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CUTTING OUR TRADE DEFICIT: CAN THE U.S. MUSTER ITS DIVERSE TRADE PROMOTION OPERATIONS TO MAKE AN IMPACT?

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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CONTENTS

WITNESSES

	Page
Mica, The Honorable John L. (FL-7), Congressman, U.S. House of Representatives	3
Lavin, The Honorable Franklin L., Undersecretary for International Trade, International Trade Administration	6
Yager, Dr. Loren, Ph.D., Director, Internationl Affairs and Trade, U.S. Government Accountability Office	8
Hill, Ms. Kathy M., President, The State International Development Organizations	9
Holmes, Ambassador J. Anthony, President, American Foreign Service Association	11
Morrison, Dr. James, Ph.D., President, Small Business Exporters Association	13
Scott, Mr. Robert E., Director of International Programs, Economic Policy Institute	15

APPENDIX

Opening statements:	
Manzullo, Hon. Donald A.	26
Velazquez, Hon. Nydia	32
Prepared statements:	
Mica, The Honorable John L. (FL-7), Congressman, U.S. House of Representatives	34
Lavin, The Honorable Franklin L., Undersecretary for International Trade, International Trade Administration	37
Yager, Dr. Loren, Ph.D., Director, International Affairs and Trade, U.S. Government Accountability Office	42
Hill, Ms. Kathy M., President, The State International Development Organizations	63
Holmes, Ambassador J. Anthony, President, American Foreign Service Association	70
Morrison, Dr. James, Ph.D., President, Small Business Exporters Association	74
Additional Material:	
Mendelowitz, Mr. Allan I., Ph.D., Member of the Board of Directors, Federal Housing Finance Board	82

CUTTING OUR TRADE DEFICIT: CAN THE U.S. MUSTER ITS DIVERSE TRADE PROMOTIONOPERATIONS TO MAKE AN IMPACT?

WEDNESDAY, APRIL 26, 2006

HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Committee met, pursuant to call, at 2:00 p.m., in Room 2360, Rayburn House Office Building, Hon. Donald Manzullo [Chairman of the Committee] presiding.

Present: Representatives Manzullo, Kelly, Akin, Velazquez, Udall, Bordallo, Sanchez, Barrow.

Chairman MANZULLO. Good afternoon. I am pleased to open this hearing on the important topic of trade promotion and the extent to which the diverse U.S. programs can be coordinated to enhance small business exports which offer a key tool to help reduce our trade deficit.

I welcome our six witnesses who bring real practical experiences to addressing the question of how we can do a better job at trade promotion. I guess the first thing I should do is learn how to do a count. Seven witnesses.

With the U.S. trade deficit in goods and services running approximately 65 billion or more per month so far in 2006, the U.S. is well on its way to break the 2005 record annual trade deficit of $724 billion. So far this year until the end of February, the accumulated U.S. trade deficit with China, just China alone, is somewhat worse, totaling $31.75 billion up to $.63 billion from the same period last year.

Equally threatening is the U.S. dependence on the inflow of foreign capital to finance these deficits for the purpose of federal debt instruments which, in turn, lends support for a strong dollar that continues its deficit to debt cycle.

Congress and the Export Enhancement Act of 1992 established the Trade Promotion Coordinating Committee, TPCC, with two main purposes: one, providing a unified framework to coordinate the export promotion and export financing activities of the U.S. government; and, two, developing a government-wide strategic plan for carrying out federal export promotion and export financing programs.

Two of the key duties assigned to the TPCC were assess the appropriate levels and allocation of resources among agencies in support of export promotion and export financing and provide rec-

ommendation to the President; and to coordinate official trade promotion efforts to insure better delivery of services to U.S. businesses.

Over the past 14 years, TPCC has had mixed results in fulfilling its congressional mandates. Without clear budgetary influence or a strong will to exert oversight authority of the numerous federal entities that make up its members currently totaling 21, the TPCC's impact that unified the diverse U.S. trade promotion and finance operations has been negligible. Our trading partners are well organized and effectively market their small businesses in the expanding global markets, particularly in China. With small businesses offering the best prospect to boost export growth, we need to redouble our efforts to help them achieve this goal.

It is time the U.S. put some order into its federal trade promotion and finance operations through strengthening the TPCC. We do this by elevating the TPCC to an Executive Office of the President level operation, by providing it with budgetary input authority over federal trade promotion and finance operations, by staffing TPCC directly or through detailed assignments to effectively perform oversight of the U.S. trade operations, and lengthen the national export strategy with verifiable performance benchmarks to the annual federal budget submission.

I now yield for an opening statement from the Ranking Minority Member, Representative Velazquez of New York.

[Chairman Manzullo's opening statement may be found in the appendix.]

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Small business international trade prospects are on the rise. This represent 97 percent of all exporters, and are experiencing growth at two times the rate of their larger counterparts. They generate 30 percent of the nation's total value of exports and dominate many of these industries.

The tremendous growth of the global market has allowed American small businesses to remain competitive and strong. Yet since 2002, the nation's trade deficit has been rising to unprecedented levels with no end in sight. It is time to acknowledge that current economic policies are undermining the leadership position of our nation's industries in the global market.

Therefore, as we consider a new national promotion strategy, it is crucial to focus on trade policies that target those businesses with the ability to export successfully and accommodate this dynamic global economy.

In my opinion, the answer to our trade deficit is through small businesses. However, our nation's commitment to trade promotion is declining, as indicated by several factors, all of which impede the growth of our country's small exporters.

The Trade Promotion Coordinating Committee is vastly under funded. The administration has provided fewer resources to its 19 member agency for which to contribute to the export promotion objectives. Since FY 1999, the Committee's budget has been cut by over 30 percent. Today member agencies are contributing a mere $1.8 million to trade promotion goals.

This lack of adequate funding has left the committee without the necessary resources and staffing it needs as well as leverage over

agencies to utilize their budget resources to fulfill its mandate. The small business program has not been coordinated successfully within the TPCC, and many exporters claim the process to gain information and resources to facilitate trade transactions is unwieldy and confusing.

Finally, as advisors to the U.S. Trade Representative, the TPCC has not adequately represented the needs of small business in trade agreement negotiations. In 2002, the General Accounting Office investigation corroborated these findings and confirmed that the Committee has exhibited effective and inconsistent policies for coordinating federal agency export promotion efforts in supporting small business exporters.

Given the dynamics of the global economy and the importance of international trade, this is simply unacceptable. As the trade deficit continues to rise, one question remains: why would we choose to ignore these small businesses who are our strategic asset for spurring innovation and increasing our global market share?

The global economy only continues to grow with each passing year. Yet trade deficits are growing, and our national industries are losing their competitive edge. It is more important now than ever for our nation's small businesses to remain on the cutting edge of their industries.

Instead of ignoring the tremendous potential of small exporters, the TPCC needs to focus on recommitting and supporting the growth of these entrepreneurs well into the future. In order to insure that our nation's small business exporters are able to compete more efficiently and effectively in the global market, it is critical to invest adequate resources into making this happen.

Our trade policies must be reflective of the important role these entrepreneurs play in the world economy. It is my hope to find a solution that truly supports their continued innovation and advancement.

I look forward to hearing the testimony of today's witnesses.

Thank you, Mr. Chairman.

[Ranking Member Velazquez's opening statement may be found in the appendix.]

Chairman MANZULLO. Thank you.

We are sorry that we are late, but we had to vote. We had some members of the Indonesian parliament that had stopped by to visit, and unfortunately, they had to leave. So we are sorry that happened.

The order will be starting with Congressman Mica, and then Secretary Lavin. There is a clock up there. When you see the yellow, that means you have a minute, and then when you see the red, that means that time has expired, and it is set for five minutes. So if you could keep your remarks to that, we would appreciate it.

Congressman Mica.

STATEMENT OF THE HONORABLE JOHN MICA (FL-7), CONGRESSMAN, U.S. HOUSE OF REPRESENTATIVES

Mr. MICA. Well, thank you, Mr. Chairman, and thank members of the Committee for conducting this important hearing.

Right now I guess on everyone's agenda is gas prices and energy concerns. Within Congress, everyone is concerned about the deficit

we are running. Personally, I think the greatest challenge we face is our trade deficit. I circulated this little chart. It shows a $724 billion trade deficit.

I would like to ask at this time. I have a long statement that I would like included and maybe these charts in the record.

Chairman MANZULLO. The statements of all the witnesses will be admitted without objection.

Mr. MICA. Great. This is the challenge we really face for the future. Just from some personal history, I was involved in international trade. I was a chief of staff for one of the Senators and accidentally got involved in an international trade issue, right after I left turned it into a little consulting business, represented many American businesses, some large corporations and small companies overseas, in addition to being a developer in the communications business.

So I have seen some of how this operates at first hand over the years. Let me say that as a business person, having been involved in international trade that the United States assistance programs and trade development and promotion, anything that we have to do with promoting trade and business, both nationally and internationally, is dysfunctional at very best.

This chart, which has been revised slightly, some of you spoke to the 19 agencies that are involved in international trade. Most of this chart has not changed. We still have all of these agencies involved in some way, but in a very dysfunctional fashion.

And I remember when we tried to change some of the responsibilities of the Trade Promotion Coordinating Committee. We made some moderate changes, but basically one of the problems you have with this is this committee is basically a toothless tiger. They do come up with a report, and I read through their report this morning just to see what it has. It is basically a compilation of a few things that are going on. It has no strategic business plan or plan to promote U.S. business in a coordinated fashion between all the agencies of the United States, and part of its problem is it has no teeth.

I commend Chairman Manzullo for drafting legislation which he as introduced and I am pleased to be a co-sponsor to, to at least try to give some status to this important objective.

So basically, the United States as business is business has no business plan. That is our first problem. We have no coordination of these 19 agencies with any teeth to do anything, and you will hear probably a lot of the witnesses will tell you what a great job they are doing.

If this is a great job, folks, you know, and we are in trouble.

So the first thing you need is some teeth to the tiger and somebody in charge and a business plan that really has a plan of action.

The Department of Commerce that we have, which is our biggest agency, and I have this chart. I always like to pull this chart out. This shows the number of people in the Department of Commerce. What are there, 30,000 in the Department of Commerce? There are really only several thousand that are involved in business and international trade.

The International Trade Administration has four percent of the employees. Most of them are in NOAA, the National Oceanic and

Atmospheric Administration, Bureau of Census. That makes up 65 percent of them, and then some other agencies put in here.

So we have a Department of Commerce which is also farcically named and operated as far as promoting business.

Now, they are charged with foreign commercial service, and the foreign commercial service is probably one of the greatest stepchildren in government. It is not only a stepchild because it mostly is located under the State Department within an embassy in foreign locations. So it is a stepchild from both its placement under a diplomatic agency, and it is also an abused and neglected and now it is going to be a starved agency.

First of all, most foreign countries do not have a foreign commercial service office. So first to conduct and promote and assist U.S. business overseas, the majority of countries do not have them. Most of the countries where we have them probably don't need them, and then the balance, some 99 in some 99 countries or over 90 countries, most of the commercial service is handled by the State Department.

And if you think that the people that are involved, economic officers, in the State Department are interested in conducting business, in these 90-some markets that don't have foreign commercial service operators, I submit this statement from the State Department in a letter to me.

"Many economic officers are entry level officers who in their first one or two years in the foreign serve filled rotational or consular positions."

So what they are doing is sending people with probably no experience to be there for a short time to conduct one of our most important strategic responsibilities, a business of this country.

Chairman MANZULLO. Your time.

Mr. MICA. Okay, and I am just about finished. These guys yielded me a minute anyway.

Chairman MANZULLO. Set a bad precedent here.

Mr. MICA. So, again, if you look at where we have operations, we have them where we do not need them. We do not have them where we need them.

I put in some examples. I managed to get one foreign commercial service officer in the Slovak Republic, and I have the results of that one person over three or four years, which is incredible, and the Baltics, which is one of the best markets in the world, I think we just lost the person there because our policy now, and it is not these guys' fault; it is partly Congress' fault, the agencies', committees' of Congress fault. You only have a little piece of this for small business, but I commend you for taking this on and focusing attention on this.

So I hope in my running over the items that I have submitted that I show a little bit of the picture out there and I would be glad to answer questions.

[Congressman Mica's testimony may be found in the appendix.]

Chairman MANZULLO. Congressman, I appreciate your passion in the area.

Our next witness is Franklin Lavin. Secretary Lavin is the Under Secretary for International Trade, the International Trade Administration, a very impressive background, including the fact

the he speaks Chinese; is the former U.S. Ambassador to Singapore. So he brings a tremendous amount of experience to this position, and we look forward to your testimony.

STATEMENT OF THE HONORABLE FRANKLIN L. LAVIN, INTERNATIONAL TRADE ADMINISTRATION

Mr. LAVIN. Thank you, Mr. Chairman, Ranking Member, other members, and thank you, Congressman Mica, for your comments, much of which I agree with.

But I am very glad to be here today to talk about the Trade Promotion Coordinating Committee and how the federal government can best help U.S. small and medium sized companies export.

And I want to begin by first expressing my gratitude toward you, Mr. Chairman, and the Committee for your leadership on this issue.

I think in the first instance, I should begin by noting that the U.S. economy is performing very well. We've got a pro growth economic agenda. Businesses are growing. Last year alone we saw two million jobs created, economic growth of three and a half percent, wrapping up 11 quarters of GDP growth, this despite the challenges of hurricane and high energy costs, and our indicators so far this year tell us that '06 is going to be a very strong year as well.

But of particular relevance to the discussion today, it's exporters that are an important engine of this growth. One in five are manufacturing jobs that depend on exports, and jobs linked to exports pay some 13 to 18 percent more than other U.S. jobs.

Our merchandise exports last year grew about 11 percent and 13 percent in 2004. Agricultural exports hit a record high in 2005 and support some one million jobs. Service exports have doubled in about a decade.

So we began, I think, with some good news, but despite this good news, I think we asked ourselves could U.S. businesses, particularly the small and medium size businesses be doing even better in a growing global economy because what we have seen in the last decade is a dramatic reduction in trade barriers and a range of improvements in technology that have made it easier for businesses to compete, but we have a significant segment of the U.S. business community that does not export or does not compete internationally.

Part of this challenge is the attractiveness of our home market. We have the largest domestic market in the world, and a good number of our companies are still building out their domestic activity.

But we view our primary challenge as one of encouraging these small and medium size companies to take advantage of improved operating environment, improved access to foreign markets, and improved opportunities and growing economy.

So both at the Commerce Department itself and through the TPCC, our overriding priority is simply reaching out to this wider community of U.S. exporters and potential exporters. In my view there is a substantial untapped community of U.S. companies who are capable of exporting but not yet in that business.

So given the large number of U.S. companies, we have something like 5.7 million companies in the United States. Given reasonable

smallness of our staff, despite the fact that I think we have a very strong staff, what we are trying to do is develop partnerships with key private sector organizations to help us carry out this mission.

We have been working a lot over the last six months with the express delivery companies, the international ones. The Web based marketplace is the international banks, all of whom have an orientation the same way we do and the TPCC does. How do we help these small companies become competitive overseas?

And I will wrap up, if I may, Mr. Chairman, with one example. We started talking with Federal Express in 2004, and in the last six or 12 months we think that relationship with FedEx has grown quite substantially. They simply have a marketing program and communication channel, a customer database, and the resources far in excess that we have in the Commerce Department. They have an ability to work with their customer base and help their customer base move into different markets.

So they have communication channels. They have resources. We think we have technical know-how, and we can marry up.

So, for example, FedEx can identify all of their customers that current export to Mexico, and when the Central America Free Trade Agreement comes on line and El Salvador is implemented, we can explain to all Federal Express customers in Mexico in a commercial basis Mexico just got bigger. El Salvador is just as easy as Mexico. Why don't we take all FedEx customers who currently export to Mexico and help them now export to E. Salvador, migrate to a new market?

And they've got a mechanism, a system and program in place to do just the kind of activity. You can see how that can work across the board.

Yes, we are talking with UPS. We will talk with DHL. We will talk with all of the carriers. We will talk with the U.S. banks, and we have had some very interesting initial discussions with eBay as well.

The role of technology in helping exporters has just shifted so dramatically over the last ten years that our ability to be successful overseas in large part, in my view, is going to depend on our ability to get these force multipliers, get these U.S. companies engaged in our mission and work with them to help carry that message and help U.S. companies get overseas.

We have moved the TPCC to directly interface with Commercial Service, and I think that is the right move. It is essentially to my mind the group that needs to focus on sales, marketing, customer contact, if you will. So I'm very comfortable with that new focus.

And let me close, Mr. Chairman, by saying that in my view in the era we're in, the TPCC is now even more vital in reaching America's small business, and this effort to improve our communication channel and improve our contact beyond the normal government channels is going to be key to the success, and I look forward to working with you and the Committee in that effort.

Thank you very much.

[The Honorable Franklin L. Lavin's testimony may be found in the appendix.]

Mr. AKIN. Very interesting testimony. We appreciate that.

Our next witness is Loren Yager. Dr. Yager is the Director of International Affairs and Trade, currently serving on the U.S. Government Accountability Office, where he is responsible for international trade related issues.

Dr. Yager, we look forward to your testimony.

STATEMENT OF LOREN YAGER, Ph.D., U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Dr. YAGER. Thank you, Mr. Chairman.

Mr. Chairman and members of the Committee, thank you for the opportunity to appear before the Small Business Committee on our work on the Trade Promotion Coordinating Committee. Mr. Lavin has provided quite a bit of background on the TPCC in his statement, and I know that this Committee is also very familiar with many details of that Committee.

I do want to emphasize that GAO has consistently been asked by the Congress to perform oversight on the trade promotion activities in the federal government, and those requests began even before the creation of the TPCC in 1992.

We have recently updated this work at your request, Mr. Chairman. However, I will draw on this larger body of work in my remarks as I believe that the consistency of our findings over time provides a useful context for today's discussion.

Today, as requested, I will do three things: first, report on the trends and the budget authorities of the member agencies; second, discuss the Committee's efforts to improve coordination; and, third, update our findings regarding the Committee's role in defining goals and aligning resources.

In terms of the TPCC budget, as reported in the national export strategies, overall trade promotion resources dropped by about one-third in the last few years, primarily as a result of budget decreases at two of the four key agencies. Funding for three Department of Agriculture programs dropped in Fiscal Years 2005 to 2006, and ExIm Bank lowered its projected costs for providing financing.

At the same time, budget authority for the two other key agencies, Departments of Commerce and State, have remained relatively steady. However, the effects of these trends on the agency's trade promotion activities is not always clear.

For example, the decline in ExIm Bank's budget authority did not reduce its ability to provide export financing. On the other hand, Commerce Department officials emphasize that while their budget is not changed, recent increases in the cost of security for overseas offices included in the department's trade promotion budget authority diminished the resources available for trade promotion activities.

On my second point, our review of agency coordination shows the Committee has achieved some important progress, particularly when compared to the situation that existed in the early 1990s prior to the TPCC. At that time, there was little awareness or cooperation among agencies of the other's activities, and there was a great deal of inefficiency and overlap.

In the last few years, the TPCC built on some earlier efforts and pursued a number of initiatives to improve agency coordination of

trade promotion activities. For example, since 2002, TPCC completed and implemented a number of changes as a result of its private sector outreach efforts, including joint training and other activities that leverage resources of TPCC agencies.

However, some interagency coordination challenges persist, particularly among the Departments of Commerce, State and Agriculture regarding plans to realign overseas staff.

Third, on my point, the TPCC has not been as successful in defining goals and aligning resources. For example, the strategies do not identify or measure progress towards member agency goals in relation to the strategy's broad federal trade promotion priorities, and the agencies have not articulated measurable goals in support of these priorities.

The lack of systematic information also makes it difficult to assess progress or trends in small and medium size businesses' participation in trade promotion activities.

While TPCC agencies track small business participation in a variety of ways, we observe that the national export strategies provide only anecdotal information on these businesses' participation in trade promotion activities.

Moreover, the annual strategies do not review agencies' allocation of resources in relation to the broad priorities, and the TPCC has little influence over agencies' allocation of resources to support their goals or its priorities. Agency representatives told us as they had during our 2002 review that they would resist any effort by the TPCC to review their budgets.

Mr. Chairman, based on our long record of oversight over the TPCC, we believe that the TPCC can continue to make improvements in interagency coordination and do a better job of tracking small and medium size businesses' participation in a consistent manner.

However, we question whether the TPCC in its current structure can achieve the fundamental objectives associated with defining goals and aligning resources.

We also question whether the TPCC's current move into the Office of the Assistant Secretary for Trade Promotion within the Commerce Department will help it achieve those goals.

As we noted in previous reviews in the TPCC, sustained high level involvement is necessary for the TPCC to achieve its fundamental objectives. It is not clear that the current move would facilitate this kind of involvement.

Mr. Chairman, this concludes my statement. I will be happy to address any questions that you have.

[Dr. Yager's testimony may be found in the appendix.]

Mr. AKIN. Doctor, thank you for bringing it in on time here.

And our next witness is Kathy Hill, and if you would proceed, and you know the drill on the clock there. Thank you.

STATEMENT OF KATHY M. HILL, THE STATE INTERNATIONAL DEVELOPMENT ORGANIZATION

Ms. HILL. Thank you. It is a pleasure to appear before this Committee.

My name is Kathy Hill, and I am the Director for Trade for the State of Iowa, the Department of Economic Development. But here

today I am in the capacity of the President of the State International Development Organization, or SIDO.

We are the only international association of state international trade directors, and as state trade professionals, we work every day with the small businesses and help them find or expand their global markets.

We are very thankful that you reached out to us, and it is an honor for us to be here.

There are three things that I would like to bring up today. First, intergovernmental cooperation is essential to address our trade deficit. We have to work smarter. We have to work harder, and we have to facilitate the needs of our companies with an integrated approach.

Second, recent decisions made by the U.S. Department of Commerce have set back the progress made in promoting intergovernmental cooperation over the past few years.

And, thirdly, we believe that the best way to insure that all involved in trade are on the same page, and this is through strengthening the role in the White House coordination of federal programs.

