STIMULATING THE ECONOMY THROUGH TRADE: EXAMINING THE ROLE OF EXPORT PROMOTION

HEARING

BEFORE THE

SUBCOMMITTEE ON COMMERCE, TRADE, AND CONSUMER PROTECTION

OF THE

COMMITTEE ON ENERGY AND COMMERCE

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SUBMITTED MATERIAL

[1] Ms. O'Neill did not respond to submitted questions for the record.

STIMULATING THE ECONOMY THROUGH TRADE: EXAMINING THE ROLE OF EXPORT PROMOTION

TUESDAY, MARCH 17, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCE, TRADE,
AND CONSUMER PROTECTION,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in Room 2322 of the Rayburn House Office Building, Hon. Bobby L. Rush (chairman) presiding.

Members present: Representatives Rush, Green, Braley, Butterfield, Matsui, Sutton, Stupak, Space, Radanovich, Gingrey, Sullivan, and Scalise.

Staff present: Angelle B. Kwemo, Counsel; Michelle Ash, Chief Counsel; Zahara Goldman, Professional Staff; Valerie Baron, Legislative Clerk; Jennifer Berenholz, Deputy Clerk; Brian McCullough, Minority Senior Professional Staff; Will Carty, Minority Professional Staff; and Sam Costello, Minority Legislative Analyst.

OPENING STATEMENT OF HON. BOBBY L. RUSH

Mr. RUSH. The subcommittee will come to order. This is a hearing conducted by the Subcommittee on Commerce, Trade, and Consumer Protection. The subject of this hearing is Stimulating the Economy through Trade: Examining the Role of Export Promotion. The chairman recognizes himself for 5 minutes for the purposes of opening statement. I want to thank the members of the subcommittee for participating in our first trade hearing of the 111th Congress. Today the Obama Administration and Congress are revisiting our trade policies. It is essential that as American companies and workers are faced with unprecedented challenges that we recognize the importance of international trade as an essential component of our policy response to the global financial crisis.

Today's hearing will explore international trade as a tool to stimulate our economy and examine the role of exports in the growth of the U.S. economy. I also want to review the impact of government-sponsored export promotion programs and the effectiveness of assistance available to help U.S. businesses expand their market for U.S. products and services. In the past, Congress has addressed concerns about several important aspects of export promotions, specifically as it relates to interagency coordination, common goals, small business assistance and enforcement of trade agreements.

Some progress has been made since then, however, today's economic environment demands more progress.

In my home State of Illinois, Caterpillar, Inc. has recently laid off 16 percent of its workforce despite the fact that its world-class equipment is needed and necessary to support massive infrastructure projects from China to Africa. Sixty percent of its market is overseas with untapped potential in emerging and new markets. In the U.S., exports support 6 million jobs in the manufacturing industry, and 1 million jobs in the agricultural industry. More than one in every five American factory workers owes his or her job to exports. These jobs pay 13 to 18 percent more, on average, than non-export-related employment.

Furthermore, in the recent months of stagnating domestic demand, most growth in manufacturing production was attributed to exports. The U.S. is the world's largest manufacturing country but, despite extensive engagement with the global economy, the U.S. has the smallest percentage of its Gross Domestic Product derived from exports in comparison to any other G–7 country. U.S. export promotions spending lags behind that of Spain, the UK, Italy, France, Korea, Canada and Japan. American exports in January, 2009, were down compared to January of last year. In addition, exports accounted for only 13.1 percent of the U.S. economy. This certainly is not sufficient, especially now that the American consumer is spending less. We need to move to trade and exports to sustain economic growth. We cannot afford to be idle as our export numbers decrease.

I strongly believe that if we are serious about lowering our trade deficit and creating more jobs for Americans, export promotion must be a national priority. I commend U.S. businesses for their innovation, their strength and vision in this very competitive and perilous time. I also salute non-profit groups for their dedication and creativity in assisting U.S. businesses as they embark in new ventures. I also recognize the importance of public-private partnerships in fostering the spirit of American business globally. Today is the first of a series of hearings on trade-related matters. I thank all the members and witnesses for their participation. If it my desire that we all continue to work together on trade issues in a bipartisan fashion with the goal of helping to bolster America's economy.

[The prepared statement of Mr. Rush follows:]

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Statement by the Honorable Bobby L. Rush, Chairman
Subcommittee on Commerce, Trade and Consumer Protection
for Hearing on
Stimulating the Economy Through Trade: Examining the Role of Export Promotion

March 17, 2009

WASHINGTON, DC — "The Subcommittee will come to order. I want to thank the Members of the Subcommittee for participating in our first trade hearing of the 111th Congress.

"American companies and workers are facing unprecedented competitive challenges in the world economy. Today, the Obama Administration and Congress are revisiting our trade policy. It is essential that we recognize the importance of international trade for U.S. economic growth as an essential component of our policy response to the global financial crisis.

"Today's hearing will explore international trade as a tool to stimulate our economy and examine the role of exports in the growth of the U.S economy. I also want to review the impact of government-sponsored export promotion programs, and the effectiveness of assistance available to help U.S. businesses expand their markets for U.S products and services.

"The two largest export promotion programs are sponsored by the International Trade Agency of the Department of Commerce and the Foreign Agriculture Services unit of the U. S. Department of Agriculture.

– more –

"All export promotion agencies are coordinated by the Trade Promotion Coordinating Committee (TPCC), chaired by the U. S. Department of Commerce. The TPCC was established by the Export Enhancement Act of 1992.

"In the past, Congress has addressed concerns about several important aspects of export promotions, specifically as it relates to inter-agency coordination, common goals, small business assistance and enforcement of trade agreements. Some progress has been made since then; however, today's economic environment demands a bolder effort to increase our exports and global competitiveness.

"In my home State of Illinois, Caterpillar, Inc. has recently laid off 16 percent of its workforce despite the fact that its world-class equipment is needed to support massive infrastructure projects from China to Africa. Sixty percent of its market is overseas with untapped potential in emerging and new markets.

"In the U.S., exports support six million jobs in the manufacturing industry and one million in agricultural exports. More than one in every five American factory workers owes his or her job to exports. These jobs pay 13- to 18-percent more, on average, than non-trade-related employment.

"Furthermore, in the recent months of stagnating domestic demand, most growth in manufacturing production was attributed to exports. The U.S. is the world's largest manufacturing country but, despite extensive engagement with the global economy, the U.S. has the smallest percentage of its Gross Domestic Product derived from exports in comparison to any other G-7 country.

"U. S. export promotion spending lags behind that of Spain, the United Kingdom, Italy, France, Korea, Canada and Japan.

"American exports in January, 2009, were down 5.7 percent compared to January of last year. In addition, exports accounted for 13.1 percent of the U.S. economy. This is not sufficient, especially now that the American consumer is spending less. We need to move to trade and exports to sustain economic growth. U.S. trade in goods and services dropped by 14 percent between the 3rd and 4th quarters of 2008. We cannot afford to be idle as our export numbers decrease.

"I believe it is crucial that the United States, the world's largest manufacturer and one of the largest exporters of agricultural commodities in the world, sustain its leadership position in the export of goods and services.

"I strongly believe that, if we are serious about lowering our trade deficit and creating more jobs for Americans, export promotion must be a national priority.

– more –

"I am committed to making sure U.S. companies improve their global competitiveness. Canada (20.1 percent) and Mexico (11.7 percent) account for almost one-third of our exports, followed by China and Japan at 5.5 and 5.1 percent, respectively. We need to see higher exports go to Asian markets and we simply cannot rely on Canada and Mexico.

"We cannot put all our eggs in the NAFTA basket. It is important that we explore new markets. Markets in Latin America and Africa cannot simply be abdicated to the benefit of other, more determined exporters. The U.S. export promotion program agencies need to be provided with the resources that are needed to design a long-term, ambitious agenda for sustaining exports and opening new markets for U.S products, especially in emerging and new markets.

"I commend U.S. businesses for their innovation, their strength and vision in this very competitive and perilous time. I also salute non-profit groups for their dedication and creativity in assisting U.S. businesses as they embark in new ventures.

"Furthermore, I recognize the importance of public-private partnerships in fostering the spirit of American business globally.

"Today is the first of a series of hearings on trade-related matters. I thank all the members and witnesses for participating in this important hearing. And it is my desire that we all continue to work together on trade issues, in a bipartisan fashion, with the goal of helping to materially prosper America's trade economy.

"I yield back the balance of my time."

# # #

Mr. RUSH. With that, I yield back the balance of my time, and I recognize now the ranking member of this subcommittee from California, Mr. Radanovich.

OPENING STATEMENT OF HON. GEORGE RADANOVICH

Mr. RADANOVICH. Thank you, Mr. Chairman. Good morning, everybody. I do appreciate, Mr. Chairman, you calling this hearing to examine our trade promotion efforts. The global economy is suffering right now, and consumer spending and business investments have slowed worldwide exacerbating a clouded outlook for recovery. In such trying times, there is a temptation for countries to retreat into misguided protectionist trade policies and in order to find a path toward a more stable economy we must treat trade as an opportunity, not a threat. One simple approach is to continue to ensure free trade agreements remain a priority. Last year, we ran a $21 billion surplus in manufacturing with our FTA partner countries.

America has also seen similar beneficial increases in surpluses with countries with which we have implemented trade agreements under the trade promotion authority. Trade agreements are growing in importance as international commerce becomes a more essential part of our economy and more Americans depend on trade for their livelihood. Particularly relevant today effective and efficient international trade can serve as an important buffer for the economy when domestic growth slows. In fact, despite the declines in the last part of 2008, export growth surpassed the growth in GDP. We exported over 1 trillion in goods and services last year and had a surplus in services trade of approximately $144 billion. The salient point here is America produces and exports world class goods and services and we have the potential to export much more if we are given the opportunity access additional markets.

After all, 96 percent of the world's consumers live outside of the United States. Often, the biggest barrier to improving trade is facilitating the connection between willing buyers and sellers. This is where the promotion of U.S. goods and services can be used to improve the prospects of our businesses, many of whom have little or no experience exporting their own goods. We have a number of federal agencies that assist our small and medium size businesses through the export process. Their services range from educating businesses on the basics of export trade through export assistance centers to more advanced services that introduce suppliers and buyers and provide market access guidance.

With these programs in place, we need to focus on improving the visibility of existing services and enhancing their effectiveness. My home State of California is a leading exporter in many areas ranging from high tech to something more important to my constituents, which is agriculture. Agricultural issues are different than those faced by manufacturers. And I commend you, Mr. Chairman, for inviting the Foreign Agriculture Service to discuss their role in promoting our agricultural exports. Welcome, Ms. Hale.

Agriculture is a difficult business. Farmers are routinely subject to many factors beyond their control including the vagaries of weather, pest and disease control, international competitors, which are heavily subsidized, and foreign standards often subject to whimsical change. It is critical to note that specialty crop farmers and their association spend millions of their own money to promote their own products abroad. For instance, farmers with the California Apple Commission spent $1.2 million just last year alone to market their own products abroad. When farmers decide to seek assistance through federal programs, they must still spend funds up front and wait for reimbursement from FAS, which is not guaranteed since their export strategy must be approved.

While I encourage and I support the efforts of increased exports, I am equally concerned that we not lose our export partners that we already have. Going backwards by adding new barriers to trade is not helpful to anybody and reminds one of the primary concerns raised by fruit, nut, and vegetable growers in my district. In one example, Mexico has claimed the presence of pests in our own stone fruit for more than a decade. As a result, a plan negotiated by the Animal and Plant Health Inspection Service or APHIS which most fresh stone fruit growers must follow if they wish to ship to Mexico includes a dual regulation with the USDA inspectors and Mexican inspectors.

The growers must pay for the dual regulation unless they are approved to receive assistance from the government under one of the existing technical assistance programs that would help offset the cost of the Mexican inspectors. In addition, it is critical that our government continue to work to remove the non-tariff barriers thrown up to keep out our U.S. products. Some countries such as Taiwan have erected certain barriers based on questionable scientific evidence. The normally free flow of trade has ceased causing the good folks in my own region and others throughout the nation enormous frustration. This must not be tolerated, and I encourage our federal trade officials to work to remedy such problems.

I want to thank you, Mr. Chairman, for listening to my concerns. In a perfect world, we would not have to worry about any trade barriers. My hope is that our officials will remain as vigilant in their negotiations with our trade partners to reduce such non-tariff trade barriers as they are in promoting our products. Thank you, Mr. Chairman. I yield back.

Mr. RUSH. The chair thanks the ranking member. The chair now recognizes the gentlelady from California, my friend, Ms. Matsui, for 5 minutes for the purpose of opening statements. Two minutes. I am sorry. Two minutes.

OPENING STATEMENT OF HON. DORIS O. MATSUI

Ms. MATSUI. Thank you, Mr. Chairman, and thank you for calling today's hearing to examine the role of export promotion in today's economy, and I want to thank all the witnesses who are here today for sharing your expertise with us. In today's economic recession, many families in my home district of Sacramento are struggling to make ends meet. I have heard countless stories of people struggling to keep their homes, their jobs, and their way of life. Small businesses are also hurting as they try to make payroll, retain their employees, and expand their business. I am pleased that President Obama has announced a new proposal to immediately help small businesses obtain much needed capital or credit to keep their businesses afloat.

However, we should also be exploring other avenues for small businesses to grow, and that is why I am glad we are here today. This Congress needs to insure that companies have the tools to find new export opportunities for their products or services in existing foreign markets. Sacramento area small and medium-sized businesses export their products and ideas in health care, education, clean energy and agriculture around the world. In fact, the Sacramento region exported more than $3 billion in goods last year while the port of Sacramento handled 280,000 tons of exports last year. Yet, like in most communities our small businesses have not reached their export potential.

If we can provide a small business with a foreign market to increase their sales by as little as 5 percent it can mean the difference between closing their doors and staying open another year. The federal government in partnership with the private sector can do more. This is a time in which effective partnership is vital. I thank you, Mr. Chairman, for holding this important hearing, and I yield back the balance of my time.

Mr. RUSH. The chair thanks the gentlelady. The chair now recognizes the gentleman from Georgia, my friend, Dr. Gingrey, for 2 minutes for the purposes of opening statements.

OPENING STATEMENT OF HON. PHIL GINGREY

Mr. GINGREY. Mr. Chairman, I want to thank you for calling this hearing today on an economic issue that could not be more timely in the face of our current economic struggles. The promotion of exports of American products is absolutely critical to our economic growth now more than ever. Put simply, the relationship between American exports and job growth is incredibly important as we see unemployment numbers continue to rise. In President Obama's inaugural address, he stressed the need to ensure that the federal government works efficiently, and I agree with him on that goal, particularly in this very important area. The over arching role that the federal government will play in export promotion will need to be reassessed. Currently there are a number of different federal agencies that are working in the realm of export promotion, yet there is a need to grow our export numbers in order to remain competitive in a global market place.

Furthermore, Mr. Chairman, the most direct way that the federal government can impact U.S. exports is through existing and new free trade agreements. First, and let me be perfectly clear, free trade needs to be fair trade enabling domestic companies to benefit by the removal of foreign tariff barriers. This will increase the number of American exports and help us grow jobs right here at home. I am encourage that majority leader Steny Hoyer last week said that the House will potentially revisit the Colombia free trade agreement that was awarded during the 110th Congress. This free trade agreement was signed over 2 years ago. Mr. Chairman, another interesting component of this hearing that has a tremendous impact on U.S. exports falls squarely within the agricultural industry.

In my home State of Georgia agricultural exports account for approximately $1.5 billion annually is a tremendous boost to the state's economy and it is imperative that the federal government remove technical barriers with trading partners so that Georgia farmers, as well as farmers across the country, California, as Mr. Radanovich said, will be competitive globally. Mr. Chairman, I again thank you for holding this important hearing on the promotion of international exports and trade. I look forward to hearing from the panel this morning, and I yield back.

Mr. RUSH. The chair thanks the gentleman. The chair now recognizes the gentlelady from Ohio, Ms. Sutton, for 2 minutes for the purpose of opening statement.

OPENING STATEMENT OF HON. BETTY SUTTON

Ms. SUTTON. Thank you, Chairman Rush, for holding today's hearing on trade and promoting exports. We all know that trade can benefit American businesses and workers. In fact, Ohio is the seventh largest exporting state in the nation, and it is the only state that has increased exports every year since 1998. However, there are real problems with our current trade policies that are no longer theoretical arguments. While I don't believe that trade in and of itself is what is costing us jobs, I do believe that our trade system and bad trade policies and bad trade deals can cost us jobs and have cost us jobs. And I also believe it doesn't have to be that way. You know, between 1994 and 2002 an estimated 525,094 U.S. workers were certified as eligible for the NAFTA transitional adjustment assistance.

Since 2000, over 1,087 factories, companies or operations in Ohio have shut down or had massive layoffs costing Ohio over 200,000 manufacturing jobs. Promoting our exports is only useful if production continues to take place in the United States. We must never lose sight that without our workers the U.S. would not have products to export. Often when we speak up to address the flaws and the unfair trade practices that currently exist with so-called free trade and other trade arrangements, name calling ensues, and we are attacked with distractive tactics such as being labeled as protectionist or saying we are simply against trade. Well, that isn't accurate and it really doesn't serve our purpose well. We do not live in a perfect world, and we are certainly not operating under a perfect free market global system.

And while the trade deficit has narrowed during the current recession, China now accounts for more than 60 percent of the U.S. trade deficit in manufactured goods. We must have trade policies that no longer leave American workers and businesses at an unfair disadvantage. We cannot sit quietly aside while others engage in unfair trade practices. And while we should help promote our exports, it is also imperative to promote domestic production as well. I look forward to this hearing and this panel and working on this very important issue.

Mr. RUSH. The chair thanks the gentlelady. Now the chair is privileged to recognize the gentleman from North Carolina, my friend, George Butterfield.

OPENING STATEMENT OF HON. G.K. BUTTERFIELD

Mr. BUTTERFIELD. Thank you very much, Chairman Rush, and I thank the five witnesses for coming out today to be a part of this very important hearing. Mr. Chairman, you told us that we were going to get into some real deep issues, very important issues, on this committee, and today is an example of heading in that direction, and so thank you very much for your leadership. I think about the world so often, and the world has just drastically changed since I was a youngster many years ago. I go around to different high schools and middle schools in my district and talk about how the world has just literally transformed itself over the last 40 years. We are living in a global economy, and we cannot deny that, and that is a good thing. We can only benefit from increased export promotion. We are the world's largest exporter.

In just 5 years exports have increased from 9½ percent to almost 12 percent of GDP. This growth has sustained nearly 6 million jobs in manufacturing and 1 million in agriculture jobs like those in my district. We have reaped the benefit of double digit increases in exports every year for the past 5 years but more can be done and more must be done considering the state of our economy. And despite double digit gains, we could be exporting much, much more. Here is a statistic that might shock some of you. Companies that export represent less than 1 percent, 1 percent of the U.S. business community. That means out of all the businesses that are located in this country, 99 percent do not export, and 60 percent of these companies that do export only trade in one foreign market and one only.

This untapped potential could yield immeasurable benefits to the U.S. economy and could mean tens of thousands of jobs. I am confident that further exploring opportunities to increase exports would drastically change places like Rocky Mountain, North Carolina in my district where the unemployment rate is now nearly 14 percent. A plant just the other day, Cummings, laid off 390 employees, so that illustrates, Mr. Chairman, the importance of this hearing today. And I thank you for bringing us together. I yield back.

Mr. RUSH. The chair thanks the gentleman. The chair now is privileged to recognize the gentleman from Michigan, my friend, Mr. Stupak, for 2 minutes for the purpose of giving the opening statement.

Mr. STUPAK. Mr. Chairman, I will waive and use the extra time for questions, please.

Mr. RUSH. The chair thanks the gentleman. Now it is my privilege to welcome this panel of experts to this hearing. I will introduce them starting from my left and the audience's right. At the conclusion of my introduction, I will swear them in because that is the new custom of this committee, swearing in before they provide their testimony. Beginning on my left we have with us today, Ms. Michelle O'Neill. Ms. O'Neill is the Acting Under Secretary for International Trade and International Trade Administration for the Department of Commerce. We have Ms. Suzanne Hale. Ms. Hale is the Acting Administrator for the Foreign Agriculture Service in the Department of Agriculture.

Next, we have Dr. Loren Yager. Dr. Yager is the Director of International Affairs and Trade at the Government Accountability Office, GAO. Next to Mr. Yager is Mr. Franklin J. Vargo. Mr. Vargo is the Vice President of International Economic Affairs for the National Association of Manufacturers. And then we have with us Ms. Liz Reilly. Ms. Reilly is Director of Trade Roots, which is a part of the U.S. Chamber of Commerce. I want to welcome all the witnesses, and we certainly sincerely are grateful to you for taking the time off from your busy schedule to appear before this subcommittee today.

As I said before, it is a new practice of this subcommittee to swear in the witnesses, so I will ask that you please stand and raise your right hand.

[Witnesses sworn.]

Mr. RUSH. We will ask that you limit your opening statements to 5 minutes. We will begin with Ms. O'Neill. Ms. O'Neill, again, welcome, and please give us your opening statement.

TESTIMONY OF MICHELLE O'NEILL, ACTING UNDER SECRETARY FOR INTERNATIONAL TRADE, INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE; SUZANNE HALE, ACTING ADMINISTRATOR, FOREIGN AGRICULTURE SERVICE, DEPARTMENT OF AGRICULTURE; LOREN YAGER, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GOVERNMENT ACCOUNTABILITY OFFICE; FRANKLIN J. VARGO, VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS; AND LIZ REILLY, DIRECTOR, TRADEROOTS, UNITED STATES CHAMBER OF COMMERCE

TESTIMONY OF MICHELLE O'NEILL

Ms. O'NEILL. Chairman Rush, Ranking Member Radanovich, and members of the committee, thank you for the opportunity to speak before you today about how export promotion strengthens and supports America's economy. As we have undoubtedly heard from the statements today, exporting is important to our economy. Last year alone it accounted for 13 percent of our gross domestic product and millions of jobs. I welcome the subcommittee's interest in this topic and look forward to outlining the International Trade Administration's efforts to promote U.S. exports.

The International Trade Administration is dedicated to helping U.S. companies, especially small businesses, compete and win in the global economy. We have trade professionals based in Washington, in 109 U.S. communities, and in 77 countries that provide trade promotion support to U.S. companies. We guide companies through every step of the export process from shipping and logistics to understanding foreign regulations to finding solutions when they encounter trade barriers. We provide a wide range of services including trade counseling, advocacy, and market research. In 2008 we supported more than 12,000 expert successes totaling $67 billion in nearly 200 markets around the world.

