

**EXPORTS' PLACE ON THE PATH
OF ECONOMIC RECOVERY**

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE,
CUSTOMS, AND GLOBAL COMPETITIVENESS

OF THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

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WEDNESDAY, DECEMBER 9, 2009

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
CUSTOMS, AND GLOBAL COMPETITIVENESS,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:30 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the subcommittee) presiding.

Present: Senator Stabenow.

Also present: Democratic Staff: Jayme White, Staff Director; Darci Vetter, International Trade Advisor; Alan Treat, Trade Fellow; and John Carlson, Intern. Republican Staff: Staci Lancaster, Staff Director; and Rachel Johnson, International Trade Advisor.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE, CUSTOMS, AND GLOBAL COMPETITIVENESS, COMMITTEE ON FINANCE

Senator WYDEN. The subcommittee will come to order.

The way the United States engages economically in the world is a critical factor of our economic recovery. It is an American imperative to create jobs and, therefore, an American imperative to expand exports. An export strategy is a job strategy, and that is what this afternoon's hearing is all about.

A fresh focus on export promotion is one way to grow the economy without growing the Federal budget deficit. Our challenge is to make things, grow things, add value to things, and sell these goods to consumers all around the world. With so many Americans enduring economic hardships, the Congress is required to examine the policy and the regulatory framework that is supposed to enable the engines of the American economy—hard work and enterprise—to thrive.

Instead of powering economic growth, this framework has taken the American economy in the wrong direction. Fortunately, the people of our Nation are resilient, and we can chart a new economic course out of the economic carnage. The Congress and the President can construct an economic structure that fully empowers workers and entrepreneurs to be successful in the global marketplace.

Today, we are going to hear a number of witnesses from government agencies testify that exports have recently played a central

role in growing the economy and are critical to creating and sustaining good-paying jobs.

I also want to extend an especially warm welcome to Mr. Bob Beisner from SolarWorld, who is going to add an Oregon perspective to this afternoon's discussion.

When, in the past, worker productivity and wages grew right along with the Gross Domestic Product, it was easy to make excuses for a burgeoning trade deficit. Today, there are no excuses. The U.S. trade deficit in recent years has exceeded \$700 billion. Exports' share of U.S. GDP is less than half what exports contribute to the economies of other developed countries. No public official can simply justify the status quo.

Knowing all of this, the Office of the U.S. Trade Representative and the Department of Commerce recognize that they simply cannot keep on keeping on. So, the question is: Are there not new approaches and opportunities to be seized that result in near- and long-term export and job creation opportunities?

In Tokyo, last month, the President said that America "has to put a greater emphasis on exports that we can build, produce, and sell around the world." For America, this is a job strategy. There are jobs making everything from wind turbines and solar panels to the technology that you use every day. I certainly agree with the President, and it is obvious that foreign markets are fertile ground to American-produced goods and services, especially markets that are rebounding more quickly and dramatically than our own.

So, it is time to get to work and create an export expansion strategy. That strategy must include initiatives to eliminate trade barriers and unfair trade practices that dampen the demand for U.S. exports. It has to help American firms identify and exploit sales opportunities overseas, and that is one focus of today's subcommittee hearing.

Furthermore, an export strategy must establish clear targets and goals. My target: reduce our trade deficit in half by 2015. Right now, the most generous estimates show that only about 4 percent of American companies export and just 500 companies account for 60 percent of all of our exports. My target: double by 2015 the percentage of U.S. companies that are exporters.

In order to achieve targets like these, the Federal Government has to provide the resources necessary to adequately finance export promotion goals that it establishes. It also ought to make sure that these taxpayer-financed resources are used wisely in order to maximize their impact. There are bold opportunities to expand exports of manufactured goods, and they are produced by workers in our country who make good wages.

As one example, the global market for products that reduce greenhouse gas emissions is expanding dramatically, literally doubling from 2004 through 2008. For U.S. producers of these environmental goods, this development has been a boon, enabling them to expand domestic and foreign sales and create good-paying jobs.

Tapping overseas markets in this area is critical, because over 80 percent of clean energy investments are going to take place outside of the United States. Furthermore, much of the U.S. trade deficit is a result of oil imports, so promoting the use and export of environmental goods serves a variety of useful purposes.

It is especially important that there is a level playing field for U.S. producers to be able to compete with foreign counterparts. Right now, India and China assign an average tariff of up to 15 percent on solar technology components, and other developing countries impose tariffs that reach beyond 30 percent. U.S. tariffs, on the other hand, on environmental goods, are 1.75 percent, on the average. Nobody can say that that is a level playing field. So, it is my view that tackling the significant trade barriers that foreign governments impose on the environmental goods sector can make an immediate impact for U.S. job creators.

The witnesses today are going to tell us that reducing tariffs is helpful, but alone, it is not a silver bullet to increasing production and exports of these goods, and many others. There are a variety of policies that need consideration, and this hearing is a start towards that discussion.

Ultimately, renewed consumption of U.S. goods is the best way to re-ignite the American economy. We can find much of this consumption beyond our borders. If the Congress and the President discuss ways to jumpstart the economy to create jobs to get our economy moving forward again, there needs to be a new focus on export opportunities.

I am looking forward to the testimony from today's witnesses and to a productive discussion towards establishing a coherent and compelling export expansion strategy.

I am particularly pleased that two colleagues who have taken a very focused and intense interest in this subject are here. It illustrates something I feel strongly about, and that is, if you want to do something important in Washington, DC, you had better build a bipartisan coalition. Senator Klobuchar and Senator LeMieux have certainly done that.

Colleagues, we are glad you are here. We will make your prepared statements a part of the record in their entirety, and you all just proceed as you would like.

Let us start with you, Senator Klobuchar.

**STATEMENT OF HON. AMY KLOBUCHAR,
A U.S. SENATOR FROM MINNESOTA**

Senator KLOBUCHAR. Well, thank you very much, Senator Wyden, and thank you very much for your leadership so much in this area where we need to have strong leadership as we look at this difficult economy and, as you pointed out, a clear way to increase jobs in our country.

I chair the Senate Commerce Committee Subcommittee on Competitiveness, Innovation, and Export Promotion, and I have gotten very interested in this subject. A part of it is the change that we are seeing in our own world here. Increasingly, we are seeing people in China, India, and other developing countries gain more purchasing power, so there is this world of opportunity out there when 95 percent of the customers for the people, and businesses, and small businesses, mid-size businesses of this country, are actually outside of our borders.

More exports will mean more business, more jobs, and more growth for the American economy. It is important, first of all, because exports allow a company to increase their sales and grow

their business. Second, a diversified base of customers outside of the borders of the United States helps businesses weather economic ups and downs. There is a nearly 8.5-percent bigger chance that a company stays in business when it exports than if it does not.

Yet, what we see is fewer than 1 percent of all American businesses export and, if they do, nearly 60 percent of them just send their goods to one country, either to Mexico or to Canada. And what is most interesting is some people say to me, “Well, would small businesses and medium-sized businesses really want to export if they could?” Well, in fact, 30 percent of the businesses, in answer to a survey, said that they would like to export if they were given that opportunity.

We really think of this, when you look at the help that they can be given by the Commerce Department, the Export-Import Bank, and some of the success stories we have seen in Senator LeMieux’s and in my State, and all across the country. This is really a business version of *Match.com*, trying to set up businesses with their opportunities for trading their goods and getting their goods to market in other countries.

And, since you used an Oregon example, Senator Wyden, I have a great one in Minnesota, a little company in Karlstad, MN, which is known as the moose capital of our State, population 900, on the Canadian border. The company is called Mattracks. It makes tracks that go off and on the wheels of trucks.

This idea came from the guy’s son named Matt, when he drew a picture of it in second grade and his dad designed it. They had five employees in this little company. They called the Commerce Department, Federal Commerce Department out of Fargo, ND, which is closest to them. They went on their computers, figured out what countries might be interested in their product. They found Turkey, they found Kazakhstan. I would like to say they went from Karlstad to Kazakhstan, and they went from 5 employees to 50 employees in this little town of 900. And they attribute their success—they are entrepreneurs, they are free-market guys, but they attribute it—to the help that they got from the U.S. Commerce Department and the Foreign Commercial Service.

So, that is what we are talking about here, and we want to make those opportunities, this world of opportunity, available to all of our small and medium-sized businesses across this country.

Again, I appreciate being here with you, Senator Wyden, and your leadership, as well as Senator LeMieux. We have, in his short time here so far—he is the ranking member on our committee, and we have worked very well on this and would like to partner with you in the future on this very important topic.

Senator WYDEN. Senator Klobuchar, thank you.

It is an excellent statement, and it is always nice to talk about these kinds of issues in the abstract, but when you are talking about creating 50 good-paying jobs in a town of 900, you are making a difference for the American economy. So, you bet, we will be partnering on these issues, and I look forward to it.

Senator WYDEN. Senator LeMieux, let us put your statement in the record, and feel free to make whatever comments you wish.

[The prepared statement of Senator LeMieux appears in the appendix.]

**STATEMENT OF HON. GEORGE LeMIEUX,
A U.S. SENATOR FROM FLORIDA**

Senator LEMIEUX. Thank you, Chairman Wyden. It is an honor for me to be here today with my colleague, Senator Klobuchar.

Exports are so important to Florida. We are the gateway to Latin America, and we, as a stand-alone economy, are one of the 20 biggest economies in the world, largely due to our trade, more than \$50 billion a year in trade, mostly to Latin American countries. But yet, we found—and in the hearings that Senator Klobuchar and I have had—there are a lot of small businesses who do not know of these opportunities, 1.9 million small businesses in Florida. We had some testimony from an Orlando company, a restaurant supply company that has been able to sell their goods and wares throughout the world. But yet, many of our small businesses do not know of these great opportunities. So, getting the Foreign Commercial Service to learn more about them has been a priority for Senator Klobuchar and myself.

Given today's economic realities, America's businesses, in particular small business owners, are looking for a way to reach new customers, target new markets, and increase their exports. What many of these business owners do not know is that the Federal Government offers a host of programs designed to help them increase their participation in the global economy. I have had the opportunity to meet our Foreign Commercial Service folks in embassies in foreign countries, and they do a great job, but yet, if you are meeting the Foreign Commercial Service person in a foreign country, you have already taken that first step. The information needs to get to these small businesses in their communities now, so they can find a way to sell their goods and services overseas.

These programs can provide a tremendous benefit to the many businesses in my State and throughout this country. We are home to 14 deep-water ports, and we have 33,000 companies that export in Florida. When you consider the fact that one out of nine of every manufacturing jobs is tied to trade, you can imagine how much this information on programs can help small businesses.

In an effort to improve the way the Federal Government facilitates information on trade promotion, I have joined my colleague in urging a report in Fiscal Year 2010 for the Commerce Department to detail the resources available to small businesses. This would go a long way in helping our businesses increase exports and making these programs more efficient.

We have also asked that the report include specific ways for small businesses to find new customers in emerging markets, such as India, Brazil, and China. If the United States is to take a more active role in the global economy, helping our businesses compete is essential.

Beyond detailing existing opportunities, Congress ought to create opportunities for American businesses by quickly approving the pending trade agreements with Colombia, Panama, and the Republic of Korea. According to the Latin American Trade Coalition, in 2008, more than 6,000 small- and medium-sized American businesses exported to the country of Colombia. If Congress were to pass this trade agreement, more than 80 percent of U.S. consumer and manufacturing products and most U.S. farm goods would enter

Colombia duty-free: good for America and good for our great ally in that region.

The agreement with Colombia, along with Panama and the Republic of Korea agreements, have been pending for too long, and I urge the Congress to take these agreements up quickly. This will certainly help exports and small businesses in America.

Mr. Chairman, again, thank you for allowing us to be at this hearing today and for calling this important hearing, and we look forward to partnering with you and your committee, along with myself and Senator Klobuchar, to promote exports for our small businesses.

Senator WYDEN. Thank you.

You make a number of important points. Certainly Latin America is a huge market as it relates to America. We already have a significant share of the green goods market in that part of the world. It looks like it is upward of 25 percent, so we are anxious to work with you on that, and also on another matter—and, I note Senator Klobuchar feels strongly about this—and that is simplifying the process of getting the word out to small businesses.

I think small businesses sometimes look at this as a sort of a welter of programs that exists as it relates to business and what Washington, DC does in terms of the actual machinery of export promotion, and we are going to be following up with both of you in terms of the task of getting the word out, simplifying it, and making sure that it actually reaches the small business people that we know. Small towns in Minnesota, Florida, and Oregon may have 800 or 900 people, and, if you do the right things, you are going to get 50 to 100 jobs, and that is huge.

Is there anything else you two would like to add?

Senator KLOBUCHAR. I think that is it, Mr. Chairman. Thank you.

Senator WYDEN. We will excuse you. I look forward to working with both of you.

Senator LEMIEUX. Thank you.

Senator WYDEN. Thank you.

Our next panel: Ms. Rochelle Lipsitz, the Deputy Director General of the U.S. Foreign Commercial Service; Dr. Alex Mas, the Chief Economist to the U.S. Department of Labor; and Dr. Loren Yager, the Director of International Affairs and Trade at GAO.

Ms. Lipsitz, welcome. We will make your prepared remarks part of our hearing record, and why don't you go ahead and summarize your principal concerns today?

STATEMENT OF ROCHELLE LIPSITZ, DEPUTY DIRECTOR GENERAL, FOREIGN COMMERCIAL SERVICE, WASHINGTON, DC

Ms. LIPSITZ. Thank you very much, Chairman Wyden, Ranking Member Crapo, and members of the subcommittee, and also I would like to thank Senators Klobuchar and LeMieux for the opportunity to speak before you today about the role of export promotion as a means to strengthen and support America's economy.

I welcome the subcommittee's interest in this topic and look forward to outlining the Department of Commerce's programs that promote U.S. exports.

As part of the Department of Commerce's International Trade Administration, the U.S. and Foreign Commercial Service helps American firms and workers navigate the often complicated and unpredictable waters of foreign trade. Our vision is that every U.S. business sees the world as its marketplace. By helping American companies increase their sales abroad, we help them create jobs here in the United States.

The Commercial Service is a global network of trade professionals in 109 U.S. locations and 77 countries overseas. U.S. companies access our global network in a variety of ways, through our local U.S. Export Assistance Centers, or USEACs, through our international offices based in U.S. embassies and consulates abroad, through our Trade Information Center hotline at 1-800-USA-TRADE, and through the website, *Export.gov*.

The Commercial Service works with U.S. companies to provide numerous services, ranging from counseling and market research to industry expertise and identification of international buyers and partners. We guide companies through every step of the export process, from learning how to export, to logistics and shipping issues. We are good at what we do.

In 2009, the Commercial Service recorded over 12,000 export successes. Eighty-five percent of these successes were reported by small- and medium-sized businesses. The Commercial Service also engages in advocacy and commercial diplomacy on behalf of U.S. companies to help level the playing field when they are bidding for international procurements, and to resolve problems ranging from regulatory trade barriers to unfair trade practices.

One of the firms assisted by the Commercial Service is ADI Mobile Health of Tualatin, OR, a manufacturer of mobile dental and medical clinics. Our Portland office provided counseling and due diligence for a potential project with the Malaysian Ministry of Health. Our efforts resulted in ADI Mobile Health winning the bid and completing a successful sale valued at approximately 400,000 U.S. dollars.

Trade events organized by the Commercial Service, including trade missions, international buyer shows, and trade fairs, are an excellent way for companies to get international exposure and make valuable contacts. We are able to reach even more companies interested in exporting through strategic partnerships, which leverage private sector organizations, State and local governments, and trade associations, to make sure their clients are aware of the range of the Federal export assistance programs available to them.

We also work closely with our Federal Government colleagues in the Trade Promotion Coordinating Committee, the TPCC, to provide seamless export promotion and financing assistance. In October, Commerce Secretary Locke convened a principals meeting of the TPCC, establishing priorities and an implementation plan for the administration's trade promotion efforts. In that inaugural meeting, the member agencies identified several priorities, including clean energy.

Just last month, Commerce officials led 15 U.S. manufacturers of energy efficiency products and technologies on a trade mission to India, where the clean energy sector is anticipated to grow by 20 percent. The Commercial Service has identified additional sectors

that offer good prospects for U.S. exports, sectors such as health care technologies and medical devices, environmental products and services, and information and communication technologies. The potential to increase our Nation's export capacity and to expand job creation is tremendous. Less than 1 percent of U.S. companies export. Increasing this number, even by a small percentage, could have significant impact on the U.S. economy.

We also know that U.S. firms that export are less likely to go out of business, with sales abroad spreading risk when the domestic economy slows or contracts, and wages at exporting firms are typically higher than the national average.

In these challenging economic times, the Department of Commerce is committed to restoring American jobs and strengthening our economy. Exports have an important role to play in this recovery, and the Commercial Service is working to help Americans realize the benefits of exporting, including greater stability for firms and higher wages for workers.

Members of the committee, we look forward to working with you, and invite you to partner with us in supporting our efforts here in Washington, in your home States, and abroad.

Many thanks for this opportunity.

Senator WYDEN. Thank you. We will have some questions here in a few minutes.

[The prepared statement of Ms. Lipsitz appears in the appendix.]
Senator WYDEN. Dr. Mas?

**STATEMENT OF DR. ALEX MAS, CHIEF ECONOMIST,
DEPARTMENT OF LABOR, WASHINGTON, DC**

Dr. MAS. Thank you.

Good afternoon, Chairman Wyden. I appreciate the opportunity to testify on behalf of the Department of Labor about the place of exports on the path of economic recovery.

Before I begin my testimony, Mr. Chairman, I read your interesting report on U.S. exports of environmental goods, and I look forward to discussing this report with you and your staff in the near future.

As President Obama has emphasized, increasing our exports is an essential part of restoring balanced growth. The U.S. economy is beginning to climb out of the recession, but with 15.4 million people unemployed and a 10-percent unemployment rate, the United States must have a steady, strong economic growth to get people back to work.

Expectations are that consumers will not be the motor of economic growth they once were, so exports must be a part of a growth strategy. In addition to their positive effect on economic growth, export jobs fit in with Secretary Solis's vision for the Department of "good jobs for everyone." An expansion of exports has the potential to create hundreds of thousands of new, good-paying jobs. Jobs in exporting firms are more likely to contribute to narrowing wage inequality and helping families get into and stay in the middle-class.

Exporting firms largely employ people in higher-paying industries, and within specific industries, export-related firms pay more.

Research finds that manufacturing plants that export pay 10- to 11-percent higher wages.

An export promotion strategy that creates and sustains good-paying jobs and supports economic recovery would require a range of policy initiatives across the government, including assistance to companies trying to expand to foreign markets and enhanced investment in R&D.

The Department of Labor plays a pivotal role in the broader Federal strategy to promote exports and rebuild the manufacturing sector by providing workers with training in employment services and sectors where there is export potential.

Despite the generalized employment declines throughout manufacturing and other industries during this recession, employment in a number of exporting sectors has been stable, and these are likely to be among the sectors with large export potential in the coming years. For example, employment has remained steady in electro-medical apparatus manufacturing, as well as in scientific research and development services, both of which have ties to our Nation's strong biotech industry, in which exports are growing.

A recent Council of Economic Advisors report on "Preparing the Workers of Today for the Jobs of Tomorrow" notes that employment is projected to grow in aerospace and pharmaceuticals, along with similarly advanced manufacturing industries in which exports are critical.

To provide a common framework to understand the skills required to work in the manufacturing sector, the Department's Employment and Training Administration and its advanced manufacturing industry partners developed a dynamic, industry-driven model of the foundation and technical competencies that are necessary for workers to enter into and progress in careers in this industry. The model helps to identify employer needs and provides a framework for developing curriculum and training models.

There is also potential to reduce our trade deficit by reducing oil imports if we make investments in clean and renewable energy sources. President Obama and Secretary Solis believe that the green economy will be a key driver behind America's economic revitalization and economic stability as the public and private sectors continue to work to reduce energy consumption.

We saw a great example of how the green economy provides the opportunity for workers to move from struggling industries to expanding ones in Fisker Automotive Company's purchase of the General Motors Assembly plant in Wilmington, DE. The plant will soon reopen, with the help of a loan from the Department of Energy's Advanced Technology Vehicle Manufacturing Program. Fisker will introduce the world's first plug-in hybrid vehicles. Recovery Act grants are also supporting a domestic battery industry that will allow Fisker to sell affordable plug-in hybrids.

As a key Recovery Act investment, Secretary Solis announced grant competitions totaling \$500 million directed to support green job initiatives. Recently, the Department announced the first round of these grants, nearly \$55 million in green job grants, that will support job training and labor market information programs that will help workers find jobs in expanding green industries and related occupations. These are great examples of how the green econ-

omy can create jobs, and they also highlight the value of public-private sector partnerships.

I would like to close by emphasizing that preparing a workforce for jobs tied to exports and a green economy is critical to continuing our economic recovery and setting the stage for sustained economic growth.

Thank you again for holding this important hearing this afternoon. I would be happy to answer any questions from members.

Thank you.

Senator WYDEN. Dr. Mas, thank you. Questions will be asked shortly.

[The prepared statement of Dr. Mas appears in the appendix.]

Senator WYDEN. Let us welcome now Dr. Loren Yager, and thank you for the good work that you all do at GAO.

STATEMENT OF DR. LOREN YAGER, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Dr. YAGER. Good afternoon, Mr. Chairman.

Thank you for the opportunity to appear before the Trade Subcommittee to provide our perspective on the role of U.S. export promotion.

As Congress considers policies to bolster the recovery of the U.S. economy, it must consider the full range of tools available to stimulate growth and create new jobs, including promoting exports.

In my statement today, I will talk briefly about the rationale for export promotion and also provide some examples from my written statement regarding three key principles of export promotion that have been mentioned in the GAO work, as well as in some expert studies of other nations' efforts.

As was mentioned in your opening statement, 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 exporting goods and services that are produced here relatively efficiently, and importing goods and services that are produced here less efficiently.

In addition, the benefits of exports accrue in many U.S. States, with both Oregon and Idaho as major exporters of high-technology, as well as agricultural products. And, as I mentioned in my statement, exports can also serve as a counter-cyclical force. When the U.S. economy slowed in 2007 and much of 2008, economic growth was boosted by an improving U.S. trade balance.

Several rationales exist for the use of government export promotion programs to support exporting firms and sectors. One of the key rationales for government export promotion is for government to step in when markets do not generate the most efficient outcome, which could occur in terms of the availability of financing for small businesses attempting to serve foreign markets. Rationales may also exist for export programs based on achieving broader trade policy objectives, such as helping U.S. exporters overcome foreign trade barriers that make it difficult to penetrate foreign markets.

Mr. Chairman, in preparation for this hearing, you asked also that we look at other nations' efforts, to provide some structure and

insights regarding their programs. Let me now provide three key themes from my written statement.

First, many experts have identified the coordination of export promotion activities as an area of importance. Organizations, such as the Australian Trade Commission, have recommended coordination, and some, such as the World Bank, have suggested centralization of these activities into a single structure. These comments mirror the GAO findings on U.S. export promotion activities. U.S. agencies have improved coordination through the Trade Promotion Coordinating Committee, but have not addressed issues such as the allocation of resources to the highest value efforts.

A second theme of the expert studies is the importance of measuring performance. Although the experts recognize the challenge of measuring performance, many emphasized its importance and suggested a range of quantitative and qualitative measures. In addition, authors like the Nathan Associates suggested that unbiased feedback from clients could be particularly valuable.

This theme also underlies a number of GAO recommendations. For a number of years we have noted that the TPCC agencies do not identify or measure agencies' progress towards mutual goals as part of their annual national export strategy. More recently, we have reported a better evaluation by the Commerce Department of its fee-based programs, and customers could improve program continuity, help managers target their resources, and help the Congress make more informed funding decisions.

A final theme from the expert studies regards the targeting of government export promotion efforts. The expert studies and other export promotion agencies provide a wide range of views in this area. Countries, such as the United Kingdom, stress the importance of targeting new exporters, while the World Bank suggested firms that are not yet exporting offer the best opportunities. Furthermore, some of the experts, such as the Boston Consulting Group, caution that having too many targets could undermine the agencies' chances of success.

The U.S. Congress has long included directives that U.S. agencies should target their efforts on small and medium-sized enterprises, and more recently has focused on areas such as trade and environmental goods. GAO has provided a number of recommendations to agencies to improve their targeting efforts for small business and is currently undertaking a study of the efforts of the Export-Import Bank to assist in environmental exports, which will cover many of the same issues as the report that was issued today by this committee.

Mr. Chairman, this is an opportune time for Congress to review the role that exports can play in the U.S. recovery, and we appreciate the congressional interest in GAO oversight of the export promotion programs, as well as specific areas, such as environmental goods and services.

I look forward to future opportunities to assist the subcommittee on this and other questions related to the portfolio of international trade issues. I would be happy to answer any questions that you may have, or other members.

Thank you.

Senator WYDEN. Dr. Yager, thank you, and we appreciate GAO's good work.

[The prepared statement of Dr. Yager appears in the appendix.]

Senator WYDEN. At this point, I think what I would like to do is bring up our next three panelists, then we will have questions for all of you together. But as they are coming forward—and that will be Mr. Howard Rosen, a visiting fellow at the Peterson Institute for International Economics; Mr. Bob Beisner, the vice president of SolarWorld Industries in Hillsboro, OR; and Ms. Tamara Harney, chief executive officer of HMI Worldwide.

As you three come up, I want to recognize my friend and colleague, the Senator from Michigan, who is a very strong advocate of promoting more American exports. And, Ms. Harney, let me say that Senator Stabenow felt very strongly about making sure that there was a witness who represented a part of the country where there was a real economic presence, where there was a company that related to exports and doing good work. So let us have Senator Stabenow's opening statement, and we will hear from our additional three witnesses and have some questions.

Senator Stabenow?

**OPENING STATEMENT OF HON. DEBBIE STABENOW,
A U.S. SENATOR FROM MICHIGAN**

Senator STABENOW. Well, thank you, Mr. Chairman. Thank you very much, Chairman Wyden.

First of all, it is always a great pleasure to work with you, and I know that we share a desire to make sure that America is exporting our products, not our jobs. That is very much where I am and very much where we are in Michigan. We want to expand our ability to export our products. We make things in America, we grow things in America. We need to be exporting those things, and we want to make more, and we want to grow more. But coming from Michigan, it is also very important to me that we are focused on a level playing field. So it is jobs here, exports going overseas.

And I do want to particularly welcome Tammy Harney and thank her for being here and providing a perspective that is very important. This is a worldwide organization, HMI Worldwide, which is headquartered in Grandville, MI. They are a real success story in Grandville, and it is my understanding that Ms. Harney's vision is really the key reason for that, so I want to thank you very much for being here today.

Mr. Chairman, I share your strong feeling about strengthening our capacity to export, because I do believe this is about jobs. Exporting is about jobs. In Michigan, it is no secret that we have the highest unemployment rate in the country, with over 15 percent. I am actively reviewing every way we can create jobs, reviewing our trade policies, making sure that we are doing everything we can to create jobs, looking at our investment policies, what we can do to make sure that we have jobs here in America.

I am particularly interested in finding ways for our manufacturers to be able to export and compete abroad, such as Grandville, MI's HMI Worldwide. I am concerned the Federal Government has not done enough, frankly, to assist and promote manufacturers' exports.