You may not know, but state programs of the 50 states, we are involved in trade promotion. We have a staff of about 1,000 here in the United States if you put us all together. We have a budget of over $75 million, and we have over 200 overseas offices. We provide unique services and complementary services to our federal counterparts, including export promotion grants that cover a lot of the program fees that are charged by federal programs.

And with that then we have our own unique ability to help the small businesses export through trade missions and trade shows, and then we go ahead and we contract with the Department of Commerce and use their services, again, supplementing Commerce's budget costs.

When we faced our budget cuts in 2001, we had to depend more on Commerce and the USEACs. But now that there is talk about raising the fees for service for gold and platinum key services, we are going to have to reevaluate how we are going to have to use the services of the federal government.

Connecticut has changed their program totally to rely on commerce. Florida is probably Commerce's largest user, their largest customer. As states, we provide Commerce about $800,000, and that is not counting in-kind services or it is not counting the services that we provide with housing that we are doing joint offices.

So we need to work together to strengthen the business community and to globalize the business community, and the federal government needs to coordinate the services offered to the business communities.

We have a program, and a federal program. It is called MAP funds, market access program. Iowa companies this year or federal year 2004, they access $800,000 of MAP money. This is a program through the U.S. Department of Agriculture. They leverage $2.5 million. We have got $800,000. This is a fabulous program, to help companies market internationally.

There is no program like this for manufacturers and service companies. Instead, we are seeing more of defragmentation, and we are seeing budget cuts for those kind of companies when we are looking

at a trillion dollar trade deficit. So, again, the work that is being done here today is an extremely important thing.

I would also like to mention the White House Intergovernmental Committee. Recently at our meetings we met with the White House Committee, and we have excellent assistance from them. We were able to sit down with Commerce, with the USTR's Office as the State International Development Organization, discuss what issues that we have, how we can work together and coordinate more closely, and we appreciate that type of oversight, and we think that by doing more coordination and coordinating the federal programs could only enhance globalization because it is not going away. So how do we work harder? How do we work smarter?

Thank you.

[Ms. Hill's testimony may be found in the appendix.]

Mr. AKIN. Thank you very much for sharing your testimony.

Our next witness is the Honorable Anthony Holmes, President of American Foreign Service Association; is that correct?

Mr. HOLMES. Correct.

Mr. AKIN. Proceed, please.

STATEMENT OF THE HONORABLE J. ANTHONY HOLMES, AMERICAN FOREIGN SERVICE ASSOCIATION

Mr. HOLMES. Thank you.

Mr. Chairman, members of the Committee, on behalf of more than 27,000 active duty and retired members of the United States Foreign Service, I would like to thank you for the invitation to speak before this panel today on a subject of great relevance to the U.S. Foreign Service.

AFSA is here because we believe there needs to be a more ambitious U.S. government vision of commercial diplomacy overseas. More than 15 years ago, a Bill of Rights for U.S. Business was promulgated, and our ambassadors abroad were given detailed advocacy guidelines to promote a trade liberalization agenda to facilitate the work of our export credit and project finance agencies and to provide market intelligence and business contacts to America's small and medium sized enterprises.

The creation of the TPCC in 1992, the Trade Advocacy Center at the Commerce Department in 1994, and the roll-out of U.S. Export Assistance Centers throughout the 1990s were additional elements of the U.S. government's growing realization that supporting U.S. business overseas was and remains a genuine strategic priority.

Fifteen years after this seachange in thinking, the SME business person is fully aware of the global forces competing with him or her in his or her own market. He or she sees that evidence every day as more and more international companies are becoming dependent on their ability to reach U.S. consumers.

But how do American SMEs penetrate foreign markets? What data are available? Who are the key contacts? Are there any special market barriers? Is financing available?

These are some of the questions asked by SMEs who are ready and able to join the global economy if they can find the help they need just to get started.

As the President of AFSA, I am asking today for the administration and the Congress to work together to raise the priority of com-

mercial diplomacy in an era of increasing global competition and increasing budget stringency. As my written testimony explains, we believe that a more unified, authoritative TPCC would be both desirable and logical to achieve this end, and only if it is not merely an exercise in moving boxes around on an organizational chart.

A stronger TPCC must be part of a more comprehensive trade agenda, an agenda as ambitious as that encompassed by the Uruguay Round of the GATT negotiations.

Mr. Chairman, I am asking for two things today. First, the TPCC needs to be reinvigorated. Coordination among the 19 TPCC agencies must be improved, with clear delineation of TPCC functions at our missions overseas, and with an acknowledged TPCC coordinator linked to a unified decision making process in Washington.

The prerogatives of individual agencies can be preserved, but when consensus breaks down, there needs to be a default decision making process in Washington capable of quickly resolving the dispute.

Further, as the head of TPCC, the Secretary of Commerce should be given additional executive authority beyond that provided for in the original 1992 legislation. He must have sufficient authority to move the bureaucracy on matters of trade.

A recent analogy would be the creation of the post of the Director of National Intelligence. There may be rational explanations for the dispersed nature of our government's economic and commercial functions, but the problems this creates for effective trade promotion are not dissimilar to the recent problems faced by consumers of the U.S. government's intelligence community.

Secondly, Mr. Chairman, I ask that Congress provide the resources necessary to attract and retain the most qualified people for careers in the Foreign Service promoting trade. The professional career service is the foundation for an effective global competitiveness policy. It may not be cheap to achieve, but the value to our national interest is immense.

The simple fact is that an appropriately funded trade promotion apparatus would grant our SMEs sustainable access to new markets overseas. As President Bush remarked the other day, trade is one of the most powerful engines of growth and job creation. Americans account for about five percent of the world's population, and that means 95 percent of our potential customers live overseas.

In conclusion, Mr. Chairman, I commend you and the members of your Committee on the leadership you are showing in this vital area. Thank you again for the opportunity to participate in today's hearing, and I would be delighted to answer any questions you may have.

[Ambassador Holmes' testimony may be found in the appendix.]

Mr. AKIN. Thank you for sharing your testimony.

I think we are going to jump to the questions after everybody has had a chance.

Our next witness is Dr. James Morrison, President, Small Business Exporters Association of the United States.

Welcome, James.

STATEMENT OF JAMES MORRISON, Ph.D., SMALL BUSINESS EXPORTERS ASSOCIATION

Dr. MORRISON. Thank you, Mr. Chairman, Representative Velazquez, and members of the Committee. Thank you for inviting me to appear here today.

I am James Morrison, President of the Small Business Exporters Association of the United States.

SBEA is the oldest and largest nonprofit association exclusively representing small and mid-size U.S. companies that export.

Today's hearing focuses on the crucial issue of how our country can best response to a trade deficit approaching one trillion dollars a year. What should we do?

First of all, the U.S. can and should uphold our own trade laws and hold other nations to the international commitments they have made to join the WTO and to take part in other trade agreements.

Our country should not, however, try to handle the trade deficit by limiting imports through political fiat. Not only would this likely violate the same kinds of international trade agreements that we are trying to get other nations to honor, but according to almost every reputable economist, it would lower the U.S. standard of living.

Nor should we seek refuge in manipulating the exchange rate of the dollar, not when we criticize other nations for similar actions and not when that, too, would lower our standard of living and could even push us into a recession.

What can we do? It is an old saying, but it is often true, that the best defense is a good offense. Effective export promotion in a government where at least 19 agencies play a role in international trade is quite a challenge. As SBEA notes in its written testimony, there is a thread running through the difficulties that several international trade agencies, ExIm, SBA, and TPCC, among others, are encountering in their export promotion efforts.

It is this: responsibility to carry out the job is not being matched by authority to do so. H.R. 5196, which was introduced this morning, seeks to address this problem at both SBA and TPCC.

At SBA, the bill would elevate the agency's international trade operation to appoint just below the administrator. This is a very valuable and long overdue change.

SBA is fundamentally by statute and culture a domestic agency. If Congress wants the agency to play a constructive role in export promotion, and I think it is fair to say that Congress does, then SBA needs a strong signal to treat that as a priority. The position on an organizational chart means something, and people in an organization know what it means.

SBA would also urge Congress to clarify the role of SBA's Office of International Trade in the development and improvement of the agency's products and services for exporters. OIT can suggest now. It cannot initiate, and it cannot veto.

Congress should also take a hard look at OIT's resources. The office now has 15 export finance specialists and U.S. export assistance centers around the country. It once had 20. Yet this tiny group of people has underwritten billions of dollars in exports over the past few years. Just the jobs created and the taxes paid on these export sales cover the costs of the USEAC specialists many

times over. Yet this spectacularly successful program, which ought to be expanded into more USEACs, is constantly threatened with extinction.

Overall, OIT has about 25 employees. That works out to one per 10,000 small business exporters and one per one million small businesses overall, and this is despite the fact that small companies represent the greatest up side potential for U.S. export sales and are the companies that typically need the most assistance in getting into exporting and then obtaining export financing.

The problem that TPCC faces is similar in certain respects. Creating TPCC created an expectation for coordination, but that explicit or implied responsibility was not well matched with TPCC's actual authority. For one thing, TPCC is well down the organization chart of the Department of Commerce, one of the major agencies that TPCC is expected to coordinate.

For another, its ability to influence the activities of other agencies when Congress seems to want TPCC to exercise it through the budgetary process is limited by TPCC's inability to intervene in that process in a timely way.

H.R. 5196 also seeks to address these problems, first, by elevating TPCC to a position within the White House and, second, by allowing it to intervene earlier in the budget setting process.

While these are constructive changes, and SBEA supports the overall thrust of them, we also think it is important to ask TPCC with keeping the agencies focused on government-wide trade promotion goals. Coordination, after all, should be seen as a means, not an end.

As an example of such a goal and one that would particularly benefit SMEs in international trade, we suggest lowering export transaction costs. In our written testimony, we go into some detail about how different agencies could help achieve this goal by attacking high fixed costs of exporting.

But suffice it to say in a situation where only an export sale above one million dollars can be profitable, few companies will export. If the threshold falls to $500,000, more companies will export. At a profitability point of $250,000 or even $100,000, many more companies will export, and all U.S. exporters benefit because costs fall for everyone, and so everyone can benefit from more competitive prices.

When the fixed costs of trading with Mexico and Canada fell after NAFTA, the number of USSMEs exporting to Canada doubled. Those exporting to Mexico nearly tripled. The values of those—

Mr. AKIN. Dr. Morrison, you are pretty much out of time here. Can you summarize things here, please?

Dr. MORRISON. Yes. I have only got two sentences left here.

Mr. AKIN. All right.

Dr. MORRISON. Export promotion gets much easier as red tape and fixed costs decline.

That concludes our remarks, and I would be happy to accept questions.

[Dr. Morrison's testimony may be found in the appendix.]

Mr. AKIN. Thank you.

And our last witness is Robert Scott, Senior International Economist and Director of International Programs.

Roberts, proceed.

STATEMENT OF ROBERT E. SCOTT, ECONOMIC POLICY INSTITUTE

Mr. SCOTT. Thank you, Mr. Chairman and Representative Velazquez and other members of the Committee.

U.S. export performance has declined for more than two decades. U.S. export promotion strategies are flawed and ineffective because they are built on a faulty understanding of the causes of our weak export growth. Small and large businesses in the United States are confronted by a number of fundamental barriers to expanding exports.

First of all and most important is the sustained over valuation of the dollar since 1995. That has been aided and abetted by a passive and noninterventionist response from responsible officials at the White House and in Treasury.

There are also, as you know, persistent tariff and non-tariff barriers to U.S. exports that are still major problems today. You have highly unbalanced trade flows with countries like China that are continuing to be a huge barrier to exports.

We also have high and rapidly growing benefit costs for U.S. workers for things such as health care.

Finally, we have low levels of R&D support which can provide the seed corn for increased competitiveness.

Our export promotion plans and activities as set forth in the TPCC's national export strategy report for 2005 failed to directly address these problems. If you do not outline the problem, you cannot design solutions that are going to redress it.

The NES has a three-pronged strategy for 2005: promoting new trade agreements; identifying promising market opportunities in China; and increasing trade leads type programs in other countries that are identified there.

The Clinton and Bush administrations have frequently reported they negotiated hundreds of trade agreements over the last decade. Likewise, the NES proclaims that 12 FTAs have been negotiated and more are under negotiation, and that this will improve export performance.

Such assertions assume that simply approving these agreements is going to improve export performance. A review of the history laid out in some of the charts I prepared for you today shows that nothing could be further from the truth.

In Figure 1, I show that U.S. export performance has declined steadily in every decade since the 1970s, despite the hundreds of trade agreements that we have negotiated.

U.S. imports have always, in every decade, grown faster than exports, and as a result our trade deficit has soared, as we all know and as is shown in Figure 2.

Over valuation of the dollar is a key problem because it increases the cost of U.S. exports and reduces the price of imports here in this country. The trade deficit is increased from two percent of GDP in 1995, about $110 billion, to seven percent of GDP in the

fourth quarter 2000, which is actually over $900 billion. That is in the broadest measure of the current account.

In the mid-1980s, the last time we had a seriously over valued dollar and a large trade deficit, the Reagan administration negotiated a coordinated international campaign to bring down the dollar's value. Secretary James Baker met with his counterparts in the G5 and negotiated the Plaza Accord. In two years the dollar came down by 25 percent, and the current account deficit shrank to a manageable one percent of GDP as shown in my Figure 3.

China's particular problem, imports are six times as large as exports. A large reason for this is because China is intervening in foreign exchange markets buying massive quantities of dollars and depressing its currency.

The NES strategy touts the rapid growth of exports to China in 2004. However, imports to China increased to 29 percent, much faster than the 22 percent increase in exports. So our trade deficit with China increased 31 percent in that one year alone. The same pattern prevailed in 2005.

U.S. exports are also harmed by low levels of spending on research and development. As I document in my testimony, I have shown in the last chart we have had stable funding for R&D here, but compared to other countries, we are now ranked about 15th in the world, and that just will not do it.

I see my time is running out. I will conclude with some policy suggestions. Treasury needs to find that China is guilty of currency intervention and begin negotiations to end that practice. We need to work with other members of the G8 now to come out with a plan for reducing the dollar by probably 30 to 40 percent. We need big increases in non-defense R&D spending and policies to reduce barriers such as high health care costs that are particularly damaging for U.S. firms.

We need to expand enforcement of trade remedy and perhaps establish an independent agency to do that. These measures will—I see I am out of time—reduce export barriers, and I think they will provide the best way to stimulate exports for large and small businesses, which I think will be the best way to reduce the trade deficit.

Thank you, Mr. Chairman and members of the Committee.

[Mr. Scott's testimony may be found in the appendix.]

Mr. AKIN. Thank you, Mr. Scott.

And thank you all. You have got a marathon hearing going. Usually we do tiers of witnesses, and our Chairman is an aggressive, go-getter kind of guy. He has lined up seven people all at one time. So we are proud of you all for visiting us and for helping us out with your comments.

I am going to turn to the Ranking Lady, Ms. Velazquez, for the first question.

Ms. VELAZQUEZ. Thank you. Thank you, Mr. Chairman.

Mr. Lavin, as Ms. Hill from the State International Development Organization indicated in her written testimony, increases in fees by the Department of Commerce for the Gold Key program, which helps small businesses find foreign buyers, will out price many small businesses, do you think that the Department of Commerce request for reduced funding for trade promotion programs, such as

the Gold Key Program, is consistent with national export promotional objectives?

Since you tried before and exporters and state development officials were opposed to those fees and Commerce said that they will not go for those fees, but this year they reappear again.

Mr. LAVIN. Thank you, Congresswoman, for your question, and thanks to Kathy Hill also for raising this point.

I think I agree very much with her sentiment that there is an argument for some kind of a fee structure in what we offer, but I think we want to be very careful not to price the fees in such a way that it his prohibitive, that we push people away from us, and we have to be very mindful that small businesses are going to be less capable of paying those fees.

So I would favor a kind of fee structure that is modest, that requires that the business we are working with has a commitment, has a buy into the program, but it is modest enough that it does not push away the small businesses we are trying to reach.

And I would advise anybody in the U.S. government to keep in mind that as they encourage government agencies to move towards cost recovery, they are, in effect, discriminating against smaller businesses.

Ms. VELAZQUEZ. Mr. Lavin, but Commerce promised that or guaranteed that those fees would not reappear, and yet they are here again.

Mr. Morrison or Ms. Hill, would you like to comment on the impact of those fees?

Ms. HILL. I think one thing and the point that I was trying to make is that I do not know if Commerce or possibly this Committee has an understanding of how much the states subsidize those fees, to begin with, and we are not going to increase our subsidies.

So if Commerce wants to raise their rates, that is something we cannot stop. We do not agree with it. We will advocate against it. We will continue to advocate against it as SIDO, but the small and medium size company cannot afford to pay those fees.

I think that if a company goes to Commerce and asks for help and is willing to pay three to $500 a day for a gold key service, that they are committed. Otherwise they wouldn't be paying that fee. They wouldn't be traveling to that country.

So I think the argument of commitment may not totally stand, but at the same time, I do believe that I understand that you cannot keep the same fees for the next 20 years. that is quite understandable, but at the same time, we have to stay competitive.

Dr. MORRISON. I would agree with what Ms. Hill just said. I think when you are talking about gold key fees of couple hundred bucks a day or seven or 800 bucks a day, that becomes something that is feasible for an SME. What Commerce is really contemplating is quadrupling or quintupling those fees to thousands of dollars a day. That makes it much harder for a small business to do a back-of-the-envelope in which they can afford to go to the country, pay these fees, and not have a sale come out of it. So it is pushing companies away. It is not a good idea.

I devoted a lot of my written testimony to the idea of lowering transaction costs. This is a way of raising transaction costs. If you do that, you will have fewer businesses.

Ms. VELAZQUEZ. Thank you, Mr. Morrison.

Mr. Scott, from an economist's perspective, what are the returns on public investment in research and development and training programs designed to increase U.S. business competitiveness in global markets?

Mr. SCOTT. Well, there is a long record in economic research showing that public investments in R&D and in training pay a much higher return than is perceived by the private business. The reason is that there are externalities. There are benefits that accrues to the country as a whole that the private firm cannot perceive.

So private firms tend to under invest in research and in training. So those are responsibilities that naturally fall on the federal and state and local governments, and yet we, I think, are under investing in those key areas, and that is one reason we are falling behind in terms of exports and competitiveness.

Thank you.

Ms. VELAZQUEZ. Thank you.

Ambassador Holmes, in your written testimony you mention funding reductions and fee increased in the FY 2007 budget impacting the services administered by the U.S. and foreign commercial service. In what specific ways do you think the cuts will impact small U.S. exporters, and what impact will this have on our overall export promotion strategy?

Mr. HOLMES. Thank you.

I think that the previous answers have addressed this question as well. It is inevitable that our commercial service will have fewer clients because the increased fees act as a major deterrent to small and medium size enterprises, even venturing into the international market.

I think the trend in U.S. government support to all business, including small and medium size enterprises, is going precisely 180 degrees in the wrong direction. We should be expanding U.S. government budget support for export promotion agencies and increasing the size of our footprint overseas, and instead of reducing the foreign commercial service presence overseas, we should be expanding it.

Mr. MICA. Could I comment? I am going to leave, and I did not get to respond to those questions, but I just want to echo what has been said here.

The first part of this discussion is kind of ludicrous because we do not even have the service in most of the places where we need it, and now we are slashing because of some of the cost recovery things for security and other items. We are slashing the numbers that we even have.

So instead of adding more locations where we are promoting business, we are cutting back. We are charging those that least likely afford it. If you are a medium or small business, where do we need to be doing business the most? Let's just take a cut at it. Where is our biggest trade deficit? China.

It is almost a joke. I think we have 18 people total in China, full time U.S. equivalents. We have very few offices. I was in Chengdu. They have no one there. You need people who can speak the language, who can deal with these people. We are facing China, Inc.,

where if you do not know the difference between business, government and finance, and they play us like a Stradivarius, and we have no one to help small U.S. business or medium to even get there.

We should be paying them to go a bonus and sponsoring a trade missions and opening rather than charging them. So we are pushing more people out of the market. We are exporting less, and we are getting whipped.

I am sorry I have to go, but I could not resist making those comments.

Mr. AKIN. Before you go, I would like to give you a chance at least at one question here because I get my shot at it as at least the acting Chair, you know, because my question was to you somewhat, Congressman.

When I take a look at this coming from a business background, I mean, I have seen some ridiculous looking organization charts before, but this has got to be the most confused mess I have ever seen almost.

My question—

Mr. MICA. We got them together in 1992, and I was involved a bit in that, but again, it has no teeth. Nobody is in charge. It is sort of reporting.

The bill we have is an improvement. It does give us some status.

Mr. AKIN. I was just going to ask: politically is this thing so difficult that you have got so many committees involved they can never get fixture?

Mr. MICA. That is the problem. In the 1990s, when our side took over in 1995, I got a trade sort of office started, a bill, and we got it pretty far in the House. We could not do it in the Senate, and then it died, and that is when we reorganized the committees to, I think, about 18 and it was a little bit easier at that time because no on had jurisdiction.

Now everybody has got their turf. No one wants to give up anything. So it is very difficult, but we need a business plan, and we need to be competing in these markets. And there is great opportunities. They love U.S. products, but our guys, and, Ms. Velazquez, I think you said 92 percent of the business is small business; but they cannot compete.

Where they need the language, the finance, and finance is a key, too, I just talked to someone who got turned down from ExIm because he could not get a loan because there is instability in this market overseas.

Well, what in the hell do we need financing for U.S. assistance if it is not for those places?

Mr. AKIN. That are unstable.

Mr. MICA. Yes. So you need finance assistance. You need promotion assistance, language assistance, assistance in those markets, and certainly in most of the emerging market. Look at the list of where we do not even have an office. You have got the State Department in charge of commercial operations for which they put their lowest priority personnel who are on a rotational basis. That is what they have told me.

So we do not have it together, and we are getting creamed.

Thank you.

Mr. AKIN. Thank you for your optimistic statement there.

[Laughter.]

