Statement of

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The Small Business Exporters Association of the United States™

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Chairman Sherman, Ranking Member Royce, members of the Subcommittee, thank you for inviting me to testify here today. I am James Morrison, President of the Small Business Exporters Association of the United States. SBEA is the nation's oldest and largest nonprofit organization dedicated exclusively to small and mid-sized U.S. exporters.[1]

We are also the International Trade Council of the National Small Business Association. Founded in 1937, NSBA is our country's oldest nonprofit advocacy organization for small business. Today it serves over 150,000 small companies.

On behalf of the 22,000 U.S. exporters that SBEA represents, we thank you for your interest in strengthening export promotion.

This is a moment of both danger and opportunity for the United States in international trade.

We are facing massive trade deficits – over $700 billion in 2007. Yet despite the record high costs of our energy imports, that figure was actually $50 billion lower in than the 2006 trade deficit. One reason is the dollar's lower exchange rate against major currencies like the euro. This makes our export pricing extremely competitive globally, and notably so in places like Western Europe, where U.S. products are flowing into market sectors where we haven't been able to underprice the competition in many years. Exports accounted for 41% of U.S. economic growth in 2007, single-handedly keeping the country out of a recession.

As important as this exchange rate opportunity is, *sustaining* our growing exports requires strategic thinking within American companies. Companies that have never exported need to use these market conditions – which allow for a lot more trial and error in exporting than normally exists – to start selling abroad. Companies that are starting to export need to focus on building durable relationships with their customers -- relationships that can withstand an upward tick in the dollar, and therefore prices.

[1] I have also had the benefit of serving as a member of the District Export Councils of the United States, most recently as the Secretary of the National Steering Committee of the organization. The 1500 exporters and export service providers of the DEC's, all of them unpaid volunteers, are located in 57 cities across the country. Each one was selected by a U.S. Secretary of Commerce to offer advice on export promotion. I mention this experience with the DEC's as a matter of background information, however; I am not representing the DEC's today. I am here solely on behalf of SBEA.

Experienced exporters need to need to be looking at new export markets and developing the agility to shift their sales from here to foreign markets and back again as business cycles trend upward and downward in different countries, including our own.

Government can help by disseminating information on foreign markets, encouraging more American companies to export, and removing barriers to export sales.

I. An Approach to Export Promotion and Small Business

Should a major focus of these national export promotion efforts be on small business?

Consider a few basic numbers.

Over 97% of U.S. exporters are small and mid-sized businesses, yet those companies still account for only about 30% of the value of all U.S. exports.

The two biggest factors associated with this gap are:

- about two-thirds of all smaller exporters sell to just one country and
- two-thirds have fewer than five export sales per year.

But therein lies an opportunity. Because the really difficult part of export promotion is getting a company to export for the first time. Once a company has learned how to export, even for one sale, getting that company to export more goods to more countries is less a major change than an incremental process.

Thus, the “low-hanging fruit” in export promotion are companies that have already exported, at least once, and especially companies with a few exports.

Finding these companies and helping them discover more export sales opportunities ought to be the #1 priority in export promotion, in SBEA’s view.

Last year, small companies exported over $450 billion worth of U.S. goods and services, according to SBA’s calculations.[2] If most of the small companies that are making a few sales in one foreign country were to make a few more in that country and /or an equivalent level of sales in a second country, we could probably bring that figure up to $625 billion a year, even without adding any new exporters.

We’d be cutting the current trade deficit by about 30%.

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[2] This figure represents 29% of the known total of $1.6 trillion in U.S. exports in 2007. The small business share of U.S. exports has been slowly rising in recent years, and most analyses show it at about 29% currently. Looking only at the smaller universe of U.S. merchandise exports for which Shippers’ Export Declaration (SED) forms were submitted to the federal government ($910 billion in U.S. exports), the Census Bureau reports a different figure for small business exports, about $265 billion. This figure does not account for service exports or exports for which no SED was filled out (such as Internet sales and merchandise sales of less than $2500). Overall, the Census figure misses $690 billion in U.S. exports, or about 40% of the total. SBA conservatively estimates that the small business share of this remaining $690 billion is at least that same 29%, yielding a small business export total somewhat above $450 billion.