We know that 97 percent of exporters are small and medium size businesses but they only account for 29 percent of the value of U.S. exports. We also know that of the 27 million businesses in the United States less than 1 percent export, and of the companies that do export 58 percent export to only one market. For this reason, our efforts are focused on getting more companies to export for the first time and for those companies that are already exporting to expand to additional markets. To highlight the kind of work we do, let me use some recent examples. Last year our commercial specialist in the Dominican Republic learned that a Dominican distributor was looking for a company that provides fuel additives for cars. After reaching out to our entire domestic network our Chicago office identified a small Chicago-based business that employs 150 workers, the Gold Eagle company. A commercial specialist in the Dominican Republic arranged a meeting with a Dominican company which resulted in Gold Eagle's first sale to the Dominican Republic valued at $50,000.

Often times a company gets an inquiry for the first time through their web site from a foreign buyer and doesn't know what to do. Other times a company is considering expanding its sales beyond the U.S. market and isn't sure how to proceed. In both cases, the first stop for them could be one of our 300 trade specialists located in a nearby export assistance center or our Trade Information Center. The Trade Information Center provides a single point of contact for all federal government export assistance programs. Through its 1-800 USA trade number, the Trade Information Center provides assistance ranging from helping fill out a certificate of origin finding out about export finance options or connecting with the company's local commerce export assistance center.

Last year, the Trade Information Center responded to 36,000 inquiries, most of which were from small businesses. We also hold seminars around the country to educate U.S. businesses on a whole range of topics including the nuts and bolts of exporting, how to protect your intellectual property rights abroad, and how to fill out export documentation. Through our strategic partners program, we are leveraging the client networks of trade associations, companies, universities and state and local governments to help small companies understand the benefits of exporting. Let me give you two recent examples of how we work with our partners. In the fall of 2008 one of our strategic partners, FedEx, led a Commerce Department certified trade mission to India to introduce 12 companies to business opportunities there.

Of these companies, two had never exported before and the other 10 had never exported to India. Our offices in India arranged over 300 appointments for the companies with potential buyers, agents, distributors, and Indian government decision makers. In another example, in September, 2007, the State of North Dakota's trade office in coordination with our offices in the former Soviet Union and in North Dakota brought over 100 foreign buyers to the big iron farm machinery show in West Fargo. In the 6 months following the trade show, U.S. companies exhibiting at the show sold approximately $14 million in U.S. farm machinery to visiting foreign buyers. In 2008 the state trade office was awarded a market development cooperator program grant for the state to establish an office in the Ukraine. Since then, we have worked together on trade missions to Taiwan, Ukraine, Russia, Kazakhstan, Australia, and South Korea.

At times, U.S. companies will look to us to help them when a foreign government tenders through U.S. government advocacy. Our advocacy center insures that U.S. companies can compete fairly against foreign competitors that are receiving high level advocacy support from their governments. Other times the U.S. company may need assistance to overcome a problem they are facing in a foreign market. These problems could range from regulatory trade barriers to unfair trade practices. This is where our Trade Compliance Center comes in. The Trade Compliance Center staff works with foreign governments to find a solution so that the U.S. company has the best possible chance to sell its products and services in that market. For example, a 2000 amendment to the Kazak Customs Code required importers to provide additional documentation that is not normally required before releasing their goods. After direct discussions the Customs Department authorized the release of some $70 million worth of U.S. goods.

The Kazak government amended the code and deleted the section that required importers to provide the additional documentation to clear customs. In closing, the down turn of the world economy has affected all of our industries and their exports. In these times, our export promotion work is even more important than ever for small businesses and to the long-term competitiveness of the United States. The International Trade Administration remains committed to job creation through exporting. Thank you.

[The prepared statement of Ms. O'Neill follows:]

MICHELLE O'NEILL
ACTING UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE
TESTIMONY BEFORE THE
HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON COMMERCE, TRADE AND CONSUMER PROTECTION

"Stimulating the Economy through Trade: Examining the Role of Export Promotion"
March 17, 2009

INTRODUCTION

Chairman Rush, Ranking Member Radanovich, and members of the Committee, thank you for the opportunity to speak before you today about the role of export promotion in our efforts to strengthen and support America's economy. I welcome the subcommittee's interest in this topic and look forward to outlining the International Trade Administration's (ITA) efforts to promote U.S. exports.

The mission of ITA is to create prosperity by strengthening the competitiveness of U.S. industry, promoting trade and investment, and ensuring fair trade and compliance with trade laws and agreements that enhance the ability of U.S. firms and workers to compete and win in the global marketplace. This mission is critical to enhancing America's global competitiveness and expanding commercial opportunities for American manufacturers, farmers, and service workers throughout the world.

When U.S. businesses seek to promote their goods and services in overseas markets, our programs lead the way. In short, ITA helps America's firms and workers navigate through the often complicated and unpredictable waters of foreign trade – so that U.S. firms' sales abroad help to ensure their growth in the United States. In particular, ITA focuses on assisting small and medium-sized businesses succeed in the international economy. Small and medium-sized businesses are critical to America's long-term prosperity and global competitiveness, and ITA programs are designed to help these companies export to the 95 percent of the world's consumers that live beyond our borders. Ninety-seven percent of U.S. exporters are small and medium-sized businesses, and ITA is committed to strengthening their competitiveness by helping them expand to the global marketplace.

As Acting Under Secretary for International Trade, I oversee four operating units to execute ITA's mission:

U.S. and Foreign Commercial Service (US&FCS) – The U.S. & Foreign Commercial Service ensures that U.S. companies, particularly small and medium-sized businesses, benefit from global trade. The US&FCS operates a global network of trade professionals in U.S. Export Assistance Centers (USEACs) in 109 U.S. cities and in U.S. Embassies and Consulates in 77 countries. US&FCS staff works with U.S. companies, providing counseling and advocacy, market research, trade events, and identification of potential international buyers or partners. We guide companies through every step of the export process, from learning how to export to shipping and logistics issues. In order to improve our export promotion programs, in 2004, the Department reorganized ITA to consolidate trade promotion programs under the leadership of the US&FCS. Recently, the US&FCS focused its programs on three priorities: increasing the number of U.S. companies that export, helping smaller companies expand to new export markets, and helping exporters overcome hurdles in foreign markets.

Manufacturing and Services (MAS) – Manufacturing and Services industry specialists and economists help strengthen U.S. competitiveness by assessing the needs of U.S. industries, conducting economic and regulatory analyses, and ensuring that industry issues are fully evaluated in developing trade policies. MAS coordinates industry advisory committees that serve as a communication channel for U.S. companies to express their views to U.S. negotiators on trade discussions and other policy issues. MAS administers the Export Trading Company Act, which provides limited antitrust immunity, primarily to small and medium-sized exporters, allowing them to collectively achieve economies of scale on foreign sales. MAS also manages the Market Development Cooperator Program (MDCP), which provides small matching grants to multiplier organizations, such as local development agencies, small business development centers, and trade associations, that can help strengthen the export competitiveness of U.S. industries.

Market Access and Compliance (MAC) – Market Access and Compliance advances U.S. commercial interests by eliminating foreign barriers to trade, investment, and business operations through enforcing trade agreements and addressing compliance violations promptly. This opens up markets abroad for U.S. companies to sell their products and services. Country and trade agreement specialists also assist in trade policy development and in the negotiation of bilateral and multilateral market-opening agreements.

Import Administration (IA) – Import Administration enforces U.S. anti-dumping and countervailing duty trade laws and works with U.S. businesses to help them understand these laws. IA tracks, detects and confronts unfair competition by monitoring economic data from U.S. global competitors and investigates evidence of unfair subsidization and other international trade distorting practices. IA also administers the Foreign Trade Zones Program, certain statutory import programs, and programs involving imports of textiles and apparel.

Role of Exports in the Economy

Mr. Chairman, more than ever before, our economy is dependent on the global economy. In 2008, exports accounted for 13 percent of Gross Domestic Product (GDP). To put this in historical context, exports were 9.5 percent of U.S. GDP five years earlier (2003), and 5.3 percent 40 years ago (1968). Last year, the United States exported an astounding $1.84 trillion worth of goods and services.

Nowhere is the impact of exports more important than in creating jobs in the United States. The latest available employment numbers (2006) indicate that roughly 6 million U.S. jobs depend on manufactured exports. Nearly one out of 20 private sector jobs depends on manufactured exports. More than half of the jobs created by manufacturing exports were in the non-manufacturing sectors, such as services, wholesale and retail trade, and transportation.

A significant number of major U.S. manufacturing industries are heavily dependent on foreign sales. For example, in 2006, seven major manufacturing sectors, led by computers and electronic products (39.5 percent) and primary metals (34.7 percent), counted more than one in four jobs as export-supported. Likewise, employment supported by manufactured exports played a significant role in the job numbers of many states. Twenty-one states counted over 100,000 jobs supported by manufactured exports in 2006, with two states each registering more than a half-million – California at 692,000 jobs, and Texas at 580,000.

Services exports – including education, business services, information services, entertainment, international tourism to the United States, and construction and engineering – have also contributed to job creation. For example, recent estimates indicate that international travelers to the United States support roughly 1.1 million domestic jobs.

Department of Commerce's Role in Trade Promotion

The Federal Government's trade promotion programs are designed to address challenges that U.S. companies face. These challenges include the lack of information on how to export and take advantage of exporting, the inability to get export financing, and overcoming numerous barriers and complexities to foreign market entry.

The Trade Promotion Coordinating Committee (TPCC) is led by the Department of Commerce and is composed of 20 federal government agencies, including the Export-Import (Ex-Im) Bank of the United States, the Small Business Administration, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, the U.S. Department of Agriculture, the U.S. Department of State, the U.S. Department of the Treasury, and the Office of Management and Budget. The TPCC is charged with coordinating the Administration's trade promotion efforts and provides a platform for the Secretary of Commerce to engage the heads of the other TPCC agencies to set priorities for a government-wide agenda on trade promotion. The TPCC Secretariat is housed in US&FCS.

<u>Information and Market Entry Assistance</u>

Mr. Chairman, I would like to take a moment to highlight how the programs of ITA's US&FCS help U.S. companies identify and take advantage of commercial opportunities abroad. In 2008, U.S. firms assisted by US&FCS reported 12,659 export successes; 426 of these successes were from companies that had never exported before, and 3,627 were from firms that had exported to a new market. Eight-two percent of these successes were reported by small and medium-sized businesses. In total, these successes supported over $67 billion in exports.

Recognizing that 97 percent of U.S. exporters are small- to medium-sized businesses, ITA continually seeks ways to encourage more of these companies to take advantage of improved access to foreign markets and global opportunities.

U.S. companies can access US&FCS' global network in a variety of ways. Our 300 trade specialists located in USEACs throughout the country reach out to local companies to help them realize their export potential through in-depth, value-added counseling. Companies can contact our experts overseas for country-specific information and assistance in resolving commercial issues. Companies also may call our Trade Information Center (1-800-USA-TRADE), which is staffed by a team of trade experts that serve as a single point of contact to all U.S. Government export assistance programs. In addition, ITA manages Export.gov, the Federal website dedicated to providing comprehensive information to U.S. firms as they enter or expand into global markets. We are able to reach even more companies interested in exporting through the Strategic Partners Program which leverages the customer base of private sector organizations-(such as express delivery companies), state governments, and trade associations, to make sure their clients are aware of the range of Federal export assistance programs.

If a U.S. company finds an interested foreign partner, our team of trade experts will work with the U.S. exporter to identify financing options. The Federal Government has a number of different tools to help U.S. companies complete a sale. The most common are: working capital guarantees that provide transaction-specific loans to U.S. exporters and are made by commercial lenders and backed by the U.S. Small Business Administration or the Export-Import Bank; credit insurance, which covers the risk of buyer nonpayment for commercial risks (e.g., bankruptcy) and certain political risks; and buyer financing, which provides term financing to creditworthy international buyers for purchases of U.S. goods and services. Some of our Strategic Partners, including TD Bank and M&T Bank, have hosted seminars for their clients on trade finance and federal financing programs. In addition, some Partners, including M&T Bank and Comerica, have reprinted and are distributing our Export Finance Guide, which provides a comprehensive resource on export financing options, to their clients.

<u>Matchmaking and Counseling</u> – When our trade specialists across the country counsel companies about exporting, they often recommend that companies find an overseas agent or distributor. Our overseas staff located in U.S. Embassies and Consulates throughout the world can save the company valuable time and money by doing the legwork in advance in a specific market to help the company find potential agents, distributors or other strategic partners.

We will contact a large group of pre-screened overseas business partners and then identify the contacts that are capable of becoming a viable representative for the U.S. company in that market. All of this work is done prior to the company making the trip overseas to meet face-to-face with these potential partners, saving the company time and resources.

For example, Gold Eagle Company, a Libertyville, Illinois –based manufacturer and distributor of aftermarket fluids and additives for the motor vehicle industry that employs 150 workers, is a client of our Chicago Export Assistance Center. Last year, our commercial specialist in the

Dominican Republic notified our trade specialists in Chicago of a trade opportunity for the automotive sector. The trade specialist in the Chicago office passed the lead on to Gold Eagle, who expressed an interest and followed-up with the firm. Our commercial specialist in the Dominican Republic then set up a meeting for Gold Eagle sales staff with the Dominican company, resulting in a sale valued at nearly $50,000.

Commercial Diplomacy and Advocacy – U.S. companies often need assistance to address a specific trade-related issue. The U.S. Government can weigh-in on behalf of a U.S. company with the foreign government to help the company resolve the issue. These problems range from regulatory trade barriers to unfair trade practices. Our job, through commercial diplomacy, is to help level the playing field by working with the foreign government to find a solution so that the U.S. company has the best possible chance to sell its products and services in that market. This type of service is particularly important in emerging markets.

For example, in April 2006, the Institute of Scrap Recycling Industries (ISRI) contacted ITA regarding the Indian government's onerous registration requirements concerned that these requirements would have effectively denied U.S. exporters access to the Indian market for approximately $350 million worth of unshredded scrap metal exports. We raised the issue with the Indian government in our bilateral dialogues. By working together with the Indian government, the Indian Director General of Foreign Trade eliminated the registration requirement in November 2007.

Our commercial diplomacy work is sometimes very transaction-specific. For example, in the fall of 2008, a Missouri-based manufacturer, Liquid Soap Products, contacted the Trade Information Center asking for assistance in obtaining the release of a shipment of soaps and cleaning products from Portuguese Customs in Lisbon. Customs refused to clear the shipment until the Portuguese health regulatory agency certified the products' safety. The trade specialist put the company in touch with our commercial officer in Lisbon, who then contacted the regulatory agency. In January 2009, Portuguese Customs released the cargo and the sale went through. Liquid Soap's importer attributes the willingness of the Portuguese Customs to work with them to US&FCS assistance.

U.S. companies will also look to us to help them win bids on foreign tenders. The Advocacy Center will coordinate U.S. Government advocacy on behalf of a U.S. company bidding for procurement. In 2008, U.S. Government Advocacy supported American companies successfully in 34 international procurements with U.S. export content of $21.8 billion. The Advocacy Center is actively tracking over 400 cases.

For example, in October, California-based McWong Environmental and Energy Group won a contract from Shanghai Huayi Corporation (SHC), one of the largest state-owned companies in Shanghai. SHC is constructing a new chemical production plant, which will be one of China's largest when completed. Our Commercial Service office in Shanghai promoted McWong's bid to various Chinese government officials. In September 2008, during his visit to Shanghai, the Commercial Service's Director General advocated on McWong's behalf to the Chairman of

SHC. California Governor Schwarzenegger also sent a letter in support of the company's proposal. McWong won the contract to build, operate, and own the water and wastewater systems that support the plant. The company values the deal at $28 million. McWong beat out the world's largest water company, which was receiving aggressive French government support for this project.

Trade Missions – Trade missions are an effective way for companies to gain access to foreign company leaders and government officials who would not normally meet with individual business visitors.

In 2008, US&FCS supported trade missions to 27 overseas markets with a total of 420 U.S. companies participating, resulting in nearly $350 million in export successes to date. For example, GEST LLC, a small Michigan-based solar energy firm, participated in our March 2008 Trade Mission to Sub-Saharan Africa. Our commercial specialist in Nigeria arranged numerous meetings with local businesses. As a result of these meetings, the company reports a pending commitment from an electrical contracting company in Nigeria (Kolison Nig. Ltd.) to contract with GEST to design and manufacture several solar-powered street lighting systems for use in Nigerian cities, a deal worth approximately $500,000.

We have a number of trade missions planned between now and the end of the fiscal year. These include a solar energy mission to India the week of March 22 that we coordinated with the Department of Energy. A dozen U.S. solar companies are participating in this mission. They will meet with Indian government officials in charge of solar industries and as well as partners in that market.

We are also planning a trade mission to Poland that is tied to a two-day conference; 70 U.S. firms are participating in the trade mission. Our commercial officers in Europe will attend this conference and meet with the U.S. companies to talk about the opportunities in their respective countries. The companies will also meet with local Polish firms interested in buying or distributing their products.

We are working with our private sector partners in the National Association of Manufacturers and other associations to raise awareness of our June 2009 Peru and Chile trade mission.

CONCLUSION

The downturn in the world economy has adversely affected all of our industry sectors and exports. Many of our major trading partners have experienced even more severe economic contractions, resulting in recent declines in foreign demand for our goods. In these troubled economic times, ITA's export promotion work is more important than ever for small and medium-sized businesses and to the long-term competitiveness of the United States. The International Trade Administration and all the TPCC agencies, remain committed to creating jobs by supporting exports by small and medium-sized businesses.

Mr. RUSH. Thank you very much. Now we will have opening statement from Ms. Suzanne Hale. Ms. Hale, thank you so very much and the chair recognizes you for 5 minutes for the purpose of an opening statement.

TESTIMONY OF SUZANNE HALE

Ms. HALE. Chairman Rush, members of the committee, thank you for this opportunity to discuss how USDA's Foreign Agriculture Service supports agricultural exports. Exports are crucial to American agriculture. During these difficult times, agricultural trade is also important because it supports so many jobs off the farm. Twenty-five years ago, the value of U.S. agricultural exports was about $35 billion a year. Last year, U.S. farm exports had tripled to a record $115 billion. Even with the recent economic downturn fiscal year 2009 agricultural exports are forecast to reach 95.5 billion, the second highest level ever. About 1/3 of U.S. agricultural production is exported. Every dollar of farm exports creates another $1.40 in supporting activities to process, package, finance, and ship products.

U.S. agricultural exports mean U.S. jobs. USDA's economic research service calculates that in 2007 agricultural exports generated 808,000 full-time American jobs. Our mission at FAS is to link U.S. agriculture to the world. The agency maintains a small Washington based staff and 97 offices around the globe. Our overseas network act as our eyes and ears as we work to reduce trade barriers and approve market access. For example, our Cairo office was instrumental in opening the Egyptian market to U.S. cattle, and our staff in the Philippines recently resolved concerns over import quotas that would have severely limited our pork and poultry exports. Because of the current economic crisis, credit is tight in many key markets. Our export credit guarantee program, known as GSM–102, facilitates commercial sales of U.S. agricultural exports by providing credit guarantees.

In fiscal year 2009, FAS expects to provide $5.5 billion in such guarantees. Over the past 2 years the program has facilitated $2 billion in feed grain exports directly benefitting states such as Illinois, Iowa, Nebraska, and Minnesota. Wheat, poultry, and cotton sales have similarly benefitted from the program. FAS administers several market development programs including the market access or MAP program. Under the MAP program, non-profit commodity and trade associations pool their resources into technical expertise with USDA's to develop markets overseas. In 2008, FAS approved $200 million in MAP funds to promote a wide variety of products including soybeans in Romania, beef in Taiwan, grapes in Australia, and pomegranates in Korea.

Investments in MAP programs produce results. For example, the Northwest Cherry Growers analysis shows that cherry exports support an average of 31,000 jobs a year. Cherry exports supported by $4.3 million in MAP funding over the past 5 years also generated an estimated $131 million in federal and state taxes. Now that is a good return. The Foreign Market Development program develops, maintains and expands long-term export markets for U.S. agricultural products. For example, the U.S. Grains Council is undertaking a 5-year effort to help rebuild Iraq's poultry industry, an effort which has led to nearly $4 million in sales of U.S. feed ingredients.

USDA's technical assistance for specialty crops program funds projects to remove the kind of technical barriers that were mentioned earlier. For example, the California Table Grape Commission used the program to fund fumigation research. This research helped increase grape sales to Australia from $16 million in 2007 to $52 million in 2008. The program has also been used to gain access for California nectarines in Japan and to harmonize organic standards with Canada. Emerging markets offer great potential for U.S. agricultural exports. A recent project funded under the emerging markets program provided minority producers of fruits and vegetables in Florida with training and other support that enabled them to make their first international sales.

The firms in that program now report $25 million a year in exports. Our quality samples program enables U.S. agricultural trade organizations to provide small samples of agricultural products to potential importers in emerging markets. For example, exports of dried cranberries to Mexico increased 17 percent to $15 million after samples were redistributed to Mexican bakers. FAS also links U.S. agriculture to the world by sponsoring trade and investment missions. In March, 2008, 17 U.S. agri-businesses met with more than 125 African counterparts through a trade and investment mission to western central Africa. The mission facilitated $6.6 million in sales.

At FAS we take pride in our efforts to improve the competitive position of U.S. agriculture in the global marketplace. Agricultural trade means jobs, both on and off the farm. Agricultural trade remains a bright spot in the U.S. economy consistently producing a trade surplus. I look forward to answering any questions you may have. Thank you.

[The prepared statement of Ms. Hale follows:]

Statement by Ambassador Suzanne Hale
Acting Administrator of the Foreign Agricultural Service
U.S. Department of Agriculture
Before the U.S. House Committee on Energy and Commerce
Subcommittee on Commerce, Trade and Consumer Protection
Washington, DC
Tuesday, March 17, 2009

Mr. Chairman, members of the committee, I am pleased to appear before you today. I welcome the opportunity to discuss how USDA's Foreign Agricultural Service (FAS) supports U.S. agricultural exports.

IMPORTANCE OF U.S. AGRICULTURAL TRADE

U.S. agricultural exports are crucial to the prosperity of our agricultural industry and also benefit the U.S. economy as a whole. During these difficult economic times, agricultural trade is particularly important because of its impact on rural employment and jobs, not only in the farm sector, but also in the food processing, packaging, and transportation industries.

Twenty-five years ago, the FY 1983 value of U.S. agricultural exports was about $35 billion. In FY 2008, U.S. agricultural exports reached a record $115.4 billion, up dramatically from the prior record of $82.2 billion in FY 2007. These robust export numbers would not have been possible without sustained efforts to reopen markets through trade negotiations and the unparalleled productivity and ingenuity of the U.S. agricultural sector. Even with the sharp global economic downturn, the FY 2009 agricultural export forecast is $95.5 billion, which would be the second highest level ever.