Mr. AKIN. I have all sorts of mischievous questions. I have got a couple more minutes to do a few. Here is one for Mr. Scott.

Is it true that just because you know all of our labor unions run our cost of labor so high that we just cannot be competitive overseas?

Actually that is a softball question.

Mr. SCOTT. Thank you, Mr. Chairman.

Actually, our unit labor costs are very competitive, particularly, for example, against countries in Europe and Japan. They have much higher unit labor costs, and yet we have large trade deficits with those countries as well.

So there is clearly something wrong with this picture that I think we need to address again. Currency is one major issue, but other things I talked about as well.

Thank you.

Mr. AKIN. You cannot blame it on that. I remember one of the examples that was given to me was the Danish. Their labor costs are higher than ours, and yet they are building all of the ships and we are not. You know, you cannot blame it on, I mean, just an excuse. There are some reasons we have to work together.

Let me just throw out one more kind of crazy question. What would happen if a bunch of us radical Republican conservatives—I know this sounds like Doomsday—but say we were to actually do what some people have been talking about and just get rid of the IRS and go to a national sales tax. Of course, a national sales tax would mean anything that we manufacture in this country would have no tax on it when it is exported. Anything coming into this country would be taxed at the rate of the national sales tax when it came in.

What do you think that would do to the situation?

[Pause in proceedings.]

Mr. AKIN. Now that I have everybody jumping for that question, you can think about it.

Here is your last question, and I would like you, because I do not have enough time to get a complete answer to this, but if you could write this down. If you had one recommendation of what we should be doing to correct this, if you could just do one thing, what would it be?

I will let you go ahead. I have got just a few more.

Mr. HOLMES. I will repeat to you, Congressman, my mantra: resources, resources, resources. We cannot be a super power on a shoestring. We cannot do this job by exacting such a cost as we have heard described on the SMEs themselves. The U.S. government has to step up.

I realize this is not the Appropriations Committee, but you cannot do what we have articulated, enshrined as our national objectives with a declining budget for promotion this way. We have to step up. It I realize is painful in the short term, but in the long term it will not be.

Dr. YAGER. If I can also add to that, I think that certainly resources are important, but I think one of the things that we have emphasized and we have observed it now for many years in doing

the work on the TPCC, and that is follow through. Right now the strategies identify a number of different priorities every year, and some of those priorities do repeat from one year to the next.

For example, China has been in the booklet for some time, but I think what we are looking for is some systematic follow-up to make sure that the priorities that were identified in previous years are getting additional attention so that you can look at that book in the following year and say, "How did we do in terms of the priorities of last year? Did we achieve those goals? To what extent do we need to put those in the book again to see whether we can do even better?"

So I would say resources, but our focus has been on follow-through and making sure that you set goals and then you follow through with them both at the agency level and again with oversight from committees like this one.

Ms. HILL. I would agree. I would say coordination and then elimination. Coordinate your agencies and eliminate duplication, and that way at the state level we have had to go through this after 9/11, especially when our budget were cut, and we can help and SIDO would be more than happy to work on any committee that there might be to talk about this, but coordination and elimination.

Mr. AKIN. Unfortunately, in my brief six years here, I realize that sometimes that is a little harder to do with the Congress than we certainly wish it were.

I am a little out of time, and I want to recognize another fine member of the Committee, Congressman John Barrow has been waiting and he has got—no? You are okay for questions?

Okay. Then, Ms. Sanchez, did you want to?

Okay. Then, Ms. Bordallo, would you want to ask a question? I have got one. I am just about to try to get some good information out of these witnesses, but I wanted to defer to you. Are you okay?

Okay. Then let's go ahead then. If you had just one thing you were going to do, let's go with you, James, and then Robert.

Dr. MORRISON. I would do a better job, as I indicated in the testimony of aligning responsibility with authority. If you give these people responsibility to do something and you give them no authority to actually execute, it just becomes somebody else's secondary consideration. That is a problem throughout the trade promotion area.

Mr. AKIN. I put that all in the same category as the organizational chart is just a mess. You basically have to clarify who is doing what and make sure you hold them accountable and proceed that way.

Okay. Yes, Robert.

Mr. SCOTT. Well, surprisingly, I think I will back away from the currency issue. The dollar will fall one way or another. It will be a hard landing or a soft landing. I think there is universal agreement amongst the IMF and central bankers around the world. This has to happen as Herb Stallings says. Something cannot keep going on forever. It will not.

So can we do? I want to go back to an earlier question about a sales tax. In my view, I would like to see us institute a value added or sales type tax to pay for health care, to take that burden off the

backs of U.S. businesses, and then we could rebate that tax at the border.

That is what the Europeans do. They do not pay for health care on their exports to us. When we sell products in Europe, not only do we pay for our health care expenses for U.S. businesses. We pay for theirs as well when the value added tax is imposed. So I think it is an interesting way to level the playing field.

Mr. AKIN. You are going to cause me some heart stress here when you say "value added." I was thinking of a straight sales tax and not a value added, but that is a form of sales tax. It is a legitimate answer. Yes, okay.

Anybody else?

Mr. LAVIN. Mr. Chairman, for my part, we have something like 5.7 million businesses in the United States. Only about 220,000 of those export. A rough guess would be there is probably several hundred thousand companies that are export capable that could arguably compete internationally.

So the one thing we need to do is find a way to talk to, reach, and work with that pool of several hundred thousand companies which are not in the export business, but could conceivably be. So if you say what change could we make or do, I would say rather than focus on internal talking to other government agencies, which I am all for, we really need to find a way to talk to those 300,000, 500,000 companies out there that could conceivably be successful exporters.

Mr. AKIN. So maybe what you do is you just take a lot of these government employees, commission them as sales people, tell them to give them a percent of what we can do in terms of international sales, and turn them loose on American businesses.

Mr. LAVIN. Yes.

Mr. AKIN. I am the government. I am here to help you sell product.

Mr. LAVIN. We could do it. We have kind of already got that in the private sector, and they are all of the international enablers. The international banks will only get paid when that letter of credit is issued or the currency exchange takes place or the express company that only gets paid when the shipment takes place. So there is a whole range as far as multipliers out there whose livelihood is entirely dependent on getting those numbers to grow. So I think our challenge is how do we harness that private sector desire for success and focus it so that we're helping these SMEs get into those markets.

Mr. AKIN. I guess I have got one final question, and I am going to call it on the hearing unless somebody else wants to. Did you want to do another round?

Okay. Why don't you go ahead then and I will go with the last question. Ms. Bordallo.

Ms. BORDALLO. Thank you, Mr. Chairman. I apologize for being late, but there are a number of things going on at one time.

I think this is for Frankly Lavin; is that correct? Yes, Mr. Lavin.

Do you believe that the yearly meetings among the TPCC agency leaders are adequate to design and coordinate and evaluate trade promotion policy for all of the 19 member agencies?

Mr. LAVIN. Congresswoman, we have reasonably regular meetings of the entire TPCC. I think I have had two within sort of six or seven months of assuming my office. So it is a little hard for me to say only have been in it about six months how many in the course of a year.

But more important than the entire group of 19 getting together, it is the daily discussions with USTR, with Agriculture, with ExIm, with the other constituent members that I think help the process along. Most issues that come up, Congressmen, do not involve all 19 members as a whole. It usually involves two agencies. So there is an issue or problem, and we just have a phone call or a quick meeting to say can we solve this.

It is useful to get all 19 together somewhat regularly to have sort of strategy discussions, and the one we had a few months ago was looking at DR-CAFTA is DR-CAFTA is moving to implementation. What kind of programs and message do we want to make sure we do so that we are aligned, so that we are giving the right message, so that we are helping our businesses into these new markets?

And I think that is a good example where you do want to get all 19 lined up, but in day-to-day activity, it is typically two agencies, maybe three agencies that need to fit together.

Ms. BORDALLO. I understand. Mr. Lavin, would you say then of the 19 agencies you would have an annual meeting? Is that what you are saying here, and then with the others it is more or less on a daily basis?

Mr. LAVIN. It is certainly more than annual, ma'am, because I have already had one, and I think we have got another one set for May. So it is going to be two in about seven months.

Well, I do not know over the course of the year if it will be three, four, or five, but we will meet together every 90 days or so, 60 days in a large group setting. I mean, this week alone I have had several discussions with USTR. I have had several discussions with NSC reps. I got together with ExIm leadership in the course of the WHO visit. I have had a number of State Department chats.

I mean, it is part of the bread and butter of everyday life.

Ms. BORDALLO. Well, I think the communication is important.

Mr. LAVIN. Absolutely.

Ms. BORDALLO. Dr. Yager, given the fact that economic conditions are highly dynamic in the increasingly globalized economy and the country's export strategy must, therefore, be updated continuously, do you believe there is a need for greater congressional oversight over the development of export promotion objectives?

Dr. YAGER. Well, certainly we have been involved now as I have mentioned in my statement. We have been involved as a result of congressional questions now for about 15 years. We have done, I think, about six studies on the issue of trade promotion and looking at the Trade Promotion Coordinating Committee, as well as some of the individual agencies and what they do.

So certainly we think that that oversight has a very important role, and we believe, of course, that even with a change if this group should be moved to the White House or anyplace else, we still would believe that congressional oversight is a very important part of this process.

I think as Mr. Lavin has said, there are always going to be changes. Maybe technology deserves a very special focus. Maybe there are certain kinds of questions that can be asked and certain catalysts for change can be created by the Congress in terms of getting more effective functioning out of a Committee like this one.

So we certainly would be very strongly in support of continued oversight.

Ms. BORDALLO. I think the question was a greater oversight.

Dr. YAGER. Well, from our standpoint, we have been almost continuously involved in this. So, again, it may be from different committees, but we would be in favor of—

Ms. BORDALLO. So you would not object to.

Dr. YAGER. Would not, would not object to that. That is correct.

Ms. BORDALLO. Thank you.

Thank you, Mr. Chairman.

Mr. AKIN. Thank you.

Just one last question, just a common sense kind of thing. Just the poor old average American out there in the street who does not get into this international trade stuff very much, if we do not deal with this issue, how is it going to affect the average guy on the street here? What is the bottom line in one sentence?

Say it gets twice as bad as it is now. Let's say the balance of trade gets more out of line. What is the practical ramification?

Mr. SCOTT. Thank you, Mr. Chairman.

I have done many studies of job loss associated and job displacement associated with trade deficit, and there are certainly millions of workers that have been affected. I think the hidden part of the iceberg is really the wage effect, and the large the trade deficit grows and the more we come into unfair competition with workers around the world, we are going to see more and more workers' wages depressed.

It has been estimated that up to 50 million workers will be affected by offshoring of services. So I think this is the hidden danger of the trade problem. If we do not attack this and do not improve our performance—

Mr. AKIN. I just need really short answers.

Mr. SCOTT. Thank you.

Mr. AKIN. So the short answer is one?

Mr. SCOTT. Wages.

Mr. AKIN. Wages are going to go down. Two, unemployment is going to go up.

Mr. SCOTT. Jobs are going to be pushed out.

Dr. MORRISON. About a quarter of our growth over the last decade or so has been contingent on international trade. If we do not manage to keep up the pace, we are going to see slowing growth.

Mr. AKIN. Hurt the economy?

Dr. MORRISON. Hurt the economy. You bet.

Mr. LAVIN. It is our best path to continue prosperity, to help our companies compete successfully internationally, and it moves our companies up to that global level of excellence, and it helps our kids become more internationally aware and competitive as well.

So whether the economy in the 21st Century is going to be international, we want to make sure that our companies are winners,

that the jobs are there, that the products are the best, and that we can compete anyplace in the world.

Mr. AKIN. So we are talking about prosperity and jobs.

Mr. LAVIN. Absolutely.

Dr. YAGER. I think I would call it standard of living. I think the fact that we have exporters here that are not able to sell their products in the world marketplace could have an effect on our standard of living because to the extent that we have products that others would be willing to buy and pay prices for, but we're not able to get those out there, our standard of living is lower than it would be under that situation.

And of course, I think we also would agree that there is a more macroeconomics thread in terms of the balance of trade. The deficit cannot go on forever, and I think one of the questions is: how will it come around? Will it be a soft landing or will it be more of a shock to the U.S.?

Mr. AKIN. Well, I think you have gotten the attention of the average guy on the street if you talk about those things, and I appreciate you all taking time to join us, and I also thank the other members for their questions and all, and I hope you all have a great day.

The hearing is adjourned.

[Whereupon, at 4:14 p.m., the Committee was adjourned.]

Cutting Our Trade Deficit:
Can the U.S. Muster Its Diverse Trade Promotion Operations to Make an Impact?

Small Business Committee Hearing on April 26, 2006 in Rayburn 2360

Remarks of Chairman Donald A. Manzullo

Good afternoon, I am pleased to open this hearing on the important topic of trade promotion and the extent to which the diverse U.S. programs can be coordinated to materially enhance small business exports, which offer a key tool to help reduce our trade deficit.

I welcome our six witnesses, who bring real practical experience to addressing this question of how we can do a better job at trade promotion.

With the U.S. trade deficit in goods and services running approximately $65 billion or more per month, so far in 2006, the **U.S. is well on its way to break the 2005 record annual trade deficit of $724 billion**. So far this year, through the end of February, the accumulated U.S. trade deficit with China, alone, is somewhat worse, totaling $31.75 billion, up $2.63 billion from the same period in 2005.

Equally threatening is the U.S. dependence on the inflow of foreign capital to finance these deficits through the purchase of Federal debt instruments, which in turn lend support for a strong dollar that **continues this deficit to debt cycle**.

Congress, in the Export Enhancement Act of 1992, established the Trade Promotion Coordinating Committee (TPCC) with two main purposes:

--Providing a unifying framework to coordinate the export promotion and export financing activities of the U.S. Government; and

--Developing a government-wide strategic plan for carrying out federal export promotion and export financing programs.

Two of the key duties assigned the TPCC were to:

--Assess the appropriate levels and allocation of resources among agencies in support of export promotion and export financing and provide recommendations to the President…and

--Coordinate official trade promotion efforts to ensure better delivery of services to U.S. businesses.

Over the past 14 years, TPCC has had mixed results in fulfilling its Congressional mandates. Without clear budgetary influence or a strong will to exert oversight authority of the numerous federal entities that make up its members, currently totaling 21, the TPCC's impact on unifying the diverse U.S. trade promotion and finance operations has been negligible.

Our trading partners are well organized and effectively market their small businesses in the expanding global markets, particularly in China. With small businesses offering the best prospect to boost export growth, we need to redouble our efforts to help them achieve this goal. It is time the U.S. put some order into its federal trade promotion and financing operations through strengthening the TPCC by:

--Elevating the TPCC to an Executive Office of the President level operation;

--Providing TPCC with budgetary input authority over the federal trade promotion and finance operations;

--Staffing TPCC directly or through detailed assignments to effectively perform oversight of the U.S. trade operations; and

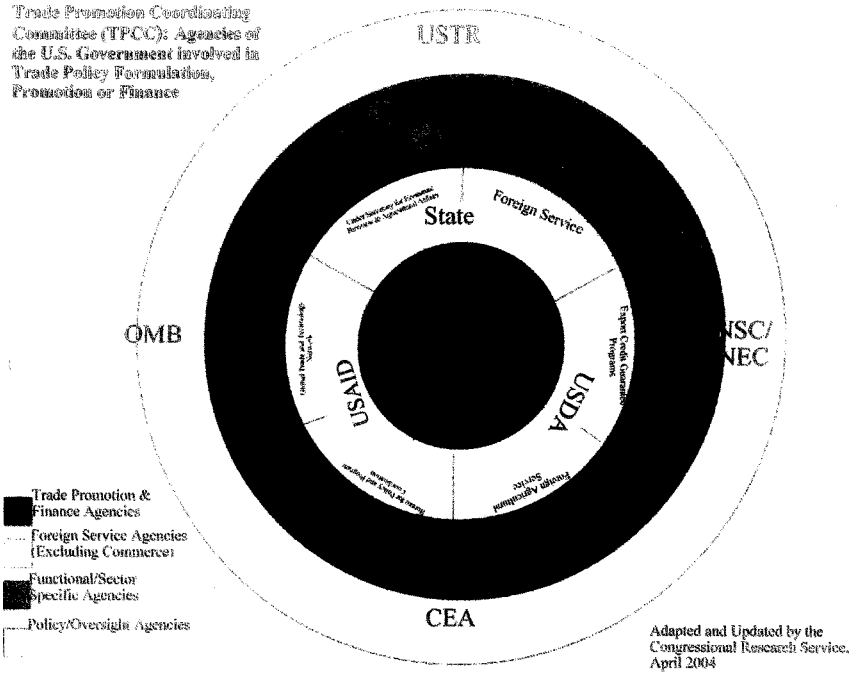
--Linking the National Export Strategy with verifiable performance benchmarks to the annual federal budget submission.

I know yield for an opening statement from the ranking minority Member, Representative Velázquez of New York.

U.S. Trade Deficit

1999 to February 2006

Source: U.S. Department of Commerce


Trade Promotion Coordinating Committee (TPCC): Agencies of the U.S. Government involved in Trade Policy Formulation, Promotion or Finance
USTR
State
Foreign Service
USDA
Foreign Agriculture Service
CEA
USAID
OMB
NSC/
NEC
Trade Promotion & Finance Agencies
Foreign Service Agencies (Excluding Commerce)
Functional/Sector Specific Agencies
Policy/Oversight Agencies
Adapted and Updated by the Congressional Research Service, April 2004

The Trade Promotion Coordinating Committee

The TPCC is an interagency committee chaired by the Secretary of Commerce. It was established under the Export Enhancement Act of 1992 to provide a unifying framework to coordinate the export promotion and export financing activities of the U.S. government and to develop a government-wide strategic plan for carrying out such programs. The weight of any or all of these agencies can be leveraged to support your project.

Members of the TPCC include:

- Department of Commerce
- Department of the Treasury
- Department of Agriculture
- Department of Defense
- Department of the Interior
- Trade and Development Agency
- U.S. Information Agency
- Overseas Private Investment Corporation
- Office of the U.S. Trade Representative
- Office of Management & Budget
- National Security Council
- Department of State
- Department of Transportation
- Department of Energy
- Department of Labor
- Agency for International Development
- Environmental Protection Agency
- Small Business Administration
- Export-Import Bank of the U.S.
- Council of Economic Advisors
- National Economic Council

Committee on Small Business
Trade Promotion Coordinating Committee (TPCC) Analysis

Major Operating Disconnects

Within TPCC
--The annual Federal budget submission is undertaken without the direct input or benefit of TPCC advise in effectively balancing the multitude of trade promotion and financing programs into a coherent strategy;
--Months after the formal Federal budget submission, the TPCC submits a National Export Strategy to Congress that primarily reflects the earlier general agency submissions with limited detail on specific measurable benchmarks of performance to achieve some, yet to be clearly defined, overall U.S. strategy;
--Without clear performance benchmarks to support the general budget figures submitted and handicapped by limited direct or detailed staff, the TPCC is unable to effectively perform much in the way of oversight operations on Federal trade promotion or financing activities during the budget year.

Within Federal Organizations
--The Department of Commerce has two outstanding field operation staffs in the form of the U.S. and its Foreign Commercial Service (FCS) Officers. However, while each is collecting vital information on both U.S. small businesses looking to export and overseas firms looking to buy U.S. goods, the Department has effectively dismantled their Internet based means of storing, retrieving, and sharing this information. The Department was also involved in the demise of a related trade matchmaking Internet system at the U.S. Agency for International Development (USAID) that did help constituents. This link is so vital, that the Committee has undertaken a pilot project for Northern Illinois small businesses to profile their operations, with the help of the U.S. Commercial Service and is making the data available to the FCS in India and China, a function that the Department should be performing;
--The FCS is the eyes and ears overseas for the U.S. trade finance operations of Export-Import Bank of the U.S. (Ex-Im Bank), Overseas Private Investment Corporation and Trade & Development Agency, but again they have no common means of Internet communications and effective data sharing;
--The U.S. Trade Representative (USTR) is busy negotiating new Free Trade Agreements (FTAs) with many of our trading partners in developing countries, however, the bilateral economic assistance the U.S. is providing for "trade capacity building" efforts is not well linked to the urgent local reforms that USTR identifies as needed to effectively implement these agreements in a timely manner;
--USTR has negotiated Government Procurement provisions in its FTAs that call for bid documents to be submitted within a 40 day period from date of calling the procurement. To meet this timeframe, a small business would need its financing arrangements in place at least within 30 days of a financing application to Ex-Im Bank. However, the Ex-Im Bank is currently looking to take 45 days just to acknowledge receipt of a financing application with the overall turnaround time taking from 60 to 90 days. Thus, U.S. trade finance arrangements are acting as a block for small business participation in these new FTAs.
--Small business continues to have a muted voice in trade policy matters because the Small Business Administration's office charged with this responsibility is not properly staffed or placed in an effective position within the organization to permit the adequate representation of U.S. small business.

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
109th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
of the
Honorable Nydia M. Velázquez, Ranking Democratic Member
House Committee on Small Business
Hearing on "Cutting Our Trade Deficit: Can the U.S. Muster
Its Diverse Trade Promotion Operations to Make an Impact?"
April 26, 2006

Thank you, Mr. Chairman. Small business international trade prospects are on the rise. These firms represent 97 percent of all exporters and are experiencing growth at two times the rate of their larger counterparts. They generate 30 percent of the nation's total value of exports and dominate many of these industries.

The tremendous growth of the global market has allowed American small businesses to remain competitive and strong. Yet since 2002, the nation's trade deficit has been rising to unprecedented levels – with no end in sight. It is time to acknowledge that current economic policies are undermining the leadership position of our nation's industries in the global market.

Therefore, as we consider a new national promotion strategy, it is crucial to focus on trade policies that target those businesses with the ability to export successfully and accommodate this dynamic global economy. In my opinion, the answer to our trade deficit is through small businesses.

However, our nation's commitment to trade promotion is declining, as indicated by several factors – all of which impede the growth of our country's small exporters.

