

SMALL BUSINESS EXPORTING AND THE SOUTHERN CALIFORNIA ECONOMY

FIELD HEARING

BEFORE THE
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS
OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

LONG BEACH, CA, AUGUST 28, 2003

Serial No. 108-33

Printed for the use of the Committee on Small Business



Available via the World Wide Web: <http://www.access.gpo.gov/congress/house>

U.S. GOVERNMENT PRINTING OFFICE

92-828 PDF

WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON SMALL BUSINESS

DONALD A. MANZULLO, Illinois, *Chairman*

ROSCOE BARTLETT, Maryland, *Vice
Chairman*

SUE KELLY, New York

STEVE CHABOT, Ohio

PATRICK J. TOOMEY, Pennsylvania

JIM DEMINT, South Carolina

SAM GRAVES, Missouri

EDWARD SCHROCK, Virginia

TODD AKIN, Missouri

SHELLEY MOORE CAPITO, West Virginia

BILL SHUSTER, Pennsylvania

MARILYN MUSGRAVE, Colorado

TRENT FRANKS, Arizona

JIM GERLACH, Pennsylvania

JEB BRADLEY, New Hampshire

BOB BEAUPREZ, Colorado

CHRIS CHOCOLA, Indiana

STEVE KING, Iowa

THADDEUS McCOTTER, Michigan

NYDIA VELÁZQUEZ, New York

JUANITA MILLENDER-McDONALD,
California

TOM UDALL, New Mexico

FRANK BALLANCE, North Carolina

DONNA CHRISTENSEN, Virgin Islands

DANNY DAVIS, Illinois

CHARLES GONZALEZ, Texas

GRACE NAPOLITANO, California

ANÍBAL ACEVEDO-VILA, Puerto Rico

ED CASE, Hawaii

MADELEINE BORDALLO, Guam

DENISE MAJETTE, Georgia

JIM MARSHALL, Georgia

MICHAEL MICHAUD, Maine

LINDA SANCHEZ, California

ENI FALEOMAVAEGA, American Samoa

BRAD MILLER, North Carolina

J. MATTHEW SZYMANSKI, *Chief of Staff and Chief Counsel*

PHIL ESKELAND, *Policy Director*

MICHAEL DAY, *Minority Staff Director*

CONTENTS

WITNESSES

	Page
Shatz, Howard J., Public Policy Institute of California	7
Haveman, Jon D., Public Policy Institute of California	9
Quijada, J. Adalberto, U.S. Small Business Administration	18
Hennessy, Julie Anne, U.S. Department of Commerce	20
Spinelli, Dr. Lawrence, Overseas Private Investment Corporation	23
Davis, Greg, Governor's Office of Planning and Research	31
Josephson, David, Export-Import Bank of the United States	33
Unangst, Patricia D., Carson/Lomita/Torrance Workforce Investment Network Board	35
Wacker, Chris, Laserfiche Document Imaging	37

APPENDIX

Opening statements:	
Toomey, Hon. Patrick J.	44
Prepared statements:	
Shatz, Howard J.	48
Haveman, Jon D.	61
Quijada, J. Adalberto	67
Spinelli, Dr. Lawrence	73
Josephson, David	76
Unangst, Patricia D.	80
Wacker, Chris	88

HEARING ON SMALL BUSINESS EXPORTING AND THE SOUTHERN CALIFORNIA ECONOMY

THURSDAY, AUGUST 28, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS,
COMMITTEE ON SMALL BUSINESS,
Long Beach, CA

The Subcommittee met, pursuant to call, at 10:10 a.m., at the Long Beach City Council Chambers, 333 West Ocean Boulevard, Long Beach, California, Hon. Patrick J. Toomey [chairman of the Subcommittee] presiding.

Present: Representatives Toomey and Millender-McDonald.

Chairman TOOMEY. Good morning, everyone. The Subcommittee on Tax, Finance and Exports' Field Hearing on "Small Business Exporting and the Southern California Economy" will come to order.

At this time, the first order of business, I would like to recognize the gentlelady from California for the purpose of an introduction.

Ms. MILLENDER-MCDONALD. Thank you so much, Mr. Chairman.

Let me first welcome you to the City of Long Beach and welcome you to the 37th Congressional District. This is my chairman, who works with me in the Committee on Taxes, Finances and Exports, and he has been a jewel.

He has traveled throughout the Midwest this whole week and he is coming in from Denver, one o'clock this morning, so we are so pleased that he joined us and really accommodated my request to have this hearing.

Welcome, Mr. Chairman.

I also want to recognize the great Mayor of this city who has come this morning—her tight schedule—to welcome you and to bring greetings to you.

At this time, I would like to recognize the Mayor of our City of Long Beach, Mayor Beverly O'Neal.

Ms. O'NEAL. I don't know where to stand.

Ms. MILLENDER-MCDONALD. I know. That's right. Typically you're up here.

Ms. O'NEAL. I want to welcome you to Long Beach. I look around and I see familiar faces, so I know that maybe many of you live in this area. However, for those of you that are with us to be on the program—and this looks like a distinguished group right here. It looks like they are all profound and have good things to say to us, along with those in the audience.

Welcome to the City of Long Beach. Our city is an outstanding city. We are changing every day. If you look out the front of our

building, you see growth and new residents. Also you see things happening near the waterfront, so we are not static.

However, we are having a very bad budget crisis, and I was delighted that the topic that you have had two items that were going to be discussed today, and that was small business exporting, which is something that we want more of in this particular area, because there is no place in the United States better than the Los Angeles/Long Beach area for small business exporting, and then, of course, the Southern California economy.

So we are very proud to have the Congresswoman from the 37th District represent our area. She's very concerned about what's happening in Southern California, especially the area that she's responsible for, which probably is the most important part of California.

I'm sorry, Juanita, if you've got friends in here that think I'm bragging. I am.

She's representing us very well. She is doing a good job making sure that people are aware of the needs, of the challenge of being in this area where we have so much happening with the ports, and finding—I think the nation is finding this out even more so since 9/11 and also since the port lockout, when people are finally realizing that this is the largest complex in the United States with the ports of Long Beach and Los Angeles.

So what you're going to hear this morning if you are a small business person is very important to you because you are in the right place. They have directories—if you need to have 10 million rubber gloves, where to find them in the world, or whatever it is, service or product that you have that you would like to make sure the world knows of.

So we are here to help you in the city, but especially today, I want to thank Congresswoman Juanita Millender-McDonald for bringing an august group together.

You would think that there would be millions of people that would want to know about this, and you are the smart ones out of those millions, because for one of you, there are probably 10,000 people that would like to know a little bit more about this, so I congratulate you for being here and for being part of the day, and I congratulate the august panel that we have for the two panels today.

And I especially want to thank you, Congresswoman, for being part of this very important aspect of Southern California, and especially in the City of Long Beach.

Chairman TOOMEY. Thank you.

Ms. MILLENDER-McDONALD. Thank you so much, Madame Mayor.

Ms. O'NEAL. Thank you.

Ms. MILLENDER-McDONALD. Let's give her a round of applause. Protocol has it, I turn it back to the chairman.

Chairman TOOMEY. Thank you very much.

Well, good morning. Thank you, Mayor, and I would like to thank in addition the City Council people who made this facility available to us. We are very grateful to have this facility today.

I'm looking forward to examining the issues of small business exporting, and particularly how that interrelates to the Southern California economy.

First, I want to thank my ranking member for our Subcommittee, Congresswoman Juanita Millender-McDonald, for inviting me to Long Beach, California, to be here today.

First of all, I have enjoyed working with you since we first started working together, and I have to say I admire your passion and dedication to this community and to your constituents.

The gentlelady from California and I come from different parts of the country, we come from different political parties, we have different voting records, but there's one thing we definitely share in common, and I know that she feels a very passionate commitment to try to help foster an environment that will maximize opportunity for small business owners, for small business managers, for small business employers, and for people who have the dream of one day becoming successful in small business.

I have seen her work consistently to try to advance that cause, especially for the people of Southern California, so I congratulate her for that, and I would just share with you my pleasure in working with her.

I will also say that I think of all the Committees in the House, it's entirely possible that our Committee, the Small Business Committee, is the one most suitable for teaching a few lessons in bipartisan cooperation.

There probably aren't any other Committees in Congress that work as well together as this Committee does, Democrats and Republicans, from absolutely opposite ends of the ideological spectrum, geographical spectrum, and any other way you choose to look at it. We have consistently, I think, been able to find common ground and work to achieve the same aims, which is to help foster the success of small businesses.

My home state is over 2500 miles away from where we are today, yet there are a number of similarities between Pennsylvania and California. Both large states, although California is certainly the largest economy in our nation, Pennsylvania is not terribly far behind, in sixth place.

We both have dynamic economies with vast natural resources, strong agricultural communities, and businesses that range the entire spectrum of everything that we do in this great country.

Another critical part of each of our country's—each of our state's economies is the ability to export our products to other places. Both of our states, and the entire country now, relies heavily on the opportunity to export our goods and services.

So I think it's important that we focus on exporting opportunities, and in that context, I think it's important that we consider ways to reduce the trade barriers that currently make it difficult and sometimes impossible for our small businesses to export their products.

Last year, after a protracted discussion, Congress passed the Trade Promotion Authority Act. Now, I think reasonable people can disagree over whether that's the best way to open up other markets. I happen to think it's going to be an effective mechanism for

opening up foreign markets to U.S. Producers and U.S. Service providers.

When you think about it, the American market, generally speaking, is extremely open, arguably the most open market in the world to the importation of foreign-sourced products and services. And what I hope our goal is, and I think our goal is, under the Trade Promotion Authority and the agreements that should result therefrom, is to reduce the trade barriers overseas so that we can have the same reciprocal kind of relationship that foreign economies enjoy in terms of their access to the United States.

I think the Chilean and Singaporean Free Trade Agreements that we passed earlier this year are examples of just such agreements. I think these agreements are good news for Pennsylvania. I hope they are good news for California, as well.

I wanted to share with you one little anecdote or little example of why I think, for instance, the Chilean Free Trade Agreement will be very helpful in my home state of Pennsylvania, and it arises from a discussion that I had about this agreement in Philadelphia last year.

It was an event hosted by the Chilean Ambassador to the United States, and the agreement had not yet been completed, but what we discussed was the fact that in Philadelphia, which of course has a substantial port, ships routinely arrive all winter long laden with Chilean fruits that are produced, of course, during our winter and their summer, and these are then transported throughout the northeast.

These very same ships turn around and leave the port of Philadelphia largely empty. There are relatively few manufactured products that get on those ships. The main reason for that is because until now, Chile had very high tariffs on American manufactured goods, and the tariffs were so high, in fact, that it was prohibitively expensive to sell our products into Chile.

It's my hope that with this agreement and the dramatic reduction in tariffs that's in this agreement, we'll be able to pack those ships full of products that are manufactured in my home state, Pennsylvania.

That's just one example of how I hope this agreement is going to be helpful, certainly to my state, but I hope broader throughout the entire country.

The other thing that's important for us to focus on, I think, is to examine just how challenging it is, especially for small businesses, to access foreign markets. I can tell you it's tough for big companies to figure out how to get into a foreign country and provide the products and services and make that a viable business model.

It's really, really hard for a small business to figure out the complexities, the hurdles that are often imposed, and the programs and the manners and the customs, just to figure all that out when you're armed with a very small staff and maybe only a Web site to refer to. It's a huge challenge.

I think it's important for us in the Small Business Committee in Washington to try to find ways that we can help facilitate that, so that our small businesses can enjoy the benefits of these trade

agreements and have the opportunity to sell their products overseas.

Having said that, I'm very much looking forward to the testimony of the distinguished witnesses, and again I want to really warmly thank Ms. Millender-McDonald for her kindness that she has shown to me, for inviting me here to her district to have the opportunity to get this input.

At this point, I would recognize the gentlelady from California for her opening testimony.

Ms. MILLENDER-MCDONALD. Thank you so much, Mr. Chairman, and again, thank you for being here and for accommodating my request to have the second congressional hearing here in the 37th Congressional District. Of course, last year, we had the same type of hearing in the City of Carson, so today we are here in the City of Long Beach.

Before I give my statement, I just want to recognize some of the elected officials or persons who are representing elected officials in the audience.

Of course, my dear friend and councilman for this great City of Signal Hill, of which I had the pleasure of being with for two hours yesterday, Councilman Larry Forrester. Thank you so much for being here. We have Sharon Wiseman representing Assemblywoman Genny Oripaza's office. Thank you so much for being here. And Pilar Pinell, who is representing Councilwoman Bonnie Lowenthal's office. Thank you so much for being here.

It is great to have my colleagues represented with their staff and, of course, the councilman from Signal Hill being here.

I'd like to acknowledge the staff on both sides, the Republican staff as well as the Democratic staff. Some of them flew in from Washington to be with us today. My two staff members and I'm sure the Chairman's staff members also flew in, because they are from Pennsylvania.

It gives you an opportunity to see just how staff constantly is working with us, even in the month that we have had off, but they call it "district work days," and, in fact, it has been district work days.

The Chairman being here today, really his presence here underscores the interest that he has in international trade, not only in his state of Pennsylvania, but in the state of California and throughout this nation.

We recognize how important small businesses are to the economy, and we are all really grappling with an economy that's kind of sluggish at this point. In order to build the economy, we have to look at small business, so I would like to thank him for being here this morning.

I would like to also thank the distinguished panel for being here this morning, those who have traveled from afar and those who have just traveled a couple of miles here on these very busy free-ways to get to us this morning. We thank you and we look forward to your testimony.

We know that this is the 50th anniversary of the Small Business Administration, and this gives us a time to have a marker, a time to reflect on SBA's history and a time to look at the future role of the SBA.

We commend our Administrator, Hector Barreto, who has really set into gear a very provocative type of seminar that's going to be in Washington in the latter part of September, to talk about the future of small businesses and where we go from here.

We know that over the past decade the world has become a smaller place. Business transactions that once took weeks to complete are now finished in a matter of minutes or even seconds. The international marketplace has grown by leaps and bounds, and no sector has been more important to the growth than small businesses.

Small and medium-sized manufacturers make up 93 percent of all exporters in the nation, provide 9.5 million jobs and account for 30 percent of total U.S. Growth since 1989.

The purpose of today's hearing will be to examine the impact of tariffs levied on foreign nations, by foreign nations, on small and medium-sized exporters in the Southern California region.

Here Southern California sits with the two largest ports that make up the port system in the country and the third largest in the world. We can ill afford not to look across the waters to see how small businesses can be impacted by foreign companies. But we must do that and look at—we must do that in the sense of looking at the impact of tariffs levied on small businesses here in this country.

This hearing will also explore ways in which local, state and federal authorities can assist SMEs in their effort to compete on a level playing field in the global marketplace. Such assistance includes financial loan assistance, mentoring, technical assistance, and partnership agreements.

Export activities is critical to the 37th Congressional District, especially since the ports of Los Angeles and Long Beach neighbors it.

I'm a strong supporter of fair, balanced and open trade, and current tariff and tax regimes employed by some of our international partners hinder this from taking place.

According to a recent study by the Public Policy Institute of California, the complete elimination of tariffs by California's foreign trade partners would increase the State's manufacturing exports by 24 percent, or \$27 billion. That's a lot.

In addition, the Public Policy Institute of California reports that by comparison to other U.S. Firms, California businesses rely heavily on exports, accounting for 10 percent of California's output, as compared with 7.6 percent of the rest of the nation.

It is for these reasons that I am holding this hearing today, to investigate ways Congress can help Southern California-based small manufacturers and link them with government, private and other entities that can offer technical and financial assistance. I'm also here to help all of the exporting businesses of Southern California compete.

The first item that needs to be addressed to ensure SMEs can continue to compete internationally is the current World Trade Organization decision. This ruling found several of our nation's tax provisions to be subsidies and in violation of International Fair Trade Rules.

Failure to address this issue will trigger sanctions of over \$4 billion in tariffs per year on American exported goods. This clearly would be detrimental, not just to this nation's economy, but especially to the economy of California.

To correct this problem, I am working with Small Business Committee Chairman Manzullo, which I agree with the Chairman, he has been an outstanding chairman. We have worked so well with him, albeit he being a Republican, but that's what the people sent us to Congress to do, work in concert with both sides, and he has been just a yeoman in helping to try to bring the two sides together, along with my chairman.

I'm also pleased to be working with the Subcommittee Chairman Crane and Ranking Member of the Ways and Means Committee Representative Rangel to pass H.R. 1769, legislation that will address the World Trade Organization concerns over the current foreign sales corporation extraterrestrial [sic] Income exclusion—what a mouthful—their tax structure, and replace it with an entirely new tax structure containing provisions to benefit U.S. Manufacturers through a permanent tax reduction.

Small and medium manufacturers are the engines that drive our nation's economy, and I'll look forward to hearing the witnesses testify as to how we can help this sector create the new jobs that are sorely, sorely needed in America.

Thank you, Mr. Chairman.

Chairman TOOMEY. Thank you very much.

At this time I would invite the witnesses from the first panel to take their seats at the witness table, and when they have done so, I will recognize the gentlelady from California to provide introductions for our first two witnesses.

Ms. MILLENDER-MCDONALD. Thank you so much, Mr. Chairman.

We have with us today two experts. They are fellows, research fellows, from the Public Policy Institute of California. We have Howard Shatz and John D. Haveman, both of them research fellows from the Public Policy Institute of California. Welcome, both of you.

I think you are going to have to come to the podium to speak.

Chairman TOOMEY. What we will do is I'll recognize you each, one at a time, and then if you could just bear in mind we are allocating five minutes for oral presentation of your testimony. Any additional written testimony is welcome.

After each of you have provided your testimony, then we will proceed with questions, and at the conclusion of that, we will invite the second panel to begin.

I take it you are Mr. Haveman?

Mr. SHATZ. Mr. Shatz.

Chairman TOOMEY. I am incorrect. I apologize.

I would at this time welcome and recognize Mr. Shatz for his testimony.

**STATEMENT OF HOWARD J. SHATZ, PUBLIC POLICY
INSTITUTE OF CALIFORNIA**

Mr. SHATZ. Thank you very much for the opportunity to be here. My remarks are based on research conducted at the Public Policy Institute of California, which is an independent nonpartisan re-

search institute. We don't take positions on legislation, rather we provide objective information to policy-makers and the public as they consider policy issues.

Today I will discuss three main topics. First, I'll give you a profile of California's globalization. Second, I'll connect this to small businesses. Third, I'll briefly talk about some issues of trade assistance that are relevant to California in particular.

I measured California's globalization based on three modes—foreign direct investment, port activity, and trade. You can't say that California is the most globalized or the least globalized state, because there are many dimensions. What I conclude, however, is that California participates strongly in the global economy on those dimensions that are among the most, the newest, or emerging trends.

Foreign direct investment is what I'll start with. That's cross-border investment to control a business, a supermarket like Gigante in Southern California or a chip manufacturing plant like the Intel plant in Costa Rica. Compared to the rest of the United States, California actually has less outward foreign direct investment.

It is strong in some industries, such as wholesale trade, and importantly, technology and manufacturing industries that use production sharing, which is again a newer phenomenon in international trade where different components are made around the world and assembled in yet another location under the control of one business group.

In terms of inward foreign direct investment, firms investing in California, again California is much like the rest of the nation, and on some dimensions has even less FDI relative to its size. That's trade.

Ports, California plays a key roll in U.S. Trade. As the Congresswoman mentioned, we have the ports of L.A. And Long Beach, which are combined the third largest container port in the world, but we also have the air export gateways of LAX and SFO, which actually handle more trade, more exports by value than the two seaports, and were number seven and eight in the United States, so California's airports are very important in international trade.

Finally, I come to trade. I'll concentrate on goods exports, even though services exports are quite important to the state.

Manufactured exports are the stars of California's globalization. They are large, relative to California's size, and they are large relative to the size of its manufacturing sector.

Although they are heavily tilted towards technology industries, nearly every California manufacturing industry relies more on exports than those same industries in the rest of the U.S., either through direct exports or by manufacturing the inputs that get put into those exports by other firms.

In Southern California, that's relevant because this region broadly defined has about 63 percent of the state's manufacturing employment, and when we look state-wide, those manufactured exports from the whole state support about 10 percent of California private employment, compared to about 7 percent for the rest of the United States.

So to sum up California's globalization profile, there are five points. One, we rely more on Asia than does the rest of the U.S.

Two, services play an important role in our globalization, services exports. Three, we fit into global shipping, not just through our seaports and our land borders, but our airport. Four, we're part of a shift in worldwide trade patterns towards production sharing. Five, our manufacturers depend very heavily on exports.

Now, how does this relate to small firms? Well, in the U.S., small businesses are involved with about 30 percent of all merchandise exports.

What's interesting is that many of the small businesses that are involved in these exports are not the manufacturers, but wholesalers and other trade facilitators. This is quite important for the small manufacturers, which often don't have the staff or the time to investigate foreign markets.

In California, more—small manufacturers make up a higher proportion of all exporting manufacturers than in most other states. When you look at all the small businesses involved in exporting, about 94 percent of all exporters located in California are small businesses.

I'll conclude with some notes on trade assistance policy in California.

Insofar as federal assistance can help exporters, the environment in California may be extremely inviting, and that's because under the current State budget, most of the State's export assistance programs are being scuttled, creating a gap.

Research on trade assistance programs has shown that public/private partnerships or collaborations tend to work best, and there are, in fact, many groups remaining in the state, mostly at the local or regional level, so new forms of coordination might be most welcome at the time.