Overseas markets are vitally important to U.S. farmers and ranchers. For many farm products, one-third or more of domestic production is exported. USDA estimates that on average 26 to 30 percent of annual farm cash receipts are generated by exports. Every dollar of exports creates another $1.40 in supporting activities to process, package, finance, and ship agricultural products. Equally important, U.S. agricultural exports mean U.S. jobs. USDA's Economic Research Service calculates that calendar year 2007 agricultural exports generated 808,000 full-time American jobs.

THE MISSION OF FAS

Our mission at FAS is to link U.S. agriculture to the world. It is our job to help facilitate the export of U.S. food and agricultural products. Additionally, FAS administers an overseas school feeding program, and engages in trade capacity building efforts that support agricultural and economic growth in developing countries that helps encourage mutually beneficial trade over the long term.

The Agency maintains a small Washington-based staff and 97 overseas offices around the globe staffed by our foreign service officers. The FAS overseas network acts as our eyes and ears around the world as we work to expand market access for U.S. producers and addresses trade issues as they arise. For example, our Cairo office was instrumental in the recent opening of the Egyptian market to U.S. cattle. With a new protocol for disease testing in place, a dairy farm in Egypt imported 1,900 head of U.S. Holsteins in December 2008, valued at almost $9 million.

In the Philippines, FAS agricultural officers worked to resolve concerns that the Philippines was attempting to unilaterally change agreed upon procedures for import quotas for U.S. pork and poultry. Last month, U.S. Agriculture Secretary Tom Vilsack received assurances from the Philippines that the procedures would not change. As a result, access has been maintained to a market that bought over $45 million in U.S. pork and $20 million in U.S. poultry in 2008.

EXPANDING MARKET ACCESS

We must maintain and expand access to overseas markets, where 96 percent of the world's consumers live.

Negotiating bilateral, regional, and multilateral trade agreements that lower tariffs and reduce trade impediments is crucial to seizing market opportunities. The President's trade agenda will reflect our respect for entrepreneurship, market competition, the environment, and the rights of workers both at home and abroad. In this endeavor, FAS provides the critical analysis, policy advice, and a seat at the negotiating table to help ensure U.S. agriculture achieves substantial benefits in trade negotiations. FAS is a voice for U.S. agriculture as we work closely with the Office of the U.S. Trade Representative to assist it in negotiating agreements.

EXPORT CREDIT GUARANTEE PROGRAMS

Let me now turn to our export assistance and promotion programs. Because of the current economic crisis, traditional sources of trade finance have diminished, threatening the ability of U.S. agriculture to make sales abroad. With our export credit guarantee program, known as GSM-102, FAS helps to facilitate sales by U.S. exporters. In FY 2009, FAS expects to issue as much as $5.5 billion in guarantees, which is the statutory limit.

The GSM-102 program has facilitated approximately $2 billion in feed grain exports in FY 2008 and 2009, directly benefiting our major corn-producing states, including Illinois, Iowa, Nebraska, and Minnesota. During the same time period, $722 million in wheat sales have been guaranteed, benefitting major wheat-producing states such as Kansas, North and South Dakota, Montana, and Oklahoma. The program has facilitated over $1 billion in poultry exports in FY 2008 and 2009. These exports, which primarily shipped to Russia, Ukraine, and Kazakhstan, are important to poultry producers in states such as Arkansas, Georgia, and Alabama

TRADE PROGRAMS

FAS administers several statutorily-mandated market development programs including the Market Access Program, Foreign Market Development Cooperator Program, Technical Assistance for Specialty Crops Program, and Emerging Market Program. Separate statutory authority also enables us to run a Quality Samples Program. Although these programs are primarily designed to expand economic opportunities for our farmers, ranchers, and food processors, they also support many jobs in the transportation and distribution sector. These programs provide funds to U.S. organizations to conduct activities including market research, consumer promotion, and market access support.

Market Access Program

In FY 2008, FAS approved $200 million in Market Access Program (MAP) funds to promote U.S. agricultural commodities in almost every region of the world.

For example, MAP funds have been matched with funds from commodity groups to market soybeans in Romania, beef in Taiwan, grapes in Australia, and pomegranates in Korea.

Using MAP funds, the state-regional trade organizations representing the Midwest and Northeast hosted the Food Export Marketing Forum in April 2008, in Chicago, Illinois. At the event, hundreds of meetings between international buyers and U.S. small and medium size companies helped generate new export sales, with thirty-eight U.S. companies reporting $2.6 million in sales at the show. For six of these companies, these were first-time export sales.

With MAP funding, the Wine Institute carried out a 4-week wine promotion in more than 600 stores in Ontario, Canada during May 2008. This highly successful "California Styles" promotion featured more than 140 California wines, included over 1,100 in-store tastings, and was linked to an advertising campaign. As a result, moderately priced California wine sales increased 85 percent in the Ontario stores for the May-August 2008 period, compared to the same four months in 2007, amounting to a $4.3 million increase.

Foreign Market Development Program

The Foreign Market Development (FMD) Program administered by FAS aims at developing, maintaining, and expanding long-term export markets for U.S. agricultural products. Nonprofit commodity and trade associations called Cooperators pool their technical and financial resources with USDA to conduct overseas market development activities. In FY 2008, USDA awarded FMD funding totaling $34.5 million.

Using FMD, the U.S. Grains Council is undertaking a 5-year effort to help rebuild Iraq's poultry industry, which has led to exports of nearly $4 million of U.S. poultry feed ingredients. FMD funds have also helped the U.S. Wheat Associates increase sales of soft red wheat in Latin America.

Technical Assistance for Specialty Crops

USDA's Technical Assistance for Specialty Crops (TASC) program assists U.S. organizations by providing funding for projects designed to remove or reduce sanitary, phytosanitary, and technical barriers to U.S. specialty crop exports.

TASC has successfully helped U.S. exporters maintain and improve market access for millions of dollars of products from almonds to spinach. In recent years, TASC funding has been used to gain market access for California nectarines in Japan, harmonize organic standards with Canada and the European Union, and create a database of pesticide tolerance levels and standards for more than 300 specialty crops in more than 70 countries. A specific example would be the California Table Grape Commission's use of TASC funding for fumigation research that was a major factor in increasing grape sales to Australia to $16 million in 2007 and then to a record $52 million in 2008.

In 2008, $4 million in TASC funding supported projects by 18 organizations, including the U.S. Potato Board, the Ginseng Board of Wisconsin, and the Hawaii Papaya Industry Association.

Emerging Markets Program

Emerging markets offer great potential for U.S. agricultural exports. However, emerging markets often pose unique challenges that inhibit or discourage U.S. exporters. The Emerging Markets Program (EMP) provides $10 million annually to U.S. agricultural organizations to cover part of the cost of technical assistance activities that promote exports to these markets.

One EMP-funded program provided minority fruit and vegetable producers in Florida with training that enabled many participating firms to make their first international sale, participate in their first trade mission, and participate in other export promotion activities. Together, these firms now report exports of $25 million annually.

Recently, EMP funding supported the first U.S. Apple Export Council trade team traveling to Russia, the world's largest apple importer, accounting for 1 million metric tons per year. Sixteen apple producers and exporters from New York, Michigan, California, Virginia, and Pennsylvania traveled to St. Petersburg, Russia to meet with importers and wholesalers. As a direct result of this visit, U.S. apple producers expect first-time exports to Russia of nearly 10,000 boxes of apples with an approximate value of $250,000 – $400,000. The industry estimates that annual exports to this new market could reach $3 - $5 million within the next 5 years.

Quality Samples Program

The Quality Samples Program (QSP) helps U.S. agricultural trade organizations provide small samples of agricultural products to potential importers in emerging markets overseas. Focusing on industry and manufacturing, as opposed to end-use consumers, it permits potential customers to discover U.S. quality. It also allows manufacturers overseas to do test runs to assess how U.S. food and fiber products can best meet their production needs. In 2008, USDA provided QSP funds totaling $1.4 million.

Under QSP, small investments produce big results. For example, demand for U.S. dried cranberries in Mexico's baking sector has increased due to the Cranberry Marketing Committee's (CMC) MAP-funded technical training and baking seminars and the distribution of samples made possible by QSP. CMC used a total of $72,000 in QSP funds to provide samples to several Mexican companies, resulting in a total of eight new cranberry-based products introduced into Mexico in 2007-2008. As a direct result, exports to Mexico increased 17 percent to reach $15 million in cranberry sales.

The U.S. Wheat Associates (USW) in 2007/08 used QSP funds to demonstrate the advantages of U.S. hard red spring wheat in place of German or French wheat in the baguette bread preferred in Senegal. Working with the FAS Agricultural Attaché, USW arranged shipments to the two largest flour mills in French West Africa for technical and qualitative analysis. Both mills and their customers were extremely satisfied with the baking characteristics of the QSP sample. Senegal imported 15,600 metric tons of U.S. hard red spring wheat, valued at $4.7 million in the 2007/08 Marketing Year.

TRADE AND INVESTMENT MISSIONS

FAS also links agriculture with the world by sponsoring FAS trade and investment missions (TIMs). For example, in March 2008, 17 U.S. and more than 125 African agribusinesses participated in the West and Central Africa TIM coordinated by FAS, resulting in $6.6 million in U.S. sales. The year before, 10 U.S. and more than 150 Georgian agribusinesses participated in a TIM that resulted in $2.5 million in U.S. sales.

CONCLUSION

As Acting Administrator of USDA's Foreign Agricultural Service and someone who has had an opportunity to represent FAS in several different offices overseas, I am proud of our efforts to improve foreign market access for U.S. products, build new markets, and improve the competitive position of U.S. agriculture in the marketplace. U.S. agricultural trade means jobs both on and off the farm. Transporting agricultural products to overseas markets means employment for U.S. transportation and port workers. The ripple effect is enormous.

We look forward to working with Congress in support of our efforts to open markets around the world for U.S. agricultural products. Agricultural trade remains a bright spot in the U.S. economy, consistently producing a trade surplus.

This concludes my statement. I look forward to answering any questions you may have. Thank you.

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Mr. RUSH. Thank you very much. Our next witness is Dr. Loren Yager. Dr. Yager, we welcome you to this subcommittee hearing, and we would ask that you limit your remarks, your opening remarks, to 5 minutes, if you will.

TESTIMONY OF LOREN YAGER

Mr. YAGER. Thank you, Chairman Rush, Ranking Member Radanovich, members of the subcommittee. Thank you for the opportunity to appear today to provide GAO's perspective on the role of exports in the U.S. economy. As Congress responds to the economic downturn it must consider the full range of tools available for further growth and create new jobs for U.S. workers. Some of these tools are related to promoting exports, which can have broad benefits to the U.S. economy. Trade enables the United States to achieve a higher standard of living through producing and exporting goods that are produced here most efficiently, and importing goods and services that are produced more efficiently elsewhere.

U.S. exports of manufactured goods grew by approximately 50 percent from 2004 to 2008 to a level of $1.1 trillion. These exports have come from every state. For example, in 2008 Illinois exported 49 billion worth of manufactured goods. Similarly, California exported 127 billion of manufactured goods with an additional 8 billion in agricultural products. Because of the importance of trade to the U.S. economy, Congress has expressed longstanding concerns as to whether U.S. agencies are doing everything possible to promote U.S. exports. I will briefly mention three policy areas in my statement today. First, coordinating export promotion programs. Second, effectively meeting the needs of small businesses, and, third, monitoring and enforcing trade agreements.

The first longstanding congressional concern I will discuss is the lack of effective coordination and follow up of trade promotion activities. Other witnesses have described the trade promotion coordinating committee and provided details on specific functions of the Commerce and Agriculture departments. In terms of coordination and follow up, we have reviewed the TPCC several times since its inception, and I testified in 2006 that the TPCC had improved on their follow up of key measures. For example, in the 2008 national export strategy there is information regarding the status of priority initiatives identified in the prior year's annual report.

However, despite the importance of agency coordination the strategy still does not link the agency's individual goals to an overall government export promotion strategy. Promoting exports by small businesses has also been a long-term interest of the Congress as reinforced by the importance of small business in many of the opening statements. While many small businesses export it is widely recognized that they face a number of challenges in exporting, and Congress had required that agencies focus a significant share of their efforts to small and medium size businesses. In 2006, I testified about the lack of systematic measures for small business participation in government export promotion programs.

More recently, we had a similar finding with regard to the export-import bank where a number of congressionally required measures lacked targets and lacked time frames. The third and possibly most important priority for the United States is ensuring that U.S. trading partners comply with trade agreements. Monitoring and enforcing these trade agreements, which number in the hundreds and cover the vast majority of U.S. exports. It is a key responsibility for numerous U.S. agencies. Congress has expressed longstanding concerns regarding a number of these issues of which I will mention two. The first is China's compliance with its commitments. Congress has been keenly interested in the extent to which China is complying with its obligations. As a result, we have conducted a number of studies examining U.S. government efforts to oversee China's compliance, and we have made recommendations to U.S. agencies to improve communication to key stakeholders such as the U.S. Congress.

A second point is the sufficiency of agency's human capital. Effective monitoring and enforcement requires staff with expertise in trade policy, the foreign country, and the particular industry. However, we found that trade agencies have not always been able to get the right people in the right places. We recommended that key trade agencies develop better planning and training to equip staff to handle increasingly complex barriers to U.S. exports. Let me also mention that while in China last week, I heard a number of examples where having specialized U.S. government personnel in the embassy and in the consulates can assist U.S. firms. For example, in China patent and trademark office staff who are of particular interest to this subcommittee have been actively assisting U.S. firms better protect intellectual property, which, as you know, has been a big concern for U.S. firms, particularly in China. Chairman Rush, Ranking Member Radanovich, this concludes my remarks. I would be happy to answer any questions you have.

[The prepared statement of Mr. Yager follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Commerce, Trade, and Consumer Protection, Committee on Energy and Commerce, House of Representatives

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INTERNATIONAL TRADE

Effective Export Programs Can Help In Achieving U.S. Economic Goals

Statement of Loren Yager, Director
International Affairs and Trade

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GAO-09-480T

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear today before the Subcommittee to provide our perspective on the role of exports in the U.S. economy. As Congress responds to the rapid deterioration in the U.S. economy, it must consider the full range of tools available to further growth and create new jobs for U.S. workers. Some of these tools are related to promoting exports, which can have broad benefits to the U.S. economy. Today, I will lay out some observations regarding export promotion challenges from a range of work that we have conducted for Congress over recent years.

In my statement today, I will provide some background information concerning the ways in which exports can enhance U.S. economic output, and I will summarize some of the work we have conducted to address congressional interest in promoting the growth of exports and improving export promotion programs.

My remarks are based on a variety of reports and testimonies we have issued on a range of international trade issues over the past 4 years. We conducted this work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Exports, and trade more broadly, contribute to the U.S. economy in a variety of ways. Trade enables the United States to achieve a higher standard of living through producing and exporting goods and services that are produced here relatively efficiently, and importing goods and services that are produced here relatively inefficiently. An indication of this is that firms engaged in the international marketplace tend to exhibit higher rates of productivity growth and pay higher wages and benefits to their workers than domestically oriented firms of the same size.

U.S. exports of manufactured goods grew from $730 billion in 2004 to $1.1 trillion in 2008. U.S. exports of non-manufactured products grew from $89 billion in 2004 to $178 billion in 2008. These exports have come from every state. For example, in 2008 Illinois exported $49 billion worth of manufactured goods and $5 billion in non-manufactured goods. Similarly, California exported $127 billion in manufactured goods and $18 billion in non-manufactured goods, of which nearly $8 billion were agricultural products.

In addition to the longer-term benefits of trade and exports, exports can serve as a countercyclical force for the U.S. economy, strengthening the economy when other parts of it are relatively weaker. For a number of years, as the United States increasingly imported more than we exported, the U.S. economy was an engine of growth for other nations. In contrast, when the U.S. economy slowed in 2007 and much of 2008, U.S. economic growth was boosted by an improving trade balance. With strong global demand for U.S. goods and services, increases in net exports (exports minus imports) accounted for over half of U.S. economic growth in the past 2 years. Unfortunately, when U.S. trading partners are also experiencing economic downturns, as we are currently seeing, the potential for trade to continue to serve as a countercyclical force is diminished.

GAO Has Addressed Longstanding Concerns about Challenges to Achieving Economic Benefits through Export Promotion

Congress has expressed longstanding concerns regarding several aspects of U.S. export promotion efforts, especially regarding interagency coordination, meeting the needs of small businesses, and effectively enforcing trade agreements. We have addressed these concerns by reviewing and providing recommendations on a wide range of U.S. policies and programs that have the potential to increase U.S. exports. Effective export promotion policies are always important, but are of particular interest in the current environment. My statement today will address three policy areas: (1) coordinating export promotion programs; (2) effectively meeting the needs of small businesses; and (3) monitoring and enforcing trade agreements to broaden U.S. access to foreign markets.

Coordination of Export Promotion Efforts Can Help Maximize Benefits from Agency Activities

The Trade Promotion Coordinating Committee (TPCC) is charged with providing a unifying interagency framework to coordinate U.S. export promotion activities and develop a government-wide strategic plan. TPCC member agencies provide a wide range of export promotion activities, including the Department of Commerce's advice and advocacy to businesses during the export process, the Department of Agriculture's financing for promotional activities, and the Export-Import Bank's (Ex-Im) loan guarantees for foreign buyers of U.S. exports. According to the TPCC's 2008 *National Export Strategy*, nine member agencies had about

$1.3 billion in budget authority for export promotion programs in fiscal year 2008.[1] Two agencies accounted for more than three quarters of the reported total export promotion budget—Agriculture with $644 million and Commerce with $339 million, followed by the Department of State with $184 million. Other agencies can play significant roles in export promotion, despite their smaller budget authorities. Ex-Im, for example, has recently requested no budget authority, projecting that the fees it collects will offset its costs. Nonetheless, in fiscal year 2008, Ex-Im authorized $14.4 billion in loans, guarantees, and export-credit insurance to support U.S. exports.

One of the longstanding congressional concerns we have addressed is a lack of effective coordination of trade promotion activities. We have reviewed the TPCC several times since its inception and we testified in 2006 that the TPCC had made progress over time in improving coordination.[2] However, we also testified that its *National Export Strategy* continued to provide limited information on agencies' goals and progress relative to broad national priorities. Examples of positive steps we reported on across TPCC member agencies included improvements in interagency training and joint outreach to better serve small business. We further noted that the strategies did not review agencies' allocation of resources in relation to government-wide export promotion priorities. We note now that the 2008 *National Export Strategy* contains information regarding the status of priority initiatives identified in the prior year's annual report. It also contains information on individual TPCC member agencies' export promotion strategies and results. However, the strategy still lacks an overall review of agencies' allocation of resources relative to government-wide export promotion priorities.

[1]TPCC has 20 member agencies. However, it generally reports in the *National Export Strategy* on the budgets and activities of around 10. The 2008 strategy included budget authority information for 9 agencies: Departments of Agriculture, Commerce, State, and the Treasury; Ex-Im, Overseas Private Investment Corporation, Small Business Administration, U.S. Trade and Development Agency, and the Office of the U.S. Trade Representative.

[2]GAO, *Export Promotion: Trade Promotion Coordinating Committee's Role Remains Limited*, GAO-06-660T (Washington, D.C.: April 26, 2006).

Broadening Trade Benefits by Increasing Small Business Exports Is a Trade Priority

Promoting exports by small businesses has been a perennial priority in the *National Export Strategy*. In addition, USTR's 2009 *Trade Policy Agenda* calls for using trade and commercial policies to help small and medium businesses become more effective competitors and exporters in the global marketplace. While many small businesses export, it is widely recognized that they face a number of challenges in exporting.[3] For example, small businesses typically do not have overseas offices and may not have much knowledge regarding foreign markets. Export promotion agencies have developed various goals with respect to their small business assistance, and in some cases Congress has mandated specific requirements for supporting small businesses.

My remarks will focus on our findings regarding Ex-Im's efforts to address congressional mandates regarding its small business financing. Since the 1980s, Congress has required that Ex-Im, which provides loans, loan guarantees, and insurance to finance U.S. exports, make available a certain percentage of its export financing for small business. Since 2002, Congress has required that share be at least 20 percent. Moreover, in Ex-Im's 2006 reauthorization, Congress directed Ex-Im to establish performance standards for assessing its small business financing efforts, including activities directed at businesses owned by socially and economically disadvantaged individuals and women.

We identified two types of challenges in monitoring Ex-Im's support for small businesses:

- *Developing effective performance measures*. We found that Ex-Im had developed performance standards for assessing its small business financing efforts in most, although not all, of the areas specified by Congress, ranging from providing excellent customer service to increasing outreach.[4] We also found that some measures for monitoring progress against the standards lacked targets and timeframes, and that Ex-Im was just beginning to compile and use the small business information it was collecting to improve operations. GAO made several recommendations to

[3]According to the 2008 *National Export Strategy*, 97 percent of firms that export are small or medium enterprises. However, a very low proportion—less than 1 percent—of U.S. firms export.

[4]See GAO, *Export-Import Bank: Performance Standards for Small Business Assistance Are in Place but Ex-Im Is in the Early Stages of Measuring Their Effectiveness*, GAO-08-915 (Washington, D.C.: Jul. 17, 2008).

Ex-Im for improving its performance standards and Ex-Im agreed to take steps to address them.

- *Maintaining reliable data and reporting.* In 2006, we found weaknesses in Ex-Im's data and data systems for tracking small business financing and made recommendations for improvement; Ex-Im has taken steps to address those weaknesses.[5] One notable improvement has been the introduction of "Ex-Im Online," an interactive, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. This contributed to more timely and accurate information on Ex-Im's financing, and thus a greater level of confidence in Ex-Im's reporting on its efforts relative to congressional goals.

Trade Agreements Need to Be Effectively Monitored and Enforced to Ensure U.S. Companies Can Benefit

A top trade priority for the United States is opening foreign markets for U.S. goods and services by ensuring that U.S. trading partners comply with existing trade agreements. These agreements have addressed traditional barriers to trade such as tariffs, as well as other obstacles ranging from weak intellectual property protection to selective enforcement of agricultural inspection requirements. As a result, monitoring and enforcing these agreements—which number in the hundreds and cover the vast majority of U.S. exports—is a key responsibility for U.S. government agencies.

Congress has expressed longstanding concerns regarding a number of issues, of which I will discuss two related issues:

- *Effective monitoring and enforcement of trade agreements.* We have reported on a variety of issues related to monitoring and enforcing the broad range of U.S. trade agreements with a number of countries.[6] For example, since China's accession to the World Trade Organization in 2001, Congress has been keenly interested in the extent to which China is complying with its obligations. As a result, we have performed a large body of work examining U.S. government efforts to oversee China's implementation of its trade obligations. Most recently, we reviewed

[5]See GAO, *Export-Import Bank: Changes Would Improve the Reliability of Reporting on Small Business Financing,* GAO-06-351 (Washington, D.C.: March 3, 2006) and GAO, *Export Promotion: Export-Import Bank has Met Target for Small Business Financing Share,* GAO-08-419T (Washington, D.C. Jan. 17, 2008).