The Trade Promotion Coordinating Committee (TPCC) is vastly underfunded. The administration has provided fewer resources to its 19 member agencies for which to contribute to the export promotion objectives. Since FY1999, TPCC's budget has been cut by over 30 percent. Today, member agencies are contributing a mere $1.8 million to trade promotion goals.

This lack of adequate funding has left the Committee without the necessary resources and staffing it needs, as well as leverage over agencies to utilize their budget resources to fulfill its mandate. Small business programs have not been coordinated successfully within the TPCC, and many exporters claim the process to gain information and resources to facilitate trade transactions is unwieldy and confusing. Finally, as advisors to the U.S. Trade Representative, the TPCC has not adequately represented the needs of small business in trade agreement negotiations.

A 2002 GAO investigation corroborated these findings, and confirmed that the Committee has exhibited ineffective and inconsistent policies for coordinating federal agency export promotion efforts and supporting small business exporters. Given the dynamics of the global economy and the importance of international trade, this is simply unacceptable.

As the trade deficit continues to rise, one question remains – why would we choose to ignore these small businesses who are our strategic asset for spurring innovation and increasing our global market share?

The global economy only continues to grow with each passing year – yet trade deficits are growing and our national industries are losing their competitive edge. It is more important now, than ever, for our nation's small businesses to remain on the cutting edge of their industries. Instead of ignoring the tremendous potential of small exporters, TPCC needs to focus on recommitting and supporting the growth of these entrepreneurs well into the future.

In order to ensure that our nation's small business exporters are able to compete more efficiently and effectively in the global market, it is critical to invest adequate resources into making this happen. Our trade policies must be reflective of the important role these entrepreneurs play in the world economy. It is my hope to find a solution that truly supports their continued innovation and advancement.

I look forward to hearing the testimony of today's witnesses.

Small Business Committee Hearing: "Cutting Our Trade Deficit: Can the U.S. Muster Its Diverse Trade Promotion Operations to Make an Impact?"

Testimony of the Honorable John L. Mica (R-FL)
April 26, 2006

In his State of the Union address this past January, President Bush highlighted the importance of American competitiveness in the global marketplace. Specifically, the President focused on future workers—addressing science and math education, job promotion, vocational training, our overly burdensome tax policy and skyrocketing health care costs. While I applaud President Bush's rededication to American competitiveness, I believe Congress must also act to strengthen and centralize our trade promotion efforts.

In 2005, our trade deficit in goods and services surpassed $724 billion and is expected to grow over the coming year. Until Congress addresses our shortfalls in trade assistance, promotion, financing and negotiation, our trade imbalance will continue to increase.

In 1992 Congress passed the Export Enhancement Act. This established the Trade Promotion Coordinating Committee (TPCC) to help focus our disjointed trade apparatus. During the reform era of the mid-1990s, we advanced legislation that would further reorganize United States trade and commerce agencies by creating a unified Department of Commerce and Trade. That effort was unsuccessful, and unfortunately after 14 years the TPCC has been less effective than anyone could have imagined.

U.S. commerce and trade programs continue to be dysfunctional, with over 20 agencies involved in U.S. trade policy formulation, assistance, promotion or financing. In fact, trade negotiations are conducted independently of other trade development, financing and promotion efforts. Even the name, "Department of Commerce," is a misnomer with only 3,000 of the 40,000 employees of that Department actually engaged in assisting and promoting commerce.

Prior to being elected to Congress, I witnessed these trade promotion problems first hand as a trade consultant. It was disappointing to see the priority placed on export promotion from competitor countries, while the United States neglected its own trade interests.

The U.S. & Foreign Commercial Service (FCS) is tasked with overseas export promotion. However, the FCS does not have an office or at best has a limited presence in almost 100 developing countries that present the best opportunities to advance U.S. trade and business opportunities.

Overseas trade promotion preformed by the FCS does work. In 2002, despite the absence of any FCS personnel in the Slovak Republic, FCS officers located elsewhere brokered four trade agreements valued at $225,000, benefiting U.S. companies and our economy. The following year, one FCS officer with a support staff of three foreign service nationals assisted in 21 counted successes in that emerging market, totaling over $23 million. In 2005 with the same staff size, there were in excess of 30 counted successes valued at $209 million.

In markets where the FCS has no presence, the Department of State fills the vital role of export promotion. This practice is so prevalent that the State Department acts as trade promoter in 99 locations worldwide.

Unfortunately the Department of State is ill equipped to service businesses as its mission statement in brief is to "[c]reate a more secure, democratic and prosperous world for the benefit of the American people and the international community." With State's lack of experience and focus, we should not send our rookies into the most difficult, and perhaps most promising, export markets.

Furthermore by locating the majority of our trade promotion offices inside embassy compounds, we are walling off our potential partners overseas. We must make these offices more accessible to those who wish to invest in American products and services. This should be done by physically relocating trade promotion offices from embassies where it is possible and electronically by improving our web-based matching initiatives.

In comparison to our disjointed trade promotion system, China Inc, the E.U. Inc and other export-focused trading blocs are blurring the lines between business, finance, government and trade negotiations. Many of our international competitors provide business subsidies, underwrite financing and actively promote their business interests at limited or no charge to the participant companies. These export savvy countries are not only contributing to our trade imbalance but are also stealing away future consumers.

Just as it is important to improve our homeland security efforts, it is now vital that we reshape our global business and international trade apparatus to ensure economic success for the future. Among other actions, Congress must improve trade coordination among governmental agencies. While the TPCC may be well intentioned, it lacks the authority to direct and coordinate U.S. trade activities.

Ideally, we should restructure and consolidate the Department of Commerce, the Small Business Administration, the Office of the U.S. Trade Representative, the Export-Import Bank and other trade agencies into a more unified and coordinated effort. A step toward this synchronization would be to provide the TPCC with the trade finance, assistance, promotion and negotiation tools necessary to properly and adequately perform such a function.

To strengthen the TPCC, I have cosponsored legislation with Chairman Manzullo to restructure this ineffective organization. This bill would place the TPCC within the Executive Office of the President, thereby raising the status of the Committee. Additionally, the reinvigorated and recast TPCC could better fulfill its charter by functioning as the director of U.S. trade policy. While I believe this to be a strong step in the right direction, we should still completely reorganize U.S. commercial and trade activities.

19 of 20 consumers will be located outside the U.S. market in the not-too distant future. To better compete for these markets, we will need to have the organizational structure and programs in place to assist our businesses—especially our small and medium size businesses.

I appreciate Chairman Manzullo's dedication to this issue and look forward to working together with the Small Business Committee to improve the TPCC and our export promotion efforts. Together we must realize the trade challenges of the 21st century and rise to the occasion as our great country has done so many times before.

Under Secretary of Commerce for International Trade
Franklin L. Lavin
TESTIMONY BEFORE HOUSE SMALL BUSINESS COMMITTEE
Wednesday, April 26, 2006

Mr. Chairman, members of the Committee, it is an honor to appear before you today. It is my pleasure to talk about the Trade Promotion Coordinating Committee (TPCC) and how the Federal Government can best help U.S. small and medium-sized companies export. I would also like to express my gratitude to you Mr. Chairman, for your continuing leadership on this issue.

I would like to discuss two points today. First I would like to provide you with some perspectives on the U.S. economy and U.S. engagement in the global marketplace. Second, I will outline how the TPCC is changing to maximize the impact we can make on the number of companies exporting by focusing on partnerships and promotion.

The global trading environment – how are U.S. exporters faring?

The American economy is strong, aided by the President's pro-growth agenda. Businesses are thriving, investing, and hiring. In 2005, we saw the creation of two million jobs and economic growth of 3.5 percent – 11 consecutive quarters of GDP growth despite the challenges of hurricanes and high energy costs. Leading economic indicators show that the economy will continue to grow in 2006.

Exporters are an important engine of this growth. One in five manufacturing jobs depends on exports. And jobs linked to exports pay an estimated 13 to 18 percent more than other U.S. jobs. U.S. merchandise exports grew 11 percent in 2005 and 13 percent in 2004. Agricultural exports set a record high in 2005 and supported almost 1 million jobs. And services exports doubled in the last decade.

Yet, despite this good news, we should ask ourselves if the United States could be doing even better in a growing global economy. U.S. business participation in the global economy has remained relatively flat, with only a seven percent increase in the number of U.S. companies exporting between 1997 and 2004. In addition, while the dollar volume of merchandise exports from SMEs has risen by more than 16 percent over this same period, the share of U.S. merchandise exports accounted for by SMEs has remained around 30 percent.

While there are a number of explanations for these trends, a common reason advanced is that U.S. companies are comfortable with the large and dynamic domestic market. In a 2002 TPCC survey, 36 percent of non-exporters cited "better market prospects here in the U.S." as their reason for not exporting.

So the challenge for us is to encourage more U.S. small and medium-sized companies to take advantage of improved ease of access to foreign markets and improved opportunities in a growing world economy.

The good news for U.S. companies is that it has never been easier to compete successfully in the global marketplace. Many of the impediments that once plagued international business are no longer factors. The reduction of market access barriers has been a major driver in reducing the costs of exporting, with tariff and non-tariff barriers coming down around the world – a process that continues to advance today through bilateral and multilateral trade negotiations. Technology has been another major driver, with more and more of the world's businesses and consumers connected through the Internet, cell phones, telephones, and business travel.

Examples of these trends include:

- In the eight rounds of multilateral trade negotiations since 1947, the average tariffs of industrial countries have come down from 38.5 percent to just 4 percent. The major developing countries have also bound most of their tariff rates, promising to keep customs tariffs under a ceiling. China, for example, has moved from average applied rates in 1997 of 17.6 percent, to all of their tariffs being bound today at 10 percent.
- Travel abroad by U.S. citizens has increased 30 percent since 1990.
- Telecommunications infrastructure investment in low- and middle-income countries has grown from $60 billion in the 1990 to 1995 period, to almost $300 billion in the 1996 to 2003 period.
- Domestic credit to the private sector in low- and middle-income countries has grown from 39 percent of GDP in 1990 to 59 percent of GDP in 2003.

These changes are part and parcel of a period of healthy global economic growth. The International Monetary Fund forecasts that the global economy will grow in 2006 at more than four percent for the fourth consecutive year. The last fifteen years have seen the transformation of the Chinese and Indian economies and the integration of Eastern Europe and the former Soviet Union into the world economy. There has never been a greater opportunity to be a successful exporter.

What we see, therefore, is that while the U.S. economy is thriving, the rest of the world is also growing, and the United States could do better on trade. Our overriding priority is to improve our capability to reach out to the wider community of U.S. exporters and potential exporters. There are a huge untapped number of U.S. companies capable of exporting. Our job is to figure out how to reach them and provide the information and services they may need to introduce their goods and services to foreign markets.

Using partnerships to further boost trade promotion

Given the enormous opportunities for U.S. firms and the large number of SMEs that we are working to reach, this year's National Export Strategy will focus on the partnerships we will need to carry out the TPCC mission with the greatest impact possible. To that end, we have developed what I refer to as a "21st century approach."

Why is this critical? By way of illustration, the Commercial Service counseled over

140,000 American companies last year – a sizable number when you consider that our figures show that about 232,000 U.S. firms are actual exporters. However, according to the U.S. Census Bureau, there are 5.7 million U.S. companies. There are likely thousands of SMEs whom we have not touched, which could be exporting.

So how to reach them? When you consider the Federal Government's ability to contact these firms -- compared to private-sector U.S. companies that are already doing business with them -- our course becomes clear. Express delivery companies, banks, and web-based marketplaces have tremendous reach to these potential small business exporters.

I would like to highlight one of our partnerships. In 2004, the Commercial Service struck a partnership with FedEx based on a shared interest in increased outbound shipment volume, worldwide reach, and an SME client base and customer focus. We now cooperate on a wide range of U.S. export promotion activities and training, and FedEx's huge client base now has greater awareness of the Commercial Service through FedEx's websites and newsletters.

Commercial Service programs and services are now featured in FedEx's monthly eNewsletter sent to 120,000 FedEx clients. We have participated in more than 110 marketing events with FedEx to showcase the assistance available and 160 smaller international seminars covering a variety of topics important to American exporters. These efforts have significantly expanded the reach of our skilled trade specialists.

Commerce is cultivating partnerships with a wide range of other private sector enterprises.

- The Commercial Service's partnership with PNC Bank, begun in 2005, is based on a shared commitment to assisting firms navigating the uncertainties of foreign markets. Activities include joint seminars, web-based conferences, and training.
- The Commercial Service's latest partnership is with eBay, providing greater visibility for U.S. Government export promotion programs in this huge marketplace. We expect this partnership to help government stay in tune with the importance of the Internet to international transactions.

Going forward, we stand ready to offer the same terms to other interested and qualified companies sharing our goals of export education and trade facilitation.

Commerce is not alone in looking to partnerships to reach more firms.

- OPIC has been an innovator in changing its operations and programs in order to make them more accessible to small businesses. It is developing a sophisticated new model for leveraging private and public partnerships. The Enterprise Development network will be a strategic alliance among financial institutions, brokers, and law firms designed to facilitate efficient delivery of OPIC funding to SME projects.
- Ex-Im Bank's City-State Partner Program now has 45 city-state partners in 35 states, including in January 2006, an agreement with California's Centers for International Trade Development with 14 offices throughout the state.

- SBA's Office of International Trade works with several large internal and external partners to reach more companies, including its own network of SBA District Offices, Small Business Development Centers (often based at universities), and SCORE service.
- The U.S. Department of Agriculture, Foreign Agricultural Service, also relies upon partners such as the states themselves, State Regional Trade Groups, the AgTrade Coalition (consisting of more than 100 associations), and other major groups to reach out to the private sector.

In the coming year, the TPCC agencies will strengthen current partnering arrangements with the private sector and seek new partners that align government and partner goals targeting various market segments.

At the same time, Federal agencies will continue to work closely with our state and local partners. The multiplier relationships they have established and nurtured for years include organizations like state economic development agencies, city export programs, district export councils, and the like. Our officers stationed in embassies and consulates worldwide work closely with American Chambers of Commerce (AmChams), which provide information on market access issues and commercial opportunities.

These networks, fully established and operating, are working well. For example, state partners are working closely with the Commercial Service to organize trade missions to key markets. But I believe that we can do more, through building a network of private-sector multipliers, to reach potential and current exporters.

In support of our new focus, I have detailed the TPCC Secretariat to the U.S. Commercial Service. Linking the TPCC to the operational unit responsible for our promotional efforts is a good fit given our emphasis on promotion and partnership. This change also addresses the need to continue improving coordination between agencies, particularly in growth markets and with new FTA partners.

While focusing on promotion, we remain committed to coordination

While we see an additional emphasis on promotion and partnerships, the TPCC will continue to be a force for more strategic and effective coordination between the agencies.

TPCC agencies will continue to leverage resources in priority markets. For example, this past fall, Secretary Gutierrez led a trade mission to the CAFTA-DR countries that included twenty U.S. companies (mostly small firms), as well as the heads of the Small Business Administration, Overseas Private Investment Corporation, and the U.S. Trade and Development Agency, and senior officials from Export-Import Bank, the Millennium Challenge Corporation, and the Inter-American Development Bank.

As a follow-up to this trip, agencies have been meeting on priority projects and trying to ensure that trade mission participants see positive results. USTDA consultants have traveled to the region and have received concrete recommendations for projects that support USTDA's Central America Trade Integration Initiative. USTDA will follow up

on this work with a trip in June. OPIC and USTR will visit countries that have implemented the CAFTA-DR agreement this May to announce a number of investment and technical assistance programs. Ex-Im Bank will visit the region in June to explore potential projects in the energy and transportation sectors. The Commercial Service has conducted over twenty outreach events throughout the United States, many along with Ex-Im Bank, and in conjunction with private-public partners like FedEx.

Agencies have also pursued close cooperation regarding trade promotion opportunities with new FTA partner Bahrain. And we are looking at the Secretary's trip to Brazil in June as a kick off for a coordinated TPCC effort involving Brazil.

In short, the TPCC is now even more vital in reaching America's small businesses. The effort to broaden the participation of U.S. companies in trade will require all of our attention and effort. Mr. Chairman, you have been a valued and committed partner in this endeavor, and we look forward to working with you toward this goal.

April 26, 2006

GAO Highlights

Highlights of GAO-06-660T, a report to the House Committee on Small Business

EXPORT PROMOTION

Trade Promotion Coordinating Committee's Role Remains Limited

Why GAO Did This Study

In 1992, Congress established the Trade Promotion Coordinating Committee (TPCC) to provide a unifying interagency framework to coordinate U.S. export promotion activities and to develop a governmentwide strategic plan. TPCC member agencies' activities include providing training, market information, advocacy, trade finance and other services to U.S. companies, especially small- and medium-sized businesses. These U.S. government agencies together have $1.5 billion in budget authority for export promotion programs and activities for fiscal year 2006. Each year, the TPCC submits to Congress a mandated national export strategy, reporting member agencies' activities and trade promotion budget authority and establishing broad priorities. The TPCC secretariat, which has no budget of its own, is housed in the Commerce Department, which chairs the committee.

In this testimony, which updates findings from a 2002 report, GAO (1) reports on trends in TPCC member agencies' budget authority; (2) assesses TPCC's coordination of trade promotion and its national export strategies; and (3) discusses small- and medium-sized businesses' participation in trade promotion activities.

www.gao.gov/cgi-bin/getrpt?GAO-06-660T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager, (202) 512-4347, yagerl@gao.gov.

What GAO Found

TPCC's national export strategies for fiscal years 2002-2006 show that agencies' trade promotion-related budget authority dropped by about one third. This resulted mainly from budget changes at the Department of Agriculture and Ex-Im Bank, which account for more than half of U.S. trade promotion budget authority. At the same time, budget authority for two other key agencies, the Departments of Commerce and State, remained relatively steady. However, the effect of these trends on the agencies' trade promotion activities is unclear. For example, the decline in Ex-Im Bank's budget authority did not reduce its ability to provide export financing.

TPCC member agencies have taken several steps, such as participating in interagency training and outreach to exporters, to improve coordination of trade promotion efforts. However, coordination challenges persist, for example, among the Departments of Commerce, State, and Agriculture regarding the allocation of overseas staff for trade promotion activities. In addition, as GAO found in 2002, the annual national export strategies have several limitations that affect the TPCC's ability to coordinate trade promotion activities. For example, the strategies do not identify or measure agencies' progress toward mutual goals or review their budget allocations. In addition, they focus on different topics each year without evaluating progress in addressing previous years' topics. GAO has made similar comments in several prior reviews of the TPCC.

A lack of systematic information makes it difficult to assess progress or trends in small and medium-sized businesses' participation in trade promotion activities across agencies. TPCC agencies track small-business participation in a variety of ways. The national export strategies provide only anecdotal information on these businesses' participation in trade promotion activities.

TPCC Program Budget Authority FY 2006 (Enacted)

Department or Agency	Budget Authority (millions)
Agriculture	$769
Commerce	335
Ex-Im Bank	123
State	177
U.S. Trade and Development Agency	50
U.S. Trade Representative	44
Energy	9
Small Business Administration	6
Treasury	3
Labor	0

Source: TPCC, for publication in the 2006 national export strategy

Note: TPCC's other members are the Council of Economic Advisors; the Departments of Defense, Interior, and Transportation; the Environmental Protection Agency; the National Security Council/National Economic Council; OMB; the U.S. Agency for International Development; and the Overseas Private Investment Corporation.

United States Government Accountability Office

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Testimony
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House of Representatives

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EXPORT PROMOTION

Trade Promotion Coordinating Committee's Role Remains Limited

Statement of Loren Yager, Director
International Affairs and Trade

GAO-06-660T

Mr. Chairman and Members of the Committee:

I am pleased to be here today to report on our work on the Trade Promotion Coordinating Committee (TPCC). Established by Congress in 1992, the TPCC's mission is to provide a unifying framework to coordinate U.S. agencies' export promotion activities and to develop a governmentwide strategic plan to carry out those activities.[1] TPCC member agencies' activities include providing training, market information, advocacy, trade finance and other services to U.S. companies, especially small- and medium-sized businesses, seeking to export their products. In fiscal year 2006, almost a dozen TPCC member agencies have a combined $1.5 billion in budget authority for export promotion programs and activities; for fiscal year 2007, these agencies have requested $1.3 billion in export-related budget authority. The TPCC secretariat has no budget of its own. The secretariat, which is housed in the International Trade Administration at the Department of Commerce, a key export promotion agency, is currently moving from the office of the Under Secretary for International Trade to the office of the Assistant Secretary for Trade Promotion/Director General for the U.S. and Foreign Commercial Service.

GAO has reviewed the TPCC several times since its inception. In a 2002 review,[2] GAO found that it had made modest but inconsistent progress in coordinating trade promotion activities and that its mandated yearly reports to Congress,[3] known as national export strategies, do not identify and measure progress toward agency goals in relation to broad federal priorities. GAO also reviewed agencies' efforts to involve small and medium-sized businesses in their export promotion programs.

Today, as requested, I will (1) report on trends in the budget authorities of TPCC member agencies since 2002 and (2) update some of our 2002 and earlier findings regarding the TPCC's trade promotion coordination and national export strategies. In addition, responding to the interest you expressed, I will discuss TPCC agencies' progress in involving small- and medium-sized businesses in trade promotion activities.

[1] Section 201 of the Export Enhancement Act of 1992 (P.L. 102-429), 15 U.S.C. 4727(a)(1) and (2).

[2] GAO, *Export Promotion: Mixed Progress in Achieving a Governmentwide Strategy*, GAO-02-850 (Washington, D.C.: September 4, 2002).

[3] 15 U.S.C. 4727(f).

My remarks are based on GAO's review of TPCC and member agency documents, including agency strategic plans and budgets and the four most recent national export strategies. We also interviewed officials from the agencies that have consistently represented the largest share of the TPCC's program budget authority or been involved in recent efforts to enhance export-related services for small- and medium-sized businesses—the Departments of Agriculture, Commerce, and State; the Export-Import Bank of the United States (Ex-Im Bank); the Overseas Private Investment Corporation (OPIC); and the Small Business Administration (SBA). In addition, we spoke with officials at the Office of Management and Budget (OMB). Although we noted some limitations in the national export strategies' budget data, we found the data sufficiently reliable for our purposes. We conducted our work from February through April 2006 in accordance with generally accepted government auditing standards.

