
Before the House Small Business Committee Hearing
On "U.S. Trade Policy and Small Business"
June 13, 2007

Chairwoman Velázquez, Ranking Member Chabot, and other members of the House Small Business Committee, thank you for allowing the Cato Institute to testify today on the important subject of the foreign and domestic market access issues faced by America's small companies.

America's growing engagement in the global economy is not just a story of the Fortune 500. Increasingly, small and medium sized U.S. companies are entering global markets not only to sell but also to buy and invest. In response, Congress and the administration can and should do more to open new opportunities for U.S. small businesses to remain competitive in a globalized economy.

Members of Congress should start from the premise that expanding trade and globalization are not a threat to American companies but an opportunity. We should reject the protectionist and defeatist arguments that portray the U.S. economy in general and American manufacturing companies in particular as victims of global competition. Nothing could be further from the truth.

How Expanding Trade Benefits Small Business

First, globalization is a reality for American companies of all sizes. Americans have never earned or spent a higher share of our income in the global economy than we do today. In 2006, as you can see in Figure 1, what we earned through the export of goods and services and income from foreign investments abroad reached a record 15.6 percent of gross domestic product. What we spent for imported goods and services and payments on investments in the United States reached a record 22.2 percent of GDP. Small businesses that shun global markets are missing the growth opportunity of our time.

Second, U.S. small businesses have benefited as exporters into a growing global market, including China. Last year, U.S. exports of goods to the rest of the world topped $1 trillion for the first time ever. U.S. exports of services also reached a record $422 billion. The Internet, global telecommunications, and an increasingly complex global supply chain have opened opportunities for smaller U.S. firms to supply goods and services to global markets or to larger U.S. companies that sell to those markets.

China is no exception, despite misguided complaints about China's currency and trade practices. Between 2000 and 2006, U.S. exports of goods to China increased from $16.2 billion to $55.2 billion—an annual growth rate of 22.7 percent. U.S. exports to China grew more than five times faster than U.S. exports to the rest of the world during that same period.[1] America's leading exports to China are soybeans, cotton, and other agricultural products; plastics, chemicals, wood pulp, and other industrial materials; civilian aircraft; and semiconductors, computer accessories, industrial machines and other machinery.[2]

China's market has also created expanding opportunities for U.S. investors and service providers. In 2003, according to the most recent figures, U.S. companies sold $48.8 billion in goods and services in China through majority owned affiliates located in China.[3] In addition, U.S. companies exported $9.1 billion in private services to people in China in 2005, making China our third largest service customer in Asia.[4] Given China's spectacular, double-digit growth, those opportunities will continue to grow.

Large multinational companies have not been the only beneficiaries of expanding exports to China. According to the U.S. Department of Commerce, more than one-third of U.S. exports to China are produced by small and medium-sized enterprises (SMEs) in the United States. In 2003, the most recent year for figures, a total 16,874 U.S. SMEs exported to China, more than five times the number of SMEs that were exporting to China in 1992. China is now the fourth largest export market for American SMEs and the fastest-growing major market.[5] An "undervalued" yuan does not appear to have dampened the ability of U.S. companies, large, small or in between, to sell in China's rapidly growing market.

Third, U.S. small businesses benefit from import competition. Granted, some U.S. companies find it difficult to compete in more competitive global markets, but many have also benefited from access to more affordable raw materials, intermediate inputs, and capital machinery. In fact, more than half of what we import each year are not consumer goods but goods U.S. companies use to make their final products. Imported petroleum, lumber, iron ore, steel, rubber, computer chips, bearings and other parts are used by small and large U.S. firms alike to produce their final products at more globally competitive prices. Imports allow smaller U.S. firms to acquire the capital equipment they need, including computers and industrial machinery, to meet their competition. Import competition thus promotes innovation, efficiencies and ultimately the productivity gains that lead to both higher profits for shareholders and higher real wages for workers.

A more open U.S. market also feeds back into more export opportunities in foreign markets. Foreign producers who can sell more freely in the U.S. market thus earn more dollars in which to spend on U.S. products and services for export. More efficient U.S. producers are better able to gain and expand market share abroad. Foreign governments are also more likely to negotiate greater access to their own domestic markets if the U.S.

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[1] U.S. Department of Commerce, "U.S. Trade in Goods (Imports, Exports and Balance) by Country," www.census.gov/foreign-trade/balance/index.html#W

[2] U.S. Department of Commerce, "U.S. Exports to China from 2001 to 2005 by 5-digit End-Use Code," www.census.gov/foreign-trade/statistics/product/enduse/exports/c5700.html.

[3] U.S. Department of Commerce, *Survey of Current Business,* July 2005, p. 25.

[4] U.S. Department of Commerce, *Survey of Current Business,* October 2006, p. 44.