Altogether, there are over *240,000* American small businesses that export. This is certainly a remarkable figure – it's about tripled in the last 20 years -- and it's not fully appreciated in this country.

Still, there are *26.8 million small businesses* in this country overall.[3] So over 99% of U.S. small businesses *don't* export. Contrast this with the Fortune 1000 companies, virtually all of whom are fully globalized and take advantage of every export opportunity.

100% of large companies are exporting, versus less than 1% of small companies.[4]

<u>Conclusion: generating new exporters = getting more small businesses to export.</u>

How? First, our policy must realistically recognize that a great many small businesses will never export. The pizzerias and dry cleaners in everyone's neighborhoods are not going to be shipping their products overseas. On the other hand, even if a large majority of small businesses never export, the minority that *could* become exporters represents a potentially powerful impact on the global economic performance of the U.S.

If we can increase the number of small business exporters by half, drawing it up from 1% of the small business universe to 1.5%, and if that new cohort could become 75% as successful as the existing cohort, then we've knocked another $169 billion off the trade deficit.

So two steps – incremental sales increases by current small business exporters and doubling the number of small business exporters – offer the possibility of eliminating 70% of the U.S. trade deficit $700 billion.

Increase the small business exporters by two-thirds, at the same success rate, and 79% of the trade deficit goes away. Double the number of small business exporters, at that success rate, and 92% of the trade deficit disappears.

This kind of a step up in small business exporting would also have a major impact at home.

Export-related jobs pay 13-18% more, on average, than non-trade-related ones.[5]

And every $1 billion in exports creates more than 9,000 jobs.[6]

So another $500 billion in exports is worth **4.5 million** of these good jobs.

That's surely worth making an effort to achieve.

But how?

As I reflect on the better part of a decade in working with small business exporters, I would say that the most effective approach to small business export promotion is to

[3] Source: *Small Business FAQ's*, U.S. Small Business Administration, 2008.
[4] Our major competitors do far better at this. In France, 6% of small businesses export. In Canada, the UK and Germany, it's about 9%. In Australia, it's 15% in Australia, in Denmark 17%, and Finland 19% - or 19 ***times*** the U.S proportion***.***
[5] *Why Exports Matter*, Institute for International Economics and the Manufacturing Institute, 1996.
[6] National Association of Manufacturers data, based on the export database of the U.S. Department of Commerce.

apply broad economic principles to the challenge, and then to work out a series of particular policies that support those principles.

1. Small companies will export when they clearly grasp the **upside potential**. This is largely a matter of offering smaller companies credible information about markets and sales opportunities in a form that they can easily access.

   Years ago, a Member of Congress gave me this advice: "Never underestimate the intelligence of the American people, but never overestimate their information." Today, the challenge is having too much information in the environment rather than too little. But the solution is still the same. Draw out the key pieces of information that are truthful and compelling and will help smaller companies understand the genuine opportunities that await them in exporting.

   For example, here in Washington we hear people say that 95% of the world's population lives outside the United States. You rarely hear that on Main Street, but you should.

   Surveys recently conducted by major business organizations turned up large numbers of Americans who could not name a single U.S. export. "We see imports," said many of the respondents, "but we never see exports." Not only did the U.S. have over a trillion and a half dollars in U.S. exports in 2007.[7] And not only is the U.S. the world's largest exporter of goods and services. The U.S. is also the most successful exporting nation in the history of the world. Yet many people can't think of anything our country sells abroad! Of course, that lack of awareness will affect many small businesses. Government and business both need to do a better job of communicating basic facts about our global reality.

   It's not simply that a lot of consumers with a lot of money live abroad. There are also *advantages* to selling abroad. My members tell me that their margins are frequently higher in overseas markets, where competition for many goods and services is not nearly as stiff as it is here. Those higher margins make the extra effort that's necessary to export worth it. Exporting is also a great way to insulate a company from business cycles. Right now we see a good example of that. The economy is a little soft here at home, but it's booming in Asia, Latin America and a number of other places. When a company and its workers have the ability to shift sales from down-cycle markets to up-cycle markets, they are better protected from economic threats. It's like an individual who owns a diversified group of stocks, bonds and property, rather than just owning stock in one company or owning one piece of property.