Summary

As reported in the national export strategies, TPCC agency resources have declined or remained unchanged since 2002, but the implications of these trends for U.S. trade promotion activities are not clear. Overall, TPCC agencies' trade promotion budget authority for fiscal years 2002-2007 dropped by more than one-third, primarily as a result of budget decreases at two of four agencies that account for most of U.S. trade promotion budget authority: funding for three Department of Agriculture program areas dropped in fiscal years 2005-2007, and Ex-Im Bank lowered its projected costs for providing financing and its appropriations requests. At the same time, budget authority for the other two key agencies, the Departments of Commerce and State, remained relatively steady. The effect of these trends on the agencies' trade promotion activities is unclear. For example, the decline in Ex-Im Bank's budget authority did not reduce its ability to provide export financing. Further, according to Commerce officials, although the department's trade promotion authority has changed little, recent increases in the cost of security for overseas offices—included in the department's trade promotion budget authority—diminish the resources available for trade promotion activities.

The TPCC has made some progress in improving coordination, but its national export strategies continue to provide limited information on agencies' goals and progress, relative to broad national priorities, to guide future efforts. TPCC member agencies have taken several steps to improve interagency coordination in response to results of market research that the TPCC secretariat commissioned. Since 2002, the TPCC initiated several efforts such as interagency training, joint outreach to better serve small businesses, and improved support for trade promotion activities at U.S. embassies overseas. According to agency officials, however, some interagency coordination challenges persist, particularly among the Departments of Commerce, State, and Agriculture regarding the allocation of

overseas staff for trade promotion activities and agreement on agency roles and responsibilities in helping U.S. exporters. In addition, as we found in 2002, the TPCC's annual strategies provide limited information regarding U.S. export promotion goals or progress toward achieving those goals, thereby constraining the TPCC's ability to carry out its mandate of coordinating federal trade promotion activities. For example, the strategies do not identify, or measure progress toward, member agency goals in relation to the strategies' broad federal trade promotion priorities, and the agencies have not articulated measurable goals in support of these priorities. Moreover, the annual strategies do not review agencies' allocation of resources in relation to the broad priorities, and the TPCC has little influence over agencies' allocation of resources to support their goals or its priorities.

A lack of systematic information makes it difficult to assess progress or trends in small and medium-sized businesses' participation in trade promotion activities across agencies. TPCC agencies track small business participation in a variety of ways. For example, according to Commerce officials at the U.S. and Foreign Commercial Service, the agency tracks the number of small and medium-sized business export sales transactions per year and is updating its tracking system to allow it to observe transactions by client as the transactions develop over time and involve other TPCC agencies. In contrast, a Department of Agriculture program tracks other indicators, such as the number of small businesses making a first export sale. We also note that the national export strategies provide only anecdotal information on these businesses' participation in trade promotion activities. Further, TPCC officials said that they do not compile information on small- and medium-sized businesses' participation in agency programs and activities.

Background

As we discussed in our 2002 report, TPCC member agencies perform functions that include identifying export opportunities, providing financing and insurance, and working to create open markets for U.S. exports and investments. Chaired by the Secretary of Commerce, the TPCC currently has a staff of three Commerce trade professionals who work with other member agency officials on trade promotion initiatives and prepare the national export strategy. The TPCC generally meets once or twice a year at the head-of-agency level and quarterly or monthly at the deputy level (e.g., assistant secretary or under secretary); TPCC member agency staff discuss issues frequently but meet on an ad hoc basis.

The TPCC's national export strategies include a table showing member agencies' budget authority for trade promotion activities. Since 2000, this table has included all or part of the budgets of 11 of the TPCC's member agencies—the Departments of Agriculture, Commerce, Energy, Labor,[4] State, and the Treasury; Ex-Im Bank; OPIC;[5] SBA; the U.S. Trade and Development Agency; and the U.S. Trade Representative.[6] Although the TPCC, together with the agencies, determines which agencies' budgets are included in this table, the agencies themselves decide which of their programs or activities constitute trade promotion. However, the tables present only the total trade promotion budget authority for each agency without detailing the programs and activities. The Department of Agriculture counts nine programs as trade promotion, along with salaries and expenses for its Foreign Agricultural Service.[7] The Commerce Department counts three units within its International Trade Administration—Trade Promotion and U.S. and Foreign Commercial Service, Manufacturing and Services, and Market Access and Compliance—and a grant for promoting foreign tourism within the United States. The State Department considers a portion of its budget to be related to trade promotion. This portion includes part of State's budgets for its regional bureaus, some of which have overseas staff in locations with no Foreign Commercial Service officers. It also includes State's budget for trade capacity building, advocacy, and promotion activities performed by, or funded through, department offices such as the Office of Commercial and Business Affairs. The national export strategies' trade promotion program budget authority tables also include the entire budgets of Ex-Im Bank, OPIC, the U.S. Trade and Development Agency, and the U.S. Trade Representative as well as

[4]The table to be published in the 2006 national export strategy shows zero trade promotion program budget authority for the Department of Labor for fiscal year 2005 (actual), fiscal year 2006 (enacted), and fiscal year 2007 (requested).

[5]OPIC is authorized to spend funds from the fees it collects and the income it earns from Treasury securities and generally does not receive a direct appropriation. OPIC's budget authority figure, which is negative, is not included in the total.

[6]The 2005 national export strategy lists eight additional member agencies: the Council of Economic Advisors; the Departments of Defense, Interior, and Transportation; the Environmental Protection Agency; the National Security Council/National Economic Council; OMB; and the U.S. Agency for International Development.

[7]The Department of Agriculture counts the following nine programs as trade promotion: (1) Market Access Program; (2) Foreign Market Development (Cooperator) Program; (3) Export Enhancement Program and (4) Dairy Export Incentive Program; (5) Public Law 480 Title I credit and Food for Progress grants; (6) Commodity Credit Corporation export credit guarantee programs; (7) Emerging Markets Program; (8) Technical Assistance for Specialty Crops Program; and (9) Quality Samples Program. Of these nine programs, the last three were not included in previous national export strategy budget tables but will be included in the 2006 table.

very small amounts of the budgets of the Departments of Energy, Labor, and the Treasury and SBA.

To help agencies address barriers to working collaboratively, GAO has previously evaluated efforts such as export promotion that cut across more than one agency. In an October 2005 review of several joint agency efforts that was intended to help agencies address barriers to working collaboratively, we identified eight key practices that can help enhance and sustain interagency collaboration: [8]

- Define and articulate a common outcome—that is, a measurable goal.
- Establish mutually reinforcing or joint strategies.
- Identify and address needs by leveraging resources.
- Agree on roles and responsibilities.
- Establish compatible policies, procedures, and other means to operate across agency boundaries.
- Develop mechanisms to monitor, evaluate, and report on results.
- Reinforce agency accountability for collaborative efforts through agency plans and reports.
- Reinforce individual accountability for collaborative efforts through performance management systems.

GAO reported on the need for an export strategy before the creation of the TPCC: in 1992, we found significant problems associated with inefficiency, overlap, and duplication of U.S. trade promotion efforts.[9] Since its inception, we have reviewed the TPCC's progress in coordinating trade promotion several times. For example, in 1994, we recommended that the TPCC should establish priorities with a well-reasoned and strong analytical basis, and in 1996, we commented that the TPCC lacked measures of value added by export services

[8]GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (October 21, 2005).

[9]GAO, *Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness*, GAO/NSIAD-92-49 (Washington, D.C.: January 10, 1992).

and that this limited its ability to contribute to the budget process.[10] We made similar comments in 1998 and 2002.[11] In our 2002 report, we recommended that the Chairman of the TPCC ensure that its national export strategies consistently identify specific goals established by the agencies within the strategies' broad priorities; identify allocation of agencies' resources in support of their specific goals; and analyze the progress made in addressing the recommendations in the TPCC's prior annual strategies.[12]

Total Reported TPCC Agency Budget Authority Has Declined but Implications are Unclear

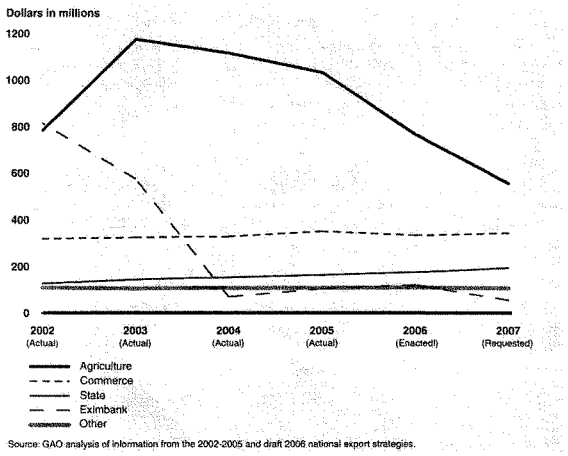
Since 2002, the budget authority for trade promotion reported in the national export strategies has fallen or remained relatively unchanged at TPCC member agencies, but the implication of these trends for agencies' trade promotion activities is not clear. The total reported budget authority for trade promotion fell by more than one-third between fiscal years 2002 and 2007, primarily owing to decreased authority for Agriculture and Ex-Im Bank. At the same time, the trade promotion budget authority for other key TPCC agencies remained relatively flat. (See fig. 1.)

[10]GAO, *Export Promotion: Governmentwide Plan Contributes to Improvements*, T-GGD-94-35 (October 26, 1993); *National Export Strategy*, GAO-NSIAD-96-132R (Washington, D.C.: March 26, 1996).

[11]GAO, *Export Promotion: Issues for Assessing the Governmentwide Strategy*, T-NSIAD-98-105 (February 26, 1998); GAO-02-850.

[12]The Chairman of the TPCC generally agreed with our recommendations at the time. However, TPCC and OMB officials have no record of the TPCC's having submitted to OMB a subsequent action plan in response to these recommendations, as required by OMB cir. A-50 and 31 U.S.C. 720.

Figure 1: TPCC Agency Budget Authority Related to Trade Promotion, Fiscal Years 2002–2007



Source: GAO analysis of information from the 2002-2005 and draft 2006 national export strategies.

Note: "Other" includes the Departments of Energy, Labor, and the Treasury; the Small Business Administration; the U.S. Trade and Development Agency; and the U.S. Trade Representative. OPIC is not included because its budget authority figure is negative: although OPIC is authorized to spend funds from the fees it collects and the income it earns from Treasury securities, it generally does not receive a direct appropriation.

The four agencies named in figure 1 account for more than 90 percent of TPCC member agencies' combined budget authority related to trade promotion, which ranged from $2.2 billion in fiscal year 2002 to $1.5 billion in fiscal year 2006 (enacted) and $1.3 (requested) in fiscal year 2007. The Agriculture Department has consistently held the largest share, more than 40 percent over the last 4 years. During this period, Agriculture's share dropped from a high of 63 percent to 44 percent in fiscal year 2007 as funding was reduced or eliminated in three

program areas: export credit guarantee programs, Public Law 480 Title I food assistance, and the Market Access Program.[13] The budget authorities related to trade promotion at the Departments of Commerce and State, while remaining relatively steady in dollar terms, rose from 15 to 27 percent and 6 to 15 percent of the total, respectively. Ex-Im Bank's share of the total dropped sharply, from 38 percent in fiscal year 2002 to 4 percent in fiscal year 2004, and has remained at less than 10 percent since then.

It is difficult to determine the effect of these budgetary trends on the availability of trade promotion resources. For example:

- Although Commerce's trade promotion budget authority has not changed significantly, its trade promotion activities may nonetheless be affected by increases in related costs. According to Commerce officials, the Commerce budget data includes budget authority for security at overseas offices. The officials provided us with information showing that security costs for these offices have risen by 8 percent since fiscal year 2005, leaving fewer resources available for trade promotion activities.[14]

- The decline in Ex-Im Bank's budget authority, shown in figure 1, did not reduce its ability to provide export financing. OMB changed its method for determining expected loss rates for U.S. international credits, which took effect after fiscal year 2002 and contributed to lower Ex-Im Bank projections of subsidy costs and budget needs. Also, Ex-Im Bank had accumulated carryovers from prior years, which resulted in its requesting zero program appropriations beyond administrative expenses in fiscal year 2004 and program appropriations of less than $100 million in fiscal years 2005-2007.

In addition, reasons for the national export strategies' inclusion or exclusion of agencies' budget authority as related to trade promotion are not always apparent. For example, until fiscal year 2007, Agriculture's trade promotion budget authority reported in the strategies included Public Law 480 Title I food

[13]The subsidy level for the Department of Agriculture's export credit guarantee programs was reduced in July 2005 in response to a World Trade Organization appellate panel ruling. In addition, the fiscal year 2007 budget proposes no funding for Public Law 480 Title I food assistance, and the Market Access Program is being cut back as a deficit reduction measure and in response to an OMB review.

[14]Security costs jumped from 2 percent of the budget authority for Commerce's Trade Promotion/U.S. and Foreign Commercial Service unit (fiscal year 2005, actual) to 10 percent (fiscal year 2007 requested). We did not subtract these costs from the data used for figure 1 because Commerce did not do so in the budget authority figures it submitted for publication in the 2006 national export strategy.

assistance, although the primary objective of this program is to assist developing countries in obtaining needed resources, rather than promoting trade. Similarly, since 2000, the strategies have excluded the U.S. Agency for International Development (USAID) from the program budget authority table, stating that the agency's activities "support trade promotion indirectly through broad economic growth and reform, unlike other activities that more directly fund trade finance or promotion." However, the 2002 national export strategy included USAID in a letter from 10 key TPCC agencies and portions of the 2002, 2003, and 2004 strategies were devoted to a possible joint USAID–Ex-Im Bank program to support capital projects in developing countries. In addition, the strategies' budget tables include agencies such as the U.S. Trade Representative, Treasury, and Labor, which do not directly fund trade promotion activities.[15]

TPCC Has Taken Steps to Improve Coordination, but Strategies Provide Limited Guidance for Export Promotion Activities

Coordination among TPCC agencies has improved, although there is still room for improvement. However, the national export strategies continue to provide little information on which to base future efforts to establish consistent, shared, measurable goals and align resources in agencies' export promotion programs to focus on results.

TPCC Has Made Some Progress in Improving Coordination

TPCC's member agencies have pursued a number of efforts to improve coordination of trade promotion activities, responding to recommendations in its 2002 national export strategy.[16] These recommendations resulted from a 2001-2002 survey of more than 3,000 small businesses and other research commissioned by the secretariat. According to agency officials, these efforts

[15]The table also includes budget authority for the U.S. Trade and Development Agency, which funds feasibility studies and other activities for U.S. firms seeking to export. It had not previously included several Agriculture programs such as the Emerging Markets Program, which provide similar services for exporters of agricultural products. However, in response to questioning from GAO, Agriculture is including these programs in the 2006 strategy's budget table.

[16]As we reported in 2002, these recommendations focused on the need to (1) cross train agency personnel so that they are knowledgeable about other agency programs, (2) improve exporters' access to timely and accurate trade information, and (3) expand outreach and trade education for new-to-export firms.

included several successful initiatives such as joint training and other activities that leverage resources from other TPCC agencies. For example:

- *Interagency training.* Since 2003, the TPCC has sponsored three annual interagency training sessions, attended by a total of 297 people. The sessions have included participants and presenters from a variety of member agencies, including Agriculture, Commerce, Ex-Im Bank, OPIC, SBA, State, the U.S. Trade and Development Agency, and USAID, and according to agency officials have fostered greater cooperation through the sharing of information.[17] In one instance, a State Department official recounted how a training session led by a colleague resulted in collaboration between Commerce and State that (1) improved service to companies seeking U.S. visas for their foreign partners and (2) produced a list of State Foreign Service contacts who could assist exporters in important markets such as Africa, where many countries have no Foreign Commercial Service presence.

- *Joint outreach.* Ex-Im Bank and OPIC have partnered with SBA to improve outreach and service to small- and medium-sized businesses. In May 2002, Ex-Im Bank and SBA signed a memorandum of cooperation to increase small businesses' awareness and use of each agency's financing products, and the agencies share the same application form for their respective products. In September 2004, the two agencies signed a memorandum of understanding that provides for a Ex-Im Bank to co-guarantee loans to small-business exporters when SBA has already agreed to guarantee its established maximum amount. In addition, on April 5, 2006, Ex-Im Bank's acting chairman and president announced a new position of Senior Vice President for Small Business and the establishment of a Small Business Committee to coordinate, evaluate, and enhance the agency's services to small businesses. In September 2002, OPIC and SBA formally integrated their efforts to promote the expansion of U.S. small businesses into emerging markets; as part of this effort, each agency is to provide training on its programs to the other's personnel. OPIC and SBA have signed a cooperative agreement, SBA has detailed staff to OPIC, and OPIC has streamlined its approval process for small business clients.

- *Overseas support.* In January 2005, State and the Commerce Department's Foreign Commercial Service completed a strategic plan to provide coordinated support at embassies with no Foreign Commercial Service staff. According to State officials, as a result of this plan, 75 percent of State-funded export

[17] In our 2005 report on interagency collaboration, we noted that face-to-face interaction through activities like interagency training fosters trust, which is a key to enhancing and sustaining collaborative efforts. See GAO-06-15.

promotion activities at these embassies are now tied directly to regional Foreign Commercial Service offices, up from 25 percent in 2002. Further, we were told that more of these embassies are submitting the commercial guide for their country via a new, Web-based process to Commerce's market research database, which is accessible to the public via www.Export.gov. State has also linked the embassies electronically to domestic U.S. Export Assistance Centers and recently developed an electronic commercial diplomacy toolbox for its Foreign Service officers in the field that helps them assist U.S. firms seeking to export. The toolbox provides links to joint State–Commerce strategic planning, interagency training, and Commerce and other TPCC agency Web sites that provide guidance on export-related issues such as business travel and export controls. According to State officials, these resources are primarily used by small businesses, which often lack the means to obtain such information on their own.

However, despite this progress, coordination problems persist, according to member agency officials. For example, State Department officials said that concurrent realignments of Agriculture and Commerce overseas staff are not being coordinated, a situation that could lead to gaps in country coverage and thereby adversely impact U.S. commercial interests. State officials also described instances of poor coordination between some regional Foreign Commercial Service offices and nearby embassies that lack Commercial Service staff. They said that Commerce is working with State to improve this situation. For example, Commerce's regional office in Johannesburg will host a training program for the 11 embassies in southern Africa without Commercial Service officers. Another agency official told us that staff from at least two TPCC agencies were not aware of how certain other TPCC initiatives or agencies support their own agencies' trade promotion efforts.

In addition, according to Agriculture officials, Commerce field staff have not adhered to roles, responsibilities, and procedures outlined in a January 2001 agreement between the two agencies and reiterated in a March 2004 cable. As a result, the officials told us, a joint Agriculture-Commerce effort to help U.S. companies export agricultural goods—described in the 2004 national export strategy as a "huge success"—was never fully implemented. Commerce officials acknowledged these issues but told us that coordination between the two agencies had improved. Citing a June 2005 Commerce report, the Agriculture officials noted that both agencies have formally agreed to increase their joint cooperation.

TPCC Strategies Continue to Provide Little Guidance for Export Promotion Activities

As we found in 2002, the TPCC's annual strategies provide limited information regarding agencies' export promotion goals and progress. In addition, the strategies do not review agencies' budget allocation or represent the goals of some key agencies, and the strategies' focus varies yearly. Consequently, the TPCC's ability to provide in the strategy a plan for coordinating federal trade promotion activities, as directed by Congress, is constrained.

- As in 2002, the national export strategies do not identify member agencies' goals or assess their progress toward the TPCC's broad trade promotion priorities. According to agency officials, the TPCC secretariat does not systematically collect or compare agency plans and performance measures to define agency goals and assess progress. In addition, the agencies have not articulated mutual, measurable goals for trade promotion. Some member agency officials noted that their agencies' plans and performance evaluations are prepared independently of the TPCC. Although several agencies mention the TPCC in their strategic plans, each agency, as we noted in our 2002 report, generally measures the results of its export promotion activities according to the extent to which its own mandate emphasizes export promotion.

- Despite the TPCC's mandate to propose an annual unified trade promotion budget,[18] the TPCC's annual strategy does not review member agency budgets in relation to their goals and the agencies do not adjust their budgets to reflect the national export strategy. As we reported in 2002, the TPCC does not have specific authority to direct member agencies' allocation of their resources.[19] Agency representatives told us, as they had during our 2002 review, that they would resist any effort by the TPCC to review their budgets; they said that each agency has its own statutory requirements and that TPCC agencies' budgets are appropriated by different congressional subcommittees. The agencies submit their proposed budgets separately to OMB. TPCC officials told us that the TPCC does not recommend budget priorities to OMB, a practice that, as we noted in our 2002 report, was last performed in 2000.

- The national export strategies do not represent the goals of some key member agencies. For example, although Agriculture's Foreign Agricultural Service has accounted for about half of TPCC member agencies' combined budget authority over the past 4 years, the 2005 strategy contains only one notable reference to this agency. In addition, the 2005 strategy identifies Brazil as a "spotlight" market, although Agriculture does not consider it a high-priority market because

[18] 15 U.S.C. 4727(c)(4).

[19] See GAO-02-850.

it competes with the United States in exporting agricultural products. Further, the 2005 strategy included very little of the information that the Foreign Agricultural Service provided to the TPCC secretariat in commenting on a draft of the strategy. However, Agriculture officials told us that a draft of the 2006 strategy, due out in May, would likely incorporate more information about their agency.[20] Regarding other agencies, recent strategies have focused on China, a market in which USAID and OPIC do little or no business.