To summarize, California's manufacturing companies rely on exports a great deal, and many of them are small businesses. At this point in California, because of the demise of the State's export programs, there may be a rare opportunity for federal agencies to rethink their links to other trade organizations in the state.

Thank you.

[Mr. Shatz's statement may be found in the appendix.]

Ms. MILLENDER-MCDONALD. Thank you.

Chairman TOOMEY. Thank you very much.

At this time I will recognize John Haveman from the Public Policy Institute of California also.

STATEMENT OF JON D. HAVEMAN, PUBLIC POLICY INSTITUTE OF CALIFORNIA

Mr. HAVEMAN. Thank you very much, Representatives Millender-McDonald and Toomey, for having me here today at this important hearing. I'm very honored to be here.

My remarks, as were Dr. Shatz's, are based on research published by the Public Policy Institute of California. This research that I produced several months ago describes the impact of federal trade policies on exports of manufacturers, primarily from California, but both from California and the rest of the United States.

What I will do in my remarks is extend the results that were produced in that report to include results for small and medium-size enterprises, in particular in Southern California.

What I'll do first is go through the various federal trade policy initiatives and describe what they mean for exporters in California and describe what they mean for small and medium-size enterprises in the state, as well.

The current administration is very active in pursuing the opening of markets abroad. It's arguably the most aggressive administration since that of Franklin Delano Roosevelt in the 1930s in that pursuit.

Its aggression has taken the form of three prongs, three different levels of negotiations. The first level is that of a multilateral liberalization under the World Trade Organization. The second level is regional liberalization. The Free Trade Area of the Americas is a prominent example of that. The third level is simple bilateral agreements, agreements between the United States and just a single other country.

For just a moment, I want to step back and talk a little bit about the importance of small, medium-sized enterprises in Southern California, because that will help put some of the results that I'll discuss later in some perspective.

As Dr. Shatz mentioned, roughly two-thirds of all establishments, all manufacturing establishments and manufacturing employment, is located in Southern California. And by "Southern California," I mean that part of the state below the sixth standard parallel.

Small and medium-size enterprises make up about 60 percent of Southern California's manufacturing employment and 90 percent of the establishments in manufacturing in Southern California. So in terms of employees, they number approximately 650,000 in small and medium-size enterprises in Southern California.

Now, the administration's Foreign Trade Liberalization initiatives, as I mentioned, begin with the multilateral liberalization or negotiations under the Doha Round in the World Trade Organization.

As the Representative mentioned earlier, success in these negotiations can hold great promise for California's exporters. The President, in fact, tabled a proposal that would eliminate all of the tariffs in the world within the next 10 to 15 years, and what I found in my work is that this could lead to an increase in California's exports of 24 percent, approximately \$27 billion, in the year 2000 [sic].

This contrasts relatively favorably with the results for the rest of the country. The rest of the country would experience an increase in exports to the tune of only 20 percent, about 4 percentage points lower than for California. So these negotiations are, in fact, arguably more important for the state of California than for rest of the country.

Where are these exports going to go? Well, obviously, the bulk of these exports are going to be made up of high technology products. That's what California tends to export most prominently. Also benefiting will be transportation and chemicals industries.

As Dr. Shatz mentioned, Asia is very important for California, and liberalization of foreign markets will lead to a very substantial increase in California's exports to Asian markets.

In Southern California, manufacturing enterprises can expect to receive a boost in the demand for their exports to the tune of between \$11- and \$14 billion. Small manufacturing enterprises, though not necessarily engaged in exporting, could expect to see an increase in demand for their products to the tune of \$6- to \$8 billion, as well. So these negotiations are very important for California, and Southern California in particular.

At the regional level, there are three prominent initiatives. One is the Free Trade Area of the Americas, another the Central American Free Trade Agreement, and the third is a free trade agreement with the countries of the South African Customs Union.

Now, the Free Trade Area of the Americas is the largest and most significant of these, leading to a potentially \$4 billion increase in California's manufactured exports, or an increase of about \$1 billion in the demand for goods produced by Southern California's small and medium-size enterprises.

The CAFTA, Central American Free Trade Agreement, and for FTAA with the SACU countries, are both much less important, each leading to an increase in maybe \$100 million in demand for the products of small and medium-size enterprises.

Bilateral agreements, recent signings, as mentioned, are Singapore and Chile. Very important agreements. Although Singapore is the eleventh largest export market for California products, it's not likely to be terribly important for the exports of manufactured goods from the State; however, for exporters of services, which are very important to the State, this agreement holds great promise. And for those wishing to invest abroad, it should liberalize investment in the Singapore market significantly.

Chile, not a major market for California's exports, but we will certainly see more California goods flowing to Chile.

Ongoing negotiations are Morocco and Australia. Morocco has never and will not likely import very much from California in the event of a free trade agreement. Neither will new initiatives with Bahrain and the Dominican Republic lead to significant increases in California's exports.

In every case, these regional and bilateral agreements are much more important for other states in the United States than for California. In fact, the benefits on a percentage basis for the rest of the country are double those what they are for California.

It's the WTO that holds the most promise for California's exporters, given that it includes important markets for California's products, those being Korea, China, Taiwan, India, the European Union, and Japan.

In summary, the prospects for significant liberalization in the next decade exist, but they likely represent only a fraction of the potential of liberalization that could benefit California's exporters. Much of the liberalization will be outside of the manufacturing sector. In particular, the European Union and the United States seem to be coming to terms on reducing agricultural subsidies and other domestic support programs, which should open foreign markets for both.

Trade and services will also likely experience some liberalization, which is important for California's small and medium-size service

establishments. Most of these benefits, however, are very hard to quantify at this time.

Of the benefits that I have been able to quantify, they suggest that a more commercially based approach to the selection of liberalization initiatives would yield greater benefits for California's small and medium-sized enterprises than does the current agenda. In particular, Asia includes very important markets, and the current liberalization initiatives largely neglect them.

If California is to benefit from liberalization abroad, the peculiarities of its trade flows need to be given voice or California will be left out of the liberalization bonanza that the rest of the country may experience.

The current agenda, unfortunately, is not one drafted with California's interests in mind.

Thank you very much.

Chairman TOOMEY. Thank you.

[Mr. Haveman's statement may be found in the appendix.]

Chairman TOOMEY. I'll begin the questions. If I could, I'll start with Dr. Shatz.

My first question is to follow up on a point you made that surprised me very much, and I was hoping you might shed some light on this. You indicated that California has—if I understood you correctly, and correct me, please, if I'm wrong—but that California has experienced less foreign-direct investment from overseas into California than, I take it, the nation has as a whole.

I find that surprising, because I would think of California as having many advantages, and I wonder, are there policies in place that make California a less attractive place to invest on the part of foreign businesses and investors than other states, and if so, could you shed some light on those?

Mr. SHATZ. California has less relative to the size of its economy, and I measure that in two ways, the only two ways, really, that are available to look at the State level.

One is in terms of the value of property, plant and equipment owned by foreign enterprises, and in that, California is much lower than the rest of the U.S., compared to the size of its economy.

The other way to measure it is the number of employees, and in that respect, California is about the same as the rest of the United States; the number of employees relative to total employment.

Chairman TOOMEY. Isn't the total dollar value of investment, whether it takes the form of plants and equipment or some other form of investment, isn't that the best total measure of foreign direct investment?

Mr. SHATZ. It depends, because it depends on the industry. For manufacturing, manufacturing will have more property, plant and equipment—

Chairman TOOMEY. Sure.

Mr. SHATZ [continuing]. Because they will have much more machinery, so you would expect—I haven't looked at this explicitly, but you would expect that in those states that have received high levels of auto-related investment, there would be very high levels of property, plant and equipment.

Now, California happens to receive as a share of its total foreign investment lower levels of manufacturing investment. We receive

higher levels of investment, or there are higher levels of employment in wholesale trade, probably related to the ports, and probably related to California's large market.

We receive higher levels of investment in information industries. Those include movies, software, again, related to California's specialization.

And third, services—scientific, professional and technical services, again, probably related to the high level of education in some parts of the California population.

So the question, then, is what's keeping out the manufacturing investment, or why are manufacturers going elsewhere? It's a big country and there's lots to choose from. If you're going to make an automobile, you can just as easily make it in Alabama or Pennsylvania and ship it to California as you can make it in California.

The question is, are there policies in California that are discouraging manufacturing investment? That I haven't looked at explicitly. Certainly, California's manufacturers believe that the state's business climate is not as conducive to them as other states are for manufacturing. So there may be a connection there.

Foreigners have much more choice, though, when they choose within America. Right? If you're in California, you are more likely to choose California.

Chairman TOOMEY. Thank you.

I have a question for Dr. Haveman, as well.

You indicated that the—again, correct me if I'm paraphrasing you incorrectly—but my sense was that you believe that California will benefit from a general liberalization of the trade regimes, from the lowering of tariffs generally, but in your opinion, the order in which these agreements are likely to transpire may not benefit California as early as some others, and I'm sure you are aware that there are many factors that go into figuring out which agreements you're able to reach, and in which order, and there's a very complex political dynamic to what can be accomplished in this regard.

I was interested to note your optimism on the prospects of a liberalization of the agricultural, really the horrendous lack of any kind of free trade in agricultural products all around the world, and the United States is almost as guilty as many other countries. I wish I shared your optimism that the European Union was truly intent on making substantial progress, but I hope you are right and I'm wrong about that.

My real question for you, you talked about the specific, and you quantified the expected benefits in terms of the dollar value of increased exports should tariffs be reduced or eliminated in a variety of contexts.

My question is, when you make that analysis, when you do your numbers, are you looking at the net effect of the trade agreement; in other words, are you taking into account the fact that when we reach these agreements and the foreign countries dramatically lower their tariffs—typically we have some modest reduction in the low level of tariffs that we still have, as well, and that reduction in domestic U.S. Tariffs could, of course, invite additional competition from overseas to the domestic producers.

So are you looking at the net effect of trade flows when you look at these agreements?

Mr. HAVEMAN. I must confess that, no, I'm not. I fully admit that exports are but one piece of a very complicated policy mosaic that involves impacts on domestic labor markets, prices, the environment here and abroad. What I've tried to do with this report is simply bite off a small piece of the puzzle.

Chairman TOOMEY. Sure.

Mr. HAVEMAN. In future work, I hope to address the domestic issues.

Chairman TOOMEY. Would you believe—is it safe to generalize, is it fair to generalize that with respect to the countries that we have recently struck trade agreements and those that you listed as likely candidates, that as a general matter, the tariffs that they impose on American goods are much higher than the tariffs that we currently impose on their goods, and that the likely outcome of the reduction in tariffs is greater opportunities for American exports?

Mr. HAVEMAN. Absolutely. The United States is roughly on a par with the European Union in terms of its average level of tariffs. There are a handful of countries throughout the world—Singapore is one—that have virtually no tariff barriers to trade.

The remaining countries, almost to a one, impose larger tariff barriers than does the United States, so any lowering of tariff barriers jointly between the United States and another country will involve a greater liberalization of foreign markets than it does of the U.S. Market.

Chairman TOOMEY. Thank you very much. I'll be happy to yield to the gentlelady from California.

Ms. MILLENDER-MCDONALD. Thank you so much, and thank the two of you for being here this morning.

It is interesting to know, and we do know that California relies heavily on Asia markets, and yet at this point we have seen a decline in Asia activities. It seems, and correct me if I'm wrong, but given the current economy in Asia, especially Japan, is that still a reliable market for us in terms of international trade?

Mr. HAVEMAN. Oh, I think absolutely it is. In the next 20 years, Asia is going to experience dramatic growth. They are also going to experience dramatic decline. In the mid to late 1990s, there were significant economic difficulties in the region—now they are undergoing another set of economic difficulties.

The World Bank, and most of the people that I've spoken with believe that Asia will continue to be a major source of economic growth in the world, and also a significant market for U.S. And California exports.

Ms. MILLENDER-MCDONALD. And, of course, China has always been the big elephant that we tend to want to continue to engage in.

If you say that California is prone to be—and let me digress for a second. This administration is very aggressive in terms of multilateral, bilateral agreements with different countries in terms of international trade, but it seems to me like California would fare better with a multilevel or lateral, I should say, agreement than that of bilateral.

If that is, indeed, the case, in what countries can we look to outside of Asia to par with us on this multilateral, given I think Dr. Shatz said, I guess, African countries, and of course areas in the

Americas, but what other countries can we look forward to in terms of aggressively investing, having more foreign investments come from overseas to especially California?

Mr. HAVEMAN. Maybe I'll leave the foreign investment question for Dr. Shatz.

But in terms of multilateral versus regional agreements, it's not all regional agreements that will not be beneficial for California. It happens to be the set that's chosen now.

In my remarks I removed, to save time, mention of APEC, the Asia Pacific Economic Cooperation Forum. This a very important forum for California, very important forum for liberalizing and maximizing the potential of California's exporters.

In my report I estimated that the expansion of California exports with success simply within the APEC forum of their original liberalization agenda would have amounted to roughly \$19 billion, which is a good chunk of the \$27 billion potential out there, and this is with Asian countries.

However, APEC has been derailed in recent years. It was derailed in the mid-1990s because of the economic crisis in Asian countries, and now it's being turned more into a security organization than an organization to promote economic development, per se, so I would still maintain an emphasis on Asian countries for California.

Ms. MILLENDER-MCDONALD. In the past, Mr. Haveman, the Chilean government employed capital controls to protect its economy from the destabilizing impact of speculative capital flows and financial crisis. Many governments, including the Chilean government, have used such capital controls quite effectively, and even the International Monetary Fund has conceded that these controls can be legitimate and beneficial.

In your opinion, why do you believe the Administration pushed for the implementation of free capital flow, rejecting the idea of capital control?

Mr. HAVEMAN. A very important question.

It's my view, really, that the beauty of capital controls is very much in the eye of the beholder, and generally the perspective of the country that's trying to protect itself from the damage that can come from overinvestments, speculative bubbles and what have you, they view capital control much more favorably than do countries outside who wish to invest within, because inevitably capital controls will reduce, to the extent that they have an effect, they will reduce the flow of capital inward.

So one answer to the question is that it's in the best interests of the United States to allow capital to flow freely into these countries, as we are nontrivial investors in Chile.

Another answer is that how you feel about capital controls depends on the outcome of some benefit cost analysis. There's no question there's a cost to the countries that impose capital controls, and I believe the Chilean government would readily admit that there is a cost.

Capital inflows are instrumental in providing for economic development within a country. Limiting the inflow of that capital will reduce economic development to levels below that which you might

otherwise expect it to be. Still you are protecting yourself from things that are not inevitable, but do seem to occur periodically.

So the United States is both looking out for its own interests and has a different take on the benefit cost analysis of capital controls than does the Chilean government.

Ms. MILLENDER-MCDONALD. Thank you so much.

Can either one of you provide for this Committee some export control reforms that you would like Congress to implement?

Mr. SHATZ. Unfortunately, I think neither of us has done serious research on this, and we like to speak from research.

Ms. MILLENDER-MCDONALD. Okay.

Mr. SHATZ. But I would speak from basic economic principles, which is that any export controls have to take account of the products that foreign companies make and can export as well, so I'm not familiar with the detail of the current programs, whether they really take account of what French, German, Japanese manufacturers are able to make and export, but that certainly has to be a part of any reforms, if that's not being taken account of fully right now.

Ms. MILLENDER-MCDONALD. Well, you know, the President has imposed some controls on steel coming from international, because of the steel market that we have and how it has really just slumped, and of course Bethlehem Steel closing, and yet you have a lot of car manufacturers who are saying that they really need to have that steel that's coming in from the foreign market, and we are trying to control that and the President has done very well in doing that.

What is your take on that?

Mr. SHATZ. From California's perspective, California is a steel-using state more than it is a steel-making state.

Ms. MILLENDER-MCDONALD. Absolutely.

Mr. SHATZ. So any controls on steel imports would end up most likely hurting California more than helping it. I haven't thought about this in terms of the nation as a whole. So that's my view on steel, primarily because California is much more of a steel-using state.

Ms. MILLENDER-MCDONALD. Absolutely.

Mr. SHATZ. Compared to the rest of the U.S.

Ms. MILLENDER-MCDONALD. As compared to the Chairman's state.

Mr. SHATZ. Right. And actually the ITC, the U.S. International Trade Commission, will be coming out with two studies in a month or two looking at both sides of the issue, looking at the effect of the safeguards on steel-making companies and the effect of the safeguards on steel-using companies, so that should be quite interesting.

Ms. MILLENDER-MCDONALD. Interesting, absolutely.

Mr. Chairman, thank you.

Chairman TOOMEY. Thank you, and I'd like to thank both witnesses for your testimony. I really appreciate it. I enjoyed your comments.

At this time I would invite the witnesses from Panel Two to take their seats at the witness table.

Ms. MILLENDER-MCDONALD. Mr. Chairman, while the others are coming up, I would like to thank Mr. Haveman and Dr. Shatz for

their input into this hearing today, and I just want you to know that Mr. Haveman holds a B.A. In economics from the University of Wisconsin, Madison, and an M.S. And Ph.D. In economics from the University of Michigan, Ann Arbor.

So, Doctor, thank you. And Mr. Shatz also holds a Ph.D. In public policy from Harvard University.

So we just want to let you know the stellar panelists that we have here today with us.

Chairman TOOMEY. At this time, then, I'll recognize the gentlelady from California to make the introductions of the witnesses on our second panel.

Ms. MILLENDER-MCDONALD. Thank you so much, Mr. Chairman.

Again, the second panelists include Mr. Adalberto Quijada, who is the Deputy District Director for the United States Small Business Administration. We have Dr. Lawrence Spinelli, who is the Director of Communications for Overseas Private Investment Corporation. Ms. Julie Anne Hennessy, the Director of Export Assistance Center for the U.S. Department of Commerce, and there is a fourth panelist, which is—I do not have him—Mr. Greg Davis will come momentarily after the other three have spoken.

Just a little bit of background. Mr. Quijada serves as the Deputy Director of the United States Small Business Administration, the Los Angeles office, which is the largest SBA district office in the country, covering Los Angeles County, San Bernardino—Santa Barbara, Ventura Counties, and it leads all 70 district offices nationwide in financing small businesses and the acquisition of government contracts.

Ms. Hennessy is—she joins us from the U.S. And Foreign Commercial Services, joined that group in 1995 and became the director of the West Los Angeles U.S. Port Assistance Center in 1999. In addition to her role as director, Ms. Hennessy assists small to medium-size companies with their international marketing efforts.

She has been very active in promoting international trade in the Los Angeles area and is currently on the board of advisors for Women in International Trade, Los Angeles.

Dr. Spinelli is the Director of Communications, as I said, of the Overseas Private Investment Corporation, OPIC. Dr. Spinelli is responsible for all public diplomacy activities, including Small Business Outreach, and OPIC's New Partners Program.

Prior to joining OPIC, Dr. Spinelli was the Vice President of Corporate Communications at the National Alliance of Businesses. He received his undergrad degree from Drury University, a Master's Degree in Government from Georgetown University, and a Master's Degree and Doctorate in history from New York University.

Thank you all so much for being here.

Mr. Quijada will be the first one.

Chairman TOOMEY. I would just remind our panelists that the testimony is for five minutes, and if you have extended remarks, we'd be delighted to include them in the record in a written form.

At this time, I'll recognize Mr. Quijada.

**STATEMENT OF J. ADALBERTO QUIJADA, DEPUTY DISTRICT
DIRECTOR, LOS ANGELES DISTRICT OFFICE, U.S. SMALL
BUSINESS ADMINISTRATION**

Mr. QUIJADA. Good Morning, Chairman Toomey and Congresswoman Millender-McDonald. I'm honored to testify before the both of you this morning and to discuss how the SBA can help small and medium-size exporters effectively compete in the global marketplace.

Allow me to first say that Administrator Hector Barreto asked that I convey his personal good wishes to both of you, and that I underscore his sincere commitment to continue the work, to work closely with your Committee on the many important challenges that today's small businesses face in this nation.

Again, I'm Adalberto Quijada. I'm the Deputy District Director for the SBA's Los Angeles District Office, and our office covers the Los Angeles, Santa Barbara and Ventura counties.

I'm proud to report that under the leadership of, I know, a good friend of yours, our District Director, Alberto Alvarado, who, by the way, sends his regrets that he cannot be here today.

Los Angeles continues to be acknowledged as the outstanding capital axis division among the SBA's 100 field offices and 70 district offices.

I'd like to take a quick moment to present our local management team, who is here today at the disposal of your constituents. They will be available to answer any questions that the audience may have. I'd like briefly—if they could please stand so your constituents know who they are. We brought the whole team this morning.

Ms. MILLENDER-MCDONALD. Thank you all so much for being here. What a great team.

Mr. QUIJADA. Absolutely.

Now, I'd like to address the primary components where Los Angeles, as you said, Congresswoman, has led the nation successfully. In terms of access to capital, over the last four years, SBA Los Angeles has provided \$3.2 billion to nearly 10,000 businesses. It has helped to create or retain an estimate of over 97,000 jobs in our tri-county service territory. Over the last three-year period, we have provided \$128 million in financing to 381 businesses in your 37th Congressional District.

Insofar as technical assistance, this past year alone, SBA Los Angeles has reached over 18,000 individuals and has conducted over 120 training sessions, including minority and women business owners. SBA Los Angeles most definitely through our partnerships with the many community-based organizations is fully committed to continuing to provide these workshops and seminars and one-on-one consultations.