2. The **transaction costs** of international trade need to be reduced. Any company contemplating a foreign sale is going to do an initial "back of the envelope" calculation to see if it's a net positive. So initiatives that drive down "back of the envelope" transaction costs will result in more small business exports. If the breakeven cost of shipping a load of equipment into a foreign market drops from $500,000 to $50,000, lots more sellers can play. Also, lots more buyers. The

[7] Including $97 billion dollars worth of industrial and service machinery, $83 billion worth of chemicals, $71 billion in civilian aircraft and parts, $33 billion in electric generating equipment, and $21 billion in telecommunications equipment, all of it made in USA by U.S. workers and shipped overseas.

Internet has generated the greatest reductions in transaction costs in modern times. It's let small companies gain exposure in foreign markets, and even conduct some transactions there, for a tiny fraction of what it would have cost twenty years ago.

You can't invent a new Internet every few years, but you can drive down transaction costs in other ways. For example, some countries have what are called "physical presence" requirements. To do business there, an American company has to open an office there. For Microsoft, that might not be a problem. But a small company thinks: "You mean I have to spend $20,000 to open an office there, just to ship this order that I'm only making $10,000 on? No way!" No way means no sale. That's why the U.S. often targets "physical presence" requirements in its trade negotiations with other countries.

Tariffs also add to transaction costs, but at least tariffs are variable costs. The smaller the sale, the lower the tariff charges. Foreign requirements for licenses, fees, and other forms of "nontariff barriers" are more damaging to smaller exporters because they are generally fixed costs: no matter how small the sale, the costs remain the same.

3. A small company also will be thinking about its **opportunity costs** when it considers exporting. By definition, most smaller companies have only a few key people who put together transactions. The time that they devote to an export transaction is time that they won't be devoting to some other, probably domestic, transaction. Will it be worth it? A healthy margin affects the opportunity cost calculation. But so does a company's basic estimate of how much time and effort the export transaction will take. Make the transaction happen fast and the opportunity costs drop significantly. In the U.S. that may require the exporter to have access to low-cost specialists and tools, as well as ready financing. Abroad, trade negotiations may be needed to clear away red tape.

4. A related issue for the small exporter is the **learning curve** needed to complete the transaction. For a new product or a new market, the learning curve can be pretty steep. Access to advice from experienced and trustworthy specialists, including export management companies here and foreign distributors in the target market, can make a big difference. Participation in shows and trade missions also can help.

5. Especially for small companies that are "new to exporting" and especially for exotic markets, there are undeniable **fear factors**. It's just human nature. Networking the new exporter with experienced small exporters who are active in the same industry and / or market is one approach to this. Classes and visits to the intended market are others.

Boiling this down into simple language: to get the big trade deficit reductions and major economic growth benefits that more exports can deliver, small business exporting needs to be *more visibly advantageous, cheaper, faster, simpler and better* than it is today.

II. Coordinating U.S. Government Export Promotion Activities

Is the government's export promotion effort up to the small business challenge?

In general, SBEA views the U.S. government export promotion efforts as enthusiastic and relatively effective. The individuals who do the work are mostly dedicated and competent. But the institutional framework needs a major improvement. And there are anomalies in the way that the effort is funded.

With 19 federal departments and agencies playing some role in international trade, it is important that Congress and the White House articulate an overarching vision of what ought to be achieved in export promotion, and how. Measurements of goal attainment need to be clear and consistent across time. "What gets measured is what gets done."

For the 87% of the U.S. economy (and 90%+ of U.S. exports) that is made up of manufacturing, construction, wholesale, retail, and services, the Department of Commerce does most of the export promotion work. In FY 2006, Congress appropriated $335 million in budget authority to Commerce for its trade promotion activities. For the 1.2% of the economy (and 5% of exports) that agriculture comprises, responsibility falls on the U.S. Department of Agriculture. In FY06, Congress appropriated $769 million for USDA export promotion activities.

Commerce operates U.S. Export Assistance Centers in 107 cities in the United States, posts Commercial Service export promotion personnel to more than 140 overseas offices, operates the "export.gov" website, and partners with companies like FedEx and eBay (using "zero dollar procurements.") USDA export promotion personnel are located in about 80 U.S. Embassies overseas, and the Department partners with Regional Trade Groups while supporting various agriculture industry trade associations.