For example, the annual funding for the Manufacturing and Services Unit within the Department of Commerce has remained at almost the same level for the past 5 years, approximately \$49 million, with the one exception where it dropped in 2008 to \$42 million. We need to be doing more than that. We are in a global economy, and we need to understand that we have a very important role to support our businesses and to create more opportunities.

By improving export capacity, we will make sure that we are not only selling more abroad, but also identifying trade barriers that, frankly, need to get fixed. I will not take the time today—because I could take a long time today—going through places where we allow imports but cannot export, and in a global economy it is our job to make sure that that changes. That is why I have introduced the Currency Manipulation Act, the Trade Prosecutor Bill that I have, and the Super 301 Trade Enforcement Priorities Act, to make sure that there are resources and focus on a level playing field so that we, in fact, can export to other countries that have full and open access to American markets.

The White House's recent job summit discussed what we in Michigan, frankly, are already doing by exporting, and creating jobs through exports. We, in fact, exported \$45 billion a year ago, our latest numbers, placing us eighth in the country. So, we care very much about this, and I am very anxious to work with you. Nearly one-quarter of all manufacturing workers in Michigan depend on exports for their jobs.

So I very much appreciate all of our witnesses, and again I will end where I started, Mr. Chairman, which is, my focus is to make sure we are exporting our products, not our jobs.

Senator WYDEN. Senator Stabenow, that is well said.

Ms. Harney, we are very glad that you are here. You have a strong advocate in your corner. Mr. Beisner, we will be trying to do the same thing for SolarWorld. You all have made a tremendous difference in our State. Senator Stabenow points out that they have the highest unemployment. We have consistently been in the top three or four, and that is an honor we wish to give up, and one of the ways to do it is to address this very issue.

So, let us go to our next round of testimony. Let us hear from you, Mr. Rosen, first, then Mr. Beisner, and Ms. Harney. We welcome all of you. We will put your prepared remarks into the hearing record, and if you could summarize your views, that will leave us more time for questions.

Mr. Rosen?

STATEMENT OF HOWARD ROSEN, VISITING FELLOW, PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS, WASHINGTON, DC

Mr. ROSEN. Thank you very much, Chairman Wyden.

First of all, it is an honor coming today to testify before you at this first hearing that you are chairing, and I wish you a lot of success with this subcommittee. It is a very important subcommittee, and I am prepared to do anything I can to help you in your work.

We are here today, as you have heard, to talk about probably one of the most important issues confronting the U.S. economy right

now. Listening to all of the other witnesses, I really think we have to ask ourselves, if exports are so good, why do we do so little?

As you already said, only 4 percent of U.S. companies export. Five hundred companies account for 60 percent of U.S. exports. Large companies—that is companies with more than 500 employees—account for 70 percent of U.S. exports. Less than one-half of 1 percent of U.S. companies operate in more than one country. We could go around this room today and probably identify most of those companies. And here we hear a lot about multi-national corporations. Fifty-eight percent of our exporting companies export with only one country. Exporting, as you have said, is no longer just an option for the U.S. economy, it is an imperative. Exporting is the only way that we can get ourselves out of the economic mess we currently find ourselves in without sacrificing our standards of living. In fact, exports can raise standards of living.

So what I would like to do today is talk about three questions. Why should we export? What should we export? And how should we export?

Number one, as has already been said, for years we have been consuming more than we produce. The result is that we owe money to everyone. We now owe money to foreigners, and we owe money to ourselves. Our current outstanding debt to ourselves here in the United States—consumer debt—equals the GDP of the country. It is about \$116,000 per household.

Our net debt to foreigners is about 25 percent of our GDP. It is growing at a rate of 5 percent of GDP a year. At this point, keeping policies constant, our net debt position to foreign countries could double just within the next couple of years. This really is not sustainable.

We need to start producing more than we consume. Increasing production and exports is the only way we can reduce our internal and our external net debt positions without causing any havoc to the U.S. economy.

So what should we export? Well, contrary to all the naysayers, the United States does have a comparative advantage in producing many goods and services. The problem is that our hyper-anxiety over industrial policy has caused us to ignore looking at the strengths of our industries. We do not need to pick winners and losers; we need to identify the winners, and we have not been doing that. By looking at the winners, we can then figure out, as has been said, where we need to allocate our resources to help exports.

I have included a detailed list in my written statement and presented a methodology for how we might start identifying those winners. Let me just say, though, that the report that you have released today is one example of how analyzing our strengths or analyzing our priorities is the way that we should be allocating our resources.

But let me just say here that those 43 products that we are focusing on as environmental goods comprise only 2.5 percent of our exports and only 1 percent of our imports, so, while this is an admirable thing to promote these, we have to keep in mind that they are not going to solve our problems.

So what should we do to help exports? First we need to replace our culture of consumerism with a culture of production and a cul-

ture of exporting. At this season of the year, you do not have to look very far; you hear constantly about consumers. I mean, all you need to do is look at the paper and listen to the radio, and almost every other story is about consumption. We need to replace all of those stories, and we need to look at production and exports as a measure of our economic health, not consuming.

As you have suggested, we should set some targets. One of them could be doubling the amount of exports, another could be to double the percent of U.S. companies that export. But let me just say here, what is important is not necessarily the targets that we set, but we then must look and ask, what resources do we need in order to meet those targets? That is, I think, even more important than the actual targets themselves. We have to get the right economic environment at home.

As Senator Stabenow has said—and I really applaud her comment, I think people really do not understand this in the United States—we do not invest in this country. We do not invest in productive activities. Investment in non-residential plant and equipment, after falling to 10 percent of GDP, has been stagnant over the last couple of years. This is about one-quarter of what other countries do on investment in plant and equipment. What we should be doing is, every time there is an economic proposal, we should ask ourselves, what impact is this proposal going to have on promoting non-residential plant and equipment, private productive investment in the United States?

We need to increase the saving rate in the United States so that we can finance more of this investment here at home. Private investment is the key variable to creating jobs in the United States.

Number two, we must get our exchange rates right. Again, as Senator Stabenow mentioned, the exchange rate is the single most important factor in influencing how much we import and export. Currently, the dollar is pretty much in line with some of our major currencies, but against the Asian countries we are significantly out-of-whack, and that is a growing share of our exports.

We need to continue negotiating for market access on behalf of our exporters. I am sure the next sentence will be quite provocative to some people, but let me just say very clearly that this is the wrong time to take a time out from trade policy.

We may all disagree with the outcome of those negotiations, but we have to continue to be engaged. Other countries, while we are speaking today, are negotiating bilateral and regional agreements without us. We are going to be left out.

We need to build a 21st-century export-oriented infrastructure. Our ports and our transportation system must be linked so that goods can go seamlessly from point of production to the ports.

We need to provide export financing, which we do much less than other countries.

Export promotion activities declined by 8 percent a year over the last decade, and most of it went towards agriculture products. We really need to go back and rethink this.

And finally, I believe that what we need to do is not just have programs in place that U.S. exporters can take advantage of, but we must do outreach, like we did with the Agriculture Extension Service and the Manufacturing Extension Program, which are both

very successful programs. We need an export extension program where we go out and identify potential exporters who may not be thinking about exports and bring this to their attention and give them the resources and the technical assistance that they need.

Thank you very much.

Senator WYDEN. Thank you very much, Mr. Rosen.

Do not feel badly about being provocative. Senator Stabenow and I like provocateurs. We will have some questions for you in a moment. I am very much pro-exports and production and investment. I noted you are concerned about consumption this time of year. I also want to be pro-Christmas, and Oregon is the biggest producer of Christmas trees. So kidding aside, we thank you for your excellent testimony.

We will have some questions in a moment.

[The prepared statement of Mr. Rosen appears in the appendix.]

Senator WYDEN. Mr. Beisner? Welcome. It is great to have SolarWorld in Oregon. We are as happy to have you as Senator Stabenow is to have Ms. Harney, and we will make your prepared remarks part of the record. Please proceed.

**STATEMENT OF BOB BEISNER, VICE PRESIDENT,
SOLARWORLD INDUSTRIES AMERICA, HILLSBORO, OR**

Mr. BEISNER. Mr. Chairman and Senator Stabenow, thank you so much for allowing me to appear before you today and talk about some of the successes we have had at SolarWorld and some of the problems that we foresee, some of the recommendations that we hope to make on this.

SolarWorld has a 30-year history here in the United States, though we really started back in the first energy crisis, back in the 1970s. We have seen the tremendous growth in the solar industry. In fact, in the mid-1990s, the United States produced about 45 percent of the world's solar products. That has now fallen to 10 percent. It is less than 10 percent.

Senator WYDEN. Just repeat that so that we can make sure that, at a time when the President and everyone in the Congress on the Democratic side of the aisle, Republican side of the aisle, are trying to focus on the green economy, I want to have that statistic just embedded in everybody's head. So, repeat that again.

Mr. BEISNER. Mr. Chairman, it comes from the NREL, National Renewable Energy Laboratory website. In 1995, it was, 45 percent of the world's production came from the United States. It is now less than 10 percent.

Senator WYDEN. Message sent.

Mr. BEISNER. Thank you.

The thing that has happened with SolarWorld is, we have undergone a number of changes over the years, and so we have been through a number of owners, and right now we are owned by a German company. That company has invested extremely heavily in the United States.

In 2006, we had made the decision that we were going to ramp up our production here in the United States, we were going to increase it almost 8-fold from where we were at. And what that has done, it has gone from employing a few hundred people to now 850 people. We are going to be the largest producer of solar products

here in the United States. We are putting half a billion dollars to work in our Hillsboro facility in Oregon, and we are going to hire another 500 people by the end of 2010.

So, this is the kind of investment that we have been talking about. These are the types of visions that people have to adhere to. The key is, how do we have a level playing field for us, and what could help us get to the level of production that we need to get to so that, that way, our costs come down and we intersect with grid parity so that, that way, it does not make any difference where you are getting your electricity, if you are getting it off the grid that is supplied by your local utility company or if you are going to go ahead and provide it on your own. So these types of programs are extremely important.

So, what we would like to do is, we would say, "What the heck happened? Why did we go from almost 50 percent to 5 percent?" And it is because other countries took the lead. In the 1990s, Japan started a residential program where they would go ahead and provide incentives to residents who put solar on their roof. We saw the same thing happen in Europe, Germany being the outstanding example of that. They went ahead and put into place a program to pay people to go ahead and put solar up and then pump the electricity back into the grid, and this led to the take-off and the burgeoning of the solar industry really worldwide. These two countries led the solar revolution that we have seen in the 1990s, and also in this past decade.

So, what we now see is a rising tiger in China. They are going to have a capacity in their production of 1,800 megawatts. By the same token, the United States, in 2008, we only had a mere 375 megawatts, so a dramatic difference. Obviously, we need to increase our local production to bring the cost down to make us competitive on a worldwide basis.

I would also like to say that, of our products, we are exporting about 50 percent of them right now, so we are trying to help that trade deficit. In the year ended in 2008, the United States imported about the same amount of solar products that it exported, about \$1.2 billion in imports, versus \$1.1 billion in exports.

What are some of the programs that could help? Obviously, these types of programs that we saw in Japan, the type of programs that we saw in Europe, these kinds of stimulus programs where ordinary citizens are going to go ahead and make these investments.

The other thing is we are extremely grateful for the changes that have been made to the tax code, to the provisions of the Recovery Act that are allowing us to address not only investment tax credits, but also grants.

We are also extremely appreciative of the \$2.3 billion that was allocated for advanced energy manufacturing. We might have a few suggestions on how that might be made a little bit more attractive. But, let us also get after the fact that we need greater transparency with our global trading partners, and we have to look at the business practices of some of the governments to subsidize these practices. We feel we can compete with any company anywhere. We just need to make sure that we are not competing with countries as well as companies.

Some of the other things that we would like to talk about: can we go ahead and put in some sort of matching mechanism, are there going to be additional manufacturing incentives available, and, can we look at assuming some domestic source requirements on Federal projects, as well as the ones that are funded by the Stimulus Program?

So, with that, I will try to close my remarks, and I will look forward to answering any questions that you might have.

Senator WYDEN. Mr. Beisner, thank you very much for coming.

It is a long trek, coming from home to the Nation's Capital, and you have done it, and you have delivered a real wake-up call, in my view, to the Congress with respect to that reduction in market share in a critical area of the green economy. So, I really appreciate your coming, and especially for getting paychecks to hundreds and hundreds of Oregon workers. We will have some questions for you in a moment.

[The prepared statement of Mr. Beisner appears in the appendix.]

Senator WYDEN. Ms. Harney, welcome. We will make your prepared statement a part of the record, and you may proceed with your remarks.

**STATEMENT OF TAMARA HARNEY, CHIEF EXECUTIVE
OFFICER, HMI WORLDWIDE, GRANDVILLE, MI**

Ms. HARNEY. Thank you, Chairman Wyden, Ranking Member Crapo, Senator Stabenow, and distinguished members of the Subcommittee on International Trade, Customs, and Global Competitiveness.

My name is Tamara Harney, and I am the CEO of HMI, Hamilton Manufacturing, Inc. We always call our company now HMI Worldwide, and we are based in Grandville, MI.

We are the global arm of Hamilton Manufacturing, which is headquartered in Twin Falls, ID. There is a good story here to go with this. [Laughter.]

I am testifying today on behalf of the U.S. Chamber of Commerce, which is the world's largest business federation, representing more than 3 million businesses and organizations of every size, sector, and region. I am pleased to be before you today to discuss exports' place on the path of economic recovery.

Hamilton Manufacturing has provided insulation, hydroseeding mulch, and erosion control products for more than 45 years. My parents, Gene and Gloria Hamilton, started Hamilton Manufacturing in Idaho in 1962. This is one of the very first companies to begin manufacturing insulation and mulch from recycled newspapers. My husband Herb and I purchased Hamilton Manufacturing from my parents in 1987 and started expanding our business. Thanks to the FCS and the Boise Export Assistance Center, we started exporting our products in 1998.

The first trade mission that Hamilton participated in was organized by the Idaho Department of Commerce, and it was for businesses that were interested in selling their construction materials into China, my first trade mission. Wow, what an adventure! I spent a lot of time talking to the FCS office in Beijing about doing business in China, and they were wonderful.

While large companies still account for the majority of the American exports, small companies like HMI Worldwide, nonetheless, play a very critical supporting role in trade. Over the years, HMI Worldwide has grown its business, created jobs, and exports now to more than 40 countries. And now, amidst a global recession, it continues to export to existing and new markets, bringing environmentally-friendly products and technologies to customers all over the world.

Despite the sharp decline in international trade during the final 4 months of the year, the United States set new records for export in 2008. For HMI Worldwide, those final 4 months of 2008 were very difficult for us. Our sales to key markets, like Korea, Russia, and Japan, dropped off dramatically. This year, HMI Worldwide has been fortunate to have an exceptional year because of our international customer base, which continues to grow.

For example, we have had a lot of success in Australia due to an insulation energy rebate. I know firsthand that exporting can be challenging and overwhelming at times, especially for small businesses. Each country is different, each culture is unique. Introducing U.S. products is always time-consuming and expensive. To succeed, small businesses must be helped to export.

Whenever HMI is interested in breaking into a new market, we always contact the local FCS office. However, each office takes a slightly different approach. Some FCS offices will do everything they possibly can to help us out, but others will not talk to us unless we are willing to purchase their Gold Key Service. Small businesses cannot justify or afford to pay for a service if we cannot sell our product into the market. We need the FCS to take time to discuss the opportunities or barriers that that specific product would face. The FCS is a valuable asset; however, without proper funding, these professionals will not be able to assist companies like mine.

To address this need, the U.S. Chamber has proposed a doubling in Federal expenditures on export promotion, with a focus on small companies. Given the limited resources dedicated by the Federal Government to support small- and medium-sized exporters, some States, and even private companies, have created innovative and effective programs.

For instance, the Evergreen Building Products Association, or the EBPA, is a non-profit which relies in part on funding from the Market Development Cooperator Plan (MDCP) and the Foreign Agricultural Services and has been a huge help to our company. EBPA has a number of market research assistance and trade promoting programs, including trade missions, trade shows, and foreign language directories. If the FCS could provide a similar service, many companies just like mine could benefit tremendously.

There are many successful State programs that I believe could also be replicated at a Federal level. The Idaho Department of Commerce is very aggressively helping Idaho companies export. Without their help over the years, we would not be where we are today.

Finally, another way to help increase U.S. exports would be for Congress to act on the pending free trade agreements with Colombia, Panama, and South Korea. Investing in the export potential of

America's small- and medium-sized businesses could bring a dramatic gain and stimulus to the economy.

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

Thank you.

Senator WYDEN. Thank you.

Excellent testimony. It is great to see an all-American success story, a family business expanded.

[The prepared statement of Ms. Harney appears in the appendix.]

Senator WYDEN. I think what we will do, Senator Stabenow and I will just sort of ping pong back and forth. I have some questions.

Why don't we start with you, Mr. Rosen? You raised the question of exports, and particularly in the context of imports as well. If you walk down the Main Streets of this country, certainly in some sense there is a perspective exports are good and imports are bad. I have always come to this to say, what I am interested in is expanding the winner's circle. I want more middle-class people able to have a higher quality of life; I want businesses to grow. You have heard Senator Stabenow and I say that the objective is really to make things and grow them and add value to them and generate just as much economic benefit as we possibly can, and ship them somewhere.

But when you said that expanding export opportunities can also ameliorate the dislocation costs associated with import competition, it struck me that you were also talking about expanding the winner's circle, and there are a lot of ways to do this. I have often thought, when you get a trade agreement and a company gets a tariff reduction, there is no reason why a company could not give part of the tariff reduction to their workers. I mean, literally, put it in their pockets. Say, we are interested, because we are all in this together—companies and workers and everybody from the highest-paid executive to people working on the shop floor—that we all win. So, tell me a little bit, by way of starting our first hearing in the trade subcommittee, what you meant when you said “expanding export opportunities can ameliorate the dislocation costs associated with imports.”

Mr. ROSEN. Well, thank you very much for that question.

As you may know, I spend almost all of my day worrying about people who are hurt by imports, so I look forward to answering that question.

I just want to make one quick comment that I hope that we can get into the conversation, which is—to be quite honest, nothing that we have said here today is new.

About 20 years ago, I was involved in a congressionally mandated commission called the Competitiveness Policy Council, and that council put out annual recommendations. They are all pretty much the same thing that we talked about today.

The question I have to ask is not, what do we have to do, but why do we not do it? That is the real question, and I hope that we can come to that. But let me answer directly your question.

I want to make it very clear today that I am not suggesting that we just export and do not import. It has to be a 2-way street; it has to be reciprocal. And let me also add that imports bring a lot

of benefits to the U.S. economy, let us not forget that. Not only do they help us in exporting our goods to other countries, but they allow us access to better, cheaper, higher-quality products. In fact, a colleague of mine has estimated that imports help this economy by about \$1 trillion a year, which is quite significant.

But, as you note, those imports come with a very high price tag. And, again, let me not take too much time. I would encourage you, Mr. Chairman, to have another hearing just on imports, and I would be honored to come back and talk about this at length.

But let me just say one thing so that you get to other people, which is, the problem in this country is not that we import, the problem in this country is that we do not invest enough. Because, if we invested more, we would create more jobs, and so those people who lose their jobs because of imports, usually low-wage, low-skilled jobs, could then move up the ladder to high-wage, high-skilled jobs. We did not for many years, but we now have the data that look at not the net change in employment, which is this number we constantly hear, but the actual number of jobs created and jobs terminated.

Over the last decade, almost the entire improvement in employment in this country was due to the fact that we laid-off less people, not because we hired more people. We do not create jobs in this country. If we can create jobs through added production and exports, we can help reabsorb those people who are hurt because of imports into the economy.

It is a very expensive adjustment. I have written about it myself. People experience wage losses, there is a lost period of time when they do not have jobs. I am not at all trying to minimize that. But let me just repeat one more time: the problem is not imports. The problem is our inability to create jobs in order to re-employ those people who lose their jobs. People do not just lose their jobs because of imports, they lose their jobs because of technological change, changes in consumer tastes, so all of these people are affected because we are not creating enough jobs.

Senator WYDEN. That is being logical. Heaven forbid that all of this logic should break out in Washington, DC.

Mr. ROSEN. But it is in the numbers, Mr. Chairman. Our investment in plant and equipment is flat, while our investment in residential is going up. Housing is nice, but it does not increase the productivity of this country.

Senator WYDEN. Let me ask one question of you, Ms. Lipsitz, just for the first round, then go to Senator Stabenow.

I offered up two goals, reducing our trade deficit in half by 2015 and doubling by 2015 the percentage of companies that export. In your view, are those realistic goals?

Ms. LIPSITZ. Senator, thank you for that question.

We at the U.S. and Foreign Commercial Service—let me just provide a clarifying point, too. We go by many names: U.S. and Foreign Commercial Service, or FCS overseas for Foreign Commercial Service, USEACs for our U.S. Export Assistant Centers, or CS for Commercial Service. So, I want to thank the panelists here for recognizing the USEACs and the FCS. We want to move the dial on exports, and, if the goal is to double them, then I think that would be an attainable goal in a couple of years.

We have our own goal, and that is to change the slope of trade. So, if trade is going up, exports are going down, with our help, we want them both to go up.

Senator WYDEN. All right.

Senator Stabenow?

Senator STABENOW. Thank you very much, Mr. Chairman.

Again, thank you to all of you for your comments. Let me just first start by saying that, Mr. Rosen, I could not agree more that it is a matter of investments. I think unfortunately, though, we have had some very short-term thinking over the years, where instead of investments, it has been about importing things we could build here, and we should be building here. And, in fact, when we get into another discussion that we need to have, what used to be a small tariffs bill that allowed a few products to come in because they were not made here is now huge, and it is because we have not taken a broad view of what we should be making here, as opposed to lessening tariffs to bring things in when we could make them here. So, I think we have, Mr. Chairman, a really important discussion to have about how we invest here in America.

To that point, Mr. Beisner, you piqued my interest on something, because first of all, on solar, I have to say that we have Dow Corning in Michigan that makes 30 percent of the world's polycrystalline silicone—which I have learned to say since I have been working with them—and they have, over and over again, talked to me about what is being done in other countries, not all low-wage. We speak to Germany. That is not a low-wage country, not a low-cost country. But one of the reasons that, frankly, we have the 30-percent manufacturing tax credit, which Senator Bingaman was a champion of and I was a champion of on the Finance Committee, is because of the conversations I had with Dow Corning about the fact that they have a strategy in Germany around tax credits and the ability to support capital investment and financing and so on, and that we need to do the same.

So, we do have, in fact, this tax credit in place and, as you know, many, many more people are interested in it. We have a cap on it. I am very pleased that the President has included—one of his proposals on jobs would be to lift that cap, which I strongly urged the White House to do, and I am hopeful that will be in our jobs plan as well. But you said that you had some ideas about how to make that more attractive, so, I wonder if you might just take a moment on that.

Mr. BEISNER. Sure, Senator Stabenow. Thank you so much.

I would also like to say, Dow Corning has been an excellent provider of goods and services to us over the years. So we, in fact, have participated in some lobbying efforts with Dow Corning in the past, so a good colleague to work with.

Well, the things that we would recommend related to the tax credits: could we, in fact, go ahead and have it similar to the grant program?

Senator STABENOW. Yes. That is the credit, yes.

Mr. BEISNER. Yes, the grant program.

Senator STABENOW. Yes.

Mr. BEISNER. We would ask, though, that let us put some teeth with that, because, as you mentioned, in Europe we are used to

dealing with some of those teeth from the European community. So if, in fact, a certain number of jobs are created, if, in fact, they had the right kind of wages, the right kind of benefits, if, in fact, we put enough capital into the country, then we think that instead of a tax credit, perhaps a grant would be in order. We also think that a grant might be able to assist some of the States in dealing with some of their problems, because then we might be stimulated to go ahead and put more investment into that local area or to move to another area because it makes sense from a supply chain model for us. So we think that this type of program where we have proven our worth, we have met our commitments, then we get rewarded for it, that leads to further investment.

Senator STABENOW. Thank you very much. Oh, by the way, I should also mention that Senator Menendez and I, and others, have introduced a specific 30-percent credit for solar manufacturing, so we would like very much to see that happening as well.

Mr. Chairman, if I might ask just a couple other questions, then unfortunately I have to excuse myself. I have to preside on the floor. Again, we are so proud of Ms. Harney, who is here. But I want to ask Ms. Lipsitz—first of all, thank you for the innovative Commerce Connects Pilot Project that you have in Plymouth, MI. We have heard from our local chambers and economic development folks it is being very well received, and I want to thank you for that, and the help in the Upper Peninsula with Instron and the Exports Live! seminar that our office will be a part of next week in Detroit.

Ms. LIPSITZ. Tomorrow.

Senator STABENOW. Oh, it is tomorrow?

Ms. LIPSITZ. It is tomorrow.

Senator STABENOW. Oh.

Ms. LIPSITZ. We have over 200 attendees participating.

Senator STABENOW. I think all of our days blur together. [Laughter.]

I am not sure what day it is or what week it is.

Ms. LIPSITZ. I am sorry. It is Friday, not tomorrow. [Laughter.]

Senator STABENOW. All right. Good. Good.

But my concern is this. Despite your efforts at this point, the majority of businesses, the majority of small manufacturers, do not know. They are still unaware of the export help that Ms. Harney is talking about, that you really have to hunt for to find. So, I am wondering what kind of outreach you are planning in the future. We have so much more we need to be doing.

Ms. LIPSITZ. Certainly. One of our biggest challenges is trying to get the word out about the services that we provide. We do our outreach through multiple channels. We use private sector companies with whom we have partnerships, State and local authorities with whom we also work, with our District Export Counsels, who are about 1,200 individuals who help get the word out, and hearings such as this help us get exporting on the front page of the paper.

Senator STABENOW. Well, I would encourage you, and I think Mr. Rosen spoke about the Manufacturing Extension Partnerships, which are great, and the idea of setting up something like that would be terrific. Or I would say for manufacturers, if you are not already working with the Manufacturing Extension Partnerships, I

would strongly urge you to be doing that. They have been very effective, certainly in Michigan, very effective, and it is a very important network that we need to expand upon.

But let me ask just one other question before I have to excuse myself. I know that TPCC has introduced six new working groups geared towards creating jobs.

Ms. LIPSITZ. Correct.

Senator STABENOW. Which one of those will focus on manufacturing?

Ms. LIPSITZ. The one that is geared towards small- and medium-sized companies. We are co-chairing that with the Small Business Administration, and we will be working with them mostly from manufacturing companies, but all of them will deal with manufacturing companies.

Senator STABENOW. Terrific. Thank you again, Mr. Chairman. I just, for another time, want to say that it does matter what our trade agreements are in the sense that it matters that we have access, as well as other countries having access to us. As Mr. Beisner said as well, we want you to be competing with companies, not countries. Right now, in too many cases, our businesses are competing with countries. And so I am so grateful for your leadership and look forward to working with you to be able to do more than just talk about this, but to actually move the ball forward.

Senator WYDEN. We will be teaming up. I have told our witnesses that, with health care essentially sucking all of the oxygen out of the room, it is great to be able to have you here. We are also going to have colleagues submitting some questions in writing. So, I look forward to working closely with you.