- The focus of the national export strategies continues to change from year to year with little evaluation of previous efforts' effectiveness. For example, although TPCC officials noted that the national export strategies have consistently focused on China, the strategies describe a series of new China-related initiatives without following up on the outcome of specific activities from one year to the next.[21] The exception to this pattern was a 3-year focus on recommendations from the TPCC's survey and other client research, from 2002 through 2004; however, new areas of focus continued to be introduced. For example, the 2003 strategy introduced capacity building, Russia, and transportation security. The 2004 strategy highlighted China and free trade agreements, as well as coordination in crisis regions (primarily Iraq and Afghanistan), which had resulted from the survey and other information gathering and had been briefly raised in the 2002 and 2003 strategies. The 2005 strategy covered free trade agreements, China, and six "growth markets" (Japan, South Korea, India, Brazil, Russia, and the European Union). Some member agency officials commented on the ad hoc nature of the national export strategies and the lack of staff-level meetings focused on specific issues.

Lack of Systematic Data Hampers Assessment of Small and Medium-Sized Businesses' Participation

Although available data suggest that TPCC member agencies have involved small and medium-sized businesses in trade promotion activities, a lack of systematically collected information makes it difficult to assess progress or trends. First, member agencies measure small and medium-sized businesses' participation in trade promotion activities to varying extents and using various indicators. For example:

- *Department of Commerce.* U.S. and Foreign Commercial Service officials stated that they have recorded about 10,000 transaction "successes" a year over the past

[20] TPCC officials provided us with a partial draft of the 2006 strategy that describes a series of initiatives by member agencies.

[21] For instance, the 2004 strategy identifies five priority sectors in China and the 2005 strategy also identifies five, but only three of the sectors are discussed in both strategies. Regarding one of the overlapping sectors—health care—the 2005 strategy lists a series of upcoming trade events but makes no mention of any sales or other business resulting from the two China health-care-related trade events described in the 2004 strategy.

5 years involving small and medium-sized business export sales and that they are currently in the process of updating their client management system to enable them to observe a transaction for a given client as it develops over time, progressing through interactions with other TPCC member agencies such as Ex-Im Bank, SBA, and other agencies. The U.S. and Foreign Commercial Service also runs an Advocacy Center, which helps U.S. companies compete for specific foreign sales contracts on a case-by-case basis. According to information posted on the U.S. Government's export-related website (www.Export.gov), the center has helped 28 small and medium-sized enterprises win contracts valued at a total of $637 million since June 2002.[22] Commerce's Office of Trade and Industry Information within its Manufacturing and Services unit compiles detailed statistics on small and medium-sized business exports.[23]

- *Ex-Im Bank.* Ex-Im Bank tracks small business' participation in its programs because Congress requires it to make available a certain percentage of its export financing to small businesses. For fiscal years 2000-2005, Ex-Im Bank reported that slightly less than 20 percent of the value of its financing directly benefited small businesses, and in recent years it has reported that about 85 percent of its authorized transactions directly benefited these clients. However, we recently found flaws in the bank's data and methodology, including shortcomings in its system for estimating about one-third of its small business financing annually and conflicting records for the same companies.[24]

- *Department of Agriculture.* The Foreign Agricultural Service's Market Development Program tracks a variety of indicators related to small businesses, including the number of its activities that support small businesses, the number of small businesses making a first export sale, the number of small businesses with increased sales of 20 percent or more, and the value of small companies' sales.

- *OPIC.* OPIC measures the number of small business projects that result from its outreach through a Small Business Center. OPIC's 2003-2008 strategic goals include supporting these clients and reducing to 60 days the time it takes to

[22]The site contained no information showing when this data was posted or when the site was last updated.

[23]For example, the Statistical Handbook released in June 2005 by this office provides information on the number of small- and medium-sized exporting companies, firms' known export revenues, and the destination of exports. [See Office of Trade and Industry Information, *Small & Medium-Sized Exporting Companies: A Statistical Handbook: Results from the Exporter Data Base* (Washington, D.C.: Department of Commerce, 2005)].

[24]GAO, *Export-Import Bank: Changes Would Improve the Reliability of Reporting on Small Business Financing,* GAO-06-351 (Washington, D.C.: March 3, 2006).

process their applications for OPIC assistance. OPIC officials stated that the center targets small businesses with annual revenues of less than $35 million and that since the center's establishment in 2002, the share of OPIC transactions involving such companies increased from 67 percent in 2002 to 80 percent in 2005.

- *Department of State*. State does not presently collect data on small and medium-sized businesses' involvement in trade promotion activities. However, according to a State Department official who works with small businesses, the agency has recently initiated a system to track commercial "success stories." The official said the system, which State anticipates will be operational by June 2006, will track requests for help with commercial transactions and will also include data on the requesting companies—such as their number of employees and annual sales—that will enable State to identify small- and medium-sized businesses.

Finally, although 2006 TPCC agency goals include increasing the number of small and medium-sized businesses that use member agency programs, the TPCC does not collect information from member agencies on these businesses' participation in agency programs and activities, according to TPCC officials. Moreover, the national export strategies provide anecdotal, rather than systematic, reporting on small and medium-sized business participation in trade promotion activities. Although the national export strategies describe activities such as a cooperative agreement between SBA and OPIC, they provide no comprehensive summary of small and medium-sized business participation in all member agency activities. Further, the strategies do not assess agency reporting on small and medium-sized enterprise participation during the current year or identify trends in such participation. This makes it difficult to assess progress or trends in participation across agencies.

Concluding Observations

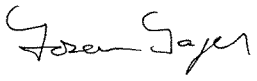
Our review of the TPCC's efforts shows it has achieved some important progress. For example, the TPCC has pursued a number of initiatives to improve agency coordination of trade promotion activities. Since our most recent report in 2002, the TPCC has completed and implemented a number of changes as a result of its private sector outreach efforts, including joint training and other activities that leverage resources of other TPCC member agencies. Although coordination challenges continue, there appears to be more discussion among TPCC member agencies and a higher level of awareness of the activities of the other agencies. This is a noteworthy improvement over the situation that existed in the early

1990s, when GAO began to evaluate the federal government's trade promotion efforts.[25]

Despite this progress, the TPCC continues to face challenges in its ability to achieve other aspects of its mission of coordinating federal export promotion activities. For example, the TPCC's annual export strategies do not review or assess agency goals or activities. Moreover, despite its mandate to propose a unified federal trade promotion budget, the TPCC continues to have little influence over agencies' allocation of resources for trade promotion. GAO has consistently reported on the TPCC's lack of progress in these fundamental objectives.

Based on our long record of oversight over the TPCC, we believe that it can continue to make improvements in agency coordination as well as lead future outreach efforts to the private sector. In addition, we believe that the TPCC can do a better job of tracking small and medium-size businesses' participation in a consistent manner. However, we question whether the TPCC's current structure will allow it to overcome the challenges associated with assessing agency goals and influencing the allocation of resources. We also question whether the TPCC's current move into the office of the Assistant Secretary for Trade Promotion within the Commerce Department will help it overcome these challenges. As we noted in previous reviews of the TPCC, sustained high-level administration involvement is necessary for the TPCC to achieve its fundamental objectives.[26]

Mr. Chairman, this concludes my prepared remarks. I would be happy to address any questions that you may have.



[25]GAO/NSIAD-92-49.

Loren Yager,
Director, International Affairs and Trade

[26]GAO, *Export Promotion: Initial Assessment of Governmentwide Strategic Plan*, T-GGD-93-48 (Washington, D.C.: Sept. 29, 1993), p. 5; *Export Promotion: Governmentwide Plan Contributes to Improvements*, T-GGD-94-35 (Washington, D.C.: Oct. 26, 1993).

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TESTIMONY

of

THE STATE INTERNATIONAL DEVELOPMENT ORGANIZATIONS (SIDO)

presented by

Kathy Hill

SIDO President

regarding

Intergovernmental Cooperation in Trade Promotion

before the

Committee on Small Business

United States House of Representatives

April 26, 2006

Mr. Chairman, thank you for the opportunity to appear before this distinguished Committee. My name is Kathy Hill and I am the director of international trade for the State of Iowa. I am honored also to serve as the President of the State International Development Organizations, or SIDO, the only national association of state international trade directors. As state economic development professionals, we work every day with small businesses struggling to find a foothold in the global market place. Mr. Chairman, we are very grateful that this Committee has chosen to address the challenges these businesses face in getting the assistance they need. We are especially grateful that you have reached out beyond Washington to include states in this important dialogue. As you know, a small company in Rockford, Illinois or Dubuque, Iowa looking to find buyers for their products overseas doesn't care which name is on the front door of the government agency they consult for help, they just want to get the assistance they need.

Mr. Chairman, there are three key themes I would like to address today. First, intergovernmental cooperation is essential for addressing our trade deficit. Second, recent decisions made by the U.S. Department of Commerce have imperiled the progress made in promoting intergovernmental cooperation over the past few years, and finally, we believe that the best way to ensure that all those involved in trade promotion are on the same page is to strengthen the role of the White House in coordinating trade promotion programs.

To begin, state governments are actively involved in export promotion. The 50 states spend over $75 million per year on trade and inward investment promotion programs and maintain a network of over 200 overseas offices. States often provide unique programs and services that the federal government does

not provide, including export promotion grants to cover program participation costs for new exporters and subsidies to help small businesses take advantage of "fee for service" programs offered by the U.S. Department of Commerce. While states have their own unique abilities to help small businesses export, they often conduct trade missions and counsel clients in direct cooperation with the U.S. Commercial Service, Ex-Im Bank, and other federal agencies. This cooperation has grown even deeper over the past four years in response to state budget cuts.

When states faced major budget cuts and de-appropriations in 2001, state international trade programs were forced to tighten their belts and find new ways of doing business. The average state trade budget was cut by 20% between 2002 and 2004, and the single largest state trade program, California's, was eliminated completely. One of the ways that states met the challenge of providing top quality services to small businesses while cutting costs was to further integrate their programs more closely with federal trade promotion agencies. Connecticut closed all of its overseas offices and chose instead to pay a fee to the U.S. Department of Commerce under its "Platinum Key" program to provide specialized support for Connecticut companies in key overseas markets. Other states, such as Iowa, downsized their domestic staff while still maintaining the level of services our companies needed. And many of us deepened our cooperation with U.S. Export Assistance Centers, sometimes providing free or subsidized office space to Commercial Service staff, to ensure that small businesses could still receive quality service.

Strengthening this cooperation is essential for helping our small businesses. The only way we are going to put a dent in our trade deficit is if we change the business culture in our country and convince more small firms to begin exporting. However, total funding for trade promotion in the U.S. is minimal

compared to our trade partners. Our competitors, in Canada and elsewhere, offer a wide range of cost-free services, grants, and incentives to help small businesses take the plunge.

Here in the U.S., unless you are in the agriculture business, your best hope of getting similar help is to live in a state that provides low cost export promotion services or that subsidizes your access to federal programs. Agricultural firms have the benefit of the Market Access Program (MAP) of the U.S. Department of Agriculture, which provides funds to aid in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products. The MAP is a partnership that shares the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

In Federal FY'04, Iowa companies have received more than $800,000 in direct financial aid through MIATCO, the regional program set up to assist in distributing MAP funds. These funds are extremely important to the states and we assist our companies in accessing them. Yet there are no programs that I am aware of that offer this type of financial assistance to manufacturers or service providers. On the contrary, their federal services are being downsized and rates are being increased.

For the past two years, the Department of Commerce has tried to increase by up to 300% the fees it charges to U.S. companies for help in finding buyers for their products overseas. As I mentioned, states often subsidize these fees by reimbursing companies that take advantage of "Gold Key" and other Commercial Service programs. For some states, the fees they pay for these services account for up to 30% of their total international trade budget. Our members feel strongly that the proposed fee structure, with costs of up to $2,500 to set up a single day of meetings with potential buyers, will price out most

small businesses from Commercial Service programs. In addition, states will be left with no choice but to de-link their programs from the U.S. Department of Commerce.

The fee increase will also have a domino effect on other federal trade promotion agencies, such as Ex-Im Bank, as sales generated through "Gold Key" programs are often supported by Ex-Im guarantees.

The justification given for the fee increase is an interpretation of OMB Circular A-25 requiring full cost recovery for specialized services rendered to businesses. However, we are under the impression that the real purpose of the fee increase is to generate revenue. Unfortunately, it will have the opposite effect. The State of Florida is the single largest public or private client of "Gold Key" service for the Commercial Service. Enterprise Florida, the state's economic development arm, uses state appropriated dollars to help hundreds of businesses take advantage of this important federal program. Unfortunately, the state has announced that it will stop funding the program if the fee increase is implemented. Many more states will likely follow suit. Leaders in both the House and Senate prevented Commerce from introducing these fee increases last year by inserting a waiver in the Science, State, Justice, Commerce, and Related Agencies Appropriations Act of 2006. Despite the intent of the legislation, the Department of Commerce interpreted the Act as providing a waiver only for FY 2006 and has indicated that they will introduce the fee increases in the new fiscal year. We hope the members of this Committee will work to ensure that the fee increase is blocked again.

Decisions like this demonstrate the need for improved coordination in trade promotion programs. We believe that cooperation among all of our nation's trade programs can best be strengthened by increasing the role of the White House in coordinating trade promotion policy. Why is it that trade policy, the

process of negotiating trade agreements, is centrally orchestrated by a powerful White House office, while trade promotion, the process of helping our businesses take advantage of the agreements we sign, is left up to a loose constellation of agencies and institutions with no common agenda? We would ideally like Congress both to increase the resources it devotes to trade promotion as well as strengthen coordination among trade programs. However, as state officials used to cutting costs and doing more with less in the face of budget difficulties, we know that it will be hard for Congress to find new funds in the current budget environment. Therefore it is all the more important that we use the funding we have to support an integrated approach to export promotion that leverages resources at the state and federal levels, and avoids costly mistakes.

I recently received a copy of the ***2006 Export Programs Guide: A Business Guide to Federal Export Assistance*** of the Trade Promotion Coordinating Committee (TPCC). I frankly was not very familiar with the work of the TPCC, but I was glad to see that the federal government had compiled a user friendly resource for small businesses to access export services. However, when I opened it up, instead of finding a step-by-step guide to federal services tailored to business needs, I found a cut and paste assortment of program descriptions and mission statements drawn from the websites of over a dozen different agencies, some listing programs that no longer exist. Even an expert in deciphering organizational charts would have a hard time figuring out where their business needs fit in. Not to mention the fact that there were no references to state grant programs or other services that might directly benefit a small business. I am sure that the authors of this report worked hard to craft a useful document. However, it symbolizes something that is broken in our trade promotion efforts. As we face a trade deficit of almost $1 trillion dollars, our country's export promotion programs deserve more than a cut and paste affair.

Our goal is not to single out the U.S. Department of Commerce or to criticize federal export promotion efforts. In working daily with our small businesses, we states are also aware that our SME's need a coordinated voice to assist them in gaining global market share. It is because we deeply value the programs and services of our federal counterparts and respect their dedication and professionalism that we think closer coordination is so essential.

In addition, we are very grateful for the leadership that the White House Office of Intergovernmental Affairs has shown in reaching out to state trade programs to promote intergovernmental cooperation and provide a working forum where state trade directors can bring successes, concerns, and suggested resolutions to misunderstandings between state trade programs and federal agencies. Our positive experience working with the White House has led us to think that it is best equipped to improve coordination both within the federal government and with state partners. We know that the White House staff have their hands full and it is no easy task for Congress to create and fund new offices, but surely our nation's trade deficit warrants this level of attention.

Mr. Chairman, I want to thank you and the rest of the Committee again for taking time to hear our views today. I know from experience that America's small businesses are up to the challenge of the new global economy. However, it is our duty as trade promotion professionals to ensure that we are as committed and creative as the entrepreneurs we serve. We look forward to working both with you and the administration to ensure that these businesses get the support they deserve both from state and federal trade promotion agencies.

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Testimony Submitted to the House Small Business Committee
By J. Anthony Holmes (Amb.),
President of the American Foreign Service Association

April 26, 2006

Mr. Chairman and members of the Committee,

On behalf of the American Foreign Service Association (AFSA) and the more than 27,000 active-duty and retired members of the Foreign Service, I thank you for the opportunity to share our views with you as the Committee considers the current status of the Trade Promotion Coordination Committee (TPCC), particularly on how the TPCC relates to the Foreign Service.

Trade is an Important Aspect of our National Security

Commercial diplomacy is an integral part of the President's national security strategy, which calls for a new era of global economic growth through free markets and free trade. Some of these vital issues were on display last week during the visit by China's President Hu Jintao.

In a competitive global environment, America needs to draw on its strategic assets, including the entrepreneurial energy of its small and medium-sized enterprises (SME). SME's, however, are not our only assets. Large manufacturers also deserve vigorous support, and the role of SME's as suppliers to large enterprises should not be overlooked in the overall dynamics of trade. Large enterprises require eyes and ears in foreign markets to spot major project opportunities, they need export financing to compete, they need the predictability of a rules-based trading system, they need representation in multilateral institutions that govern trading rules, and they need access to technical assistance when it is a determining factor in a competition. In short, both large and small enterprises benefit from the services of the 19 TPCC agencies.

When our exporters are up against stiff competition, particularly competition backed by other governments, it falls to the Congress and the Administration to find ways to provide a unifying framework to coordinate the export promotion and export financing activities of the United States Government. To this end, the Congress in 1992 amended the 1988 Export Enhancement Act creating the TPCC in order to develop a government-wide strategic entity for carrying out Federal export promotion and export financing programs.

A Strengthened TPCC Requires a Strong Foreign Service

In pursuit of America's vital economic interests, AFSA supports measures to strengthen the

TPCC. We further believe that a reinvigorated TPCC requires the support of a fully funded, robust, professional Foreign Service able and motivated to implement the strategic directions of the TPCC in serving the SMEs, and growing our economy by promoting trade for all our businesses.

The U.S. & Foreign Commercial Service (US&FCS), the Foreign Agricultural Service (FAS) and the State Department are the primary vehicles for promoting trade abroad and each is involved in representing the other members of the TPCC and sometimes each other overseas. The US&FCS, as the lead export promotion agency, is uniquely positioned with a domestic and international network to deliver services to SME's, but it has its own coordination issues involving customer relations databases that are not always accessible between headquarters, the overseas field, and the domestic network. Also, the US&FCS is hampered by narrow views of its mission and unrealistic fee structures dictated by its OMB overseers. Ironically, just at a time when the United States needs more from its primary export promotion agency, it is under assault from within. It is time to free the US&FCS from its concerns over funding in order for it to focus on service delivery. On its own the US&FCS has been unable to persuade OMB to re-visit the new fee structure that is driving its SME's clients out of the global market. Perhaps with the full weight of the TPCC behind it, this controversial policy could be scrapped.

InterAgency Coordination Can Be Improved

While it is beyond my brief to opine on the charter of domestic economic agencies, and while I recognize that each TPCC agency plays an important role in commercial diplomacy, I do have some insight on the functioning of the TPCC from the perspective of an Ambassador's country team.

As the President's personal representative, an Ambassador enjoys undisputed authority over the actions of the diplomats accredited to his mission. He is, in a very real sense, the senior commercial officer, the chief representative of donor assistance, the top trade negotiator, among many other roles. From time to time, when trade agencies' interests diverge and tactics and priorities differ, an Ambassador uses his authority and convening power to forge consensus. On rare occasions, when consensus cannot be reached at post, the issue is referred back to Washington for an interagency review.

It is not often that an SME's requirements for service delivery would rely upon a consensus by an embassy's country team. Yet, absent a structure for streamlined decision-making on policy and major commercial advocacy issues, SME requirements for minor coordination, e.g. commercial information on a US Agency for International Development (USAID) housing initiative, could easily receive short shrift.

A helpful structure therefore would be a clear delineation of TPCC functions at post with an acknowledged TPCC coordinator linked to a unified decision-making process in Washington. The integrity of individual agencies can be preserved, but when consensus breaks down, there needs to be a default decision process in Washington.

The benefits of better coordination and communication with the private sector are significant. The Overseas Private Investment Corporation (OPIC) may be investing in projects and the Export-Import Bank (Eximbank) could be financing transactions that the TPCC agencies at post and SMEs at home know little about. US Trade Development Agency (USTDA) could provide a grant to a major project and USAID could take on a major health care project with ample opportunities for trade flows, but operate largely in isolation. The State Department and the United States Trade Representative (USTR) negotiate Free Trade Agreements, enforce existing trade agreements, fight Intellectual Property Rights (IPR) infringements, and work with host countries at high levels to combat corruption without effective means to communicate to the US private sector when progress is made.

Consider the potential for exports of innovative environmental technologies. Our European competitors routinely win orders because of tax preferences proffered to European manufacturers. What if Treasury recommended similar tax breaks, the US&FCS identified opportunities, USAID and USTDA provided technical assistance, and U.S. SME's took advantage of Exim's special environmental financing? This is just one example where TPCC coordination could open up new markets and increase opportunities for US industry.

Is there another market in the world where nimble and coordinated advocacy is more important than China? How many opportunities have been lost because we haven't exercised our legal authority under Eximbank to challenge concessional financing from our competitors? Is our leverage with the Chinese not increased when we take into account the full range of our bilateral trade engagement?

Need New Authority, Not New Bureaucracy

What is required perhaps is a Trade Promotion Coordination Authority in Washington, DC and a Trade Promotion Coordinating Committee in the field. Placing such authority in the Office of the President is logical, but in our view a cabinet level coordinating function could be preserved in order to stave off the creation of a new bureaucracy.

One could take a fresh look at the National Economic Council (NEC) and create a post there infused with sufficient authority to move the bureaucracy on matters of trade - - only when there is a need for Presidential intervention or when there is no inter-agency agreement. The TPCC secretariat would function to relieve pressure on the NEC. As the head of the TPCC, the Secretary of Commerce could be given fresh executive authority to build upon his role as identified in the 1992 legislation. He should have sufficient authority to make final recommendations to the NEC, including dissenting opinions.

I think a relevant analogy was the recent creation of the post of Director of National Intelligence. There may be rational explanations for the disbursed nature of econ/commercial functions, but the problems this creates for effective trade coordination and promotion are not dissimilar to the recent problems faced by consumers of the USG's intelligence community.