In terms of procurement through our procurement program of year-round workshops, seminars and conferences, we are able to successfully inform our small minority and women-owned businesses on how to access federal procuring agencies and prime contractors. We are proud to report that in California's 37th Congressional District, \$8 million of government contracts were awarded this past year.

Export assistance—and, by the way, we do have our international trade specialist, Mr. Martin Zeelander, who is available for any questions after the hearing.

I'd like to now address how the SBA is prepared and committed to directly assist existing and prospective exporters. We have a diverse set of international trade programs that range from export finance to export promotion activities. In the interest of time, I'll go over them very briefly.

Our three finance guarantee programs include the Export Working Capital Program, which provides a 90 percent guarantee up to \$1 million, and the funds can even be used to purchase inventory, raw materials or labor that is directly related to the export sale.

The next program is International Trade Program—International Trade Loan Program, excuse me. And this program provides a \$1.25 million guarantee on fixed assets and working capital financing.

The third is Export Express, and it's by far the most flexible export financing program within SBA right now. The loan amounts up to \$250,000 may be used for any purpose, which will enable the business to enter a new export market or even expand an existing export market.

With respect to export promotion, the SBA has established the following programs. One is Trade Mission Online, and this is an Internet Web site program that enables firms to register their products and services online. It also provides access to a comprehensive database of U.S. Companies and foreign companies as well. It also, very importantly to these companies that are involved in exports, it facilitates participation in foreign trade missions.

ETAP is one of our other export promotion programs, and that stands for Export Trade Assistance Partnership. This is a program that provides effective and measurable assistance in the form of training to small businesses that wish to enter the global marketplace.

Our last is ELAN, which stands for Export Legal Assistance Network, and this program provides initial legal consultation to small business exporters, and the attorneys that provide the service are volunteers for the Bar Association.

Insofar as export successes for the Los Angeles area, we are also very proud to say that we have led the country, Los Angeles that is, in export financing, approving 43 export loans for \$24.1 million. That is twice the output of the second place office in the country. In fact, we have been the number one SBA office nationwide for four of the last five years, approving a total of 193 export loans, totaling \$73.2 million. And I'm pleased to report that in your 37th Congressional District, since 1992, we have approved 22 export loans for \$10.3 million.

Ms. MILLENDER-McDONALD. I'm sorry. How much?

Mr. QUIJADA. 10.3.

I'd like to share briefly a success story in your congressional district, and this is BDS Natural Products. They are located in the City of Carson. They are an industry leader in supplying quality raw materials to the food and beverage industries. They employ 26 workers and they specialize in the manufacturing, exporting and importing of botanical powders, herbal teas and spices.

Export markets include Canada, Australia, Thailand, Indonesia, Singapore and Vietnam. Our district office has financed three loans in excess of \$1 million, two of which have involved export financing.

In closing, I would like to reiterate that it's been an honor and a pleasure to be here today, Chairman Toomey and Congresswoman Millender-McDonald, and I affirm our commitment and that of Administrator Barreto to build a more efficient and effective SBA, one that helps businesses grow and prosper and ultimately contributes to stronger and healthier communities.

We intend to continue to work closely with your local staff and to address the concerns not only of your office, but that of your business constituency. We intend to continue to maintain our record of achievement in your congressional district. At 37, we have had a great partnership and we look forward to a continued working relationship.

Ms. MILLENDER-McDONALD. Well, I can say I really do miss Mr. Alvarado, but you have very ably stepped into his shoes today.

Mr. QUIJADA. Thank you.

Ms. MILLENDER-McDONALD. Thank you very much.

Chairman TOOMEY. Thank you very much, Mr. Quijada.

[Mr. Quijada's statement may be found in the appendix.]

Chairman TOOMEY. At this time I'll recognize Ms. Julie Anne Hennessy for her testimony.

Ms. MILLENDER-McDONALD. You're playing musical chairs like we do in Congress.

Before you get started, Ms. Hennessy, let me just recognize another one of my colleagues who has sent his representative here, Adrian Garcia, representing Assemblyman Allen Lowenthal. Thank you so much for being here.

Thank you, Ms. Hennessy.

Ms. HENNESSY. Yes. Good morning.

Ms. MILLENDER-McDONALD. Good morning.

STATEMENT OF JULIE ANNE HENNESSY, EXPORT ASSISTANCE CENTER, U.S. DEPARTMENT OF COMMERCE

Ms. HENNESSY. Good morning, Chairman Toomey and Congresswoman Millender-McDonald.

I am honored to be here today to highlight the important work that the U.S. Commercial Service does on behalf of America's small businesses. Thank you for granting me this opportunity.

I hope that my testimony today will show what the U.S. Government, namely the U.S. Commercial Service, can do to strengthen and protect our small businesses, and in turn the very jobs that our economy depends upon.

The U.S. Commercial Service plays an important role by providing trade education programs to U.S. Entrepreneurs and assisting companies to prepare their products and services for sales in markets beyond our national borders. In the age of electronic commerce, all markets are potentially global markets.

The U.S. Commercial Service is the Department of Commerce agency that focuses on helping small and medium-size businesses sell their products and services globally, and in partnership with

our other commerce agencies protects the interests of American business abroad.

We have special emphasis on minority-owned companies, women-owned firms and companies in rural communities. We have a worldwide network of offices and trade specialists that help small and medium-sized U.S. Firms realize their export potential.

U.S. Commercial Service officers are posted in over 150 locations abroad and 107 U.S. Export assistance centers throughout the United States to provide one-on-one assistance.

Whether a company has never exported before and needs help with the basics of international business, or if a company is an experienced exporter looking for a new international market, we are there to help. We offer basic export consulting, market research, matchmaking services, advocacy towards foreign governments on behalf of U.S. Businesses, help on treaty compliance issues and numerous business creation opportunities and trade missions and trade events.

Just a few of the important programs that we offer to small businesses to promote exports are the Gold Key Service, Buy USA, International Buyer Program, and Flexible Market Research, and I'll just summarize these briefly for you.

The Gold Key is a customized service for finding and vetting potential agents, distributors, sales representatives, and business partners abroad for U.S. Businesses.

This service assists in locating and vetting foreign partners, like distributors and sales representatives. More specifically the Gold Key provides, among others, customized market and industry briefings with U.S. Commercial Service staff in advance of business meetings. We offer prescreened appointments with potential sales representatives and business partners. We offer market research on the company's industry sector, and if needed, assistance with travel, accommodations and interpreting services.

Our Buy USA program is an international electronic marketplace, a one-stop export assistance Web site that brings U.S. And international companies together to export U.S. Products and services. Buy USA integrates the one-on-one export counseling of U.S. Commercial Service with business-to-business online technology, critical for competing in today's global E-economy. The site offers a small business the ability to find an international business partner, identify sales leads, and make a transaction.

Our International Buyer Program recruits and brings more than 125,000 foreign buyers to the U.S. To visit more than 25 major U.S. Trade shows each year. Our overseas trade specialists organize the foreign buyer trips, the buyers usually come in delegation groups and are ready and willing to purchase goods and services, American goods and services.

They only need to be matched up with the right U.S. Company, and that's where we come in. We help organize meetings and provide matchmaking services and business counseling to help these small businesses generate sales to these ready and willing foreign buyers.

Our flexible market research provides small businesses access to customized market research at a price they can afford. This service allows small businesses the opportunity to receive market research

and data that is unique to their situation and needs. This service gives reliable answers to their questions about specific markets, prospects for their products and services.

In addition to these programs, the Commercial Service counsels businesses on the entire range of export promotion and finance services available to U.S. Businesses from the government.

Furthermore, we have strong partnership with the Small Business Administration and the Export-Import Bank. This allows the U.S. Commercial Service to assist small businesses in finding the working capital and finance programs they need to begin exporting for the first time or extend the number of foreign buyers to which they are selling.

Whenever possible, we partner with the private sector to improve the overall benefits to U.S. Companies and local economic development. We rely on the 56 District Export Councils located throughout the country, the majority of whose members are from the private sector, and they help us set our priorities based on what they believe businesses need.

Demand for our services from the private sector is very strong, and we expect it to continue as more and more companies engage in global commerce as a winning business strategy.

In fiscal year 2002, the U.S. Commercial Service counseled 110,777 clients, which produced over 11,000 successful export sales. This had a dollar value of \$23 billion—of the 11,000 successful export sales, 5,384 of these were successful sales for companies already exporting, but reaching a new market in a new country. 734 were successful export sales for companies that had never exported before. Small and medium-size companies produce 90 percent of all successful export sales.

Let me tell you about two of the many Southern California companies that the U.S. Commercial Service helped to make new export sales, bringing revenue and jobs to our local economy. Value the Sun Labs, located in Congressman Millender-McDonald's district, has been a client of the U.S. Commercial Service for almost five years.

Over the years they have used a variety of our programs and services, including market research and contact lists, and for about two years Value the Sun Labs has found it advantageous to advertise in the Commercial News USA, which is our marketing publication that is distributed worldwide to foreign buyers.

Approximately 99 percent of the Value the Sun sales are due to exports. Seven years ago their sales amounted to under \$10,000. Now, due to consistent marketing, follow-through and seeking valuable trade assistance, their sales have reached \$3 million.

Custer Company, located in Long Beach, is the leading manufacturer and international supplier of downhole oil field instrumentation, including electronic pressure and temperature sensing tools, electronic logging tools, samplers, et cetera.

The president of Custer Company met a delegation from the United Arab Emirates that was led by one of our commercial specialists to a trade show in Houston, Texas, in May 2001. This delegation included 40 of United Arab Emirates' top business executives and national oil company officials. Through the meetings arranged by our commercial specialists with their delegation, Custer

Company has reported that they made about \$2 million of sales to a UAE company.

In conclusion, we at the Commercial Service have helped thousands of small American businesses become major players in world markets. We are proud to have strengthened these companies and supported them as they add stable, high quality, well-paid jobs to their communities. We're proud of our commitment to entrepreneurship, and we look forward to strengthening that commitment by continuing to work closely with businesses throughout the country and to give them the tools they need to compete and win in the global economy.

Thank you.

Chairman TOOMEY. Thank you very much, Ms. Hennessy.

Ms. MILLENDER-MCDONALD. Thank you so much.

[Ms. Hennessy's statement may be found in the appendix.]

Chairman TOOMEY. At this time, I'll recognize Dr. Spinelli for his testimony.

STATEMENT OF DR. LAWRENCE SPINELLI, DIRECTOR OF COMMUNICATIONS, OVERSEAS PRIVATE INVESTMENT CORPORATION

Dr. SPINELLI. Thank you, Mr. Chairman, Congresswoman. Thank you for giving me the opportunity to appear here today to discuss what the Overseas Private Investment Corporation can do and in fact is doing to help America's small businesses participate in the global economy through overseas investment.

I'm particularly pleased to have this opportunity, because I think OPIC is probably one of Washington's best-kept secrets. We're a small agency, only 200 people, and to the extent that people have heard of us, they usually confuse us with OPEC, the oil cartel, and considering the high cost of gasoline these days, that's not really a good thing. So thank you for this forum and this opportunity.

The fact of the matter is, really, that for over three decades, OPIC has been the primary U.S. Government agency which is focused on supporting private sector investment in the developing world. By providing loans through our financing program and offering protection against political uncertainty, through our political risk insurance program, OPIC helps U.S. Businesses to invest in more than 150 countries in promoting economic development at the same time in those countries, while also serving important foreign policy objectives.

Because OPIC charges market-based fees for the products we offer to businesses, we are actually able to do all of this at no net cost to the U.S. Taxpayers, which we are very proud of.

Locally here in California, OPIC, over those three decades, has provided over \$5 billion in financing and political risk insurance to California companies investing overseas. These projects are expected to generate \$10.6 billion in total U.S. Exports and support over 40,000 U.S. Jobs. At the same time, California companies are supplying over \$1 billion in goods and services to OPIC-supported projects.

These are companies that might not even know that they are actually part of the global marketplace, because they are supplying

an OPIC project and, in fact, half of the California suppliers to OPIC projects are small businesses.

When Dr. Peter Watson became OPIC's eighth president, after being appointed by President Bush to that position and confirmed by the Senate in 2001, he initiated an effort at OPIC to sharpen OPIC's focus and better direct our resources towards fulfilling the agency's development mandate.

The goal was to better foster economic development abroad while strengthening the U.S. Economy at home by focusing more closely on those companies and those countries that cannot access private financing or political risk insurance.

A key element in this refocusing effort was to create new opportunities for small businesses. I am pleased to report to you that in a very short period of time, the agency has created an impressive record of accomplishment in meeting this objective. In 2002, through diligent effort, 67 percent of OPIC-approved projects were for small and medium-size enterprises.

To expand on this commitment, two important programs were launched last year. First, OPIC has joined with the Small Business Administration in an initiative that will better coordinate the capabilities and offerings of our two agencies. Secondly, we also have joined in a memorandum of understanding with the U.S. Commercial Service to also use their forces throughout the United States and throughout the world to help spread information about OPIC.

So I'm particularly pleased to be part of this panel with my two colleagues from those two important agencies, and I might add that we also work very closely with the Export-Import Bank.

The second effort we launched was the creation of the OPIC Small Business Center. The Small Business Center, the SBC, was created to meet the needs of companies with revenues of less than \$35 million. We felt it was very important that we do something to focus on the smaller businesses who are looking to invest overseas.

While many of these companies recognize the growth opportunities overseas, they often find it particularly difficult to get financing for overseas investments from the private sector. Small businesses are also particularly vulnerable if a host country government takes a hostile political action that interrupts their business. Unlike a big company, they can't wait two or three or four weeks or a couple months for political problems to be resolved, and that's what this small business center can help to address.

The SBC can provide up to \$10 million in financing and \$15 million in political risk insurance, and I think most important of all, what the Small Business Center does, it has really improved our customer service to small businesses by offering a streamlined process with a 60-day turnaround time.

We have made a commitment if we get a completed application from a small business, we will turn it around in 60 days, and I think that's important, because as you know, to a small business time is money. It's critical that the government, government agencies be responsive and recognize that. As a result, I think OPIC is making it easier for small businesses to access our programs.

The response has been overwhelming. We launched this program in March, already we have over 30 projects that we have approved

through the Small Business Center, and we have many, many more in the pipeline. These projects are in almost every region of the world. They range from helping a U.S. Small business group expand an airline in the Caucasus to helping a Miami-based small business expand its network and information security operations in Latin America.

I'm pleased to report that we do have, actually, a California project in, in our Small Business Center. We are providing a \$6 million loan to RiceX, a biotech company based in El Dorado Hills, California, for the establishment of a plant in Nicaragua which will provide a rice-based nutritional drink to children in the region.

Building on these efforts, Dr. Watson announced on July 28th that OPIC was creating a new department focusing on small and medium-size enterprises. The Small and Medium Enterprise Department ensures that the structure of our finance activities also reflects the new reality and the new commitment.

If you came to OPIC five years ago, you would not—as a small business, I don't think you would have found this a particularly user-friendly place. We had a reputation as a place that helped the big guys, not necessarily the small guys.

We have changed that sort of corporate culture. We have turned it around. Dr. Watson's commitment is already bearing fruit in terms of real projects, in terms of people's attitudes, and I guess there is no better proof of the pudding than the fact that just very recently, the Small Business Exporters Association presented Dr. Watson with its special achievement award for his——

Chairman TOOMEY. Dr. Spinneli——

Dr. SPINELLI. Yes?

Chairman TOOMEY [continuing]. I'm enjoying your testimony. I just want to point out that we are running over considerably, so could you just——

Dr. SPINELLI. I'm sorry. I'm just about to finish.

Chairman TOOMEY. Great. Thank you.

Dr. SPINELLI [continuing]. Gave him their small business—their special achievement award for his path-breaking efforts on behalf of small and medium-size companies, so we continue to be committed to small businesses.

To the small businesses who are in the audience here, there is a brochure in your packet about OPIC's Small Business Center with a telephone number and our Web site.

Thank you.

[Dr. Spinneli's statement may be found in the appendix.]

Chairman TOOMEY. Thank you very much to each of the panelists for their testimony.

I'll begin with—actually, I have two questions and I'll ask them both at the same time and just invite the panelists to respond.

Mr. Quijada, one question I had for you, my first question was, if you could comment on, if you have the statistics, the rate of increase in small business exports in this region, in the region that you are responsible for, if you have any figures on whether it's by market share or by volume or, you know, is there—I guess my real question is, are we making measurable progress in terms of seeing more small business exports, and is that growing at a pace greater than the rate of growth of the economy, for instance?

My second question is both for you and Mrs. Hennessy. It actually sounds as though your missions are extremely similar, one in the Department of Commerce and the other in the Small Business Administration, and I'm just curious, how do you distinguish between the missions that you have? What's different about the functions that you play with respect to facilitating exports for small businesses?

Mr. QUIJADA. To answer your first question, I do not have those figures readily available, but I would be pleased to supply those to both of your offices.

To your second question, I think that both our agencies at sometimes possibly we may be doing and reaching out to the same constituents, the same small business customers, if you will. SBA is very specific about the kinds of services that it can deliver to our constituents, rather our small business customers, and I outlined those in my testimony.

Whereas in access to capital and technical assistance and in government contracting opportunities, I don't know if you would like to add to that?

Ms. HENNESSY. Yes.

Chairman Toomey, just to reiterate, we—in my testimony as well, I reference the fact that we work very closely with SBA and Ex-Im not do anything with financing, so we are aware of their programs, we can advise our clients about several of their programs, but always with the intentions that we would bring SBA and Ex-Im to the table with us.

We are solely dedicated to international marketing. In other words, we are out there from the commercial perspective. Marketing, helping companies market, identify buyers, identify distributors and advocating on their behalf, but we would always work with Ex-Im and SBA to bring in that financing component so that the exporter has a complete package.

Chairman TOOMEY. Okay. Well, thank you very much for that clarification.

I'll be happy to recognize the gentlelady from California.

Ms. MILLENDER-MCDONALD. Thank you, Mr. Chairman.

Mr. Quijada, you mentioned that you have given—Los Angeles has 43 export loans that you've given to the Los Angeles area, and in fact 22 of those export loans have been in my district of the 37th. Am I correct in noting that?

Mr. QUIJADA. Yes, that's what I said.

Ms. MILLENDER-MCDONALD. If that is the case, then tell me, of those 22 export loans, what small businesses are we talking about? Are we talking about mostly women-owned businesses? Are we talking about businesses that exceed 50 employees?

You know, there are so many definitions to small businesses, really, so what small businesses are we talking about that you have given this \$10.3 million to in my district, with a breakdown between services and manufacturing?

Mr. QUIJADA. With your permission, if I can invite our International Trade Specialist, so that—

Ms. MILLENDER-MCDONALD. Of course you can, yes. Right.

Unidentified SPEAKER. Good morning. Thank you.

Ms. MILLENDER-MCDONALD. Good morning.

Unidentified SPEAKER. I don't have all that statistical data here available. I certainly could provide that, but I did some research regarding some recent financing we did in your district, Congresswoman.

Over the past five years, we have approved eleven export loans for \$4.7 million, and of those eleven businesses, seven of them are owned by Asian-Americans, one by a Hispanic-American. I don't have the specific breakdown of the nature of the business, but I would be—.

Ms. MILLENDER-MCDONALD. Could you provide that for me at a later time?

Unidentified SPEAKER. Certainly, before the end the day.

Ms. MILLENDER-MCDONALD. I perhaps put you on the spot on that, but I do want to really engage fully in the small businesses in my district who are exporting, because we both know that, or I know that, small businesses tend to be a little reticent about exporting, and the more we can get them engaged in that, the better off we are, and especially those small businesses that for the first time are beginning to engage in international trade, and so we really do want to know who they are and from what backgrounds, and whether it's service or manufacturing that they are espousing to do.

Mr. QUIJADA, you know, recently the U.S. Chile Free Trade Agreement was signed by the SBA with the Technical Corporation Service of Chile and the Chilean Economic Development Agency to promote programs that will help small businesses and medium-size businesses in both countries.

Now, it has been said by the previous panelists that Chile is not a large market here in California, so how would this benefit our local small businesses?

Mr. QUIJADA. Again, that's a question that I would—that is very specific to our Office of International Trade headquartered in Washington, and I know that Mr. Manny Rosales, Deputy Administrator, has testified on that.

I would gladly also provide you with the specifics of that, as again it is specific to the Office of International Trade, not at the local level, but I would like to provide you with that information, as well.

Ms. MILLENDER-MCDONALD. I would be happy for you to do that, because again, I want to really pinpoint just where we are in terms of these overtures that are being made by the Honorable Rosales, as well as others in the SBA.

Mr. QUIJADA. Yes.

Ms. MILLENDER-MCDONALD. Your online Internet service, which has this vast database, how much outreach are you doing to the minority communities, and especially women-owned, black-owned, Asian-owned, Latino-owned businesses? And you say training is a part of this online service; is that the case?

Mr. QUIJADA. In all of our programs within SBA, whether it's at the field offices or at headquarters, we have a strong commitment through the partnerships, whether it's our colleagues at other government agencies, as well as community-based organizations and chambers of commerce and the like, to reach out to the new and emerging markets.

So we have, again, a commitment from the very top to the field offices, whether it's Pro-Net or other firms that are contained there, or any of our other online databases. We have, again, a commitment to reach out to those specific markets, because we know the need to continue to work closely with them and, again, to work closely at the local level with those organizations that represent those businesses as well.

Ms. MILLENDER-MCDONALD. Well, I would be interested to know the emerging markets in those businesses that are aspiring to venture into that.