[6]See, for example, GAO, *International Trade: Further Improvements Needed to Handle Growing Workload for Monitoring and Enforcing Trade* Agreements, GAO-05-537 (Washington, D.C.: June 30, 2005).

USTR's annual reporting on China's compliance.[7] Our analysis of these reports identified about 180 compliance issues with China, ranging from agriculture policies to China's legal system. Of these, we found that USTR had resolved 23 percent, achieved some progress on 40 percent, and made no progress on 37 percent. We are also in the process of completing a report analyzing the results of free trade agreements between the United States and four countries.

- *Sufficiency of agencies' human capital to perform monitoring and enforcement responsibilities.* We have previously reported that the workload for agencies responsible for monitoring and enforcing trade agreements has increased significantly and that the agreements they monitor and enforce have become more complex.[8] Effective monitoring and enforcement requires significant expertise—often involving staff with expertise in trade policy, the foreign country, and the particular industry. However, we have found that trade agencies face constraints to developing and accessing necessary expertise. For example, after identifying a lack of training for U.S. government staff overseas regarding monitoring and enforcing trade agreements, we recommended that key trade agencies jointly develop a strategy for meeting those training needs to better equip staff to handle increasingly complex or technical barriers to U.S. exports. Let me also mention that while in China last week, I heard a number of examples of situations in which having specialized U.S. government personnel in the embassy and consulates can be a great benefit to U.S. firms and their ability to serve foreign markets.

Chairman Rush and Ranking Member Radanovich, this concludes my remarks. I appreciate the opportunity to discuss these issues with you today. We would be glad to work with the Subcommittee in the future on other issues related to foreign commerce. I am happy to answer any questions you may have.

Contact and Acknowledgments

For further information about this testimony, please contact me at (202) 512-4347 or by e-mail at YagerL@gao.gov. Celia Thomas (Assistant Director), Jason Bair, Adam Cowles, Gezahegne Bekele, Karen Deans, and Richard Krashevski made contributions to this testimony.

[7]GAO, *U.S.-China Trade: USTR's China Compliance Reports and Plans Could Be Improved*, GAO-08-405 (Washington, D.C.: April 14, 2008).

[8]GAO-05-537.

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Mr. RUSH. The chair thanks the gentleman. The next witness is Mr. Franklin J. Vargo. We welcome you, Mr. Vargo. We ask that you limit your opening statement to 5 minutes.

TESTIMONY OF FRANKLIN J. VARGO

Mr. VARGO. Thank you, Mr. Chairman, members of the subcommittee. I am delighted to be here representing the National Association of Manufacturers. You know, 2/3 of everything America exports are manufactured goods so the NAM really cares about this. Exports, unfortunately, are like Rodney Dangerfield. They just don't get any respect. People don't see exports. They see imports and all the big box stores. Nobody sees exports. A lot of Americans don't even think we export anything even though we are one of the world's largest exporters, and we are the largest manufacturer in the world. We manufacture 1 out of every $5 of everything made in the entire world. A lot of people find that astonishing but it is nevertheless true. Now our exports of manufactured goods have amassed a trillion dollars and in recent years has been growing about 15 percent a year, as you noted, Mr. Chairman, one of the strongest parts of our economy. People think, wow, that is really good.

I look at exports and say, you know, we are not an export powerhouse. In fact, we are missing the boat on exports. Why do I say this? Because the NAM has started benchmarking our industry against industries around the world, and we have looked at the 15 major manufacturing economies in the world that account for 80 percent of all the manufactured goods. When we look at our imports proportioned to the size of our manufacturing industry, it is not really out of line with the aggregate. When we look at our exports, we are dead last, number 15 out of the 15 countries.

The world average, all the countries in the world, when we look at the World Bank data and trade data, the average is twice what we export, twice. We are exporting half as much of our manufacturing output as the average country in the world. Now if we were exporting at the average, we would have another trillion dollars of exports. We wouldn't have a trade deficit. Why are we exporting so little? And I should note that before I came to the NAM, I had a lengthy career with the Department of Commerce in export promotion trade policy. And it has been a long-time observation that one of the most fundamental reasons we export as little as we do is we grew up as a continental economy surrounded by an ocean on both sides, natural resources, and large domestic market driven countries didn't grow up that way. Japanese countries didn't grow up that way. They knew they had to export in order to grow and survive.

We have to change the mentality of American companies. They are in a globalized world and they freely need to do more. The second reason is that the dollar is the world's reserve currency and in my view at least for too many years that has led to an evaluation of the dollar against other currencies that are too high to reflect the competitiveness of our exports. Additionally, we face a lot of trade barriers around the world. We need to get those trade barriers down somehow, and that is why the NAM has favored bilateral free trade agreements, and without wanting to get into a debate over free trade agreements, I just want to note the fact that last year we had a manufactured goods trade surplus of $21 billion with our free trade partners as a group, 6 billion of which was with GAFTA, which used to be in deficit before the agreement went into effect. With countries with which we don't have trade agreements, we have $477 billion deficit with about 277 of that being with China with whom we have no trade agreement.

But having access to markets, being competitive, wanting to export is not enough. You got to market. Just like an individual company a country has to market its exports, and here I think we really do a very inadequate job. I look at Commerce is doing well with what it has got but I look at the resources. Last year, Commerce had about $330 million for export promotion. The Department of Agriculture had twice that amount, 600 and some million or clearly our national priority goes on promoting agricultural exports and not manufactured goods. And I don't want to stop promoting agricultural goods, you know. As Ms. Hale noted, 1/3 of our agricultural production is exported. That is great, and we need that, and I would like to see it go even higher but only 1/5 of our manufacturing export production is exported, and if we could get that up to 1/3 by my back of the envelope calculation, we would pick up another 1.3 million jobs in America's factories, maybe a million and a half.

Now promotion programs work. The figures I have seen, and I believe they are reliable, at least 100 to 1. For every dollar you put in to export promotion you get at least $100 in additional exports and that is a stream that goes into the future. Now if you and I could put that into our personal portfolios, we would all jump at it, so why doesn't the U.S. government? Because they don't know. So that is why this hearing is so important. I would like to ask that the World Bank document, export promotion agencies, what works and what does not, which says every dollar of export promotion produces $300 of exports, I would like to ask this be put in the record of this hearing.

Mr. RUSH. By unanimous consent, the document will be placed in the record.

[The information appears at the conclusion of the hearing.]

Mr. VARGO. OK. Thank you, sir. I don't want to take anything away from the Agriculture Department. I admire their programs. I wish the Commerce Department could do more. I know that proportional to the amount of agricultural and manufactured exports because manufactured exports are 10 times as large as agriculture. If Commerce really had the same proportional budget, it would have a $6.4 billion export promotion budget, not 300 million. Now I know the department has a huge deficit and we have a huge stimulus program so here comes the NAM and says, you know, could we have another 6 billion for export promotion, but the fact of the matter is these programs pay for themselves. They will generate a flow of tax revenue that will more than pay for it.

So again I am thrilled that this subcommittee is holding this hearing and look forward to working with you, Mr. Chairman, the members, your staff because we have to make the priority of exports more visible. We are either going to pay our way in the world or borrow our way, and we have already seen, we have got a $5–

1/2 trillion accumulated trade deficit already, thank you very much, so I would like us to exporting more and paying our way in the world. We can do it but so many small companies just don't have the time to fly over to Europe or fly over to China, and what do they do when they get there? You know, they need more help. The help they get is good, but it is much, much too small. Thank you, sir.

[The prepared statement of Mr. Vargo follows:]

National Association of Manufacturers

Testimony

of Franklin J. Vargo
Vice President for International Economic Affairs

on behalf of the National Association of Manufacturers

before the **Committee on Energy and Commerce**
Subcommittee on Commerce, Trade and Consumer Protection

The U.S. House of Representatives

Hearing on **"Stimulating the Economy through Trade: Examining the Role of Export Promotion"**

March 17, 2009

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MANUFACTURING MAKES AMERICA STRONG

Testimony of
Franklin J. Vargo
Vice President for International Economic Affairs
National Association of Manufacturers
Washington, DC

Before the
House Committee on Energy and Commerce
Subcommittee on Commerce, Trade and Consumer Protection

Hearing on
"Stimulating the Economy through Trade:
Examining the Role of Export Promotion"

Tuesday, March 17, 2009

Mr. Chairman and Members of the Subcommittee,

I am pleased to have the opportunity to testify on behalf of the National Association of Manufacturers (NAM) this morning on "Stimulating the Economy through Trade: Examining the Role of Export Promotion."

The NAM is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. The need for U.S. manufacturers to find markets abroad for their products was the organizing force behind the NAM. That was in 1895 and export promotion still figures prominently in our policy priorities at the NAM.

Prior to joining the NAM, I had a long career with the U.S. Department of Commerce, seeking to do my part to help increase American exports. I applaud this Subcommittee's active interest in determining how exports can be an essential part of the U.S. strategy for economic recovery.

Importance of Exports to U.S. Trade Balance and Jobs

Last year, exports were extremely important to the U.S. economy. In fact, they accounted for the bulk of U.S. economic growth over the past year. U.S. manufactured goods exports were $1.05 trillion, 60 percent of all U.S. exports of goods and services. Services accounted for $550 billion – 30 percent of the total; and agricultural exports were $118 billion – six percent.

Exports are vitally important to U.S. manufacturing. Over one in every five American factory worker owes his or her job to exports. And export-related jobs pay 13-18 percent more, on average, than non-trade-related ones. Exports have been particularly important for the past couple of years, when all growth in manufacturing production was attributable to exports, while domestic demand was flat.

Unfortunately, over the past few months, exports have dropped dramatically as global economies have slid into recession. As the U.S. government looks at promoting long-term, sustainable growth and job creation, any strategy must include programs to expand our exports.

One of the key imbalances we face is our huge trade deficit. There are a number of factors contributing to our deficit, including a prolonged period of dollar overvaluation; open U.S. markets while other significant markets restrict U.S. imports through tariffs and non-tariff barriers; and a range of domestic policies that drive up the cost of U.S.-produced goods.

As we approach how to address our deficit, there are two ways to look at this: an excess of imports over exports, or a deficiency of exports compared to imports. This deficit must be addressed on multiple fronts. On the import side, we have to ensure that imports are fairly traded, and have to deal firmly with subsidies and other unfair trade practices.

On the export side, we need to take steps to get our exports to grow much faster and allow us to pay for our imports through sales to other markets. Our manufactured goods trade deficit has fallen over $85 billion in the past two years as export growth has exceeded import. This welcome development, however, still leaves a too-large deficit and more improvement is needed.

We can either leave future export performance to chance, a residual result of other policies and actions, or we must have a national export expansion strategy designed to achieve a large and sustained increase in our exports.

Comparative U.S. Export Performance

Because our export growth has been so strong in recent years, many feel the United States is an export powerhouse. But in fact we are not. The United States grossly under exports when compared to other industrialized nations, our major competitors, as is clearly shown in Exhibit 1. The United States actually exports only half as much of its manufacturing production as the average for other major manufacturing nations.

Looking at the 15 major manufacturing nations, accounting for 80 percent of all manufacturing production in the world, the United States ranks last – number 15 out of 15. This is not in terms of the dollar value of exports, but in terms of the proportion of manufacturing output that is exported. With respect to imports, as Exhibit 2 shows, U.S. imports of manufactured goods relative to our production are not out of line with the world average.

We are still the world's largest manufacturers – producing one-fifth of all manufactured goods in the world. However, we account for only 10 percent of world exports of manufactured goods – corroborating the fact that we export proportionately half of what other manufacturers do.

It is important to note that if we exported as much of our manufacturing production as the average of the other nations, our manufactured goods would be double what they are – adding nearly $1 trillion to U.S. exports. Were that to be the case, the United States would not have a trade deficit, and in fact would be in surplus.

In 2008, exports accounted for 13.1 percent of the U.S. economy. This compares unfavorably to countries like Germany, where exports are 49 percent of the economy, the UK (34 percent), France (30 percent), and Japan (19 percent). Even allowing for the significantly larger U.S. domestic market, we need to achieve higher rates of export to pay for our share of imported goods.

Determinants of Exports

The amount of manufactured goods that a country exports depends on a number of factors. The most basic factor is the inherent competitiveness of its industry and the degree of innovation in its products. The United States is a world leader in this regard.

Exchange Rates -- Another key factor is the exchange rate for the country's currency. When the dollar is excessively strong against other global currencies, U.S. goods become expensive in global markets and exports decline. When the dollar is at a reasonable level, exports grow. This sounds like common sense, but it is a fact too often overlooked in this discussion. During the 1997-2002 period, the era of the so-called "strong dollar", the dollar ran up to 25 percent over its equilibrium value. During this period, U.S. exports declined significantly and the trade deficit spiraled upward. The dollar has since returned closer to an equilibrium level, which enabled rapid U.S. export growth until the recent plunge in the global economy.

Tariffs -- The United States is a very open economy. Our tariffs (taxes on imports) average less than four percent, and over 60 percent of our imports enter the U.S. market duty-free. On the other hand, U.S. manufacturers face high barriers in many of the world's fastest-growing economies. The only way to get those tariffs and other barriers down is through additional trade agreements.

The NAM estimates that about 70 percent of U.S. manufactured goods exports face no tariffs in the global economy. This is the result of bilateral agreements such as NAFTA, CAFTA, and others, as well as multilateral agreements such as the Information Technology Agreement that eliminated most global tariffs on many electronic products, and the Aircraft code that eliminated many country tariffs on large commercial aircraft. Many people are surprised to learn that the United States has a manufactured goods trade surplus with its free trade partners as a whole.

Non-tariff barriers (NTBs) – NTBs are another impediment to U.S. exports, and in fact have risen in importance as tariffs have declined. The NAM seeks to have a renewed emphasis on reducing NTBs such as discriminatory standards and conformity assessment requirements, and we hope that the Subcommittee will be interested in actions that would reduce the incidence of NTBs.

Some NTBs are unintended consequences of well-intentioned regulatory or consumer protection efforts by trading partners. Many more, however, are designed and implemented with the intent of frustrating imports from trading partners, including the United States. And that is certainly their impact.

NAM members face a variety of NTBs. Food safety regulations based on politics and fear rather than hard science and risk management are one major class of NTBs. The European Union is a prime offender in this area. Other common NTBs our member companies confront around the world include labeling and packaging requirements, product standards, import licensing schemes, cumbersome and costly customs and border procedures, "buy national" preferences, ineffective protection of their intellectual property (patents, copyrights and trademarks), as well as anti-competitive restrictions on distribution, marketing, and advertising.

Some NAM members, for example, confront a proliferation of arbitrary sanitary and phytosanitary (SPS) measures in countries around the world that are not based on sound science and that constitute unjustifiable barriers to trade. In many cases, the lack of a scientific basis for SPS measures results in unjustifiable discrimination between similar products.

Manufacturers are also concerned that governments may mandate technical standards that favor local industries. It is vital that governments commit not to mandate standards – particularly technology standards – unless necessary to protect human health, safety, the environment, or related objectives. Standards setting should be consistent with the 2002 decision in the World Trade Organization's Technical Barriers to Trade (TBT) Committee on what constitutes an international standard.

Export Promotion -- Export promotion is the other key factor affecting export growth. It is not enough to have competitive products and access to foreign markets. There are many competitive global producers, and sellers must reach out to buyers and distributors to advertise and promote their products aggressively. It is not a good strategy to sit back and expect buyers to approach you to ask if they can buy your products.

Most large U.S. companies are adept at marketing and maintain global advertising, marketing, and distribution networks. Smaller companies, however, generally have a much more difficult time; and this is where the role of U.S. government export promotion assistance is most important.

Importance of Exports to Small and Mid-Sized Companies

According to Census Bureau data, almost 240,000 small and mid-sized U.S. companies exported in 2006, accounting for 97 percent of the number of U.S. exporters and 29 percent of the value of exports. U.S. small businesses export well over $1 billion a day. U.S. small and mid-sized companies are highly competitive and technologically advanced. They can compete in the global marketplace and a considerable number do very successfully. One NAM member company, Uniweld, a Ft. Lauderdale, Florida manufacturer of refrigeration testing equipment, for example, exports to 80 countries around the world, even though it has only 175 employees.

Too many small companies, however, are under-exporting or do not export at all. Among those U.S. small companies that do export, 58 percent of them export to only one country. Generally they will export to a NAFTA country, which is their largest export market by far. If they export to Europe, they tend to do so to only one or two European countries.

James Morrison, President of the Small Business Exporters Association, a member of the NAM's Council of Manufacturing Associations, reports that "In 2007, small companies exported over $450 billion worth of U.S. goods and services, according to SBA's calculations. If most of the small companies that are making a few sales in one foreign country were to make a few more in that country and/or an equivalent level of sales in a second country, we could probably bring that figure up to $625 billion a year, even without adding any new exporters. We'd be cutting the current trade deficit by about 30 percent. In addition, if we can increase the number of small business exporters by half [it would] eliminate 70 percent of the U.S. trade deficit."

The reason so many smaller companies under-export is that they lack the time and resources to explore and enter new markets. They have their hands full managing their existing business, maintaining their lines of credit, seeking greater efficiencies, complying with federal regulations etc. In addition, a disproportionate number of small companies have been solely focused on domestic markets in the past, so they are most in need of assistance to participate globally. These 97 percent of U.S. exporters are the ones for whom U.S. government export promotion services are so critical to their success.

In addition, the interagency 2008 National Export Strategy report noted that 30 percent of companies that do not export indicated that they would consider exporting if they had more information on markets, specific opportunities, and the exporting process.

The Importance of an Export Promotion Strategy

Especially at this time when companies are seeking to maintain sales and grow jobs during the economic downturn, it is very clear that we must do more to achieve the goal of a sharply increased rate of export growth. We were very pleased that the Obama Administration's trade policy document highlighted the importance of small and medium sized company exports, and wants to create the conditions that will help them become more effective exporters.

Having a reasonably valued currency and access to foreign markets is necessary, but not sufficient. We also need a sharp shift in export orientation that will lead to U.S. firms, like many of their competitor companies in other countries, placing much greater emphasis on finding and selling to foreign markets.

Some may say that seeking new export markets at a time when the global economy has entered into a serious recession and when everyone's exports are falling is a waste of time, and we should wait until good times return. I disagree. It is precisely in tough times that buyers are looking for less expensive suppliers, better commercial terms, and more secure export financing. Our competitors are out in world markets promoting their products, seeking to hold on to present customers and win new ones away from other suppliers. U.S. companies must do the same or they will lose customers and be in a poor position to expand their sales when economies recover.

The first element of an effective strategy is having an ambitious goal. The goal should be large and challenging and its achievement should be a national priority. I have not seen this kind of priority in the United States.

The U.S. export promotion strategy has been one of doing the best we can with the available resources, rather than seeking the resources that would be commensurate with moving us toward a more rapid export growth path. To continue to work toward growing exports by becoming more efficient with current resources and taking advantage of opportunities as they arise is worthwhile and should not be abandoned, but such an approach misses the greater momentum and rewards to be derived from a broad goal and a strategy to reach it.

Export Promotion Resources

Exporting, until recently, has not been a priority for many U.S. companies. Unlike many of our competitors, the United States evolved as a more self-contained economy, with abundant resources and a huge domestic market that occupied our commercial energies. The resources needed to help shift the exporting mentality of the United States and facilitate the entry of American companies into more markets, however, are lacking.

In fact there is serious concern that they have been shrinking. This appears to be the case for the Commerce Department, in real terms. The $339 million listed as export promotion expenditures for the Commerce Department in 2008 would appear to enable fewer actual promotion activities than the $326 million four years earlier, given what I understand are huge increases in contributions for security costs at our embassies.

We understand that the U.S. Commercial Service, the dedicated group of professionals that deliver export promotion services to U.S. companies, is seriously under funded this year. We have heard that there will be no new hiring, including not filling some vacant positions; and most if not all discretionary spending, such as travel expenses to reach markets for U.S. companies, has been put on hold for the rest of the year. Of even greater concern is that, to our knowledge, there has not been a request for additional funding in the 2010 budget.

Additionally, I think an impartial observer would have to conclude that U.S. export promotion priority is on agricultural products, not manufactured goods. The Department of Agriculture budget for export promotion in 2007 was $644 million, while the Department of Commerce budget for promoting exports of U.S. manufactured goods was $339 million. What makes this skewed is that manufactured goods exports are 10 times as large as farm exports, yet the promotion of farm exports receives more than twice the resources as manufactured goods.

I am not in any sense suggesting that agricultural export promotion is over-funded. We need agricultural export growth just as we do manufactured goods export growth. However, if the Commerce Department export promotion budget were to be funded proportional to agricultural export promotion, it would have been 10 times the agricultural budget, or $6.4 billion – an amount 20 times the size of the actual export promotion budget for manufactured goods, a rather startling contrast. We are in a global competition, and advertising, marketing, market information, and assistance in finding customers can make all the difference to American exports. It is not a competition we are winning; in fact, our share of world exports of manufactured goods is falling.

I also need to point out that the U.S. export promotion strategy has for a number of years been one aimed at increasingly shifting the cost of various marketing research and promotion programs to users of trade missions, market research, participation in trade fairs, and the like. This is in contrast to the support other governments provide their exporters as they seek an expanded share of world markets, through both substantial outreach and staffing of government export promotion offices, but also subsidized travel, participation in trade fairs, and other new exporters' market development costs that go directly to companies, especially small and mid-sized.

So while U.S. export promotion programs provide little if any financial assistance to exporters, our competitors have a totally different philosophy about promoting exports. In fact, the National Export Strategy report shows that U.S. export promotion efforts are about half of the average for other major industrial nations.

Export Promotion Programs

It is not my purpose today to evaluate the various export promotion programs the Department of Commerce utilizes. Given the resources available to the International Trade Administration for export promotion, I think they have been doing a good job in seeking to maximize the returns from those resources by reallocating and reinventing. But, as I noted earlier, we are very concerned that the already modest U.S. export promotion activities in the Commerce Department will be impossible to maintain at current budget levels.

Due to budget constraints, the U.S. Commercial Service has recently undertaken a realignment that is apparently resulting in closing a number of its offices and moving positions to other countries. I hope that funding is not so low that the result will be closing some offices but being unable to open others.