The Export-Import Bank and the State Department also have significant export promotion budgets. Designated State Department personnel fill in at those Embassies where no Commercial Service or USDA personnel are present.

Other agencies also play roles. Trade finance agencies like the Overseas Private Investment Corporation and the Small Business Administration exert significant influences on whether many international trade transactions go forward. Technology exports are affected by rules established by the Departments of Defense and State. Exports to countries where restrictions apply require approval by the Treasury Department. Market barriers in countries to which exports are shipped are affected by negotiations undertaken by the U.S. Trade Representative. The Energy and Transportation Departments try to encourage exports by companies in the fields that they regulate. The Trade and Development Agency and the U.S. Agency for International Development can have important impacts on the sale of U.S. goods and services, particularly in emerging markets. And so on.

Since these agencies may occasionally communicate with one another but do not regularly coordinate, the task of maintaining order in export promotion has fallen, since 1993, on the Trade Promotion Coordinating Committee. TPCC produces an annual

"National Export Strategy" document providing an overview of export promotion activities by the 19 agencies[8] that TPCC reviews.

TPCC's job is not made any easier by the fact that it is well down the chain of command in the Commerce Department organization chart. Technically, TPCC is supposed to be telling its boss, the Secretary of Commerce, what to do. And then to be doing the same with 18 other Cabinet officers and agency heads. This is unrealistic, to put it mildly.

In the larger departments like Commerce and USDA, export promotion coordination needs to occur *internally*, between units of the Departments, as well as *externally*, with other Departments and agencies.[9] With a team of about five people, TPCC seems hopelessly understaffed to monitor and make recommendations on the internal and external workings of 19 agencies.

Even if TPCC had greater resources, it is unclear what authority it could exercise to obtain more detailed information from agencies, promote greater coordination, and, where necessary, mandate change.

Without such adequate authority and resources, TPCC ends up simply disseminating the information that the agencies provide to it. Thus, a 2006 GAO report found that:

> The [National Export] strategies do not identify or measure the agencies progress toward mutual goals or review their budget allocations. In addition, they focus on different topics each year without evaluating progress in addressing the previous years' topics.[10]

With respect to small business, the same report noted:

> A lack of systematic information makes it difficult to assess progress or trends in small and medium-sized businesses participation in trade promotion activities across agencies. TPCC agencies track small-business participation in a variety of ways.[11]

In SBEA's view, the foundation for an optimal U.S. export promotion effort -- for small businesses as well as large -- is a Trade Promotion Coordinating Committee that is mandated to pursue one, and given the authority and resources necessary to do so.

TPCC represents the kind of cross-agency effort that is better suited to placement within the White House, like the Council on Environmental Quality or the Office of Science and Technology Policy. Congress and the President should articulate the export promotion goals for the government, and TPCC should monitor the progress of each agency toward those goals. To do this, TPCC should work cooperatively with the Office of Management and Budget to review the agencies' export promotion budget submissions in the early stages of preparing the President's annual budget. Programs that are

[8] The total reaches 20 when the Millennium Challenge Corporation is included, and 21 when OMB is added.
[9] Note, for example, the comments on internal export promotion coordination in the recent report of the Commerce Department's Inspector General, *Commerce Can Further Assist U.S. Exporters By Further Enhancing its Trade Coordination Efforts*, Final Inspection Report No.IPE-18322/March 2007. Also see similar reports from other Inspectors General at the Departments of Agriculture, State, and Treasury, as well as MCC, SBA and USAID.
[10] *Export Promotion: Trade Promotion Coordinating Committee's Role Remains Limited*, GAO—6-660T, April 26, 2006.
[11] *Ibid.*

meeting or exceeding progress measurements that TPCC and the agencies have jointly agreed upon should have their full request approved, or even see an increase. Programs that are not proving as effective should be curtailed. As in any government program, costs should be weighed against benefits. Exports do produce significant economic benefits to the U.S., which TPCC and OMB should keep in mind, but export promotion costs should not exceed those benefits.