Mr. Beisner, let me ask a question with respect to green goods that I think picks up on what Senator Stabenow was talking about, and that is the unlevel playing field.

The fact is that, as companies like yours that have made this huge investment put great stakes down for the future in Oregon, in my home State, you ought to have a government that gets you a level playing field, a field where you can go out and, every day, know that, when your workers in Oregon are making quality goods, that they are going to be able to compete in these global markets. And yet, there has not been that level playing field. One of the examples is the high tariffs that our competitors apply to goods like solar panels.

The U.S. tariffs, as I pointed out in my opening statement, are small, almost, in some respects, non-existent. Why do you not outline, for example, the toll that this unlevel playing field takes on a company like yours? We talked in the office about some of the examples of countries and companies taking advantage of this unlevel playing field, and I think it would be helpful to have on the record your description of the toll that this unlevel playing field takes on an American manufacturer.

Mr. BEISNER. Sure. Mr. Chairman, thank you so much for the question.

Well, again we compete on an international basis. Of course, out of Germany, we compete in the European markets. We also compete in Asia. We have a sales office in Singapore. We have a manufacturing office in Korea, and we also have a sales office in South

Africa. The toll is really, what kind of government supports and government subsidies exist in some of these other countries, because it creates a barrier for us to be able to produce at a specific level when some of those costs are already borne by the government and through the subsidies that they are going to give to the companies that are domiciled in their country.

The next thing that would happen would be that some of the tariffs may be there in the form of a value-added tax, not an outright tariff. You had mentioned several countries that were in the teens as far as those type of tariffs. Well, this just creates a barrier for us to have to overcome.

Senator WYDEN. Is it not, in effect, like spotting some of these countries and our competitors, on day one, a huge sum of money?

Mr. BEISNER. Senator Wyden, I know your basketball background, so we might be down by three or four field goals by the time we get ready to start, or maybe a trip to the free-throw line every time.

We think that what we need to do is just ask for some scrutiny or some additional investigations into the type of supports that may be given by some other countries and see if there might be something that we could do to level that playing field.

Senator WYDEN. All right. Well, that is going to be front and center, I know, for this subcommittee. I know Chairman Baucus feels very strongly about these issues, so that will be certainly an area that we follow up on.

Ms. Harney, you talked about State programs, and you mentioned it in your testimony, and I gather right at the outset you felt that State programs made a big difference. What is the potential for a connection between State export promotions and what the Federal Government does?

Ms. HARNEY. Thank you for that question, and I can give you a couple of really good examples.

The nice thing is, when I first started in doing international business in Idaho, I did have the resources to call the local Chamber of Commerce and ask who I would contact in Boise if I wanted to export, and I was very fortunate because the Boise Export Center had somebody who could tell me about what a freight forwarder was, how to ship a container, all of that stuff I had no idea what I was doing. So they started me on the path of export.

Of course, it takes a lot more than that, too, and the State of Idaho has always been very good about providing a lot of support to small businesses by having trade offices in Mexico, in Taiwan, in China. They have had some in other regions also, but those are the primary ones that we have used. They have been able to be like an office or sales team for us to introduce our products, to say, hey, listen, here is an opportunity. We think that this particular company we can match up with you, and you will be able to probably introduce your products and sell them, so they have been almost like a little sales staff in some respects, but also looking at our products and saying, yes, this is a good idea, that we can probably introduce your product into this area, or they are going to say, no, this is not a good idea.

But then taking it another step, I did learn about the Foreign Commercial Service when I started going overseas, because every

time I went overseas I contacted them, and I asked them, what do I need to be aware of? My first experience was in China, and they sat down and spent hours with me, talking about the good things and the bad things about China, how to do business, and it was a very complicated market for us to enter because that was the very first market that we decided we were going to export to.

Also, today, for instance, we just got through going to Dubai to do a Dubai Trade Show, and we teamed up with the Evergreen Building Products Association, and they were great because they actually paid for the trade show booth. But our company, we sent two of us over there, and it still cost us an additional \$10,000 just to be able to go introduce our products, without knowing if we would have a success or not. I did contact the Foreign Commercial Service, and they were great. They came over to the trade show, introduced themselves to us, and were able to say, you know, if you need anything, we are here. But they are also understaffed. They do not have the resources to maybe go back and try to help us even further.

So, I think that there are a lot of good programs that are out there, but they could be replicated on a Federal level. I just think that there are a lot of opportunities to export for small businesses, but a lot of them just need help, or financially it is a big burden, or they are just very uncomfortable trying to export. It is a learning experience.

Senator WYDEN. Let me go to some of our other panel members. We are especially glad that you have been here, Ms. Harney and Mr. Beisner, because I think it is fine to talk about these issues, as I would categorize, as either in the abstract or reading from complicated reports and these voluminous materials that come out of Washington, DC. It is quite another to hear exactly how you navigate these challenging waters in global markets. So, both of you have been very, very helpful, and we appreciate it.

Dr. Mas, a question for you, and it goes to the changing nature of the American economy.

It is obvious now, with people changing their jobs 11 times by the time they are 40, you are not planning for an economy where somebody goes to work somewhere and stays put for 20 years until you give them a gold watch and you have the 20,000-calorie retirement dinner. I mean, people are going to have to upgrade their skills constantly.

What is the department doing to forecast opportunities for workers in the export and trade field? In other words, I know you are doing a lot of forecasting in a variety of areas, but one of the opportunities, it seems to me, to get at some of these issues Mr. Rosen and others are talking about, is we ought to have the best possible forecasting for opportunities in the export area, and what are you all doing in that regard?

Dr. MAS. Thank you for your question, Mr. Chairman.

I would first like to just reinforce the point that my colleague, Ms. Lipsitz, made, that we do have to move the dial, and I also agree with Mr. Rosen that that does take making investments, and these investments include investments in the workforce and in the youth, and that is what we are doing. We provide training for adults and youth through the Workforce Investment Act and other

programs, and the critical part of what we do is to forecast, what are the skills necessary for the jobs of today and tomorrow, and manufacturing and export sector jobs are, we understand, a critical part of that.

So, let me just explain a few of the things that we are doing.

So, first of all, at the State level, State workforce labor market information shops, which we provide about \$32 million annually to through the Employment and Training Administration, are responsible for the development of State and local labor market information, and that information is meant to be actionable by workforce boards in their decision-making.

The second timely example is, tomorrow, the BLS will release their 2008 to 2018 employment projections. These are 10-year projections that are widely used in career guidance, in education, and training program planning, and are critical for studying long-range employment trends. These projections are updated every 2 years. The Employment and Training Administration requires State workforce agencies to make 2-year projections based on this and other information.

As for manufacturing specifically, the Employment and Training Administration has worked extensively on competency models specifically for manufacturing, and they have worked with stakeholders, including industry stakeholders, employers, on these models. We have a number of success stories about how they have been used. For example, in the biotech area, we have stories from North Carolina where they have implemented these models, and they have been replicated and expanded with successful results, and I would be happy to follow up with you and your staff about what we have done in that respect.

Senator WYDEN. I would like to see that, because my sense has long been, not just in the export area but as it relates to worker forecasting, it very often seems like we are fighting the last battle. I mean we are debating health care. You know, today, one of the big challenges is going to be to find enough workers to be able to take those new positions as we expand American health care. So, we are going to have to find more workers in areas that relate to health care to make sure we can implement this bill, and we are going to have to find those workers for the export opportunities that this table and others are going to be pushing hard to offer. So, it is an important part of this debate, and one I am going to make sure we do not forget.

Dr. Yager, a question for you, because it is helpful to have an agency like yours that really takes a multi-year kind of approach in analyzing where we are in trying to make recommendations. You have looked at this export area for some time with respect to how American policies look at specific industries, the challenge of helping businesses of different sizes, small- and medium-sized businesses, and a host of perspectives.

At this point, is there currently a coherent export promotion strategy at the Federal Government, or say at the Department of Commerce? Is there a coherent strategy that people will walk away and say, this is understandable, it is straightforward, and we can pick up on it? What is your assessment of that?

Dr. YAGER. Mr. Chairman, let me make a couple of comments in response to that question.

I think one thing that is pretty clear from our review of export promotion—as you said, for many years, I think before the TPCC, we did some work on this. One thing is clear, and the Congress has written mandates to the various export promotion agencies to direct them to focus on small and medium enterprises. So, if there were one thing that was central to the export promotion focus, it is the required focus and the expectation of the Congress that the primary target of these efforts be small and medium business. And that comes through in terms of the Export-Import Bank, it comes through in the way that the Department of Commerce charges large companies differently than it does small companies, and there are a number of other ways in which that single theme does come through fairly consistently.

In terms of the National Export Strategies that are published by the TPCC, we did find that there was a lack of continuity in those different strategies. We found that there were numerous changes from one year to the next in terms of which countries were going to be the focus of efforts, and we found that it was difficult for stakeholders, the Congress, and others to determine what those priorities were and whether the TPCC actually achieved the goals that they set out in each of those annual reports. So, we do think there is room for improvement in the TPCC's annual strategies, and I think they also do need some guidance from the Congress, as they have gotten on small and medium enterprises, on what to focus on.

Senator WYDEN. Well, that is a fair comment. I am going to give each of you the last word, but just wanted to give you my sense of where we are.

Congress and the country are going to have a big debate now about a jobs program, and you are going to hear discussion about vast sums being spent in a variety of different areas. I think the challenge, as you go down each one of these programs, is to wring the maximum value out of what the government is going to do in these areas that is going to translate into good-paying employment for our people. And as I indicated at the outset, growing the export market is one way to grow our economy without growing the Federal deficit. I mean, when you look at it, the opportunities here make sense all around.

In my home State, one out of six jobs depends on international trade. Very often the trade jobs pay better than the non-trade jobs, and it literally creates employment all across the State of Oregon, literally from the wheat fields of eastern Oregon, all the way through to the metropolitan areas where we have the port of Portland. As Mr. Beisner knows, we have made a big, big bet in our home State on the green economy. We would like to make Oregon the green energy capital of the world, and I think we are capable of doing it, but the Federal Government and the export field is going to have to be a better and smarter partner.

Each one of you six has given very valuable suggestions and constructive testimony. It is my intent that at this point we can literally start with you, Ms. Lipsitz. You are not required to offer

anything else, but I want to give the last word to a very fine panel, should you choose to do so.

So, Ms. Lipsitz, let us start with you.

Ms. LIPSITZ. Yes, I will not turn down that invitation.

Senator WYDEN. All right. [Laughter.]

Ms. LIPSITZ. First of all, I want to thank all of the panelists here again. You assembled a great group, and, as I said before, it is wonderful to have the opportunity to get the word out about exports. I think the case has been made that exports do equal jobs, and that is our goal.

We help companies through every stage of the export process, and the first stage is to get the word out about exporting. As was mentioned, I think, by one of the Senators, either you or Senator Klobuchar, 30 percent of the companies that do not export say they would be interested in exporting if they had more information. So, help us get the word out.

Then we help companies that have never exported before. Those companies, they need more handholding, they need more guidance, and we try to get them hooked on exporting and interested in the opportunities overseas. We also help companies that are exporting to just one market to increase their sales in that market, and also get them to export to two, three, or four markets. And then it is our dream to graduate those small companies from the commercial service, like HMI. We consider that, once you were in 45 markets—

Senator WYDEN. Graduate with honors.

Ms. LIPSITZ. Graduate with honors. So, that is our goal. We target our marketing, we help companies overseas with obstacles they may have, with Customs issues they may have, and, if you can help us get the word out, we would greatly appreciate it.

Senator WYDEN. Very good.

Dr. Mas?

Dr. MAS. Thank you all. I will keep it brief.

A competitive workforce is a necessary condition for industry competitiveness. We are committed to training a skilled workforce at all levels. We must, and are doing more. We are committed to reducing as many supply-side barriers as possible through training to maximize export potential in advanced manufacturing and green jobs. The green job training grants which we have already begun rolling out are a good example of that. Those are, in many areas, touching on these sectors, and we hope to continue to do more in that area.

Senator WYDEN. Dr. Yager?

Dr. YAGER. Yes, Mr. Chairman. Let me make three really quick points.

One, we just did a study that came out earlier this summer for the Finance Committee on the work that the States do on export promotion, and I think it is a very important point that some of the States do invest considerable resources in export promotion; Pennsylvania, for example, and some others, have a fairly sizeable effort. There is a great deal of variance, however. Some States have very little funding available for firms, and also I think the budget situation in the States makes that funding somewhat less consistent than it might be at the Federal level.

A second point that I can make is that we certainly agree in trying to get the very best value for the programs. That is something I have in my written statement that I think we certainly agree with. One of the ways I think to achieve this is to look for performance measures, and I think the unbiased input from some of the members that are receiving those services, or possibly companies that have looked into the services and chosen not to take advantage of them, I think there is a lot that could be learned from those firms.

And, finally, I will just mention quickly that we are actually undertaking right now a study of the Foreign Commercial Service for the Congress, and we do have also a significant interest in the operations of the Trade Promotion Coordinating Committee. We would be happy to come back and talk to you about those when those studies are finalized.

Senator WYDEN. Good.

Mr. Rosen?

Mr. ROSEN. Yes. The first thing is that setting targets is not picking winners and losers, and I think we are missing that. We need to start doing that, but setting targets is also too easy. It is not the end of the problem.

First of all, I think the target should be set not by just the government, but in a public-private partnership. We need to bring in the private sector in setting those targets. And most importantly, more important than the target itself, is using those targets to figure out what resources we need to meet those targets. I think one of the reasons that you might be frustrated in terms of our projections on employment needs and things like that is because it is not an inter-related process. What we need to do is bring the Labor Department together with the Commerce Department, together with the other agencies, come up with these overarching targets, and then fit these things in, as opposed to just going out there and doing modeling on what the economy is going to need.

It should be a 3-stage process, bringing the public and the private sectors together to set those targets. Setting targets is not picking winners and losers, but using the targets to figure out what kind of resources we need to meet those targets.

The next thing, which has been hinted at by the people in the field, is that there is a lack of continuity in the United States on these things. It is kind of like the whim of the day. These tax credits that we are talking about, by the time that businesses are able to start changing their production to take advantage of those tax credits, they are gone. Our R&D tax credit has to be renewed every 2 to 3 years. Businesses cannot rely on these things if they are going to become constantly there one day and not the other. Our programs to promote exports, they cannot be just a thing that one administration likes and funds and the next administration does not fund. If we are going to make a commitment to these things, it has to be a permanent commitment, and that is another thing that handicaps our producers and our exporters.

The last thing I would encourage you to do, please, Mr. Chairman, as you and your colleagues look at this new jobs bill coming up, or all of these efforts towards promoting jobs, please ask yourselves, ask experts, what impact will these programs have on pro-

moting investment? There are lots of ways to promote investment. We could hire more people here in the government. We could pay the private sector to hire people. The question is, if we want long-term jobs at high wages, we have to promote investment, and I think that should be the criteria by which we measure.

Senator WYDEN. Mr. Beisner?

Mr. BEISNER. Senator Wyden, our thought is let us coordinate some things, as Mr. Rosen had mentioned. The ups and downs of the investment tax credit over the past years have just driven the solar industry, the renewable industry, crazy, then finally we have an 8-year window that we can now work within. Unfortunately, the financial crisis hit. These are the type of long-term planning horizons that we need, and when you are considering the energy bills that will be there at the same time that these jobs bills will be there, that we are spending a tremendous amount of money exporting and importing foreign oil, foreign products, let us have that done locally.

We have the technology to do it. Our colleagues at the Department of Energy and the Department of Commerce, they want to get this done. We know from our experience, with the tremendous investment that was already made in the semi-conductor industry, how you are able to take a semi-conductor-related job and turn that into a solar-related job. And so, we have some success stories that we can point to.

Senator WYDEN. I am smiling because you are being very diplomatic when you say "the government should coordinate." My wife owns a book store, and she often characterizes the role of government in much less diplomatic kind of ways, like, do you people ever talk to each other? [Laughter.]

Things like that. Well said. And particularly to have a role model for being able to show, just as you have said, the transition where folks were laid off in an area of high technology that has made a huge contribution in our State, continues to do it into the green economy. The fact that you all made that bet on our future as the green energy capital of the world, speaks volumes. We are going to look to make the government a better partner in the days ahead.

Last word to you, Ms. Harney?

Ms. HARNEY. Thank you, Mr. Chairman.

There are three things that really come to my mind as a summary. One, for small businesses to succeed in export, it has to be affordable. The help that we receive has to be affordable. We also have to know where to get the help, and so I really encourage the funding for FCS because they have been a help to us. But I think that there are a lot of people who are not familiar with them and their services, and once again, a lot of times when we talk to them they are always having to survive in their countries that they are servicing, and we need to make sure that the services that they offer are not always a paid service, but a promotion service.

And also, a level playing field. If we can have a level playing field for our company, that would make a huge difference with having the FTAs. So, especially, like right now, we are really working hard on the Panama Canal, and that is a huge project for us that will be a huge project for years to come, and we are competing

against countries that do not have to have all the import taxes and everything.

Thank you so much.

Senator WYDEN. Well, thank you, Ms. Harney.

It is interesting that you bring up that question of Panama and the Panama Canal and related issues. That has great ramifications for us in the Pacific Northwest, and we are going to be following that up with some future work in the ports area, in particular. So, we look forward to working with all of you in the days ahead.

I also want to tell you that Senator Crapo, who has a great interest in these issues, actually has an amendment on the floor, so he could not be here. Senator Grassley, our ranking minority member, a long-time advocate of improved opportunities for exports, as well as Senator Kerry and Senator Snowe, you have four U.S. Senators who very much wanted to be here. All sent statements. We may have other colleagues who want to ask questions of you all in writing. But this has been a very helpful way to jump-start the whole debate about how trade, and exports in particular, can help us grow our economy at a crucial time.

We will be following up with all of you.

With that, the subcommittee is adjourned.

[The prepared statements of Senators Crapo, Grassley, Kerry, and Snowe appear in the appendix.]

[Whereupon, at 4:17 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Testimony

**Bob Beisner,
Vice President
SolarWorld Industries America**

**Subcommittee on International Trade,
Customs and Global Competitiveness**

U.S. Senate, Washington, D.C.

December 9, 2009

Mr. Chairman and subcommittee members, thank you for inviting me to discuss how the United States might increase solar-technology exports and therefore jobs.

I am vice president of SolarWorld Industries America, a solar-industry pioneer in the United States as well as Germany. SolarWorld has three plants in the United States and is the largest solar manufacturer here. We employ 850 people and will hire another 500 by October 2010. We are investing \$500 million in capital equipment in the U.S.

Our perspective on U.S. trade development is clear: Only by making careful market policy revisions can the United States hope to remain a leading manufacturer and exporter of this proven renewable-energy technology.

The Solar Industry – Past, Present and Future

The United States once dominated the solar business. As late as the mid-1990s, the U.S. accounted for 45 percent of world production. By 2005, the share of U.S. production fell below 10 percent.

This change occurred because Japan and then Europe took the lead by offering incentives to spur solar demand and production. Now, as the decade ends, China is rushing out its own bold initiatives that increase demand and underwrite production facilities.

A report titled *Rising Tigers, Sleeping Giant*, credited China with 1,800 megawatts of annual production capacity in 2008, with the U.S. at a mere 375 of megawatts produced. Estimates for U.S. demand in 2010 have fallen from 4,000 megawatts to 1,000 megawatts.

According to federal trade data, the U.S. imported \$1.2 billion in solar cells and modules and exported \$1.1 billion in 2008. For the first three quarters of 2009, imports are at \$943 million, while exports totaled \$759 million. Strong federal policy can respond to this trend through initiatives that spur domestic demand and encourage US-based manufacturing.

The International Solar Industry – Government Supported Success Stories

We have witnessed the power of proven policy. Regulations in Germany and Spain requiring the electric grid to receive power from solar generation sites and incentives to pay solar-system owners for power fed into the grid helped the solar industry realize economies of scale.

U.S. feed-in programs have emerged in Florida, Oregon and elsewhere. But the reliable investment returns they offer remain too scattered to boost demand and the related domestic production.

Federal leadership has made strides in the provisions of IRS Code that allowed for parties that are producing power from renewable energy sources to choose either an investment tax credit or a grant. The American Reinvestment and Recovery Act provisions for bonds, grants and loans in coordination with the Department of Energy also provide stimulus for demand and production.

Other pending measures include a solar road map, bonds for Renewable Energy Development , extension of Investment Tax Credits and conversion of credits to grants (IRC Section 48), \$2.3 billion for support of advanced energy manufacturing (IRC Section 48C) and the proposed Solar Manufacturing Job Creation Act, S. 2755, introduced by your colleague Senator Menendez and others.

Additional Steps for US Global Competitiveness

To enable the U.S. to become a major force in solar manufacturing we respectfully recommend that the subcommittee consider:

- No. 1: Offering states a framework and matching funds to develop feed-in programs that suit their goals but also work to further broader national objectives – including progress on the nation's renewable energy portfolio.
- No. 2: Strengthening manufacturing incentives to hold companies accountable for creating living-wage jobs in durable, capital-intensive enterprises, not light-footed assembly operations.
- No. 3: Expanding domestic source requirements for renewable-energy projects employing federal stimulus funding to include all projects on federal properties, regardless of funding.
- No. 4: Seeking greater transparency with our global trading partners on their business practices to insure fairness with import-export laws and treaties.

Thank you.

Statement of Senator Mike Crapo
Senate Finance Committee
Subcommittee on International Trade, Customs, and Global Competitiveness
Exports' Place on the Path of Economic Recovery
December 9, 2009

Mr. Chairman, thank you for holding this hearing regarding "Exports' Place on the Path of Economic Recovery." Given the current economic challenges and the importance of exports to our economy, it is disappointing that the Administration has not more actively pursued an assertive trade agenda to help mend our economy. In fact, this Administration's trade agenda has been sluggish at best. Unfortunately, this slow pace is coming at the expense of U.S. job opportunities. Trade promotion is important, and the work the U.S. Foreign Commercial Service and others are doing to assist companies with accessing foreign markets commendable. However, while trade promotion is an essential part of our trade policy, it is not a replacement for an expansive, successful trade agenda that must include expanded market opportunities through the advancement of trade agreements, the removal of non-tariff trade barriers, and strong enforcement of existing trade commitments.

Thank you, to all the witnesses for taking the time to be here with us today to share your valuable insight regarding the importance of exports to revitalizing our economy and ways in which businesses may be better positioned to benefit from export opportunities. Tamara Harney, who represents HMI Worldwide, which has operations in Idaho and produces environmentally-friendly building insulation, kindly traveled here today to contribute to this hearing. This company serves as a great example of the kind of progressive ideas and products that are being exported from our communities all over the world and are helping address global needs.

The innovation and reach of U.S. products, including Idaho products, around the globe is impressive and encouraging. Idaho ranks second among states for the number of patents held per resident, and innovative Idaho companies are exporting far beyond our borders accounting for nearly \$790 million in exports for the first quarter of 2009. For example, PakSense, a Boise based company that produces labels that track the conditions of perishable goods during shipment, is exporting to Chile, with the assistance of the U.S. Foreign Commercial Service. Another Boise based company, PCS Edventures, which provides engineering and science-based enrichment curriculum for children in K-12, is exporting to South Africa.

Similar examples exist in every state. Unfortunately, despite these achievements, the number of U.S. companies exporting is alarmingly low. Exports account for a significant percentage of U.S. Gross Domestic Product (GDP), and jobs supported by exports pay statistically higher wages. Therefore, our nation must be doing all that we can to replicate export success stories and remove any hurdles impeding U.S. companies'

ability to be compete globally. This hearing provides the opportunity to explore the function of exports in our nation's economic recovery, our nation's current export promotion framework, and any impediments to broadening exports.

There is no better time to support the expansion of export opportunities and remove barriers to U.S. exports. This includes advancing the pending free trade agreements with Colombia, Panama, and South Korea that provide equal access to those markets for U.S. goods. When implemented, each of these agreements would provide substantial duty-free access for U.S. exporters and improved footing for U.S. producers in the global marketplace. It is counterproductive to promote job creation while idling these agreements. As we look at what is working in trade promotion and the challenges that lie ahead, advancing these agreements must be a priority.

I welcome this opportunity to highlight the importance of trade to our economy and share in this discussion.

**STATEMENT FOR THE RECORD
SENATOR CHUCK GRASSLEY**

**Senate Finance Committee, Subcommittee on International Trade,
Customs, and Global Competitiveness**

Hearing on

“Exports’ Place on the Path of Economic Recovery”

December 9, 2009

Thank you, Mr. Chairman.

Unemployment is at an unacceptably high level, and it’s projected to remain so next year.

We need to develop policies to reduce unemployment and strengthen the long-term competitiveness of the U.S. workforce in our globalized economy.

One such policy is the topic of today’s hearing: increasing U.S. exports.

And one way of increasing exports is to enact comprehensive, market-opening trade agreements.

Our experience with our recent trade agreements is instructive.

When we implemented our trade agreements with Chile, Morocco, Bahrain, Oman, and the countries of Central America and the Dominican Republic, we turned our respective bilateral trade deficits with those countries into trade surpluses.

And when we implemented our trade agreements with Singapore, Australia, and Peru, we increased our existing bilateral trade surpluses with those countries.

There is no reason to believe that the outcome would be any different with respect to our three pending trade agreements with Colombia, Panama, and South Korea.

The independent U.S. International Trade Commission (ITC) has looked at all three agreements.

The ITC found that implementing our trade agreements with Colombia and South Korea would likely result in a net increase in U.S. exports and an overall increase in our gross domestic product (GDP) measured in the billions of dollars.

In the case of Panama, the ITC found that exports of specific U.S. products would likely increase as much as 145 percent.

The Department of Commerce once estimated that each one-billion dollar increase in U.S. exports creates 20,000 American jobs.

The opportunities presented by our three pending trade agreements will have a real impact on sustaining and creating good-paying jobs here in the United States.

Moreover, further delay is not without cost.

While we have been standing still, our trading partners have been busy negotiating new trade liberalizing agreements among themselves.

South Korea recently initialed a trade agreement with the European Union that should enter into force next year.

Colombia has done the same with Canada, and it too is in negotiations with the European Union.

And Panama recently concluded its own trade negotiations with Canada.

If we continue to sit on our own agreements with those countries, we will place our producers and their workers at a serious competitive disadvantage.

It would be both senseless and irresponsible for us to do so.

On a broader level, the private U.S. savings rate has risen this year.

With greater savings comes decreased domestic consumption -- leaving U.S. producers more reliant on overseas markets to sustain and grow their sales.

Yet, the United States lags our major trading partners in terms of the contribution that exports make to GDP.

Exports are a double digit percentage of GDP for Canada, South Korea, Mexico, China, Russia, Japan, and the European Union.

In the United States, it is less than 10 percent.

The point is, we have room for improvement, and that starts with seizing the opportunities at hand.

It is urgent that we break the political gridlock over trade and take immediate action to help American workers.

I began this Congress with that commitment, and I am proud of my work with Chairman Baucus, Chairman Rangel, and Ranking Member Camp to produce the largest overhaul of our trade adjustment assistance programs in over 30 years.