While increasing resources to emerging markets like China and India is a good idea to help U.S. companies enter these difficult and complex markets, the volume of U.S. exports to countries in the European Union (EU) is five times that of our exports to China, and the EU market has greater opportunities for smaller companies than China does. Small companies that export to the EU do so to only one or two countries and, given that tariffs and many laws are the same, with a little help, these companies could easily double or triple their exports by expanding to other countries in the EU. There are also important opportunities in the Middle East and other regions that could be missed because there is limited or no U.S. government commercial presence.

We certainly agree that export promotion to China and other advanced developing countries needs to be increased, but this should not be done by cutting back resources in other markets with huge potential.

If a sudden increase in priorities and resources for export promotion were to become available, one program that has been shown to be very effective and could be ramped up very quickly is the Market Development Cooperator Program (MDCP). This program offers grants to vertical trade associations or other groups for programs or promotional offices designed to enhance exports. The grants fund up to one-third of the cost and last for three years. The MDCP program has been a real success, even though it is starved for funds. Commerce Department analysis has shown that for every federal dollar invested, $100 in exports has been generated. Since 1997, this program has generated $2.65 billion in U.S. exports, with an outlay of $20 million or less over that time period.

The current budget for the MDCP is $2 million. When the MDCP was founded in the early 1990's, its budget was $2 million – 15 years later its budget remains the same. By contrast, in 2007, the U.S. government spent $240 million for two generally comparable programs that promote agriculture exports. A comparably funded program for manufactured goods' exports would have been $2.4 billion – 1200 times larger than the actual budget of $2 million. I again want to make clear that my comments are not intended to be a criticism of promotion funds for U.S. agricultural goods. My remarks are meant to highlight the paucity of funding to promote manufactured goods exports and to illustrate what a comparably funded Commerce Department program would be, scaled to the size of exports.

Another example of an export promotion program that could be expanded quickly if there were additional funds is the International Buyers Program. This program promotes foreign buyer attendance at U.S. trade shows, and is an attractive way of promoting small and medium-sized firms' products because these firms don't have to travel overseas to exhibit their products. The prospective buyers come to U.S. shows where U.S. companies are already exhibiting. Only 20 shows per year qualify for the program, but given its success, I believe it should be considered a key part of any expanded export promotion program.

Export Finance

Another key factor in export success is export finance and credit. Agencies such as the Export Import Bank and the Small Business Administration offer valuable services and products to U.S. exporters. Each of them also has programs specifically geared to small companies and their special needs.

These resources should be considered as an integral part of any export promotion strategy and serious consideration should be given to finding creative ways to match the programs offered by foreign governments to competitor companies. Increasingly, this is an issue for U.S. credit agencies that were not designed for the kind of agility and flexibility required in today's global commercial environment.

We are very pleased with reports that at the upcoming G20 meeting, members will consider coordinated actions to ensure the continued flow of export credit and finance as a key factor in their efforts to stimulate global growth. The kind of joint infusion of funding into the system through national export finance banks, like the United States Export-Import Bank, is the kind of initiative needed at this time to maintain the necessary financial structure for the global trading system.

Next Steps

There has been a considerable amount of attention recently to the issue of improving coordination of U.S. export promotion programs, and improved coordination is always positive. I have read the various Inspector General and GAO reports and believe they contain some good recommendations.

But we must also make export promotion a national priority and provide adequate resources. Incremental improvements and greater efficiencies, such as those being sought at the present time, are valuable, but I believe what is needed is a greatly expanded program of export promotion for U.S. manufactured goods, one that is more parallel to what the U.S. government allocates for agricultural export promotion and what other governments allocate to promote their producers' exports.

The question is how do we get from where we are to where we need to be if we are to have such an expanded program? How do we move beyond incremental change and obtain a radical shift in our approach?

Export promotion programs have been demonstrated to be effective, and have such high pay-out ratios that the programs pay for themselves in the future tax revenues they generate. Pay-out ratios of $100 of new exports for every added dollar of export promotion are on the conservative side of the figures we have seen, some of which indicate a 300-to-1 pay-out ratio or even better.

The need for, and effectiveness of, export promotion programs receive little publicity and are not widely known. Hearings such as this one are valuable in exploring the utility of export promotion and can help generate an awareness of its benefit.

Another useful step would be for this subcommittee to request the Government Accountability Office (GAO) or the Congressional Research Service (CRS) to undertake a thorough investigation of the scope of major foreign competitor export promotion programs, focusing on identifying best practices. To be most useful, the report should include detail on funding levels and categories. Such a report would draw a sharp contrast between what other countries are doing to promote their exports and what the United States is doing.

It is our view that the more that Congress and the Administration look at the U.S. promotion program and compare it with the extent of the need and opportunity, the more likely it is that we can obtain the greatly increased priority and resources we believe are necessary for export promotion.

Conclusion

In conclusion, Mr. Chairman, I would like to thank you and the members of the Subcommittee again for this opportunity to testify on such an important issue. The current state of the U.S. and global economies make it imperative that we look at ways that we can make our companies more competitive and contribute to our overall economic growth and prosperity, including through exports.

It will require good ideas and serious funding if we want the United States to become the export powerhouse we envision. The NAM stands ready to work with you and your staff on this very important issue.

Thank you, Mr. Chairman.

EXHIBIT 1

The United States Under-Exports

Of the 15 major manufacturers (accounting for 80% of world manufacturing) the United States ranks lowest for the proportion of manufacturing production exported.

Proportion of Manufactured Goods Production Exported

Indexed to United States = 1.0

WORLD	**2.2**
Taiwan	5.0
France	3.3
Germany	3.2
Mexico	2.9
Korea, Republic	2.8
Canada	2.7
United Kingdom	2.5
Italy	2.4
Spain	2.1
China	2.0
India	1.3
Japan	1.2
Australia	1.2
Brazil	1.0
United States	**1.0**

If the United States exported at the average of other countries, our manufactured goods exports would double – eliminating the U.S. trade deficit.

EXHIBIT 2

Most Other Countries Import Proportionately More than the United States Relative to the Size of Their Manufacturing Industries

Imports Relative to Manufacturing Production

Indexed to United States = 1.0

WORLD	**1.3**
Taiwan	2.4
France	2.0
Mexico	2.0
United Kingdom	2.0
Canada	1.8
Spain	1.7
Australia	1.7
Germany	1.3
Italy	1.2
Korea, Republic	1.1
United States	**1.0**
India	0.9
China	0.9
Brazil	0.5
Japan	0.4

Imports are certainly a factor in the U.S. trade deficit, but U.S. manufactured goods imports are not out of line with other manufacturing countries.

Source: World Bank, Global Trade Information Service

Mr. RUSH. Thank you so very much. And now the chair recognizes Ms. Liz Reilly. Ms. Reilly, we recognize you for the purposes of an opening statement. Would you please limit your statement to 5 minutes, and thank you for your attendance here today.

TESTIMONY OF LIZ REILLY

Ms. REILLY. Thank you. Thank you, Chairman Rush, Ranking Member Radanovich, and other members of the committee. I greatly appreciate the invitation to speak to this subcommittee on this wonderful Irish day. The U.S. Chamber of Commerce is the world's largest business federation representing 3 million businesses and organizations. TradeRoots is the only sustained national trade education program dedicated to raising public awareness around the importance of international trade to local communities. Our partners include local chambers of commerce, trade associations, economic development groups, and federal agencies. Last year we hosted and visited over 300 congressional districts where we talk about business and the importance of exporting and the resources that are available to do it.

Ninety-five percent of the world's population lives outside the United States. In these challenging economic times America must find a way to sell our things to these potential customers. Fifty-seven million Americans are employed by firms that engage in international trade. That is 1 in 5 factory jobs that depend on exports as well as 1 in 3 acres of American farms that are planted specifically for export. In 2008, the U.S. set a new record and exported nearly $2 trillion of goods. That is over 13 percent of our GDP but it should be more. Most Americans, however, tend to regard international trade as the domain of large multi-nationals when in fact 97 percent of all exporters are SMEs. That is close to 240,000 companies and our overseas sales represent nearly a third of all U.S. merchandise exports.

America's small business people are the most innovative and hard working entrepreneurs in the world. We have told many of their success stories as part of our Faces of Trade series where we celebrate companies that are exporting made in USA products around the world. If more U.S. businesses were able to seize export opportunities, the gains could be immense. The World Bank site that Mr. Vargo just cited says that $1 spent in export promotion brought a 40-fold increase in exports, and 40 to 1 is not a bad return on investment. To address this need, the U.S. Chamber proposes a doubling of federal expenditures on export promotion to small business. From Seattle to Savannah, many U.S. companies are just not aware of the government services that are available to help them break into these new markets. I have talked to so many who have never heard of the U.S. department export assistance centers or the foreign ag service or that Ex-I Bank exists, let alone gives out loans.

And I don't think this is the fault of American business owners. Rather, I think it reflects the inadequate resources dedicated by the federal government to promote these services adequately. Some companies have had challenging experiences with the commercial service offices overseas. Quality Float Works in Schaumberg, Illinois, was telling me that they normally fare very well until recently when the officers in Dubai were so understaffed that they were unable to assist in setting up business meetings. Other companies such as Askinosie Chocolate in Springfield, Missouri, have worked with their USEACs but they cannot afford a fee. With over 15 percent of Askinosie's gross revenue coming from overseas markets, finding a new one is imperative for their growth.

Additional funding for the Department of Commerce should eliminate or lower these Gold Key Service costs for small businesses. Closely affiliated with the USEACs are 60 district export councils that combine the energies of more than 1,500 exporters. We recommend selecting an ex officio DEC member to participate on the President's export council in order to represent small business. Another exporter, York Wire and Cable of York, Pennsylvania, was recently telling me about the positive impact of Market Access Grants at the state level. Export-ready companies in good standing are eligible for $5,000 to explore new markets through trade shows, trade missions, and internationalizing their web sites. A similar grant system should be created at the federal level for companies around the country. Market Development Cooperator Program Grants, MDCP, are another effective tool for export promotion. TradeRoots was actually founded based on an MDCP Grant to educate small businesses on exporting and as a result of our grant we reached more than 3,800 SMEs and helped generate more than $9 million in U.S. exports.

We support continuing and expanding MDCP Grant funding. An additional way to promote U.S. exports would be for Congress to pass the pending trade agreements with Colombia, Panama, and South Korea. These accords would provide an estimated 42 billion over 5 years for American workers and farmers. More than 25,000 SMEs are already exporting to these countries and this number could rise sharply with their implementation. A final priority should be to ensure adequate funding for programs dubbed trade capacity building. The United States spends more than 1.3 billion annually, which is important to maintain.

In closing, investing in export potential of America's small and medium-sized businesses is crucial to stimulating our economy. I greatly appreciate the opportunity to testify today. The U.S. Chamber of Commerce stands ready to work with you on these and other important challenges in the year ahead. Thank you very much.

[The prepared statement of Ms. Reilly follows:]

United States House of Representatives
Committee on Energy and Commerce
Subcommittee on Commerce, Trade and Consumer Protection

Hearing on "Stimulating the Economy through Trade: Examining the Role of Export Promotion"

Tuesday, March 17, 2009
10:00 a.m.
2322 Rayburn House Office Building

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

Thank you Chairman Rush, Ranking Member Radanovich, and other members of the Committee on Energy and Commerce Subcommittee on Commerce, Trade and Consumer Protection. My name is Liz Reilly, and I am the Director of the U.S. Chamber of Commerce's TradeRoots Program. The U.S. Chamber of Commerce is the world's largest business federation representing more than 3 million businesses and organizations of every size, sector, and region.

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

Last year the TradeRoots team hosted more than 100 trade education events and visited more than 300 Congressional districts. Some of those districts are represented by the members of this subcommittee. I greatly appreciate the invitation to speak to this committee on "Stimulating the Economy through Trade: Examining the Role of Export Promotion."

Trade Can Bring Growth and Prosperity

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

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

Despite a sharp decline in international trade during the final four months of the year, the United States set a new record for exports in 2008. U.S. exports of goods and services reached $1.84 trillion, comprising a record 13.1% of U.S. GDP in 2008, up from 9.5% of GDP five years earlier (2003) and 5.3% forty years ago (1968). For the first two-thirds of 2008, trade provided a significant economic stimulus, partly countering the contraction seen in other sectors of the U.S. economy. The benefits reach every state in our nation.

The vast majority of Chamber members are small and medium-sized businesses. While most Americans tend to regard international trade as the domain of large multinationals, 97% of all exporters are in fact small and medium-sized companies. Nearly 240,000 small and medium-sized companies export, and their overseas sales represent nearly a third of U.S. merchandise exports. In other words, while large companies still account for a majority of American exports, smaller companies nonetheless play a critical supporting role in trade.

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

The Federal Government Should Do More to Promote Exports

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

To address this need, the U.S. Chamber last year proposed a doubling in federal expenditures on export promotion, with a focus on small companies' exports. The federal government allocates about $335 million annually to promote the exports of manufactured goods. (The federal government expends more than twice that sum promoting agricultural exports).

From Savannah to Seattle, many U.S. companies are not aware of the government services that are available to help them break into new markets. I have personally spoken to hundreds of small business people who have never heard of the U.S. Department of Commerce Export Assistance Centers (USEACs), who are not aware that the Export-Import Bank exists, let alone gives out small business loans, and that the Small Business Administration does the same thing.

This isn't the fault of America's small business owners. Rather, in reflects the woefully inadequate resources dedicated by the federal government to export assistance and a failure to promote these services adequately.

Government Programs Are Inadequately Funded

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

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

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

Other companies, however, like Quality Float Works in Schaumberg, Illinois, have had experiences with U.S. Commercial Service offices overseas that are illustrative. Quality Float Works President Sandy Westlund-Deenihan reports she normally has great experiences with overseas offices of the U.S. Commercial Service, but she recently found the offices in India so severely understaffed that they were unable to assist her in setting up business meetings.

Another successful manufacturing exporter, York Wire and Cable in York, Pennsylvania, recently shared with us the positive impact of Market Access Grants (MAGs) in Pennsylvania. These grants are designed to help small and mid-sized Pennsylvania companies increase export sales. Export-ready companies in good standing are eligible for up to $5,000 to explore new markets through trade shows, trade missions, and internationalizing web sites. We believe a similar grant system should be created at the federal level for companies around the country.

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

Pending Free Trade Agreements Would Boost Exports

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

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

Importantly, according to the most recent U.S. Census data, more than 25,000 small and medium-sized companies are already exporting to Colombia, Panama and South Korea. We believe this number could rise sharply with implementation of these trade agreements.

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

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

- **Intellectual Property:** Trade agreements protect the innovation and creative content captured in so many U.S. exports; in fact, these agreements will oblige Colombia, Panama, and South Korea to give protections for intellectual property similar to those in U.S. law.

- **Services:** These agreements will also open up service sector sales by American companies, expanding the opportunities for a part of our economy that's humming with efficient and innovative smaller companies.

- **Government Procurement:** These agreements will give American small business expanded access to international government procurement contracts. Those contracts for roads, schools, clinics, and the like are often too small for major American companies to perform profitably. But they are just the kinds of contracts that our smaller construction companies, distance learning companies, and medical equipment companies (to mention just a few) can fulfill beautifully.

Delaying approval of these agreements only means American workers and farmers will continue to face steep tariffs in these important markets—taxes, in fact, paid into those countries' treasuries. We are pleased that the Obama Administration has indicated a desire to move forward on these pending agreements. They are a critical tool for boosting exports by America's small businesses.

Trade Capacity Building Is a Priority

A final priority should be to ensure adequate funding for programs dubbed "trade capacity building" or "aid for trade." Trade capacity building is development assistance that builds the necessary capacity—from improvements in infrastructure and customs administration to enforcement of labor and environmental laws—that allows developing countries to take advantage of open markets.

The United States is the largest single-country donor of this kind of assistance, with more than $1.3 billion in trade capacity building funds appropriated annually. These funds are coordinated with other donors through the World Trade Organization (WTO), the network of U.S. trade agreements, and U.S. trade preference programs. The U.S. Agency for International Development and the U.S. Trade and Development Agency play important roles here.

Trade capacity building is a priority for the U.S. business community, which believes success in this area is more likely when a true public-private partnership is in place. In Guatemala, for example, express delivery companies worked through CLADEC Guatemala, their local association, to help Guatemala's customs authorities retool their express clearance procedures.

The upshot was that clearance times were reduced from days to hours, with significant benefits for Guatemala's international competitiveness. The U.S. and Canadian governments and the World Bank and the World Customs Organization provided technical assistance, but funding and a great deal of know-how came directly from the private sector and Guatemala's tax agency. Clearly, the best model for trade capacity building brings together government, business, and often academia to implement best practices.

Conclusion

Investing in the export potential of America's small and medium-sized businesses could bring dramatic gains and stimulate the economy. Showing how smaller companies can gain from trade would also help build political support for international trade. By adding to the ranks of small businesses that see direct benefit in exporting, Americans will be able to see more clearly the possibilities offered by worldwide trade.

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

Mr. RUSH. The chair thanks you so very much for your testimony, Ms. Reilly, and the chair thanks all the witnesses for their opening statements. The chair now recognizes himself for 5 minutes for the purpose of asking questions of this outstanding panel. I will begin with Mr. Vargo. Mr. Vargo, you mentioned in your testimony the importance of penetrating new and promising markets. In my home State of Illinois, Canada is the first trading partner, followed by Mexico and then China. There is an old adage that says never put all your eggs in the same basket. In the trade context, it means it would be wise to diversify our export clientele and not put all our exports in the NAFTA basket.

Mr. Vargo, I have two questions. Have you identified a region of great opportunities for U.S. businesses, and have you also identified a specific part or section that needs to be expanded in that particular market? How do you go about making such an assessment, and what specific change do you think the government needs to undertake to increase exports to these countries? That is about five questions rather than one.

Mr. VARGO. Thank you, Mr. Chairman. You are right. For your state and most others, NAFTA is the largest export market. Europe generally is number two. In our eyes, the most rapidly growing area, it is taking some economic hits right now, is Asia, China and other parts of Asia, but over the longer term there is going to be an enormous amount of growth there, and we need to do more. Asia, it is culturally different from the United States. For most people, they don't know what to do when they get there. We need a lot more assistance.

I would also point to Europe. Why Europe? Because the European Union is a fairly easy market to sell to, and a lot of our companies, especially smaller companies, sell there already but they only sell to one or three markets in the European Union. Now if they can sell to Britain or Germany, they can sell to France, Italy, other countries, but they don't, and we don't have enough export promotion resources to make it easy for them to find customers and distributors in those markets, so I would pick those two markets. And what should we do? In China, I think, and some other Asian countries, I think American companies need more depth of assistance than they are getting. We had one of the commerce departments set up American trade centers in all major cities in China, physical facility with display space, temporary office space for companies. They can't do it. They don't have the resources.

In Europe some of the most effective components of sales for American exports are what are called the FSMs, the foreign service nationals, who work for the commercial service. They know the local markets. Again, Congress doesn't have the money to hire enough. So I think it is doable, but it comes down to resources and the national priority. And, frankly, I just don't see a national priority for export expansion yet.

Mr. RUSH. I want to ask Ms. O'Neill and Ms. Hale in the time I have left, which is about 1 minute and 15 seconds, what are your respective agencies doing to identify emerging markets and what are emerging markets as far as you are concerned? How would you define emerging markets?

Ms. O'NEILL. Thank you for the question, and I think Frank went to a good bit of where we would say the largest opportunity for exports, and that is in Asia. I think we would probably define an emerging market as one where we haven't had big U.S. expert penetration yet, but that there are also perhaps not the same legal and regulatory infrastructure in the market and where services on the ground are particularly needed to help U.S. companies navigate and identify opportunities in those markets. But I would say our attention has shifted to Asia, India, where it is more difficult for companies to do business.

Ms. HALE. I think one of the key things in identifying emerging markets is a market where incomes are increasing. We find that as incomes increase people eat more meat. They eat more vegetable oil. There is a growing middle class. People go out and eat fast foods and enjoy American potato products. And so we are seeing a lot of growth in Southeast Asia, also in Central America, and it is very often related to growth in income.

Mr. RUSH. Now the chair recognizes the ranking member, Mr. Radanovich, for the purposes of questioning for 5 minutes.

Mr. RADANOVICH. Thank you, Mr. Chairman, and again appreciate the panel members for your opening statements and for being here today. I wanted to first ask Ms. Hale, Ambassador, regarding the FAS and your recent reorganization, can you explain to me how this reorganization has led you to perform more efficiently for agriculture?

Ms. O'NEILL. I think one of the key things is that we are better staffed now to address the kinds of technical trade barriers that you mentioned before. We have an Office of Science and Technical Affairs that works with our sister agencies at USDA like the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, to overcome and remove some of these technical barriers to trade. We also have an office that is doing more strategic planning on a country basis. We are better staffed to look at individual markets and bring together all of the department's resources in an integrated strategic plan, the kind that Dr. Yager was talking about.

And then we also have all of our trade assistants programs in one area so we have good coordination between our credit programs and our other marketing programs like the MAP program.

Mr. RADANOVICH. Thank you very much. Can you tell me within your reorganization and such, is there an increased effort on the part of governmental staff in export promotion to kind of replace some of the work that maybe commodity and crop associations currently undertake?

Ms. O'NEILL. No, sir. We are partners. Everything we do, we do with industry and industry contributes very significant amounts of money for our programs. They are putting more into the programs than what we are putting in to them, and we rely on their technical expertise. They know—they are the experts in how to run feed trials to show people how to use soybean meal to improve their productivity. They do things that our staff could just never do on our own, and so that partnership has been very important over the years.

Mr. RADANOVICH. Very good. Thank you very much. One more question, and that is can you give me an idea on the Uruguay Round, what might have been new export markets that have been opened up as a result of that?

Ms. O'NEILL. From the—goodness, that is a way back. We are talking about——

Mr. RADANOVICH. It is a little way back.

Ms. O'NEILL. Yes. I think one of the most important accomplishments in the Uruguay Round was the TBT agreement, the Technical Barriers to Trade agreement. That isn't addressed to a specific market, but what that agreement did was to make international standards the norm for addressing technical issues. So we have the OIE is the Animal Health Organization. KODAC sets food safety standards. There is an SPS agreement that sets plant health standards. And what the TPT agreement and the Uruguay Round did was make those international standards WTO standards, and so we can use the World Trade Organization's dispute resolution mechanism to resolve cases when we have technical barriers to trade, and that is a big improvement.

Mr. RADANOVICH. Very good. Thank you very much, Ambassador. Dr. Yager, welcome to the committee. I notice that the TPCC consists of about 20 different agencies. Can you give me a sense as to whether or not it is an advantage to have 20 different agencies sharing the same goals or, you know, maybe just having one single effort? Can you give me an idea what the advantages or disadvantages might be?