In closing, Mr. Chairman, we live in an exciting era where more companies have access to international markets than at any other period in history. Trade is getting freer and fresh competitors are looking abroad to the ultimate benefit to US companies, workers, and consumers. In this world our companies need the full faith and backing of the US Government as represented by a fully funded international network of trade officials. We welcome your interest in strengthening the TPCC and look forward to working with your committee to assure better opportunities for America's small and medium size industries.

Statement of

James Morrison, Ph.D.

President
Small Business Exporters Association of the United States
Washington, DC

Regarding U.S. Government Trade Promotion Activities

Before the

COMMITTEE ON SMALL BUSINESS
U. S. HOUSE OF REPRESENTATIVES

Washington, DC

26 April 2006

The Small Business Exporters Association of the United States™

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Chairman Manzullo, Representative Velazquez, members of the Committee. Thank you for inviting me to appear here today. I am James Morrison, President of the Small Business Exporters Association of the United States. SBEA is the nation's oldest and largest nonprofit organization exclusively representing small and medium-sized U.S. companies in international trade. We are also the international trade council of the National Small Business Association, whose 22,000 exporting companies we represent on international trade issues. Founded in 1937, NSBA is the nation's oldest nonprofit small business advocacy organization.

SBEA is heartened by the Committee's continuing interest in strengthening U.S. exports, not only through hearings and legislation, but also through the useful and innovative SME International Trade Working Group that the Committee sponsors.

Today's hearing focuses on an important topic – potential improvements in the federal government's institutional structure for promoting exports.

Once upon a time, this might have been one of the dozens or hundreds of issues that are "worth doing" but not much of a priority. No longer.

With the U.S. staring down an abyss of trade deficits approaching $1 trillion a year, our country must get export promotion right. And getting it right means setting up the most effective institutions possible.

So thank you for focusing the Committee on this crucial national priority.

Let me begin with a caveat. SBEA has had varying degrees of contact with the parts of the federal government's trade promotion structure that the Committee is considering today. We interact frequently and extensively with the Office of International Trade at the Small Business Administration, the subject of one title of the proposed bill, and we will offer some comments on that in a moment. We also have a significant amount of contact with Ex-Im Bank, the Overseas Private Investment Corporation (OPIC), the Office of the U.S. Trade Representative, and several elements of the Commerce Department. We have less frequent interactions with other agencies in the trade field, such as the Departments of Agriculture, State and Treasury, and the International Trade Commission.

TPCC

The Trade Promotion Coordination Committee, housed at the Commerce Department, is somewhat different. It's an internal federal coordinating mechanism with which the private sector, including SBEA, generally has limited contact. On those occasions when SBEA has directly interacted with TPCC, such as in the preparation on the *National Export Strategy* document that TPCC produces, we have found TPCC to be cordial and open-minded about trade promotion ideas.

Today's hearing, however, is less about the reports that TPCC produces and more about its success at trade coordination.

TPCC faces a daunting challenge. Many elements of the federal government play a role in international trade. TPCC works to coordinate 19 or more of these agencies, but does so mostly in a behind-the-scenes way. If the federal export promotion effort seems harmonious, there are likely to be several agencies lining up for commendations. If it seems disjointed, well, everyone can murmur about TPCC.

If this situation seems somewhat unfair, and it is, we can trace the roots of the problem back to TPCC's mandate from Congress and the President.

A Common Thread

What's striking to us at SBEA is the common thread that runs several export promotion issues -- TPCC, SBA's Office of International Trade, and the reauthorization of the Export-Import Bank.

The thread is this: performance, and even accountability, is difficult because responsibility doesn't match authority.

Take **Ex-Im Bank**. On its own, Ex-Im recently set up a Division to focus on small business. And the House bill to reauthorize Ex-Im would make that SME Division permanent.

While both these initiatives are worthy initial steps, the problem with both is that they create an explicit or implied *responsibility* for the SME Division, and the person heading it, to "do something" about how the Bank handles small business.

Yet neither the Bank nor the House bill, as of now, gives the Division and its head any *authority* over the Bank's products, processes or transactions. In other words, the Division is being given a largely impossible job.

Or take **SBA**. Congress clearly wants SBA's Office of International Trade to help U.S. small businesses strengthen their exports -- that is, to take responsibility for increasing SME export sales.

But the institutional structure at SBA diffuses the authority for carrying out this task. If an SBA international trade product or process isn't working, OIT has to gain the assent of several non-OIT layers of the agency to seek improvements.

The initiative by this Committee to have the head of OIT report directly to the SBA Administrator is a vital step in aligning authority and responsibility.

Not only does it permit OIT to state its views plainly and directly to the head of the agency, but it also sends an important message to the rest of SBA. The message is this: Congress considers the agency's international trade work important, and wants to see results.

It's vital to send this message because SBA is fundamentally, by statute and culture, a domestic agency. Absent a strong mandate from Congress, SBA may tend to overlook and marginalize international trade.

Let us suggest a couple of additional steps that the Committee might wish to consider at SBA.

A recent internal administrative change at the agency placed the SBA's front-line international trade specialists – its 16 export finance specialists assigned to U.S. Export Assistance Centers around the country – under OIT's direct authority. Prior to this, these specialists had been under the authority of SBA's Office of Financial Assistance, reporting from there to the Associate Deputy Administrator for Capital Access, which also controls OIT.

The recent change is positive, but a subsequent Administrator could roll it back unless Congress clearly directs SBA to keep the export finance specialists in OIT.

But the larger problem at SBA is this: While OIT may make *suggestions* to other parts of the agency about its basic international trade products and processes, the OIT lacks real authority in this area. This Committee could usefully provide OIT with the authority to initiate, and if necessary veto, changes in SBA international trade-related products and processes.

Budget and staffing for OIT also deserve the Committee's consideration. There are about 25 million small businesses in the United States, and about 230,000 small and medium-sized exporting companies. OIT's approximately 25 employees represent about one employee per million U.S. small businesses, or about one per ten thousand SME exporters. Yet SME's wishing to export face difficult hurdles and need considerable assistance.

Where SBA has deployed its scarce OIT resources – the bulk of them in the USEAC's – they have achieved almost superhuman feats. OIT's 16 export finance specialists in the USEAC's are costing the taxpayers about $2 million a year; yet they are financing close to ***two billion dollars*** a year in export sales. That works out to close to $1000 in exports for each $1 in taxpayer support. And remember, these are all small sales by small businesses; there aren't any Boeing 777's in these numbers.

If there is a better return in export sales per taxpayer dollar anywhere in the federal government, we have yet to see it. Yet year after year, our association, SBEA, has to fight for this modest appropriation against pressures to zero it out. Rather than trying to *end* this spectacularly successful export promotion effort, Congress and the Administration should be *expanding* it into *more* USEAC's.

Turning back to **TPCC**, we can spot a familiar problem: Lots of responsibility, little authority, few resources.

Two Approaches

There are two ways that Congress could match TPCC's responsibility to its authority.

- One is to exercise greater control over the internal programs and personnel at other international trade agencies. However much this might appeal to logic, its practical effect would be to add a new layer of bureaucracy and make the many large agencies under TPCC even slower in responding respond to changing conditions.

- The other option is to give TPCC more authority over the budgeting process by other international trade agencies. This approach has several advantages. It facilitates the creation of benchmarks and the measurement of outputs against inputs. It is concentrated at a certain time of the year. It requires fewer people. It is more predictable and less disruptive.

Thus Congress, back in the early 1990's, tried to give TPCC a key role in the budgeting process for trade promotion.

Unfortunately, it hasn't worked. TPCC's agency interventions, such as they are, occur too late in the budgetary process to have a major impact.

To be effective, TPCC needs a set of government-wide priorities to use in evaluating the performance of other agencies in the international trade area. TPCC also needs the personnel and resources to establish benchmarks reflecting those priorities and then to assess agency budgets in that light.

Lacking a strong mandate from Congress, TPCC not only is ill equipped to carry out these duties; it is also vulnerable to efforts by some agencies to ignore it or push it aside. Moral: don't expect miracles from agencies that have no real authority.

TPCC's stature would be further enhanced by giving it more independence, and the proposed legislation contemplates housing it at the White House.

While the current placement of TPCC within the Department of Commerce is logical, it nevertheless raises inevitable questions about TPCC's independence in evaluating DoC's own programs.

So SBEA supports the thrust of this proposed legislation and we look forward to working with the bill's sponsors on the legislative details.

Coordinate *What*? Goal Attainment

But we'd also like to go back to something even more basic: what should TPCC *do*?

Coordination, in our view, is a means, not an end.

Congress and the President need to consider the *goals* that TPCC coordinates across the trade promotion field.

And what are those goals?

The short answer is this: TPCC should ensure that agencies are in fact *promoting trade*.

It should expect agencies to be constantly seeking "best practices", evaluating their own successes in attaining stable and transparent goals, and demonstrating direct support for increased U.S. exports.

TPCC should encourage agencies to seek more authority where they are succeeding and to cut their losses where they aren't. It should get agencies to do more, both internally and in conjunction with other agencies.

TPCC should stand for a set of government-wide trade promotion priorities.

As noted earlier, today's hearing is set against the backdrop of a massive trade deficit, ascending toward $1 trillion a year.

There are really only three ways to deal with trade deficits:

- restrict imports,
- manipulate exchange rates, or
- increase exports.

While our trade partners should always be required to live up to their obligations under the WTO and other agreements, ***restricting imports*** by political fiat will lower the American standard of living, according to virtually all reputable economists.

Just as the U.S. should oppose ***currency manipulation*** by other nations, we should not practice it ourselves. Manipulating a reserve currency like the U.S. dollar is very rarely successful over the long run without a broad international consensus, and even that risks lowering the standard of living here, if not an actual recession.

That leaves ***export promotion***.

The slightly longer answer, then, for what TPCC should do is this:

Help set some goals for export promotion, and then hold the international trade agencies to measurable progress toward those goals.

Something like three or four major export promotion goals might lend themselves to a set of metrics suited for different agencies.

The goals themselves could come from the Administration, Congress, a White House Conference on Trade, roundtables across the country, or other ways of gathering input.

TPCC then could flesh out these goals with a set of metrics, in consultation with the agencies. Evaluation of progress on these metrics could then be the basis for informed analysis in the budget-setting process.

An Example of a Government–Wide Goal

For example, a government-wide goal for the promotion of small business exports might be:

Lowering transaction costs in international trade.

Why? Because when fixed costs make export transactions profitable only above the level of $1 million, then relatively few small businesses will export. Lower those fixed costs enough to make $500,000 transactions profitable and more SME's will export. Lower the profitability point to $250,000 or $100,000 and *many more* will export.

Here's a hypothetical example. Let's say that exporting U.S. food processing machinery to Tunisia can only be profitable at the level of $1 million or more – given distribution costs, financing costs, non-tariff barriers in Tunisia, average shipping costs, and so on. Not too many SME's can put together such a $1 million sale to Tunisia, although there are a lot of SME's selling food processing machinery.

But suppose every federal agency with a responsibility for international trade starts focusing on how it can do something to lower transaction costs -- and telling TPCC.

- USTR reports to TPCC on how its work on trade facilitation generally, and *reducing non-tariff barriers* like licensing and fees in specific countries like Tunisia, have cut the costs for American companies to do business in Tunisia.

- Commerce reports to TPCC on steps it's taking globally, regionally and in Tunisia to lower the effective cost of *finding a distributor*. It says that it will ***not*** be raising the price of the Gold Key Program, because doing so raises transaction costs for SME's and drives away companies.

- Ex-Im reports on steps it has gotten Tunisia and other countries to take to lower their "country risk ratings" and therefore the price of financing exports to those countries. Ex-Im also explains how its new SME Division has simplified export finance applications for the medium-term financing typically used by capital equipment exporters, thereby further lowering transaction costs for such exports.

- OPIC reports on how it has lowered the effective cost for an American company to *purchase a warehouse or a distributorship* in countries like Tunisia.

- USAID reports on how "trade capacity building" in countries like Tunisia is lowering transportation costs to move U.S. goods into those countries.

And so on.

Step by step, the cost for an American company to do business in Tunisia decreases.

Step by step, this export market opens up to more U.S. sellers.

Impact 1: a lot more American SME's can sell now.

Impact 2: a lot more ***Tunisian SME's*** can afford to ***buy*** now.

Impact 3: *all* U.S. equipment sales to Tunisia benefit, because *all U.S. equipment sellers can lower their prices.*

Next, TPCC says: "Great work. All of you get an A on this goal for the Fiscal Year. Now keep at it." Assuming everybody does, the agencies then drive the transaction profitability point down to, say, $250,000. Result: many more sellers, many more buyers.[1]

As to the other 2 or 3 or 4 big objectives that TPCC should be pushing, we leave that to other players in the international trade debate. And part of TPCC's challenge will be juggling these various goals, which may conflict in specific situations, or at the very least create multiple demands for scarce agency resources.

In the end, TPCC should be capable of addressing the larger picture to the President, Congress and the American people – how much new exporting is occurring, how many more American companies are exporting, and what effect this is having on the trade deficit.

TPCC can't do this if lacks real authority and resides on the third tier of the Department of Commerce.

Seriousness about export promotion involves not only *responsibilities* but also *authority*.

The proposed legislation faces this challenge squarely, and SBEA looks forward to supporting it as it moves forward.

[1] To see how lower transaction costs work in practice, consider the impact of NAFTA on U.S. SME exports during the first seven years of the Agreement. After NAFTA reduced a host of fixed-cost barriers to U.S. companies doing business in Canada and Mexico, the number of small businesses exporting to Canada grew from 45,266 to 95,174, or 110%, while those exporting to Mexico grew from 10,859 to 41,678 or 284%. Canada and Mexico also represented the largest dollar gains by U.S. SME exporters, with the value of those exports rising 141%, from $25 billion to over $60 billion. (Sources: *Trade Facts*, Office of the United States Trade Representative, May 2005, and U.S. Department of Commerce, Export Data Base.)

Statement for the Record
Committee on Small Business
U.S. House of Representatives

Hearing on
"Cutting Our Trade Deficit: Can the U.S. Muster Its Diverse
Trade Promotion Operations to Make an Impact?"
April 26, 2006

Underlying Reasons for and Objectives of Title II of the Export Enhancement Act of 1992

Submitted by

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*Affiliation for information purposes only.
All statements are the personal views of the witness
and not the views of the Federal Housing Finance Board.

Mr. Chairman and Members of the Committee:

I am pleased to submit this statement for the record on the reasons for and objectives of Title II of the Export Enhancement Act of 1992. This legislation created in law the Trade Promotion Coordinating Committee (TPPC), and tasked it with the following responsibilities: 1) a government wide strategic plan for the U.S. government's diverse export promotion programs; 2) a government wide unified export promotion budget which would propose funding for the priorities developed in the strategic plan; and 3) a "one-stop shop" delivery system for all export assistance programs. The expectation for this legislation was that it would lead to more rational budgeting for U.S. export promotion programs and a more efficient and effective use of the public resources committed to this program area.

This statement covers a period in the late 1980s and early 1990s during which I was the Director for International Trade and Finance Issues at the U.S. General Accounting Office and was deeply involved in the matters discussed below.

ACTIVITY LEADING UP TO THE PASSAGE OF THE 1992 EXPORT ENHANCEMENT ACT

The Act was passed by the Congress in response to problems identified by the then named U.S. General Accounting Office (GAO). The GAO, at the time, was in a unique position with respect to how U.S. government trade programs were assessed. At the GAO, the oversight of all trade programs and policies were the responsibility of a single issues area: International Trade and Finance Issues. Irrespective of which executive branch agency had responsibility for implementing any particular program, this GAO issue area had the responsibility for GAO's oversight work. As a result, the international trade and finance related programs and policies of all federal government departments and agencies fell within the body of work of this one issue area: including Commerce, Agriculture, Treasury, Energy, the Small Business Administration (SBA), the U.S. Export-Import Bank, and the Trade and Development Administration (TDA). No where else in government was there a comparable perspective.

The fact that a single group at the GAO had this breadth of responsibility placed it in a unique position to identify problems with and opportunities for more effective use of the government resources devoted to the international trade and finance area in general, and trade promotion efforts in particular. In the several years before the passage of the 1992 Act, GAO issued about 30 reports and congressional testimonies identifying problems with the government's export promotion programs. However, it was when GAO looked across the full body of its work that it became clear that the whole held more than the some of the parts. Some problems could be addressed by corrective action by individual agencies. However, many of the most interesting problems were government-wide issues:

- The lack of any seeming logic or rationale as to how tax dollars were provided to individual export promotion programs; and

- The fragmentation in the delivery of export promotion services that made it very difficult if not impossible for a small or medium sized business to access available government export assistance programs.

No Government-Wide Strategic Planning or Budget Priorities for Export Promotion Programs

From the strategic perspective, no one in the executive branch budget process or the Congress looked at export promotion as a government-wide program. The individual agency budget requests filtered up to OMB and went thought multiple Program Associate Directors (PADs), without one of these officials taking responsibility for looking at the entire program area. In the Congress, the authorization and appropriation of funds for export promotion programs was split among a large number of committees and subcommittees, none of which looked at export promotion from a government-wide perspective. For example, in the budget and appropriations process, requests for funding for Agriculture's export promotion programs had to compete for funding with other Agriculture programs, such as crop supports and food stamps, rather than compete for funding with Commerce or the Export-Import Bank's export promotion programs. The result of this process was an allocation of budgetary funding that raised a lot of questions. For example, agricultural exports at the time represented about 10 percent of all U.S. exports. However, as GAO reported at the time, Agriculture's export promotion programs were getting about 74 percent of the government's export assistance dollars. One specific example is emblematic of this perceived problem: in fiscal year 1991 a single program at the Agriculture Department, the Market Promotion Program (MPP), received an appropriation of $200 million to subsidize marketing by U.S. agricultural exporters. Over the period 1989 to 1991 some of the recipients of these subsidies included:

- Blue Diamond, which received $22.7 million to promote the sale of walnuts and almonds:
- Sunsweet Growers, which received $10.5 million to promote the sale of prunes:
- Sun-Maid, which received $9.4 million to promote the sale of raisins;
- Gallo, which received $8.1 million to promote the sale of wine;
- M&M Mars, which received $2.8 million to promote the sale of its products; and
- McDonald's, which received $1.2 million to promote the sale of poultry and eggs.

While this one program at Agriculture was receiving an appropriation of $200 million for fiscal year 1991, the Commerce Department had only about $91 million to promote exports of all non agricultural products through its U.S and Foreign Commercial Service (US&FCS), with its funding spread among US&FCS's network of 131 posts in 67 countries and 47 domestic offices. For example, U&FCS was able to devote only about $4.3 million to support the work of its overseas commercial staff in Japan, one of the United States' most important foreign markets, while Agriculture budgeted $63.9 million for MPP activities in Japan.

Fragmentation in the Delivery of Export Promotion Programs

There is any number of possible reasons why a small or medium sized U.S. company is not exporting, even though its products may be competitive on world markets. For example, several of the well identified barriers to exporting include:

- Lack of the technical knowledge of what it takes to export;
- Lack of market information about potential markets;
- Unfair competition from subsidized foreign competitors; and
- Lack of financing for working capital to fill export orders and/or finance export sales.

Many of the export assistance programs of the various agencies of the U.S. government were designed to address such barriers to exporting.

A major problem identified in the prior GAO work was fragmentation in the delivery of the available export assistance. This assistance was delivered by programs at ten different federal government departments and agencies. And, no single agency had the necessary budget, organizational structure, and expertise to effectively deliver the required services to small and medium sized businesses. For example, Commerce offered technical assistance and useful foreign market information through its field structure, but its resources were limited and it had no finance programs. The U.S. Export-Import Bank offered financing, but had no serious field structure through which to deliver its programs to small and medium sized companies and, as an agency, tended to focus on large exporters rather than small and medium sized ones. SBA offered working capital finance programs and technical assistance, and had a field structure with which to deliver its programs, but placed vary little priority on assisting exporters.

A small or medium sized company interested in getting into or expanding its exports faced a difficult time accessing the available assistance. No one agency provided everything that was needed, and trying to navigate the maze of federal agencies involved in export promotion was a daunting task.

PASSAGE OF THE EXPORT ENHANCEMENT ACT OF 1992

In the 1980s there had been a lot of consideration given in the Congress to the idea of creating an International Trade Department. Such a new department was envisioned as combining almost all trade policy and negotiation responsibilities, export promotion programs and resources, and export administration into a single cabinet-level department. While there was a certain level of support for such a new department, it did not garner sufficient support to gain passage of the legislation needed to create it. Furthermore, GAO recognized that there are many problems associated with trying to create a new government agency out of the myriad pieces of other agencies. For these reasons, GAO recommended a more modest approach to fixing the identified problems. However, it also recognized at the time that if these modest reforms proved unable to remediate the

identified problems, the issue should be revisited in order to develop more effective reforms.

Based on its broad body of work, the GAO made two primary recommendations to the Congress to redress the lack of strategic planning and budget priorities for the export promotion programs and the fragmentation in their delivery.

First, GAO recommended to Congress that the TPCC be created in law with the responsibility of preparing an annual government-wide strategic plan for all the export promotion programs, developing government-wide priorities based on the strategic plan, and proposing a unified government-wide budget for all export promotion programs based on the strategic plan and its priorities. The unified budget was envisioned as feeding into the President's annual budget submission to the Congress. The objective was to use this interagency forum to bring greater rationality to the budget process for export promotion programs.

Second, the GAO recommended that the agencies with the primary export promotion responsibilities work together to create "one-stop shops" for the delivery of all of the federal government's diverse export promotion programs. The one-stop shops were to be a single point of contact through which small and medium sized exporters could access the full range of federal government export assistance: technical export assistance, market information and leads, and export financing. This objective was to be achieved without creating a new federal government agency. The one-stop shops would combine existing field resources of the various agencies. They would be made more useful to exporters by cross-training staff in all of the various agencies' export assistance programs and tasking the staff with the responsibility to deliver all of the multiple agencies' diverse programs. Thus, without creating a new agency or spending more public resources, the federal government's export assistance to small and medium sized exporters could be delivered more efficiently and effectively.