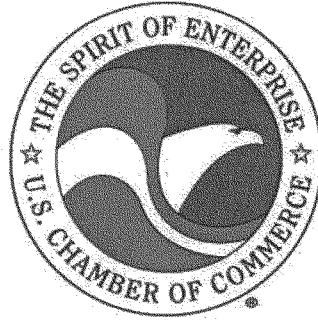
That was the first step.

Now we need to take the next step.

We need to seize the market access opportunities that await American farmers, manufacturers, service providers, and their workers, in Colombia, Panama, and South Korea, as soon as possible.

I urge the Obama Administration to submit to Congress the implementing legislation for our trade agreements with Colombia, Panama, and South Korea, without delay.

Thank you, Mr. Chairman.



**United States Senate Committee on Finance
Subcommittee on International Trade, Customs,
and Global Competitiveness**

**Hearing on
“Exports’ Place on the Path of Economic Recovery”**

**Wednesday, December 9, 2009
2:30 p.m.
215 Senate Dirksen Office Building**

Testimony by

**Tamara Harney
HMI Worldwide (Grandville, MI)
and
Hamilton Manufacturing Inc. (Twin Falls, ID)**

Thank you Chairman Wyden, Ranking Member Crapo, and distinguished members of the Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness. My name is Tamara Harney and I serve as the Chief Executive Officer of Hamilton Manufacturing Inc. Worldwide (HMIWW), based in Grandville, MI, which is the global arm of Hamilton Manufacturing Inc. (HMI), headquartered in Twin Falls, Idaho. I am testifying today on behalf of the U.S. Chamber of Commerce, which is the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region.

Hamilton Manufacturing has provided insulation, hydroseeding mulch and erosion control products for more than 45 years. My parents, Gene and Gloria Hamilton, started Hamilton Manufacturing in Twin Falls, Idaho in 1962. Hamilton Manufacturing was one of the first companies to begin manufacturing cellulose insulation and hydroseeding mulch from recycled newspapers. In the late 1990's, we recognized the global demand for sustainable, environmentally-friendly technologies and with the inception of HMIWW we began exporting our products and services all over the world. Over the years, HMIWW has grown its business, created jobs, and become a global industry leader through exporting. And now, amidst a global recession, it continues to export to existing and new markets, bringing the newest technologies to customers all over the world. I am pleased to be before you today to discuss the opportunities and challenges that come with exporting.

Breaking into the International Market

My husband Herb and I purchased the Hamilton Manufacturing Idaho plant from my parents in 1987 and expanded the business. Thanks to the U.S. Foreign Commercial Service (FCS) and specifically with the Boise Export Assistance Center, we started to look at the possibility of exporting our products. In 1998, I was introduced to a company in the United Kingdom and shipped our first international load of mulch. This began a whole new undertaking filled with new markets and new potential.

During the early stages of working in the international marketplace, the Idaho Department of Commerce organized a China trade mission for businesses involved in selling construction material, in which we decided to participate. Wow, what an adventure! I spent a lot of time talking to Beijing Foreign Commercial Service office about our products and doing business in China. They were wonderful. They were there in the good times and in the bad time. Hamilton Manufacturing started to receive more inquires around the world about our products and we started expanding our exports to more countries. Little by little, we started shipping out containers. As a

result, we were creating jobs, increasing revenue and eventually exporting to over 40 countries.

In 2001, Herb and I and our two boys relocated from Idaho to Michigan to expand a local plant. Christy, my sister, and her husband Tom bought the plant in Idaho and I focused on the international businesses: finding new markets, going to trade shows, making business contacts and learning the logistics of international trade. It is great that we are still a family owned business that all work together. While most Americans tend to regard international trade as the domain of large multinationals, more than 250,000 small and medium-sized companies like ours export, and their overseas sales represent nearly a third of U.S. merchandise exports. In other words, while large companies still account for a majority of American exports, smaller companies, nonetheless, play a critical supporting role in trade and creating jobs here at home.

Trade Can Bring Growth and Prosperity

When HMIWW started selling around the world, these sales required more than our cellulose insulation and hydroseeding mulch; they required us to supply complete projects. For example, we manufacture the mulch, and then need a hydroseeding machine to apply the mulch. To do this, we worked with a local manufacturing plant to sell their equipment internationally. Later, we started contacting other U.S. manufacturing companies that complemented our product line and asked if we could sell their products internationally as well. Today, we work with 10 U.S. manufacturing plants, selling their products all over the world. It's a win-win: we have the expertise to sell internationally, and they are comfortable with us handling the international logistics. These 10 companies and HMIWW have expanded sales and are increasingly growing due to exports.

Today we are selling to over 40 countries around the world and we continue to expand our market as we develop long-term relationships within the countries and communities we service. America cannot have a growing economy or lift the wages and incomes of our citizens unless we continue to reach beyond our borders and sell products, agricultural goods, and services to the 95% of the world's population that lives outside the United States.

Trade sustains millions of American jobs. 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% 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.

For HMIWW, the final four months of 2008 were very difficult. Our sales to key markets, such as Korea, Russia and Japan, dropped dramatically. We had to cut jobs and overhead in order to stay afloat. But, despite these problems, we see great opportunities in new markets such as Panama and Australia. This year, HMIWW has been blessed to have an exceptional year because our international customer base continues to grow. We have had a lot of success in Australia, a country with which the U.S. has a free trade agreement. The Australian government has implemented an energy rebate of \$1,600 for home insulation. This rebate opened a huge new market for U.S. insulation companies and our sales have doubled as a result, partly because of eliminated tariffs based on the U.S.-Australia Free Trade Agreement.

There are many seasoned exporters among America's small businesses, but there are many others that have never even considered exporting. I know first-hand that exporting can be challenging and overwhelming at times, especially for small businesses. Each country is different, and each culture is unique. Introducing U.S. products is always time consuming, challenging and expensive. But in the end, it is all worthwhile. However, small businesses need help in paving the ways to new markets.

Working with the Foreign Commercial Service

Two weeks ago I was in Dubai for the Big 5 construction show introducing our insulation and hydroseeding products into this market. HMIWW contacted the FCS office to let them know we would be at the trade show and would like to meet. We were able to introduce our products to them, discuss some of the country specific building challenges that we would have to overcome and they provided us with helpful hints to doing business in the Middle East. I believe there are opportunities for HMIWW in the Middle East, but it will take time and money to break into this market. The local Commercial Service office is knowledgeable about local products and can give us a quick assessment of our products. Without FCS, we would have to spend a lot more time researching a potential new market.

Whenever we are interested in breaking into a new market, we contact the local FCS. However, each FCS office takes a slightly different approach. For example,

when Hamilton Manufacturing started exporting to South America, we contacted every Commercial Service office through a massive approach strategy. Some FCS offices did everything they possibly could to help, while other FCS offices would not talk to us unless we purchased the U.S. Commercial Service's Gold Key Service.

We are a small company and need information from the local FSC to determine if it is even feasible to sell into a new market. Without a consultation with the FCS, we would be making a huge investment in an unfamiliar and potentially unsuccessful market. Therefore, FSC expertise can help us make decisions on if our product can be introduced and accepted into the local market, and if they can match U.S. businesses with local companies whom they trust. Then if a U.S. company wants to be matched with a local company, the Gold Key Service is worth the investment. Small business cannot justify or afford to pay for a service if we cannot sell our product into the market. Too often the FCS is more concerned about selling the Gold Key Service than taking a few minutes to discuss the opportunities or barriers that a specific product would face if the business chooses to enter the market.

My suggestion to the FCS is to always have an open door for small businesses and help them determine if they can sell their products into the country. If a company wants to find a local partner to work with, then Gold Key is a good service. The FCS is a well-run agency, with valuable assets; however, without appropriate funding, these professionals will not be able to assist companies like HMIWW. This is why we support doubling the FCS budget.

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. 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.

Given the limited resources dedicated by the federal government to supporting small and medium-sized exporters, some states and even private companies have created innovative and effective programs.

Private companies are engaging in export promotion. Organizations like the Evergreen Building Products Association (EBPA), a non-profit which relies, in part, on funding from the U.S. Department of Commerce Market Development Cooperator Program (MDCP), and the Foreign Agricultural Services, have been a

great help to our business. EBPA has a number of market research assistance and trade promoting programs, including trade missions and trade shows, and foreign language directories. If the FCS could provide a similar service or could market their services more effectively, companies like mine could benefit tremendously.

There are also many successful state programs that I believe should be replicated in other states and ideally on a federal level. In Idaho, the Department of Commerce is aggressively helping Idaho companies export. The Idaho Department of Commerce encourages companies like mine to consult with trade specialists, to contact Idaho's foreign trade offices, to learn more about trade through workshops and seminars, to participate in Governor-led trade missions, and to meet with international buying delegations. In addition, the Idaho Department of Commerce offers to display company products and services at a booth in certain trade shows and to represent companies in an Idaho Product and Services brochure at no cost. Without their help over the years, we would not have found as many international opportunities nor become the global industry leader that we are today.

In Massachusetts, the Massachusetts Export Center has created a program entitled "Compliance Alliance" in an effort to encourage additional international business. This program helps companies learn to export through seminars and networking events, and ensures they are complying with regulations. Last year, their clients reported nearly \$190 million in export sales as a direct result of assistance provided by the Massachusetts Export Center and similar programs. They estimate that the return on investment is 88-1, as the companies that were assisted generated over \$1.5 billion in export sales in 2008. By one estimate, these exports sustain over 3,000 jobs in the state.

The Nevada Commission on Economic Development has created a no-cost program for the state called the International Representatives Program. Under this program, independent voluntary representatives are selected to run international offices on behalf of the state. They receive payments from clients who are interested in these markets and work as salesmen on commission. To date, this program is now functioning in seven countries, and this has been the first time that any U.S. state has created an international representative at no cost to the state. Seven other states that have had their funding cut or eliminated are emulating this concept with some success.

In Pennsylvania, Market Access Grants (MAGs) 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 by internationalizing web sites. I believe a similar MAG grant system should be created at the federal level for companies around the country.

Similarly, Enterprise Florida, a division of the Florida Governor's office, is promoting state exports through funding, programming, and partnerships. Some successful grants that it administers are Partner Trade Event Grants and Target Sector Trade Grants. The Partner Trade Event Grants are awarded to counties, partnerships or organizations across the state. They range from \$7,500 – 10,000 and cover export sales missions, in-bound buying missions and technical support. Target Sector Trade Grants are reimbursement grants of up to \$4,000 given to companies to participate in trade shows and exhibitions in target sectors.

Florida has also created a "Train the Trainer" series that teaches business executives how to navigate the international marketplace in order to feel comfortable exporting. They also offer export counseling to Florida manufacturers, export intermediaries, and services companies. Under this program, international marketing professionals evaluate the market readiness of current and potential exporters and help select target markets for a company's particular products and services, as well as identify baseline legal, tax, and logistics requirements. Lastly, the state has partnered with the Export Yellow Pages (a private company endorsed by the U.S. Department of Commerce) to create a Florida Export Directory which increases businesses international exposure and allows them to be contacted directly by overseas buyers and distributors.

State Funding for Government Programs

According to the Council of State Governments, U.S. states have spent over \$200 million in state funds for export promotion, educational exchanges, and other international programs. This money helps fund a network of more than 200 state trade offices worldwide. This, however, is an insufficient amount of funding to promote exports effectively on a federal level. To address this need, the U.S. Chamber has proposed a doubling of 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.)

The assistance offered by the federal government needs to be promoted more effectively. The services, expertise, and dedication of representatives of the U.S. Commercial Service, Export-Import Bank, and Small Business Administration are world class, but I know that many U.S. companies are not aware of the government services that are available to help them break into new markets. This isn't the fault of

America's small business owners, rather it reflects the inadequate resources dedicated by the federal government to export assistance and a failure to promote these services adequately.

However, the more experienced small business exporters are a different story. We are the companies that have taken advantage of their USEACs and perhaps taken advantage of Export-Import Bank or Small Business Administration Loans. 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. As a tool for export promotion, Market Development Cooperator Program (MDCP) Grants are efficient and effective, but in recent years they have all but dried up.

Free Trade in Green Technologies

Many countries impose steep tariffs and non-tariff barriers (NTBs) on environmentally-friendly technologies and services. Eliminating these barriers could help countries adopt green technologies and reduce greenhouse gas emissions. The global market for environmental goods and services is valued at \$550 billion annually, and it is growing rapidly. However, many countries impose tariffs of up to 70% on climate-friendly goods and services, impeding access to cutting edge technologies. In 2007, the World Bank released a report entitled *International Trade and Climate Change*, which took a closer look at trade barriers affecting green technologies. The study concluded that by removing tariffs and NTBs, trade in the most climate-friendly goods and services could increase by an additional 7-14% annually. A corresponding increase in the use of these goods and services could contribute in important ways to global efforts to address climate change and energy security.

The World Bank report also concluded that liberalizing trade in these technologies could facilitate investment. Not surprisingly, countries that trade more in environmental goods and services either pollute less or consume energy more efficiently, or both, according to separate data on environmental indicators available from the World Bank and the World Resources Institute.

To reap these gains, the United States and the European Union submitted a proposal as part of the Doha Round of WTO negotiations to lower barriers to trade in environmental goods and services. The proposal seeks to liberalize trade in technologies directly linked to addressing climate change. According to the Office of the U.S. Trade Representative, the U.S.-EU initiative proposes to eliminate tariffs and NTBs on environmental technologies and services through a two-tiered approach: 1) it proposes the first-ever WTO agreement on worldwide elimination of tariffs on a specific list of climate-friendly technologies recently identified by the World Bank; and 2) it envisions a higher level of commitment on the part of developed and advanced developing countries to eliminate barriers to trade on green goods and services.

Enacting this proposal would be of great help to small businesses like mine, which specialize in environmental products and services. HMIWW offers green products that use recycled waste such as newspaper as raw material in making our insulation. We also work to improve the environment through vegetation and erosion control, and energy conservation. Eliminating barriers on climate friendly technologies would expand export opportunities for HMIWW, as well as other U.S. companies.

This proposal could contribute in a meaningful way to efforts to combat climate change by eliminating the often steep tariffs and other trade barriers on climate-friendly technologies and services. This proposal should remain a top priority for the Obama Administration and be pursued either within the Doha Round framework or as a separate global accord under the WTO.

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, limiting our competitiveness overseas.

Importantly, according to the most recent U.S. Census data, tens of thousands of small and medium-sized companies are already exporting to Colombia, Panama and South Korea. This number could rise sharply with implementation of these trade agreements and U.S. businesses could sell much more. Passing these trade agreements would reduce tariffs and allow US companies to compete on an even footing with those countries domestic suppliers, just like they already experience here in the US.

HMIWW is one of the many companies trying to break into these lucrative markets. We have been trying to export insulation to South Korea and lower tariffs would make it more affordable for customers in South Korea to buy our products. When we tried to introduce our products in South Korea seven years ago, it was not cost effective for us to sell there, but I will be attending a trade show in February 2010 to try to break into the market once more. I'm able to attend this trade show with the gracious financial support of EBPA, mentioned earlier. Passing the free trade agreement with South Korea would greatly level the playing field for our business and would make it easier for our products to compete.

We are also working hard to get our materials to the Panama Canal Expansion project. Passing the Panama Trade Promotion Agreement could pave the way for our business. The Panama Canal Authority is undertaking an expansion of the canal at a cost of more than \$5 billion — one of the largest public works projects in the world today. Our company will be holding an education seminar on vegetation, erosion control and new technology to revegetate areas along the Canal, in Panama in February 2010 for the Panama Canal authorities and contractors. If approved, the trade agreement with Panama will grant U.S. firms ready access to the Panamanian market and the chance to compete in selling everything from heavy equipment and engineering services, to green products in a market that has reached annual growth rates near 10% in recent years.

A recent study by the U.S. Chamber entitled *Trade Action—Or Inaction: The Cost for American Workers and Companies* found the United States could suffer a net loss of more than 380,000 jobs and \$40 billion in lost export sales if it fails to implement its pending trade agreements with Colombia and Korea while the European Union and Canada move ahead with their own agreements with the two countries. If the U.S. agreements are not implemented, American workers and farmers will be put at a competitive disadvantage in Colombia and Korea. For example,

Canadian wheat farmers will be able to sell their crop to Colombians at a steep discount, and European manufacturers will easily undercut their American competitors in the Korean market. (See www.uschamber.com/trade)

Delaying approval of these agreements means American workers and farmers will continue to face steep tariffs in these important markets—taxes that, in fact, paid into those countries' treasuries. These agreements are a potentially critical tool for boosting exports by America's small businesses.

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 and how those possibilities create jobs.

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

**Subcommittee Hearing on the
Role of U.S. Exports and the Importance of Export Promotion
Senator John Kerry
Statement for the Record
December 9, 2009**

Thank you, Mr. Chairman, for holding this hearing. It comes at an extremely important time. Too many Americans have lost their jobs and too many more fear what the next few months hold for them and their families. Their employers, American companies, big and small alike, are trying to figure out what they can do to replace the sales that would have gone to Americans who are now changing their buying habits in light of the recent financial crisis, recession, and the housing crisis.

I supported the economic recovery package and believe it has helped bring us back from the brink of economic disaster. But let's be clear – the stimulus was a measure to stop a deep recession from becoming a full fledged depression. It marked the beginning not the end of our challenge. I support additional, responsible investments in infrastructure and assistance to the states. But I also think that export promotion has to play a role in the foundation we are building for the future. And it should be a component of any new jobs initiative. Export promotion exposes unseen opportunities for American businesses and those opportunities translate into jobs. According to the data we have seen, every \$1 million spent on trade promotion will generate \$56.6 million in new export value. And every \$93,000 in export value equates to the creation or preservation of one job.

We must do more to tap export markets and the 95% of the world's customers that live there. Bonnie and Clyde said they robbed banks because that's where the money was; we must increase exports because in a global economy that's where the consumers are. That means we have to do a better job of connecting our people to the opportunities in countries where we have access to do business. We can do more to connect small and medium sized enterprises to the world's markets and we should recognize that even increases in exports from large firms help their small business suppliers and service providers.

I strongly support the work of the agencies you have invited here today and look forward to hearing from them on what they need to be more effective and what they could do with additional resources. And then I intend to go to work to help get them those resources. If the GAO feels that increased coordination is necessary to improve effectiveness or if additional reform is necessary to maximize the wealth creation that export promotion programs can generate, then we should work quickly to put these changes into place.

Today, less than one percent of all U.S. companies export. That is far too small a figure and far lower than our competitor countries. Among our major industrial competitors, a much higher share of the enterprises export. While it is no surprise that a high percentage of companies export in small industrial European economies like Finland (19 percent) and Denmark (17 percent), we also see high participation in exporting in large economies, such as the United

Kingdom (9 percent), Germany (9 percent), Italy (7 percent), and France (6 percent). Outside of Europe, we know that 15 percent of Australian firms and 8 percent of Canadian firms export.

The critical missing piece for American businesses is information and assistance with the mechanics of exporting as well as assistance in finding the financing necessary to engage. This is where the work of the agencies here today comes into play. As one final note, I would be remiss in not mentioning that without a full set of appointees at the agencies critical to trade, we are hurting our ability to help them execute against their Congressionally mandated missions. It is unfortunate that the USTR, Treasury Department, and Department of Commerce are all awaiting long ago nominated individuals to fill out their leadership slots. I would ask our colleagues interested in trade policy to join the effort to help confirm these critical public servants so they can go to work. We have started to make progress on moving nominations and we should continue moving forward.

Again, Mr. Chairman, I appreciate your holding this hearing and look forward to working with you to make exports a key component of our economic recovery.

Statement of Senator George LeMieux
Senate Finance Export Promotion Hearing
“Exports’ Place on the Path of Economic Recovery”
Wednesday, December 8, 2009

Good afternoon and thank you for calling today’s hearing. I want to thank **Chairman Wyden** and **Ranking Member Crapo** for focusing on such an important issue for our economy.

Given today’s economic realities, America’s businesses – in particular small business owners – are looking for ways to reach new customers, target new markets, and increase their exports. What many of these business owners do not know is that the Federal government offers a host of programs designed to help them increase their participation in the global economy.

These programs could provide a tremendous benefit to many of the businesses in my state, as well as the many others who rely heavily on trade.

Florida is home to **14 deepwater ports** and more than **33,000 export companies**. When you consider the fact that 1 out of every 9 manufacturing jobs is tied to trade, you can imagine how more information on programs to help small businesses would be beneficial.

In an effort to improve the way the Federal government facilitates information on trade promotion, I have joined Senator Klobuchar in urging our colleagues to include a report in the fiscal year 2010 Commerce spending bill detailing the resources available to small businesses. This would go a long way in helping our businesses increase exports and make these programs more efficient.

We have also asked that the report include specific ways for small businesses to find new customers in emerging markets such as India, Brazil, and China.

If the United States is to take a more active role in the global economy, helping our businesses compete is essential. Today, **95 percent** of the world’s customers are located outside the United States, but less than **one percent** of U.S. businesses export. Mr. Chairman, the Federal government can do better. They must do better. Our economic future depends on it.

Beyond detailing existing opportunities, Congress ought to create new opportunities for American businesses by approving the pending trade agreements with Colombia, Panama, and the Republic of Korea.

According to the Latin America Trade Coalition, in 2008, **more than 6,000 small and medium-sized American businesses** exported to Colombia.

If Congress were to pass the Colombia Trade Agreement, more than **80 percent** of U.S. consumer and manufacturing products and most U.S. farm goods would enter Colombia duty free.

The Colombia agreement – along with Panama and the Republic of Korea agreements – have been pending for far too long and I would urge the President and the Members of this Committee to seek their prompt consideration in Congress.

They are win-win agreements for America's small businesses and the workers they employ.

Thank you again for calling this important hearing. I look forward to working with all of you to improve and expand our nation's businesses' exporting capacity.

**ROCHELLE J. LIPSITZ
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DEPARTMENT OF COMMERCE
TESTIMONY BEFORE THE
SENATE COMMITTEE ON FINANCE,
SUBCOMMITTEE ON INTERNATIONAL TRADE, CUSTOMS AND GLOBAL
COMPETITIVENESS
for a hearing entitled
“Exports’ Place on the Path of Economic Recovery”
December 9, 2009**

INTRODUCTION

Chairman Wyden, Ranking Member Crapo, and members of the Subcommittee, 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 Department of Commerce’s efforts to promote U.S. exports.

As you are aware, President Obama has been clear that he is seeking a sustained economic recovery that will restore American jobs, and he recognizes that increasing exports is a key means for creating high-paying new jobs. Last week, Secretary of Commerce Gary Locke joined the President at a White House Forum on Jobs and Economic Growth where large and small businesses, labor unions, economists, financial experts, NGOs, and others came together to explore every possible avenue for job creation.

Secretary Locke strongly believes in the link between exports and U.S. jobs. Secretary Locke has identified five key strategies to grow U.S. exports in the months and years ahead, and the first of these is to ramp up the Department of Commerce’s trade promotion activities across the globe. Today, less than one percent of American companies export—a percentage that is significantly lower than all other developed countries. Secretary Locke believes we can do a lot better, and so do I.

DEPARTMENT OF COMMERCE INITIATIVES

One key means for implementation of Secretary Locke’s agenda is a pilot program, called “Commerce Connect,” which aims to provide U.S. companies with a single point of contact for commercial assistance from the U.S. Government. The program has been launched in Detroit and provides assistance to local firms to meet a wide range of needs. Whether a business needs help patenting a new technology or improving their manufacturing processes or getting access to

a new market, they have one place to go to access the full spectrum of Commerce Department and other federal agency programs available to businesses.

On October 23, Secretary Locke convened a principals meeting of the Trade Promotion Coordinating Committee (TPCC), which establishes priorities and an implementation plan for the Administration's trade promotion efforts. The TPCC is chaired by the Secretary of Commerce and its Secretariat is housed in the International Trade Administration, U.S. and Foreign Commercial Service. TPCC members are the heads of 20 Federal Government agencies, including the Department of State, Department of the Treasury, Department of Labor, Department of Agriculture, Small Business Administration, Overseas Private Investment Corporation, U.S. Trade and Development Agency, Export-Import Bank of the United States, and the Office of Management and Budget.

Interagency leadership of the TPCC and export promotion are a top priority for Secretary Locke, and the inaugural meeting laid the groundwork for the development of a comprehensive government-wide strategy for export promotion. As a result of the meeting, six new TPCC working groups were formed based on the greatest potential to stimulate job creation by U.S. business, and agencies committed to participate in these groups. The TPCC working groups will be chaired by the Department of Commerce and co-chaired by other agencies as follows: (1) analysis and data (Office of the U.S. Trade Representative); (2) small business (Small Business Administration); (3) China/India/Brazil (State Department); (4) next tier markets (State Department); (5) clean energy (Energy Department); and (6) advocacy (State Department).

Another part of the Department's efforts to promote exports is our work in promoting rule of law as it impacts U.S. companies doing business abroad. For example, in China, where lack of transparency regularly appears as one of the top ten challenges facing U.S. companies, we are leading interagency efforts to promote open and transparent government decision-making so U.S. companies know in advance, and have an opportunity to comment on, the measures that will impact their business. As corruption is consistently identified as a major impediment to U.S. exports, we are working with our interagency colleagues to get other countries to join us in the fight against bribery of foreign public officials. Throughout the world, we are providing technical assistance to foreign governments to help them reduce corruption and promote good governance.

COMMERCIAL SERVICE ACTIVITIES

Within the Department of Commerce, it is the International Trade Administration's (ITA) mission to create prosperity by strengthening the international 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.

As part of ITA, the U.S. and Foreign Commercial Service (Commercial Service) helps American firms navigate the often complicated and unpredictable waters of international trade. These foreign sales help to support jobs here in the United States.

The Commercial Service's vision is for every U.S. business to see the world as its marketplace. Our primary mission is to promote U.S. exports, particularly by small and medium-sized enterprises (SMEs), and advance U.S. commercial interests abroad. We strengthen American competitiveness, increase job creation and global prosperity, and through trade we advance U.S. national security and build bridges to international cooperation.

The Commercial Service operates a global network of trade professionals in U.S. Export Assistance Centers (USEACs) in 109 U.S. locations and in U.S. Embassies and Consulates in 77 countries. Commercial Service staff works with U.S. companies to provide numerous services ranging from counseling, advocacy support, and market research to industry expertise and identification of potential international buyers or partners for manufactured (non-agricultural) products. We guide companies through every step of the export process, from learning how to export to logistics and shipping issues.

In fiscal year 2009, U.S. firms reported 12,335 export successes that were assisted by the Commercial Service; 832 of these successes were from companies that had never exported before, and 2,876 were from firms that exported to a new market. Eighty-five percent of these successes were reported by SMEs. One of these companies was PCS Edventures, a Boise, Idaho provider of engineering and science-based enrichment curriculum for children in grades K-12. The Commercial Service counseled PCS Edventures on the South African market and provided contacts in the market. As a result of this assistance, the company completed its first sale to South Africa for approximately \$100,000. This is just one of countless examples of the work we do across the country.

The Commercial Service focuses its programs on three priorities: (1) increasing the number of U.S. companies that export, (2) helping smaller companies expand to new export markets, and (3) helping exporters overcome hurdles in foreign markets. In particular, the Commercial Service focuses on assisting SMEs succeed in the global marketplace. Ninety-seven percent of U.S. exporters are SMEs, and Commercial Service programs are designed to help these companies export to the 95 percent of the world's consumers who live beyond our borders.