Mr. YAGER. Well, the TPCC was created, I guess, in the early 1990's, and there were some questions from the Congress at that time as to whether all the different agencies that had a small piece of export promotion were actually working towards the same goals, and so it has existed for about 15 years. We do think there is a big advantage in having an organization that brings together the export promotion efforts of the different agencies. There may be a large number of agencies, but realistically there is only a few that do the broad percentage of the export promotion efforts, so after you get through commerce, agriculture, and the Export-Import Bank, which is also a fairly large lender and provider of credit to U.S. firms many of the other agencies are much smaller in terms of their funding and the kinds of contributions they make to export promotion.

We do believe that getting together and having a single report which they put out every year and trying to follow up on that to show, for example, if they target big emerging markets in one year, we think it is very valuable for them to come back the next year and say we were successful, here are some measures for how much we were able to accomplish in big emerging markets, for example. We think that kind of follow-up is very important, so we do think it is a good idea to have the trade promotion coordinating council.

Mr. RADANOVICH. Very good. Thank you, Doctor, and thank you for the time, Mr. Chairman. I am assuming there will be a second round of questions?

Mr. RUSH. Yes, the chair does intend to engage in a second round of questioning. Our next member recognized will be Ms. Matsui of California for 5 minutes.

Ms. MATSUI. Thank you, Mr. Chairman. As you know, California is home to one of the world's largest trade markets, and there are a number of small and medium businesses in California who export their brands and services. But a lot of them have not reached their export potential, as we know, and there are a variety of services available, both by the government and by business associations but a lot of the businesses are not aware of this. Ms. O'Neill, I would like to ask about the budget situation in the U.S. Commercial Service. When my office called a local U.S. Commercial Service Expert Assistance Center in my congressional district, I learned there was only one staff person there responsible for 22 California counties.

Now our counties are pretty large in California, and this one person coordinates all the outreach, the trade missions and consultations with individual companies. Now over the last 5 years, the U.S. Commercial Service budget has remained relatively stagnant. It looks like it will increase this year maybe less than 1 percent. Is the Department of Commerce asking for more resources?

Ms. O'NEILL. Thank you, and you are right. Our largest presence in the states is in California and I will certainly take back your concern about our staffing level in your district. We look forward to working with the new team as Governor Locke is hopefully confirmed soon. There have been a lot of interesting ideas here today, and I certainly look forward to working with Governor Locke and his team to explore what might be possible in the export promotion front.

Ms. MATSUI. Mr. Vargo, do you see a similar situation in other export assistance offices around the country?

Mr. VARGO. Regrettably, yes. If there is one thing that we could do up front, it would be to significantly increase the staff of our district export offices so they can get around more and work with companies. As I have noted, the typical small business owner is worried about his line of finance from his bank, keep holding on to his or her as customers. They just don't have time to wander through the Internet or fly over to China or France or somewhere. We have got to have the commercial specialists go out and reach them, make it easy for them. If they make it easy for them, they will do it. Believe me, they will do it. We have got lots of examples. The resources just aren't there.

Ms. MATSUI. But can you tell me how you compare America's export promotion policies to those in Canada and Europe, Japan, and China?

Mr. VARGO. Well, they take their export promotion much more seriously than we do. They realize that this is where their future is. This is where their growth has to be. And we haven't gotten the joke yet frankly. We are missing the boat. I am under oath so I won't say that I know for 100 percent this is positive. I hear that Canada has more commercial officers around the world than the United States does, and if that is true, that is ridiculous. Now I do know that the Australian trade minister recently looked at the Market Development Cooperator Program that principally the Agricultural Department uses and the Commerce too a little bit, and threw another $100 million into it for Australia because they see this as a way to expand their exports, so other countries are really pushing hard, and we are missing out.

Ms. MATSUI. I am concerned because I feel that trade is very important and we have a huge trade deficit. As you say, all of you say, that it would be important to get the export business moving along, and it seems to me that within the last several years we haven't been doing that. We have been reducing our resources to do that. And my sense is that had we gone ahead and really funded or beefed up the resources, we might have been able to encourage others to actually get out there. I am wondering whether any of you can answer this question. Has there been a change in the type of assistance given?

I think in Mr. Vargo's testimony he was saying that it goes—there is not as much outreach and that the businesses aren't getting as much assistance in the foreign offices as they might be because they aren't staffed, and there might be more trade favors and things of that nature more than anything else. Can you comment on that and what direction you think we should be going?

Mr. VARGO. May I comment?

Ms. MATSUI. Yes.

Mr. VARGO. Because our government witnesses may feel a little constrained. The budget situation I believe is so severe that offices are being closed in Europe, for example, to be able to move commercial officers to China and other parts of Asia. The worse thing is, I am not sure that they actually have enough funding to fill those new positions, so we may find they are cutting some positions and not filling others. And even if they are moving them, you know, that still leaves Europe our second largest market with inadequate resources. Could I put in one plug though for Mr. Chairman and members of the committee? When Governor Locke is confirmed as Secretary of Commerce, please bring him up here. Share with him your views on expert promotion. Governor Engler, our president, is going to go over and see Secretary Locke as soon as he is confirmed on this. I would like to have him hear from the subcommittee as well.

Ms. MATSUI. Thank you. That is it.

Mr. RUSH. The chair thanks the gentlelady. Your time is up. Now the chair recognizes Mr. Scalise from Louisiana for 5 minutes.

Mr. SCALISE. Thank you, Mr. Chairman. In Louisiana our port systems actually have been doing very well. The increase from 2007 to 2008 was about 38 percent, so we have been promoting more exports—different exports, I am sorry, but we have also been starting to prepare for the widening of the Panama Canal coming up in the next few years, which gives us a lot of opportunities to increase both imports and exports. I want to get each of your takes if I could go down the table starting with Ms. O'Neill on what things are being done to prepare for the opportunities that would exist once the Panama Canal is widened.

Ms. O'NEILL. As with all our free trade agreements, we work very closely with USTR and the negotiators to identify exactly where the market access opportunities are and develop promotional materials around those opportunities. You have hit the nail on the head. The Panama Canal activity is going to be a key interest for a number of our companies, and we look forward to getting the word out on the opportunities there. Even independent of the agreement, we continue to work with our officers on the ground in

Panama and with U.S. industry to make sure that we are well positioned to take advantage of those opportunities.

Mr. SCALISE. Thank you. Ms. Hale.

Ms. HALE. A lot of our corn and soybeans that are exported to Asia go through the Panama Canal, and the constraint now is the size of the canal. The ships that go through there are called Panamax because it is the maximum size that can go through the Panama Canal. And so with a larger canal if we can increase the size of our ships, it would make our shipping more efficient, keep our shipping costs down and make us more competitive in Asia.

Mr. YAGER. One of the things that we are aware of in doing the work on imports and trade is that the ports on the West Coast, particularly the container ports of Los Angeles and Long Beach in fact are dominant in terms of shipping many of the goods and services. I think the opening of the Panama Canal offers an opportunity to have some of that trade diverted to other ports on the eastern side of the continent which I think would reduce some of the congestion. One of the challenges that we have in the United States is port infrastructure, as you probably know, and I think you have been doing some things in New Orleans but some of the ports on the West Coast are challenged due to the volume of trade, particularly container shipping that is coming in, so I think that will open up some options for eastern ports such as your own.

Mr. SCALISE. Mr. Vargo.

Mr. VARGO. Well, certainly the widening of the Panama Canal I think will be good for the Louisiana ports and others but in addition the project is one of the world's largest construction projects and we want the American equipment, American technology used there so the sooner we have that trade agreement and get preferential access to that huge construction project the better off we are. And I was very encouraged that President Obama's trade policy statements that he expected that this agreement could move relatively quickly. We export about 5 billion a year to Panama already. I would like to see that grow. In a good period downhill with the wind behind its back, Panama will export as much to us in a year as China does every 6 hours so there is certainly no threat there.

Ms. REILLY. Thank you, and I would just have to echo basically what the whole panel has said that the need to widen the Panama Canal is very important to U.S. business, obviously, to first get goods moving quicker, reduce congestion, but as well as the project and expanding it itself, that will allow—the free trade agreement will allow U.S. companies access to bid on the expansion project.

Mr. SCALISE. Thank you. Ms. Hale, last year we had a 40 percent increase in agriculture exports. What was that attributable to? Was there one thing or series of things?

Ms. HALE. That is on a value basis and so part of the increase was because of higher prices but we are also seeing just across the board increase in demand. In CAFTA we have seen a 30 percent increase in agriculture exports to Central America with growing middle class. In places like China we are seeing big increases in exports of products like soybeans which are used for vegetable oil there, crushed there and used for vegetable oil and then animal feed because consumption of livestock products are increasing. So there isn't one reason. It is a different reason in each market but we are continuing to see good demand for U.S. agricultural products.

Mr. SCALISE. Thanks. And then one final question in my last few seconds for Ms. O'Neill. It does seem like we got a surplus on exports of copyrighted material, music, movies. Considering the problems with copyright infringements in other countries on those types of products, what is being done on our side to try to protect the intellectual property from copyright of violations so that we can even increase more of that margin?

Ms. O'NEILL. Just a great example of public-private partnership, we have worked closely with the Chamber and other multipliers to develop a program that we call Stop Fakes. It is a combination of technical assistance to companies that is helping them understand how to protect their intellectual property before they go into foreign markets, what resources are available to them once there are challenges once they face a problem in a market. And then we are also redoubling our efforts overseas to work with foreign governments to improve their enforcement of their intellectual property rights and make sure that U.S. products and services are protected overseas.

Mr. SCALISE. Thank you. Thank you, Mr. Chairman.

Mr. YAGER. Mr. Scalise, if I could just briefly answer that. I was in China last week actually looking at the issue of intellectual property protection, and one of the things I can point out is that U.S. agencies in some cases who have not had a presence abroad before such as a patent and trademark officer now also putting some of their specialists into key places like southern China where a lot of the world's manufacturing takes place, so there is now a PTO representative in southern China that helps U.S. firms understand the legal system, communicate with the Chinese government, and simply just be there to help U.S. firms think about how to protect intellectual properties so that they can——

Mr. SCALISE. Is the government cooperating, the Chinese government cooperating?

Mr. YAGER. Yes, they are working more closely with the Chinese government on that. It is a long-term effort though. It doesn't happen overnight, but we think that that specialized personnel does offer some advantages and can get some results for U.S. firms.

Mr. SCALISE. Thank you.

Mr. RUSH. The gentleman's time is up. The chair now recognizes the gentlelady from Ohio, Ms. Sutton, for 5 minutes.

Ms. SUTTON. I thank the gentleman and I thank you all for your testimony. We are talking about exports now and I appreciate that, but I do think that it is somewhat a mistake to try and isolate exports out of our international trading system and just talk about it in a vacuum so bear with me and if you don't have the responses today, that is OK, because I am going to talk a little bit more about the interconnectiveness of our system.

I am going to begin by an article that I would like to have permission to enter into the record from bloomberg.com.

Mr. RUSH. By unanimous consent, so ordered.

Ms. SUTTON. Thank you, Mr. Chairman. This article was dated December 14, and it came in the wake of the passage of the Peru free trade agreement, and I know, Ms. Reilly, you talked about your hope and the hope of your association that we might pass the Colombia free trade agreement so it is relevant as we consider that possibility. Now we heard that this trade agreement was, quite frankly, just a small piece of trade, you know, in the scheme of things and not that big of a deal, and we heard how it was going to open up our markets, and I am all for exporting American goods, but I am not for exporting American jobs, and so I was struck right after this Peru free trade agreement was passed that Peruvian President Alan Garcia urged American companies to invest in his country and said specifically come and open your factories in our country so we can sell your own products back to the U.S., Garcia told business executives today.

Of course, where you have oil, mining, agriculture, fishing, and manufacturing firms, he urged them to flock to his nation of 29 million people which has a per capita income of less than $3,000 a year. So the point is not all jobs are created equal. We talk about jobs a lot of times in these discussions about trade but obviously we weren't just talking about exporting to this market. We are also talking about trying to export jobs or at least we are not trying to export jobs but there is certainly a reference to that. And I would just like to hear from Mr. Vargo and Ms. Reilly, if I could, about what you think about this.

Mr. VARGO. I noted that article also, and certainly everybody wants more foreign investment in their country. We want it too. When we look at the record though, and I will be happy to send you data that the Bureau of Economic Analysis from the Commerce Department does, we have not seen this large sucking sound and out flow of manufacturing investment to countries with which we have free trade agreements. About 75 percent or so of the foreign direct investment from manufacturing goes to the industrial countries, principally Europe. It does go to Canada, Japan, and about 90 percent of the output there is for local consumption, so one can read many different things into this, and I would be pleased to meet with you and exchange views on the data, but I would like to make sure that the data are available.

But when we look at, again, the record with our free trade partners, we see that they have never been a large percentage of our trade deficit, 10 percent, 5 percent, something like that, and now they are as a group in surplus, so certainly it is very good to be concerned and again we can have a variety of views but when I look at the data, and I used to run the research office in the Commerce Department so I never met a number I didn't like, I draw different conclusions. But it is good to be vigilant and it is good to ensure that our trade agreements do what we expect them to do, and we have seen our exports increase more rapidly to every country with which we have entered into a trade agreement than before.

On Colombia, for example, 2/3 of our imports from Colombia are oil and other mineral fuels, and we would like to have secure sources of energy close to our borders. I thank you for the question.

Ms. SUTTON. And I look forward to following up because I agree that numbers and data can say many things.

Mr. VARGO. Right. Thank you.

Ms. REILLY. And I would also say that I also saw that article and know what you are referring to. Regarding Peru specifically, our position is a little bit differently where we look at the thousands of small companies that are already exporting to Peru and the added tariff that was being put on those goods which was an average of about 15 percent, so we just look at those numbers and think about the potential of once that agreement goes into place all the added value that is going to come back to those companies here in the U.S. and be a benefit on the bottom line.

Personally, I work with companies all around the country and I have not yet heard of any that are planning on relocating to opening to Peru in regards to this agreement.

Ms. SUTTON. I appreciate that, Ms. Reilly, and actually that was just sort of an example to open up the discussion. It really wasn't about Peru per se. And I look forward to having more conversation as this hearing goes on. Thank you.

Mr. RUSH. Thank you very much. The chair now recognizes Mr. Stupak for 7 minutes for questioning.

Mr. STUPAK. Thank you, Mr. Chairman. Instead of talking about trade promotion, I want to talk about trade enforcement. In fact, Mr. Vargo, on page 5 of your testimony you say top trade priority for the United States is opening foreign markets for U.S. goods and services by insuring that the U.S. trading partners comply with existing trade agreements. I think it was Dr. Yager or Mr. Vargo.

Mr. YAGER. I believe it is in my statement.

Mr. STUPAK. Mr. Yager. So let me ask you this. On trade agreements as a general rule can countries refuse to allow products into their country if it is not safe or may jeopardize the health of the people?

Mr. YAGER. I think the guidelines that are written in the trade agreements is that they have to be legitimate concerns. They have to be technical concerns that also do not discriminate against foreign products, and so if there is——

Mr. STUPAK. Sure. Well, let us just take China since that is our base trade agreement, like melamine, toys, heparin, the drug for blood anticoagulant. It is all right for the U.S. then to refuse products from China if we can prove that there is concern about the health and safety of the American people.

Mr. YAGER. Well, I think there are a number of steps. I think you have also addressed some of these in prior statements about the ability of the United States to, in fact, put inspectors abroad, for instance, the Food and Drug Administration to make sure that plants in China do get inspected on a regular basis, so I think there are a variety of ways that the United States can try to assure that the goods that are coming in from——

Mr. STUPAK. Sure, but as a general rule a country can resist a product if it threatens the health and safety of its people.

Mr. YAGER. The United States can prevent products from coming in if the kinds of efforts that take place are not discriminatory.

Mr. STUPAK. Sure. So I was reading today in the Congress Daily in the hill briefs that are on page 6 of today's Congress Daily where President Obama has put a halt to the program which allowed up to 500 Mexican trucks to move across our border without the strict mileage limitations because of the concerns for the health and safety of those vehicles and drivers on our highways, and the Mexican economy department has said that it will—it violates the North America Free Trade Agreement and it is going to retaliate with cancellation of truck access by U.S. trucks. Now how does that jive with what we just said about it is supposed to be fair and open if we have legitimate concern about these trucks, Mexican trucks, that haven't passed muster since we passed NAFTA, which I believe was about 1994 or '93, August of '93, if I remember correctly. And after 16 years we still don't feel these products are safe. So it would be in our general rule, it would be illegal for Mexico to retaliate, would it not?

Mr. YAGER. I don't know that case specifically, but I do know prior that the Mexican government did, I think, win the panel ruling that allowed them to gain access to U.S.—to further U.S. markets through their trucking, so I would have to look and do some more research on that, Mr. Stupak.

Mr. STUPAK. Let me ask you this then. Dumping, illegal dumping where you undercut the price and put your surplus in another country, that has always been considered illegal under all trade agreements, right? Can you explain to me how back a year or so ago underneath new page in which China and Indonesia and Korea were dumping treated paper—excuse me, glossy paper, high gloss paper, in this country illegally. The Commerce Department said it was illegal, and we put tariffs in. They appealed to the ITC. The ITC ruling basically said, well, true, particularly with the case of China, they are dumping but it has a small effect on the U.S. economy, therefore, the tariffs were taken off. Is that now the standard for illegal dumping? Illegal dumping is legal as long as it doesn't have a major impact on one's economy?

Mr. VARGO. Could I answer that?

Mr. STUPAK. Sure.

Mr. VARGO. Actually the Nupage case wasn't dumping. It was subsidies, and the NAM was instrumental in getting the Commerce Department to agree that our countervailing duty statutes would be applied against subsidies so we——

Mr. STUPAK. Because of illegal dumping. China was dumping here for less than the cost.

Mr. VARGO. But the way the U.S. law is set up, and it has been set up a long time ago, in order for there to be dumping or countervailing duties applied two things have to happen. The Commerce Department has to find that they are selling in the U.S. at less than they are selling at the local market or the selling at less than the cost of production. That is what Commerce does.

Mr. STUPAK. And they found they were selling at less than cost production?

Mr. VARGO. They absolutely did. That is true. The International Trade Commission then as part of the law, which Congress passed a long time ago, said it has to find injury. Was that industry injured, and in this case the ITC found no, so it is not a change in practice. We can question the decision but anyway they followed the practice. There has been no change in practice, but let me just for the record say the NAM strongly supports the application of U.S. dumping laws and countervailing duties.

Mr. STUPAK. For most of us dumping is dumping whether it costs one job or in this case in the paper industry 550 jobs. People lost their good paying jobs because of this illegal dumping, so the wrinkle of this so-called economic injury if you read the opinion of the ITC if the injury was greater, more economic injury to the U.S. than it would have been illegal. Most Americans are under the impression illegal dumping is illegal.

Mr. VARGO. But by U.S. law in order to be illegal it has to have caused injury.

Mr. STUPAK. So if 550 people lost their job, it is not injury?

Mr. VARGO. I am not arguing, sir, on that case. I am just telling what the law says.

Mr. STUPAK. So when did Congress pass that crazy law?

Mr. VARGO. 1970s.

Mr. STUPAK. 1970s before we had the big explosion in trade. Ms. Reilly, let me ask you this. You indicated that we should pass the Korea free trade agreement, and coming from Michigan, the auto state, in our automobile trade with Korea, 87 percent of the deficit, trade deficit, between U.S. and Korea, and U.S. Korea trade deficit is $107 billion we are in the hole, in 2006 South Korea sold over 700,000 vehicles here in the U.S. but the U.S. was only allowed to get in 4,556 vehicles, so Korea, according to our research uses tariffs, prohibitive and discriminatory taxes, and regulations designed to keep our imports out so how is this fair and free trade, why should we pass Korea trade agreement when we can only get 4,500 of our cars into Korea but yet they are allowed 700,000 in our country?

Ms. REILLY. I appreciate your concern on that, and I cannot speak to the specifics of the autos issue within that agreement but from a broader standpoint the reason that we believe that we should pass the Korean agreement is because Korea is our seventh largest trading partner in the world.

Mr. STUPAK. Even though they use tariffs, prohibitive, discriminatory taxes and regulations to keep our products out, we still should trade with them because they are seventh largest?

Ms. REILLY. They are seventh largest for those goods as well as our sixth largest for agricultural goods so they are a tremendous potential customer for our companies.

Mr. STUPAK. So when does wrong become right? We have the health and safety of the American people. We have discriminatory tariffs, regulations, taxes, illegal dumping, but we all say that is OK. That is not fair and free trade to a lot of us up here——

Ms. REILLY. I don't think we are saying that that is OK, and I think that there is a lot of things that go into free trade agreements, and I am not privy to those discussions and those negotiations, but all of those things ultimately come out. That is where they talk about the importance of labor and environmental protection in these countries, as well as patent protection, and IPR protections for different products within these countries. There are a lot that go into them, and while they do have certain flaws, we believe as a whole they are beneficial for——

Mr. STUPAK. Do you think we should continue trading if these issues remain unresolved?

Mr. RUSH. The gentleman's time is up. We will have a second round. The chair now recognizes the gentleman, Mr. Braley, for 5 minutes.

Mr. BRALEY. Thank you, Mr. Chairman, for holding this important hearing. I want to follow up on Mr. Stupak's questions because I think it is a very important conversation to have. A lot of us up on this panel believe strongly in the concept of free trade when it is married with the concept with fair trade, but a lot of us see gross inequities in our current trading system that imposes an unfair burden not just on U.S. workers but on U.S. companies competing in a global market place. I want to follow up on Mr. Stupak's point about the Mexican trucking agreement, which many of us in Congress fought to terminate despite strong objections from the Bush Administration.

And I sat in on the hearing in the Transportation Subcommittee on Highways and Transit when we discussed that agreement at length. And on paper it looked like it created an equitable system because Mexico was required to comply with the same requirements that U.S. trucking companies are required to comply with to operate in this country. And, in fact, anyone like myself who used to be a commercial truck operator was provided a little green handbook that the Federal Motor Vehicle Safety Commission gives to every licensed truck driver to understand the rules of the road and also the rules of responsibility that go with operating a commercial vehicle. And one of those includes maintaining a driver's file so that anyone who causes damage whether commercially or personally while operating that truck has a source of accountability and that accountability is verifiable in this country.

And one of the concerns many of us had about that Mexican trucking program is there was absolutely no corresponding transparency on the other side of the border to assure the safety of American citizens from the owners of these Mexican trucks, and nobody from the Bush Administration could identify a similar source of verifiable information when these trucks crossed our border, so it was not a fair competition. And the same point that Mr. Stupak was raising is another concern. If you go back and read the Soviet Constitution, you would swear that the Soviet Union was a bastion of civil liberties and was doing everything to promote freedom and liberty within its country.