Ms. Hennessy, in your testimony, you said that you recruit and bring in some 125 foreign buyers to the U.S. To visit more than 25 major U.S. Trade shows each year. How many businesses, small businesses, benefit from this particular program? I do love "Buy U.S." and that slogan, but how many businesses are we really talking about in terms of benefiting from this program?

Ms. HENNESSY. Well, because these buyers, these international buyers, come into the domestic trade shows—as an example, I was just recently just in—I can illustrate this, I think, to the point that I—I was recently at a show back in Philadelphia at the AACC show, which is a very, very large clinical diagnostic show.

Because that was mostly U.S. Businesses that were exhibiting there, we were also there with foreign buyers, with foreign buyer delegations, so as these foreign buyer delegations are out walking around the floor talking to exhibitors, in essence, there is a potential for any small business on that showroom floor to be able to meet with that foreign buyer.

Ms. MILLENDER-MCDONALD. Well, of course, the potentiality is there, but we need to talk about really hard numbers here.

Ms. HENNESSY. But then what we do is, then we have programs that are set up that actually we prearrange appointments with these foreign buyers and also with our commercial specialists that come over.

And so I would say on any given show, perhaps they may have had appointments with 50 to 60 small businesses that were there at the show—and that's just a rough estimate, depending upon the size of the show, depending on that company's particular interest in that market, et cetera, but usually we are always at these shows, we are always taking around our commercial specialists and their businesses, so on any given day, as I mentioned, we could perhaps impact between 50 to 75 businesses, perhaps.

Ms. MILLENDER-MCDONALD. What I'm interested in, and it has to be very clear, that the women-owned businesses are the most—the highest growing businesses in the country. They are producing the jobs that are necessary, creating those jobs, and we need to know, I need to know specific facts on how they are impacting your "Buy USA" and your other projects that you've given to us so that I can be clear on are we really doing a good job in bringing small businesses into this whole notion of international trade and exporting.

So I need to know that—to just read your different testimonies, they are very glowing, but I need to have some specifics as to where our companies, especially in this region are, in terms of your product, your sale, your services.

Ms. HENNESSY. And I would be happy to provide that. I can tell you, Congresswoman Millender-McDonald, that our focus at the Commercial Services, especially here in Los Angeles, because of the diverse nature of Los Angeles, the majority of companies that we work with are usually minority-owned, ethnic minority-owned, women-owned businesses, tremendous numbers, and I'd be happy to provide them for your district.

Ms. MILLENDER-MCDONALD. Please do that.

Ms. HENNESSY. Sure.

Ms. MILLENDER-MCDONALD. The last question I have, Mr. Chairman, is for Dr. Spinelli.

Dr. Spinelli, globalization is making the international market a necessity for small businesses, as we all know; however, nearly two-thirds of smaller exporters sold their goods and services to only one foreign country.

In your opinion, what are the problems that prevent smaller exporters from exporting to multiple countries?

Dr. SPINELLI. Well, I think because of the focus of OPIC on investments—if I can answer the question in just, in sort of in terms of investment—I think one of the great inhibitors often is the concerns that people have on the political risks that they are facing.

We know if we, you know, if you get involved in the United States, you know what you're facing in terms of a political system and all of those complications. I think oftentimes it's very challenging as people look to different parts of the world, and, you know, they tend to follow where there's some good experiences—

Ms. MILLENDER-MCDONALD. All of these countries are political systems, aren't they?

Dr. SPINELLI. Excuse me?

Ms. MILLENDER-MCDONALD. All countries are political systems, aren't they?

Dr. SPINELLI. Right, but there are different levels, you know, of whether or not your rights as an investor or if you're—you know, the rule of law is respected if there are things like transparency, if there's an arbitrary tax system. All of those things which you don't deal with when you're, you know, getting involved domestically in a business. You just worry about commercial—you have to then worry about political risks.

I think that a lot of times that that's very offputting to people. It's a formidable barrier, so they will tend to go where other people go and, you know, it's difficult to strike out. You know, one of the things that we try to do, and the whole reason for us of offering political risk insurance is to help to mitigate some of those risks; that you create at least somewhat more of a level playing field.

Ms. MILLENDER-MCDONALD. Thank you.

Thank you, Mr. Chairman.

Chairman TOOMEY. Thank you very much.

I'd like to thank the witnesses from the second panel very much for your testimony and for joining us this morning.

At this time I would invite the witnesses from our third panel to approach the witness table and take their seats.

Ms. MILLENDER-MCDONALD. Let me recognize one of the great councilwomen who represent this great City of Long Beach, Coun-

cilwoman Laura Richardson is in the House. Thank you so much for being here, Councilwoman.

Yes, give her a hand.

I hear, Mr. Chairman, that Mr. Greg Davis is here, so now that we have a portable mike, maybe we can have all four folks come up and speak on this last panel.

Chairman TOOMEY. Certainly.

Ms. MILLENDER-MCDONALD. Thank you all for being here.

Chairman TOOMEY. Are we still waiting for our fourth panelist?

Ms. MILLENDER-MCDONALD. Is Mr. Greg Davis here?

Chairman TOOMEY. Yes.

Ms. MILLENDER-MCDONALD. And we have Mr. David Josephson, Mr. Chris Wacker and, of course, I know Ms. Patricia Unangst. Okay.

Chairman TOOMEY. All right.

At this time then I will recognize the gentlelady from California for the introductions of our third panel.

Ms. MILLENDER-MCDONALD. Thank you so much.

I have all of these very sterling backgrounds of all of these great people. Of course, a longstanding friend and outstanding woman is Patricia Unangst. She serves in dual capacity as Executive Director for the Carson/Lomita/Torrance Work Investment Network and the manager of the Workforce Development Division of the City of Torrance.

She has been really absolutely out front in terms of small businesses. And the CLT WIN is a strategic alliance of business, community and governmental organizations that facilitate the training and placement of local work force.

Mr. Chris Wacker is the Senior Vice President of Sales and Marketing at the LaserFiche Document Imaging here in Long Beach. He plays a key role in product development and developing the bar channel at this company, this imaging company. He has been instrumental in marketing LaserFiche as a seamlessly integrated imaging text processing and document databased system for Ralph Parsons.

He established his own videographics and photography business, utilizing state-of-the-art computer graphics and video equipment. He has a Bachelor's degree from Hofstra University in New York.

Mr. Josephson is the Western Regional Director for the Export-Import Bank of the United States, and he's responsible for marketing the insurance and guaranteed products of the Export-Import Bank to exporters and banks in the eleven western United States.

I'm sorry, Mr. Davis, we did not get anything from you, but you are a man in your own rights, Director of Economics Development for the Office of Planning and Research, and you will start off.

Thank you.

Chairman TOOMEY. I would like to welcome all of the witnesses, and once again just remind everybody to please keep your comments to five minutes. Any extended testimony is welcome. We will include that in the record.

At this time I'll recognize Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

Briefly, yes, I am currently the Director of the Governor's Office of Planning and Research Economic Development Unit.

Ms. MILLENDER-McDONALD. Great.
Chairman TOOMEY. Good.

Mr. DAVIS. And I am also the past Director of Export Development for the State of California.

Ms. MILLENDER-McDONALD. Great.

STATEMENT OF GREG DAVIS, DIRECTOR, ECONOMIC DEVELOPMENT UNIT, GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Mr. DAVIS. Chairman Toomey, Ranking Member Millender-McDonald, and distinguished members, thank you for your invitation to share some brief comments with you about small business exporting and the Southern California economy.

As this Subcommittee is well aware, the interests and challenges of small business are often distinct from their larger counterparts. I applaud the work of this Subcommittee to seek out particular needs and opportunities facing small business with regard to exporting to ensure proper consideration of this critical element of our State's economy.

It is especially appropriate to conduct a hearing on this issue here in California, because we are home to approximately 25 percent of all U.S. Exporting companies.

It is increasingly important for small business to take advantage of the opportunities and markets available through international trade. With 96 percent of the world's population and 67 percent of global purchasing power outside the U.S. Borders, the small businesses that rely exclusively on business from domestic sources are missing out on a vast untapped market afforded by international trade.

Moreover, since every \$1 billion in trade supports approximately 11,000 jobs, small business participation in international trade provides impressive benefits to the California economy.

I'm here today to discuss what the State Government's role has been in accelerating the successful entrance of small business into export activity.

California's main entity for domestic and international economic development has been the Technology Trade and Commerce Agency. The agency was created in 1993 to serve as a central location for the State's domestic and international programs. With headquarters in Sacramento and regional offices around the state, the agency was designed to serve the needs of the State's small and medium-size businesses.

Within the International Trade and Investment Division, later to be called the Global Economic Development Division, the agency managed various programs designed to assist companies looking to expand their business overseas and to promote California's location for foreign-direct investment.

The objective of these programs was economic development within the state, leading to the ultimate goal of creating jobs. In addition, these programs ensured that California had an international presence fitting for one of the world's largest economies.

Programs managed by the Technology, Trade and Commerce Agency included the Office of Export Development, over which I presided, the Office of Business Investment, the California Export

Finance Office, twelve international offices of trade and investment overseas, the California Office of Mexico Affairs, and the California World Trade Commission. A brief description of each of these programs is provided in the written testimony that I submitted.

The California Department of Food and Agriculture runs the agricultural export program. The California Energy Commission manages the Energy Technology Export Program and the California community colleges continue to provide trade services through fourteen centers for international trade development located throughout the state. These programs are funded and will continue to serve the California SME in the foreseeable future.

Unfortunately, due to ongoing state revenue deficiencies, most of the Technology, Trade and Commerce Agency's international trade programs have undergone drastic budget cuts, and the agency itself only has funding available for the remainder of this calendar year. If the programs mentioned before are to continue, new sources of funding must be secured.

It is important that an economy as significant as that of California maintain its involvement in international economic affairs. As the global economy continues to recover from the recent slowdown, California companies will see greater opportunities for sales of their products and services in the international marketplace.

From the emerging markets of Latin America to the State's number one overall export market of Asia, we anticipate fertile ground for California exports and strong growth for California SMEs, which can be enhanced with proper assistance.

All the export successes experienced by California SMEs have a direct correlation of bottom line impact at the federal level and on the U.S. Economy.

With an economy that represents 13 percent of this country's GNP and approximately the same percentage of its exports, the U.S. Economy could directly benefit from an increase in trade support for the California business community.

Alternative models of program funding are a concept that has proven successful. One model that is currently being utilized in both Florida and Michigan is the Public Private Partnership that I believe Dr. Shatz mentioned earlier. The partnership is organized as a corporation and run like a business, funded partly by state government and partly through private donations to manage the state's economic development programs.

Chairman TOOMEY. I'm sorry. Time has expired. If you could just bring your comments to a conclusion, I would appreciate that.

Mr. DAVIS. Absolutely.

In closing, I'd like to mention that it is the diversity of California industries and export markets, over 222 in the year 2000, that play a significant role in California's economic success. California is home to several leading industry clusters, and although we have seen a decline in total exports from the State's record of nearly 120 billion in 2000, California continues to be a top exporting state.

A point worth mentioning is that these export values do not include trade and services. The services sector counts for approximately 80 percent of the U.S. Total GDP, and over one-quarter of U.S. Exports. California is a leader in most of the top ten U.S. Service exports.

Thank you very much.

[Mr. Davis' statement may be found in the appendix.]

Chairman TOOMEY. Thank you very much for your testimony.

At this time I'd like to welcome and recognize Mr. David Josephson.

STATEMENT OF DAVID JOSEPHSON, DIRECTOR, WESTERN REGION, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. JOSEPHSON. Mr. Chairman, Representative Millender-McDonald, and members of the Committee, I'm happy to join you today here in Long Beach, only a few minutes from our main West Coast office, to represent the Export-Import Bank of the United States. Thank you for inviting me to testify about our efforts to support small business throughout the country, and in particular in California.

Ex-Im Bank provides competitive financing solutions so that businesses large and small can export. Ex-Im Bank exists to assist in the financing of U.S. Exports, thereby helping to preserve and support jobs here in the United States.

The bank does this by helping finance the export of U.S. Goods and services through direct loans, loan guarantees and insurance. These transactions do not compete with private sector financing, as the bank fills the void when commercial lending institutions are unwilling to support a transaction without Ex-Im Bank's involvement. In addition, any transaction we support must offer a reasonable assurance of repayment as we are not an aid agency.

These are transactions that would not go forward without the bank, due to the competitive support provided to foreign companies by the export credit agencies of Europe, Canada and Japan, or because the private sector may not want to take the risk in a particular country.

Consistent with the Organization for Economic Cooperation and Development—the OECD—arrangement, Ex-Im Bank is able to ensure that U.S. Exporters are able to compete on the basis of price, quality and delivery of goods and services without unfair advantages of subsidized financing from competing exporters in other industrialized countries.

These U.S. Export transactions that Ex-Im Bank supports from every state in the nation take on particular importance during difficult economic times.

During fiscal year 2002, Ex-Im Bank supported \$12.9 billion of U.S. Exports to markets around the world. We approved 2,154 small business transactions, which represented 85.6 percent of all of our transactions for that year. These transactions included one loan totaling \$27 million; 71 guarantees totaling \$313 million; 323 working capital guarantees totaling \$532 million; 1,759 export credit insurance policies totaling \$910 million.

It should also be mentioned that Ex-Im Bank provides significant indirect support to small businesses. While this support is not part of the 20 percent small business set aside mandates, small businesses are benefiting greatly.

We recognize that small business provides the greatest source of job growth in the U.S., and we continue to improve our small busi-

ness programs and services. We are successful because we listen to our customers and to our partners.

Today I want to speak of the two most commonly used products at Ex-Im Bank. It's the Working Capital Guarantee and the Export Credit and Insurance, then I'll also speak a bit about our outreach and marketing.

Ex-Im Bank has a longstanding commitment to providing programs and services to small businesses. Over the past few years, we have seen solid growth in one of our programs, the Working Capital Guarantee.

When we recognize that small businesses, particularly those owned by minorities and women, face a number of hurdles in obtaining commercial financing; when credit tightens, small businesses tend to be more adversely affected than larger companies. Small businesses typically lack capital, collateral, and the financial history to persuade banks to issue a loan. And often when a small business begins to compete in the export market, it lacks productive capacity and finances to produce the export.

Loans made under Ex-Im Bank's Working Capital Guarantee Program can be used for the cost and expenses of manufacturing the export item or providing a service. In fiscal year 2002, we approved \$684.8 million in such loans, 77.6 percent of these loans supported small businesses.

These loans supported approximately \$2.4 billion in export sales. Our working capital program has grown 76.6 percent since fiscal year 1998.

By increasing the coverage of working capital loan guarantees for minority and women-owned firms from 90 percent to 100 percent, we have given them greater access to financing for pre-export costs.

Our export credit insurance is almost exclusively used by small businesses. In fiscal year 2002, we issued 1,656 of these policies to small businesses, and this was 89 percent of the total number of such policies. These policies protected exporter sale to foreign buyers, primarily on a short-term basis.

We have several types of policies, including one for very small businesses with limited export sales and experience, and this policy has extra benefits, such as no first-loss deductible, a simplified premium rate schedule, and special financing features.

Outreach, three years ago we began to coordinate much more intensively with our sister agencies, the Department of Commerce, the SBA, OPIC, and the Trade and Development Agency.

Ex-Im Bank and its programs are projected across this country through eight regional offices, and five of these offices are co-located through the United States Export Assistance Centers, the USEACs, and we have placed our Ex-Im Bank offices in strategic locations—Miami, the District of Columbia, New York, Chicago, Houston, and four in California.

Chairman TOOMEY. Mr. Josephson, your time has expired. If you could just wrap up your comments, I'd appreciate it.

Mr. JOSEPHSON. Yes. I'd like to conclude and say that we are proactively marketing our products to achieve small business goals, and we would also like to ask your support for our mission by sharing our message with your constituents.

Ex-Im Bank and I are at your service, and whatever we can do through seminars in your district, Madame Congresswoman, to meet with groups or companies at your request. We are here to help make exports happen.

Ms. MILLENDER-MCDONALD. Thank you.

Chairman TOOMEY. Thank you very much for your testimony.

[Mr. Josephson's statement may be found in the appendix.]

Chairman TOOMEY. At this time I would like to welcome and recognize Ms. Patricia Unangst.

STATEMENT OF PATRICIA D. UNANGST, EXECUTIVE DIRECTOR, CARSON/LOMITA/TORRANCE WORKFORCE INVESTMENT NETWORK BOARD

Ms. UNANGST. Good afternoon, or morning.

Thank you, Congresswoman, for your earlier kind remarks.

Just to let our newly recognized guest, the Chairman here from Pennsylvania—my roots actually go back to Eastern Pennsylvania, my family, so it's part of your district.

Chairman TOOMEY. Yes, it is.

Ms. UNANGST. My great grandfather was the canal master, so he had an extremely important position in your town back then.

Chairman TOOMEY. And an important position in trade—

Ms. UNANGST. Exactly.

Chairman TOOMEY [continuing]. Because that's how we used to get products to market.

Ms. UNANGST. That was the initial trade, so interesting connection that just happened to be.

The Congresswoman told you a little bit about our agency. I won't go over all that's in the testimony, but we are a public/private partnership, primarily funded by the Federal Work Force Investment Act. We operate the job training programs for the cities of Carson, Lomita, Torrance, and under a major contract with the City of Los Angeles, we operate for the Port of Los Angeles area.

So we do touch upon a vast majority of the businesses affected in this area, and our focus is one of economic development business services, as well as job seeker services.

The square miles, we cover approximately 84 square miles, a population of over half a million, so as you know, L.A. Is a very dense, a very populous area, so even though we are a small part of it, we cover a vast industry, of which there are 17,000 companies located in our district, our service area, and 92.9 percent of those employ 50 or less individuals, so it's primarily a small business market.

The major industries include aerospace defense, medical services, transportation, refineries, business services, hospitality and, of course, the Port of Los Angeles.

How can we help? Economic development services, we are a connecting agency to many of the agencies you've heard here today. We connect business with those services. We offer recruitment services and we offer work force development services, on-the-job training, placement, things like that.

One interesting thing that I came across in preparing my remarks for the Committee today was the publication of Mr. Shatz

from the Public Policy Institute, where his report on globalization discusses the impact to jobs, and that's a really critical factor.

I'll just quote from his report, "The effects of international trade and global integration cannot easily be separated from the effects of other economic trends. In particular, technical change that favors employment of highly skilled workers. However, the policy prescriptions for mitigating widening income gaps are the same for trade-induced and technology-induced change."

That's an interesting correlation.

"These prescriptions are to improve the educational opportunities and the education of the population and to maintain a social safety net for workers displaced by economic change."

One of the unfortunate aspects of my business is that we deal with the laid-off workers that are affected by these policies.

Again, I won't go over in detail, but I will mention that the gentleman from the State talked about one of the fourteen centers dealing with international trade development that are located at community colleges. One of those, Congresswoman, serves your district, and that's the one based at El Camino College, and a very close partner of ours in many of our activities.

In conclusion, I'll just mention some of the recommendations that we have for your Committee to consider as you look at trade policy.

At the federal level, agencies and individuals need to communicate with one another and let the local level know what you're doing, to work together, and give us clear direction. Our biggest obstacle at the local level is conflicting federal agency policies.

Decision-makers need to take into account the impact that shifts in trade or tariff policies have on jobs, the quote I gave you earlier.

Mr. Hanover's [sic] Study, in fact, I believe you asked a question specifically on jobs impact and he indicated that that needed further study, and that's exactly what we are saying. It's often not considered, and the impacts are both positive and negative.

Some of these policies impact jobs. While they might decline on, say, the production end, they increase on the service end, but there's got to be the balance, and then there's got to be the economic balance. Are those jobs being created, value-added, good-paying jobs, as opposed to the entry-level jobs?

And then, finally, adequate funding needs to be available to agencies such as ours to help local areas cope with the impacts and the shift in industry labor needs. We can only help if we receive adequate funding.

So with that, I'd just like to conclude and mention that attached to my testimony is a business guide for incentive programs in our region. It was actually prepared by one of the partner agencies that we work with, the South Bay Economic Development Partnership, and so that's attached and it's in everybody's packet.

Thank you.

Chairman TOOMEY. Without objection, that will be included in the record. Thank you for your testimony.

[Ms. Unangst's statement may be found in the appendix.]

Chairman TOOMEY. At this time I would recognize Mr. Chris Wacker.

**STATEMENT OF CHRIS WACKER, SENIOR VICE PRESIDENT,
LASERFICHE DOCUMENT IMAGING, LONG BEACH, CALI-
FORNIA**

Mr. WACKER. Good morning. My name is Chris Wacker. I'm a Senior Vice President for LaserFiche Document Imaging located here in Long Beach.

We are a software development company. We help businesses and governments around the world manage their paper, electronic records—and electronic records through a suite of innovative products.

Our company, which is the major division of CompuLink Management Center, was established in 1987 in Torrance and bought its world headquarters building here in late 2001.

Our employment base has grown by nearly 40 percent in the past 20 months to 140. Our initial focus was to serve the Municipal Government market, where we now have a 60 percent market share. In later years, we broadened our outreach to the federal, commercial and international markets, where our products are widely used and accepted.

LaserFiche is used in the Army, Navy, Air Force, Marine Corps, the CIA, FBI, Secret Service, State and Homeland Security Departments, as well as other agencies. In the commercial arena, financial services, health care, real estate, insurance, accounting, and law firms in the U.S. And internationally use LaserFiche.