[5] U.S. Department of Commerce, "The Role of Small and Medium-sized Enterprises in Exports to China: A Statistical Profile," December 2005, p. 3-4.

government offers more access to our market. As research by my Cato colleague Daniel Ikenson has shown, U.S. companies have enjoyed the fastest export growth to the very same countries that have also seen the fastest growth of their imports to the United States.[6]

For all those reasons, exports, imports and output tend to grow together, all to the benefit of U.S. small businesses. Further research at the Cato Institute has shown a strong positive correlation between the amount of manufactured goods we import and the amount we produce domestically. Figure 2 shows the change from the previous year in real (inflation-adjusted) manufacturing imports[7] and manufacturing output[8] in the United States for each year since 1989. The percentage change in real manufacturing imports from the previous year is plotted on the horizontal axis, and the percentage change in manufacturing output from the previous year is plotted on the vertical axis. As the chart shows, U.S. manufacturing output grows most rapidly in the very years in which imports of manufactured goods also increase the most rapidly. For small, medium and large U.S. companies alike, trade and prosperity are a package deal: The more we prosper, the more we trade; the more we trade, the more we prosper.

Fourth, U.S. small firms benefit from access to global capital. Foreign producers who sell in the U.S. market can also use their earnings to invest in our domestic economy. In fact, the large surplus of foreign capital flowing into the U.S. economy each year is the mirror image of the U.S. trade deficit. The net inflow of foreign capital can be invested directly in U.S. factories and other facilities, creating direct employment for more than 5 million Americans and creating customers for domestic U.S. suppliers. Foreign capital also puts upward pressure on bond prices and thus downward pressure on long-term U.S. interest rates. According to a recent study from the National Bureau of Economic Research, foreign investment in the U.S. economy has lowered long-term interest rates by almost a full percentage point.[9] Lower rates, in turn, mean lower mortgage payments for American families and lower borrowing costs for U.S. small businesses, allowing them to expand their productive capacity. Lower borrowing costs have also stoked demand for durable goods such as cars and appliances, benefiting U.S.-based manufacturers.

Fifth, U.S. industry, including small and medium sized manufacturing firms, can thrive in a globalized market. It is a myth that America is "de-industrializing" or that our manufacturing base is shrinking. Tens of thousands of U.S. manufacturing companies are

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[6] Daniel Ikenson, "Leading the Way: How U.S. Trade Policy Can Overcome Doha's Failings," Cato Trade Policy Analysis no. 33, June 19, 2006, pp. 11-12.

[7] Manufacturing imports are defined as industrial supplies and materials, capital goods, automotive vehicles and parts, and consumer goods. See U.S. Commerce Department, "National Income and Product Accounts," Bureau of Economic Analysis, Table 4.2.6., Real Exports and Imports of Goods and Services by Type of Product, www.bea.doc.gov/bea/dn/nipaweb/index.asp.

[8] Manufacturing output is measured by the annual average of the Federal Reserve Board's monthly index of manufacturing output. See U.S. Federal Reserve Board, "Industrial Production and Capacity Utilization: Historical Data," Industrial Production, Seasonally Adjusted, Tables 1 and 2, www.federalreserve.gov/releases/g17/ipdisk/ip.sa.

[9] Francis Warnock and Veronica Warnock, "International Capital Flows Alter U.S. Interest Rates," National Bureau of Economic Research, NBER Working Paper No. 12560, October 2006.

producing a higher volume of goods today than ever before. As Figure 3 illustrates, the total volume of output of U.S. manufacturers has reached record territory. Since 1994, when both the North American Free Trade Agreement and the World Trade Organization came into being, manufacturing output has grown by more than 50 percent. Thousands of small U.S. manufacturers have participated in the expansion fueled in part by our nation's growing globalization.

A Trade Agenda for U.S. Small Business

America's small companies need a trade policy that expands their freedom to sell, invest and buy in a growing global economy. In general, U.S. small businesses can grow and compete most effectively in a domestic economy that avoids uncompetitive tax rates and burdensome paperwork and regulations. Small businesses also need flexible labor markets that allow them to hire the workers they need to meet the needs of their customers. Comprehensive immigration reform and an increase in visas for highly skilled workers would enhance the ability of U.S. companies to meet global competition.

On the trade front, U.S. small businesses benefit when the United States signs bilateral, regional, and multilateral trade agreements that reduce trade barriers with our major trading partners. Those agreements not only reduce barriers to trade but they also establish predictable and enforceable rules that increase transparency when smaller U.S. companies venture abroad. Free trade agreements with the countries of Central America, Chile, and other trading partners have already stimulated an increase in U.S. exports and have opened up new opportunities for U.S. companies to reach new customers, just as the North American Free Trade Agreement has expanded opportunities in Canada and Mexico. Absent trade agreements, Congress should reduce remaining U.S. trade barriers unilaterally.