ROLE OF EXPORTS IN THE U.S. ECONOMY

The U.S. economy is increasingly 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 9.3 percent of U.S. GDP five years earlier (2003), and 5.3 percent 40 years ago (1968).

In 2008, the United States exported an astounding \$1.84 trillion worth of goods and services, and we estimate that close to 10 million U.S. jobs were required to produce and ship these exports.

Exports affect many different parts of the economy. For instance, we estimate that more than half of the jobs related to manufacturing exports were in the non-manufacturing sectors, such as services, wholesale and retail trade, and transportation.

Moreover, 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 and primary metals, counted more than one in four jobs as export-supported.

In the State of Oregon more than 4,600 companies exported goods in 2007. Of those, over 4,000 (88 percent) were SMEs with fewer than 500 employees. SMEs generated over 34 percent of Oregon's total exports of merchandise in 2007. In 2008, Oregon's export shipments of goods totaled \$19.4 billion, up 73 percent from the 2004 total of \$11.2 billion.

One of the Oregon firms assisted by the Commercial Service is ADI Mobile Health Inc. of Tualatin, Oregon, a manufacturer of mobile dental and medical clinics. The company contacted our Portland USEAC about a potential contract with the Malaysia Ministry of Health for a mobile mammography clinic. We provided counseling and assistance in verifying the legitimacy of the project and requirements for exporting medical equipment to Malaysia. These efforts by the Commercial Service resulted in ADI Mobile Health winning the bid and a successful sale valued at approximately \$400,000.

Service 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. In 2008, the Santa Fe USEAC recruited and coordinated the participation of Antelope Slot Canyon Tours by Chief Tsosie of Page, Arizona, a Navajo-owned and operated business, in the 2008 ITB Travel and Tourism Show in Berlin. Partly as a result of contacts made at the show, Chief Tsosie has seen an increase from 3,000 to 25,000 visitors on his tours in the last five years.

Moreover, current figures show that the United States posted a healthy trade surplus of \$12.6 billion in the education sector. U.S. receipts from international students studying in the United States reached \$17.8 billion in 2008, the highest amount yet recorded, reflecting the tuition, fees, and living expenses paid to U.S. institutions by international students.

REALIZING THE UNTAPPED EXPORT POTENTIAL

The potential to build on these U.S. export successes and expand our nation's export capacity and job creation is tremendous.

Less than one percent of U.S. companies export, and of those companies that do export, 58 percent export to only one market. Therefore, increasing this number, even by a small percentage, could have a big impact on the U.S. economy. U.S. firms that export are less likely to go out of business when the domestic economy slows or contracts.

Enstrom Helicopter, a manufacturer of two-seater helicopters located in rural Menominee, Michigan, is an example of the significant impact exports can have for a small community. Enstrom first contacted the Commercial Service in 2006 for assistance regarding their bid on a tender from the Royal Thai Government. Between 2006 and 2009, the Commercial Service staff in Grand Rapids and Bangkok, with the aid of other U.S. Government agencies, helped Enstrom

navigate false claims from a European competitor, the ramifications of a military coup in Thailand, questions about U.S. legislation, financing concerns, and export license requirements to win the procurement valued at approximately \$35 million. This contract will provide a much-needed boost to Michigan's rural Upper Peninsula. Due to the general economic decline, Enstrom had previously laid off half of its labor force. Once this phase of the Thai contract has been signed, Enstrom anticipates recalling all of the roughly 50 laid-off employees. If the company successfully lands the next phase of either this contract or other pending international contracts, they anticipate creating an additional 20-30 positions.

CLEAN ENERGY: KEY SECTOR FOR EXPORT PROMOTION

As previously mentioned, the TPCC has formed a working group on clean energy. TPCC agencies agree that this sector is a priority for export promotion as the U.S. and other countries become increasingly interested in alternative energy technologies to support a changing global environment. Last month, the Commercial Service had a central role in the Green Build Road Show in the United States that included stops in four U.S. cities and the Greenbuild Expo in Phoenix, to introduce U.S. firms to opportunities in the green building sector in Europe. We touched over 200 U.S. companies during the series of events and supported buyer delegations from Israel, Sweden, and Abu Dhabi.

This week, in conjunction with the United Nations Climate Change Conference (COP15) in Copenhagen, the Commercial Service is supporting the Bright Green Program. This event, which Secretary Locke will help open, will feature more than 170 of the world's leading companies showing their cutting-edge clean-tech solutions. The Commercial Service is supporting the participation of 30 U.S. companies.

ASSISTING SMALL AND MEDIUM-SIZED COMPANIES TO EXPORT

U.S. companies access the Commercial Service's 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 by providing in-depth, value-added counseling. Companies contact our experts overseas for country-specific information and assistance in resolving commercial issues.

Companies also call our Trade Information Center (TIC; 1-800-USA-TRADE), which is staffed by a team of trade experts that serve as a single point of contact for potential exporters. The TIC provides basic export counseling and information on all U.S. Government export assistance programs. In fiscal year 2009, the TIC gave personal assistance to more than 35,500 inquiries, 75 percent of which were from SMEs. 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. With Export.gov, small companies can walk through each step of the export process in just a few clicks of a mouse.

In September of 2009, the TPCC Secretariat and the Atlanta USEAC worked closely with SBA's Office of International Trade to provide a full-day of international trade training to SBDC counselors at the Annual Conference of Small Business Development Centers. This was an

initiative spurred by an inter-agency task force focused on encouraging a greater focus on international trade on the part of SBDCs around the country. Hosted by leading universities, colleges, and state economic development agencies, and funded in part through a partnership with the SBA, approximately 900 SBDC service centers provide no-cost consulting and low-cost training to small businesses and entrepreneurs.

The Commercial Service also makes a concerted effort to reach out to minority and women-owned businesses, as well as businesses located in rural areas, to assist them with exporting. For example, Marble King, located in rural Paden City, West Virginia, is a women-owned manufacturer of high quality glass marbles used in games and decorative vases and industrial applications and has been a long time Commercial Service client. The Commercial Service counseled Marble King on marketing strategies and how to take advantage of NAFTA for sales to Canada and Mexico. As a result, sales to Canada increased significantly and three new jobs were created in a rural community.

EXPANDING OUR REACH WITH STRATEGIC PARTNERSHIPS

The Commercial Service is able to reach even more companies interested in exporting through strategic partnerships with private sector organizations, state and local governments, and trade associations.

In 2004, the Commercial Service established the Corporate Partnership Program, leveraging a public-private sector partnership model to expand the U.S. exporter base. Combining the export assistance services of the Commercial Service together with 19 companies that provide export services, the program enables increased export opportunities through joint outreach and education to small-and medium-sized U.S. businesses. Partner companies provide SMEs with services for their international needs including marketing and research, financing, legal and regulatory advice, transportation and shipping, trade shows, trade risk insurance and education. The Commercial Service's corporate partners have worked with us on a variety of initiatives. Our partners have hosted export seminars, helped produce and distribute the Export Finance Guide, and have sponsored international trade events.

The Corporate Partnership Program recently expanded its scope to include our relationships with key national and industry associations linking our common strategic goals and activities. This expanded program is now the Strategic Partner Program. Our Trade Association Liaison provides associations' members with information and resources to begin exporting and to navigate the intricate issues surrounding international trade, including an introduction to our services. One of our major association partners is the National Association of Manufacturers (NAM). Under a joint agreement entered into in the fall of 2003, the Commercial Service provides a Commercial Officer as a liaison to NAM to enhance NAM's outreach to SME members. We have also finalized agreements with the United States Council for International Business and the U.S. Chamber of Commerce to expand outreach and education to their members.

In addition to our corporate and association partners, partnerships with state and local trade organizations are a key component of the Commercial Service's outreach strategy. We work

with state and local partners across the country to educate SMEs on the benefits of exporting and to provide them with specific industry and market information. Forty of our USEACs are collocated with state or local partners, providing the best possible combination of resources to the client, increasing successful exporting and resulting in local economic and job growth.

The Commercial Service also works closely with U.S. exporters through its relationship with the District Export Councils (DECs). DEC members are local business leaders, appointed to the DEC by the Secretary of Commerce, whose knowledge of international business provides a source of professional advice for local firms. There are 60 DECs located across the United States, each working closely with local Commercial Service offices on issues important to the local exporting community.

In Louisville, Kentucky, Phoenix Process Equipment Company has benefited greatly from the synergy between the Commercial Service, state and local partners and DEC members. Since the mid-1990s, Phoenix, a manufacturer of equipment for de-watering industrial and municipal wastewater, has leveraged the services of the Louisville USEAC, the Kentucky state trade office and the World Trade Center. In 2009, Phoenix participated in the Enviro-Pro Show in Mexico that included a trade mission organized by the state trade office. The Commercial Service helped recruit companies for this mission and provided Phoenix with counseling services, market reports, and financing information. These joint efforts resulted in a \$300,000 equipment sale in Mexico. The company's Vice President of Sales and Marketing is a DEC member who mentors other small companies in the Louisville area to help them realize export successes such as this.

MATCHMAKING & COUNSELING

When our trade specialists at local USEACs 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 a U.S. 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.

As part of our matchmaking service, we contact a number of pre-screened overseas business partners and then identify the contacts that appear most capable of becoming a viable representative for the U.S. company in that market. All of this work is done before the company travels overseas to meet face-to-face with these potential partners, saving the company time and resources.

For example, NanoScale Corporation, located in Manhattan, Kansas, is a small nanotechnology firm that develops and sells materials used to remove, destroy or neutralize toxic and noxious chemical and biological agents for the safety, security and environmental sectors. In August 2008, the Commercial Service provided a Gold Key matchmaking service for NanoScale to help them find and sign a new distributor agreement in Canada.

TRADE EVENTS

Trade events are an excellent way for companies to get international exposure and make valuable contacts. These events, which include trade missions, international buyer shows, and trade fairs, assist U.S. companies in making contacts, developing business relationships, and locating customers overseas.

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 2009, the Commercial Service supported 30 trade missions to 24 overseas markets helping approximately 250 firms.

This past spring, the Commercial Service completed a successful trade mission to Poland, called TradeWinds, that had both a Pan-European conference and a matchmaking component. The program consisted of a full day business conference on the European market, one-on-one counseling sessions with 28 Commercial Service Officers stationed in Europe, and business-to-business meetings with potential partners from Poland and other European markets. One-hundred thirty-four representatives from 84 U.S. companies and 22 states participated in the event. Over 97 percent of these participants were representatives of SMEs. One of the firms that participated was Taking the Water, a woman-owned small business that manufactures products for the health and wellness industry. Taking the Water had never exported, and worked with Commercial Service-New Jersey prior to attending the TradeWinds mission to conduct market research and learn about: methods of distribution; financing and pricing their product for export; methods of payment; shipping and logistics; and tax/tariff structures. As a result of their participation in the TradeWinds mission, the company met a number of potential distributors for its products in Poland and has already made an initial sale.

In September 2009, Maine Governor John Baldacci led a delegation of 25 Maine businesses to Spain and Germany for a Commercial Service-supported wind power trade mission. As a result of the Commercial Service Gold Key matchmaking services provided for the mission, Maine companies reported \$21 million in expected sales in the first 12 months.

Our International Buyer Program (IBP) is designed to increase U.S. export sales by promoting international attendance at major U.S. industry trade shows. The IBP selects approximately 35 U.S. trade shows each year where our staff provides practical, hands-on assistance to U.S. exhibitors including export counseling, marketing analysis, and matchmaking services. Commercial Service staff overseas promote these trade shows and recruit foreign buyer delegations to attend the shows. For example, at the 2009 National Association of Broadcasters trade show, an IBP event, Commercial Service Bogota staff facilitated discussions between Avid Technology, a Tewksbury, Massachusetts company, and RCN Television for the sale of a news editing and broadcasting system valued at \$400,000.

The Trade Fair Certification program is a cooperative arrangement between private sector show organizers and the U.S. Government to increase U.S. exports and to expand U.S. participation in overseas trade shows. The program provides Department of Commerce endorsement, show-related services, oversight and coordination of event services, promotional support, exhibitor

marketing facilitation, and in-country/show site assistance for private sector organizers to recruit and build a U.S. Pavilion at selected foreign trade shows. These shows serve as a vital access vehicle for U.S. firms to enter and expand foreign markets. The certified show/U.S. pavilion ensures a high-quality, multi-faceted opportunity for American companies to successfully market overseas. In 2009, the TFC Program certified 107 overseas trade fairs.

COMMERCIAL DIPLOMACY & ADVOCACY

U.S. companies often seek assistance to address specific trade-related issues. The U.S. Government can weigh in on behalf of a U.S. company with a foreign government to help the company resolve these issues. These problems range from regulatory trade barriers to unfair trade practices. Our job, through commercial diplomacy, is to work 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.

In 2008, Seafood Producers Co-op of Bellingham, Washington contacted our ITA's Trade Specialist in Brussels asking for assistance in obtaining the release of a shipment of frozen salmon from German Customs in Hamburg. German authorities refused to clear the shipment due to a technicality cited with the health certificate. Staff reviewed the EU legislation pertaining to requirements for the health certificate and provided the Seafood Producers Co-op and the EU customer with an interpretation of the legislation. Subsequently, this explanation was provided to German authorities who then reviewed their initial decision and released the \$350,000 shipment.

U.S. companies also look to the Commercial Service to help them win bids on foreign tenders. The Advocacy Center coordinates U.S. Government advocacy on behalf of U.S. companies bidding for foreign government procurements. In fiscal year 2009, U.S. Government advocacy supported American companies successfully in 26 international government procurements with U.S. export content of \$10.9 billion. The Advocacy Center is actively tracking over 400 cases.

EXPORT FINANCING

The Commercial Service regularly works with its colleagues and strategic partners to provide trade finance assistance and expertise. In addition to our counseling visits with SMEs, we work closely with our Trade Promotion Coordinating Committee (TPCC) partners to conduct seminars and webinars to advise SMEs on export financing options. In response to the recent need for additional trade financing information, the Commercial Service has launched a new global Finance Team, to assist U.S. exporters with finding financing assistance and solutions in a rapidly changing commercial banking landscape. In November, the team, in collaboration with the Florida International Bankers' Association, Small Business Administration, and Export-Import Bank, held a seminar in Miami, Florida titled "Finding Financing for Florida Exports."

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 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 credit worthy 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 PNC Bank, M&T Bank and Comerica Bank, have reprinted and are distributing our Export Finance Guide, which provides a comprehensive resource on export financing options, to their clients.

CONCLUSION

In these challenging economic times, the Department of Commerce is committed to restoring American jobs and strengthening our economy. Exports have an important role to play in this recovery. President Obama, Secretary Locke and the TPCC agencies have acknowledged this—voicing their support for increased U.S. exports. The Commercial Service, through our global network of over 225 offices worldwide, is working to help Americans realize the benefits of exporting, including greater stability for firms and higher wages for workers. Members of the Committee, we look forward to working with you and your constituent companies and invite you to be a partner in supporting our efforts here in Washington, in your states, and abroad.

STATEMENT OF ALEXANDRE MAS
CHIEF ECONOMIST
U.S. DEPARTMENT OF LABOR
BEFORE THE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON
INTERNATIONAL TRADE, CUSTOMS, AND GLOBAL COMPETITIVENESS
UNITED STATES SENATE

Hearing on Exports' Place on the Path of Economic Recovery

December 9, 2009

Good morning Chairman Wyden, Ranking Member Crapo and other Members of the Subcommittee. I appreciate the opportunity to testify on behalf of the Department of Labor about exports' place on the path of economic recovery.

Exports and Economic Recovery

The U.S. economy is beginning to climb out of the recession. Nonetheless, GDP is still 3 percent below its peak and employment is more than 5 percent below its peak. With 15.4 million unemployed and a 10.0 percent unemployment rate, the United States must have steady, strong economic growth to get people back to work. Although personal consumption and homebuilding contributed decisively to growth in the third quarter, expectations are that consumers will not be as much a motor of economic growth as they were in the past. The personal savings rate was 4.5 percent in the third quarter, or triple the rate at the start of the recession. An increased propensity to save is desirable, despite reducing consumers' past role as a source of economic growth. The adjustments that households, businesses, and financial institutions are making in order to reduce debts and rebuild their balance sheets will lay the foundation for future growth. With domestic demand unlikely to turn upward significantly, exports must be part of our growth strategy.

As President Obama has emphasized, increasing our exports is an essential part of restoring balanced growth. The United States has not had a trade surplus since 1975 on an annual basis. The trade deficit rose in the 1980's and then fell in the 1990's, but then increased from 1 percent of GDP in mid 1997 to over 6 percent of GDP at the end of 2005. Even before the crisis broke, it was slowly shrinking, but was still quite large.

But the United States cannot reverse global imbalances only through efforts to increase exports. At the same time that we work to increase exports, we also must work toward a sustainable budget that reduces our need for foreign borrowing. Recovery Act spending, which is necessary to bring us out of recession and set the stage for sustainable growth, by design will scale back as an essential part of the Administration's commitment to long-term fiscal stability.

Other countries will also need to act to reverse these imbalances. Countries with large current account surpluses need to reduce their high savings rates. This will increase demand for imports and reduce their large surpluses. Increased government spending in these countries on health

care, education, and pension systems would induce greater consumption as well by reducing the need for people to save for potentially large medical, educational, or retirement expenses. By increasing their consumption, workers in these countries will be able to enjoy higher standards of living, made possible by the remarkable advances in the productivity of their labor in recent decades.

Having said this, we have witnessed a reduction in these imbalances during the recession. A shrinking of the trade balance coincided with the decline in real GDP—and, in fact, prevented the decline in GDP from being even more severe than it was. Although both exports and imports declined from the third quarter of 2008 through the second quarter of this year, the decline in imports easily outpaced that of exports as our country's appetite for imports weakened. Our appetite regained strength in the third quarter, however, with real imports rising at a (25.0 real goods) percent annual rate. Exports also rose quickly at a 17 percent annual rate.

As we have seen during the recession, a major obstacle to export growth has been depressed demand in foreign markets, which triggered a sharp cutback in U.S. goods exports to essentially all regions of the world through the second quarter of this year. There are, however, signs that the global economy may be on the rebound. Asian economies are doing particularly well, and exports to those countries are on the rebound. After a period of contractions in most major Asian economies, with the exception of China, India, and Indonesia, the region grew at a rate of 9 percent in the second quarter of 2009. China, Hong Kong, Korea, Malaysia, Singapore, and Taiwan all had double-digit growth rates. Goods exported to Singapore actually declined from the 1st to 2nd quarter \$5.2 billion to \$4.8 billion (-7.8 percent), but saw an increase from 2nd to 3rd quarter \$4.8 billion to \$6.0 billion (24.1 percent).

As the global economy recovers, exports have the potential to contribute even more to economic growth and to create more jobs domestically. Exports contributed notably to the third quarter rebound in GDP, adding 1.71 points to growth in the quarter, with the highest contribution from goods exports since 1996.

Jobs in the Export Sector are Good Jobs

An expansion of exports has the potential to create hundreds of thousands of new, good paying jobs. In 2007, several million American workers were employed in the over one-quarter million identified exporting firms. In addition to their positive effect on economic growth, export jobs fit in with Secretary Solis' vision for the Department of "good jobs for everyone." To support this vision, the Secretary has developed a series of outcome goals and is working to ensure that each DOL program is linked to this overarching vision.

Several of these outcome goals are pertinent to today's discussion of the role exports play in the economic recovery and how a robust export strategy creates and sustains good jobs. These include:

- Increasing workers' income and narrowing wage and income inequality;

- Assuring that workers have the skills and knowledge to succeed in a knowledge-based economy, including in high-growth and emerging industry sectors like green jobs;
- Helping workers who are in low-wage jobs or out of the labor market find a path into middle-class jobs; and
- Helping middle-class families remain in the middle class.

Jobs in exporting firms, which are in sectors with above-average compensation, are more likely to contribute to narrowing wage inequality and helping families get and stay in the middle class. Exporting firms largely employ people in the manufacturing, professional services, and wholesale trade sectors. Average hourly total compensation in the manufacturing sector, at about \$32, is about 22 percent higher than average compensation in service industries.¹ About 40 percent of the difference comes from higher wages and another 20 percent from greater health benefits. Some of the difference in wages is due to longer tenure and better training of manufacturing workers. However, even after controlling for these factors, manufacturing workers still make an estimated 9 percent more than comparable workers in other sectors. Likewise, the average hourly compensation of workers in professional and technical services surpasses \$44 per hour. Exports of business, professional, and technical services totaled more than \$27 billion in the second quarter alone. Wholesalers represent about one-third of exporting firms, and total compensation in wholesale, at over \$29 per hour, also is above the average for service-providing firms.^{2,3}

Furthermore, within specific industries, there is evidence that export-related firms pay more. Census research on the manufacturing industry between 1976 and 1987 found that plants that produced products for export paid more than plants that were not exporting, even after accounting for size, productivity, and capital intensity.⁴ These findings are confirmed by more recent research, which finds that wages of workers are 10 to 11 percent higher at plants that export their products.⁵ Analysis of employment growth at firms from 1993 to 2000 also found that the greatest employment growth was among firms that began to export. At such newly exporting firms, employment increased by 94.3 percent, compared to 24.5 percent employment growth among firms that were not exporters.⁶

Opportunities for Export Growth – Advanced Manufacturing and Green Jobs

An export promotion strategy that creates and sustains good-paying jobs and supports both economic recovery and long-term economic stability would require a range of policy initiatives across the government including assistance to companies trying to expand to foreign markets and enhanced investment in research and development. The Department of Labor plays a pivotal role in the broader Federal strategy to promote exports and rebuild the manufacturing sector by providing workers with training and employment services that will help advance their careers while meeting the needs of U.S. employers. These efforts are especially important in emerging industries, particularly in areas of the green, clean energy economy, and high-growth industries, such as health care, that we believe will help drive and sustain our economic recovery.

The Department's Employment and Training Administration (ETA) received approximately \$4 billion from the American Recovery and Reinvestment Act of 2009 to support training and

employment programs. General funds for training and especially funding for placement in high growth and emerging industries will help us train workers in sectors where there is export potential.

Advanced Manufacturing

Even during the recession, there have remained some areas of export growth, and these are likely to be among the sectors with large export potential in the coming years. Two-thirds of exports in the third quarter were manufactured goods and over 40 percent of factory jobs are in industries that the Bureau of Labor Statistics (BLS) identifies as export-sensitive.⁷ The sharp slowdown in factory job losses in recent months is due in part to the stabilization and turnaround in exports across manufacturing industries.

Among exports of advanced technology products, biotechnology has stood out. Exports over the first 9 months of 2009 total \$8.5 billion, up 26 percent over the same period in 2008. Exports of life science products have remained fairly stable, at \$18.3 billion so far this year. Our country's relative strength in these areas translates into good paying jobs. In contrast to generalized employment declines throughout manufacturing and most other industries during the recession, employment has remained steady in electromedical apparatus manufacturing as well as in scientific research and development services, just to name two examples.

A recent Council of Economic Advisors report on "Preparing the Workers of Today for the Jobs of Tomorrow" notes that employment is projected to grow in the coming years in aerospace and pharmaceuticals, along with other similarly-advanced manufacturing industries. Exports are critical to these industries. While down from 2008, aerospace exports over the first 9 months of 2009 total \$61.3 billion. Exports of medicinal chemicals total \$31.4 billion so far this year, up over 14 percent from the same period last year.

Green Jobs

As we know, oil accounts for a significant part of our trade deficit. Based on January – September 2009, petroleum accounted for 40 percent of the goods deficit and 52.1 percent of the goods and services deficit. The annual 2008 percentages are larger. One way to reduce this deficit is to reduce oil imports by making investments in clean and renewable energy sources. President Obama and Secretary Solis believe that the green economy will be a key driver behind America's economic revitalization and sustained economic stability. Green jobs offer good wages, pathways to long-term career advancement, and prosperity for American workers. Continued efforts by the public and private sectors to reduce energy consumption and other environmental impacts will maintain the demand for green products and services, resulting in increased workforce needs within manufacturing and other industries. As recently acknowledged by the President and others at the Jobs Forum, investments in clean energy will not have as large an impact as they potentially could without mechanisms to price carbon or cap carbon emissions, thereby increasing demand for clean energy products. At the Department of Labor, we are making critical investments in training the workforce for these growing sectors.

DOL's Efforts

To provide a common framework to understand the skills required to work in the manufacturing sector, ETA and its advanced manufacturing industry partners developed a dynamic, industry-driven model of the foundation and technical competencies that are necessary for workers to enter into and progress in these careers. The model helps to identify employer needs and provides a framework for developing competency-based curriculum and training models. Given the recent advances in skill requirements of many manufacturing sectors, including sustainable and green manufacturing, ETA is collaborating with our industry partners—including the National Council for Advanced Manufacturing, the National Association of Manufacturers, the Society of Manufacturing Engineers, and others—to update the advanced manufacturing competency model to reflect new skill requirements in the industry.

The green economy provides an opportunity for firms to move from struggling industries to expanding ones, or for industries to revive themselves by investing in cutting edge technologies. We saw a great example of this recently in Fisker Automotive Company's purchase of the now closed General Motors Assembly plant in Wilmington, Delaware. The plant was closed as part of the GM restructuring. As a result of the Department of Energy's Advanced Technology Vehicle Manufacturing Program, it will reopen soon and remain an auto manufacturing facility. With a \$528.7 million conditional loan from the DOE, Fisker will soon introduce the world's first plug-in hybrid vehicles—cars that can travel up to 50 miles on electricity before they switch to a traditional gasoline engine. Recovery Act grants are also supporting a domestic battery industry that will allow Fisker to sell affordable plug-in hybrids. Not only are these great examples of how the green economy can create jobs, but they also highlight the value of the federal/state/private sector partnerships fostered by the White House Council on Automotive Communities and Workers to support positive economic transformations in auto communities.

In preparation for job growth in emerging industries, the Department of Labor is positioning itself to provide labor market information and to work with core constituencies of labor, industry, and education to identify relevant green jobs skills and develop competency models leading to employment with meaningful career ladders. The Department is carrying out these activities through (1) investments made possible by the Recovery Act, (2) new initiatives, and (3) modifications to current programs.

As a key Recovery Act investment, on June 24, 2009, Secretary Solis announced grant competitions totaling \$500 million directed to support green jobs initiatives. These grants will be used to prepare workers to enter the energy efficiency and renewable energy industries, as well as green occupations within other industries. They will also build the capacity of service providers to train workers for green jobs. On November 18, 2009, the Department announced nearly \$55 million in green jobs grants that will support job training and labor market information programs to help workers find jobs in expanding green industries and related occupations. The Department expects to release funding for the remaining grant competitions over the next several months.

The Department is also supporting green job training, skill development, and capacity building through the development of new initiatives. As part of the Fiscal Year 2010 budget, the

Administration has proposed the creation of a Green Jobs Innovation Fund, which would utilize \$50 million to help workers access green training and green career pathways.

Beyond Recovery Act investments and new initiatives, the Department has worked to modify current programs to ensure the demand for workers to fill green jobs will be met. Such changes include:

- Encouraging and providing grantees technical assistance to incorporate green construction into the YouthBuild program;
- Expanding efforts to use the Women in Apprenticeship and Non-Traditional Occupations Act program to promote placement and retention of women in registered apprenticeship programs in industries critical to the green economy, and;
- Developing green jobs training to be implemented as part of the curricula at Job Corps centers.