Your interest today is in studying how the Federal Government can assist small businesses wishing to export their products. About 20 percent of our LaserFiche business is done outside of the United States. This figure could potentially be much higher, but until the past several years, for reasons of sales and distribution, we elected to devote most of our resources to the domestic market.

Today the world is ready for LaserFiche Document Imaging, and we have scores of resellers around the world and four corporate employees stationed abroad in the UK, Australia, Brazil and Peru. Because our software is recognized as improving business processes and productivity abroad, it is widely accepted by end-users around the world.

Computer resellers also see the opportunity LaserFiche offers in their countries and are joining us at a record pace.

Among our concerns abroad are protection of our intellectual property, currency fluctuations and occasional visa difficulties restricting travel by our resellers, customers and employees.

Regarding intellectual property protection, we have developed a large number of internal safeguards. These include staying out of countries where software piracy is tolerated. Nonetheless, the problem of software theft remains a critical problem for LaserFiche.

Put simply, illegal copies of software is a larger risk to companies like ours than burglars breaking into our offices, since unlimited copies of LaserFiche intellectual property can be stolen without our knowledge. The potential loss from unrealized sales is enormous.

The United States is increasingly becoming dependent upon technology exports as a key part of American trade. Our government must work with the world community to rigidly protect American companies' intellectual property from theft in foreign countries. This is our highest priority.

Many nations where we do business experience daily currency swings, making it difficult for exporters to price their products to be competitive. This is an historic problem, but we encourage the Treasury and State Departments to encourage our world trading partners to take necessary steps to stabilize their economies and currencies.

Our international business depends also on the easy passage of our overseas resellers, customers and employees to the U.S. For training, consultations and to consummate sales.

New security programs have made travel more difficult. We request help to enable our international business partners, customers, employees to come to California quickly for timely training and meetings.

I appreciate the opportunity to present this testimony on behalf of LaserFiche, and would be happy to answer any questions you have.

Chairman TOOMEY. Thank you very much for your testimony.

[Mr. Wacker's statement may be found in the appendix.]

Chairman TOOMEY. I'll begin with just a few questions that I have. My first question is actually for Mr. Josephson.

As you are no doubt aware, I think it was last year, Congress passed and the President signed a new Ex-Im Bank reauthorization legislation, and as it happens, I sit on the Financial Services Committee and on the Subcommittee that has jurisdiction over that, and had some hand in drafting some of the provisions, actually one of which is not terribly popular with the folks over at Ex-Im Bank, but that's besides the point.

My question is, overall and on balance, do you have any worries or concerns about implementing the new provisions and the new reauthorization legislation, or are you confident that it's going to be pretty much business as usual?

Mr. JOSEPHSON. Can you hear me okay?

Chairman TOOMEY. I can hear you.

Mr. JOSEPHSON. Good.

Let me just give you a little sort of a background answer to it.

Of course, we are a sunset agency and our charter is reviewed about every four or five years by Congress for renewal, and we have been successively renewed every year since 1932.

You know, with each renewal, there are changes to the charter and things that have been added; for example, economic impact issues must be more closely examined now, and environmental issues also.

I would say that, you know, the question is a little bit above my pay grade, to tell you the truth, but I would say business is going on as usual. I mean, I have our up-to-date numbers that we have done this year to date, and we are on track for a similar year as we did last year.

Chairman TOOMEY. Okay. Maybe I should just be a little more specific.

Do you have any reason to believe that anything in the new legislation will curtail your ability to execute the transactions that you'd like to be engaging in?

Mr. JOSEPHSON. Well, legislation by nature curtails our ability to transact and so, for example, you know, economic impact issues do

curtail the speed with which we can transact, and things in our charter are such that we may not compete with the private sector. This limits what we can do. It makes us slower to respond to a financial need and a requirement.

So I guess what I'm trying to say is that the simpler—in international trade and finance, or even in domestic finance, the simpler that one can make the process, the quicker it goes, and of course time is money in business. And so, you know—well, I think that's my answer.

Chairman TOOMEY. Thank you very much.

I have a question for Mr. Wacker as well.

First, I'm just impressed. I always enjoy learning about a business model that would never have occurred to me in a million years. I congratulate you on the success in discovering and developing this niche that you have.

You pointed out some very important concerns that we in Congress, I think, need to be very concerned about—intellectual property rights protection, currency fluctuation is obviously something much more difficult for us to control, but we can indirectly influence, and I think we should very strongly encourage stable currency policies on the part of our trading partners.

My question for you is—it strikes me that your product could be described as either a product or a service. It's probably both. But are there any of the trade agreements that we are currently contemplating, any countries with which you would like to be able to pursue business, but in which there are tariffs or other nontariff barriers to your product?

Are there any specific areas where it would be helpful to your business for us to focus on reaching a either bilateral or multilateral trade agreement? Any country you have in mind? Any mechanisms that are used to keep your products out? You know, what should we be doing on the trade front to help you sell more products overseas?

Mr. WACKER. Well, to my knowledge, in the countries in which we do business, we don't encounter tariffs. What we do encounter is—well, we have offices in these four countries, and in those countries, it's often difficult to take cash out of the country. That's where we run into governmental restrictions and taxation.

Chairman TOOMEY. When you say it's difficult to take cash out, do you mean to repatriate profits for an American subsidiary that's overseas, or are you referring—

Mr. WACKER. Yes, that's correct.

Chairman TOOMEY. Do you actually have subsidiaries in these countries?

Mr. WACKER. Yes.

Chairman TOOMEY. So you have got investments there, you have profits there, and you face capital flow constraints in terms of moving that capital where you need it to be. Is that a fair—

Mr. WACKER. That's correct, yes.

Chairman TOOMEY. Well, this is one of the disincentives to foreign investments that countries impose upon themselves, and of course, as you know, that continues to be a priority in our trade negotiations, but I appreciate that.

I'm happy to yield and recognize the gentlelady from California for her questions.

Ms. MILLENDER-MCDONALD. Well, I tell you, this has been quite an interesting panel, and, in fact all panels have, but Mr. Wacker, your intellectual property comments really struck, I think, the cord of both the Chairman and this Ranking Member, because oftentimes when we do legislation, we protect the larger companies, but we do not look at the smaller companies in protecting you against intellectual property.

This is something that I think Congress has to look at with reference to that, and then your capital flow and capital control is what I spoke with Dr. Haveman about. That is, indeed, another issue that we need to look at with reference to small businesses and the flow of capital or the control therein, in terms of your working with different countries.

I think, Mr. Chairman, that is something that we need to perhaps revisit as we return back to Congress next week, so that we can ensure that businesses such as your company, which is a niche company and certainly one that is very innovative, will not come up against some of the problems and some of the issues that—perhaps through legislation we can perhaps clear the way for you.

I would like to impose upon my Chairman to have us engage in that conversation with the Committee when we return back.

Mr. WACKER. Well, thank you, Congresswoman.

If I might add, also, as a small company, we don't have the muscle or the clout that larger companies like Microsoft does.

Ms. MILLENDER-MCDONALD. Of course not, right.

Mr. WACKER. So any help you could give us would be—

Ms. MILLENDER-MCDONALD. Absolutely. This is what my consultants and I were just—you saw me talking back and forth, and as we listen to you, we are talking back and forth, because we are noting some of the things you are saying so we can return back to Washington and engage in conversation and dialog on it. Absolutely, we have taken that under advisement.

Mr. WACKER. Thank you.

Ms. MILLENDER-MCDONALD. Mr. Davis, thank you so much for representing the Governor's office here today.

My question to you, if manufacturing jobs have left and are leaving, as they are at a rapid pace, and going to other countries, and high tech has reached an all-time low here in California, what countries and markets can California look to for international trade in creating the jobs that we need here in this region?

Mr. DAVIS. Always an interesting question to attempt to answer. I can really give you what my opinions on this are and from what I have seen, as opposed to trying to give an administration view on it.

Obviously, I think it was stated many times here today that right now our greatest trading block is with Asia and the opportunities that we foresee in Asia are numerable and very, very fruitful, we believe.

The industries in this state continue to blossom. The technologies that continue to emerge are in the IT and Telecom sector, but really looking towards more emerging and industries that are sort of in those nascent stages at this point, like the life sciences.

For example, the Governor mandated in his inaugural speech the Life Science Initiative. It has been going on throughout the state to help not only promote and stabilize, but build on the leadership that this state currently has in the biosciences. Summits have been held in San Francisco, San Diego, Los Angeles, and currently there's going to be one September 30th in the Sacramento/Davis area.

The idea behind these are to build ten-year strategic plans regionally and then to take that and develop a state-wide strategic plan, so as far as trying to directly affect positive growth in exports for specific industries, and two specific markets, those types of programs are in place and are being worked on as we speak.

Ms. MILLENDER-MCDONALD. In speaking with the two, the initial two panelists from the institute, Public Policy Institute, they recognize that Asia is our largest market, and you are saying there are trading blocks.

What are those trading blocks that will circumvent us from going full—

Mr. DAVIS. I'm sorry. When I said "trading blocks," I meant that region. I didn't mean there were blocks to trade.

Ms. MILLENDER-MCDONALD[continuing]. Oh, okay.

Mr. DAVIS. I wasn't referring to tariff or nontariff barriers. I was just initially sort of outlining that area of the world.

Ms. MILLENDER-MCDONALD. All right. I have it.

I'm trying to look to see if I—I wrote all over the place here in my notes.

Mr. JOSEPHSON, you mentioned that you approved over 2,000 small business transactions which represent 85 percent of all of your transactions.

What type of businesses are we referring to there?

Mr. JOSEPHSON. Well, if I may just—I have a report here from your district, Madam Congresswoman, and I can just read off some of the—I won't mention the names of the companies, but I'll be happy to share this with your staff later, but from Congressional District 37, we have—in the last five years, we have supported with the programs I mentioned exports of the following kinds of things: Engineering services, industrial—.

Ms. MILLENDER-MCDONALD. So that's a report you're going to give to me?

Mr. JOSEPHSON. Yes, ma'am.

Ms. MILLENDER-MCDONALD. I have it or will have it?

Mr. JOSEPHSON. Yes, ma'am.

Ms. MILLENDER-MCDONALD. Okay. Then I will look at it very carefully and respond back to you.

Also, my other question is what provisions should have been included in the Chile Free Trade Agreement to help small local businesses access the international market?

Mr. JOSEPHSON. Well, I'm personally not that familiar with the Chilean Agreement, but I am familiar in general with free trade agreements, and of course what they do is they start with whatever the tariff levels are between the countries, and they scale them down over a period of time to where you reach zero duties.

And it sort of goes back to my earlier comment, that the simpler you make trade, in my belief, the more it's going to happen, and

so I feel that, you know, that the Chilean Free Trade Association or Free Trade Agreement, I should say, with Chile, that's an excellent choice of countries, because, you know, it's a country that has an investment grade debt rating on its public debt. It's a diverse economy in the sense of the products—copper and fruit and maritime products and things—so I think the trade will increase with Chile as a result of that agreement.

Ms. MILLENDER-MCDONALD. And to my dear friend, Pat Unangst, thank you so much for being here.

This was the second Congressional hearing that we spoke about when we did the first one in Carson, but what are some of the issues that you believe small businesses need to concentrate on in order to increase competitiveness in the international market?

Ms. UNANGST. Well, I think mainly, Congresswoman, to take advantage of the many things that are out there. I mean, you have heard from many speakers today, and many small businesses don't even know about what the functions of the Export-Import Bank are.

Ms. MILLENDER-MCDONALD. Absolutely not.

Ms. UNANGST. And I think the biggest thing we can do as an agency and Congress can continue to do is assist in the marketing efforts to make businesses aware.

When you talk about nearly 93 percent of our businesses being under 50 employees, they don't have time to go out and go look for this stuff, so electronic availability, connections to Web sites, key Web sites, making sure that information is out there. We do workshop seminars with SBDC, the Small Business Development Center, which is an SBA arm, but it's just constantly getting the information out there, because resources are there, if we can connect the dots.

Ms. MILLENDER-MCDONALD. We sent a letter to the Governor with reference to SBDC networks and providing matching funds. I will send a copy of that letter to you for that.

Ms. UNANGST. Thanks.

Ms. MILLENDER-MCDONALD. I would like to thank all of you for being here today. It seems that time is never enough, that we have enough time to really go over these, but SBA, I would really like to engage you in further outreach to small businesses, so that they can know all of the great things that these folks who represent the agencies are doing and perhaps give us, shed some light on what we can continue to do in Congress to make small businesses be a force in terms of international trade.

We know now that that is the thing that must happen in order to create the jobs that have been lost to manufacturing.

Let me just please, Mr. Chairman, recognize Ramula Rivera, who is a representative of Congresswoman Linda Sanchez' office, and we want to thank you so much for being here, along with all of the others.

Mr. Chairman, again, thank you so much for traveling to California. You now know what we undergo, traveling twice a week from Washington to California, but we thank you so much for your sensitivity, your friendship, and your involvement in helping to create the climate for small businesses to flourish. Thank you again for being here.

Chairman TOOMEY. Thank you very much for inviting me.
I want to thank all of the witnesses for their very helpful testimony. At this time the hearing is adjourned.
[Whereupon, at 12:40 p.m., the Subcommittee was adjourned.]

**Subcommittee on Tax, Finance, & Exports
Field Hearing, Long Beach California
August 28, 2003
Opening Statement on Small Business Exporting and the Southern California
Economy**

Introduction

- Good morning. Thank you all for being here today as we examine small business exporting and the Southern California Economy.
- I would first like to thank the Ranking Member of our Subcommittee, Congresswoman Juanita Millender-McDonald, for inviting me to Long Beach California to be with you today.
- I have enjoyed working with you and I admire your dedication to your constituents.
- I look forward to working together with you in the future on the many issues facing our small businesses.
- I've often thought that our Committee, the House Small Business Committee, could teach a lesson or two to the entire Congress about bipartisanship.
- No other Committee in Congress works together as well as we do because we all, Democrats and Republicans alike, have exactly the same goal—creating an environment where all of America's small businesses can grow and prosper free from unnecessary government burdens.
- It's a pleasure to be here as we examine trade in the context of the Southern California economy.

- Despite being over 2,500 miles apart on different ends of our nation, California and my home state of Pennsylvania have a great deal of similarities.
- For example, California is the nation's largest state economy, Pennsylvania follows close behind in 6th.
- Both have dynamic economies with vast natural resources, strong agricultural communities and businesses ranging from basic manufacturing to high-technology development.
- Another critical part of each state's economy is trade.
- Both rely heavily on exporting products and services to nearly every nation around the globe.

Trade

- I am a passionate believer in free markets and free trade.
 - It is vital that we reduce trade barriers and level the international playing field – opening up foreign markets to American goods.
- Last year, after a tough fight, Congress passed the Trade Promotion Authority Act which is essentially an agreement between the President and Congress on how market-opening trade negotiations will be conducted and agreements approved.
- Trade Promotion Authority will energize efforts to remove artificial trade barriers, expand U.S. trade, and provide a real boost to entrepreneurs, our economy, and job creation.

- Under TPA, the President involves Congress in trade negotiations from the start; Congress in exchange, agrees to vote yes or no on any resulting agreement in its entirety, without amendments.
- The large number of countries that have lined up seeking to enter free trade negotiations with our country demonstrates the success and need for Trade Promotion Authority.
- Earlier this year, Congress passed both the Chilean and Singapore free trade agreements into law.
- I believe this is good news for California, Pennsylvania, and the rest of our nation.
- Not only is it two more countries ready, willing, and able to import American goods, free from inhibiting tariffs, it also sets a precedent for other nations to follow suit.

Advancing Both Local and National Interests

- In April of this year, I had the opportunity to speak in Philadelphia Pennsylvania at a Chilean Free Trade Agreement event hosted by the Chilean Ambassador to the United States, Andres Bianchi.
- While there, we discussed the fact that ships routinely arrive at the Port of Philadelphia full of Chilean winter fruit—unfortunately, they were leaving our ports and returning to Chile only partially loaded with locally manufactured products.
- I have no doubt that the docks here in Long Beach experience similar situations.

- Removing tariffs and other trade barriers will enable us to pack those ships returning to their home ports full of American products produced by American workers.

Today's Testimony

- In addition to examining trade and its effects on our economy, and particularly the Southern California economy, we're also going to be taking a look at Federal, state, and local assistance programs for those small business looking to become involved (or more involved in international trade.
- Which any CEO or CFO from any businesses in the United States will tell you is a daunting task, let alone a small mom and pop business armed only with web site and a connection to the Internet.

Conclusion

- I'd like to now yield to Ms. Millender-McDonald for her opening statement and witness introductions.
- Before I do, I would like to thank you again for the opportunity to hold this hearing in your district. I look forward to exploring this issue in greater detail.
- I know yield to the gentle lady from California, Ms. Millender-McDonald.

Howard J. Shatz¹
Public Policy Institute of California
August 28, 2003

Small Business and the Globalization of California's Economy

Testimony for the field hearing
"Small Business Exporting and the Southern California Economy"
Subcommittee on Tax, Finance, and Exports
Committee on Small Business
United States House of Representatives

Thank you for inviting me. My remarks are based on research conducted at the Public Policy Institute of California, an independent, nonpartisan research institute. PPIC does not take positions on legislation, but instead provides objective information for decision-makers and the general public as they consider policy issues.

I will discuss three main topics. First, I will give you the highlights of California's globalization story, concentrating on exports. Second, I will connect this story to what researchers have learned about extending the gains of trade to small firms. Finally, I will discuss trade assistance policy issues unique to California.

A Profile of California's Globalization

California has participated fully in the increased trade and investment that have come to be known as globalization, but the story of that participation is complex. Although California is neither the most globalized nor the least globalized state, a specific pattern characterizes its global economic interactions. California participates strongly in those dimensions of globalization that are among emerging trends.

¹ 500 Washington St., Suite 800, San Francisco, CA 94111, (415) 291-4409, shatz@ppic.org. The views presented here are those of the author and not necessarily those of the staff, officers, or board of directors of the Public Policy Institute of California.

The highlights of California's globalization can be summarized in five points. First, the state has strong connections with Asia, the most dynamic region. Second, California has a high level of services exports, a new phenomenon in the international economy. Third, its airports are important nodes in global goods movement, and air transportation represents an important new means to import and export. Fourth, California firms engage in production sharing, the manufacture of components and assembly in different locations under the control of one business network. Fifth, California is very strong in manufactured exports, particularly technology goods. Almost all these strengths define the major trends in economic globalization worldwide.

Let me give more details. I measure California's globalization in terms of foreign direct investment (FDI), port activity, and trade.² In terms of trade, I will concentrate today specifically on exports. Foreign direct investment is overseas investment for the purpose of controlling a business, such as a grocery store or a computer manufacturing plant. Port activity represents the services that the state's seaports, airports, and land border crossings provide to exporters and importers—not just from California, but also from other states. And trade represents the sale of goods and services to, or the purchases of goods and services from, foreign businesses or consumers.

Compared to the rest of the United States, California has less outward FDI relative to the size of its economy. California constitutes about 13 percent of the U.S. economy, but its firms own only about 8 percent of all foreign businesses owned by U.S. companies. Naturally, this proportion varies by sector – from less than 1 percent in primary and fabricated metals to 20 percent in computers.

² See Shatz (2003).

Although California's total outward FDI is low, its firms are particularly strong in two of the more dynamic areas of FDI: non-manufacturing industries and manufacturing industries that use production sharing. Production sharing is especially prominent in technology industries and in Asia. California's outward FDI is, as well, strong in the technology sectors and in Asia.

Like outward FDI, the level of FDI by foreign firms in California does not stand out. We can measure this with foreign ownership of property, plant, and equipment (PPE) and with the number of employees in foreign affiliates. Relative to the size of the economy, PPE levels are lower in California than in the rest of the nation, and the level of employment looks much the same as in the rest of the United States.

The industrial mix of California's inward FDI, however, is quite different. California has a much lower share of manufacturing FDI, but the state has a higher share of FDI in wholesale trade; information industries, such as publishing, motion pictures, and data processing; professional, scientific, and technical services; and a group that includes construction and transportation. Once again, in newer areas of globalization, such as wholesale trade and services, California is a leader.

Next we come to ports. California's ports play an important role in U.S. trade. The top two in California for *total trade* are the seaports of Los Angeles and Long Beach, and these have been number two and three in the country in recent years. In fact, they are important for global trade as well. When combined, they form the number three container port in the world behind only Hong Kong and Singapore.³

³ Containers are large steel boxes that can move on ships, trains, or trucks, and their use starting in the late 1950s has helped expand trade.

What makes the state a bit different, however, is that its top *export* gateways are Los Angeles International Airport and San Francisco International Airport. Of the total value of exports handled by all California ports in 2002, more than 52 percent moved by air compared to 29 percent for ports in the rest of the United States. In terms of the value of total trade, these two airports have been the seventh and eighth largest ports in the nation in recent years. Again, the goods handled by these ports are not necessarily made in California. Rather, they come from all over the country.

Now I will move on to trade, or more specifically exports, the focus of this hearing. I will concentrate on goods exports, although services exports are also important to the California economy. In fact, California's services exports are a larger proportion of its private economy than are services exports relative to the private economy of the rest of the United States. As well, U.S. Export Assistance Centers in California have become known for innovative efforts to increase services exports.

That said, manufactured exports are the stars of California's globalization. Relative to the size of the economy and even to the size of the manufacturing sector, they are far greater than manufactured exports from the rest of the United States. California's manufacturing sector constitutes between 11 and 12 percent of the U.S. manufacturing sector, but California's manufactured exports constitute 15 percent of all U.S. manufactured exports.