As noted, from SBEA's point of view, a successful small business export promotion strategy would focus on encouraging current small business exporters to enter more markets and make more export sales in their existing markets. Then it would turn to prospective exporters, emphasizing the factors that we cited earlier:

- clearly communicating upside potential,
- lowering transaction and opportunity costs,
- reducing learning curves, and
- minimizing the fear factors.

SBEA acknowledges, however, that what works to produce more exports is ultimately an empirical question. If these activities don't generate more small business exporters and higher small business export sales, then TPCC and the agencies should examine others.

U.S. export promotion does not exist in a vacuum, of course. Other nations aggressively promote their exports, too. The table below suggests the magnitude of these efforts, compared to the overall economic weight of some of our competitors.

Export Promotion Spending and Staffing, 2007

	GDP 2006 ($ mill)	Spending ($ mill)	Spending per thousand dollars GDP and (rank)	Staffing
U.S.	13,201,819	335	0.0253 (9)	1,858
France	2,230,721	290	0.130 (5)	2,920
Canada	1,251,463	159.7	0.128 (6)	2,013
Germany	2,906,681	161.0	0.0554 (8)	1,570
Italy	1,844,749	415	0.2249 (2)	1,412
Japan	4,340,133	255	0.0588 (7)	1,480
UK	2,345,015	524.7	0.2238 (3)	2,225
Korea	888,024	150	0.1689 (4)	1,139
Spain	1,223,988	305.5	0.2496 (1)	581

Source: U.S. Department of Commerce data.

The plain reality is that the U.S. is being out staffed and outspent on export promotion by countries that are a fraction of our size.

III. PROMISING AGENCY EFFORTS

SBEA's ability to assess agency export promotion performance certainly does not exceed TPCC's, but we do have some impressions about successful export promotion initiatives that we would like to share with the Subcommittee.

1. The Commerce Department operates a program for introducing U.S. exporters to foreign buyers and distributors. It's called **"Gold Key."** Exporters pay a fee to have Commercial Service personnel in our Embassies abroad identify and schedule meetings with reputable potential foreign customers and distributors. "Gold Key" permits exporters to fly into a target market, conduct a series of meetings with pre-screened prospects, and fly back out within a few days. "Gold Key" nails many of the factors that SBEA believes are important – it cuts transaction and opportunity costs, it helps minimize fear factors, and it aids in assessing upside potential. Unsurprisingly, virtually every SBEA member who has used the service loves it. After a lengthy dialogue between the exporter community, the Department of Commerce, and OMB about proposed "Gold Key" fee increases, Commerce recently announced a new schedule of "Gold Key" fees. The new fees not only take into account the more limited resources available to smaller exporters, but even offer first-time users of "Gold Key" a lower fee schedule. This is a very equitable and intelligent approach to maintaining a great export promotion program. SBEA salutes the Commerce Department and OMB for devising it.

2. About ten years ago, the Small Business Administration began assigning a group of about 18 **SBA export finance specialists** to selected U.S. Export Assistance Centers across the United States. These specialists not only became well versed in SBA's international trade lending; they also became knowledgeable about the banking communities in their areas. They learned how to structure small business export transactions to fit SBA's requirements and the preferences of local bankers. Last year, just 17 of them underwrote more than $2.2 billion in small business export sales. This is an astonishing performance when one considers that the average transaction size was under $200,000. Even when taking into account costs like SBA's salaries and benefits to these specialists, the agency's "back office costs" for processing loans, and the rental fees that SBA pays to Commerce for using USEAC space, this program is delivering more than $500 in export sales for every $1 that the taxpayers put into it. We at SBEA know of no better return on investment in any export promotion program in the government. We are pleased that SBA seems ready to add more export finance specialists to more USEAC's.

3. As smaller exporters develop sales in selected foreign markets, they begin looking at options to broaden their customer bases. They often consider steps like opening sales offices, purchasing foreign distributorships, and building warehouses. As a recent study has shown, smaller companies that take such steps to expand their foreign sales are among the top performers in the entire U.S. economy.[12] But when the target country is an emerging market, financing an

[12] *Importers, Exporters and Multinationals: A Portrait of Firms in the U.S. That Trade Goods*, Andrew B. Bernard, J. Bradford Jensen, Peter K. Schott, National Bureau of Economic Research, Working Paper 11404, June 2005, pp. 4-5.

expansion like this has been extraordinarily difficult. Enter the new **OPIC Enterprise Development Network**. The Overseas Private Investment Corporation, a federal agency, has trained this nationwide network of loan originators, currently numbering more than 20, to put these kinds of deals together. An anchor bank supplements the program with a $100 million loan facility from OPIC.