The Department also conducted a study entitled “The Greening of Registered Apprenticeship: An Environmental Scan of the Impact of Green Jobs on Registered Apprenticeship and Implications for Workforce Development.” This study identifies steps currently being taken by national organizations primarily within the National Apprenticeship System to prepare the U.S. workforce for the demands of a green economy and will be used to help shape future policy and program development.

Finally, a broader understanding of the number and types of jobs tied to the green, clean energy economy is fundamental to all these initiatives. BLS has begun a multi-year initiative to measure green jobs by industry and occupation. The effort includes the development of a new survey, which will measure green employment across industries.

Conclusion

The economic growth that we witnessed in the third quarter is due in no small part to growth in exports. As our economy continues to become more export oriented, we must ensure that companies can readily access a prepared workforce that will support their growth. Exploring the potential to export can be daunting, especially for smaller novice companies, but we hope the departmental initiatives that I have outlined will remove some of the uncertainty involved. Preparing our workforce for jobs tied to exports and the green economy is critical to extending our economic recovery and setting the stage of sustained and sustainable economic growth.

Thank you again for holding this important hearing this morning. I would be happy to answer any questions from Members of the Subcommittee.

¹ Bureau of Labor Statistics, Employer Costs for Employee Compensation, June 2009.

² Census Bureau, 2006-07 Profile of U.S. Exporting Companies.

³ Bureau of Labor Statistics, Employer Costs for Employee Compensation, June 2009.

⁴ Bureau of Census. "Export Manufacturers Compete Successfully in Pay, Productivity, and Presence." Statistical Brief. January 1995.

⁵ Richardson, J. David. "Uneven Gains and Unbalanced Burdens? Three Decades of American Globalization," in *The United States and the World Economy*, ed Fred C. Bergsten. January 2005.

⁶ Bernard, Andrew B., J. Bradford Jensen, and Peter K. Schott. "Importers, Exporters, and Multinationals: A Portrait of Firms in the U.S. that Trade Goods." Working Paper 05-10. September 2005.

⁷ Bureau of Labor Statistics, Current Employment Statistics program, unofficial research series on employment in export-sensitive manufacturing industries.

“The Export Imperative”

Testimony prepared for
The Senate Finance Committee
Subcommittee on International Trade

By Howard Rosen¹

December 9, 2009

Introduction

Exports benefit the US economy in many ways.

- Exports enable firms to sell beyond their domestic market, thereby enabling them to increase production, sales and jobs.
- Exporting firms, on average, employ almost twice as many workers and produce twice as much as non-exporting firms.
- Exporting firms pay their workers more than non-exporting firms, and they are more likely to provide health insurance and pension coverage to their workers.²
- Exporting firms have higher productivity, making them more competitive and prosperous.

Despite these significant benefits, it is surprising that more US firms don't export.³

- Only 4 percent of US companies export
- 500 companies account for 60 percent of US exports
- Companies with more than 500 employees, which constitute only 3 percent of our exporting companies, account 70 percent of US exports

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² Bernard, Andrew B. and J. Bradford Jensen, Stephen J. Redding and Peter K. Schott, “Firms in International Trade,” Journal of Economic Perspectives 21:3, Summer 2007.

³ US Department of Commerce, “A Profile of US Exporting Companies, 2006-2007,” US Census Bureau News, April 9, 2009.

- Less than one half of one percent of US companies operate in more than one country
- 58 percent of exporting companies trade with only one country

Although US exports of goods and service have grown on average by 10 percent each year over the last 50 years, they currently constitute only a little more than 10 percent of GDP, considerably less than the world average. (See Table 1) By contrast, exports of goods and services are 40 percent of GDP in Europe, 40 percent of GDP in China, 36 percent of GDP in Canada, 22 percent of GDP in India and 16 percent of GDP in Japan.

Table 1
Export of Goods and Services

	Percent of GDP
Singapore	243
Hong Kong, China	206
Euro area	40
China	40
Canada	36
Average for high income OECD countries	24
India	22
Japan	16
United States	11
World average	28

Source: World Bank, World Development Indicators, 2009

Historically low household saving rates and growing government and private debt have made the US economy dependent on foreign capital. By the end of 2008, US net debt to the rest of world was \$3.5 trillion, 24 percent of GDP. The US net debtor position has deteriorated since 2000, rising at a rate of 23 percent *per* year, more than 4 times the annual growth of the US economy.

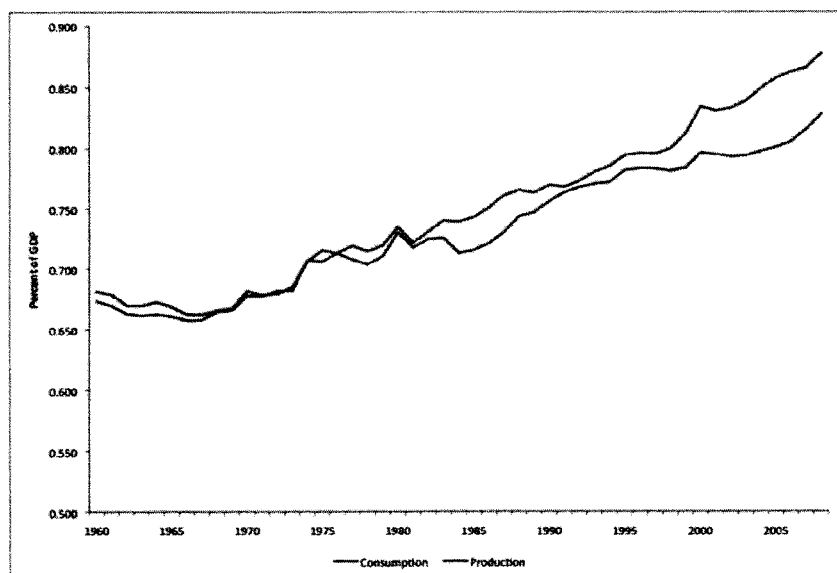
There are several ways the United States can reduce its debt burden, but most of them will require enormous sacrifice on behalf of American workers and their families, and bring considerable damage to the US economy. The only way out of the economic mess we currently find ourselves in, without causing more damage at home and abroad, is to significantly increase US exports.

Exporting is no longer just an option for the US economy; it is an imperative.

Why Export?

Since the late 1970s Americans have been consuming more than we produce.⁴ (See Figure 1) Since 1977, consumption as a percent of GDP has grown, on average, 77 percent faster than production each year. As a result, the gap between consumption and production increased from 1 percent of GDP to 5 percent of GDP over the last 3 decades. Between 2003 and 2008 consumption as a percent of GDP grew, on average, by almost 3 times more than the growth of production as a percent of GDP *each year*.

Figure 1
US Production and Consumption



Source: Author's calculations

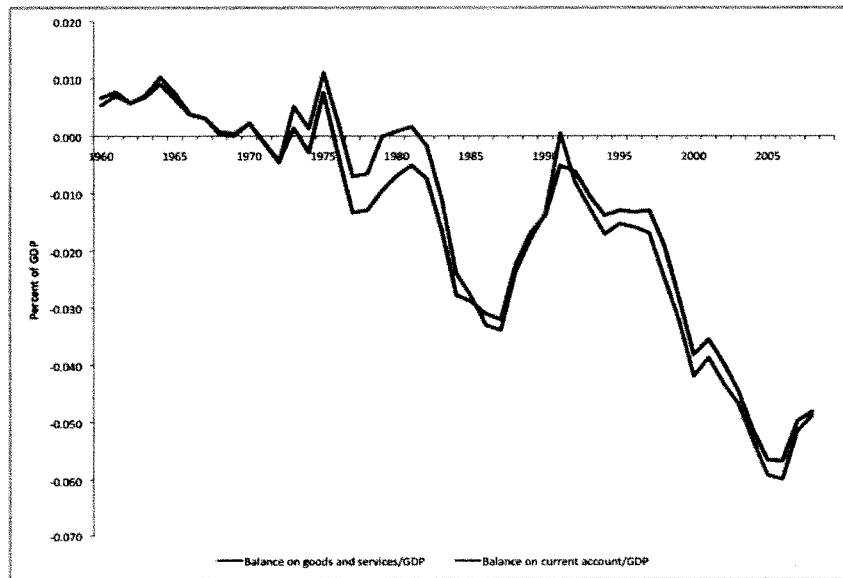
The gap between production and consumption is equal to the balance in exports and imports of goods and services, or the current account. Over the last 6 years,

⁴ For the purposes of this testimony, production is measured as consumption of domestically produced goods and services plus exports of goods and services. Consumption is measured as consumption of domestically produced goods and services plus imports of goods and services.

the US current account deficit has been on average, slightly above 5 percent of GDP each year. (See Figure 2) This deficit is not merely an accounting entry; it represents *how much more the United States must borrow from the rest of the world each year*, further worsening its net debtor position.

The US net international debt position at the end of 2008 was \$3.5 trillion or 24 percent of GDP. My colleague Bill Cline estimates that with no policy changes, the US net international debtor position could *double*, reaching \$8 trillion, or more than 42 percent of US GDP, *within just 7 years*.⁵

Figure 2
Balance on US Current and Trade Accounts



⁵ Cline, William R., "Long-Term, Fiscal Imbalances, US External Liabilities, and Future Living Standards," in Bergsten, C. Fred, ed., *The Long-Term International Economic Position of the United States*, Special Report 20, Washington, DC: Peterson Institute for International Economics, May 2009.

The continual build-up of US domestic and international debt diverts capital from less advanced economies that are in great need of capital to finance public and private investment in basic infrastructure and industry.

It is hard to imagine how this debt build-up can continue on its current course.

As former chairman of the Council of Economic Advisors and eminent economist Herb Stein was fond of saying, "if something can't go on for ever, it won't." The recent US financial crisis and resulting deep recession has once again proven him right.

There are several options for reducing US dependence on foreign capital. First, we can permanently raise our national saving rate. Given historically low private saving rates in the United States, the single most effective way to do this would be to eliminate the federal government budget deficit. This is an extremely ambitious goal, especially under current circumstances. According to the Congressional Budget Office (CBO), the federal budget deficit is estimated to be more than 11 percent of GDP in FY 2009. CBO also estimates that under relatively optimistic assumptions, the deficit is expected to remain above 4 percent of GDP each year, over the next 10 years.

Mandatory spending, i.e. entitlements and interest on outstanding debt, are expected to comprise about two-third of all federal spending, for at least the next decade. Although categorized as such for budget purposes, spending on defense, homeland security and intelligence cannot be considered "discretionary" given current security concerns around the world. And policymakers have not displayed any appetite for raising taxes.

Although not impossible, it would demand significant leadership and discipline to bring the federal budget into surplus, and keep it in surplus long enough to reduce the US economy's growing dependence on foreign capital.

Another option would be for individuals to significantly reduce their own debt. Total outstanding household debt is currently valued at \$13.7 trillion, a little less than total GDP. If the recent experience is any indication, one would expect that significantly reducing household debt, even enough to *stop the further accumulation* of net debt, would have a devastating effect on the US economy.

A third option, printing more money to pay off our debt, brings back images of Germany in the 1920s, Hungary immediately after World War II and Argentina, Bolivia and Israel during the 1980s, when store prices changed several times a day. This cannot be an option for United States.

The only remaining option is to either reduce imports of goods and services, increase exports of goods and services, or some combination of both.

The US economy imported \$2.5 trillion in goods and services in 2008, 20 percent of everything Americans consumed. Complete abstinence, or even an absolute reduction in imports that was enough to stem our growing dependence on foreign

capital, would have drastic consequences for US consumers, causing a severe decline in living standards. An absolute decline of US imports of this magnitude would also wreck havoc on almost every economy around the world.

The only possible option for reducing our increasing dependence on foreign capital, while maintaining, or even improving our standard of living is to expand exports.

In order to increase exports, we must start producing more than we consume.

Expanding domestic production requires more private and public investment. The government needs to continue its current efforts to update and expand the nation's physical and human infrastructure. Private companies need to increase investment in plant and equipment *here in the United States*. Increased investment, resulting in higher production, will enable companies to hire more workers.

The combination of facing domestic and international competition and investing in plant, equipment, technology and worker training will enhance companies' long-run productivity, thereby enabling them to pay their workers higher wages. Higher incomes, in turn, will enable workers and their families to increase consumption, including imports, in *absolute* terms. As long as the growth of production is greater than the growth of consumption, the ratio of consumption to production will fall.

Increasing exports also addresses another US deficit – the jobs deficit. The “Great Recession” of 2008-2009 has so far resulted in a doubling of the unemployment rate. Currently 31 million Americans are either unemployed (15.4 million), working part-time because they could not find a full-time job (9.2 million), not in the labor force, but willing to work (5.6 million) or discouraged and marginally attached to the labor force due to poor job prospects (1 million). Despite some recent positive signs, most indicators suggest that it is going to take considerable time for the labor market to fully recover from the recession.

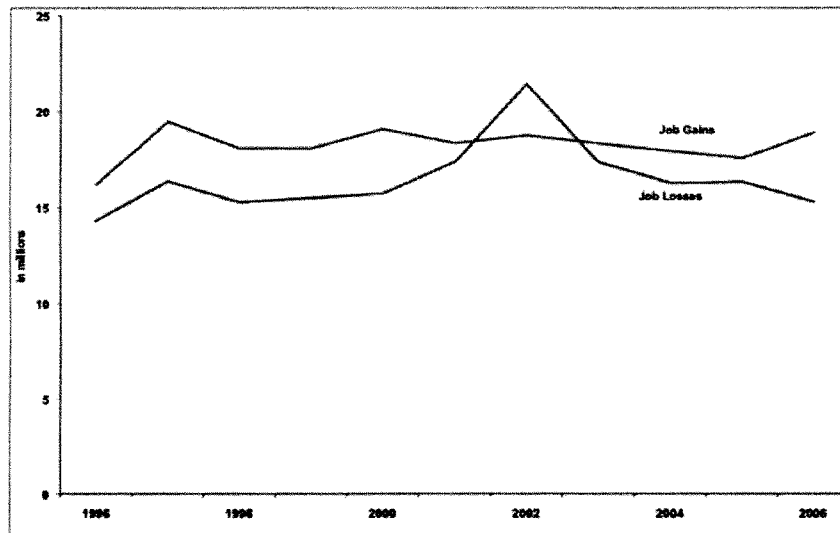
The US “jobs machine” petered out long before the recent recession began. Total job gains were flat from 2001 to 2006 and most of the increase in the number of people employed over this period resulted from fewer lay offs, not the creation of new jobs. (See Figure 3)

Poor job creation over the last decade, as opposed to the mere increase in employment, contributed to worker anxiety over technological change, offshore outsourcing and increased import competition. The lack of new high wage jobs makes it very difficult for workers to recover from job losses. As a result, most workers feel safer in their current jobs, even if they pay less well and don't provide benefits, than seeking new employment opportunities that pay more and provide better benefits.

The lack of sustainable and high wage job creation is a threat to the US economy, not globalization.

Exporting is the only way to reduce the US economy's dependence on foreign capital and create high wage jobs, while *simultaneously* improving the standard of living of American workers and their families.

Figure 3
Total Job Gains and Losses



Source: US Census Bureau, Statistics of US Business

What to Export?

Exporting more alone will not be enough to solve all our economic ills. Given its level of development, the US economy must export high value-added goods and services that require high skilled workers in order for an export-led growth strategy to result in sustainable improvements in US living standards. In other words, we need to improve both the quantity and quality of the goods and services we produce and export.

Anxiety over consideration of an explicit industrial policy, i.e. picking “winners and losers,” has caused many policymakers to overlook analyses which identify those US industries that excel in facing international competition. Any export-led growth strategy should build upon an analysis of our strengths.

Contrary to all the naysayers, the United States has a comparative advantage in many products.⁶

⁶ Due to data limitations, this analysis is confined to industrial products, as defined by the Harmonized Tariff Schedule (HTS).

Over the years economists have developed numerous indices of industrial competitiveness. Each of these indices has their own strengths and weaknesses. The most common index used is the value of an industry's exports as a share of total exports. Although this is a useful measure for some purposes, the index is obviously biased by the value of the product itself. For example, it would be a mistake to conclude that US exports of vehicles are more competitive than exports of cereals, purely based on the fact that the *value* of vehicle exports is greater than the *value* of cereal exports.

Another index of industrial competitiveness is the ratio of exports to imports in a particular industry. In this case, competitiveness is measured by the fact that the value of a country's exports in one product or group of products is greater than the value of imports of that same product or group of products. This index is less meaningful at higher levels of industry aggregations, since there is considerable trade *within* industries. For example, the United States exports trucks and imports cars, both of which are included under the same broad industry classification, i.e. vehicles.

Bela Balassa refined the simple export-import ratio index by comparing it to the ratio of a country's total exports and imports. This index is called the Revealed Comparative Advantage (RCA) index. A higher RCA index suggests that the ratio of exports to imports for one product or group of products is greater than the ratio of the all the country's exports to imports.

Table 2 presents the indicators outline above, i.e. the industry's share of total exports, its ratio of exports to imports and its RCA index, for the top 25 US export industries, according to 2-digit Harmonized Tariff System (HTS) system. The final column, the "weighted" RCA index, is an industry's RCA index multiplied by that industry's share of total exports. This index is an attempt to provide some insight into the "quality and quantity" of an industry's export performance.

The top 25 industries, ranked by the weighted RCA index, comprise 80 percent of US exports. Almost half of these exports are concentrated in four broad industrial categories, i.e. electrical and non-electrical machinery (HTS 84 and 85), vehicles (HTS 87) and aircraft (HTS 88). As suggested above, these products are primarily high value-added, thus their large share of total exports is not a surprise. A more careful look provides more insight into the actual international competitiveness of these industries.

US exports of aircrafts are more than 3 times the size of imports in the same category. By contrast, US exports of electrical and non-electrical machinery and vehicles are *less* than similar imports. The ratio of US exports to imports for electrical and non-electrical machinery are slightly better than the overall ratio of total US exports to imports, thereby signifying a comparative advantage.

Table 2
US Export Industries
Ranked by Weighted Revealed Comparative Advantage

HTS		Average Value 2004-2008 in \$millions	Average Share 2004-2008	X/M	Revealed Comparative Advantage (RCA)	Weighted RCA
	TOTAL	1,044,183		0.577		
10	CEREALS	17,618	1.7	12.391	21.479	0.362
88	AIRCRAFT, SPACECRAFT, AND PARTS THEREOF	61,328	5.9	3.263	5.656	0.332
84	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	181,617	17.4	0.778	1.349	0.235
12	OIL SEEDS AND OLEAGINOUS FRUITS; MISCELLANEOUS GRAINS, SEEDS AND FRUITS; INDUSTRIAL OR MEDICINAL PLANTS; STRAW AND FODDER	11,510	1.1	8.835	15.313	0.169
85	ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION RECORDERS AND REPRODUCERS, PARTS AND ACCESSORIES	140,239	13.4	0.625	1.083	0.145
90	OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF	61,034	5.8	1.206	2.091	0.122
39	PLASTICS AND ARTICLES THEREOF	42,699	4.1	1.311	2.272	0.093
87	VEHICLES, OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK, AND PARTS AND ACCESSORIES THEREOF	93,483	9.0	0.460	0.797	0.071
38	MISCELLANEOUS CHEMICAL PRODUCTS	16,492	1.6	2.077	3.600	0.057

52	COTTON, INCLUDING YARNS AND WOVEN FABRICS THEREOF	6,350	0.6	4.191	7.264	0.044
29	ORGANIC CHEMICALS	33,976	3.3	0.771	1.336	0.043
71	NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMIPRECIOUS STONES, PRECIOUS METALS; PRECIOUS METAL CLAD METALS, ARTICLES THEREOF; IMITATION JEWELRY; COIN	32,683	3.1	0.771	1.337	0.042
98	SPECIAL CLASSIFICATION PROVISIONS, NESOI	30,436	2.9	0.803	1.392	0.041
23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FEED	4,707	0.5	4.931	8.547	0.039
30	PHARMACEUTICAL PRODUCTS	25,935	2.5	0.616	1.067	0.027
2	MEAT AND EDIBLE MEAT OFFAL	7,487	0.7	1.581	2.740	0.020
47	PULP OF WOOD OR OTHER FIBROUS CELLULOSIC MATERIAL; RECOVERED (WASTE AND SCRAP) PAPER AND PAPERBOARD	6,132	0.6	1.812	3.141	0.018
32	TANNING OR DYEING EXTRACTS; TANNINS AND DERIVATIVES; DYES, PIGMENTS AND OTHER COLORING MATTER; PAINTS AND VARNISHES; PUTTY AND OTHER MASTICS; INKS	5,563	0.5	1.850	3.207	0.017
48	PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, PAPER OR PAPERBOARD	13,377	1.3	0.742	1.287	0.016
41	RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	2,831	0.3	3.394	5.882	0.016
72	IRON AND STEEL	14,756	1.4	0.562	0.974	0.014
28	INORGANIC CHEMICALS; ORGANIC OR INORGANIC COMPOUNDS OF PRECIOUS METALS, OF RARE-EARTH METALS, OF RADIOACTIVE ELEMENTS OR OF ISOTOPES	10,164	1.0	0.801	1.388	0.014

34	SOAP ETC.; LUBRICATING PRODUCTS; WAXES, POLISHING OR SCOURING PRODUCTS; CANDLES ETC., MODELING PASTES; DENTAL WAXES AND DENTAL PLASTER PREPARATIONS	4,079	0.4	1.945	3.371	0.013
8	EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUIT OR MELONS	6,911	0.7	1.080	1.872	0.012
26	ORES, SLAG AND ASH	4,471	0.4	1.560	2.704	0.012

Source: Author's calculations based on US International Trade Commission Interactive International Tariff and Trade Database

According to the RCA index, the United States has a comparative advantage in scientific equipment (HTS 90), which comprises almost 6 percent of total US exports. US exports in this category are 20 percent higher than similar imports, which is much higher than the average ratio of total US exports to imports (1.206 versus 0.577). Chemicals, plastics and pharmaceuticals, which together account for 12.5 percent of US exports, are also highly competitive, even though US exports of pharmaceuticals and organic chemicals are less than similar US imports of similar products.

Many of the findings presented above are not too surprising. The United States is well known for its production of capital equipment and high-tech products. Despite this conventional wisdom, according to this analysis, the most competitive US export is cereals. Although cereal exports constitute only 1.7 percent of total US exports (probably due to the low value-added nature of the product), they are more than 12 times the size of cereal imports. Taken together, cereals have the highest weighted RCA index of the 97 broad industrial categories analyzed. The two other industries with high RCA indices are oil seeds and grains, and cotton, which together constitute 1.7 percent of all US exports.

A list of competitive products at a more detailed level of disaggregation is appended to this testimony.

The bottom line is that there are many products made in the United States that meet the test of international competition. The challenge is to allocate the necessary resources for investment in physical and human capital to expand production and export of these products.

How to Promote Exports

Creating an Export Culture and Developing an Export-led Growth Strategy

For much of the last century the US economy has been defined by a culture of consumerism. People's success is measured by how much and what they consume, e.g. large houses, expensive cars, technological gadgets, etc. Secular and religious holidays have both become opportunities for sales and shopping sprees. The health of the economy is measured by how much we consume, not by how much we produce.

This culture of consumerism has led to an enormous build up of individual debt. Total current consumer debt amounts to approximately \$117,000 per US household. As evident by the recent financial crisis, this debt overhang places Americans and the entire US economy at great risk to external shocks.

One way to reduce our dependence on consumer debt would be to increase the share of production and exports in the US economy. This would require a cultural transformation, from one that focuses almost exclusively on consumption to one that focuses on production and exports. This transformation could begin by replacing indicators of consumption with indicators of production and exports as measures of the health of the US economy.

For example, firms might report large export sales, similar to the way they currently report purchases by US consumers. The Department of Labor might report employment statistics for export-oriented companies and/or industries as part of its monthly release on the employment situation. The government could also report the number of new jobs, which is different from merely the increase in employment.⁷ Job creation data for exporting companies and/or industries could be reported separately. Increased export sales might become one of the variables considered in setting executive compensation.

The government and the private sector might work together to develop an aggressive export strategy. This strategy should be based on an accurate assessment of the economy's existing capacity to produce and export, as well as an analysis of industrial strengths and weaknesses.

A body comprised of representatives from the private and public sector might set certain targets for increasing production and exports and estimate what resources would be necessary in order to meet those targets.⁸ These targets

⁷ For a start, a measure of new jobs could be taken from changes in the Unemployment Insurance system, i.e. workers who change their employers and new hires.

⁸ The Congressionally-mandated Competitiveness Policy Council undertook a similar exercise in the 1990s, estimating how much national saving and investment would be needed in order to doubling productivity growth. The Council developed detailed policy recommendations aimed at achieving that target.

might include doubling export's share of GDP and/or doubling the number (or percent) of firms that export by 2020.

Creating an Economic Environment that Encourages Exports

The primary objective of economic policy should be the achievement of sustainable, long-term improvements in living standards. This goal requires simultaneous improvements in economic growth *and* productivity. Increased domestic saving and investment in productive activities is critical to achieving this dual goal.

Between 1946 and 1981, business investment in plant and equipment rose steadily from 8 percent of GDP to more than 13 percent of GDP. Over the last decade private investment in plant and equipment dropped to less than 10 percent of GDP. This poor investment performance tracks the lack of total job creation over this period.

The recent bursting of the real estate "bubble" provides an opportunity to re-orient investment in the US economy. It would be unfortunate if the drop in residential investment resulted in net decline in total investment. In other words, the decline in residential investment should be offset by an increase in non-residential investment, i.e. investment in plant, equipment and technology.

Economic policies should aim to increase the quantity and improve the "quality," measured by its contribution to enhancing productivity, of investment.

The most important variable for promoting investment is the availability of affordable capital. There are three potential sources of capital – domestic private (household and corporate) saving, government saving and foreign saving. Large and growing federal and state government budget deficits in the United States increase the demand for private and foreign saving to finance domestic investment. The historically low household saving rate has exacerbated the US economy's dependent on foreign capital to finance domestic investment.

As mentioned above, eliminating the government budget deficit would be the single most powerful means of increasing the amount of capital available for investment in the United States. Any such improvement in public saving, i.e. a reduction or elimination of the budget deficit, must be accompanied by an increase in private saving on order to result in a net increase in national saving.

The bottom line is that we must eliminate the government budget deficit and individuals must save more, not just for retirement, in order to increase the amount of capital available to finance more investment in plant and equipment *in the United States*, and thereby create high-wage, sustainable jobs for American workers.

Get Exchange Rates "Right"

The value of a country's exchange rates is the single most important factor influencing how much it exports (and imports). An overvalued currency makes a country's exports appear more expensive abroad and makes its imports appear

less expensive at home, thereby leading to a deterioration of that country's trade and current accounts.

Table 3 presents data on exchange rates and US exports of goods and services by country. The second column presents an estimate of the equilibrium exchange rate relative to the US dollar, called the Fundamental Equilibrium Exchange Rate (FEER), as calculated by William Cline and John Williamson.⁹ The market exchange rates on December 1, 2009 are listed in the third column. The fourth column presents a comparison between the FEER and the current market exchange rate. A positive value suggests a currency overvaluation. Conversely, a negative value suggests a currency undervaluation.