California exports are heavily tilted towards high-technology industries. In fact, about half of the manufactured goods that start their export journey from California are computer and electronic products. However, nearly every California manufacturing sector relies more on exporting than do the same sectors in the rest of the United States.

Many California firms do not export goods, but they do provide inputs for products that are ultimately shipped abroad. In one recent year, exports by California manufacturers directly supported 16 percent of all manufacturing employees in the state. But those manufacturers also used inputs from other California manufacturers to make those exports. Adding up the effects of direct exports and the inputs used to make them, exports actually supported almost 28 percent of California manufacturing workers. For the rest of the United States, this figure was less than 19 percent.

Out of 21 manufacturing sectors, ten in California supported a higher proportion of their workers through direct exports than did companies in those same sectors in the rest of the country. However, once again adding up the effects of direct exports and the other manufacturing activity that provided inputs, 17 California industries—nearly every manufacturing sector—supported a higher proportion of their workers through exports than did those same industries in the rest of the United States. Indeed, the effects go beyond manufacturing because other industries are involved in marketing and transporting manufactured exports. All told, manufactured exports supported almost 10 percent of California's private sector employment, compared to less than 7 percent for the rest of the United States. Even if they are not worrying about shippers export declarations or tariff rates in Mexico or Japan, California companies are affected by the health of the international economy.

These findings bear directly on Southern California, which hosts the largest part of the state's manufacturing economy. Under an expansive definition of the region (Imperial, Kern, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, and Ventura counties), Southern California has almost 63 percent

of the state's workers in manufacturing.⁴ Like manufacturing workers in California generally, those in Southern California depend on exports for their jobs.⁵

Let me summarize the five points that characterize California's globalization, and then move on to the role of small business in exports.

First, although California's business interests are global, the state is bound to Asia and therefore to Asia's economic health. California's ports ship disproportionately to Asia, its businesses export disproportionately to Asia, and its direct investors place more weight on Asia than do investors elsewhere in the United States.

Second, California sells services to the world, not just goods. Services entered international economic rules only in the 1990s. The California economy is solidly part of this new phenomenon.

Third, California fits into the global shipping industry through its airports, not just its seaports.

Fourth, the world has moved towards production sharing, and California is part of this movement with its outward FDI in Asia, its investment and production in the computer industries, and the trade through its airports.

Fifth, California's manufacturers depend on exports. Although about half of the state's manufactured exports are computers and electronics, nearly every manufacturing industry in California supports a higher proportion of its workers through the state's export activity than do the same sectors in the rest of the United States.

⁴ This region includes Congressional Districts 20 through 53, except for 21 and parts of 20 and 25.

⁵ Data are from the California Employment Development Department (2003).

Extending the Gains of Trade to Small Firms

Throughout the United States, small businesses are heavily involved in exports.⁶ In fact, they are involved with about 30 percent of all merchandise exports. Likewise, small businesses are a part of the California export story. Small manufacturers make up a higher proportion of all exporting manufacturers in California than in most other states. If you randomly picked a manufacturing exporter in California and one from the other states, the California exporter would be more likely to be a small business.

Furthermore, in Southern California, small business is very involved in manufacturing. Unfortunately, I cannot say with certainty the number of small-business manufacturing exporters in Southern California. In one recent year, however, 59 percent of all workers in manufacturing in the region's major metropolitan areas worked in small businesses, compared to 55 percent for the state as a whole.⁷

Although we often focus on manufacturers that export, most of the small businesses that ship exports are not manufacturers. Rather, they are wholesalers or firms in other industries that facilitate merchandise exports.

These small, specialized businesses are extremely important to the export process. Many small manufacturers do not have the time or staff to investigate markets or carry out the procedures for moving their goods overseas. Therefore, the companies that specialize in export procedures and sales take up the slack, opening foreign markets to California's small manufacturers. When thinking about small businesses and exports, it

⁶ Much of the information on small business involvement in the international economy for the United States and California is drawn from U.S. Small Business Administration (1998), U.S. Department of Commerce, International Trade Administration (1999 and 2001), and U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Division (2003).

⁷ Data are from U.S. Small Business Administration (2003).

is therefore important to remember that exporting creates opportunities for small service firms as well as small manufacturers.

It is likely that the number of non-manufacturing small businesses that facilitate exports is very high in California. Because some of the nation's leading ports are in California, other sorts of firms—wholesalers, jobbers, freight forwarders, and third-party logistics companies—are active here.

Therefore, regarding all types of firms involved in exports — that is, manufacturers, wholesalers, and other trade facilitators – almost 94 percent of all the exporters located in California were small or medium-sized firms. Of course, because they are small, the value of their exports is not quite as lofty as their sheer numbers, but in one recent year, they still handled more than one-third of all exports traced to California exporting firms.

Trade Assistance Policy and California

So far I have discussed California's globalization profile, focusing on exports, and the role that small businesses play in that profile. I would like to conclude by discussing how export assistance might help Southern California's small businesses. Although, I do not have specific policy proposals, subsequent speakers who specialize in delivering trade assistance may have specific ideas. Rather, I will present a set of broad principles.

Is there a case for encouraging exports? It has often been noted that exporters are more productive and pay higher wages than non-exporters, but this does not necessarily mean that exporting makes a firm more productive. Recent research has shown that good firms become exporters rather than the other way around. However, exporting does

appear to have benefits. In particular, it appears to lead to higher job growth and longer lives for the establishments that export, two characteristics that can bring stability and prosperity to an economy.⁸

Insofar as federal assistance really can help exporters, the environment in California may be extremely inviting now. It looks as if all of California's trade programs have been scuttled under the new state budget, creating a gap in assistance. These California programs included offices that handled export finance and export promotion as well as 12 trade offices in foreign countries. Certainly the efficacy of these programs has been questioned. In fact, research on state policies generally has found few significant effects on the level of overall exports.⁹ At times, however, some state programs, including those of California, have been highly praised. Out of the success stories in both the United States and Europe, several principles have evolved regarding small businesses and exporting.¹⁰

Although there may be an urge to reach out to all small businesses, research questions this approach. Rather, clients should be carefully chosen. This selectivity relates to the issue of whether exporting causes firms to be productive and profitable or whether good firms become exporters. When it comes to assistance, it is important to choose strong firms. Working intensively with all firms that ask for help is not likely to be effective and could even create problems for some firms by causing them to use scarce resources when they are not export-capable.

⁸ Bernard and Jensen (1999).

⁹ See Bernard and Jensen (2001), Coughlin and Cartwright (1987), Simpson and Kujawa (1974), and Wilkinson and Brouthers (2000). Other papers, not cited, mirror these conclusions.

¹⁰ See Council of State Governments (2000), Kudrle and Kite (1989), McNiven and Cann (1993), Mittelstaedt, Harben, and Ward (2003), Nothdurft (1992), and Simpson and Kujawa (1974). Interviews with trade officials and other papers, not cited, mirror these conclusions.

In working with clients, public-private partnerships appear to be most effective. Examples include export finance guarantees, subsidies or soft loans to hire an export consultant, and collaboration with private groups to identify “export-ready” firms and to train “export-willing” firms. Although the state’s programs are folding, there are still plenty of organizations in California that can cooperate to assist exporters. These include the Centers for International Trade Development at the California Community Colleges, four private World Trade Centers, a number of international trade associations, and the network of U.S. Export Assistance Centers. Coordination among these various programs might fill some of the gaps left by the demise of the state’s programs.

The division between export-willing and export-ready firms is also useful in designing the specific types of assistance. General educational efforts can teach export-willing firms the mechanics of exporting and make them more aware of foreign market opportunities. Carefully tailored assistance appears much more effective with export-ready firms. Among governmental programs, sector-specific programs appear to show the best results. Examples of sector-specific programs include the Energy Technology Export Program of the California Energy Commission, agricultural export programs that numerous states sponsor, and assistance with services exports given by the Services Team of the U.S. Commercial Service.

Summary

California’s manufacturing companies ship to foreign markets in a variety of ways. They export directly. They export through facilitators, such as wholesalers or other marketing firms. They also sell inputs to exporters, indirectly depending on foreign

markets. Many of California's exporters are small businesses, whether they are manufacturers or trade facilitators. And compared to their counterparts in the rest of the United States, California's manufacturing workers depend more on exports.

Throughout the United States, state governments try to help their small manufacturers export. But in California, it now looks as if this assistance will disappear. Because of the demise of the state's export programs, there may be a rare opportunity for federal agencies to rethink their links to other trade organizations in California in order to help the state's high-productivity manufacturers find new opportunities abroad.

References

- Bernard, Andrew B., and J. Bradford Jensen, "Exceptional Exporter Performance: Cause, Effect, or Both?" *Journal of International Economics*, Vol. 47, No. 1, 1999, pp. 1-25.
- Bernard, Andrew B., and J. Bradford Jensen, "Why Some Firms Export," Cambridge, Mass.: National Bureau of Economic Research Working Paper W8349, July 2001.
- California Employment Development Department, *Labor Market Information: Employment by Industry Data*, Sacramento, Calif., 2003. Data available in file 0allhaw.exe, <http://www.calmis.ca.gov/file/indhist/0allhaw.exe>.
- Coughlin, Cletus C., and Phillip A. Cartwright, "An Examination of State Foreign Export Promotion and Manufacturing Exports," *Journal of Regional Science*, Vol. 27, No. 3, 1987, pp. 439-449.
- Council of State Governments, *An Assessment of States' International Capacity*, Washington, D.C., 2000.
- Kudrle, Robert Thomas, and Cynthia Marie Kite, "The Evaluation of State Programs for International Business Development," *Economic Development Quarterly*, Vol. 3, No. 4, November 1989, pp. 288-300.
- McNiven, James D., and Dianna Cann, "Canadian Provincial Trade Offices in the United States," in Douglas M. Brown and Earl H. Fry, eds., *States and Provinces in the International Economy*, Institute of Governmental Studies Press, University of California, Berkeley, and Institute of Intergovernmental Relations, Queen's University, Kingston, Ontario, Canada, 1993, pp. 167-83.
- Mittelstaedt, John D., George N. Harben, and William A. Ward, "How Small Is Too Small? Firm Size as a Barrier to Exporting from the United States," *Journal of Small Business Management*, Vol. 41, No. 1, 2003, pp. 68-84.
- Nothdurft, William E., *Going Global: How Europe Helps Small Firms Export*. Washington, D.C.: The German Marshall Fund of the United States and The Brookings Institution, 1992.
- Shatz, Howard J., *Business Without Borders? The Globalization of the California Economy*, San Francisco, Calif.: Public Policy Institute of California, 2003.
- Simpson, Claude L., and Duane Kujawa, "The Export Decision Process: An Empirical Inquiry," *Journal of International Business Studies*, Vol. 5, No. 1, Spring 1974, pp. 107-117.
- U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Division, *A Profile of U.S. Exporting Companies, 2000-2001*, Washington, D.C., 2003.

- U.S. Department of Commerce, International Trade Administration, *Small & Medium Sized Exporting Companies: A Statistical Profile. Results from the 1997 Exporter Data Base*. Washington, D.C., 1999.
- U.S. Department of Commerce, International Trade Administration, "California Benefits from Exports," Washington, D.C., 2001.
- U.S. Small Business Administration, Office of Advocacy, *Exporting by Firm Size*, Washington, D.C., 1998.
- U.S. Small Business Administration, Office of Advocacy, *Firm Size Data: Statistics of U.S. Businesses and Nonemployer Statistics*, Washington, D.C., 2003. Available at <http://www.sba.gov/advo/stats/data.html> (last modified March 25).
- Wilkinson, Timothy J., and Lance Eliot Brouthers, "An Evaluation of State Sponsored Promotion Programs," *Journal of Business Research*. Vol. 47, 2000, pp. 229-236.

**Foreign Tariff Reductions and Southern California's
Small and Medium-Sized Exporters**

Jon D. Haveman¹
Public Policy Institute of California

Testimony prepared for the field hearing of the
Subcommittee on Tax, Finance, and Exports of the Committee on Small Business of the
United States House of Representatives

"Small Business Exporting and the Southern California Economy"

Thank you for inviting me to participate in this important hearing. My remarks today are based on research conducted at the Public Policy Institute of California, an independent, nonpartisan research institute. PPIC does not take positions on legislation, but provides objective information for decision-makers as they consider policy issues.

The current downturn in global economic activity has clearly taken its toll on California's exporters. In 2002, California exported 23 percent less than it did in 2000. Through the second quarter of this year, California's exports experienced a further decline relative to the same period last year. What I am going to talk about today is the potential importance of federal international policy initiatives for stimulating California's exports. I will then discuss their implications for small and medium-sized enterprises in Southern California.

The basis for this testimony is recent work in which I have explored the U.S. international policy agenda and the extent to which it is likely to boost U.S. exports, with an emphasis on the extent to which California's exporters will share in the benefits.²

There are certainly other elements of this complicated policy mosaic that are left out of

¹ 500 Washington St., Suite 800, San Francisco, CA 94111, (415) 291-4439, havemen@ppic.org. The views presented here are those of the author and not necessarily those of the staff, officers, or board of directors of the Public Policy Institute of California.

² Haveman (2003).

attributed to the success of former President Bush in negotiating NAFTA. It has been argued that the European Union was more forthcoming with concessions on agricultural protections and subsidies once it realized that the United States was prepared to obtain market access elsewhere.

The current administration's multilateral prong consists of the Doha Round of negotiations under the auspices of the World Trade Organization, so named because they were launched in Doha, Qatar in November of 2001. These negotiations have the potential to produce significant results for California exporters. Indeed, the Bush administration has offered a proposal to eliminate all of the world's tariffs. I have analyzed the effects of this proposal on both California exports and exports from the rest of the country. The bottom line for California is fairly significant; its manufacturing exports could increase by as much as \$27 billion if all the world's tariffs were eliminated. This is an increase of about 24 percent over exports in 2000, whereas exports from other states would increase by only 20 percent.

The vast majority of the increase in California's exports would be in the high-technology sectors, but significant increases would also occur in transportation equipment and chemicals. The countries to which these increased exports would flow are highly concentrated in Eastern and Northern Asia, which account for almost three-quarters of the increased exports, most of which would be absorbed by Korea, China, and Taiwan.

Perhaps a more startling finding is that exports to Canada and Mexico would actually decline by about 8 percent. But the explanation for this finding is straightforward. The decline would occur because U.S. exporters would lose the

Although important for various reasons, none of these regional initiatives is of great significance for California's exporters. The FTAA is worth less than \$4 billion in increased exports, a relatively small portion of the \$27 billion potential. The CAFTA and SACU initiatives are even less important. The CAFTA is unlikely to increase California exports by more than \$60 million, and SACU by no more than \$250 million. The current set of regional initiatives, therefore, represents no panacea for California's exporters.

The final prong of the administration's agenda is made up of several bilateral initiatives. The administration has been pursuing, or has recently signed, agreements with various countries. Recent signings include those with Singapore in May and Chile earlier this spring, both of which were recently passed by Congress. Agreements with Morocco and Australia are both in the early stages.

Unfortunately, these agreements are also unlikely to expand California's exports significantly. Although Singapore and Australia are significant markets for California's exports—the 11th- and 13th-ranked export destinations, respectively—neither agreement will give a significant boost to California exports. Singapore is an important market, but its formal barriers to trade are already very limited. This agreement, therefore, is more important for California firms looking to invest abroad and for companies providing services internationally than it is for exporters. As for Australia, it is a smaller market with relatively low barriers. California's exports are expected to expand by just under \$650 million should the agreement become reality.

In the end, the WTO negotiations hold the most promise for California exporters. Largely because of their size or geographic location, California has not so far exported great quantities to many of the markets targeted in the regional and bilateral initiatives,

date has generally stuck to this principle, which has also guided the WTO negotiations, though APEC has accomplished relatively little in recent years.

What does all of this mean for Southern California's exporters—in particular, its small and medium-sized manufacturers? In my remarks, I will be using a relatively broad definition of Southern California. The geographic area, which includes Congressional Districts 20 through 53 excluding 21 and parts of 20 and 25, ranges from Kern County in the north to Imperial County in the South – or all those counties below the sixth standard parallel. More specifically, I will be referring to employment and establishments located in Metropolitan Statistical Areas (MSAs) included in these districts. As the vast majority of California's manufacturing takes place within these MSAs, these data generalize quite easily to the broader region.

Manufacturing firms in this region account for two-thirds of all such firms in California. They also employ just under two-thirds of all manufacturing workers in the state.³ In 2000, there were 32,746 manufacturing establishments in the region, employing some 1.1 million people. The Los Angeles-Long Beach Metropolitan area alone accounts for just over half the region's total of both establishments and employees.

Of these Southern California manufacturing establishments, more than 90 percent employ 500 or fewer workers. Employment in these establishments accounts for just under 60 percent of the region's manufacturing employment, totaling 674,000 workers. By way of contrast, the rest of California employs only 268,000 workers in small or medium-sized manufacturing establishments, which is less than the 384,000 employed in the metropolitan area including Los Angeles and Long Beach.

³ U.S. Small Business Administration (2003).

Table 1

Foreign Tariff Liberalization and California Exports

		Expansion of California exports (billions of dollars)			
2-digit SIC Code	Industrial sector	Industry employment in Southern California (%)	Total	Southern California	Southern California SMEs
20	Food and Kindred Products	40.0	2.0	0.80	0.47
28	Chemicals and Allied Products	66.8	1.3	0.87	0.51
35	Industrial Machinery and Equipment Electronic & Other Electric	46.0	7.6	3.50	2.06
36	Equipment	47.0	7.2	3.38	2.00
37	Transportation Equipment	80.7	1.2	0.97	0.57
38	Instruments and Related Products	42.5	3.0	1.28	0.75
Total in above industries			22.3	10.80	6.37

Source: Calculations by the author using data from the U.S. Department of Labor (2003) and Haveman (2003)

A similar exercise can be carried out for some of the trade agreements currently being pursued. Success in APEC would bring about an expansion of SME exports in Southern California of just under \$5.4 billion, nearly all of the benefits of the worldwide tariff liberalization. Other important arrangements for the United States include the FTAA and the other bilateral negotiations mentioned earlier. None of these, however, is terribly important for SMEs in Southern California. The most far reaching initiative, the FTAA, is expected to increase California's exports by no more than \$4.6 billion. This translates to an increase in the demand for exports from Southern California's SMEs of just over \$1 billion. This is about 3 percent of total exports from California's SMEs, which is loosely estimated at just over \$34 billion.

Such estimates raise the question of what is likely to come about. The complete elimination of foreign tariffs is unlikely to happen anytime soon. Prospects for the completion of the APEC mandate have been reduced drastically, first because of

References

- Bernard, Andrew B., and J. Bradford Jensen, "Why Some Firms Export," Cambridge, Mass.: National Bureau of Economic Research Working Paper W8349, July 2001.
- California Employment Development Department, *Labor Market Information: Employment by Industry Data*, Sacramento, Calif., 2003. Data available in file 0allhaw.exe, <http://www.calmis.ca.gov/file/indhist/0allhaw.exe>.
- Haveman, Jon D., *Foreign Tariff Reductions and California Exports*, Public Policy Institute of California, San Francisco, California, 2003.
- U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Division, *A Profile of U.S. Exporting Companies, 2000-2001*, Washington, D.C., 2003.
- U.S. Department of Commerce, International Trade Administration, *Small & Medium Sized Exporting Companies: A Statistical Profile. Results from the 1997 Exporter Data Base*. Washington, D.C., 1999.
- U.S. Department of Commerce, International Trade Administration, "California Benefits from Exports," Washington, D.C., 2001.
- U.S. Department of Labor, Bureau of Labor Statistics website: <http://data.bls.gov/labjava/outside.jsp?survey=ew>, 2003.
- U.S. Small Business Administration, Office of Advocacy, *Exporting by Firm Size*, Washington, D.C., 1998.
- U.S. Small Business Administration, Office of Advocacy, *Firm Size Data: Statistics of U.S. Businesses and Nonemployer Statistics*, Washington, D.C., 2003. Available at <http://www.sba.gov/advo/stats/data.html> (last modified March 25).

*Testimony
of*

J. Adalberto Quijada
*Deputy District Director
Los Angeles District Office
U.S. Small Business Administration*

*Before the
House Subcommittee on Tax, Finance, and Exports*

FIELD HEARING

**“Small Business Exporting and the
Southern California Economy”**

Long Beach, California

Thank you very much Congresswoman Millender-McDonald. It truly is a pleasure and an honor to testify before you this morning. I am confident that we can provide substantive information regarding how we can help small and medium-sized exporters (SMEs) effectively compete in the global marketplace.

Allow me to first say that Administrator Barreto asked that I convey his personal good wishes to you and that I underscore to you his sincere commitment to continue to work closely with your Committee on the many important challenges facing our Nation's small businesses.

I am Adalberto Quijada, Deputy Director of SBA's Los Angeles District Office. Our office covers the California counties of Los Angeles, Santa Barbara and Ventura. I am proud to report that under the stewardship of our District Director, Alberto G. Alvarado, we have forged our staff into a highly efficient operation and created an economic development network which creatively thinks "outside the box" and has been recognized for our best practices, national models, and reinvention efforts. We are acknowledged as the "Outstanding Capital Access Division" among the SBA's 100 field offices.

I would like to take a quick moment to present our local management staff that run, what I believe to be, one of the most effective government operations in the country. Our entire Management Team is here today at the disposal of your constituents. In addition, we have several of our district office staff members here also. They will be available to answer personal questions when the Field Hearing is over.