It is one thing to have words on paper. It is another to have a commitment to enforce them. And for many of us the problem we have with the trading agreements that we have right now is that on paper they look good, but our trading partners do not have the same level of commitment to enforcing their domestic laws on the other side, and we don't feel that there is accountability in the ITC to enforce a fair and reciprocal responsibility, so I would be interested in hearing from this panel what changes you think could be made to the current framework we operate in in a global economy that accomplishes this dual goal of both a free trading system and a fair trading system and brings people together around a trade model that can accommodate all of the interests that have been discussed.

Mr. VARGO. Congressman, if I could provide a response or at least some comments to that. I am not a trucking expert but certainly the general rule is that we are able to keep anything unsafe out of our country, and again I have not examined this closely but it is my general understanding that the record so far, the Mexican trucks has not shown they were unsafe, but I don't want to engage in a debate and that the principle I think is a good one. And the principal should apply to other countries. To give you one egregious example that the NAM has been involved in and that is the situation of American poultry being kept under the European market. Why is the NAM concerned about poultry? Well, it is a processed food. It is manufactured and under our statistical system we have poultry producers in the NAM but it is a more important principle.

Here is an area where because American chickens are dunked in a very mild chemical to make sure there is no salmonella the European Union says, oh, we don't do that, we won't take your poultry, even though the European commissioner said, you know, there is no scientific basis for this. Everybody knows that and we are going to stop this practice, but there was a public outrage so the commission said I am sorry, even though there is no scientific basis, we have no basis at all for keeping your poultry out, we are going to do it anyway. Well, that should not be. Now the U.S. trade representative is preparing a trade case against the Europeans and we need to pursue that aggressively. What do we need to do? We need more resources.

Certainly there are lots of instances where countries are not doing everything they should, particularly in China. We have talked about Chinese counterfeiting. When I talk to our companies most of them say the situation is getting worse, and when you take action on them. I would differ if the feeling were generally all our trading partners are cheating on us. From talking with our members companies generally we don't see that. There are specific instances, and when there are instances, I think we need to move quickly.

Mr. YAGER. Mr. Braley, if I could just point out the last section of my written statement, we made 2 comments about monitoring and enforcing trade agreements. The first had to do with better communication. For example, we did a report last year which took a look at the United States trade representative's report on China's implementation of its W2 obligations, and we found it was quite difficult for stakeholders to go through that report and really understand the state of play within China so we recommended that there be better communication, for example, from the key agencies to stakeholders such as the Congress and they have a better understanding of how things are going and ask more questions and get more involved in the process of monitoring and enforcement.

The other point that I made in the statement had to do with getting the right people in the right places because many of the barriers that we do talk about are quite technical and so the knowledge, for example, of the Chinese legal system is important. We need to have the right people over there that can help address those, ask the right questions, and put the kind of pressure on the authorities and in some cases provide technical assistance to them because there are also companies within China that would also benefit from stronger intellectual property protection and stronger safety rules, and we need to link up with those like-minded companies in order to be successful so we made some recommendations also on human capital planning to get the right people in the right places.

Mr. BRALEY. Thank you.

Mr. RUSH. The gentleman's time is up. The chair will ask the panel if they would indulge us for one additional round of questioning. We will limit the questions to 2 minutes so as not to infringe too much on your valuable time. The chair recognizes himself for 2 minutes. I would like to really point my questions to Ms. O'Neill and Ms. Hale. Recently, Time magazine published an article written by a gentleman, Alex Kerr, stating that among the 10 elements that will shape the world tomorrow Africa as a business designation ranks number six. It was the only continent mentioned. What are your respective agencies doing to identify opportunities for U.S. companies to export to areas in Africa and to Latin America and how are these efforts different from your past approach to these meetings, and how would the new—China has paid some special attention to Africa. It is Africa's third largest trading partner after the U.S. and France, and how should this competition influence U.S. trade policy what we send to Africa? So that is my three questions all within one general question. Would you care to respond?

Ms. O'NEILL. Sure. Thank you very much. Since the Congress' passage of the Africa Growth and Opportunity Act in 2000, we have been proud, the Commerce Department, to be one of the cohosts of an annual forum. The next one is in August, 2009 in Kenya, and we have been actively participating and this look at how to provide technical assistance, better legal and regulatory infrastructure, how to—I participated on a panel on expanding opportunities in telecom and information technologies recently focused on Africa. We also have 5 offices, Kenya, Tanzania, Ghana, South Africa, and Nigeria. For the countries where we don't have a physical presence, we work closely with the State Department. We have a partnership post Memorandum of Understanding that allows us to work with state econ officers in those markets where there is demand for U.S. exports, U.S. support, commercial support.

We have a web site, export.gov/africa. We are partnering looking closely at the multi-lateral development bank projects, and also providing training, trade promotion coordinating committee training for the state officers on the ground.

Ms. HALE. We are doing some capacity building projects. For example, we will bring government officials to the United States so they can see how we regulate biotechnology. That is very important to us because so much of our agriculture production for corn and soybean products are biotechnology. We also have a lot of food assistance programs in Africa. The McGovern-Dole program is providing food for school lunches. Also, I mentioned the trade mission that we have. We also have scientific exchanges. I think it is important that we are building relationships at all levels among scientists, among businesses, among government regulators that will support long-term trade relationships.

Mr. RUSH. The chair now recognizes the ranking member, Mr. Radanovich.

Mr. RADANOVICH. Thank you, Mr. Chairman. My first question goes to Mr. Vargo. Welcome to the subcommittee. I want to know how much additional trade revenue you think could be brought in from the passage of pending free trade agreements. There are three so far that are pending, Korea, Panama, and Colombia.

Mr. VARGO. Well, the average tariff on our manufactured goods in those countries ranges somewhere between 8 and 15 percent. And if we could get that down, we would generally, I think, pick up 10, perhaps 20 percent more exports in those countries. We export, if I recall, about 5 billion to Panama now, maybe 11 billion to Colombia, something like 30 billion to Korea so we want that business and we want the agreements to be good. And tariffs are not the only part of the agreement. Non-tariff areas are important and other provisions of the agreements are important.

And I look at Colombia right now and I recognize that the Congress and the Administration want to do something more on the violence in Colombia, particularly that which affects members of union, but from my point of view this is costing us exports and jobs every day of delay because the Congress has already voted——

Mr. RADANOVICH. Mr. Vargo, I ask you to sum up real quick because I want to try to get one more question.

Mr. VARGO. I am done, sir.

Mr. RADANOVICH. All right. Thank you very much. Ms. Hale, during the last round, you were very good in answering my Uruguay Round question, but I forgot to ask the second part, and that was as far as specialty crop exports, they were in surplus then, they are not now. Can you explain why perhaps and give me an idea of what it would take in order to bring an increase in exports of specialty crops?

Ms. HALE. There are two important reasons why our specialty crop exports have been increasing. One is that people see them as very healthful and in countries like Europe and Japan people, U.S. nuts and fruits are in very, very high demand. We are exporting 80 percent of our almonds, for example. Our walnut exports are a billion dollars a year. And the industry has done a good job of promoting the health benefits. Another reason is that middle income people are growing, and for a middle income family in China an orange is a treat, a California orange.

They will buy the orange, split it up. The whole family, everybody, will take a piece of it and it is a special treat. And we are seeing more consumers around the world that are able to afford American fruits and American nuts. And the industry has just done a good job promoting them. An example is the emerging markets program. We just did a promotion for using American fruits and nuts in moon cakes. It is a billion dollar business in China, and American dried fruits and nuts would be a good contribution to Chinese moon cakes. So that kind of technical support in our marketing program has been very important as well, so the consumers are there and I think we got good marketing programs to take advantage of the changes in the marketplace.

Mr. RADANOVICH. Thank you very much. I yield back, Mr. Chairman.

Mr. RUSH. The chair now recognizes Ms. Sutton.

Ms. SUTTON. Thank you, Mr. Chairman, and I will just ask a couple of questions and then allow you to respond. Ms. Reilly, in the last line of questioning you answered the question I offered with a statement that included a reference to when you were evaluating the Peru free trade agreement you just looked at the benefit on the bottom line. And that is an interesting remark to me, and I would just like to understand better what your association's assessment mechanism is on whether or not trade is working if it really just encompasses the benefit on the bottom line, so if you could just think about that for a moment.

Mr. Vargo, following up on some of Mr. Stupak's questions, you know, I heard you referencing that your association is obviously against illegal dumping and certainly for the imposition of tariffs where appropriate to level the field. One of the things that is happening now is that in this economic global downturn that we are experiencing steel production in this country has been ramped down because as one would when the market is down, one would cut back on production. China is taking advantage in my view, and certainly the data I will be happy to provide to show you, and is ramping up production and exporting steel into this country in this moment of global interconnectiveness and downturn. What should we do about that?

And then, finally, the very last question I want to ask about is the drywall that we bring into this country from China, and some of you have referenced that we don't have to accept unsafe products into this country if we know that they are unsafe. We know that some of the drywall imported from China leaches formaldehyde. We know this. It has been declared not only unsafe for, you know, some of our other trading partners but China itself will not allow it to be used in their own country and yet we have it being imported into this country, and I would just like to know about your thoughts on all of these things because again these go to the issues that I am talking about about the comprehensive nature of our system and how it is working and what we need to do to fix it.

Ms. REILLY. Well, first, to answer your question regarding how do we assess the bottom line is we look at it, and we look at the free trade agreements that have been implemented thus far and the companies that were already having duty free access to U.S. markets, selling their things here with no taxes or tariffs on it, and us selling our goods abroad with an average tariff or tax of about 15 percent. We look at that, and we look at those numbers. When we look at Ohio specifically and how trade has worked, I look at agreements like the U.S.-Chile agreement where 47 percent of exports have increased to Chile from Ohio. For NAFTA agreements it has gone up 138 percent.

Even the agreement with Jordan, and I don't know what Ohio is selling to Jordan, but it has gone up over 1000 percent, so those are the numbers that we look at regarding that.

Ms. SUTTON. I guess I was just asking about whether you look at anything besides numbers, and I appreciate that. Thank you.

Mr. VARGO. On steel and China, the NAM is a broad association. We have members of industry associations like American Iron and Steel Association and many others. Our view is, as I said, we support the strong and effective use of U.S. import law. We also believe it is very important that the United States, everybody else, adhere as closely as possible to the rules-based global trading system. I am very pleased that President Obama stressed that several times in his trade agenda. It is important that we have a stand still on countries and not start putting on more trade barriers because that is a road downward that will really hurt us as well as everybody else.

In the case of steel and China, absolutely, the steel industry should be able to avail itself of U.S. trade laws. I know the Congress department already does special monitoring of Chinese steel, and there are additional tools that could be available but I will let our steel industry speak for itself. On drywall as an illustration of unsafe products coming into the United States, this is very troublesome, and clearly we need to address this more carefully than we have with having tighter inspection or certification of products that are coming into the United States.

Again, you know, that is going to take resources. It is going to take some more general agreement. I think we ought to look at what other countries do because some other countries I think have tougher requirements for getting into their country than we do, and it might be useful for this subcommittee to ask the GAO to look into that and see what other countries are doing that maybe we ought consider doing legally. I am not proposing we do anything funny here, but I think some other countries just do a more careful job of insuring the safety of what is coming into their country.

Mr. RUSH. The gentlelady's time is up. The chair now recognizes the gentleman from Michigan for 2 minutes.

Mr. STUPAK. Thank you, Mr. Chairman. If we are looking at the bottom line numbers, look at the bottom line numbers. Just take January alone. Our trade deficit is $39 billion. From 2001 to 2008 the trade deficit cumulative is $3.83 trillion. Every one of these trade deficits means loss in U.S. jobs. While Michigan is a manufacturing state, we are a great state for exporting agricultural products. In fact, we are one of the leading states for doing that, but it doesn't offset the loss of jobs we have from manufacturing because it is a higher value product as opposed to agricultural products.

So, again, I don't mind promoting trade but we have to do enforcement. Mr. Vargo, you indicated in my first line of questioning, talked about inspections and certifications. And where I sit as chairman of Oversight and Investigations and do the melamine, the heparin, and the toy investigations and the illegal products coming into this country, I have been toying with the idea and would like your comments on it because you mentioned China's steel. In the early part of this decade, the early 2000's, we were doing the standup for steel because China was illegally dumping steel in this country. That did have an impact and President Bush did put some tariffs in which were modified, but we did have them.

But our concern right now if you go back to safety is whether it is drywall from China or whether it is steel or cement it is an inferior product. The custom border patrol has indicated that they have a right to inspect the product coming in and they find it to be not of sufficient strength, and, therefore, they will tag it as being inferior but yet the importer, the U.S. customer, still comes, grabs that steel, takes that tag off, and sells it in the U.S. economy. And we have seen schools collapse in California because of inferior steel from China.

So we are toying with the idea to introduce legislation that will give the custom border control—not only continue their inspection but reject it right there, not even allow the U.S. customer to pick up that steel. Just send it right back. Do you have any problems with that?

Mr. VARGO. Well, you know, I try to stick to a policy of speaking on things that I know something about. There I don't. We do have a working group within the NAM looking at unsafe products coming into the United States so with your permission, I am going to take that point to our working group and we will get an answer to you in writing.

Mr. STUPAK. Please do, because once these inferior products get into the mainstream of Congress, there is no way to recall them. Once they are in the building, they will rip them out.

Mr. VARGO. Understand. If I could just comment very quickly on the overall trade deficit. You know, we had over a $450 billion trade deficit in manufacturers last year, but I just want to point out again that with our free trade partners we had a surplus. All of our deficit was with countries that have not lowered their trade barriers to us. I don't want to get into a squabble——

Mr. STUPAK. Sure. Most of those countries like China have a VAT. As their products come in, they put a value at a tax on it which is illegal, and we are not doing anything to enforce it.

Mr. VARGO. Well, under world trade rules it is not illegal and we don't have a VAT. Maybe we should.

Mr. STUPAK. Maybe we should have a VAT.

Mr. VARGO. But if I could just make 1 point.

Mr. STUPAK. Sure.

Mr. VARGO. We seem to be drifting more towards talking about trade agreements, et cetera. Please don't forget the central point here which is we under export. We don't have enough export promotion so whatever other problems we deal with, I hope that this subcommittee will really press. We need to increase our exports.

Mr. STUPAK. But from where I sit as chairman of Oversight and Investigations, I see trade agreements jeopardizing the health and safety of the American people because it is both ways, the products we receive, and we are not doing a good job here in this country.

Mr. VARGO. Well, you might want to have a separate hearing on this, but on export promotion whatever disagreements we have help us promote exports. Thank you.

Mr. RUSH. The gentleman's time is up, and the chair really wants to emphasize that is why we have two committees, the Oversight and Investigations Committee, which the chairman does an exceedingly good job. He has been keeping the American people safe for as long as he has been chair of that committee, and I really want to commend him, but we will be—this committee is dedicated to promoting trade, international trade, as a response to our economic problems that we are facing as a nation. And so that is the purpose of this hearing, and that will be the purpose of the attention of this committee. I really want to thank all of the members of the panel. You have really been a tremendous asset to us here on the committee. Your testimony has been most forthright and informative to us, and we certainly want to let you know that we appreciate you taking your time from your busy schedule to be with us today. And we thank you for enlightening us with your testimony. The chair now calls this committee to close. The committee right now is adjourned.

Right before we adjourn, the chair asks for unanimous consent to enter the statement of Mr. Dennis Slater. He is the President of the Association of Equipment Manufacturers, and without any dissent with unanimous consent to enter Mr. Slater's statement into the record.

[The information appears at the conclusion of the hearing.]

Mr. RUSH. The subcommittee now stands adjourned.

[Whereupon, at 12:04 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

Statement of
Representative John D. Dingell
Committee on Energy and Commerce
Subcommittee on Commerce, Trade, and Consumer Protection
Hearing on "Stimulating the Economy through Trade: Examining the Role of Export Promotion"

March 17, 2009

Thank you, Mr. Chairman. I appreciate the opportunity to say a few words about the importance of exports to the National economy. For the sake of time, I wish to confine my remarks to the importance of rebuilding a vibrant manufacturing sector in the United States. In this light, I would observe that in years gone by, the United States was the world's leading exporter of high-quality manufactured goods. According to the World Bank, the United States now ranks 15th for the proportion of manufacturing production its companies export. This is simply unacceptable and requires a combination of policy initiatives to correct, of which export promotion strategies are only one.

For years, the manufacturing sector has fostered the growth of the middle class in the United States. Thanks, among other things, to this country's lack of a pro-manufacturing agenda, its own short-sighted trade agreements, and unfair practices by our trading partners, we have seen the U.S. trade deficit balloon at an obscene rate and domestic industrial production sink to a dismal level. As a result, millions of Americans, many of whom live in my District, no longer have the option taking a manufacturing job, something which allowed their parents and grandparents to make better lives for themselves.

In order for there to be tangible value behind any future economic growth, we must do all that is possible to stimulate manufacturing production in the United States. We must fully fund programs like the Manufacturing Extension Partnership and foster public-private research and development projects. One area of potential growth lies in batteries. Currently, there is no U.S. manufacturer capable of both producing high capacity battery cells and assembling them into battery packs. Promoting innovation and helping expand this fledgling domestic industry would allow the United States compete globally with countries such as Japan and Korea, while at the same time creating much needed high-skill, high-wage jobs in this country.

I applaud your efforts on this matter, Mr. Chairman, and yield back the balance of my time.

Statement of Congressman Steve Scalise

Stimulating the Economy through Trade: Examining the Role of Export Promotion

Subcommittee on Commerce, Trade, and Consumer Protection
Committee on Energy and Commerce

March 17, 2009

Thank you, Mr. Chairman.

Trade is an issue that is vital to my district and to the State of Louisiana. Our region is home to two of the busiest ports in the country – the Port of New Orleans and the Port of South Louisiana – and our state continues to be among the leaders in export activity.

With the Mississippi River moving about 500 million tons of cargo each year – including more than half of the nation's grain exports, the Port of New Orleans is America's gateway to the global market. And with the Port's proximity to the River, as well as access to major highways and 6 Class I railroads, it is at the center of the world's busiest port complex.

Activity at the Port of New Orleans accounts for 380,000 direct and indirect jobs across the nation. In addition, the Port produces $37 billion in national economic output and $2.8 billion per year in federal tax revenue.

Obviously, trade is tremendously important to Louisiana and to businesses within the state and region. As our country has seen trade and exports decline due to the global economic conditions, Louisiana set a record amount for exports in 2008. Last year, Louisiana exports reached $41.9 billion, a growth of 38% above 2007, which represents the 2nd largest growth of any state. And Louisiana continues to rank in the Top 10 among all 50 states in exports.

To ensure that the Port of New Orleans and the State of Louisiana continue to lead the way in trade and exporting, we must promote exports in an efficient and effective way. And we must promote a fair and free trade environment.

One issue that I think is critical to the future of export promotion is the expansion of the Panama Canal. This project will bring a tremendous increase of goods into the United States. More importantly, it will give American businesses the opportunity to export more products to vital overseas markets like China and India.

We must effectively promote American companies and products to take advantage of this expansion and the boost it will give to international trade. If we do this, we will strengthen our export industry, enhance American competitiveness, and ensure our prosperity in the global marketplace.

I look forward to hearing from our witnesses on the current efforts to promote U.S. exports abroad, as well as their thoughts on the effectiveness of these efforts. It is imperative that government not waste taxpayer dollars on export promotion and that the numerous agencies involved in export promotion not engage in duplicative efforts.

We can stimulate our economy by promoting our exports and investing in trade. But we must make sure we use our resources wisely. If we do, we will reap returns for our exporters, and for our taxpayers.

Trade Note

September 30, 2006

The World Bank Group
www.worldbank.org

International Trade Department

By Daniel Lederman, Marcelo Olarreaga, Lucy Payton

Trade Note 30

EXPORT PROMOTION AGENCIES: WHAT WORKS AND WHAT DOES NOT

The number of national export promotion agencies (EPAs) has tripled over the last two decades. While more countries made them part of their national export strategy, studies criticized their efficiency. EPAs have been retooled partly in response to these critiques,. This note studies the impact of existing EPAs and their strategies, based on a new data set covering 119 developing and developed countries. Results suggest that on average they have a strong and statistically significant impact on exports. For each $1 of export promotion, we estimate a $300 increase in exports for the median EPA. However, there is heterogeneity across regions, levels of development and types of instruments. Furthermore, there are strong diminishing returns, suggesting that as far as EPAs are concerned small is beautiful.

EPAs are a popular instrument to boost exports

The first EPA –still existing- was created in 1919 in Finland, and in the mid-1960s EPAs became a popular instrument to boost exports and reduce trade deficits, under the auspices of the International Trade Center (a joint UNCTAD-GATT multilateral institution). By the early 1990s their efficiency began to be questioned (Keesing and Singer, 1991 and 1991a). EPAs in developing countries were criticized for lacking strong leadership, being inadequately funded, hiring staff without a client orientation, suffering from government involvement, and especially for establishing EPAs in countries with antitrade policies[1]. As a result, many development institutions withdrew their support to EPAs. Part of the blame for the failure of the early EPAs was put on the import substituting trade regimes that prevailed at the time. Overcoming such a strong antitrade bias was probably too much to ask of any specialized agency. However, more than a decade later, the trade-policy environment has significantly changed in the developing world and some EPAs have evolved.

The objective of EPAs is essentially to help potential exporters find markets for their products, as well as provide them with a better understanding of products demanded in different export markets. One can divide the services offered by EPAs into four broad categories: 1) country image building (advertising, promotional events, but also advocacy); 2) export support services (exporter training, technical assistance, capacity building, including regulatory compliance, information on trade finance, logistics, customs, packaging, pricing); 3) marketing (trade fairs, exporters and importer missions, follow-up services offered by representatives abroad); and 4) market research and publications (general, sector, and firm level information, such as market surveys, on-line information on export markets, publications encouraging firms to export, importer and exporter contact databases).

The economic justification for government involvement in export promotion is based on the theory of asymmetric information and other market failures. Private firms alone will not provide foreign market information, as companies hesitate to incur research and marketing costs that can also benefit competitors. The same applies to pioneer exporters, who make a considerable investment in attempts to open a foreign market, cultivating contacts, establishing distribution chains, and other costly activities that can be used by their rivals (Hausmann and Rodrik, 2003). Higher uncertainty associated with trading across borders in markets with different legislation has also been put forward as a justification for export insurance schemes supported by the public sector. **From an economic perspective the argument for public funding of EPAs needs to be based on an assessment of the social costs and benefits associated with the activities of the EPA.** Social benefits are likely to be larger than the social costs if there are large positive externalities associated with higher current exports across firms, sectors or time and within the exporting country.