Table 3
Exchange Rates and Exports of Goods and Services

	FEER	Exchange rate relative to the US dollar on 12-01-2009	Extent of over/under valuation relative to the US dollar	Share of US exports of goods and services in 2008
China	5.45	6.831	0.253	0.047
Hong Kong	6.05	7.75	0.281	0.015
India	37.1	46.325	0.249	0.015
Korea	850	1149.35	0.352	0.027
Singapore	1	1.3807	0.381	0.020
Taiwan	25.1	32.15	0.281	0.018
Euro zone	1.47	1.504	0.023	0.173
Canada	1.02	1.0496	0.029	0.169
Mexico	10.6	12.776	0.205	0.096
Japan	90.1	87.175	-0.032	0.058

Based on these data, the value of the dollar is currently pretty close to equilibrium against the Euro and the Canadian dollar, which together account for one-third of total US exports of goods and services. The US dollar appears to be slightly undervalued against the Japanese Yen. This development has a limited effect on the overall US trade performance, since Japan accounts for only 5.8 percent of total US exports of goods and services.

By contrast, the dollar is overvalued against several Asian currencies, making our imports from these countries more attractive and our exports to these

⁹ Cline, William and John Williamson, *2009 Estimates of Fundamental Equilibrium Exchange Rates*, Washington, DC: Peterson Institute for International Economics, 2009.

countries less attractive. It is therefore no surprise that, despite their strong economic performance, these six Asian countries, whose currencies appear to be overvalued against the US dollar, account for only 14 percent of total US exports of goods and services.

At a minimum, we cannot allow other countries to manipulate the value of their currencies in order to provide an unfair advantage to their exports.

An appropriate and stable exchange rate is necessary to promote exports.

Ensuring Market Access

US exporters need secure access to growing markets in order to sell their goods and services. This requires negotiations to open markets to US goods and services, the establishment of international rules by which to govern trade between countries and aggressive enforcement of those agreements and rules. The United States is currently falling behind on all fronts.

It appears that the world trading system is quickly turning into an unwieldy collection of bilateral and regional trade agreements. Efforts to negotiate a multilateral trade agreement under the auspices of the World Trade Organization (WTO) are stalled and at this point seem unlikely to succeed. In the meantime many countries have aggressively pursued bilateral and regional trade agreements to secure markets for their exports.

To date the United States has entered into 17 bilateral trade agreements, which together cover 40 percent of total US exports in 2008. The North American Free Trade Agreement (NAFTA) alone, which includes Canada and Mexico, covers one-third of US exports. The remaining 15 bilateral agreements, including the individual countries that are part of the Central American Free Trade Agreement (CAFTA), cover just 8.3 percent of US exports. If enacted, bilateral agreements with Columbia, Korea and Panama would cover an additional 3.9 percent of US exports. Except for NAFTA, US bilateral and regional trade agreements cover only a small portion of US exports.

Current efforts for further multilateral trade and financial liberalization appear to have hit a "speed bump." The Obama administration has yet to articulate its overarching strategy for trade policy. In the meantime, other countries are aggressively moving ahead in negotiating and signing bilateral trade agreements with each other. The United States, the most important force behind the international trading system for most of the last 50 years, seems to have fallen victim to domestic opposition to further liberalization. The future of the multilateral trading system could be under jeopardy if the United States abdicated its critical role.

From the perspective of promoting US exports, this is precisely the wrong time for a "time out" from trade policy.

Clearly, seeking increased market access for US exports will most likely necessitate opening the US market to imports from other countries. Imports

benefit the US economy, through access to more, better and less expensive products. But these benefits come with a "price tag." Increased competition from imports can put pressure on domestic firms and workers. Government programs should address these pressures with adequate and appropriate assistance that promotes labor market flexibility without causing harm to American workers and their families.

Entering into trade agreements is only the first part of gaining market access for exports. There must be appropriate "rules of the game" to govern trade flows and those rules must be aggressively enforced. The apparent shift from multilateral agreements to bilateral and regional agreements could undermine the development and enforcement of commonly agreed upon international rules.

Enforcing international trade rules raises additional challenges, since most violations occur beyond the exporting country's borders. This challenge is exacerbated by the lack of an independent "international trade police." As a result, countries must rely on each other to enforce both their own laws and internationally agreed upon rules.

The US government should expand its enforcement efforts in order to ensure that US exporters are afforded fair treatment in all international markets.

Building a 21st Century Export-Oriented Infrastructure

Exporters rely on first class transportation systems and ports to ensure that their products arrive at their intended markets in a timely and cost-effective manner. As daily news reports reveal, our economy's physical infrastructure, especially our roads and bridges, has been neglected, resulting in deaths, serious injuries and considerable delays, disrupting economic activity and costing US industry lost sales. US industry cannot compete internationally if it faces significant barriers in merely getting its goods and services to their intended markets.

The US transportation system was built to serve the domestic market. Future economic prosperity depends on access to the vast international market. Our transportation system must therefore be updated in order to meet this new reality. For example, we must ensure that there is a seamless link between our transportation system, including roads and rails, and our air, land and water ports. Airports outside major commercial centers need to be refitted in order to handle the shipment of cargo. Trucks and trains must be able to move goods from their source of production to ports capable of handling international trade, in a cost-effective and timely manner.

Providing Adequate Export Financing

One of the barriers exporters face is access to adequate financing at favorable conditions. The US Export-Import Bank was established to meet this need. Like other official efforts to promote exports, the Export-Import Bank appears to do a good job providing the necessary finance to companies, many of which are large,

which already export. Once again, the challenge is to use easier access to financing as an incentive to increase *the number of companies* that export as well as the total value of exports.

According to the US Export-Import Bank, Canada, France and Italy provide significantly more credits to their exporters than the United States does, despite the fact that on average, the value of their exports are less than half that of the United States.¹⁰ (See Table 4) This imbalance is particularly pronounced in the comparison between China the United States. Although the value of total Chinese and US exports are almost equal, Chinese export credits are more than 4.6 times greater than US export credits.

Table 4
Export Credits and Exports

	New Medium and Long-term Official Export Credit in billions of US dollars	Value of exports in billions of US dollars	Ratio of credit to exports
Canada	18.2	420.2	0.043
France	13	551.9	0.024
Germany	7.8	1,321.2	0.006
Italy	11	499.9	0.022
Japan	6	646.7	0.009
UK	3.6	439.1	0.008
US	8.2	1,148.2	0.007
Brazil	7	160.6	0.044
China	38	1,218.6	0.031
India	4.4	160.6	0.027

Source: US Export-Import Bank, "Report to the US Congress on Export Credit Competition and the Export-Import Bank of the United States" and the World Trade Organization. Data are for 2007, except for Japan, where data are for 2006.

In addition to direct financing, some countries provide development assistance under the condition that the recipient countries use that assistance to buy goods and services from their companies. This form of "tied-aid" can distort trade flows. It is unclear how extensive this practice is, since it is difficult to collect data on tied-aid.

¹⁰ This comparison is based on new medium and long-term official export credits, as reported by the US Export-Import Bank. There may be other forms of financing available to exporters.

Programs to provide access to export financing need to be coordinated with other outreach and promotion efforts in order to increase the pool of exporting-companies.

The bottom line is that US export financing must be competitive in order for its exporters to compete in world markets.

Establishing an Export Extension Service¹¹

Helping existing exporters export more should not require a significant increase resources. By contrast, additional resources are required to identify and encourage companies that do not current export to begin doing so. The experience of the US Agriculture Extension Service and the Manufacturing Extension Program suggest that although useful, just making technical assistance available only helps those companies that realize they need that assistance. By contrast, these programs pro-actively reach out to farmers and companies and provide assistance that they may not realize will benefit them.

Some Manufacturing Extension Program centers provide technical assistance on exporting, but that is not currently their primary mission. This function should be strengthened. The objective is to identify potential exporters and provide whatever assistance they require to begin exporting.

The US government has a small export promotion program in place, with activities conducted by the Department of Agriculture, the Department of Commerce, which includes the Foreign Commercial Service, and the Small Business Administration. The total budget for these activities was less than \$1 billion in FY 2008, with two-thirds of that devoted to promoting agricultural exports. Funding for export promotion efforts have decline by an average of 8 percent each year between FY 2004 and FY 2008. Export promotion efforts need to be expanded in order to attract more companies to export.

Conclusion

For decades Americans have been consuming more than they produce. As a result, we have incurred enormous debt to ourselves and to the rest of the world. The recent financial crisis and deep recession provide clear evidence that the United States is not an economic island, and that continuing to increase our national and international debt places our living standards and the world economy at great risk. The current situation is not sustainable. We are already planting the seeds of the next financial crisis.

¹¹ The Agriculture Extension Service was established in 1914 (95 years ago). For example, there are 4 centers and 9 branch stations in Oregon alone.

The US economy needs to begin producing more than it consume. Increasing exports is the only way to reduce US dependence on foreign capital without jeopardizing the living standards of American workers and their families.

Producing more than we consume does not mean that we must reduce consumption in absolute terms. Rather, we must implement policies that result in production *growing faster* than consumption, until at some point the level of US production is greater than the level of consumption.

Similarly, we need to implement policies that encourage exports to grow faster than imports. Once again, achieving this goal does not necessitate an absolute decline in imports, which would hurt US living standards.

Achieving the two goals of producing more than we consume and exporting more than we import requires a considerable increase in private investment in plant, equipment and technology. We must increase national saving, by raising private saving and eliminating the government budget deficit, in order to finance this necessary expansion in investment.

Expanding our export *capacity* is necessary, but not sufficient for increasing our export *sales*. We must put in place the appropriate policies to insure that the value of the US dollar relative to the currencies of our major trading partners does not undercut the price competitiveness of US goods and services in international markets. At a minimum, we cannot allow other countries to manipulate the value of their currencies in order to provide an unfair advantage to their exports.

The value of a country's exchange rates is the single most important factor influencing how much it exports (and imports).

Government policies and programs are also needed to modernize the nation's infrastructure and re-orient it toward enhancing exports. We also need to provide adequate financing at favorable conditions in order to expand the potential pool of US companies that export.

The United States cannot afford to abdicate its leadership role in maintaining an open trading system. Countries may opt for a "time out" from *trade policy*, but there are no "time outs" when it comes to international *trade flows*. Other countries are currently signing bilateral and regional agreements that exclude the United States. The United States needs to ensure access for its exports into existing and new markets. Trade negotiations are a two-way street – achieving market access for exports will be combined with opening markets to imports.

Trade agreements are only effective if they are enforced. In addition to increasing resources allocated to enforcing its existing agreements, the United States should seek an international understanding on ways to share the responsibility of enforcing trade rules.

Increasing US exports will result in companies expanding production and creating new high wage jobs *in the United States*. Exporting raises incomes, which will enable Americans to consume more. Expanding export opportunities can also ameliorate the dislocation costs associated with import competition.

Given all its benefits, it is surprising that so few US companies export. Increasing exports is the only option available to help the United States get out of the economic mess it currently finds itself in, without sacrificing US living standards. The US government, together with private sector representatives should move aggressively to set medium and long-term targets for increasing US exports and expanding the pool of exporting companies.

Appendix
Top 50 Export Industries
Ranked by the Weighted Revealed Comparative Advantage Index

HTS		Share of Total exports	Ratio of Exports to Imports	RCA	Weighted RCA
271210	PETROLEUM JELLY	0.019	4369.1	8092.6	154.43
710210	DIAMONDS, UNSORTED	0.010	5579.6	10334.5	103.42
880400	PARACHUTES (INCLUDING DIRIGIBLE PARACHUTES) AND ROTOCHUTES; PARTS AND ACCESSORIES THERETO	0.017	1082.3	2004.7	34.57
400251	LATEX OF ACRYLONITRILE-BUTADIENE RUBBER (NBR)	0.004	2838.1	5256.8	20.69
880310	PROPELLERS AND ROTORS AND PARTS THEREOF, FOR BALLOONS, GLIDERS, OTHER AIRCRAFT AND SPACECRAFT, ETC.	0.033	272.0	503.8	16.86
870911	WORKS TRUCKS (NOT LIFTING OR HANDLING) USED IN FACTORIES ETC. AND TRACTORS USED ON RAILWAY STATION PLATFORMS, ELECTRICAL	0.010	626.3	1160.0	11.73
520511	COTTON YARN NESOI, 85% OR MORE BY WEIGHT OF COTTON, NOT PUT UP FOR RETAIL SALE, SINGLE UNCOMBED YARN, NOT OVER 14 NM	0.004	805.5	1491.9	6.68
270720	TOLUENE	0.004	597.5	1106.7	4.51
100590	CORN (MAIZE), OTHER THAN SEED CORN	0.008	214.3	396.9	3.32
120100	SOYBEANS, WHETHER OR NOT BROKEN	0.009	107.8	199.6	1.84
470692	CHEMICAL PULPS OF FIBROUS CELLULOSIC MATERIAL (OTHER THAN WOOD), NESOI	0.002	373.2	691.2	1.69

847329	PARTS AND ACCESSORIES FOR CASH REGISTERS AND MACHINES FOR ACCOUNTING, POSTAGE-FRANKING, TICKET-ISSUING AND SIMILAR MACHINES WITH A CALCULATING DEVICE	0.017	50.2	92.9	1.60
841182	GAS TURBINES, EXCEPT TURBOJETS AND TURBOPROPELLERS, OF A POWER EXCEEDING 5,000 KW	0.011	64.6	119.7	1.26
843142	BULLDOZER OR ANGLEDOZER BLADES	0.007	89.3	165.4	1.23
271129	PETROLEUM GASES AND OTHER GASEOUS HYDROCARBONS IN A GASEOUS STATE, NESOI (OTHER THAN NATURAL GAS)	0.006	78.9	146.1	0.92
961800	TAILORS' DUMMIES AND OTHER MANNEQUINS; AUTOMATONS AND OTHER ANIMATED DISPLAYS FOR SHOP WINDOW DRESSING	0.004	80.9	149.8	0.66
854190	PARTS FOR DIODES, TRANSISTORS AND SIMILAR SEMICONDUCTOR DEVICES; PARTS FOR PHOTSENSITIVE SEMICONDUCTOR DEVICES AND MOUNTED PIEZOELECTRIC CRYSTALS	0.007	33.5	62.1	0.43
100190	WHEAT (OTHER THAN DURUM WHEAT), AND MESLIN	0.006	28.4	52.6	0.34
271490	BITUMEN AND ASPHALT, NATURAL; ASPHALTITES AND ASPHALTIC ROCKS	0.003	55.7	103.2	0.29
847090	POSTAGE-FRANKING MACHINES, TICKET-ISSUING MACHINES AND SIMILAR MACHINES, INCORPORATING A CALCULATING DEVICE, NESOI	0.003	33.2	61.5	0.19

847982	MACHINES AND MECHANICAL APPLIANCES FOR MIXING, KNEADING, CRUSHING, GRINDING, SCREENING, SIFTING, HOMOGENIZING, EMULSIFYING OR STIRRING, NESOI	0.005	21.3	39.5	0.18
853810	BOARDS, PANELS, CONSOLES, DESKS, CABINETS, AND OTHER BASES FOR ELECTRIC CONTROL ETC. EQUIPMENT, NOT EQUIPPED WITH ELECTRICAL APPARATUS	0.003	37.4	69.3	0.18
840810	MARINE COMPRESSION-IGNITION INTERNAL COMBUSTION PISTON ENGINES (DIESEL OR SEMI-DIESEL ENGINES)	0.003	17.7	32.7	0.11
720421	STAINLESS STEEL WASTE AND SCRAP	0.003	17.3	32.1	0.11
901920	OZONE THERAPY, OXYGEN THERAPY, AEROSOL THERAPY, ARTIFICIAL RESPIRATION OR OTHER THERAPEUTIC RESPIRATION APPARATUS; PARTS AND ACCESSORIES THEREOF	0.007	8.4	15.6	0.11
840733	SPARK-IGNITION RECIPROCATING PISTON ENGINES FOR PROPULSION OF VEHICLES EXCEPT RAIL OR TRAMWAY STOCK, OVER 250 BUT NOT OVER 1,000 CC CYLINDER CAPACITY	0.005	10.8	20.0	0.09
841181	GAS TURBINES, EXCEPT TURBOJETS AND TURBOPROPELLERS, OF A POWER NOT EXCEEDING 5,000 KW	0.003	17.8	33.0	0.09
841111	TURBOJETS OF A THRUST NOT EXCEEDING 25 KN	0.004	11.0	20.5	0.09
711291	GOLD WASTE AND SCRAP, INCLUDING METAL CLAD WITH GOLD BUT EXCLUDING SWEEPINGS CONTAINING OTHER PRECIOUS METALS	0.004	11.9	22.0	0.08

760521	ALUMINUM ALLOY WIRE, WITH A MAXIMUM CROSS SECTIONAL DIMENSION OF OVER 7 MM	0.003	18.1	33.5	0.08
710691	SILVER, UNWROUGHT NESOI (OTHER THAN POWDER)	0.009	4.8	8.8	0.08
848140	SAFETY OR RELIEF VALVES	0.003	14.2	26.3	0.07
901831	SYRINGES, WITH OR WITHOUT NEEDLES; PARTS AND ACCESSORIES THEREOF	0.003	13.5	25.0	0.07
300420	MEDICAMENTS, IN MEASURED DOSES, ETC., CONTAINING ANTIBIOTICS, NESOI	0.005	7.0	12.9	0.07
840910	PARTS FOR SPARK-IGNITION OR ROTARY INTERNAL COMBUSTION PISTON ENGINES OR COMPRESSION-IGNITION INTERNAL COMBUSTION PISTON ENGINES, FOR AIRCRAFT	0.003	11.3	20.9	0.06
390210	POLYPROPYLENE, IN PRIMARY FORMS	0.003	11.3	20.9	0.06
999995	ESTIMATED IMPORTS OF LOW VALUED TRANSACTIONS	0.024	1.2	2.2	0.05
901849	INSTRUMENTS AND APPLIANCES USED IN DENTAL SCIENCES, NESOI, AND PARTS AND ACCESSORIES THEREOF	0.003	6.7	12.4	0.04
220110	MINERAL WATERS AND AERATED WATERS, NATURAL OR ARTIFICIAL, NOT SWEETENED OR FLAVORED	0.003	8.4	15.5	0.04
852910	ANTENNAS AND ANTENNA REFLECTORS AND PARTS THEREOF	0.004	4.5	8.3	0.03
870850	DRIVE AXLES WITH DIFFERENTIAL AND NON-DRIVE AXLES AND PARTS THEREOF, FOR MOTOR VEHICLES	0.004	3.9	7.1	0.03
847141	ADP MACHINES COMPRISING IN SAME HOUSING AT LEAST A CENTRAL PROCESSING UNIT AND AN INPUT AND OUTPUT UNIT, WHETHER OR NOT COMBINED, N.E.S.O.I.	0.003	4.6	8.6	0.02

970600	ANTIQUES OF AN AGE EXCEEDING ONE HUNDRED YEARS	0.004	2.5	4.6	0.02
847149	AUTOMATIC DATA PROCESSING MACHINES AND UNITS THEREOF PRESENTED IN THE FORM OF SYSTEMS, N.E.S.O.I.	0.005	2.1	3.8	0.02
843143	PARTS FOR BORING OR SINKING MACHINERY, NESOI	0.003	2.9	5.4	0.02
870324	PASSENGER MOTOR VEHICLES WITH SPARK-IGNITION INTERNAL COMBUSTION RECIPROCATING PISTON ENGINE, CYLINDER CAPACITY OVER 3,000 CC	0.019	0.3	0.5	0.01
847160	AUTOMATIC DATA PROCESSING INPUT OR OUTPUT UNITS, WHETHER OR NOT CONTAINING STORAGE UNITS IN THE SAME HOUSING, N.E.S.O.I.	0.004	0.8	1.4	0.01
841191	PARTS OF TURBOJETS OR TURBOPROPELLERS	0.005	0.6	1.2	0.01
847170	AUTOMATIC DATA PROCESSING STORAGE UNITS, N.E.S.O.I.	0.005	0.4	0.8	0.00
847150	PROCESSING UNITS OTHER THAN THOSE OF 8471.41 AND 8471.49, N.E.S.O.I.	0.003	0.4	0.8	0.00

Source: Author's calculations based on US International Trade Commission Interactive International Tariff and Trade Database

Statement of Senator Olympia J. Snowe
Senate Finance Committee Subcommittee on International Trade,
Customs and Global Competitiveness
Subcommittee Hearing – “Exports’ Place on the Path of Economic Recovery”
December 9, 2009

Thank you, Senator Wyden, for holding this hearing on the vital issue of exports in the American economy. This hearing is timely and appropriate, as we must do everything possible to ensure that, as we emerge from this protracted recession, American companies are primed for success in the global marketplace and are able to create and sustain high-paying jobs.

As Ranking Member of the Senate Committee on Small Business and Entrepreneurship, and as a senior member of both the Senate Finance and Commerce Committees, one of my top priorities is to ensure that small businesses, in particular, get the promised benefits of our international trade relationships and are able to compete in the world economy.

While globalization has created opportunities for U.S. businesses to sell their goods and services in new markets, not enough *small* businesses are taking advantage of these international prospects. In fact, according to the U.S. Department of Commerce, less than one percent of the approximately 27 million U.S. small businesses currently sell their products to foreign buyers. Small businesses are a vital source of economic growth and job creation, generating nearly two-thirds of net new jobs each year. Small businesses are essential to our economic recovery, and we must help them take advantage of all potential opportunities, including those in foreign markets.

Currently, federal programs are grossly inadequate at helping small businesses overcome the challenges of exporting. That is why I will soon be introducing, with Senator Landrieu, two bipartisan bills to give small businesses the resources and assistance needed to explore potential export opportunities, or to expand their current export business. This legislation will build upon a bill I introduced earlier this year, S. 1208, the Small Business Export Opportunity Development Act of 2009.

Our bipartisan legislation improves the Small Business Administration’s (SBA) programs and services for small business exporters, and requires improved and expanded collaboration between the SBA, the Department of Commerce, the Export-Import Bank, and the United States Trade Representative to ensure that small businesses benefit from all the export assistance the federal government offers. These critical provisions would bolster the technical assistance for small business exporters and improve export financing programs to ensure that American businesses have access to the capital needed to support export sales.

The legislation we will soon introduce also includes a program I proposed earlier this year in S. 1208 to provide grants to help small businesses start or expand export activity, such as participation in foreign trade missions, foreign market sales trips, training workshops and the payment of website translation fees. It will also improve the SBA's network of international trade counselors and enhances the export assistance provided to small business clients through the Small Business Development Center network, which has over 1,000 locations nationwide.

This investment could yield tremendous returns for our economy. The United States spends just one-sixth of the international average among developed countries in promoting small businesses' exports. Every additional dollar spent on export promotion results in a 40-fold increase in exports, according to a World Bank study!

In addition to the small business exporting bill, I will also introduce legislation, with Senator Landrieu, to once and for all establish an Assistant United States Trade Representative for Small Business, to ensure that small businesses are represented in trade negotiations and in U.S. trade policy. I hope that my distinguished colleagues on the Senate Finance Committee will join me on this crucial issue. We've heard excuses for far too long, from Administrations of both parties, about why we don't need an Assistant USTR for Small Business. Until more than one percent of all small businesses are participating in international trade, we must make it a priority across the Federal government – and especially in our trade policy – to help small businesses compete in the global marketplace.

U.S. businesses can survive, diversify, and compete effectively in the international marketplace by developing an export business. But, as I mentioned, too few small businesses are expanding into international markets. I look forward to working with the Chair and Ranking Member of this Subcommittee, as well as with Chairman Baucus and Ranking Member Grassley, to help American companies – especially small companies – sell their goods and services to foreign buyers.

We cannot overlook the effect of trade on small businesses. An investment in small business exporting assistance is an investment in our economy. Again, thank you, Senator Wyden, for holding this vital hearing today.

The Honorable Ron Wyden
Opening Statement
Subcommittee on International Trade, Customs, and Global Competitiveness Hearing:
Exports' Place on the Path of Economic Recovery
Senate Committee on Finance

December 9, 2009

The way the United States engages economically in the world is a critical factor of our economic recovery. It is an American imperative to create jobs and therefore an American imperative to expand exports. An exports strategy is a jobs strategy, and that's what this hearing is all about.

A fresh focus on export promotion is one way to grow the economy without growing the deficit. Our challenge is to make things, grow things, add value to things, and sell these goods to foreign consumers.

With so many Americans enduring economic hardships, the Congress is required to examine the policy and regulatory framework that is supposed to enable the engines of the American economy -- hard work and enterprise -- to thrive. Instead of powering economic growth, this framework has taken the American economy in the wrong direction.

Fortunately, Americans are resilient and we can chart a new course out of the economic carnage. Congress and the President can construct an economic structure that fully empowers workers and entrepreneurs to be successful in a global economy.

Government witnesses will testify today that exports have recently played a central role in growing the economy and are critical to creating and sustaining good-paying jobs. I also want to extend an extra warm welcome to Mr. Bob Beisner from SolarWorld, who can add an Oregon perspective to our discussion today.

When, in the past, worker productivity and wages grew right along with the GDP, it was easy to make excuses for a burgeoning trade deficit. Today, there are no excuses. The U.S. trade deficit has in recent years exceeded \$700 billion dollars. Exports' share of U.S GDP is less than half of what exports' contribution to the economies of other developed countries is. No public official can justify acceptance of this situation.

Knowing all of this, the Office of the U.S. Trade Representative and the Department of Commerce can't just keep on keeping on. Aren't there new approaches and opportunities to be seized that result in near- and long-term export and job creation opportunities?

In Tokyo last month, President Obama said that America must put “a greater emphasis on exports that we can build, produce, and sell all over the world. For America, this is a jobs strategy... These are jobs making everything from wind turbines and solar panels to the technology that you use every day.”

I agree with the President, and foreign markets are fertile ground to American-produced goods and services, especially markets that are rebounding more quickly and dramatically than our own. It is time to roll up our sleeves and create an Export Expansion Strategy.

The Strategy must include initiatives to eliminate trade barriers and unfair trade practices that dampen demand for U.S. exports. It must help American firms identify and exploit sales opportunities overseas, one focus of today’s subcommittee hearing.

Furthermore, an export strategy should establish clear targets and goals. My target: reduce our trade deficit in half by 2015.

Right now, the most generous estimates show that only 4 percent of U.S. companies export and just 500 companies account for 60 percent of U.S. exports. My target: double, in 2015, the percentage of U.S. companies that export.

In order to achieve targets like these, the federal government must provide the resources necessary to adequately finance any export promotion goals it establishes.

It should also deploy these taxpayer-financed resources wisely in order to maximize their impact.

There are bold opportunities to expand exports of manufactured goods, which are produced by workers in good-paying jobs. As one example, the global market for products that reduce greenhouse gas emissions is expanding dramatically – it doubled from 2004 through 2008.

For U.S. producers of these “environmental goods” this development is a boon, enabling them to expand domestic and foreign sales and create jobs.

Tapping overseas markets in this sector is critical, because over 80 percent of clean energy investments will take place outside of the U.S. Furthermore, much of the U.S. trade deficit is a result of oil imports so promoting the use and export of environmental goods serves a variety of purposes.