As you know, there are areas that present both challenges, and from SBA's perspective, opportunities for our small, minority and women-owned firms and international trade businesses. I should say that while my comments today will reflect considerable activity in these areas, Administrator Barreto and I clearly understand much remains to be done in reaching out to our Emerging Markets, engaging our banks to increase lending activity, helping those who have not yet availed themselves of our SBA services, and developing our client's export business.

Now, let us move to the matter at hand and address how we, the SBA, can help SMEs prosper in the international trade arena:

Access to Capital

The Los Angeles District Office is SBA's No. 1 lending office for the last six consecutive years. Over the last four years we have provided \$3.2 billion to 9,950 businesses in Los Angeles, Santa Barbara and Ventura counties. We are particularly proud of the fact that we have also led the country in lending to both minority entrepreneurs, with \$1.6 billion to 6,215 businesses over the past four years, and \$610 million to 2,320 women entrepreneurs during the same period. Over

the last three year period we have provided \$128 million in financing to 381 businesses in your district.

Overall during this past fiscal year, we again led the country in approving nearly \$1 billion in loans to 2,964 businesses, including \$456 million to 1,535 minority-owned businesses and \$147 million to 613 women-owned businesses. In this time of national security concerns, we were the No. 1 office among our 70 field offices in the nation, lending \$70 million to businesses owned by 221 Veterans. We estimate that our financing efforts helped to create or retain 33,500 jobs in our tri-county service territory.

These accomplishments have been attained through a multi-faceted, proactive and nationally recognized "Community Lending and Outreach Campaign". For example, we take bankers on bus tours of Emerging Market communities to observe credit opportunities and understand those communities. We also conduct "Hit the Streets" campaigns where teams of SBA professional staff along with bankers and chamber of commerce executives personally travel door-to-door to visit local businesses.

We are proud of our office's many capital access success stories such as Amgen at the national level. It is one of the world's largest bio-med firms that have developed exciting new pharmaceuticals. Locally, Conroy's Flowers and Marie Callender's Bakeries and Restaurants started out with SBA help. In your district, Centron Industries and Melador Tech in Carson and Aero Chip in Gardena have achieved outstanding success.

Technical Assistance

SBA has long recognized that along with the need for capital, our small business entrepreneurs also need guidance and counseling with regard to the many aspects of their business operations. Accordingly, we are proudly committed to going "into the community where the businesses are" to provide technical assistance through seminars, workshops, conferences and, importantly, through one-on-one consultations.

This past year alone we reached over 18,000 individuals with training on such topics as starting a business and developing a business plan, capital acquisition, marketing, and new business technologies, including website design. Additionally, we conducted over 120 specifically targeted sessions for minority and women business owners.

Our extensive "Technical Assistance Network" involves an array of partnerships with local organizations, ethnic and area chambers of commerce, lending institutions and other community based organizations. For example, we have partnered with ten nearby chambers of commerce, including Long Beach, Torrance, and Compton to provide entrepreneurial training. To complement these efforts, our Marketing and Outreach Specialists are empowered with the mandate to reach our constituent's enterprises and provide them with technical assistance and capital access specifically designed to meet their particular needs, regardless of the business size or location.

Through our five SCORE Chapters, a team of experienced and successful retired entrepreneurs provide counseling and training in 50 locations throughout Los Angeles county. One of our former SCORE and BIC clients, Tammy Dickerson, founder and owner of The Baker Group, was our Home based Business Advocate winner for the 2003 Small Business Week Awards competition.

Procurement

Let me next touch on one very important area and that is our efforts to provide access for our local small businesses to the vast multi-billion dollar Federal marketplace. Whether it is through our 8(a) contracting seminars, many done in conjunction with L.A. County's Office of Small Business and the City of L.A.'s Minority Business Opportunity Committee; HUBZone and 8 (a) workshops attended by 200 area entrepreneurs; or our "Small Business Showcases" before major Prime Contractors, such as Boeing, TRW, Raytheon, Aerojet and Northrup Grumman, we continually seek to inform our small, minority and women owned businesses how to access Federal buyers and similarly those buyers, about the expertise of our small business community.

Just one of our contractor events, in this instance our yearly High-Tech Procurement Conference directed at small, minority and women-owned firms and co-sponsored with NASA's Jet Propulsion Laboratory, featured a remarkable 1,203 firms and 200 procuring activities. Among the 1,404 attendees were 578 minority and women owned businesses, 72 veteran owned businesses, and 76 HubZone businesses. The event was an overwhelming success.

We are very proud to report that in California's 37th Congressional District Government contracts worth \$8 million were awarded this past year and portfolio training was provided. You may recall that last year Pacific Harness in Lynwood was selected for the prestigious Executive Education Program at Clark Atlanta University. In addition, as we look back at L.A. in the decade after the 1992 civil unrest, SBA's Los Angeles District Office is proud to note that we have provided \$405 million in financing to 1,248 businesses in our HubZone and surrounding communities. This is a record that no other SBA office in the country can match.

Media Outreach

We have also made effective and judicious use of the electronic and print media in various forms to advertise the availability of SBA services, especially in our Emerging Markets. In this regard, we have also led the country in generating 50 success stories (425% over the required target) during the past two years. Many of these stories involve minority and women entrepreneurs and have been featured in the L.A. Sentinel, La Opinion and the Korea Times, as well as, on NBC Nightly News, CNN and CBS Radio. This exposure certainly helps small businesses find out about our services and utilize them to grow and prosper.

Export Assistance

And now, it is with pleasure that I address the critical area of international trade. As you well know, more than 96% of U.S. exporters are small or medium sized and two thirds of these have fewer than 20 employees. These SMEs, however, are responsible for only about 30% of U.S. exports

Before I state how the SBA can help exporters get started and grow, allow me to tell you about our district office's accomplishments. Last year we were the top SBA office in the country in export financing approving 43 Export loans for \$24.1 million, twice the output of the second place office. In fact, we have been the number one SBA office nationwide for four of the last five years approving 193 export loans for \$73.2 million. I am also pleased to report that in your 37th Congressional District since 1992 we have approved 22 export loans for \$10.3 million.

Let's next discuss how we can directly help existing and prospective exporters. First, our SBA Export Working Capital Loan Program (EWCP) provides short term, transaction based financing to assist experienced U.S. exporters to fulfill specific export contracts. Funds may be used to purchase inventory, raw materials, or labor directly related to the specific export sale. Once the goods are shipped, the payment remitted from the foreign buyer is assigned directly back to the lender to retire the loan, with profit returned to the exporter. Loan maturities typically range from 3 to 12 months.

There is also the SBA Export Express loan program that provides greater flexibility in the use of proceeds. Funds up to \$250,000 may be used for any purpose which will enable an American company to enter a new export market or expand an existing export market. Examples may include purchase of machinery, equipment, or real estate necessary to assist with export development; or to fund export promotion activities such as travel to overseas trade events, or translation and printing of company literature into a foreign language.

Finally, our SBA International Trade loan (IT) may be used to acquire, construct, renovate, modernize, improve or expand facilities and equipment to be used in the United States to produce goods or services involved in international trade; and/or to develop and penetrate foreign markets. Funds may also be used to provide permanent working capital. The SBA can guarantee up to \$1,250,000 for a combination of fixed-asset financing and EWCP assistance. Like the Export Express guarantees, these loans are fully amortized from 7 to 25 years, and repayment ability typically must be demonstrated by adequate historic and/or projected future cash flows of the borrower. As you can see Congresswoman Millender-McDonald, the SBA stands ready to assist the export community with three time-honored export financing tools.

Now let's take a look at two of our recent success stories. The Korea Crest Company of Torrance, an exporter of piping insulation and industrial chemicals founded in 1993, received the first ever SBA Export Express Loan in California in 2001 used in part to fund travel and trade promotion expenses associated with attending the 13th International Conference & Exhibition on Liquefied Natural Gas in Seoul, Korea. The SBA Export Express loan has played an important role in the expansion of the company's export marketing strategy. While at the trade show President and Founder Peter Kim was introduced to promising new business contacts from

Malaysia, Taiwan, and Indonesia. Thanks in large part to SBA export financing, annual sales have increased from \$323,000 in 1999 to nearly \$3 million last year. Our District Office honored Korea Crest as our Exporter of the Year for this year's annual Small Business Week Awards competition.

James Neitz and Stephen Abbey founded Allied Logistics in 1993 to provide overseas markets with late product cycle components for military aircraft and equipment that were no longer supported by original equipment manufacturers. Their firm headquartered in Ventura generated first year sales of \$168,000. As the company rapidly grew, they soon needed additional capital to finance new export customers. Their problem was a lag in payment due to overseas port of entry inspections that resulted in cash flow challenges. In 1995 Allied Logistics turned to the U.S. Small Business Administration (SBA) and its Export Working Capital Program (EWCP) for assistance. Their involvement with the SBA as their primary financing vehicle has more than paid off. By 2000 they were generating \$10 million in annual sales with 25 employees. Growth continues with the majority of their exports now going to Korea and Turkey. They have also exported to Greece, the Netherlands, and the Philippines. We recognized them as our 2002 Small Business Week Exporter of the Year.

In closing, let me reiterate again what an honor and pleasure it is to come before you, Congresswoman Millender-McDonald. I affirm to you our commitment and that of Administrator Barreto to build a more efficient and effective SBA--one that helps businesses grow and prosper, and ultimately contribute to stronger and healthier communities. I also once again underscore our district office's dedication to the goal of working with SMEs to develop their international trade commerce. It is on their behalf that we dedicate and continue our quest to serve small business, the engine that drives our economy.

Thank you for your attention this morning. I would be pleased to answer any questions you may have.

STATEMENT OF
DR. LAWRENCE SPINELLI
DIRECTOR OF COMMUNICATIONS
OVERSEAS PRIVATE INVESTMENT CORPORATION

Before the

SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS OF THE
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

August 28, 2003

Chairman Toomey, Congresswoman Millender-McDonald and Members of the Subcommittee, I am privileged to appear before you today to discuss the efforts of the Overseas Private Investment Corporation (OPIC), to help America's small businesses participate in the global economy through overseas investment, while at the same time promoting development.

For over three decades, OPIC has been the primary U.S. government agency focused on supporting private sector investment in the developing world. By providing loans through our financing program and offering protection against political uncertainty through our political risk insurance program, OPIC helps U.S. businesses to invest in more than 150 countries, promoting development, while serving important foreign policy objectives.

Over its history, the agency has built an impressive record of success. In the past 32 years, OPIC has supported \$145 billion in investment in 3,100 projects. Those projects have created an estimated 668,000 host country jobs and nearly \$11 billion in host country revenues, mobilizing capital and creating economic growth.

OPIC's project development also has a beneficial impact on the U.S. economy. In the last 32 years, OPIC projects have supported an estimated 254,000 U.S. jobs and generated an estimated \$64 billion in U.S. exports.

OPIC has provided \$5.4 billion in total financing and insurance commitments to California companies investing overseas. These California-company sponsored projects are expected to generate \$10.6 billion in total U.S. exports and support over 40,000 U.S. jobs. At the same time, California companies are supplying over \$1 billion in goods and services to OPIC supported projects and almost half of these suppliers are small businesses.

By generally charging market-based fees for its products, OPIC operates on a self-sustaining basis, at no net cost to the American taxpayer. Over its history, with prudent risk management practices, OPIC has built up reserves of over \$4.4 billion. OPIC also maintains an impressive 94% recovery rate on its political risk insurance claims.

When Dr. Peter Watson became OPIC's eighth President and Chief Executive Officer in 2001, he initiated an effort to sharpen OPIC's focus and better direct our resources towards fulfilling the agency's development mandate. The goal was to better foster economic development abroad, while strengthening the U.S. economy at home, by focusing more closely on those companies and countries that cannot access private financing or political risk insurance.

A key element in this refocusing effort was to create new opportunities for small businesses. I am pleased to report to you that in a very short period, the agency has created an impressive record of accomplishment in meeting this objective. In 2002, through diligent efforts, 67 percent of approved OPIC projects were for small- and medium-sized enterprises.

Additionally, OPIC has increased its efforts to collect data on the specific U.S. companies - the suppliers - that provide goods and services to OPIC-assisted projects. Two-thirds of these identified suppliers to OPIC-backed projects around the world are U.S. small businesses.

But Dr. Watson believed that this was not enough to achieve the important objective of better serving the small business community. To expand on this commitment, two important programs were launched last year.

First, OPIC has joined with the Small Business Administration (SBA) in an initiative that will better coordinate the capabilities and offerings of our two agencies. The agreement improves government services to U.S. small businesses by training OPIC and SBA staffs on each other's programs and promoting the regular exchange of information and leads on economic, financial and political issues, business development, and risk management.

Second, was the creation of the OPIC Small Business Center (SBC). The SBC was created to meet the needs of companies with revenues of less than \$35 million. While many of these companies recognize the growth opportunities overseas, they often find it difficult to get financing for overseas investment from the private sector. Small businesses are also particularly vulnerable if a host country government takes a hostile political action that interrupts their business. The SBC can provide up to \$10 million in financing and \$15 million in political risk insurance. At the same time, the Center has improved OPIC's customer service for small businesses by offering a streamlined approval process with a 60-day turnaround time. As a result, OPIC is making it easier for small business to access OPIC programs.

The response has been strong with over 30 deals approved and more in the pipeline. These projects are in almost every region of the world and range from helping a U.S. small business group expand an airline in the Caucasus to helping a Miami-based small business expand its network and information security operations in Latin America.

OPIC's Small Business Center is also providing a \$6 million loan to RiceX, a biotech company based in El Dorado Hills, California, for the establishment of a plant in Nicaragua which will provide a rice-based nutritional drink to children in the region.

Building on these efforts, Dr. Watson announced on July 28th that OPIC was creating a new department focusing on small and medium-size businesses. As he said at the time:

"As part of our efforts to refocus OPIC on its core mission, we made a commitment to be more responsive to the needs of small and medium-sized businesses. The creation of the Small Business Center was an important step forward in achieving this goal and I am pleased that the SBC has succeeded beyond our most optimistic expectations. But I believe that it was important to ensure that the structure of our finance activities also reflected this new reality. The Small and Medium Enterprise Department responds to this need and will allow OPIC to better fulfill its important role in helping small businesses invest overseas."

In conclusion, let me just reaffirm Dr. Watson's strong commitment to helping America's small businesses. We are proud of the fact that these efforts were recently recognized by the Small Business Exporters Association which presented Dr. Watson with its Special Achievement Award for his "path-breaking efforts at OPIC on behalf of small and mid-sized companies. With our enhanced inter-agency cooperation enshrined in the SBA Initiative, and with the newly created Small Business Center and Small and Medium Enterprise Department, we hope to fulfill this commitment to support credible opportunities for U.S. small businesses in emerging markets. Thank you.

**TESTIMONY OF DAVID JOSEPHSON
Director – Western Region
EXPORT-IMPORT BANK OF THE UNITED STATES
SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES
CALIFORNIA FIELD HEARING**

August 28, 2003

Mr. Chairman, Representative Millender-McDonald and Members of the Committee:

I am happy to join you today here in Long Beach – only a few minutes from our main West Coast office, to represent the Export-Import Bank of the United States (Ex-Im Bank). Thank you for inviting me to testify about our efforts to support small business throughout the country, and in particular, in California.

Ex-Im Bank provides competitive financing solutions so businesses large and small can export. Ex-Im Bank exists to assist in the financing of U.S. exports, thereby helping to preserve and support jobs here in the United States. The Bank does this by helping finance the export of U.S. goods and services through direct loans, loan guarantees, and insurance. These transactions do not compete with private sector financing, as the Bank fills the void when commercial lending institutions are unwilling to support a transaction without Ex-Im Bank's involvement. In addition, any transaction we support must offer a reasonable assurance of repayment, as we are not an aid agency.

These are transactions that would not go forward without the Bank, due to the support provided to foreign companies by the export credit agencies of Europe, Canada, and Japan, or because the private sector may not want to take the risk. Consistent with the Organization for Economic Cooperation and Development (OECD) Arrangement, Ex-Im Bank is able to ensure that U.S. exporters are able to compete on the basis of price, quality, and delivery of their goods and services without unfair advantages of subsidized financing from competing exporters in other industrialized countries. These U.S. export transactions that Ex-Im Bank supports from every state in the nation take on particular importance during difficult economic times.

During fiscal year 2002, Ex-Im Bank supported \$12.9 billion of U.S. exports to markets around the world. We approved 2,154 small business transactions, which represent 85.6% of all of our transactions. These transactions include one loan totaling \$27 million, 71 guarantees totaling \$313 million, 323 working capital guarantees totaling \$532 million, and 1,759 export credit insurance policies totaling \$910 million.

It should also be mentioned that Ex-Im Bank provides significant indirect support to small businesses. While this support is not part of the 20% small business set aside mandate, small businesses are benefitting greatly.

We recognize that small business provides the greatest source of job growth in the U.S., and we continue to improve our small business programs and services. We are successful because we listen to our customers and to our partners. Today I want to tell you of our success reaching out to small businesses and helping to provide the financing necessary to make an export sale.

Working Capital:

Ex-Im Bank has a long-standing commitment to providing programs and services to small businesses. Over the past few years, we have seen solid growth in one of our most important programs, the Working Capital Guarantee Program. We recognize that small businesses, particularly those owned by minorities and women, face a number of hurdles in obtaining commercial financing. When credit tightens, small businesses tend to be more adversely affected than larger companies. Small businesses typically lack capital, collateral and the financial history to persuade banks to issue a loan. And, often, when a small business begins to compete in the export market, it lacks productive capacity and finances to produce the export.

Loans made under Ex-Im Bank's Working Capital Guarantee Program can be used for the costs and expenses of manufacturing the export item or providing a service. In fiscal year 2002, we approved \$684.8 million in working capital loans. 77.6% of these loans supported small businesses. These loans supported approximately \$2.4 billion in export sales, making this small business program one of the most significant in the Bank. Our working capital program has grown 76.6% since FY98. And, by increasing the coverage of working capital loan guarantees for minority- and women-owned firms from 90 to 100 percent, we have given them greater access to financing for pre-export costs.

Insurance:

Our export credit insurance is also mostly used by small businesses. In fiscal year 2002, we issued 1656 export credit insurance policies to small businesses, or 89% percent of the total number of Ex-Im Bank policies. These policies protect a U.S. exporter's sales to foreign buyers—primarily on a short-term basis. We have several types of policies including one for "very small businesses" with limited export sales and experience. This policy has extra benefits such as no first loss deductible, a simplified premium rate schedule and special financing features.

We are presently automating all of our insurance products so that a small business can apply for coverage through the Internet, have the majority of the underwriting decisions made electronically, and have the policy issued electronically.

Outreach and Marketing:

Three years ago, we changed the way we went about marketing our financing products in order to use our resources more wisely and in a very targeted fashion. Most of our outreach is executed in partnership with our sister trade agencies, the Department of

Commerce (DOC), the Small Business Administration (SBA), the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA). It is aggressive, comprehensive and cost-effective.

Ex-Im Bank and its programs are projected across this country through our eight regional offices. Five of these offices are co-located through the United States Export Assistance Centers (USEACS). We have placed our offices in strategic locations (Miami, the District of Columbia, New York, Chicago, Houston, and three in California). These states and the District of Columbia constitute approximately 60% of the exporter concentration in the U.S. Nearly 40 city/state partners nationwide augment our offices. Our city/state relationship is a 15-year initiative that represents a great example of federal/state cooperation. Finally, we cross-train with DOC and SBA in the remaining USEACs, where we do not have an actual presence, to ensure DOC and SBA professionals are kept up-to-date on new initiatives at the Bank.

Our outreach approach to small businesses is straightforward: to ensure U.S. exporters are aware of Ex-Im Bank's various financing tools to pursue international sales opportunities. Because small businesses are frequently unaware of the value of exporting and of Ex-Im Bank, the Bank has an aggressive outreach campaign.

The Bank has several initiatives to achieve successful outreach. First, the Bank has a direct mail program targeting exporters; second, the Bank offers education seminars throughout the country for lenders and exporters to educate them about our products; third, the Bank utilizes its relationship with trade associations, such as the National Minority Suppliers Development Council, to send our message to specific audiences more efficiently; and finally, the Bank is actively involved in trade shows. Attending trade shows where hundreds, sometimes thousands of exporters and buyers are amassed is a very cost-effective outreach tactic for Ex-Im Bank. Partnering with DOC and the Census Bureau makes our approach even more effective. Leads generated from our trade show activities are our fastest growing, most cost-effective tactic. We want to continue this successful enterprise with DOC and the Census Bureau and expand it.

Ex-Im Bank and the DOC's Trade Information Center (TIC) signed a Memorandum of Understanding, whereby customers calling Ex-Im Bank can choose to be routed directly to Commerce's TIC counselors for general exporting and financing help, creating seamless customer service between agencies.

California

The State of California is the nation's largest exporter. Therefore, Ex-Im Bank assigns eight full-time employees to its California offices in Long Beach, Orange County, San Diego and San Francisco. Covering ten other states in addition to California, these eight employees have made 61 public presentations at seminars and symposiums devoted exclusively to California exporters during the first ten months of this fiscal year.

Seven of these presentations were Ex-Im Bank sponsored seminars, seven were DOC-sponsored, three were sponsored by SBA, and four by the Small Business Development Corporations and the Centers for International Trade Development of the State of California. An additional 38 of these presentations were given to private sector interests including commercial banks and international trade associations in the state. Nineteen of the presentations were given to international trade groups that were sponsored by universities, national and local government agencies, and chambers of commerce.