4. Flying to a foreign market takes time and money – two very precious commodities in a small enterprise. In several recent trade agreements, the U.S. Trade Representative has included provisions that **enable electronic commerce**. This not only allows smaller exporters to legally advertise on the Internet in these markets. It also permits deals to be completed over the Internet, and even makes electronic signatures legally valid. Smaller exporters and their customers are saved expenses, hassles and time. Best of all, they are put on an equal footing with larger companies. USTR is also helping to cut shipping costs by harmonizing and **streamlining foreign customs procedures** for U.S. goods. That helps to further lower transaction costs and the breakeven point for small export sales.

5. Delays in financing export sales can cost customers. That's a major concern for exporters of high-value U.S. exports like capital equipment, because buyers of this equipment frequently need financing. The type of financing that is often used for capital equipment sales, called **medium-term guarantees**, has a history of requiring a lengthy approval process by Ex-Im Bank. Responding to exporter concerns and strong encouragement from Congress, Ex-Im Bank has just rolled out a new initiative to allow trained and qualified commercial banks to pre-approve this financing. This promises to reduce approval times from months to weeks, or even days. It's great news for capital equipment exporters, and SBEA commends Ex-Im Bank for getting the program underway.

IV. A Key Problem Area

Coordinating export promotion will require accurate data. And in this important area, there are shortcomings.

For one thing, service exports, where the U.S. enjoys a huge advantage over most other nations, are not fully captured in our official export data.

A U.S. citizen who travels to Germany to consult on a computer installation will probably not have his service export measured by U.S. government trade data. The same is true of a software company that sells downloads over the Internet, or even a self-employed person selling lower-value goods internationally over eBay. Many sales of insurance and financial services are also off the government's export data radar screen. In fact, pretty much any transaction that does not entail the exporter filling out a Shipper's Export Declaration (SED) did not happen, as far as the official export data is concerned. Thus the U.S. reported merchandise exports of $910 billion in 2007, about which there is abundant detail. But using broader measures and estimates, overall exports were put at $1.6 trillion. We know relatively little about the other $700 billion, which represents over 40% of last year's exports. But we may speculate that much of this is small business exporting. More troubling, there may actually be a layer of exports above the official $1.6 trillion figure that is not showing up at all, even in the estimates.

A similar problem occurs with respect to intra-company transactions, although this pertains more to large business exporting.

If American company XYZ "sells" four loads of widgets to its Andorra subsidiary, are those actually exports? If the Andorra subsidiary tinkers with the widgets, maybe adding a little value, and then sends them on to San Marino, is that a further U.S. export or an Andorran export? What if the widgets are just trans-shipped to San Marino, with no value added? What if the Andorra subsidiary sends the widgets back to the U.S.?

The problem seems especially pressing when it comes to "imports" from Asia to the U.S. that are produced by subsidiaries of U.S. companies.

If we don't get the measurements right, we won't get the policies right.

V. "LABORATORIES OF DEMOCRACY"

The 50 American states are sometimes referred to as laboratories of democracy," and export promotion is a wonderful example of that.

The states are often closer to their exporters than the federal government, and they've shown a commendable willingness to try a variety of export promotion policies. Some are helping their exporters pay for the costs of overseas trade shows and marketing. Others are offering trade finance. Several have overseas offices. And most put together variations on trade missions.

Whatever steps the federal government takes to promote exports, the experiences of the states should be carefully examined.

The same is true of our foreign competitors. Many have launched aggressive and successful initiatives to stimulate exports. We should routinely evaluate these efforts, adopting what would work in our context.

This concludes my remarks. I would be happy to respond to any questions at this time.

In accordance with the Committee's request, pursuant to clause 2(g)(4) of House Rule XI, SBEA notes that neither it nor Mr. Morrison has received any federal grant or sub-grant, contract or subcontract during the current or previous Fiscal Year.