Empirical studies support the view that EPAs can be crucial for export success

Cross-country statistical analyses of the impact of EPAs on exports have not existed prior to this research. The exception is perhaps Rose (2005), who estimates the impact of the presence of an embassy or consulate may have on bilateral trade using a gravity model. Rose argues that as communication costs fall, foreign embassies and consulates have lost much of their role in decision-making and information-gathering, and therefore are increasingly marketing themselves as agents of export promotion. In a sample of twenty-two exporting countries –of which eight are developing countries-- and around 200 potential trading partners Rose finds that for each additional consulate abroad, exports increase by 6 to 10 percent.

The bulk of the previous empirical literature focused on the effectiveness of agencies in developed countries. One approach relies on surveys of exporters asking which programs they have made use of and their opinions of these programs and the success they have had in exporting. Kedia and Chhokar (1986), for example, found that export promotion programs in the United States have little impact, largely because of a lack of awareness about such programs. Seringhaus and Botschen (1991) surveyed the opinion of nearly 600 firms in Canada and Austria and found that export-promotion service use is low and that the programs are not tailored to the needs of exporters. Gencturk and Kotabe (2001) tested the link between program usage and export performance in a sample of 162 US firms and found that usage of export programs increases profitability, but not sales, which suggests that there are no externalities across firms and that export programs represent a transfer from agencies to the exporting firm. Gencturk and Kotabe also found that experienced exporters benefit from government programs in terms of profitability more than new exporters. **Despite their criticism of existing programs, these studies do support the argument, however, that EPAs are a response to a genuine need of small and medium-sized firms and that they can be crucial for export success.**

In the late 1980s, a World Bank report assessed EPAs in the developing world and argued that a consensus had emerged with a strong negative view of EPAs in developing countries (Hogan, Keesing and Singer, 1991). In a series of influential studies (Keesing and Singer, 1991, 1991a) the authors argued that EPAs had failed to achieve their goals and in many instances had a negative impact, except in those countries that already had favorable policies vis-á-vis exports, namely Singapore, Hong Kong, Korea, and Taiwan (Keesing, 1993). The alleged weaknesses were: EPAs were manned by poorly trained civil servants who were out of touch with their private-sector clients; these public institutions did not provide the incentives to ensure a high-quality service to exporters; agencies failed to address the major supply constraints on exporters, which were often not marketing-related, particularly in environments where import substitution policies prevailed.

Others (Hogan, 1991, de Wulf, 2001) argued that the key problem with EPAs was their lack of funding and that bad policy environments could be overcome by well funded EPAs, as the examples of Korea, China, and Taiwan in fact demonstrated, thus countering Keesing's argument. Hogan also argued that the one-size fits all solution often advocated by donors was ill-suited, and different environments required different structures. In spite of the strong criticisms, EPAs were not abandoned. In fact, the number of publicly funded agencies increased over the course of the 1990s. More recently, the development literature has taken a slightly more positive view of the potential role of export promotion agencies in poor countries. The rationale underlying the criticisms of Keesing and Singer (1991, 1991a) was that the early failures of EPAs were mainly due to import substitution policies that made the job of EPAs very difficult. In the 1990s, that strong bias against exports vanished, and prominent development economists have adopted a more benign view of EPAs. For example, in a study of how governments can promote non-traditional exports in Africa, one of the main recommendations of G.K.Helleiner (2002) –who led the study– was to create an adequately funded EPAs to help exporters overcome the costs and risks of entering unfamiliar and demanding international markets (Helleiner, 2002).

From a survey of 295 small-and-medium-sized sporadic and permanent exporters in Chile, Alvarez (2004) provided evidence on what types of programs, institutional set-up, and financing are more likely to succeed. While trade shows and trade missions did not affect the probability of being a successful exporter, a program of exporter committees showed a positive and significant impact. Such committees are composed of a group of firms with common objectives in international business, which cooperate on research, marketing and promotion. Macario (2000) identified the policies that determine successes and failures in Brazil, Chile, Colombia, and Mexico. On the basis of interviews with successful exporters, she sets out various recommendations for export promotion agencies: they should be directed at firms with new products or who are entering new markets; they should emphasize cost-sharing to ensure that programs are used only by those truly dedicated to export; support should be given for a maximum of 2-3 years so that it does not turn into a subsidy; programs should be submitted to external evaluation; agencies work best when they are subject to a mix of public and private management. In his survey of the early literature, de Wulf (2001) stressed the importance of emphasizing on-shore activities. EPAs have traditionally focused on off-shore activities, such as information gathering, trade fairs, and trade representation, thus often neglecting the importance of home-country supply conditions. Well-targeted support to potential exporters could have large impacts.

Our analysis suggests that today's EPAs are effective in boosting exports

In mid-2005 we conducted an 18 question survey of EPAs around the world[4]. Through the ITC website (www.intracen.org/tpo) we obtained a database with contact information. We complemented this list with the help of many World Bank country economists who provided contact information for national EPAs. We contacted agencies or Ministries in 147 countries. In 31 countries we were informed that there was no national EPA. In turn, the survey was sent to 116 countries and 92 answered (of which 4 responded that they could not respond). Each of the 88 surveys that we received was followed up with phone conversations to confirm and clarify some of the answers. The survey contains five parts: i) institutional structure, ii) responsibilities of the agency, iii) the strategies followed, iv) resources and expenditures, and v) activities and functions. Hence the final sample of countries included in the data analysis was 119, of which 31 have no EPA.

Sample characteristics

- Around 10 percent of agencies surveyed are fully private; 5 percent are joint public private entities.
- 80 percent of the agencies are either the only export promotion agency in the country or clearly the largest and most important, although there are significant public and private agencies working in closely related areas.

- The principal strategy followed by 60 percent of the agencies surveyed is to increase aggregate exports, no matter which sector or how big or small the export volumes.
- The average budget of EPAs surveyed is around 0.11 percent of the value of exports of goods and services, with a standard deviation of 0.35 and a median of 0.04 percent.
- Public funding seems to predominate as a source of funding. Three quarters of the agencies surveyed had no private funding, and half had no income associated with the selling of their services.
- The largest share of spending is generally spent on marketing and market research, and publications.
- 41 percent of the agencies have offices abroad. In most regions agencies spend a small amount of their budget on offices abroad, with the exception of the OECD where on average 39 percent of the EPA budget is dedicated to offices abroad.

Our objective was to disentangle the impact of export promotion agencies, their structure, responsibilities, strategies, resources and activities on overall exports in order to understand what works and what does not. The first step was to explore whether there is any correlation between export promotion budgets and exports. The simple correlation of exports per capita on EPA budgets per capita revealed a clear positive association between these two variables. It also provided the predicted value obtained from the corresponding locally weighted regression (lowest), which provided us with some prima-facie evidence of which are the agencies that are underperforming in terms of exports per capita given their budgets. For example Rwanda would be expected to have a much higher level of exports given the budget of its EPA (underperformer), whereas the Irish agency would be expected to have a lower level of exports (over-performer).

But one has to be careful with the interpretation of this positive association. First, the sample might be biased, because it is restricted to the agencies for which we were able to find a local contact. It is also further restricted to those agencies that answered the survey, even though we had a perhaps surprisingly high 76 percent response rate. Second, because of the endogeneity of the export promotion budgets to exports, a correlation can exist between unobserved factors contributing to both the budget of EPAs and exports, which will also result in spurious correlations.

We correct for sample selection bias using a selection equation (Heckman, 1979) that explains why some countries were not surveyed and why some agencies did not answer. Our experience collecting contact information for EPAs helped us identify variables that should be part of this selection equation. It was clear that in poorer and smaller countries it was more difficult to obtain contact information for the relevant Ministry or institution, and even when we did, it was difficult to get them to answer the survey. So GDP per capita and GDP became elements in the selection equation. The extent of aid per capita also seemed to be an important determinant as the EPAs in the poorest economies were substantially funded by bilateral and multilateral donors.

We deal with the endogeneity of export promotion by controlling for numerous determinants of exports that may be also correlated with export promotion budgets[5]. The control variables we considered are: GDP per capita, an index of trade restrictiveness imposed on imports, an index of trade restrictiveness faced by exports in the rest of the world, volatility of the exchange rate, an indicator of the export regulation burden that measures the number of days that it takes on average to comply with all necessary regulations to export goods, a dummy for landlocked countries, and regional dummies for Asia, LAC, MENA, SSA and the OECD[6].

The basic export equation thus became:

$$\ln(Exp/pop)_c = \beta_0\beta_1\ln(Bud/pop)_c + \beta_2\ln(GDP/pop)_c + \beta_3\ln(T)_c + \beta_4\ln(MA)_c$$

$$+ \beta_5\ln(Vol)_c + \beta_6\ln Reg_c + \beta_7 Llocked_c + Dummies_R + \epsilon_c$$

where the βs are parameters to be estimated; Exp/pop_c are exports per capita in country c; Bud/pop_c is the budget of the EPA per capita in country c; GDP/pop_c is GDP per capita, T_c is and index of trade restrictiveness imposed by country c on its imports from the rest of the world; MA_c is an index of the market access trade restrictiveness imposed by the rest of the world on exports of country c; Vol_c is the volatility of the exchange rate in country c; Reg_c is the number of days necessary to comply with all regulations and procedures required to export goods from Djankov, Freund and Pham (2006); $Locked_c$ is a dummy that indicates whether the country is landlocked; $Dummies_R$ are regional dummies, and e_c is the standard white-noise.

We estimated the selection and export equations using a two-step Heckman model, namely the information maximum likelihood estimator. The full information maximum likelihood (FIML) is generally more efficient than the two-step approach, especially in the presence of high levels of correlation between the explanatory variables of the selection and main equations (the two exclusion restrictions we imposed are aid per capita and the log of GDP). However, the FIML failed to converge as we increased the number of explanatory variables. We therefore opted for reporting the two-step results throughout.

Generally, our estimates suggest that today's EPAs are effective in terms of having an impact on national exports. **For every \$ 1 in the EPA budget, on average there is an additional \$490 dollars of exports in LAC, \$227 in Asia, \$ 160 in the OECD, \$137 in SSA and \$96 in MENA, although the last two estimates are not statistically different from zero.** On average, exports increase with EPAs' budgets, even though our estimates suggest that at levels around 60 cents per capita the marginal efficiency starts declining.

All estimated coefficients have the expected sign. GDP per capita has a positive and statistically significant sign in all specifications suggesting that richer countries, with stronger and better institutions, export more. Countries with restrictive import regimes export less, capturing well known general equilibrium effects, but the sign is not statistically significant[7]. The restrictiveness faced by exporters in the rest of the world strongly reduces exports across all specifications with a slightly higher coefficient for developing countries when correcting for sample selection bias. Exchange rate volatility also has a negative impact on exports, although it is statistically significant only in the case of developing countries after correcting for sample-selection bias. The number of days necessary to comply with export regulation in the exporting country has a negative, but insignificant impact on exports.

There is an inverted U-shape relationship between the impact of EPAs budget on exports and the budget of the EPA. This suggests – everything else equal— that very low or very high budgets may actually lead to lower efficacy. The maximum impact is achieved somewhere between \$0.60 and \$2.7 per capita. The estimates actually suggest that at very low levels of expenditures the impact of EPA's budget on exports may be negative. The estimated coefficients on EPA's budgets are much smaller than 1 and statistically different from 1. This further suggests that there are strong decreasing marginal returns in EPA budgets. Perhaps more importantly, the analysis also investigated the types of export-promotion institutions and activities that might have the largest payoffs.

What works and what does not?

- Results confirm some of the conclusions of the earlier literature. **EPAs should have a large share of the executive board in the hands of the private sector, but they should also have a large share of public sector funding.** In other words, a full privatization of EPAs does not seem to work. A single and strong EPA should be preferred to the sometimes observed proliferation of agencies within countries. Results also suggest that EPAs should focus on nontraditional exports or have some broad sector orientation, rather than attempt to promote overall exports. They should also focus on large firms that are not yet exporters (although this last result is statistically weak).

- There are some characteristics that seem to be particularly important for developing countries. For example, the export promotion activity of the agencies should be shared with other activities such as investment promotion and export financing. Similarly, they should focus their expenditure on on-shore export support services rather than on country image or marketing and market research activities. Also, EPA offices abroad do not seem to have a positive impact on exports, again suggesting that agencies should focus on on-shore activities.

Last but not least, words of caution are warranted. First, regarding the methodology used to derive these conclusions, cross-country regressions cannot fully capture the heterogeneity of policy environments and institutional structures in which agencies operate, without running out of degrees of freedom. To complement our study and provide adequate policy advice, case studies are needed. Second, the large "returns" that we found on average to EPA's expenditure do not provide a justification for those budgets on welfare grounds, as these will need some measurement of the externalities and net benefits associated with export promotion. Moreover, larger returns may be obtained by investing those resources in improving the overall business climate (infrastructure, education, etc.) and we do not provide such an analysis. Also, the evidence of diminishing returns to scale in EPA budgets in fact suggests that small is beautiful in this context. Our hope is that this empirical analysis provides guidelines in terms of institutional design, objectives, and activities of EPAs that can help maximize the impact of EPAs on exports.

Footnotes

1. Similar critiques emerged for EPAs in developed countries; see for example Kotabe and Czinkota (1992), a study of the United States sub-national EPAs.
2. Of the 73 export promotion agencies in developing countries surveyed only 21 had some budgetary support from multilateral donors in 2005, and in only 11 agencies the budgetary support from multilateral donors represented more than 25 percent of the total budget. In the case of one Sub-Saharan Africa agency more than 75 percent of its budget in 2005 came from multilateral donors.
3. Note that some of these externalities may travel across borders. It is clear that some of the benefits from export promotion activities can be captured by consumers in the importing country for whom search costs are reduced. This calls for multilateral interventions.
4. The questionnaire is available from the authors upon request.
5. Ideally we would like to find suitable instrumental variables, but it is difficult to find a good instrument for the export promotion budget that will not be correlated with exports.
6. GDP per capita is the average for the period 2000-2004 in 2005 constant U.S. dollars from the World Bank's World Development Indicators; the indices of trade restrictiveness imposed at home and abroad are from Kee, Nicita, and Olarreaga (2006); the volatility of the exchange rate is measured by the coefficient of variation of the dollar to local currency exchange rate during the period 2000-2004 obtained from the World Development Indicators.
7. This result also suggests that in the early 2000s contrary to what was observed by Keesing and Singer (1991a) in the 1980s, the main constraint to export is no longer the anti-trade bias of the import regime.

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STATEMENT OF DENNIS SLATER
PRESIDENT, ASSOCIATION OF EQUPMENT MANUFACTURERS

BEFORE THE
SUBCOMMITTEE ON COMMERCE, TRADE, AND CONSUMER PROTECTION
COMMITTEE ON ENERGY AND COMMERCE
HEARING ON
STIMULATING THE ECONOMY THROUGH TRADE PROTECTION

March 17, 2009

This statement is made on behalf of the Association of Equipment Manufacturers (AEM), a leading international trade association representing more than 800 companies that manufacture equipment, products and services used worldwide in the agricultural, construction, forestry, mining and utility industries. The Association's core services include product safety and technical support, market information and equipment statistics, public policy representation, trade shows, international support services, education and training programs, worksite safety/educational materials and workforce development activities. AEM is headquartered in Milwaukee, Wisconsin.

<u>The U.S. Economy and Trade</u>

International trade is a critical asset to American manufacturers, particularly during these difficult economic times. Opportunities in foreign markets have enabled our manufacturers to export at record numbers and maintain growth during what some have coined 'the crash of the U.S. economy'. According to AEM's first quarter 2009 report, exports of construction equipment and farm equipment increased more than 20 percent over 2008, while sales in the U.S. gained less than 5 percent. During this crisis it is especially important to promote participation in the global economy instead of turning back to a protectionist strategy. Protectionism will stifle economic growth globally and prolong a down-sloping economy.

96 percent of the world's consumers live outside the United States. U.S. producers must be able to reach those consumers to expand the U.S. economy and to create jobs. About one of every five factory jobs - or 20 percent of all jobs in America's manufacturing sector - depends on exports. And workers in jobs supported by merchandise exports typically receive wages higher than the national average.

U.S. industrial equipment manufacturers can compete anywhere in the world if given a level playing field. We know the positive effects of trade and open markets and are responding through an aggressive trade strategy which includes new products and thinking globally. And it is not only large manufacturers, but also small and medium Enterprises (SMEs), who benefit. Small businesses create 70 percent of the new jobs in America and they account for account for almost 97 percent of U.S. exporters. For example, AEM member and "SME" Stone Construction Equipment, Inc. of Honeoye, NY, with fewer than 500 employees, is a global exporter.

According to Lynne Woodworth, President of Stone, "Trade gives Stone access to the 96% of the world's population that lives outside the U.S. borders. Trade is critical because Stone has many untapped markets. Also, as a privately held, employee-owned company, revenue growth from trade in other parts of the world makes it possible for us to continue to invest in American manufacturing and the American worker." This is just one of many stories from small equipment manufacturers who benefit here in the U.S. from exports.

Construction machinery exports close out 2008 with 20-percent gain

Despite downturns in the U.S. economy, manufacturers were able to report record profits for 2008 mainly because of exports. U.S. construction equipment exports totaled more than $20.7 billion for 2008, which translates into a 20-percent gain over the previous year, according to the AEM's recently released quarterly export trend reports. South America and Asia were among the market leaders for purchases of American-made construction machinery.

Global trade, especially to emerging markets, was a mainstay of our resurgence in recent years. Obviously the situation is much different today. Our industry sector, as with the manufacturing community overall, has been devastated by the abrupt downturn in 2008. These export results were helped by trading terms such as letters of credit, which kept goods in the delivery pipeline.

The AEM trade group consolidates U.S. Commerce Department data for off-road equipment with other sources into quarterly export trend reports. Some relevant figures:

Export sales to South America grew 44 percent in 2008 for a total of $3.3 billion compared to 2007. Asia took delivery of $3 billion worth of U.S. construction equipment, an increase of 25 percent, and exports to Central America grew 19 percent in 2008, for a total of $2 billion.

Export business to Europe gained 11 percent with purchases of $3 billion in 2008, and construction machinery exports to Canada increased 13 percent for a total of $6.2 billion.

Africa recorded purchases of $1.4 billion worth of U.S. construction equipment, an increase of 29 percent. And, exports to Australia/Oceania grew 14 percent, to $1.8 billion.

Farm equipment exports for 2008 increase 26 percent

Further, AEM trade data reports that U.S. exports of agricultural-related machinery totaled $10.4 billion in 2008, an increase of 26 percent compared to the previous year. Australia/Oceania led the way in percentage growth, followed by Canada, South America and Europe.

Export growth was strongest in the first quarter of the year and then dropped substantially by the third quarter. The farming sector has not been immune to the global economic downturn, with continued uncertain conditions around the world, and in some instances staggering economic reversals of recent positive trends in certain world regions.

U.S. farm equipment exports to Australia/Oceania totaled $794 million, a 59-percent increase for 2008. Exports to Canada grew 31 percent in 2008, with purchases totaling $2.8 billion. South America took delivery of $888 million worth of American-made agricultural equipment in 2008, a gain of 29 percent, and exports to Europe increased 23 percent and totaled $4 billion.

Asia bought $793 million worth of U.S. agricultural machinery, a 12-percent increase, while Central America's export purchases of $813 million represented a 13-percent increase. Africa's farm equipment export purchases were $299 million, a gain of 21 percent.

Trade protectionism is bad for the U.S. economy

The U.S. last month passed an enormous recovery bill to stimulate the economy and many other nations are following suit with their own economic stimulus packages that could provide opportunities for U.S. equipment manufacturers. Unfortunately, U.S. manufacturers may be left behind because of restrictions such as "Buy America" that may lead to retaliation by our trading partners. Leaders from around the world have warned that they will return the favor by also restricting U.S. manufacturers from infrastructure projects in their countries, thereby exacerbating an already dire situation. The European Union's trade commissioner declared that "the one thing we can be absolutely certain about, is if a bill is passed which prohibits the sale or purchase of European goods on American territory, that is something we will not stand idly by and ignore." The Canadian government has also urged the U.S. to reject protectionist pressures, abide by our promises of open and fair trade, and live up to our treaty obligations.

U.S. equipment manufacturers understand that stimulus spending alone cannot save all the manufacturing jobs lost due to the economic crisis, and our companies are making the changes necessary to adapt. However, we must have fair access to other infrastructure projects globally to maximize our ability to recover and to strengthen – access to those markets is key to helping the economy here at home. Take, for example, the U.S. infrastructure funding from the stimulus, which is less than $120 billion, and compare that to the $200 billion China is spending on infrastructure or the $400 billion that Saudi Arabia will spend over the next five years on infrastructure projects. The market opportunities created by the massive investment of these and other countries will help to keep plants operating and save millions of jobs in the U.S., but if our government restricts our trading partners from the U.S. market, U.S. manufacturers will certainly face retaliation.

Additionally, President Obama's recently announced trade policy agenda gave credence to concerns that we are seeing a reemergence of protectionist philosophy. This philosophy has been proven over time to be counter-productive to American manufacturing, and thus detrimental to the people and communities relying on the jobs, taxes and other benefits that a strong manufacturing sector provides. Instead of moving forward with the Free Trade Agreements (FTAs) already signed with Panama, Colombia, and South Korea, the President now says these key FTAs need more review. The President also indicates he intends to give NAFTA another look, which cannot inspire confidence in our most important trading partners, Canada and Mexico. After the good faith and hard work invested in these agreements, it is an insult to our valued friends and allies and to our vital trading relationships to now revisit signed agreements, which seems to be the course of action proposed by the Administration.

AEM urges Congress to approve the FTAs with Colombia, Panama and South Korea and not to reopen NAFTA. FTAs contribute to a higher quality of life and benefit businesses, workers, and consumers in significant ways. These agreements open foreign markets to U.S. exporters and investors. With a stalled Doha round in the World Trade Organization (WTO) negotiations, bilateral and multilateral agreements such as the ones already in effect are even more critical in fostering expanded trade across borders. In contrast to the U.S., the European Union is joining East Asian and Latin American countries in negotiating dozens of FTAs. Our failure to pursue FTAs could very well cost U.S. manufacturers much needed competitive advantages by keeping the playing field tilted in favor of our competitors.

Conclusion

AEM welcomes the opportunity to provide these comments on how to stimulate the economy through trade. As indicated above, AEM very strongly urges the United States not to seek refuge in the false comfort of protectionism, but instead to work together with our trading partners to weather the storm of this economic crisis. Industrial equipment manufacturers provide the machines that improve operations and reduce costs of any infrastructure project. Our members' high-quality machines are critical to delivering the "shovel ready" jobs needed to meet the President's objective to "keep the U.S. economy strong and competitive." With such a huge infrastructure task ahead, additional restrictions will only delay the promise to the American people to maintain their jobs and to stimulate the economy.

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