Ex-Im Bank, through its Long Beach and San Francisco offices, made a further outreach in the first ten months of this fiscal year by personally making 2,056 marketing contacts with and 477 direct sales calls on exporters.

Conclusion:

In conclusion, Ex-Im Bank is proactively marketing its products to achieve small business goals. While the global economy has changed significantly since our inception in the 1930s, we remain true to our mission: to support US jobs through exports. I also want to ask you to support our mission by sharing our message with your constituents. Ex-Im Bank and I are at your service and whatever we can do through seminars in your district or meeting with groups or companies at your request, the Bank is here to help make exports happen. I would like to thank you for your support of the Bank's efforts and am happy to answer any questions you may have.

U.S. HOUSE OF REPRESENTATIVES
SMALL BUSINESS COMMITTEE
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS
Long Beach, CA

August 28, 2003

Testimony of Patricia D. Unangst, Executive Director
Carson/Lomita/Torrance Workforce Investment Network (WiN) Board

Thank you for the opportunity to speak to you today. My name is Patricia Unangst and I am the Executive Director of the Carson/Lomita/Torrance Workforce Investment Network (WiN) Board. WiN is a strategic alliance between business, community, and government organizations that facilitates the training and placement of the local workforce. WiN operates three WorkSource Centers (Torrance, Carson and San Pedro) to serve both businesses and residents.

Who are we?

Policy Board Chair: Mayor Pro Tem Paul M. Nowatka, City of Torrance
WiN Board Chair: Richard L. Cook, owner, Richard L. Cook Accountancy
WiN Executive Director: Patricia D. Unangst

The Carson/Lomita/Torrance workforce area is located in Los Angeles County, California. WiN is a multi-agency partnership which operates the employment and training programs, primarily funded by the federal Workforce Investment Act (WIA). WiN is overseen by a Policy Board comprised of elected officials from the cities of Carson, Lomita and Torrance. They appoint a 34-member business-led governing body (WiN Board).

The geographic area served by WiN encompasses the cities of Carson, Lomita, Torrance, Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills, Rolling Hills Estates, Los Angeles (San Pedro, Harbor City, Harbor Gateway and Wilmington) and contiguous portions of LA County. The population is 512,469 and covers approximately 84 square miles. Within the region there are approximately 17,000 businesses, 92.9% of which have fewer than 50 employees. Major industries include aerospace/defense, medical services, transportation, refineries, business services, hospitality and the port of Los Angeles.

How can we help?

WiN assists businesses in a variety of ways. SME's can take advantage of *economic development services* to learn about the local labor market and discover financial incentives for their business. At each WorkSource Center, Business Resource staff and partners offers seminars and access to much business development information as well as contacts to consultants/agencies that provide free/low cost advice.

If a business is in a hiring mode, WiN offers *recruitment services*. WiN maintains a computerized database of qualified applicants. WiN can test, screen and provide space for business to interview perspective applicants in a professional environment at no cost to the employer. If more customized services are desired, WiN can provide on a fee-for-service basis.

Finally, *Workforce Development Services* would help a business build their competitive edge by offering customized training programs, assistance with ADA requirements and on-the-job training (OJT). This would pay the employer up to 50% of the base wage of a new hire—a direct impact to the employers bottom line while providing a valuable employee asset to the company.

The Problems Faced by U.S. Small Business in the Global Marketplace

SME's are struggling with competing in a global marketplace because they can't afford to comply by the rules, regulations and increased fees that have been implemented. Their dilemma is that they cannot afford *not* to comply. Larger companies can afford to hire a Customs Compliance Officer to deal with all the details to meet compliance – a one person shop can barely maintain everything else. There were always security requirements, but since September 11th rules are even more rigid. It's difficult to work with others in the process who are either doing nothing to comply or are following rules to the letter. As logistics companies struggle to "harmonize" international practices, small US businesses in the industry find it hard to compete when the US imposes different requirements from other countries.

The shifts in the local labor force caused by the changes in trade policy must be considered. The impact has both positive and negative sides. To quote directly from the report of Howard Shatz, Public Policy Institute of California in his report on Globalization discussed earlier today:

The effects of international trade and global integration cannot easily be separated from the effects of other economic trends, in particular technical change that favors employment of highly-skilled workers. However, the policy prescriptions for mitigating widening income gaps are the same for trade-induced and technology-induced change. These prescriptions are to improve the educational opportunities and the education of the population and to maintain a social safety net for workers displaced by economic change.

Business Services to Assist Small/Medium Exporters

1. Access to Information: capital, hiring, business practices, tax credits

WiN partnerships provide assistance to businesses by serving as a single point of contact to access information and expertise. WiN already partners with such entities as the Small Business Administration, local Small Business Development Centers, South Bay Economic Development Partnership, various City Economic Development departments, Center for International Trade Development, Community Colleges, Universities and Regional Occupation Centers and others. A full list of resources is attached.

Business Resource Centers can be found at the Carson and Harbor WorkSource Centers. The Small Business Development Center holds business assistance workshops at the Carson WorkSource Center twice a month covering areas such as How to Write a Business Plan, Access to Capital, Marketing, etc. One-to-one consulting services are offered by various WiN partners on a fee-for-service basis.

WiN also works to bring about forums for businesses in the local community. In June 2003 WiN collaborated with CSUDH to provide a panel and roundtable discussion on workers compensation issues. This topic was also addressed in the WiN quarterly *Business News* asking local business professionals what they are doing in their own companies to cope with the rising costs of workers compensation insurance.

2. Access to Qualified Applicants

Over 104,000 individuals came through the WiN centers last fiscal year. Many of them qualified to work in the import/export industry. Some may have started their own business in this market or brushed up on current laws/trends affecting this industry.

In addition to the database of our own customers, WiN participates in several regional national computerized data bases to access qualified applicants. A new data base called *SkillsMatch* is in development in the Los Angeles area that would enable employers to find better suited candidates based on transferable skills from other industries and educational background. Employers can query many of these databases on-line.

3. Access to Training

If sufficient funding is provided, WiN can work with the industry to develop training programs. Certification programs can be explored and resolved. In 2002/2003 WiN worked locally with the Inland Boatmen's Union and El Camino College to coordinate a Coast Guard required safety certification program. 58 Able-bodied Seamen were able to complete the training and retain their eligibility to work on large vessels.

Local Projects

The Alameda Corridor project is an example of a federal project that was delivered on time and on budget to help alleviate transportation issues in the LA & South Bay area. This project included the contribution of many entities including Workforce Investment Areas and various training programs. WiN partnered with Century Housing to provide assistance/apprenticeship opportunities to local residents who labored on the construction project.

The City of Carson assisted AMSI (Advanced Stretchforming) with accessing a SBA disaster relief line of funding shortly after September 11th. This enabled the business to stay afloat and continue to export internationally.

Recommendations to Congress

1. Groups and individuals at the federal level need to communicate with each other and let those at the local level know they are working together – giving clear direction.
 2. Trade/tariff policies need to take into account the jobs impact---Mr. Hanover's study indicated this was often *not* considered. Mr. Shatz's study recommended the need for basic education and the displaced worker.
 3. Funding needs to made available to agencies such to deal with the impacts to the labor force. Investing in America's workforce makes us globally competitive.
- Strong publicly-financed institutions such as WiN can provide resources to businesses *if they are funded*.

Important Contacts

- Workforce Investment Network – Fran Fulton (Business Services Manager), 1 Civic Plaza, Ste 500, Carson, CA 90745, 310-518-8100, www.careerzone.torrcnet.com
- The Greater Long Beach Workforce Development System – Sheri Rossillo (Business Services Coordinator), Career Transition Center, 3447 Atlantic Ave, Long Beach, CA 90807, 800-292-7200, www.longbeachworkforce.org
- City of Carson, Lance Burkholder , 1 civic plaza, Ste. 200, (310) 233-4845, www.ci.carson.ca.us
- SBEDP - Tod Sword, 3858 Carson St, Ste 100, Torrance, CA 90503, 310-792-0323, www.southbaypartnership.com
- El Camino's Business Training Center - different contact for each program, but Dean John Means oversees, 13430 Hawthorne Blvd, Hawthorne, CA 90250, 310-973-3178, www.businessassist.org (which would include Small Business Development Center, Center for International Trade Development, Center for Applied Competitive Technology, & Workplace Learning Resource Center.
- Community Financial Resource Center - Isabel Duran or Maria Becerra, 1891 N Gaffey St, Ste J, San Pedro, CA 90731, 310-547-9611, www.cfr.net.
- California Manufacturing Technology Center - Roz Samia, 1149 W 190th St, Ste 2014, Gardena, CA 90248, 310-263-3060, www.cmtc.com.



A PUBLIC-PRIVATE PARTNERSHIP SERVING THE SOUTH BAY COMMUNITIES OF LOS ANGELES

GUIDE TO SOUTH BAY BUSINESS INCENTIVE PROGRAMS

Many South Bay businesses are currently benefiting tremendously from the vast array of incentives available to them from the State of California, Los Angeles County and local cities. In addition to providing the most advanced infrastructure in the United States, the State of California has committed itself to facilitating commercial / industrial employee training and recruitment services as well as providing for California enterprise zone tax credits in certain economically distressed areas.

DISCLAIMER: This guide is not all-inclusive and the criteria included may change after its release. This guide provides a current overview of programs and incentives potentially available to qualifying businesses in the South Bay. Not all programs apply to all businesses. The information contained is not a substitute for legal advice nor information provided by the agency administering the program. Every effort has been made to ensure accuracy.

Tax Credits: California Technology Trade & Commerce Web site: <http://www.commerce.ca.gov>

- **Manufacturer's Investment Tax Credit:** This 6% credit may be earned by qualifying California manufacturers. The credit applies to new, used or leased machinery and equipment upon which California State sales tax was paid. Any unused credit can be carried forward for eight years. If your Standard Industrial Classification is between 2000 & 3999, your company may qualify for the manufacturer's investment tax credit (the MIC).
- A **Research & Development Tax Credit** of 15% may be available for work performed in-house or 24% for work performed by an outside firm. To qualify, research must be conducted within California and must not include research for the purpose of improving a commercial product for style, taste, cosmetic, or seasonal design factors.
- See the State of California web site for additional information on Incentive Programs www.ca.gov

Employment: Recruitment and Training

- The Employment Training Panel trains employees and may offer cash reimbursements, which average \$1,000 - \$1,500, in respect of each employee trained a minimum of 40 hours and retained on a job for ninety (90) days. ETP has paid over \$762 million in training funds since its inception, with over 417,000 California workers trained. 41,400 California businesses have been served, and 80 percent of the companies participating have been small businesses with fewer than 250 employees per firm. www.etp.cahwnet.gov/
- Center for Business Training at El Camino College provides consulting and customized training designed to meet specific workforce and management training needs. Qualified companies may be eligible for state funding to offset training costs. www.elcamino.cc.ca.us//commadv/bustraining/
- The Center for Training and Development at CSU Dominguez Hills offers customized training and consulting to meet specific workforce and management training needs. CSUDH also offers training via the Employment Training Panel to qualifying firms. www.csudh.edu/extendeded/
- The Employment Development Department's job service program serves the State's 850,000 employers and about 1 million job seekers that register for services each year. Its computer based

Last Updated: February 2003

PHONE 310-792-0823
FAX 310-543-9886
www.southbaypartnership.com

3850 CARSON STREET
SUITE 110
TORRANCE CA 90503



GUIDE TO SOUTH BAY BUSINESS INCENTIVE PROGRAMS

CalJOBS system electronically cross-references qualified job applicants with employer's job openings. www.caljobs.ca.gov/

- One-Stop Career Centers and Workforce Investment Boards have workforce development centers that serve businesses by providing labor market information, trained and motivated workers, customized training, on-the-job training and other placement programs.
 - South Bay One-Stops serve the Cities of El Segundo/ Gardena/ Hawthorne/ Hermosa Beach/ Inglewood/ Lawndale/ Manhattan Beach and Redondo Beach: www.sbwib.org
 - One-Stops for Carson/ Lomita/ Torrance / LA Harbor Area: www.careerzone.tornet.com

Business Consulting Services

- The Small Business Development Center hosted by El Camino College offers individual consulting services, low-cost seminars, prepackaging of small business loans for women and minority owned businesses and a comprehensive business research library are available to small business owners. www.elcaminocollege.org/commadv/sbdc/
- California Manufacturing Technology Centers offers a wide range of high quality, affordable & professional consulting services in the areas of Information Technology, Strategic Business Planning, Lean Enterprise, Quality Management and Manufacturing & Engineering. Offices located throughout Southern California. www.cmtc.com

Fee Reductions, Waivers and Deferrals

- Arrangements can be made in certain circumstances to waive or reduce development and permit fees in redevelopment areas.
- Communities can offer to defer development fees in order to reduce "up-front" costs.
- Permit fee reductions, the provision of infrastructure improvements and other local incentives are possible through tax increment financing in redevelopment areas.

International Trade – Import Export - Foreign Trade Zones

- The Center for International Trade Development hosted by El Camino College provides seminars and individual counseling in all areas of international trade including e-commerce. www.citd.org
- The Port of Los Angeles is the grantee for Foreign Trade Zone 202. A Foreign Trade Zone is an area where foreign and domestic merchandise is considered outside U.S. Customs territory. Merchandise may be admitted into a zone without formal Customs entry, thereby deferring payment of duty or excise taxes until the product is legally entered into the U.S. or eliminating duty if the product is re-exported. www.portoflosangeles.org/service/service-tradezone.htm
- The World Trade Center Association helps businesses with Trade Leads, Business Contacts, Market Assessments, Information on Economic Conditions by Country, Information on Government Regulations by Country and Trade Mission Assistance. www.wtcanet.org

Energy Conservation & Rebate Programs

- Southern California Edison offers a number of programs to help qualifying customers reduce energy usage and lower electricity costs. (Click on Rebates & Offers) www.sce.com
- The Gas Company energy efficiency programs for business: www.socalgas.com/business/
- Department of Water & Power: www.ladwp.com/bizserv/commercial.htm



GUIDE TO SOUTH BAY BUSINESS INCENTIVE PROGRAMS

Financing Programs

- The U.S. Small Business Administration provides financial assistance in the form of loan guarantees. Several categories of SBA guaranteed loans exist. www.sba.gov/financing
- The Los Angeles County Community Development Commission offers several lending programs, ranging from a Micro Loan to a Float Loan Program lending up to \$15 million. www.lacdc.org/economic/index.shtml

IDB's are offered by the State of California through CIDFAC and California Communities (see below)

- Manufacturers and processors are eligible to use Industrial Development Bonds (IDB's). These bonds generally have an interest rate at 60-65% of the current prime interest rate. Bonds can be used to finance new equipment purchases, purchases of existing buildings and construction of new facilities. No refinancing is permitted. Terms range from 5 to 7 years for equipment projects and up to 25 years for Real Estate facilities projects. Fixed and variable rates are available.
- The State of California Treasury Department: California Industrial Development Financing Advisory Commission (CIDFAC) www.treasurer.ca.gov/CIDFAC/cidfacs.htm
- The California Statewide Communities Development Authority has funding from \$500,000 to \$10 million available to qualifying manufacturers, solid waste processors and recyclers for financing new facilities, expanding existing facilities or upgrading equipment. California Communities specializes in issuing tax-exempt financing for public agencies and eligible private agencies for industrial, housing, non-profit and other tax-exempt facilities. www.cacommunities.com
- The Los Angeles Regional Technology Alliance, supporting the five county LA Region, provides assistance to technology-based firms in the development and submission of proposals to receive grant funding from federal, state and private institutions. In addition, LARTA sponsors special events on venture capital acquisition and alternative forms of financing. Web site: www.larta.org
- The California Integrated Waste Management Board offers funding opportunities authorized by legislation to assist public and private entities in safe and effective management of the waste. www.ciwmb.ca.gov/Grants/
- The FAME Renaissance Business Resource Center acts as an intermediary for the SBA Microloan Program. The Micro Loan provides financing up to \$25,000 for start up and existing businesses in Los Angeles County. The application is available on the Internet. www.microloan.org
- Community Financial Resource Center provides financial assistance to businesses located in low-to-moderate census tracts of Los Angeles County. Financing is available for Microloans ranging from \$500-\$30,000 and Expansion Loans ranging from \$30,000 to \$250,000. In addition, CFRC hosts a Small Business Workshops Series designed to assist new and experienced entrepreneurs in developing their computer and business management skills. www.cfr.net



GUIDE TO SOUTH BAY BUSINESS INCENTIVE PROGRAMS

Enterprise Zones

Check if your business is located in an enterprise zone: www.lacity.org/cdd/business/zones.htm

This program provides tax incentives to businesses, allowing the private sector to revive the economy in economically distressed areas throughout California. Tax credits and benefits include:

- Sales & Use Tax Credit. All of the 8% sales tax, or use tax, paid on the purchase of qualified machinery and parts can be claimed as a tax credit. This includes manufacturing equipment, as well as computer, and telecommunications equipment. Manufacturers receive an extra 6% Investment Tax Credit, which can be claimed in addition to the 8% Sales Tax Credit.
- Hiring Tax Credit. Firms can earn up to \$31,575 over a 5-year period per qualified employee hired. 100 qualified employees hired could amount to \$2.68 million in tax credits.
- 25% 5-Year Electrical Discount. For new and expanding businesses in enterprise zones located in the City of Los Angeles.
- Business Expenses Deduction. Up to 40% of tangible personal property may be expensed en lieu of depreciation. The cost is limited on an annual basis depending on the date of the zone's designation.
- 100% Net Operating Loss Carry Forward (NOL).
- Net Interest Deduction for Lenders. Net interest can be deducted from income earned on loans made in an enterprise zone.

Other Programs

The South Bay Economic Development Partnership, through its affiliates, also provides specialized assistance in the following areas:

- Manufacturing workshops for process management and improvement;
- Regional community profiles, economic and demographic data;
- Site selection services for business expansion and relocation;
- Workers compensation insurance review;
- Technical assistance accessing county, state, and federal programs;
- Ombudsman and mitigation services (permitting, regulatory, etc).
- Tax structures and abatements
- Incentive zones (Enterprise, Revitalization, Empowerment, Foreign Trade)
- Labor Market information, job training
- Utility and transportation services
- Permit assistance and licensing
- Employee hiring and relocation
- Public financing programs (local, state and federal) including industrial development bonds
- Personalized briefings and orientations tailored to your specific needs
- Trade coordination with the ports, LAX, foreign trade zone, railroads and utility companies

**TESTIMONY
Of
CHRIS WACKER
SENIOR VICE PRESIDENT
LASERFICHE DOCUMENT IMAGING
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS
Hosted by
Congresswoman Juanita Millender-McDonald
Thursday, August 28, 10 am at Long Beach City Council Chambers**

Good morning. My name is Chris Wacker and I am senior vice president for LaserFiche Document Imaging located here in Long Beach. We are a software company and we help businesses and governments around the world manage their paper and electronic records by scanning, archiving and retrieving them through an innovate suite of products.

Our company, which is the major division of CompuLink Management Company, was established in 1987 in Torrance and bought its world headquarters building in Long Beach in late 2001. Our employment base has grown by nearly 40% in the last 20 months. Our initial focus was to serve the municipal government market, where we now have a 60% share of cities employing document imaging. In later years, we broadened our outreach to the federal, commercial and international markets, where our products have been widely accepted. LaserFiche is in use in the Army, Navy, Air Force and Marine Corps, in the CIA, FBI, Secret Service, State and Homeland Security Departments, as well as other agencies. In the commercial arena, financial services, health care, real estate, accounting and law firms here in the U.S. and internationally use LaserFiche.

Your interest today is studying how the federal government can assist small businesses wishing to export their products. About 20% of our LaserFiche business is done out of the United States. This figure could potentially be much higher, but until the past several years, we elected to devote most of our resources to the domestic market.

Today, the world is ready for LaserFiche Document Imaging and we have scores of resellers around the world and four corporate employees stationed abroad, in the United Kingdom, Australia, Brazil and Peru. Because our software is recognized as improving business processes and productivity abroad, it has generally been exported tariff-free. Only Brazil imposes a tariff, which our resellers pass on to customers. This has restricted, but not choked off sales to that market.

Among our concerns abroad are protection of our intellectual property, currency fluctuations, occasional visa difficulties restricting travel by our resellers and employees and global conflicts, particularly in the mideast which impact trade.

Regarding intellectual property protection, we have developed a number of internal safeguards, including not doing business in countries where software piracy is tolerated. As the United States becomes increasingly dependent on technology company exports, our government must rigidly defend the interests of American companies' intellectual property from theft in foreign countries.

Many nations where we do business experience daily currency swings making it difficult for exporters to price their products to be competitive. This is a historic problem, but we encourage the Treasury and State Department to encourage our world trading partners to take necessary steps to stabilize their economies.

Our business depends on the easy passage of our international resellers and employees to the United States for training and consultations. New security programs have made travel more difficult. We request federal support for enabling international business partners and employees to get to California quickly for timely training and meetings.

Finally, the ever-changing global climate, where conflicts spring up unexpectedly, presents serious barriers to exports. Business deals in the making for months and even years have been blocked by acts of terrorism and ensuing crackdowns. The diplomatic

and military efforts of the federal government to maintain stability in the world certainly help in this regard. Better government communication with exporting companies about potential hot spots would also assist us in setting priorities.

I appreciate the opportunity to present this testimony today on behalf of LaserFiche and would be happy to answer any questions you may have.