LOOKING TO THE FUTURE

A decade and a half has passed since the passage of the Export Enhancement Act of 1992. This period represents more than enough time in which to determine whether the changes enacted by the 1992 Act have contributed to solving the problems they were intended to fix. If the problems remain, than it is certainly time for the Congress to consider more significant changes than those included in the 1992 Act. There is nothing sacred in the earlier recommendations or the legislation they prompted. They were an attempt to fix identified problems in a minimally disruptive way. If the problems remain and/or if new problems have arisen, it is certainly time to consider how to fix them. And, if the incremental solution has not fixed the problems, Congress may need to consider more significant changes.

Mr. Chairman and members of the Committee, thank you for inviting me to testify today. My name is Robert E. Scott and I am a senior international economist for the Economic Policy Institute here in Washington.

U.S. export performance has steadily declined for more than two decades. U.S. Export promotion strategies are flawed and ineffective because they built on a faulty understanding of the causes of weak export growth. Small and large businesses in the United States are confronted a number of fundamental export barriers, including:

- Sustained overvaluation of the dollar since 1995 that has been aided and abetted by a passive and non-interventionist response from responsible officials in the White House and Treasury.
- Persistent tariff and non-tariff barriers to U.S. exports
- Highly unbalanced trade flows with some countries, especially China, U.S. imports from China were six times the level of exports to that country
- High and rapidly growing benefit costs for U.S. workers, especially for health care
- Low levels of federal R&D support

U.S. export promotion plans and activities, as set forth in the Trade Policy Promotion Committee's 2005 National Export Strategy, fail to directly address these fundamental problems.[1]

Past experience has demonstrated that changes in government policy can dramatically increase the growth in exports and slow the growth of imports, allowing domestic producers to recapture market shares at home and abroad. The following are examples of the types of policy responses that needed from particular TPPC agencies:

- The U.S. Treasury should admit that China is preventing its currency from rising to the appropriate value (currency manipulation) in its semi-annual exchange rate report, and begin negotiations with China leading to termination of these practices
- Work with other members of the G-8 to develop a concrete plan for bringing about a substantial and sustain reduction in the value of the U.S. dollar of at least an additional 30% to 40%
- Substantially increase federal non-defense research and development spending (National Economic Council, Council of Economic Advisors and the Department of Energy).
- Develop policies to reduce the burden of health care expenditures on U.S. firms and workers (Departments of Labor, Commerce and also Health and Human Services)

[1] This statement examines the economic context of export promotion programs and identifies alternative government policies that could improve the export performance of large and small businesses in the United States. The 2002 report of U.S. General Accounting Office to the Small Business Committee showed that the TPPC has failed to "discuss agencies' specific goals or assess progress made" in implementation of the National Export Strategy. (United States General Accounting Office, "Export Promotion: Mixed Progress in Achieving a Governmentwide Strategy", GAO-02-850, September 2002).

- Expand enforcement of U.S. trade remedy laws and establish an independent agency to self-initiate such complaints (USTR and the Department of Commerce)

The U.S. National Export Strategy is Fundamentally flawed

The 2005 National Export Strategy[2] (NES) is a three-pronged strategy: promoting new Free Trade Agreements, identifying promising market opportunities for U.S. business and increasing exports to China. Each of these elements reflects a basic understanding about the nature of U.S. trade patterns and the determinants of U.S. export competitiveness.

The Clinton Administration frequently reported that it had negotiated more than 200 free trade agreements, and asserted that these had benefited U.S. exports.[3] Likewise, the 2005 NES claims that the 12 FTAs that the administration has negotiated "will open markets for 124 million consumers to U.S. goods and services." Such assertions assume that mere approval of such agreements will result in improved export performance. Review of the historical record shows that nothing could be further from the truth.

Figure 1 shows that the growth of U.S. exports has slowed in each succeeding decade since the 1970s. Clearly the two hundred plus trade agreements negotiated by the Clinton and Bush administrations have failed to translate into improved export growth performance. U.S. imports have grown faster than exports in every period shown in Figure 1. As a result, the growth of U.S. trade deficits has also accelerated over the past 25 years, as shown in Figure 2. Our National Export Strategy has been a thinly disguised import strategy.

Programs to provide trade leads, promote U.S. participation in foreign trade shows and make U.S. exporters more aware of foreign market opportunities can have at best a marginal impact of U.S. businesses. They presume that U.S. small businesses are simply unaware of foreign markets where they can effectively compete.[4] However, the U.S. suffers from a number of fundamental economic problems that undermine the competitiveness of small and large U.S. businesses and the attractiveness of this country as a location for production. Many large U.S. firms are "competitive" in foreign markets, and here at home, but only because they have chosen to offshore a growing share of goods production. The challenge facing the U.S., as a country, is to identify new policies that make it "economically efficient" to produce more exports (and import-competing)

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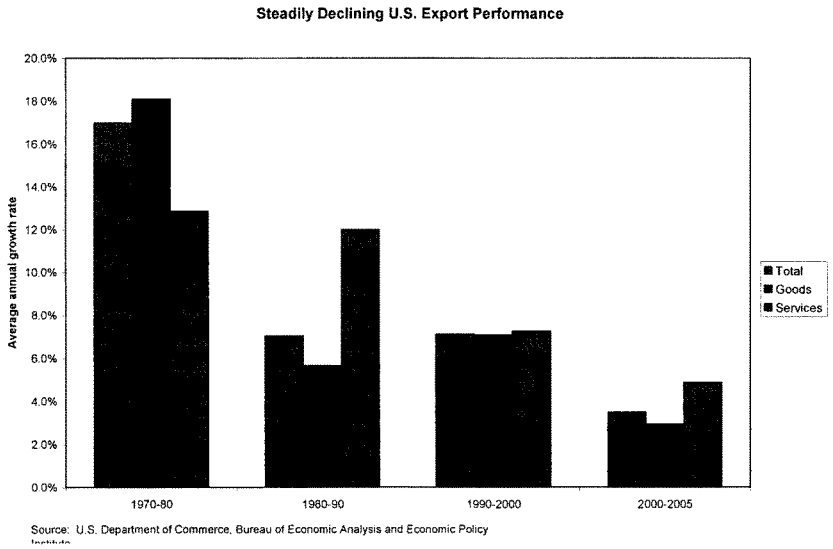
[2] Trade Promotion Coordinating Committee, "The 2005 National Export Strategy", May 2005.

[3] See, for example, Scott, Robert, "Will CAFTA be a boon for farmers and the food industry?" Economic Policy Institute, June 2, 2005, http://www.epi.org/content.cfm/ib210 for an analysis of Clinton administration promises about the promised benefits of the NAFTA agreement for U.S. farmers, versus actual trade outcomes after the agreement took effect.

[4] This strategy is also premised on the assumption, based on Census reports, purporting to show that large shares of U.S. exports come from small businesses in the non-manufacturing sectors. However, 86% of U.S. merchandise exports are produced by the U.S. manufacturing sector, where large businesses play a more important role in directly exporting their products. Improvements in the fundamental determinants of U.S. competitiveness, such as the value of the dollar, will directly benefits small and large businesses, including small manufacturing businesses who supply the big exporters (as shown below) and small firms in the non-manufacturing, export sectors.

gods in this country. The fundamental competitive challenges confronting U.S. producers include: the highly overvalued dollar, persistent foreign barriers to U.S. exports, highly unbalanced trade with some countries such as China, rapidly growing health care expenditures and low levels of federal R&D support.

Figure 1

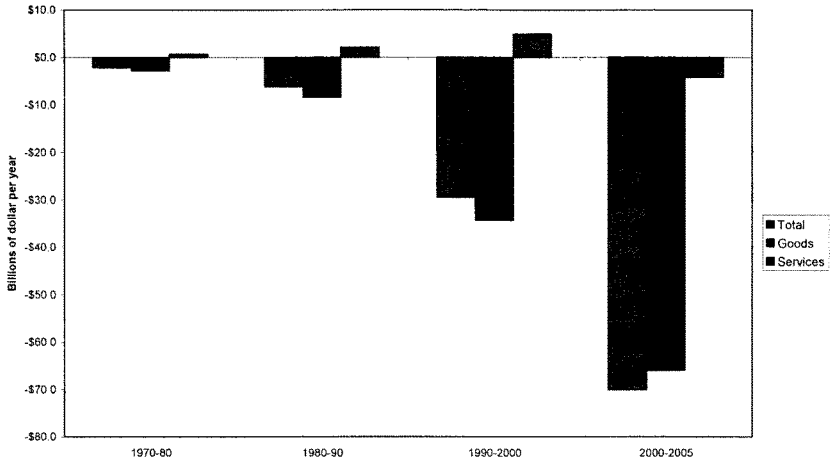


In addition to flawed and poorly enforced trade agreements, rapid growth in the value of the U.S. dollar since 1995 has also greatly reduced the competitiveness of all U.S. firms. Overvaluation of the dollar increases the costs of U.S. exports, and reduces import prices in this country. The trade deficit has increased from two percent of GDP in 1995 ($110 billion) to seven percent in the fourth quarter of 2005 ($900 billion, at an annual rate).

In the mid 1980s, the last period when the U.S. experienced a large and rapidly rising trade deficit, the Reagan Administration organized a coordinated international campaign to reduce the value of the dollar. Treasury Secretary James Baker met with the G-5 in 1985 and hammered out the plan, the Plaza accord, to bring down the dollar and bring about an orderly adjustment of spending in other countries. The down fell about 25% over the next two years, and by 1990 the current account deficit declined to a more manageable 1% of GDP, as shown in Figure 3.

Figure 2

Growth of the U.S. trade deficit has accelerated, 1970-2995



Source: U.S. Department of Commerce, Bureau of Economic Analysis and Economic Policy Institute

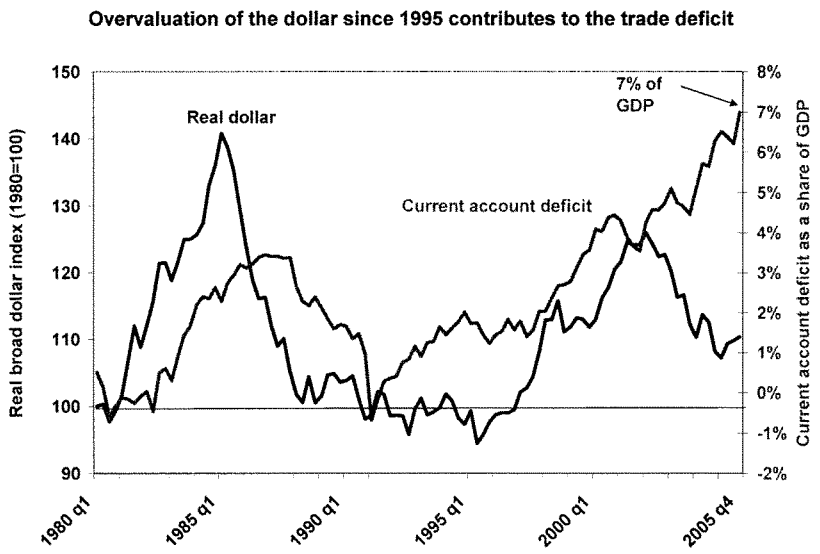
A trade deficit means that as a nation the U.S. is consuming more than it is producing. Simple accounting rules show that it must borrow from abroad to finance this consumption, just as a consumer must borrow any time his or her income is less than total spending. In 2004 (the most recent year for which we have complete and accurate data), foreign central banks provided 75% of the funds required to finance the U.S. current account deficit.[5] Most of these purchases were made by Asian Central banks, including roughly $200 billion by China alone (40% of total central bank purchases of U.S. assets in 2004). Such purchases constitute massive currency intervention, designed for the express purpose of maintaining an artificially undervalued currency. China's currency intervention, which is designed to maintain an exchange rate that has been fixed to the dollar at virtually the same price since 1994, is one important explanation for the explosive growth of the U.S. deficit with that country, which is the largest and most rapidly growing bilateral deficit in the world.

U.S. imports from China are six times as large as U.S. exports, making it this country's most imbalanced relationship. U.S. exports to China would have to grow six times as fast as imports to keep the trade deficit from growing. Thus, claims about rapidly growing exports to China in the NES (NES 2005, 9) are beside the point. Rapid growth from a very small base of exports has not slowed the growth of the U.S. deficit with China. Furthermore, although U.S. exports to China did increase 22% in 2004, imports

[5] Scott, Robert, "Foreign liabilities are increasing rapidly, especially to foreign central banks", Economic Policy Institute "Economic Snapshot", June 30, 2005, http://www.epi.org/content.cfm/webfeatures_snapshots_20050630.

increased 29%, on a base that was six times as large, and therefore the trade deficit expanded 31%. Imports from China also grew faster than exports in 2005.

Figure 3



Japan, China and many other countries also maintain substantial tariff and non-tariff barriers to U.S. exports. For example, there have been extensive trade disputes with Japan and Korea about formal and informal barriers to U.S. auto parts exports. These barriers have been documented in the annual U.S. trade estimates reports.[6] Recent administrations have failed to achieve the removal of these barriers, despite the substantial leverage obtained from the large volume of imports from each of these countries.

Another source of declining competitiveness for U.S. exporters is the rapid rate of growth in health care costs. Competitors in Europe, Japan, Canada and a number of other countries do not directly bear the costs of health care expenditures, or their expenditures are much lower (as in Japan), because of a well developed national health care program. Health care expenditures as a share of GDP are also substantially higher in the U.S. than in other exporting countries.

[6] For a summary of one such report, see, "House Democrats Call On Bush Administration To Act To Remove Unfair Trade Barriers, Not Just "Estimate" Them", Press release from Representative Charles Rangel, April 1, 2004. http://www.house.gov/apps/list/press/wm31_democrats/040401bush_admin_remove_unfair_trade.html.

Health care costs are rising much more rapidly than wages in the U.S., especially in real terms. Between 1999 and 2005, nominal wage and salary growth averaged 3.5% per year, while benefits grew 4.1% per year.[7] Since on average U.S. firms have been cutting expenditures on pensions, the rate of growth of health care expenses is likely well in excess of 4 percent per year. This is particular true for manufacturing firms, where firms are more likely to provide health benefits than in many other parts of the economy.

The competitiveness of U.S. exports is also hurt by relatively poor levels of research and development spending in the U.S., especially at the federal level, and also relative to other countries.[8] Total U.S. R&D (public and private) has hovered around 2.6% of GDP since the mid-1980s. The most recent statistics suggest several causes for concern. First, total federal spending for R&D has fallen from a peak of 1.9% of GDP in the mid-1960s to 0.8% in 2004. A large share of federal spending in the 1960s was for defense and space purposes, which generate fewer commercial applications than other forms of publicly funded research. However, the share of civilian-related federal R&D spending fell from about 19% of total in the late 1970s to 11% in 2003.[9] Federal spending for civilian R&D is particularly important to the long-term competitiveness of U.S. manufacturing because it supports fundamental research that usually does not have immediate commercial applications, but has the potential to open up vast new markets. The most famous example is internet, which evolved from the federally funded DARPA-net that was developed for communication among universities and government agencies in the 1980s.

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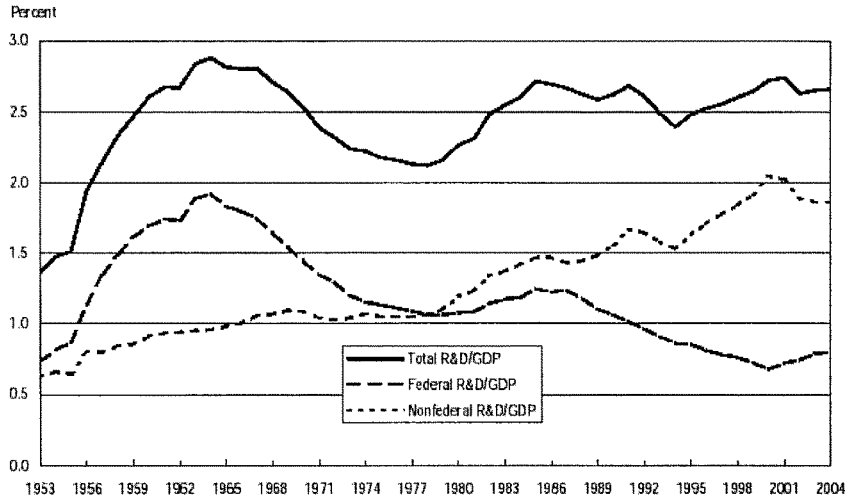
[7] Bureau of Labor Statistics, "National Compensation Survey", http://www.bls.gov/ncs/home.htm.
[8] See National Science Foundation, "US R&D Continues to Rebound in 2004", January 2006, http://www.nsf.gov/statistics/infbrief/nsf06306/nsf06306.pdf.
[9] NSF, "National Patterns of Research and Development: Resources: 2003", http://www.nsf.gov/statistics/nsf05308/.

The second cause for concern is that private spending on R&D, as a share of GDP declined noticeably after 2000, as shown in the following figure, drawn from the 2004 NSF report:

FIGURE 2. R&D share of gross domestic product: 1953–2004



GDP = gross domestic product

NOTE: R&D data for 2004 are projections.

SOURCE: National Science Foundation, Division of Science Resources Statistics, National Patterns of R&D Resources (annual series).

The decline in non-federal R&D between 2000 and 2004 was 0.2 percentage points, or about $20 billion. The failure of this spending to recover even two years after the recession suggests that rapidly growing trade deficits may have reduced resources for and pay-offs from investments in manufacturing R&D. This may help explain why the trade deficit is still growing despite an 11% drop in the real value of the dollar (as shown in Figure the (above).

Concerns about the decline in federal research spending are reinforced by recent announcements that U.S. firm are moving R&D operations offshore. For example, Delphi corporation recently announced the opening of a research center in Shangai.[10] The center has "two experimental buildings with more than 500 engineers, scientists and technical professionals." As U.S. manufacturing firms move research activities offshore

[10] Xinhua News Service, "Auto-parts giant Delphi Corp. opens technical center in Shanghai", www.chinaview.cn 2006-04-19.

there is growing concern that these moves will undermine the competitiveness of the U.S. as a location for production.

A final cause for concern is that current levels of U.S. R&D spending is now behind that in other leading countries, and substantially so in some cases. The NSF (2003) reported that the U.S. ranked number 6 in the world in the 2000-2003 period in R&D spending as a share of GDP (at 2.7% of GDP). The U.S. ranked behind Israel (4.9%), Sweden (4.3%), and Japan (3.1%), among others.

But the concern does not end there because 19% of total U.S. R&D spending is for defense and space-related purposes (NSF 2003). This spending generates relatively few commercial benefits, and does little to increase U.S. export competitiveness. Most other countries do not sustain non-commercial R&D spending at these levels. Once space and defense programs are removed, total U.S. federal non-defense and commercial R&D falls to 2.17% of GDP. This level is below the OECD average of 2.26% and drops the U.S. into the 15th place overall in country-GDP shares of R&D, behind most European countries as well as South Korea (2.64%).

Time for a new National Export Strategy

The NPPC and their NES report appear to assume that export promotion (e.g. through expansion of trade leads program) and greater inter-agency co-ordination can substantially increase the rate of growth of U.S. exports. This strategy fails to recognize the barriers confronting U.S. exports, which include a massively overvalued dollar, high foreign barriers to U.S. exports, high and rapidly rising health care costs and low levels of federal R&D spending relative to other developed countries.

There is another significant barrier to improvement in the U.S. trade deficit, which is the massive imbalance that exists between U.S. exports and imports. In the second half of 2005, U.S. imports were 58% larger than U.S. exports.[11] Thus, U.S. exports will have to grow 58% faster than imports in the future, just to keep the trade deficit from expanding. This will require fundamental changes in policy. Tinkering around the edges will not address the massive U.S. export performance problems.

Briefly, U.S. policy responses should include:

- The U.S. Treasury should admit that China is preventing its currency from rising to the appropriate value (currency manipulation) in its semi-annual exchange rate report, and begin negotiations with China leading to termination of these practices
- Work with other members of the G-8 to develop a concrete plan for bringing about a sustained and substantial reduction in the value of the U.S. dollar of at least an additional 30% to 40%

[11] Scott, Robert, "Current Account Picture: U.S. current account deficit breaks record at 7% of GDP", March 14, 2006, http://www.epi.org/content.cfm/webfeat_econindicators_capict_20060314.

- Substantially increase federal non-defense research and development spending (National Economic Council, Council of Economic Advisors and the Department of Energy).
- Develop policies to reduce the burden of health care expenditures on U.S. firms and workers (Departments of Labor, Commerce and also Health and Human Services)
- Expand enforcement of U.S. trade remedy laws and establish an independent agency to self-initiate such complaints (USTR and the Department of Commerce)

These measures directly respond to the export barriers reviewed in this statement.

Because these measures will also expand production and exports of U.S. manufactured goods, they will also be of great help to U.S. small businesses. Many small manufacturing businesses are suppliers to larger firms that are large enough to generate substantial exports. Thus, these smaller firms both directly (e.g. through new health care policies) indirectly benefit from the entire range of export promotion measures listed above. For example, in 2002 there were 184 firms engaged in aircraft production, a major export sector.[12] However, only a few of these firms were major exporters (e.g. Boeing and Northrop Grumman). Most are suppliers of aircraft parts to the major integrators. Likewise, there were 297 firms making aircraft engines and engine parts, though again there are only a few major integrators such as General Electric in the industry.

Thus, the best way to stimulate small business exports is by building the foundations for a strong national export growth. When manufacturing output and exports begin to grow rapidly, the rising tide will lift all boats.

This concludes my prepared remarks. I would be happy to answer any questions you have. Thank you for your interest and attention.

[12] U.S. Bureau of the Census, "2002 Economic Census: Census of Manufacturers, Sector 31: Manufacturing: Industry Series: Historical Statistics for the Industry: 2002 and Earlier Years", http://factfinder.census.gov/servlet/IBQTable?_bm=y&-ds_name=EC023111&-ib_type=NAICS2002&-NAICS2002=336411|336412&-geo_id=&-_industry=336412&-NAICS2002sector=8699171&-_lang=en&-fds_name=EC0200A1

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