It is essential that we create a level playing field for U.S. producer to compete with their foreign counterparts. Right now, India and China assign an average tariff of up to 15 percent on solar technology components, and other developing countries impose tariffs that reach beyond 30

percent. U.S. tariffs on environmental goods are 1.75 percent on average. That's not a level playing field. So it is my view that tackling the significant tariff barriers that foreign governments impose in the environmental goods sector can make an immediate impact for U.S. producers.

Witnesses today will tell us that reducing tariffs is helpful, but is not a silver bullet to increasing production and exports of these goods, and many others. There are a variety of policies that need consideration, and today's discussion is just a start.

Ultimately, renewed consumption of U.S. goods is the best way to re-ignite the American economy. We can find much of this consumption beyond our borders.

As the Congress and the President discuss ways to further jump-start the economy to get America working again, we need to focus on export opportunities.

I look forward to hearing the testimony from today's witnesses and to a productive discussion about how to create jobs by establishing a coherent and compelling Export Expansion Strategy.

United States Government Accountability Office

GAO

Testimony
Subcommittee on International Trade,
Customs, and Global Competitiveness,
Committee on Finance, U. S. Senate

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INTERNATIONAL TRADE

Observations on U.S. and Foreign Countries' Export Promotion Activities

Statement of Loren Yager, Director
International Affairs and Trade



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Highlights of GAO-10-310T, a testimony to the Subcommittee on International Trade, Customs, and Global Competitiveness, Committee on Finance, U.S. Senate

Why GAO Did This Study

As Congress considers policies to bolster the recovery of the U.S. economy, it must consider the full range of tools available to stimulate growth and create new jobs, including promoting exports.

According to the Department of Commerce, U.S. exports of manufactured goods totaled \$1.8 trillion in 2008—accounting for approximately 13 percent of the U.S. Gross Domestic Product. GAO's testimony addresses the benefits of exports and provides updated information on U.S. export promotion efforts. It also includes initial observations about foreign export promotion activities. The observations about U.S. export promotion efforts are based on a variety of reports and testimonies GAO has issued on international trade over the past 4 years.

Observations about foreign export promotion practices are based on a preliminary review of several key expert studies.

What GAO Recommends

Based on reports from 2006 to 2008, GAO has made a number of recommendations to improve various U.S. export promotion activities.

View GAO-10-310T or key components. For more information, contact Loren Yager at (202) 512-4347 or yagerl@gao.gov.

What GAO Found

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.

Rationales for export promotion programs include macroeconomic considerations such as job creation and economic growth. Others are based on microeconomic considerations such as "market failures," for example where imperfect information prevents markets from generating the most efficient outcome. Rationales also exist for export programs based on achieving broader trade policy objectives, such as helping U.S. exporters overcome foreign trade barriers that make it difficult for U.S. products to penetrate foreign markets. However, measuring the effectiveness of export promotion activities is difficult. For example, quantifying the growth in exports is complicated by the fact that other factors, such as government policies and firm-specific conditions, also determine growth.

Export promotion efforts in the United States are guided by the National Export Strategy. According to the strategy, 20 agencies are part of the Trade Promotion Coordinating Committee (TPCC), of which 9 of the agencies have budgets for programs or activities related to export promotion, with the Departments of Commerce, Agriculture, and State actively engaged in export promotion overseas. Agency export promotion activities include providing basic export counseling; assisting with collecting and providing data on foreign markets; and advising firms on how to best market their products overseas.

While GAO has not recently performed an in-depth comparison of U.S. and foreign export promotion activities, the findings and recommendations in our past reviews of U.S. agencies are consistent with expert studies looking at export promotion practices in other countries. Specifically, GAO has identified elements of U.S. export promotion activities that warrant attention: (1) coordination; (2) targeted services for small and medium enterprises and other priorities; (3) performance monitoring; and (4) partnerships and methodologies for setting user fees. The expert studies GAO reviewed echo the importance of each of these elements with regard to the activities of foreign export promotion agencies and may be informative for policy discussions about U.S. export promotion activities.

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear today before the Subcommittee on International Trade, Customs, and Global Competitiveness to provide our perspective on the role of U.S. export promotion. As Congress considers policies to bolster the recovery of the U.S. economy, it must consider the full range of tools available to stimulate growth and create new jobs, including promoting exports. My statement today will provide an overview of (1) the benefits of exporting, rationale for export promotion activities and extent of U.S. activities; and (2) observations about U.S. and foreign export promotion, focusing on the importance of coordination, targeting services, performance monitoring, and collaborative partnerships. GAO has reviewed export promotion activities in agencies including the Department of Commerce and the Export-Import Bank over the years and recommended changes to improve the data and information regarding their export promotion activities, and the agencies have responded to our recommendations. For example, Commerce agreed with recommendations we made earlier this year to improve their procedures for determining costs and setting user fees and their information about customers and demand for the export promotion services they offer. Similarly, Ex-Im has taken several steps to respond to recommendations we made regarding determining the number of transactions that directly benefit small business, and improving the system for estimating the value of direct small business support for those transactions where the exporter is not known at the time Ex-Im authorizes the transaction.

My remarks about U.S. export promotion efforts are based on a variety of reports and testimonies we have issued on international trade over the past 4 years, and include some additional observations about foreign export promotion practices based on a preliminary review of several key expert studies. We conducted our work from November to December, 2009 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

The Benefits of Exporting and U.S. Efforts to Promote Exports

Exports Provide Economic Benefits

Trade, and exports more specifically, contributes to the U.S. economy in a variety of ways. Trade generally enables the United States to achieve a higher standard of living through exporting goods and services that are produced domestically relatively efficiently, and importing goods and services that are produced domestically 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.

In addition, the benefits of exports accrue to many U.S. states. For example, in 2008, according to Commerce, Oregon's exports totaled \$19.4 billion, with computers, electronics and agricultural products accounting for more than half of that amount. According to the Idaho Department of Commerce, in 2008, Idaho exported \$5.01 billion worth of goods, with exports of high-tech products including semiconductors, computers, and capital equipment accounting for 63 percent, or \$3.2 billion, of the total. Agricultural and food exports from Idaho totaled approximately \$676 million, about 14 percent of its total exports.

Exports can also serve as a countercyclical force for the U.S. economy, stimulating the U.S. economy when demand from abroad is greater than domestic demand. For several years, the United States increasingly imported more than it exported and served as an engine of growth for other nations. In contrast, when the U.S. economy slowed in 2007 through the first two quarters of 2009, the economic downturn was somewhat mitigated by an improving trade balance. For example, with continued global demand for U.S. goods and services, increases in net exports accounted for over half of U.S. economic growth in 2007 and 2008.

Export Promotion Is Based on Several Rationales

Several rationales exist for the use of government export promotion programs to support exporting firms and sectors.¹ In addition to macroeconomic considerations of job creation and economic growth, microeconomic considerations exist for government programs to address "market failures" – where conditions such as imperfect information and entry barriers prevent markets from generating the most efficient outcome. Rationales may also exist for export programs based on achieving broader trade policy objectives, such as helping U.S. exporters overcome foreign trade barriers that make it difficult for U.S. products to penetrate foreign markets. Examples of export promotion addressing market failures and achieving broader trade policy objectives include:

- Foreign market information: Some firms may not export because they lack information about export markets, but U.S. officials abroad may have access to commercially valuable information about foreign markets that the private sector may not otherwise be able to access.
- Advocacy: Government representation on behalf of a firm competing for a potential export sale may influence procurement decisions, particularly in helping establish a firm's credibility in foreign markets.
- Export finance assistance: Government finance can fill gaps created when the private sector is reluctant to finance certain exports, particularly for small and medium sized enterprises (SMEs).

Notwithstanding these rationales, measuring the effectiveness of export promotion activities is inherently difficult. For example, quantifying the growth in exports is complicated by the fact that other factors, such as government policies and firm-specific conditions, also determine growth. Nevertheless, according to the World Bank, the number of national export promotion agencies worldwide has tripled over the past two decades.

¹GAO, *Export Promotion: Rationales for and Against Government Programs and Expenditures*, GAO/T-GGD-95-169 (Washington, D.C., May 23, 1995).

U.S. Export Promotion Is Supported by a Wide Variety of Agencies and Activities

Export promotion efforts in the United States are guided by the National Export Strategy and are pursued by a wide variety of agencies and through a wide range of activities. According to the strategy, 20 export promotion agencies are part of the Trade Promotion Coordinating Committee (TPCC), of which 9 of the agencies have budgets for programs or activities related to export promotion, with Commerce, the Department of Agriculture (Agriculture), and the Department of State (State) actively engaged in export promotion overseas.² To support U.S. businesses in-country, as well as gather data and information about local markets, Agriculture has 101 offices in 81 countries and Commerce has 126 offices in more than 80 countries. State personnel provide in-country services at approximately 100 embassies overseas where either Commerce or Agriculture lacks a presence. In both 2007 and 2008, the budget for U.S. trade promotion activities was about \$1.3 billion. In 2009, TPCC agencies requested \$1.2 billion in funding, with Agriculture, Commerce and State accounting for 91 percent of the total trade promotion budget authority³.

The wide range of activities that are considered export promotion include:

- providing basic export counseling;
- assisting with collecting and providing data on foreign markets;
- advising firms on how to best market their products overseas;
- providing loans, insurance, and guarantee programs;
- advocating on behalf of domestic firms; and
- monitoring trade agreements.

²The other U.S. agencies with export promotion budget that serve on the TPCC include the Departments of the Treasury, the Export-Import Bank of the United States, the Overseas Private Investment Corporation, the Small Business Administration, the U.S. Trade and Development Agency, and the Office of the United States Trade Representative.

³Agriculture received about 46 percent of these funds for its activities. Agriculture has nine programs it considers trade promotion related and Commerce has three units within the International Trade Administration that support export promotion. State supports Commerce efforts overseas.

Observations Regarding U.S. and Foreign Export Promotion Efforts

While GAO has not recently performed an in-depth comparison of U.S. and foreign export promotion activities, the findings and recommendations in our past reviews of U.S. agencies are consistent with several expert studies looking at export promotion practices in other countries. Specifically, GAO has identified elements of U.S. export promotion activities that warrant attention: (1) coordination; (2) targeted services for small and medium enterprises and other priorities; (3) performance monitoring; and (4) partnerships and methodologies for setting user fees. The expert studies we reviewed echo the importance of each of these activities for foreign export promotion. (See app. I for a listing of these studies.) Although we do not endorse any specific changes to U.S. export promotion programs implied by the studies, we provide this information to assist in Congressional oversight of U.S. export promotion programs and for a policy discussion about U.S. export promotion activities. GAO has begun a new body of work in this area based on renewed congressional interest.

Coordination of U.S. Export Promotion Activities

U.S. export promotion activities are coordinated by the TPCC. To address a longstanding congressional concern over a lack of effective coordination, GAO has reviewed the TPCC several times since its inception. In 2006, we testified that the TPCC had made progress over time in improving coordination, including interagency training and joint outreach.⁴ However, in both 2006 and 2009, we found the TPCC continued to face challenges in other areas of its coordination responsibilities.⁵ For example, in March 2009, we testified that the National Export Strategy continues to lack an overall review of agencies' allocation of resources relative to government-wide export promotion priorities. Similarly, we testified in 2006 that, despite its mandate to propose a unified federal trade promotion budget, the TPCC continued to have little influence over agencies' allocation of resources for trade promotion.

Our observations about the importance of clearly coordinated responsibilities among export promotion agencies are consistent with findings in several expert studies that examined foreign export promotion practices. For example, the International Trade Center reported that most

⁴GAO, *Export Promotion: Trade Promotion Coordinating Committee's Role Remains Limited*, GAO-06-660T (Washington, D.C., April 26, 2006).

⁵GAO, *International Trade: Effective Export Programs Can Help in Achieving U.S. Economic Goals*, GAO-09-480T (Washington, D.C., March 17, 2009).

successful exporting countries have established a central or national export promotion agency that coordinates implementation of the national export strategy, leads in creation of a support network, and acts as a first stop for the business community. In a review of 104 countries, the World Bank study found that a single and strong export promotion agency is preferred to the sometimes observed proliferation of agencies within countries. Well-coordinated activities among a larger partnership of support agencies are emphasized in studies by the Australian Trade Authority (Austrade) and the Boston Consulting Group. Austrade, for example, stated that effectively coordinating export service providers is important for potential and new-to-export firms, since some – especially small and medium-sized enterprises – have encountered difficulties in identifying or accessing appropriate services for their needs. Examples of notable foreign coordination efforts that the reports cited include:

- Canada's National Sector Teams and Regional Trade Networks that were created to enhance coordination and improve access to services for the business community; and
- The Philippine Export Act that gave an apex body, the Export Development Council, overall responsibility for formulating and coordinating the national export development effort. The council was chaired by the Secretary of the Department of Trade and Industry and had cabinet-level members from the eight ministries concerned with economic development.

Targeting Services for SMEs and Other Priorities

Providing services targeted to small businesses has been a high priority for U.S. export promotion activities. Commerce seeks to broaden and deepen the exporter base with the majority of exports supported by its Commercial Service deriving from SMEs while for the U.S. Export-Import Bank (Ex-Im), Congress requires that a certain percentage of financing be for small business. GAO has found limitations in both programs. In 2009, we recommended that Commerce take steps to improve its databases and procedures because they lacked reliable information about the size, location, and type of its customers. In 2006, we recommended, among other things, that Ex-Im more accurately determine the number of transactions that directly benefit small business and improve the system for estimating the value of direct small business support for those transactions where the exporter is not known at the time Ex-Im authorizes the transaction. As we testified in 2008, Ex-Im has taken several steps in

response to those recommendations.⁶ Beyond SMEs, U.S. export promotion priorities are more broadly outlined in the National Export Strategy. However, as we testified in 2006, the focus of the national export strategies continues to change from year to year with little evaluation of previous efforts' effectiveness. For example, the 2003 strategy prioritized on capacity building, Russia, and transportation security; the 2004 strategy highlighted China, free trade agreements, and coordination in crisis regions; and the 2005 strategy covered free trade agreements, China, and six "growth markets" (Japan, South Korea, India, Brazil, Russia, and the European Union). At the time of our 2006 testimony, some member agency officials commented on the ad hoc nature of the national export strategies.

Our observations about the importance of targeting services, for example, to SMEs and other assistance priorities are reflected in expert studies on foreign export promotion. For example, most of the studies we reviewed recognized that SMEs have unique needs and that services should be tailored to account for common financing and informational constraints faced by smaller firms. Several studies also emphasized the importance of prioritizing assistance to certain sectors or firms based on the exporting goals of each country. According to the Boston Consulting Group, fragmentation of efforts from having too many targets tends to undermine an agency's chance of success. As a result, it suggested screening for export ready firms and transitioning firms across different states of exporting, focusing on services for smaller firms that are "threshold" or "mature" exporters. Conversely, the World Bank emphasized prioritizing assistance to large firms that are not yet exporters, and both the World Bank and the Asia Pacific Economic Cooperation studies discussed a focus on non-traditional export sectors. To select priorities, Nathan Associates explained that sectors, markets, or firms should be selected on the basis of market research combined with stakeholder consultation.⁷

⁶Most notably, Ex-Im replaced its previous data systems with "Ex-Im Online," an interactive, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. According to Ex-Im, this has resulted in more timely and accurate information on Ex-Im's financing. GAO, *Export Promotion: Export-Import Bank Has Met Target for Small Business Financing Share*, GAO-08-419T (Washington, D.C., January 17, 2008).

⁷As the one study that contradicts these findings, the International Trade Center's Executive Forum paper warns against selecting priority sectors or markets because it entails non-market forces choosing winners and losers. Rather than focusing on sectors and markets, this paper suggests that export promotion agencies concentrate on the provision of strategic services to any qualified client.

Examples of targeted or tailored foreign promotion efforts that the studies cited include:

- The United Kingdom's Export Explorer and Passport to Export Success programs that were targeted to new exporters. Export Explorer, for instance, combined coaching at home with support from the overseas network, giving new exporters the experience of exporting to geographically close markets and enabling them to gain confidence.
- The Indian Ministry of Industry's cluster-development program and Malaysian efforts to connect SMEs with other exporters. Malaysia's Small and Medium Industries Development Corporation, for instance, linked SMEs into the supply chain of larger multinational corporations that have the systems and knowledge needed for SMEs to become globally competitive.

Performance Monitoring

While recognizing the challenge of measuring the effectiveness of export promotion activities, GAO has found in several reviews of U.S. programs that performance monitoring could be improved. For a number of years we have noted that TPCC agencies do not identify or measure agencies' progress toward mutual goals as part of the National Export Strategy. More recently, in March 2009, we reported that better evaluation by Commerce of its Commercial Service fee-based programs and customers, including states, could improve program continuity, help managers target their resources more efficiently and effectively, assess costs and benefits, and help the Congress make more informed funding decisions. In 2008, we reported that Ex-Im had developed performance standards for its small business financing in most, although not all, of the areas specified by Congress, 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.⁸ We recommended that Ex-Im establish performance standards for functions not currently addressed, revise several current measures to include measurable targets and time frames, and take steps to establish a measure for financing for small businesses owned by socially and economically disadvantaged individuals and women.

⁸GAO, *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., July 17, 2008).

Using meaningful performance monitoring as a learning tool is also discussed in the expert studies on foreign export promotion. The International Trade Center's Executive Forum noted that, although performance evaluation is inherently challenging, without widely accepted performance measures, export promotion agencies have difficulty forming and implementing export strategies. The center outlined measurements that focus on the impact of export promotion agency services rather than export quantities. Similarly, the Boston Consulting Group stated that evaluation is needed to justify and account for the use of public monies and to obtain feedback for the allocation of resources and the design of programs. To achieve these goals, export promotion agencies may use a collection of quantitative and qualitative measures combined with independent feedback from clients. Nathan Associates also emphasized the role that assessing client satisfaction plays in program design, but suggested that client satisfaction be assessed through in-depth interviews rather than surveys that may be biased. Examples of foreign efforts to improve performance monitoring that the studies cited include:

- Australia's use of a Customer Relationship Management System in order to track export results, assess client satisfaction, and obtain lessons learned. Australia collected this information as part of its fee-based services system and each of its three trade-related outcomes—awareness raising, export services, and export finance assistance—was assigned a target against which results were measured.
- New Zealand's performance evaluation system that emphasized client input by compiling monthly feedback gathered by account managers, verifying every six months by independent survey, and concentrating on achieving a high deliver-in-full-and-on-time rating for specific services.

Partnerships to Improve Export Promotion Efforts

Recognizing the value of partnerships, U.S. export promotion agencies have developed collaborative relationships with the private sector, cities, and states. For example, Commerce initiated its Corporate Partnership Program, leveraging the private sector's sales and marketing expertise in 2004. Likewise, Agriculture has programs that work in partnership with the private sector including the Market Access Program and the Foreign Market Development Program. GAO has evaluated federal-state partnerships, but has not evaluated private sector partnerships. For example, we reported in 2009 that state offices often partner with Commerce on trade missions and other activities, and most states responding to a GAO survey reported that Commerce's services were important to their export promotion capabilities. A third of the states also

said they provide grants or payments to defray firms' costs and to facilitate access to Commerce programs. More generally, in 2006, we testified that based on our long record of oversight, the TPCC could continue to make improvements in outreach efforts to the private sector and that sustained high-level administration involvement would be necessary for the TPCC to achieve its fundamental objectives.⁹ To ensure costs charged for export promotion services are appropriate, GAO has also recently done work related to cost recovery for some Commerce programs. In 2009, we reviewed Commerce's methodology for establishing fees for export promotion services.¹⁰ While Commerce collects about \$10 million annually through fees, we found that it lacked good information on the true costs of providing services. Similarly, Commerce lacked reliable information about how its fees (or lack thereof) affected their customers' access to the program, or how they compared to state or private sector fees. As a result, it was unclear whether the fees Commerce established reflect their policy objectives or whether they optimize the efficient and effective management of these programs. We recommended that Commerce improve its procedures for setting user fees and collect and process more reliable information about its customers.

More broadly, the importance of both public and private sector involvement – as well as appropriately set user fees—is another key observation discussed in the expert studies. Regarding the role of contributions from the private sector, several studies discussed the importance of including private sector methodologies and input to ensure firm needs do not outgrow the expertise of the export assistance offered. These studies also addressed the importance of independence, to guarantee continuity as governments change and the autonomy needed to operate by commercial principles. For example, the World Bank study found that export promotion agencies with a large share of the executive board in the hands of the private sector, but with a large share of public sector funding, are most effective. Studies by Nathan Associates and the International Trade Center also emphasized the importance of a predictable and long-term level of public sector funding, with fees charged

⁹See GAO-06-660T.

¹⁰GAO, *Export Promotion: Commerce Needs Better Information to Evaluate Its Fee-Based Programs and Customers*, GAO-09-144 (Washington, D.C., March 4, 2009).

for some services.¹¹ Specific examples of how foreign export agencies charge fees or incorporate public and private sector involvement that the reports cited include:

- The Danish Trade Council and Enterprise Ireland, whose executive boards were comprised mostly of successful business people representing key sectors in the economy;
- Costa Rica's semi-private trade promotion agency that was run by a mostly private board of directors but was supported by a statutorily independent source of income from taxes in the free trade zones; and
- Australia's system of providing free services to help "intenders" and "new exporters" build export readiness, select target markets, and obtain initial market information while customized services that helped companies understand and enter new export markets were billed on a full cost-recovery basis.

Concluding Remarks

Mr. Chairman, this is an opportune time for Congress to review the role that exports can play in the U.S. recovery, as well as the role of U.S. agencies' export promotion programs. We have performed a number of studies for the Congress on the range of U.S. export promotion programs, and we stand ready to assist Congressional oversight of these important matters. We appreciate the opportunity to contribute to the Subcommittee's first hearing on this subject and look forward to future opportunities to assist the Subcommittee on this and other issues related to your portfolio of international trade issues.

Chairman Wyden and Ranking Member Crapo, this concludes my remarks, and I would be happy to answer any questions you or other members of the Subcommittee may have.

¹¹ The International Trade Center's Executive Forum study noted that a fee-for-service approach will result in companies that can pay the most getting the best service, which undermines the public policy considerations that led to the creation of the export promotion agency in the first place. One option is to introduce an annual membership fee, as opposed to charging fees for specific services.

**Contact and
Acknowledgements**

For further information about this testimony, please contact me at (202) 512-4347 or by e-mail at YagerL@gao.gov. Adam Cowles (Assistant Director), Beth Bowditch, Karen Deans, Kendall Helm, Julie Hirshen, Richard Krashevski, and Yesook Merrill made contributions to this testimony.

Appendix I. Listing of Key Studies on Foreign Export Promotion Practices

- Asia-Pacific Economic Cooperation. *Alliance in Practice: Building the Core of Trade Promotion*. APEC Working Group on Trade Promotion, March 2007. [Examines export promotion in the People's Republic of China, Chinese Taipei, Indonesia, Malaysia, Thailand, Vietnam, and the Philippines.]
- Australian Trade Commission. *Knowing and Growing the Exporter Community*. Sydney, Australia, 2002. [Examines export promotion in Canada, France, Ireland, Spain, Sweden, the United Kingdom, and the United States.]
- The Boston Consulting Group. *Export Development and Promotion: Lessons from Four Benchmark Countries*. Study commissioned for New Zealand, May 2004. [Examines export promotion in Chile, Denmark, Malaysia, and the United Kingdom.]
- International Trade Center. *Redefining Export Promotion: The Need for a Strategic Response*. United Nations and World Trade Organization, 2002.
- International Trade Center Executive Forum. *Export Strategy and the Role of the National Trade Promotion Organization*. ITC Position Paper for the Consultative Cycle 2006 Innovations in Export Strategy, Mexico City, Mexico, April 2006.
- Lederman, Daniel, Marcelo Olarreaga, and Lucy Payton. *Export Promotion Agencies: What Works and What Doesn't*. World Bank Policy Research Working Paper No. 4044, November 2006. [Examines export promotion in 104 countries.]
- Nathan Associates, Inc. *Best Practices in Export Promotion*. Technical report submitted to USAID in El Salvador under Contract No. PCE-I-00-98-00016, April 2004. [Examines export promotion in Australia, Canada, Chile, Colombia, Costa Rica, and El Salvador.]

COMMUNICATION



EXPORTS' PLACE ON THE PATH OF ECONOMIC RECOVERY

Submission of the US-China Business Council

Senate Committee on Finance
Subcommittee on International Trade, Customs, and Global Competitiveness
December 9, 2009

The US-China Business Council (USCBC) is pleased that the Senate Finance Committee has convened a hearing on the role that exports play in the United States' economic recovery.

As members of the committee know, USCBC each year releases a study on US exports to China for each state and congressional district. The report clearly shows the importance of exports to China to all parts of the country. Our most recent report can be found at http://www.uschina.org/public/exports/congressional/2000_2008/. The analysis, undertaken by the Trade Partnership, quantifies exports to China from 2000—the year before China joined the World Trade Organization—through 2008 from every congressional district in the 111th Congress.

To provide more information on who is benefiting from trade with China, USCBC's report website also includes local news stories about companies doing business with China. These stories give a local face to the export data and show how American companies large and small are dealing with the opportunities and challenges of doing business with China.

The data shows that, despite the global economic downturn in the second half of last year, 85 percent of congressional districts increased their exports to China in 2008. In almost every district, exports to China for the 2000–08 period grew much faster than exports to the rest of the world. Even in districts that had a mixed export story in past years—in states such as Hawaii, Vermont, and Tennessee—exports to China grew faster than exports to the rest of the world. In 2008, growth rebounded in some congressional districts that experienced export declines in 2007. Of the 435 congressional districts, 409 saw triple-digit growth in manufactured exports between 2000 and 2008.

As we all know, however, US exports to China and other markets around the world dropped significantly in the fourth quarter of 2008 because of the global economic downturn, underscoring the importance of coordinated efforts to revitalize national economies and stimulate trade. These export declines have continued into 2009.

Even with the downturn, exports to China are important to American jobs. American manufacturing and agricultural exports to China have jumped more than 340 percent so far this decade, far outpacing the 60 percent growth in our exports to the rest of the world during the same period. The rapid increase in exports to China is reflected in local economies across the country, and USCBC expects this trend will continue when economies rebound.

In the meantime, we need to work with China and other countries to restore trade growth as quickly as possible and support jobs for American workers. To advance this agenda, USCBC issued China trade policy recommendations in January, which can be found at http://www.uschina.org/public/documents/2009/china_policy_recommendations.pdf.

Finally, USCBC would like to note a useful piece of legislation to promote exports. The US-China Market Engagement and Export Promotion Act, introduced in the Senate by Senator Maria Cantwell and in the House by Representatives Rick Larsen and Mark Kirk, would help small and medium-sized American companies increase exports to China by expanding the Department of Commerce's presence in China. Department of Commerce assistance is essential for smaller companies to maximize their export potential.

Thank you again for your attention to these important issues. USCBC looks forward to working with members of the committee on them.

The USCBC (www.uschina.org) is the leading organization of US companies engaged in business with the People's Republic of China. Founded in 1973, the USCBC provides extensive China-focused information, advisory, and advocacy services, along with events, to roughly 220 US corporations operating within the United States and throughout Asia.