What U.S. small businesses do not need are higher trade barriers to our domestic market or more federal subsidies to supposedly promote exports or foreign investment. Punitive tariffs against a country such as China would threaten to drive up costs for U.S. small businesses that import intermediate products from that country. A trade war would also jeopardize export opportunities in growing markets abroad. Antidumping orders and other tariffs against such imports as steel or agricultural commodities drive up costs for domestic producers, many of them small businesses, who use those imports in their final products.[10] For the same reasons, a dramatically weaker U.S. dollar, while benefiting certain U.S. exporters, would drive up the costs U.S. small businesses pay for imported energy, parts and capital machinery.

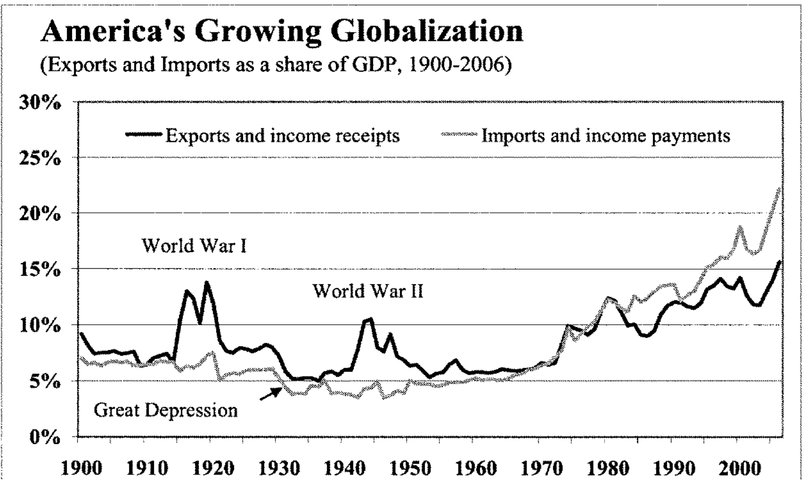
Nor do U.S. small businesses need a larger share of federal subsidies for international trade. While small and medium sized companies do qualify for such programs as the

[10] For the impact of steel tariffs, see Daniel Ikenson, "Ready to Compete: Completing the Steel Industriy's Rehabilitation," Cato Trade Briefing Paper no. 20, June 22, 2004, pp. 5-6; for the impact of agricultural trade barriers on U.S. producers, see Daniel Griswold, Stephen Slivinski and Christopher Preble, "Ripe for Reform: Six Good Reasons to Lower U.S. Farm Subsidies and Trade Barriers," Cato Trade Policy Analysis no. 30, September 5, 2005, pp. 4-6.

Export-Import Bank and the Market Access Program, they account for a small dollar share of total federal support. U.S. companies do not need federal subsidies to compete effectively in global markets. Our research at Cato has shown that U.S. exporters have outperformed their counterparts in Great Britain, Germany, France, Canada and Japan even though the share of U.S. exports receiving government support is much lower than exports from those countries. Most U.S. export subsidies go to firms that do not experience subsidized competition abroad.[11] U.S. and global markets are currently awash in private capital ready to finance new trade and investment opportunities. Federal export subsidies do not promote more exports but only reshuffle the export pie in favor of larger U.S. companies, crowding out smaller exporters.

If Congress and the administration want to increase opportunities for U.S. small businesses to compete and thrive in a global economy, they should work together to reduce barriers to international trade and investment wherever they exist.

Figure 1.



Sources: Historical Statistics of the United States, Economic Report of the President 2007, and Bureau of Economic Analysis.

[11] Aaron Lukas and Ian Vásquez, "Rethinking the Export-Import Bank," Cato Trade Briefing Paper no. 15, March 15, 2002.

Figure 2.

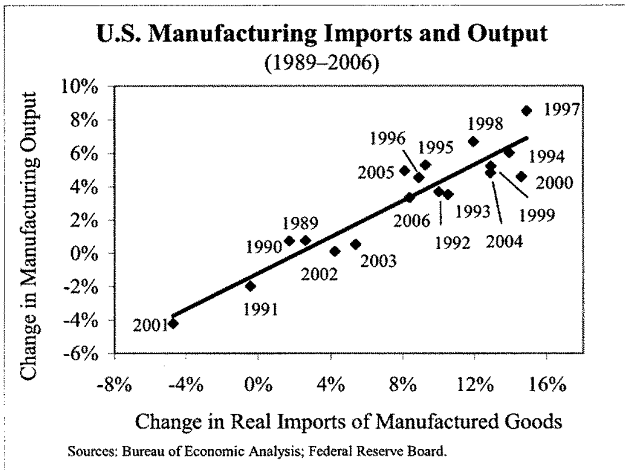


Figure 3.